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

## 4<sup>th</sup> Quarter 2021

[Data for Q2 2021]

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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 U.S. 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 Q2 2021 and partially revised data (r) for Q1 2021, as recently disclosed by the [U.S. Bureau of Economic Analysis \(BEA\)](#). Inward FDI to the U.S. dropped to USD 164 billion in 2020 – a 40 percent decrease compared to 2019 – and thus marked the lowest inflow in more than a decade. According to the [World Investment Report](#) of the United Nations Conference on Trade and Development (UNCTAD), investment flows are expected to rise globally by 15 percent in 2021 thanks to strong cross-border M&A activities and large-scale public investment support. For the third quarter in a row, the United States recorded inward FDI flows over USD 70 billion. If the current trend persists, 2021 could indeed be a strong year for inward FDI to the United States, in line with the yearly average of USD 272 billion recorded in the decade of the 2010s.

Concurrently, encouraging signs of recovery can be seen in the transport equipment or machinery industry, where FDI flows have been on the rise since the re-opening of the global economy. The transport equipment sector remains a strong and steady source of FDI inflows with investments averaging USD 3.5 billion in the last four quarters. On the other hand, the food sector recorded negative net inflows in Q2 2021, which means that the value of disinvestment by foreign investors was superior to the value of capital newly invested in this sector.

