5

The 50 U.S. States: European-Related Jobs, Trade and Investment

U.S. personal savings rate soared

7.5% → 16.3%

(2019) (2020)

FDI inflows dropped by almost

50%

in the U.S. in 2020

Despite various potential headwinds and uncertainties surrounding the coronavirus outlook, many factors point to continued economic recovery and more favorable conditions for European companies in the United States in the year ahead. Foreign direct investment flows, driven by cross-border mergers and acquisitions (M&A), should rebound in the next year. The jobs recovery will continue, albeit at a more gradual pace. And pent-up consumer demand is expected to drive personal consumption higher in the second half of the year, especially in the services sector.

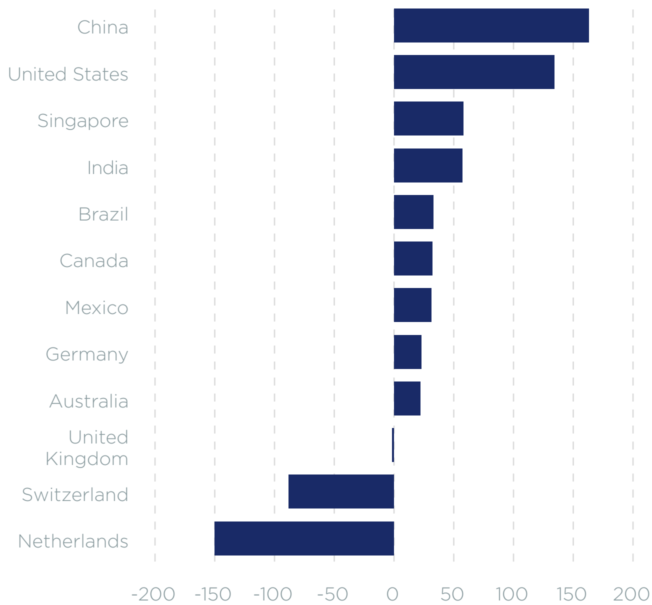
Last year, despite the COVID-19 induced recession, U.S. personal incomes increased, and consumer balance sheets strengthened, due to massive stimulus from the federal government. These economic relief measures, which included stimulus checks to low- and middle-income consumers, expanded unemployment benefits, and forbearance on mortgage and student loans caused the personal savings rate to soar from 7.5% in 2019 to 16.3% in 2020. In April 2020, the U.S. savings rate reached its highest level on record, at 34% of disposable personal income. In the aggregate, personal income increased by $1.2 trillion, or 6.3%, in 2020 – the highest percent increase in 15 years. High savings and rising incomes have led to a quick recovery in consumer spending, especially in durable goods. Services spending has lagged behind but should be unleashed as vaccine distribution picks up across the United States.

Looking at structural drivers, we expect a more benign trade environment, reduced business uncertainty, and increased appetite for massive fiscal and monetary stimulus programs to support a strong U.S. economic recovery in 2021 and beyond. In addition, the lowered corporate tax rate should continue to drive investments into the United States in the near to medium term.

In 2020, the U.S. economy contracted by 3.5% in real terms, the largest annual decline in 74 years. The annualized decline in the second quarter of the year of -31.4% was the largest on record. It was followed in the next quarter by the sharpest-ever quarterly increase of 33.4%. According to forecasts from the IMF, U.S. growth is expected to rebound to 5.1% in 2021 and slow to 2.5% by 2022. These forecasts are highly volatile, however, and could vary depending on the trajectory of the virus, progress in vaccine production and distribution, and the effectiveness of fiscal and monetary stimulus.

According to the latest figures from the UN, foreign direct investment (FDI) inflows to both the United States and Europe were severely impacted by the global recession. In the United States, FDI inflows dropped by almost 50%, due to large declines in investments from German, British and Japanese companies. Cross-border M&A of U.S. assets to companies abroad fell 41%, with much of the decline concentrated in the primary sector. Despite the turbulence, the United States remains one of the most attractive countries in the world for foreign direct investment. In 2020, the U.S. attracted $134 billion of inflows, ranking second place in terms of FDI after China ($163 billion) (Table 1). Prior to 2020, the United States had ranked number one in the world for FDI inflows for the last 14 years.

