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European American Investment Council

European American Investment Council (EAIC) Quarterly: Transatlantic Foreign Direct Investment Analysis & Trends

4th Quarter 2018

[Data for Q2 2018]

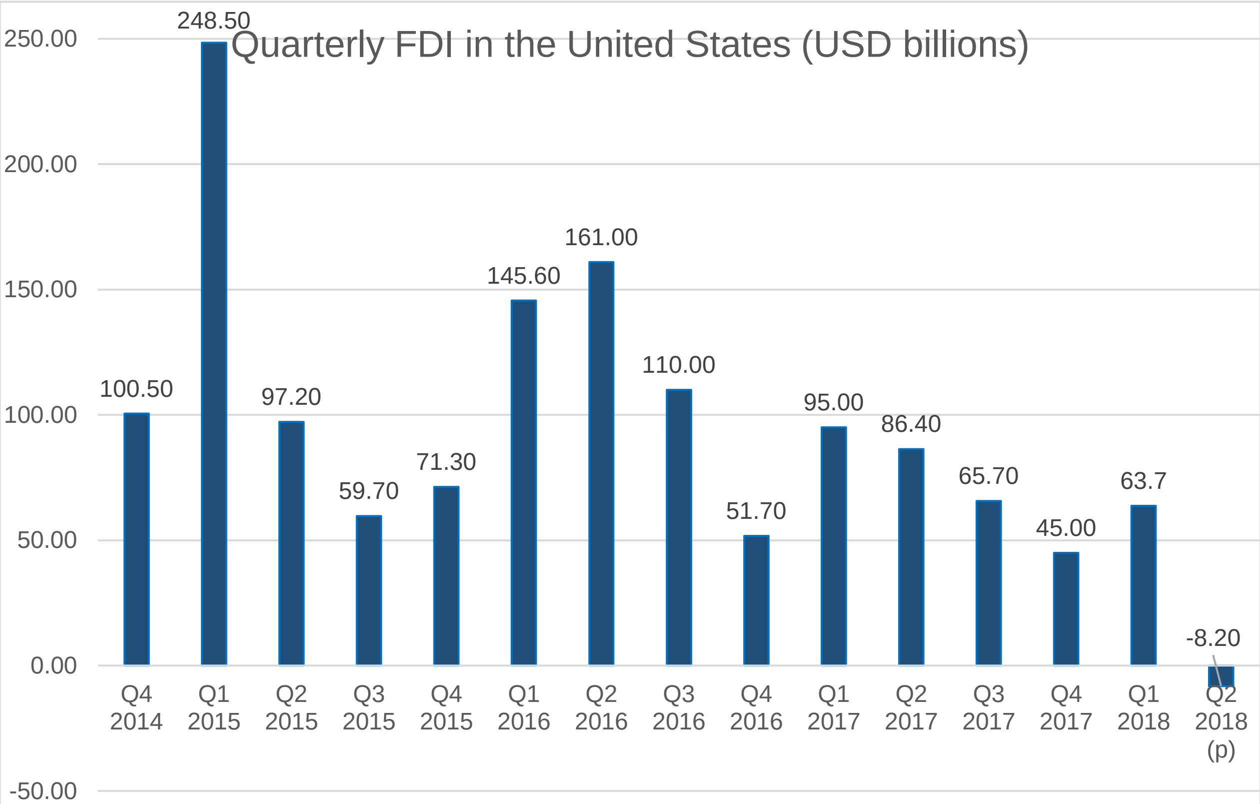
The European American Investment Council (EAIC) is the official European representative of selected counties, cities and chambers of commerce from over 20 U.S. States. It is our mission to promote transatlantic trade and investment. To that end, the EAIC bridges the gap between Economic Development Organizations (EDOs) and European investors looking to enter or expand in the U.S. market.

In this edition of our Quarterly, we analyze data for the second quarter of 2018, as recently published by the Bureau of Economic Analysis (BEA). As regards overall net direct investment into the United States (including equity & debt instruments), the second quarter of 2018 saw an overall disinvestment of USD 8 billion, largely based on unusually high activity in mergers and acquisition. However, European FDI, as measured by our three key markets, remains strong in the first two quarters in 2018 as compared to 2017. Moreover, we also analyze in more detail a key driver of Transportation Equipment FDI in the United States: the automotive market.