FDI inflows from European source countries also followed diverse patterns. After two quarters marked by exceptionally high investments, FDI flows from the United Kingdom dropped from USD 34.6 in Q1 2021 to 4.6 billion in Q2 2021. A small change is observed for U.S.-bound Swiss FDI, with a rise from net negative to net positive inflows over the last quarters. Meanwhile, German FDI registered a substantial increase for the fourth consecutive quarter. With an inflow of USD 23 billion, Q2 2021 was the strongest quarter since 2014. In order to grasp the significance of the latest German investment inflows, this edition of our quarterly showcases an historical series of U.S.-bound German FDI between 2000 and 2021 below.

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

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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. Thanks to an improved public health situation, the TBIC is now returning to in-person events for the remainder of 2021 and in 2022. To find out more, please click [here](#).

Besides the FDI analysis, this edition of the TBIC quarterly contains our latest article on the U.S. labor shortage. This short contribution explores the latest unemployment statistics and labor market surveys to explore different assumptions as to why the gap between labor demand and labor supply widened in the wake of the pandemic.

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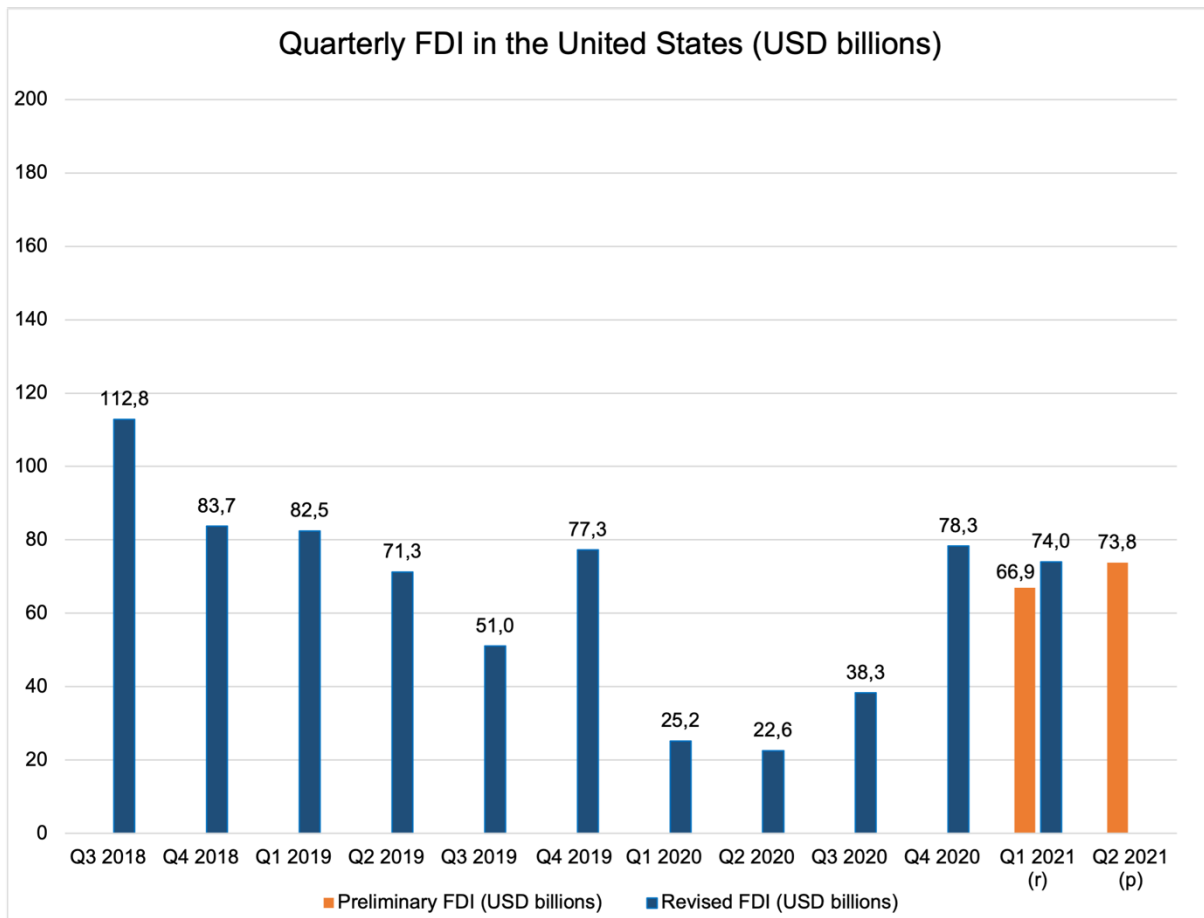
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## Foreign Direct Investment in the United States: Key Figures