Table 1 FDI Inflows in 2020, Select Countries
($Billions)



Source: United Nations Conference on Trade and Development (UNCTAD).
Data are preliminary estimates as of January 2021.

The U.S. economy contracted by

3.5%

in 2020

Drivers of a strong U.S. economic recovery in 2021 and beyond

FDI flows

Better trade environment

Job creation

Reduced business uncertainty

Higher consumer spending

Large fiscal and monetary stimulus programs

Table 2 Cumulative Investment Inflows 2000-2019 Rankings

Rank	Country	Cumulative Flows (Billions of U.S. $)	Percent of World Total
1	United States	4,491.3	16.6%
2	China	1,982.8	7.3%
3	United Kingdom	1,693.5	6.3%
4	Hong Kong	1,382.1	5.1%
5	Netherlands	992.2	3.7%
6	Brazil	921.7	3.4%
7	Germany	903.0	3.3%
8	Singapore	875.6	3.2%
9	Canada	850.5	3.1%
10	Australia	698.5	2.6%

Source: United Nations Conference on Trade and Development (UNCTAD).
Data as of June 2020.

As Table 2 depicts, no country has attracted more FDI this century than the United States, taking in $4.5 trillion cumulatively since 2000, more than the total for the next two countries (China and the UK) combined. Multiple factors underpin America's dominance in foreign investment flows. First, the U.S. market is a critical destination for multinational companies looking to access a large and wealthy consumer base, with a population of roughly 330 million and per capita income of $65,000.

Second, the United States boasts a hyper-competitive and dynamic economy, ranking second place in the World Economic Forum's latest Global Competitiveness rankings. This competitiveness is driven by strong institutions, advanced technological readiness, world-class universities, a strong capacity and culture of entrepreneurship, and a dense web of university-industry collaboration in research and development (R&D). The ability to attract R&D from companies abroad is important to the innovative culture of the U.S. economy. R&D performed by affiliates of foreign companies accounts for 15.2% of total R&D conducted by all businesses in the United States. European companies account for two-thirds of that foreign-funded R&D in the United States.

Jobs directly supported by European companies in the U.S. (2019)
5 million

Additionally, European companies investing in the United States gain access to a desired pool of skilled, flexible, and productive labor. We estimate that U.S. jobs supported directly by affiliates of foreign companies totaled 8 million in 2019, or about 6% of total private industry employment in the United States. European companies accounted for 63% of that figure, or 5 million jobs.

Meanwhile, transparent rule of law, sophisticated accounting, auditing, and reporting standards, secure access to credit, ease of entrepreneurship, and respect for intellectual property rights have all contributed to the stable and supportive business environment in the United States.

Europe's Stakes in the United States

European firms maintained their dominant foreign investment position in the United States in 2020. In the first three quarters of the year, FDI inflows from Europe represented over 60% of total U.S. inflows. These inflows, however, are down considerably from the prior year. Annualizing data for the first nine months of last year, U.S. FDI inflows from Europe are estimated to come in at $81 billion in 2020 versus $120 billion in 2019.

The presence of European affiliates in many states and communities across the United States has helped to **improve America's job picture**

Throughout Europe, the net change in investment flows to the United States in 2020 was mixed, with some countries posting strong growth in FDI flows, while others saw a pullback. Swiss investment flows to the United States grew 190% in the first three quarters of the year, while flows from Italy and Finland were almost four times the amount of flows received during the first three quarters of 2019. By contrast, U.S. inflows from Germany, Ireland, Spain, Sweden, and the UK were all lower in the first three quarters of 2020 than the same period a year ago.

In terms of the outlook for 2021, we expect cross-border M&A activity to drive the rebound in FDI in 2021, while investments in new assets (or "greenfield projects") take longer to adjust. Business disruptions and uncertainty caused by COVID-19 led to a dramatic drop in transatlantic M&A flows in the beginning of the year; however, deal activity quickly rebounded back to pre-crisis levels by June 2020. From June 2020 through January 2021, M&A announcements between the United States and Europe averaged $60 billion a month, almost double the monthly volume during the same period a year earlier.