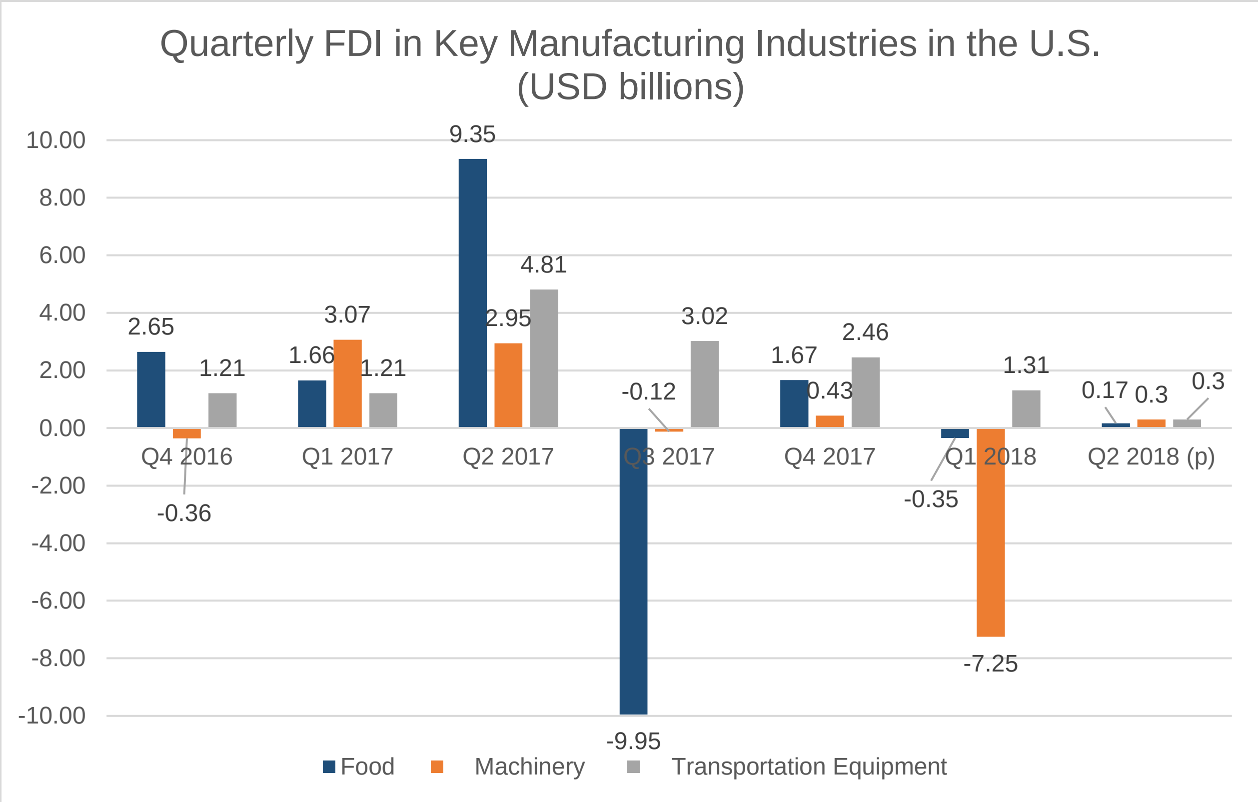
In the Quarterly, the EAIC aspires to combine relevant country data with its own experience of working at the frontier of transatlantic investments: the EAIC regularly visits key markets in Europe that have become drivers of FDI in the United States as part of Delegation Trips offered exclusively to 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. To find out more, please click here.

Foreign Direct Investment in the United States: Key Figures

- In the newly published data for the second quarter 2018, FDI inflows in the first quarter were revised upward from USD 57.5 billion to 63.7 billion.
- The preliminary data for the second quarter of 2018 shows a divestment of USD 8.2 billion in FDI inflows from the last quarter, which represents a decrease of roughly 112.87 percent (-71.8 billion) to the first quarter of 2018.
- The last time the United States saw a net divestment in direct investment was in the first quarter of 2014, with a divestment of roughly USD 73 billion. While not unusual, the divestment in this quarter was driven partly by a large outflow of equity – approximately USD 100 billion. This means that many parent companies have shed their involvement in their U.S. affiliates to third parties. While this high volume of mergers and acquisitions can be due to many factors, some commentators have pointed to the role of the global policy uncertainty surrounding a potential further escalation in tariffs and other trade restrictions that might induce companies to defer new investments.*

