Transatlantic Business & Investment Council (TBIC) Quarterly: Transatlantic Foreign Direct Investment Analysis & Trends

3rd Quarter 2021

[Data for Q1 2021 + Year 2020]

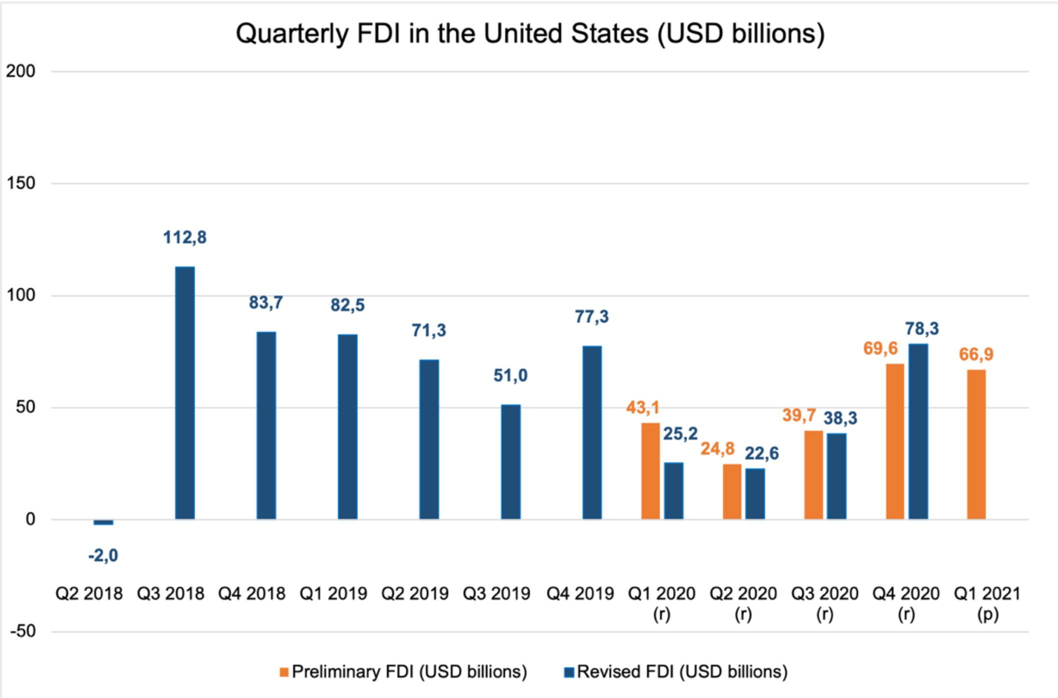
The Transatlantic Business & Investment Council (TBIC) is the official European representative of selected counties, cities and corporations from over 30 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, the TBIC bridges the gap between Economic Development Organizations (EDOs) and European investors looking to enter or expand in the U.S. market.

This edition of our Quarterly includes the analysis of the newly published preliminary (p) data for Q1 2021 and partially revised data (r) for 2020, as recently published by the U.S. Bureau of Economic Analysis (BEA). The first quarter of 2021 registered an FDI inflow of USD 69.9 billion, which is close to triple the inflow recorded over the same period in 2020. FDI in the U.S. recorded an almost unprecedented drop of 40 percent in 2020. Investment flows are expected to rise by 15 percent in 2021 thanks to strong cross-border M&A activities and large-scale public investment support. Optimistic baseline scenarios predict a return to pre-crisis flows by 2022. According to the World Investment Report of the United Nations Conference on Trade and Development (UNCTAD), FDI in the U.S. in 2020 overall was at USD 156 billion - 164.4 according to BEA - making it the weakest year since 2005.

The global economic disruptions due to COVID-19 are still visible across all industries: direct investment in machinery has only seen a minor rise from Q4 2020 to Q1 2021, while investment in the food sector showed a more encouraging increase. After one of its most challenging quarters at the beginning of 2020, the transportation sector became the strongest manufacturing industry this year, with investments of around USD 3.5 billion in the three latest quarters. Our European source countries, except for Switzerland, showed a continuous growth in FDI flows to the U.S. the last quarter of 2020 and in the first quarter of 2021, with the UK's FDI showing an increase of USD 20 billion from Q3 to Q4 2020, and a USD 6.8 billion increase in the subsequent quarter. Besides the FDI analysis, this edition of the TBIC Quarterly also includes our latest spotlight article: *Summer 2021: Back to Business as Usual?*

In this analysis, the TBIC corroborates relevant country data with its own experience of working at the frontier of transatlantic investments: the TBIC regularly visits key markets in Europe that have become drivers of FDI in the United States as part of Delegation Trips offered exclusively to our members. These trips feature meetings with decision-makers from companies looking to invest in the United States as well as key multipliers from diplomatic missions and industry associations. With the progressive improvement of the health situation in Europe, the TBIC is preparing for the return of in-person trips in September. To find out more, please click here.