By contrast, the recovery in greenfield FDI will be more gradual. According to UNCTAD estimates, the number of announced greenfield projects globally declined by 35% in 2020, a sign that global FDI growth in 2021 is likely to remain subdued. FDI announcements in sectors such as autos, hotels & tourism, real estate, and oil & gas were the most harmed by the pandemic. On the other hand, sectors such as telecommunications, semiconductors, consumer products and biotechnology saw FDI announcements increase in 2020. Renewable energy is another sector that should benefit from the transatlantic economic recovery (See Box 5.1).

European firms should continue to drive the FDI recovery. UK firms were the largest source of greenfield foreign investment projects in 18 U.S. states during the ten-year period from October 2010-September 2020. German companies led in 11 states, followed by Canadian companies in 10 states and Japanese companies in 7.

Despite the overall year-over-year decline in investment flows, Europe continues to have an outsized investment presence in the United States, as reflected by its FDI position, which is a more stable metric of foreign investment in the United States. In terms of foreign capital stock in the United States, Europe again leads the way. The region accounted for 64% of the total $4.5 trillion of foreign capital sunk in the United States as of 2019. Total European investment stock in the United States of $2.9 trillion was over three times the level of comparable investment from Asia.

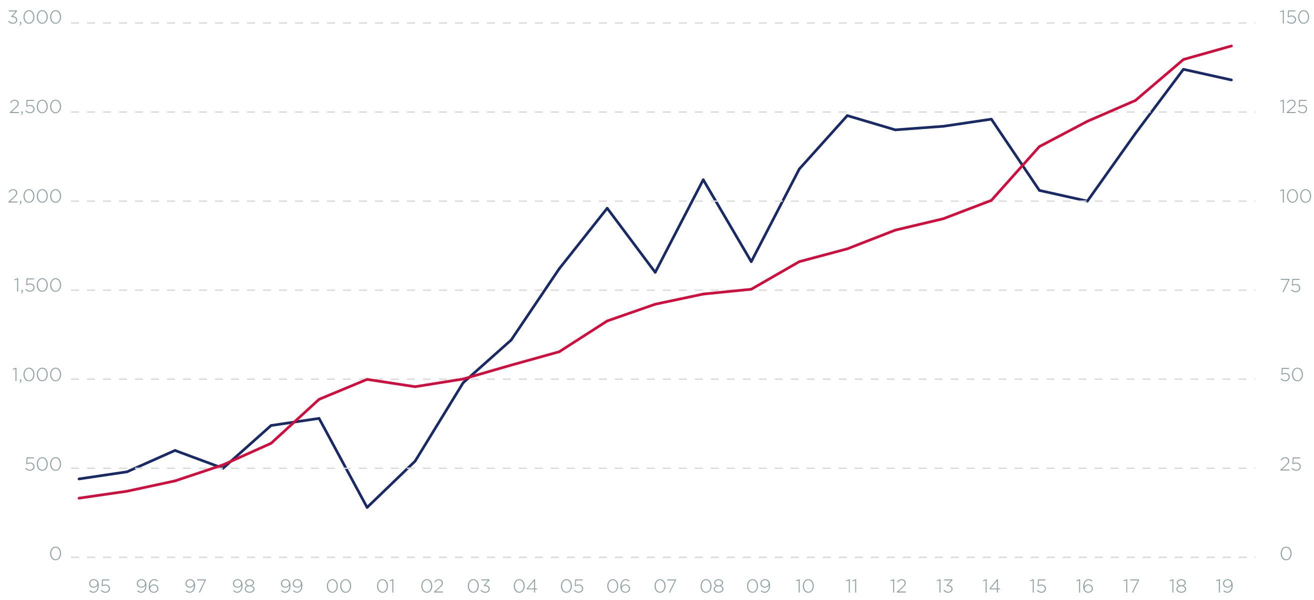
The United Kingdom remains by far the largest European investor in the United States, based on FDI on a historic cost basis, with total FDI stock in the United States totaling $505 billion in 2019. The Netherlands ranked second in Europe ($487 billion), followed by Germany ($372 billion) and Switzerland ($301 billion). Many firms from these countries are just as embedded in the U.S. economy as in their own home markets.