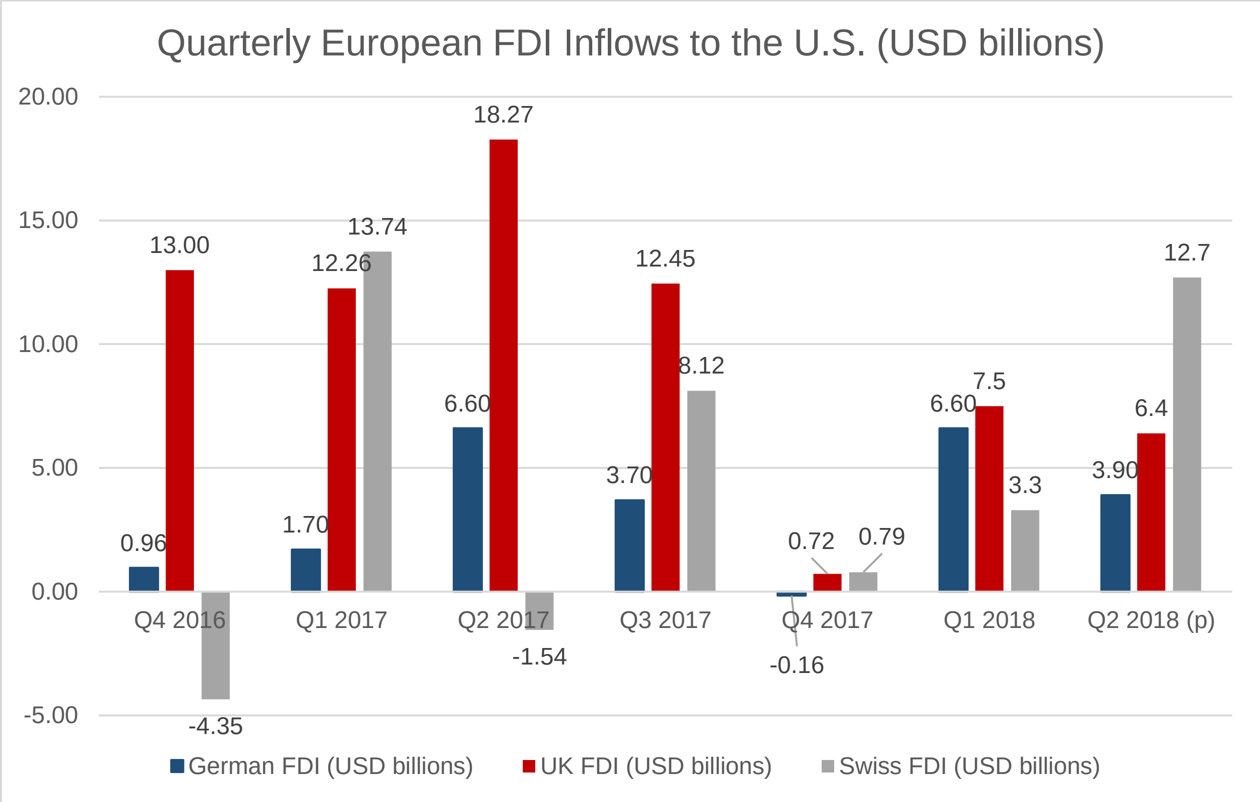


Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Second Quarter 2018, September 2018.
*Organization for International Investment (OFII), Foreign Direct Investment in the United States, Preliminary 2nd Quarter 2018, September 2018.



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Second Quarter 2018, September 2018.

- The FDI numbers for the three key sectors Food, Machinery and Transportation Equipment for the first quarter of 2018 were only slights revised in the newly published data for Q2 2018 by the BEA. Thus, only the data for the outflow of FDI in the Food sector was revised upward, from an outflow of USD 35 million to 12 million. The numbers for both Machinery and Transportation Equipment remained unchanged. In the first quarter, the Food sector also recovered marginally from an outflow of USD 350 million to a positive inflow of USD 170 million.
- For the Machinery sector, the numbers recovered somewhat from their lowest point in almost a decade with an outflow of USD 7.25 billion in the first quarter, to positive inflows of roughly USD 300 million.
- According to the preliminary data of the BEA, FDI in Transportation Equipment declined quite substantially on a quarter-to-quarter basis, with a drop of nearly 88 percent from USD 2.46 billion to roughly USD 300 million in the second quarter of 2018. For Transportation Equipment, this was the weakest quarterly result since the third quarter of 2015.



Source: Bureau of Economic Analysis (BEA), U.S. International Transactions: Second Quarter 2018, September 2018.