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

- In the newly published data of the [U.S. Bureau of Economic Analysis \(BEA\)](#), FDI inflows for Q1 2021 were revised upwards, from USD 66.9 to 74 billion. Meanwhile, the preliminary data for Q2 2021 reports an FDI inflow of USD 73.8 billion – almost identical to the previous quarter. This is more than three times the inflow that was recorded one year earlier at the same period.
- After an historic 40 percent decline in 2020, UNCTAD’s [World Investment Report](#), estimated that FDI inflows to developed countries would increase by 10 to 15 percent in 2021. Taken together, FDI inflows to the U.S. in Q1 and Q2 – USD 147.8 billion – almost equal the total FDI inflows for the entire year 2020 – USD 164.4 billion.
- If the current trend continues in the next two quarters of 2021, inward FDI recovery might outperform UNCTAD’s optimistic expectations. Global vaccination uptake and the lifting of travel restrictions are likely drivers of the increased activity for the remainder of 2021. Caution is however warranted due to several factors that might impede the recovery towards the end of the year, such as spiking energy prices, delays in maritime trade and the semiconductor shortage.

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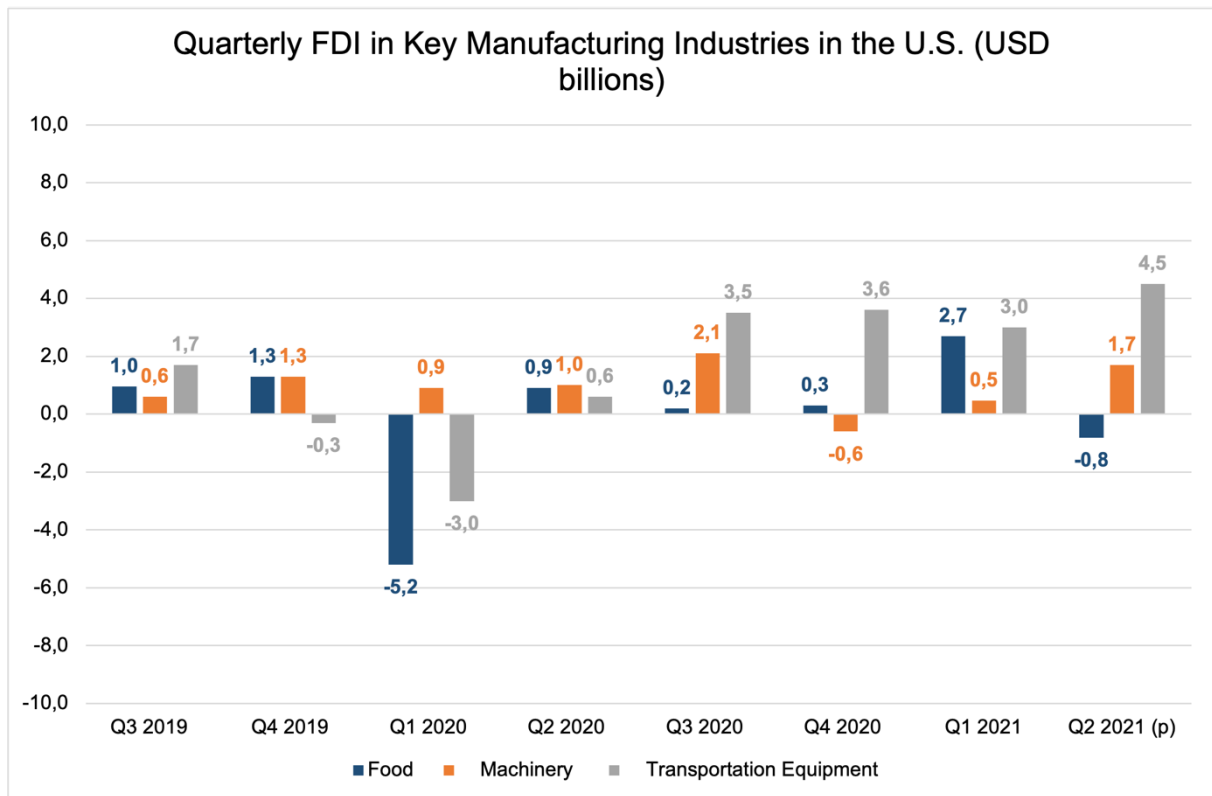


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Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, September 2021.

- The newly released BEA dataset includes a minor readjustment for the first quarter of 2021. While the food and machinery sectors inflows remain unchanged, FDI flows in the transportation equipment sector were revised downwards, from USD 3.8 billion to USD 3 billion.
- 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 weak first half of 2020 with consistently higher flow in the second half of the year, and the trend persisted in the first half of 2021.
- The preliminary data for Q2 2021 shows a slight negative investment inflow of minus USD 0.8 billion in the food sector, down from an inflow of USD 2.7 billion in the first quarter of 2021.
- On the other hand, FDI inflows in the machinery and transportation equipment sectors both increased relative to the first quarter of 2021. With a total of USD 4.5 billion of investment in Q2 2021, the transportation equipment sector had its strongest quarter in over two years.