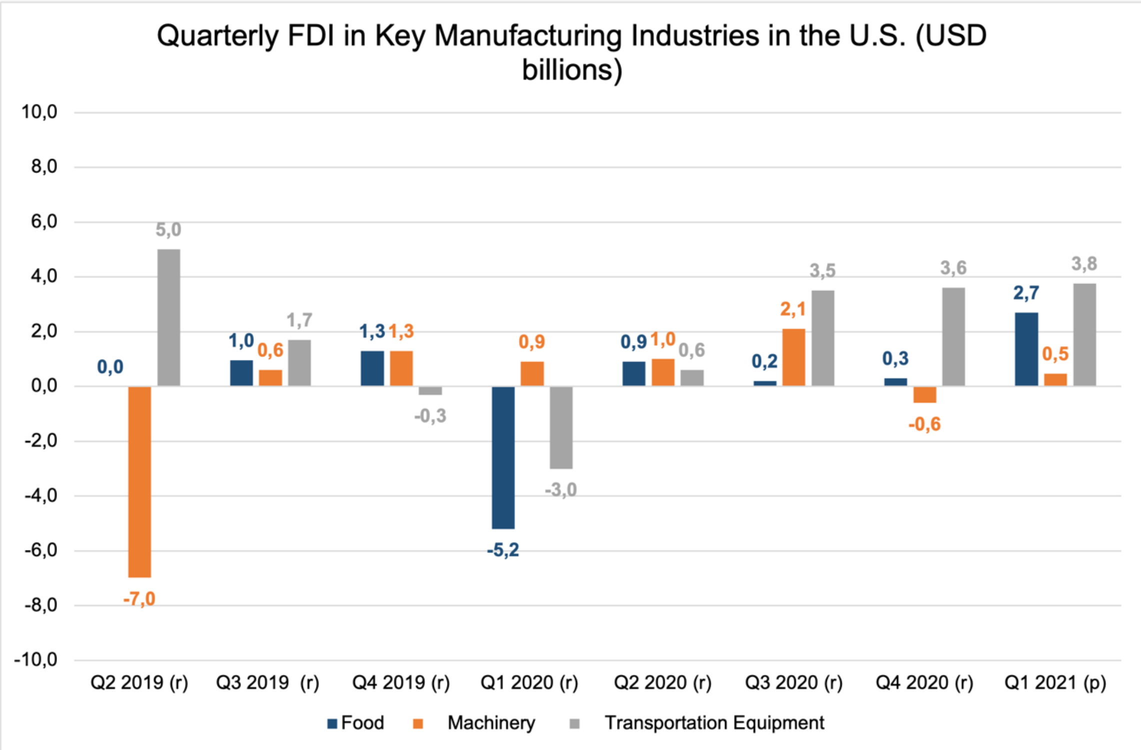
Foreign Direct Investment in the United States: Key Figures



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions, First Quarter 2021, July 2021.
United Nations Conference on Trade and Development (UNCTAD), Investment Trends Monitor 2021, June 2021.