Whether Swiss pharmaceutical corporations, German auto manufacturers or British services providers, European firms' commercial links to America have driven corporate sales and profits higher in recent decades. In 2019, European firms earned $134 billion in the United States – the second highest amount on record, though profits plunged in 2020 due to the global pandemic. Through the first nine months of 2020 European affiliate income earned in the United States totaled $65 billion. In spite of the pandemic, Austria, Denmark, Finland, and France actually saw their investment income in the United States increase in the first nine months of 2020, compared to the same period in 2019. Taking the long view, affiliate earning levels for most European firms are significantly higher today than they were at the start of the century. As European firms have built out their U.S. operations, the payoff has been rising affiliate earnings in one of the largest markets in the world.

Total European FDI stock in the U.S.
$2.9 trillion
(2019)

64%
of total FDI in the U.S.

Table 3 European Foreign Direct Investment and Income Earned in the United States (Billions of U.S. $)



Sources: Bureau of Economic Analysis.
Data as of January 2021.

Table 3 highlights this connection between European investment in the United States and European affiliate earnings. The two metrics are highly correlated – the greater the earnings, the greater the likelihood of more capital investment, and the more investment, the greater the upside for potential earnings and affiliate income. The bottom line is that Europe's investment stakes in the United States have paid handsome dividends over the years, notably since the Great Recession, given the growth differential between the United States and Europe.

Europe's Stakes in America's 50 States

European firms can be found in all 50 states, and in all economic sectors – manufacturing and services alike. The employment impact of European firms in the United States is quite significant. Table 4 provides a snapshot of state employment supported directly by European affiliates across the United States. It is important to note that the chart represents only those jobs that have been directly created by European investment, and thus underestimates the true impact on U.S. jobs of America's commercial ties to Europe. Jobs tied to exports and imports of goods and services are not included, nor are many other jobs created indirectly through suppliers or distribution networks and related activities.

In 2018, the latest year of available data, all of the top 20 states measured by European affiliate employment increased hiring. Of these states, Michigan, Virginia, and Texas had the largest growth rates of European affiliate employment in 2018.

Table 4 Ranking of Top 20 States by Jobs Supported Directly by European Investment
(Thousands of employees)

U.S. State	2016	2017	2018
California	430.7	468.6	490.7
Texas	366.0	376.2	401.5
New York	345.1	341.1	357.4
Illinois	234.2	236.5	240.3
Pennsylvania	222.5	225.9	232.9
Florida	217.2	216.9	229.5
New Jersey	193.3	199.7	204.5
Michigan	159.3	188.2	203.3
North Carolina	187.5	194.4	199.2
Ohio	155.7	166.4	172.8
Massachusetts	159.6	163.5	167
Georgia	141.3	153.5	162.3
Virginia	134.7	142.6	153.1
Indiana	115.6	121.5	126.4
Tennessee	100.3	108.1	113.5
South Carolina	98.3	106.9	110.3
Minnesota	75.4	92.7	94.6
Missouri	78.1	86.6	89.6
Maryland	91.6	87.7	88.7
Connecticut	81.6	83.2	87.9

Source: Bureau of Economic Analysis.
Data as of January 2021.

European affiliate earnings in the U.S. $134 billion (2019)

But profits plunged to $65 billion in the first nine months of 2020

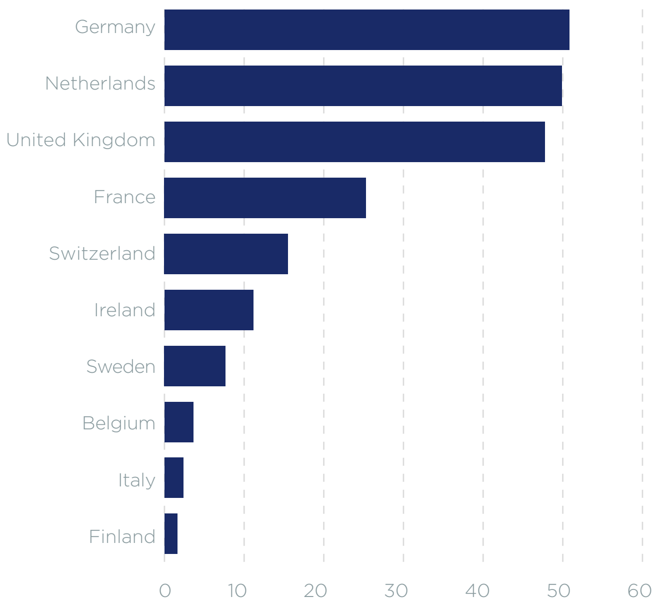
UK firms were the largest sources of onshored jobs in 22 U.S. states. Japanese companies led in 11 states, Canadian companies in 9, Dutch companies in 3, German companies in 3, and French companies were the leading source of onshored jobs in 2 states.