Above, we have updated the FDI flow data from our last Quarterly with the most recent data on the second quarter 2018:

- FDI flows from Germany in the first quarter of 2018 were substantially revised upwards – from a slight divestment of USD 150 million to an inflow of USD 6.6 billion. Both British and Swiss FDI have slightly been revised downward, from USD 9.6 to 7.5 billion and from USD 3.95 to 3.3 billion, respectively.
- In the second quarter of 2018, German FDI decreased by about 40 percent compared to the first quarter, from USD 6.6 to 3.9 billion. British FDI held relatively steady with only a slight decrease of about 14 percent from USD 7.5 to 6.4 billion. Swiss FDI increased significantly from USD 3.3 billion in the first to 12.7 billion in the second quarter.
- Overall, total investment from these three key European source countries remains strong in the first two quarters of 2018, with a total of USD 40.4 billion, compared to USD 51.03 billion in the first two quarters of 2017 – which was overall the fourth strongest year for FDI in the United States in a decade.

EAIC Industry Spotlight: Automotive

When it comes to employment, investment, internationalization and spending on research and development, there is hardly an industry capable of matching the importance of the global automotive industry. After the throes of the financial crisis a decade ago, the industry is now reaching new heights: global sales of passenger cars hit 79.2 million vehicles in 2017 and are forecast to reach 81.57 million units in 2018. The United States is one of the largest automobile markets worldwide, both in terms of production and sales. About 6.9 million passenger cars were sold to U.S. customers in 2016 and around 4 million cars were produced in the U.S. that same year. At the same time, German car makers Volkswagen, Daimler and BMW were among the leading automobile manufacturers in terms of revenue and among the top 15 car manufacturers worldwide in 2016. Although motor vehicles are typically sold under a brand name, virtually all automotive manufacturing companies restrict themselves to designing and assembling automotive parts or component groups, most of which are provided by external suppliers. German industry giant Bosch ranked first in the automotive supplier industry, followed by Continental and Magna.

According to the European Automobile Manufacturers Association (ACEA), car-related trade between the European Union (EU) and the United States currently accounts for around 10% of total trade between the two regions. Together, the EU and the U.S. account for 32% of the global car production and 35% of the global car sales. The United States remained the number one destination of EU car exports in 2016, both in terms of units (21.3% share) and of value (30.2% share). In 2017, EU car exports to the U.S. roughly amounted to USD 32 billion. In the period from January to September 2017, passenger car exports in volume terms from the EU to the U.S. dropped 2.2%, from roughly 847 million to 829 million units, compared to the same period in 2016.

In Europe, the auto industry is the largest private investor in research and development (R&D), with more than USD 58.8 billion invested annually. Since several countries around the world are implementing stricter emission controls, automakers are beginning to expand their business into the electric mobility sector. Germany is expected to lead the way with projected electric car production to reach 1.3 million units by 2021. In light of growing environmental awareness and an increasing desire to connect vehicles to the internet, automotive suppliers are faced with a variety of new challenges. Market trends such as the shift to lighter materials and alternative fuel powertrains, together with the affinity towards electric as well as autonomous vehicles, are set to shake up the automotive industry. It is expected that automotive suppliers will respond to changing market trends by increased spending on R&D activities. In a 2016 survey, 40% of U.S. respondents stated that they were willing to use fully autonomous vehicles, presumably because they consider autonomous vehicles to be safer than conventional cars. Thus, the global market for autonomous driving hardware components is expected to grow from USD 400 million in 2015 to 40 billion in 2030. These developments will have a strong impact on FDI flows from Europe to the United States.

The decision of the U.S. administration under President Trump to introduce a 25 percent tariff on imports of steel and a corresponding 10 percent tariff on aluminum entering the United states has caused uncertainty among the European business community. Although the impact of the tariffs was regarded as limited, the ensuing retaliatory tariffs from the European Union and other major trading partners of the United States threatens a tit-for-tat dynamic that has the potential to significantly affect the workings of the transatlantic market. Especially with regard to a proposed U.S. tariffs on European cars, many companies, including German car-maker BMW and General Motors in the United States, sounded the alarm, alerting all stakeholders to the welfare cost of disrupting an industry that depends on a heavily interconnected transatlantic supply chain. On July 25th, President Trump and EU Commission President Jean-Claude Juncker announced a preliminary agreement after a joint meeting in the White House, in which both parties agreed to halt the implementation of any additional tariffs while talks are ongoing. Meanwhile, the European Union will import additional U.S. soybeans and liquefied natural gas (LNG), and both sides agreed to work towards zero tariffs on non-auto industrial goods. The deal was welcomed on both sides, with German automotive industry association VDA (statement in German) calling the agreement “a big step forward” and “good news for industry and consumers of both sides of the Atlantic”. Given that the preliminary agreement between the United States and the European Union echoes many goals of the now dormant Transatlantic Trade and Investment Partnership (TTIP) - especially regarding the zero-tariffs on industrial goods - European business leaders have expressed hope that the ongoing dialogue might revitalize the momentum for a larger agreement.

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