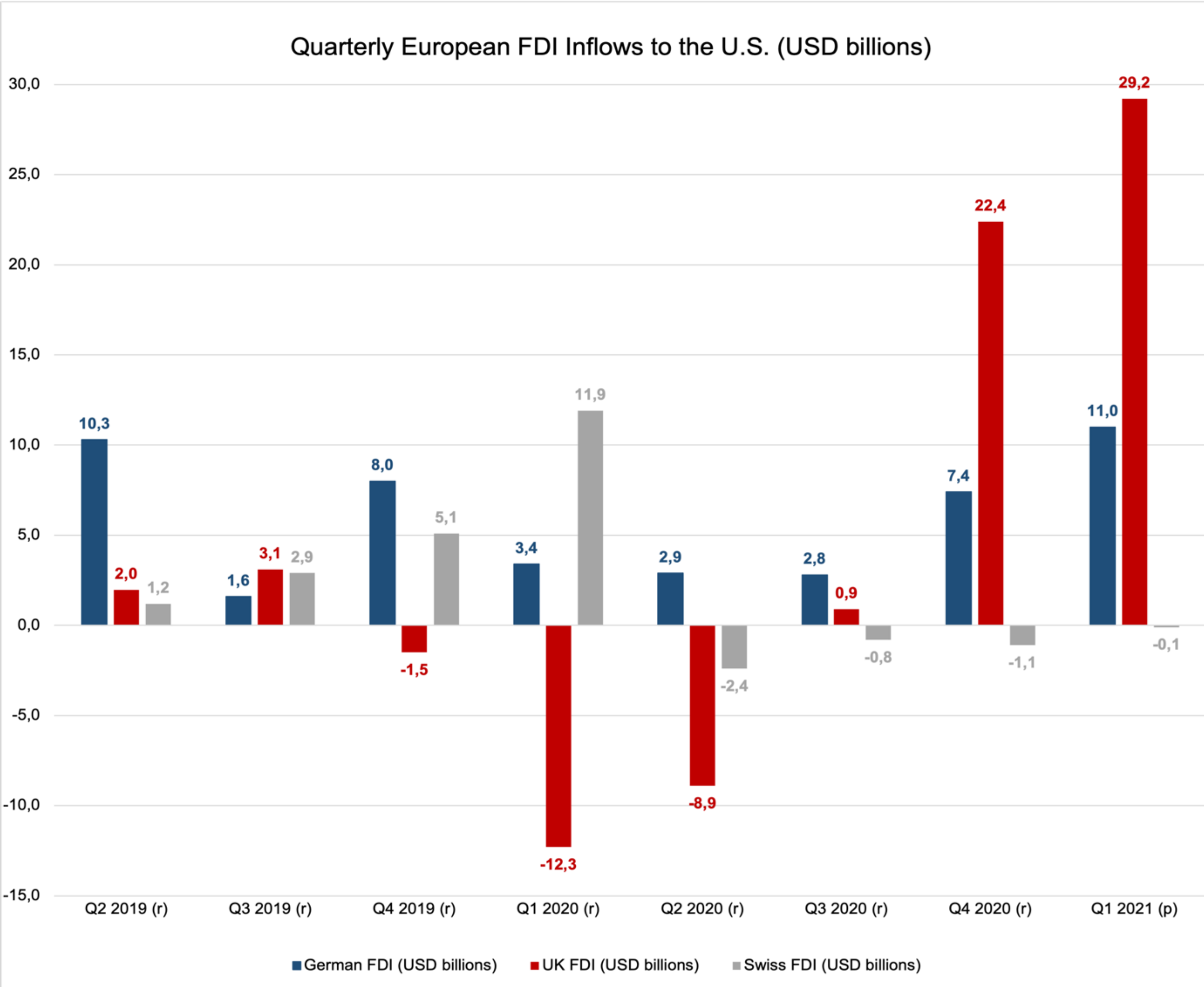
- In the newly published Q1 2021 of the U.S. Bureau of Economic Analysis (BEA), FDI inflows for 2020 were revised: Q1, Q2 and Q3 2020 were all revised downwards from USD 43.1 to 25.2 billion, USD 24.8 to 22.6 billion and USD 39.7 to 28.3 billion respectively, while Q4 2020 was revised upwards from USD 69.6 to 78.3 billion. Meanwhile, the preliminary data for Q1 2021 shows an FDI inflow of USD 66.9 billion, more than twice the inflow that was recorded one year earlier at the same period.
- Nevertheless, the consequences of the worldwide pandemic are clearly reflected in the total FDI inflow for the year 2020, which amounts to USD 164.4 billion - USD 117.7 billion less than the total FDI amount in 2019, making it the weakest year of the past decade.
- In its latest World Investment Report, the United Nations Conference on Trade and Development (UNCTAD) estimated that FDI to the U.S. decreased by 40 percent in 2020. Despite this unprecedented drop, the U.S remains the primary FDI destination worldwide and was less negatively affected than the average developed economy (minus 58 percent) or Europe in particular (minus 80 percent). The latter figure is partially explained by the negative inflow in countries with a strong conduit flow such as Switzerland or the Netherlands.

- Revising its previous projection that counted on a 5 to 10 percent FDI drop in 2021, UNCTAD now estimates that FDI to developed countries will go up by 15 to 20 percent in 2021. A return to pre-crisis flows could thus be expected as early as 2022, reflecting higher growth, recovering global trade, and effects of the massive stimulus packages.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, July 2021.