Europe is by far the largest source of FDI in the manufacturing industry, with European companies representing 74% of the total inward investment position in the United States. Within the manufacturing industry, the U.S. chemicals sector was the biggest recipient of European investment ($592 billion), followed by transportation equipment ($271 billion). In terms of European affiliate employment, the retail trade industry employed the most workers (567,000 jobs in 2018) while European companies in chemicals manufacturing, transportation equipment manufacturing, wholesale trade, and professional, scientific, and technical services were also important contributors to U.S. jobs.

In general, the presence of European affiliates in many states and communities across the United States has helped to improve America's job picture. The more European firms embed in local communities around the nation, the more they tend to generate jobs and income for U.S. workers, increase sales for local suppliers and businesses, expand revenues for local communities, and encourage capital investment and R&D expenditures for the United States.

Deep investment ties with Europe have also boosted U.S. trade. Table 5 illustrates the export potential of European affiliates operating in the United States. As a point of reference, in any given year, foreign affiliates based in the United States and exporting from there typically account for one-fourth of total U.S. merchandise exports. The bulk of these exports are intra-firm trade, or trade between the affiliate and its parent company. In 2018, the last year of available data, U.S. exports shipped by all majority-owned foreign affiliates totaled $395 billion, with European affiliates accounting for 57% of the total. German companies exported more than $50 billion in exports made in the U.S.A.

Table 5 **Exports of Goods Shipped by European Companies Operating in the United States** ($Billions)



Source: Bureau of Economic Analysis. Data for 2018.

Wholesale trade, transportation equipment, and chemical manufactures represented the largest categories of exports by affiliates to markets outside the United States. In the end, the more European affiliates export from the United States, the higher the number of jobs for U.S. workers and the greater the U.S. export figures.

Every U.S. state maintains cross-border ties with Europe, with various European countries key export markets for many U.S. states, a dynamic that creates and generates growth in the United States. Table 6 ranks the top 20 state goods exporters to Europe in 2019. Texas ranked number one, followed by California, New York, and South Carolina. Overall exports to Europe were up 3% in 2019 and have doubled in value since 2000.

Top 3 states
European affiliate jobs

TOP 3

Texas California New York

Europe accounts for **74% of total FDI in the U.S. manufacturing industry**

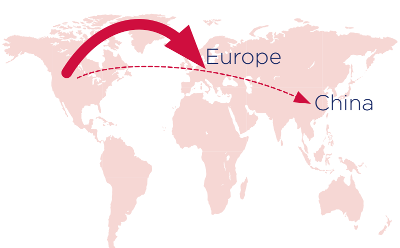
Table 6 Ranking of Top 20 U.S. States Total Goods Exports to Europe, by Value ($Billions)

U.S. State	2019	2000	% Change from 2000	% Change from 2018
Texas	52.5	12.3	328%	16%
California	38.9	27.9	40%	6%
New York	26.1	15.3	70%	-12%
South Carolina	12.5	2.8	347%	25%
Pennsylvania	12.4	4.7	165%	11%
Louisiana	12.3	3.3	273%	-2%
Kentucky	11.8	3.1	285%	5%
Illinois	11.5	7.3	57%	-12%
Georgia	11.3	4.0	186%	10%
New Jersey	11.3	6.4	77%	4%
Washington	11.1	13.1	-15%	-31%
Utah	11.0	1.3	719%	56%
Massachusetts	10.9	8.0	36%	13%
Florida	10.4	3.9	168%	-7%
North Carolina	9.6	4.6	107%	7%
Indiana	9.6	3.1	204%	0%
Ohio	9.5	5.0	88%	-3%
Michigan	8.3	5.0	65%	3%
Connecticut	8.2	3.5	134%	-13%
Tennessee	6.8	2.7	153%	-2%
U.S. Total	**381.7**	**187.4**	**104%**	**3%**

Source: Foreign Trade Division, U.S. Census Bureau.
Data as of January 2021.