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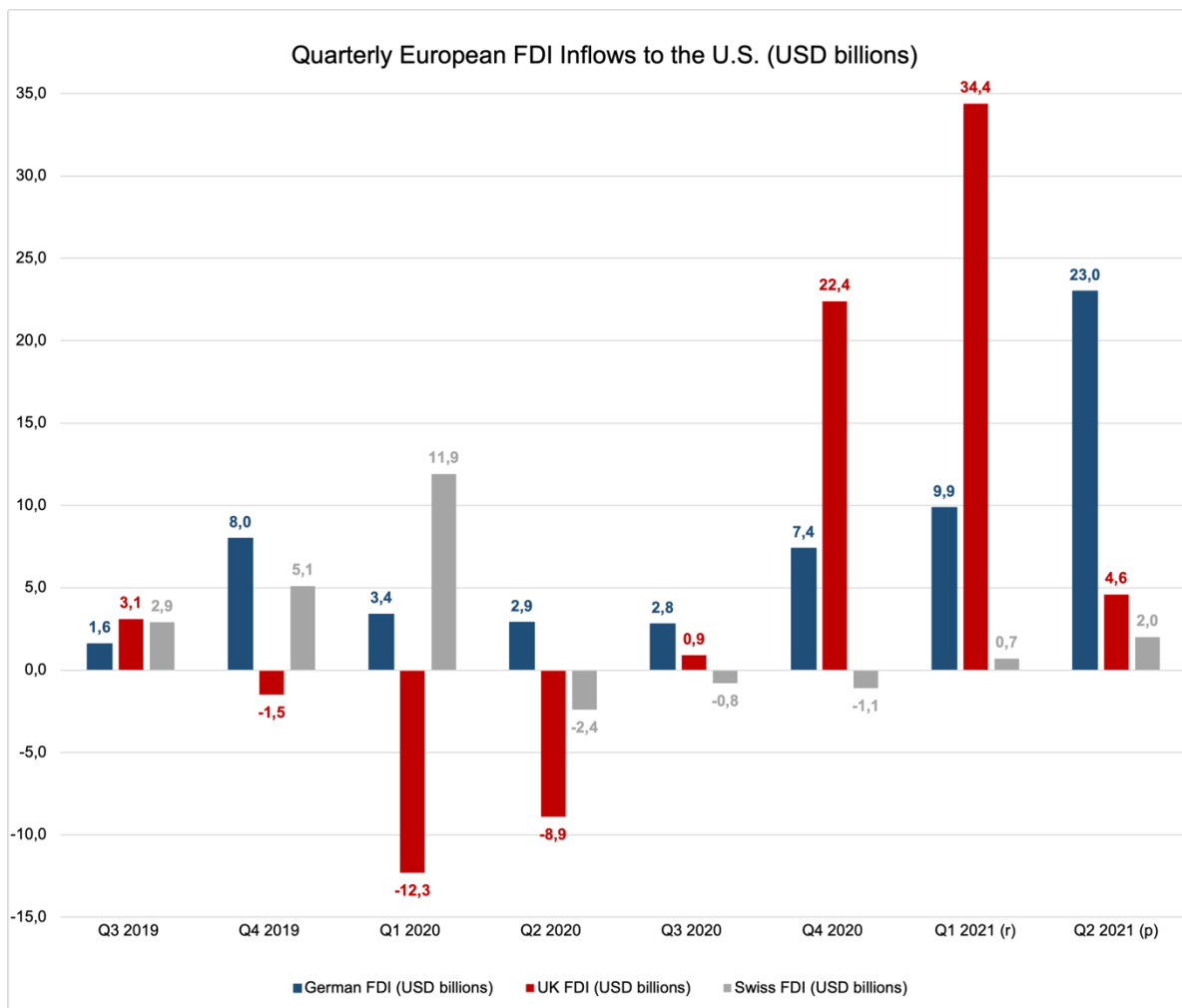


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Source: Bureau of Economic Analysis (BEA), Foreign Direct Investment in the United States: Country and Industry Detail for Financial Transactions, September 2021.

- The BEA re-adjusted the quarterly inflows from Germany, the United Kingdom and Switzerland for Q1 2021. While German FDI flows were corrected downward from USD 11 billion to 9.9 billion, British and Swiss flows were re-calibrated upwards: the former rose from USD 29.2 billion to USD 34.4 billion while the latter was shifted from an outflow of USD 0.1 billion to an inflow of USD 0.7 billion.
- German FDI flows followed a steady increase from USD 2.8 billion in Q3 2020, USD 7.4 billion in Q4 2020, to USD 9.9 billion in Q1 2021, to USD 23 billion in Q2 2021. Meanwhile, Q2 2021 showed a modest increase for Swiss FDI, while investment flows from the United Kingdoms declined by almost 90 percent from USD 34.4 to 4.6 billion.
- The fluctuations observed in the Swiss and British outflows to the U.S. can be partially explained by the fact that these two countries are home to global financial centers. Indeed, the mere measurement of bilateral financial flows transiting through these financial hubs might overlook the complexity of cross-borders investment chains, such as instances where the ultimate investing beneficiary is located in a third country.