- The new dataset for Q1 2021 also contains adjusted values for all quarters of 2020, which translates into a downwards revision for all three sectors. The yearly FDI flow in the food sector was corrected from USD 2.3 to minus 3.8 billion, the flow in the machinery sector was halved, from USD 7.3 to 3.5 billion, while the transportation sector shows a downwards revision from USD 6.1 billion to 4.7 billion.
- The preliminary investment inflow for the first quarter of 2021 shows a slight increase compared to Q4 2020: the food sector's FDI rose from USD 300 million in Q4 2020 to USD 2.7 billion in Q1 2021, while the machinery sector showed an increase from minus USD 600 million in Q4 to USD 500 million in Q1 2021 and the transportation sector's FDI increased from USD 3.6 billion in Q4 2020 to USD 3.8 billion in Q1 2021.
- Looking at the whole year of 2020, data shows that the worldwide COVID-19 pandemic negatively impacted all industries: food and machinery experienced either a decline in FDI flows or only minimal inflow throughout the year. Meanwhile, transportation equipment compensated a relatively shy first half of 2020 with consistently higher flow in the second half of the year, and the trend appears to continue in 2021.



Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, July 2021.

- The 2020 quarterly inflows from Germany, the United Kingdom, and Switzerland have all been re-adjusted. Germany's 2020 FDI inflow to the U.S was revised down from USD 17.5 to 16.5 billion, the UK's FDI was adjusted slightly upwards from USD 1 to 2.1 billion, while Swiss FDI was substantially revised downwards, from USD 17.9 to 7.6 billion.
- Q1 2021 showed an across-the-board increase of European FDI inflow. German FDI flow continues its increase from USD 2.8 billion in Q3 2020, USD 7.4 billion in Q4 2020, to USD 11 billion in Q1 2021. An even more impressive trend is observed from the UK, whose inflow rose from less than a billion USD in Q3 2020 to USD 29.2 billion in Q1 2021. Meanwhile, Swiss FDI represents a marginal net negative inflow for the fourth consecutive quarter. Given the the role of Switzerland and of the United Kingdom as global financial hubs, the fluctuations observed can partially be attributed to the conduit nature of these two countries' financial flows. Multinational companies restructuring decisions can for instance cause large quarterly fluctuations.

Spotlight Article: Summer 2021: Back to Business as Usual?

Little over one year ago, the world entered lockdown in the wake of the propagation of the COVID-19 pandemic. The European Union and the United States suspended nonessentials travels, leading to an unprecedented drop in commercial flights – in the EU, minus 91.2 percent for April 2020 in comparison with April 2019. Thanks to successful health policies and vaccination campaigns realized on both sides of the Atlantic, infection rates have been falling steadily since April 2021 in most of Europe and the United States. In an interview given to the New York Times in April, European Union Commission President Ursula von Der Leyen assured that vaccinated U.S tourists would be allowed to travel across the Atlantic this coming summer. The promise was kept, and, on June 16th, the European Council added the United States to the list of countries for which travel bans are to be gradually lifted. On the eve of the high summer season and, hopefully on the brink of renewed normalcy, embark with us on an overview of the EU's epidemiologic situation, travel restrictions and economic forecast for the second half of 2021, with a thematic focus on the German automotive industry.

COVID in Europe

A total of 111,600 new cases were reported in Europe on July 18, down from a peak of more than 300,000 at the height of the second wave in March. Infections have however been going up from mid-June, due to the spread of the more infectious delta variant. The majority of the new cases are recorded in the United Kingdom, Russia and Spain. Infection rates are also recently going up in Portugal, Greece, France and Cyprus. In spite of these recent developments, the death rate is not following the same upward trend as the infection rate. It is in fact stagnating, mostly thanks to national vaccination campaigns that successfully immunised the most vulnerable populations. As a result, many European countries such as Germany, Austria, Switzerland, Italy, France - and the United Kingdom starting today - have lifted most national restrictions, allowing restaurants, hotels and most businesses to welcome customers again. A COVID certificate for EU citizens meant to facilitate intra-EU leisure travels entered in force on the first of July.

The recent decision of the European Council to lift travel restrictions for non-essential travelers from the U.S. should progressively allow travelers to enter most European countries. The rules are essentially the same for each member state, with three main rules of entry: holding a proof of vaccination with at least 14 days lapsed since the second shot, holding a proof of recovery from COVID in the last three months, or a negative test – up to 72 hours old for PCR tests, 48 hours old for rapid antigen tests. Additionally, most countries require visitors to fill out a pre-travel clearance form, and random PCR tests can be executed at the airport. As of July 1st, Germany, Austria, Switzerland and Italy all require visitors entering by air to fill such a pre-travel form online. Visit Re-open EU to catch up with the changing requirements, useful links, and for an up-to-date overview of the virologic situation, health-related measures in place and general travel restrictions.