U.S. merchandise exports to Europe are still more than triple U.S. exports to China, as shown in Table 7. Forty-eight of the fifty U.S. states exported more to Europe than China; only New Mexico and Oregon exported more goods to China than to Europe in 2019.

In addition, while these figures are significant, they actually underestimate Europe's importance as an export destination for U.S. states because they do not include U.S. state exports of services. This is an additional source of jobs and incomes for U.S. workers, with most U.S. jobs tied to services. Europe is by far the most important market in the world for U.S. services, and the United States consistently records a services trade surplus with Europe. Suffice it to say that if services exports were added to goods exports by state, the European market becomes even more important.



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states **export more goods to Europe** than to China
(2019)

Table 7 U.S. State Exports of Goods to Europe and China, 2019 ($Millions)

U.S. State	Europe	China
Alabama	6,606	2,317
Alaska	1,176	855
Arizona	4,828	1,087
Arkansas	1,645	191
California	38,929	15,848
Colorado	1,814	524
Connecticut	8,183	1,262
Delaware	1,450	464
Florida	10,444	1,361
Georgia	11,320	2,365
Hawaii	25	21
Idaho	409	209
Illinois	11,510	2,915
Indiana	9,559	2,022
Iowa	2,517	760
Kansas	2,552	553
Kentucky	11,801	2,098
Louisiana	12,264	4,929
Maine	446	134
Maryland	4,943	529
Massachusetts	10,877	2,370
Michigan	8,318	3,240
Minnesota	5,112	2,125
Mississippi	2,095	457
Missouri	2,437	598
Montana	280	96
Nebraska	933	341
Nevada	2,613	514
New Hampshire	2,621	294
New Jersey	11,272	1,834
New Mexico	308	803
New York	26,102	2,850
North Carolina	9,573	3,250
North Dakota	254	19
Ohio	9,456	3,240
Oklahoma	1,423	212
Oregon	2,715	7,193
Pennsylvania	12,396	2,544
Rhode Island	900	156
South Carolina	12,474	6,495
South Dakota	160	75
Tennessee	6,836	2,096
Texas	52,517	10,922
Utah	10,991	575
Vermont	457	187
Virginia	5,298	1,196
Washington	11,095	8,987
West Virginia	1,918	373
Wisconsin	4,426	1,373
Wyoming	52	24
Total United States	**381,656**	**106,447**

Source: U.S. Census Bureau, Foreign Trade Division.
Data as of January 2021.

Appendix A highlights European-related jobs, trade, and investment for each of the 50 states.