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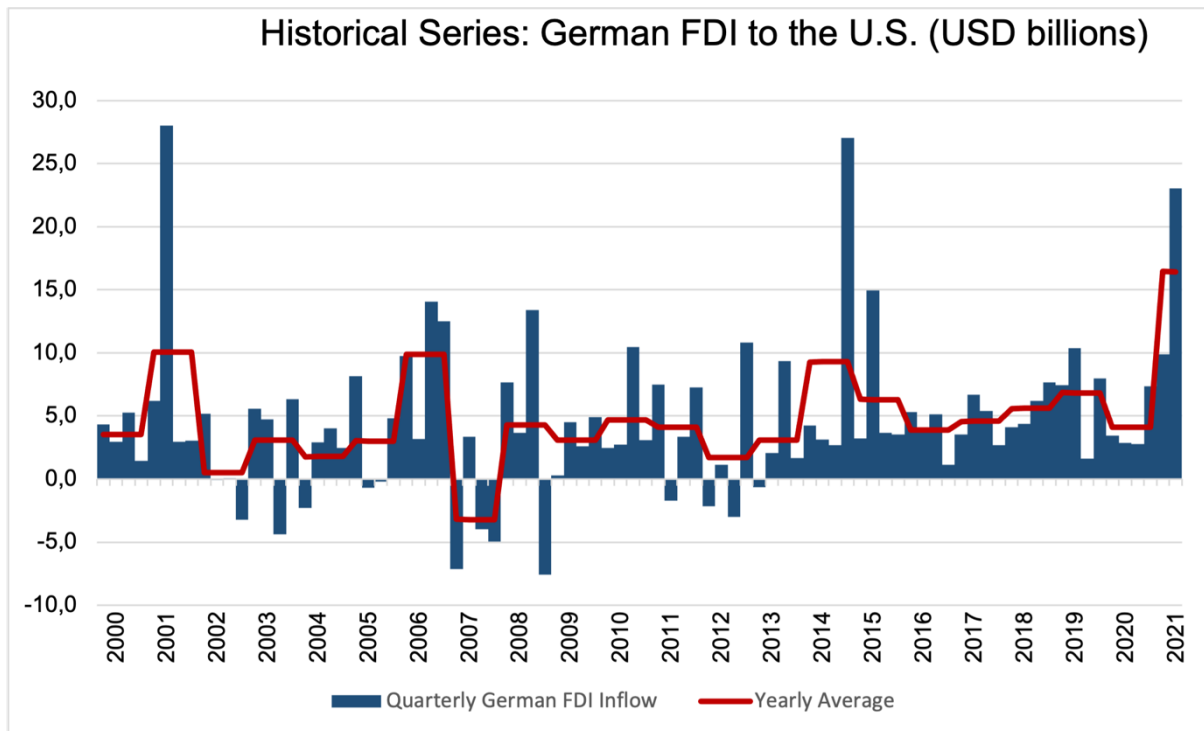


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- The second quarter of 2021 recorded exceptionally high US.-bound German FDI, as depicted in the historical series below. Quarterly German FDI only exceeded USD 20 billion in three instances over the last two decades, in 2001, 2014 and now again in the second quarter of 2021.
- With an average of USD 16.4 billion in the first two quarters, 2021 could be a very strong year for German FDI to the United States. In a historical perspective, Q1 and Q2 2021 were the strongest consecutive quarters for German inflows since the turn of the century.
- These FDI inflows can possibly be explained by an early recovery in the German industry as well as by a rebound in investment prospects following the re-opening of the U.S. economy in 2021. In fact, nearly a third of all FDI to the U.S. in Q2 2021 came from Germany - USD 23 billion out of USD 71.5 billion.

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## Spotlight Article: State of the U.S. Labor Shortage After Labor Day

There is no denying that the U.S. job market went a long way since the first wave of Covid-19, from an unemployment rate of 14.7% in April 2020, now down to 5.2% in August 2021. On the eve of Labor Day, the U.S administration released [the latest unemployment figures](#). After a surge of 1 million hires in July, a mere 235,000 jobs were added to the economy in August, far below the 2021 average monthly job growth of 586,000. Beside the rise of the delta variant that slowed down hiring in many sectors, observers warn of a more structural threat to the economy: labor shortage. Among those voices is U.S. Chamber of Commerce CEO Suzanne Clark, who [argued in an op-ed](#) that solving the labor shortage should be the nation's top priority.

A puzzling phenomenon occurred this year as companies hired *en masse* to respond to a rapidly growing consumer demand; millions of job openings remain unfilled, while at the same time millions of unemployed seem unable or unwilling to get a job. Before the pandemic, there were around 7 million unfilled job positions and an equal number of unemployed individuals. This well documented phenomenon of mismatch between skill supply and demand is known as the [skill gap](#). The problem is particularly acute in the manufacturing sector, where 80% of industries find it *difficult* to find qualified workers, while one in four find it *very difficult* according to a [recent company survey](#).