Germany: overview of the COVID situation

Looking at Germany, the country registered 1,043 new COVID infections on July 18th with a 7-day incidence of 9 cases per 100,000 inhabitants. Although the German Center for Disease Control (RKI) still calls for caution in regard of the propagation of the delta variant, infection numbers have been consistently going down since April. As of July 19, 59.7 percent of the population has received at least one dose of vaccine, and 45.9 percent of the population or around 38 million individuals are fully vaccinated. On an average, 584,000 doses of vaccine are distributed on a daily basis. Since June 20th, non-essential U.S. travelers are allowed to visit Germany, as long as they provide a proof of vaccination, a proof of recovery from COVID or a negative test. Additionally, visitors arriving by plane are required to fill out the pre-travel online form.

Economic situation in the EU

In its Spring 2021 Economic Forecast, the European Commission expects a steady 4.2% growth in 2021 for the EU, sustained throughout 2022 at the rate of 4.4 percent. A solid expected growth in the last quarter of 2021 could even bring European GDP back to its pre-crisis level earlier than previously estimated. Key factors driving economic activity include the recovering of investments and the revival of private consumption after more than a year of unusually high savings – in excess of €300 billion throughout 2020. Growth is also driven by an increased demand for European exports as consumption resumes in the rest of the world. Regarding international trade, the latest estimates available indicate a promising revival: exports from the euro area to the rest of the world increased by 43.4 percent between April 2020 and April 2021 (from €124.8 billion to €179 billion), while imports rose by 37.4 percent (from €125 billion to €166 billion). Over the same period, intra-euro area trade went up by 58.9 percent, up to €274.9 billion.

	European Union		**Germany**	
% GDP Growth 2020	-6.1		-4.8	
GDP Growth 2021 (projected)	+4.2		+3.4	
Extra-EU Exports in €billion, Jan-Apr 2021 (change in % with Jan-Apr 2020)	688.1 (+7.8%)		205.3 (+ 8%)	
Outgoing Investment in €billion, 2019-2020	**2019**	**2020**	**2019**	**2020**
	407	91 (-77.4%)	139	35 (-74.8%)

Table 1: Economic and Trade Figures for the European Union and Germany. Source

Economic situation in Germany

A similar scenario is observable in Germany: exports and industrial production started recovering in the second half of 2020 and have been the main drivers of growth since then. Germany nonetheless recorded an unprecedented 9.3% decline in export, a 7.1% decrease in imports, and its GDP shrunk by 4.8% in 2020. With the re-opening of the country, private consumption is expected to fuel economic activity, which is expected to recover to its pre-crisis level in late 2021.

German car industry: soaring profits amid lower sales

A recent Ernst and Young report denotes the good start of car manufacturers in 2021: profits are reaching above pre-crisis levels, although sales are still 9% lower than in 2019. In an international comparison, the German leaders Volkswagen and Daimler perform comparatively better than their competitors. The automotive industry was at the forefront of the economic activity at a time when other sectors were still constrained by the lockdown. While car sales stagnated in Europe, growth was driven by sales in China (+66%) and in the U.S. (+21%). Another notable trend is the rising popularity of electric cars, which represents 17.9% of German cars production, a 5.6% increase in comparison to April 2020. On the downside, the industry's supply chain has recently been disrupted by the Suez Canal incident earlier this year and a global shortage of semiconductors.

Outlook

In conclusion, all indicators point towards a cautiously optimistic return to normalcy, which ought to embolden international investors who had to put their expansion plans to the U.S. on hold in 2020. In that regard, TBIC's upcoming FDI trip #6 to Southern Germany and Austria presents the perfect opportunity to resume talks with European car manufacturers and other advanced manufacturing companies.

Imprint:

Transatlantic Business & Investment Council (TBIC), LP
www.TBIC-fdi.com
info@TBIC-fdi.com

European Office
Kurfuerstendamm 29
10719 Berlin
Germany
+49 30 5461 1947

U.S. Office
1201 Peachtree Street N.E.
Building 400
Suites 100, 200, 300
Atlanta, GA 30361
USA
+1 404 910 4057

TBIC Representation Nordics
c/o CNR-Consulting, IVS
Fruebjergvej 3, Symbion
2100 Copenhagen
Denmark
nytoft@TBIC-fdi.com
+45 4160 9119

Editor:

Transatlantic Business & Investment Council (TBIC), LP
European Office:
Kurfuerstendamm 29
10719 Berlin
Germany
Tel. (Int.): +49 30 5488 4986
Fax: +1 844 692 7288
info@TBIC-fdi.com
www.TBIC-fdi.com