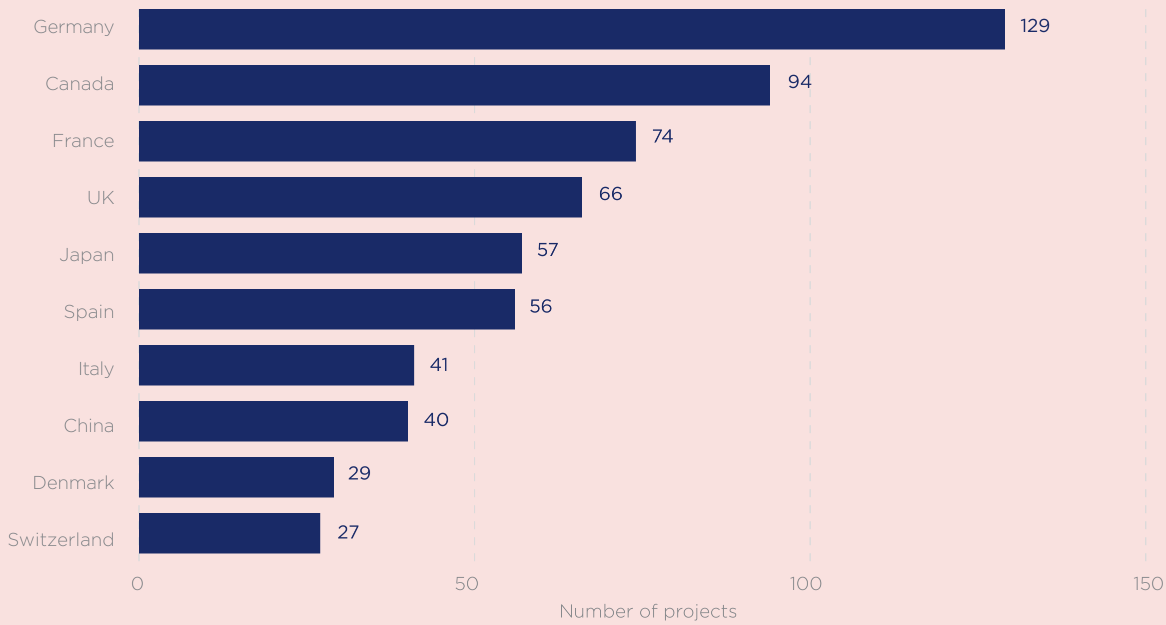
Box 4.1. The Transatlantic Energy Economy

U.S. and European firms are deeply embedded in each other's traditional and renewable energy markets – through trade, foreign investment, cross-border financing, and collaboration in research and development.

Over the years, foreign companies have invested roughly $400 billion in U.S. energy-related industries.[1] In 2018, FDI in the U.S. energy industry directly supported 173,500 U.S. jobs, contributed $1.2 billion in R&D and generated $5.7 billion in U.S. exports.[2] European companies have been among the largest investors, and German companies by far are the leading source of foreign direct investment in the U.S. energy economy. Over the past decade, German firms were behind about 16% of the 830 greenfield investment projects in the U.S. energy sector (Table 8). Other notable European investors include France (9%), the UK (8%), and Spain (7%).

Table 8 Top Sources of Inward FDI in U.S. Energy

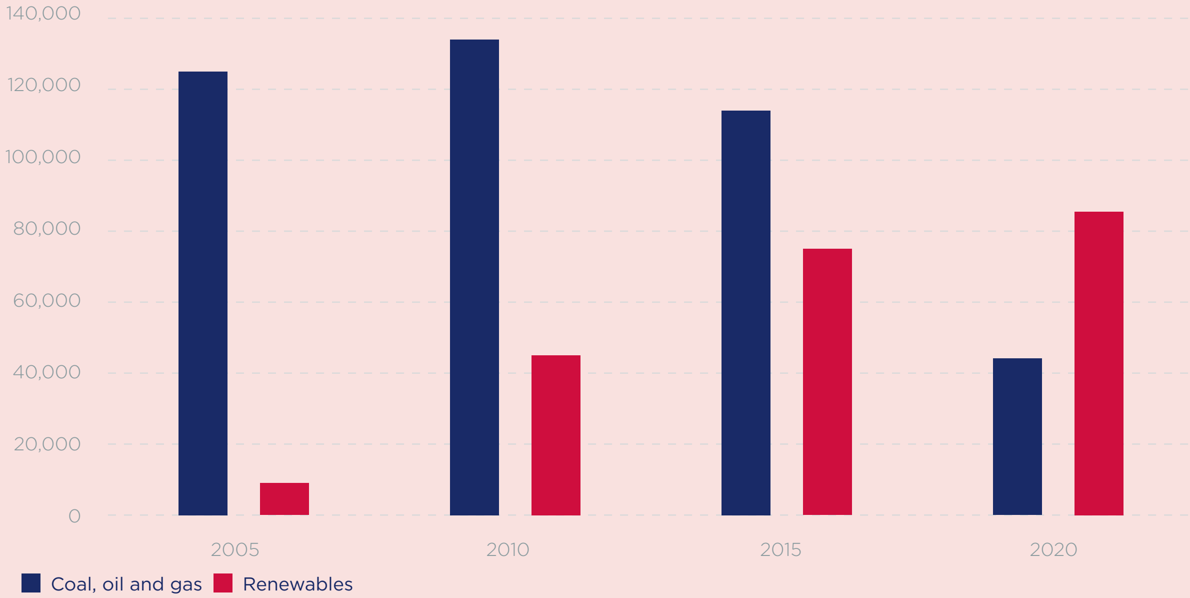
830 Total Announced Greenfield Projects, October 2010 - September 2020



Source: SelectUSA, U.S. Department of Commerce.
Data as of November 2020.