One and a half years into the pandemic in July 2021, there were 9 million unfilled job positions and roughly as many unemployed. How to explain the 2 million added both on the labor supply and demand sides? Beside the skill gap "usual suspect", some [polls and surveys](#) point that more and more individuals are becoming dissatisfied with current job conditions. Indeed, many Americans [left the workforce altogether](#), resulting in a reduction in labor participation, from 63.4% before the pandemic, to 61.7% in August 2021.

The leisure and hospitality sectors are suffering from the [highest unemployment rate](#) - 9% in August 2021 - followed by wholesale and retail trade at 8.9 percent. These two sectors are also afflicted by [record quit rates](#) of respectively 5.7% and 4.1% in June 2021. Perhaps not surprisingly, the quit rates is comparatively higher in lower paying sectors. The labor shortage is also acute in the manufacturing and transport sectors.

**What factors can explain the decisions of millions of U.S.citizens to decline job offers on the one hand, or to leave the labor force altogether on the other? What are the possible remedies to narrow the mismatch between job offering and labor supply?**

The first hypothesis to come to mind to explain labor shortage is that unemployed individuals are disincentivized to go back to work as long as their hypothetical salary is outmatched by their current unemployment benefits. While the [U.S. Chamber of Commerce CEO](#) supports this claim, results have been mixed so far; for example, the withdrawal of federal unemployment benefits in the State of Texas, such as the \$300 weekly unemployment payments, [did not necessarily translate into more successful hiring](#).

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A perhaps more nuanced assumption is that the power equilibrium between employers and employees shifted towards the latter as a result of the high labor demand. Put differently, employees’ priorities and understanding of work changed during the pandemic, and they now demand higher (non-)monetary compensations for their time. For example, the [Federal Reserve Bank of New York’s survey of consumers’ expectations](#) shows that the average reservation wage – the minimum pay a worker accepts to take a job – went up during the pandemic from roughly \$62,000 in July 2019 to \$69,000 in July 2021. Meanwhile, a [PwC survey](#) shows that employees’ highest-ranking priorities include the provision of upskilling and career growth opportunities, more schedule flexibility, and expanded benefits.

### The way forward?

A [thought-provoking piece](#) published by Brookings suggest that there is a need for reframing the *skill gap* into an *opportunity gap*. Accordingly, local U.S. workforce does not suffer from a skill deficit but is rather constrained by a lack of opportunity for its underprivileged communities, which paid the highest tribute of Covid-related unemployment. Potential for growth and innovation could be unleashed if these communities were given the right incentives or conditions to thrive. For instance, women labor participation could be improved by facilitating access to childcare. Similarly, redressing underinvestment in K-12 education, providing on the job training and more upskilling opportunities could improve labor participation and retention. Overall, strengthening the workforce development system would go a long way towards reducing the skill gap and the labor shortage more generally. To get a better sense of the benefits that a strong workforce development system yields, the table below provides a few key labor market figures for the U.S. and Germany.

	United States	Germany
<b>Peak unemployment in 2020</b>	14.7% (April 2020)	4% (September 2020)
<b>Maximum share of the workforce benefiting of work-sharing program in 2020</b>	Less than 1%	30% (May 2020)
<b>Youth unemployment rate August 2021</b>	9.9%	7.5%
<b>Unemployment rate August 2021</b>	5.2%	3.7%

Two factors can be highlighted to explain the discrepancies above. First, Germany has a long tradition of nationally-recognized apprenticeship programs or dual vocational education (VET) programs, formally organized as a partnership between the training company, educational institutions and chambers of commerce. This system, that produces the most qualified workforce worldwide and ensures a high talent retention, is the backbone of the German economic success and partially explains its comparatively lower (youth-)unemployment rate. Moreover, the German labor market weathered the lockdown comparatively better than the US thanks to a national work-sharing program. This program operates similarly to an insurance and compensates workers whose hours are reduced on the condition that the employer does not lay off his employees. This scheme, from which close to a third of the workforce benefitted

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at the height of the lockdown, helped avoid massive layoffs as experienced in the U.S and reduced the risk of long-term unemployment. Overall, Germany's workforce development emphasis on apprenticeships and labor retention schemes explain to a large extent the relatively faster and more frictionless labor market recovery.

**For more...** Do not miss our panel discussions at the **Transatlantic Business & Investment Conference in Atlanta** in November, where we will discuss the topic of workforce development with our transatlantic business experts.

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