In particular, renewable energy has become an increasingly important sector in terms of FDI. As shown in Table 9, renewable energy projects outpaced traditional energy investments in 2020 for the first time in history. Despite the coronavirus recession, renewable energy investments proved to be relatively resilient during 2020. According to the Financial Times' investment monitor, fDi Markets, renewable energy FDI fell 11% in 2020, versus an overall 40% drop in FDI across all industries. "Greenfield investment" (or investment in new assets) in the coal, oil and gas industries, meanwhile, dropped by over 62% in 2020. The United States and the U.K were the top countries for renewable energy FDI announcements, while wind and solar were the top sectors. The fastest growing region was Europe, with greenfield FDI into European renewable projects rising by 70% last year, driven by the UK, France, Poland, Portugal, Italy and Ireland.

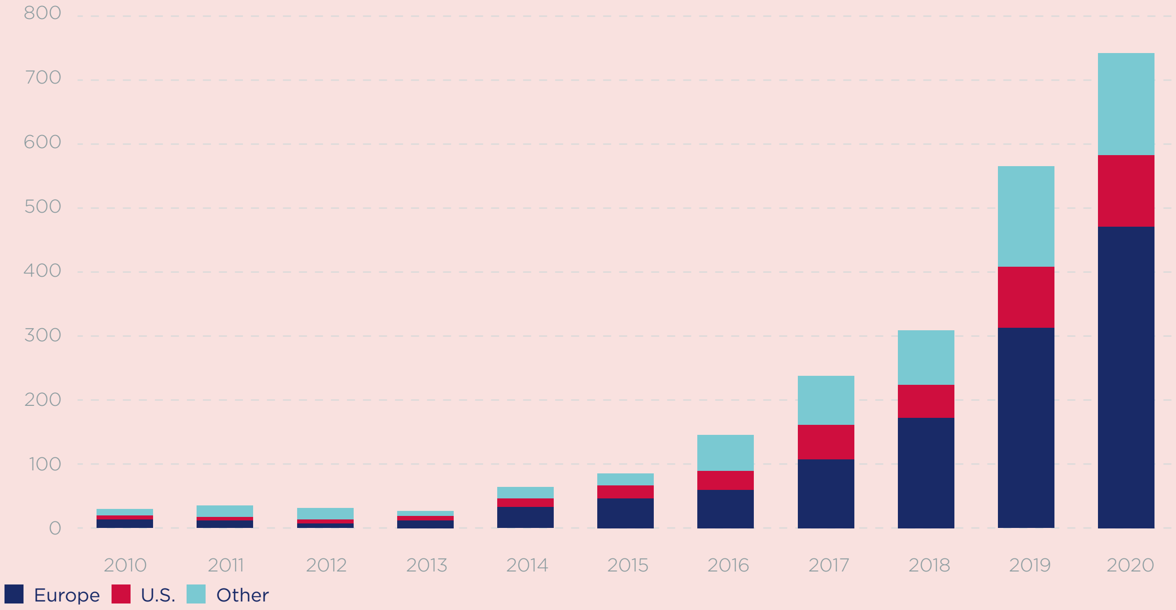
Table 9 Renewables vs. Traditional Energy Investment
Announced Greenfield FDI (Millions $)



Source: Financial Times, fDi Markets.
Data as of February 2021.

Growing interest in sustainable investing has been a key area of support for the sector. According to data from Bloomberg, social, sustainability and green bond issuance surged 31% in 2020 to $742 billion (Table 10). These include debt issued for social projects, such as job support, as well as for environmental causes. Sales of green bonds last year rose 13% to $304 billion. Europe and the United States made up over 80% of all green bonds issued in 2020, and 78% of all sustainable debt issuance.

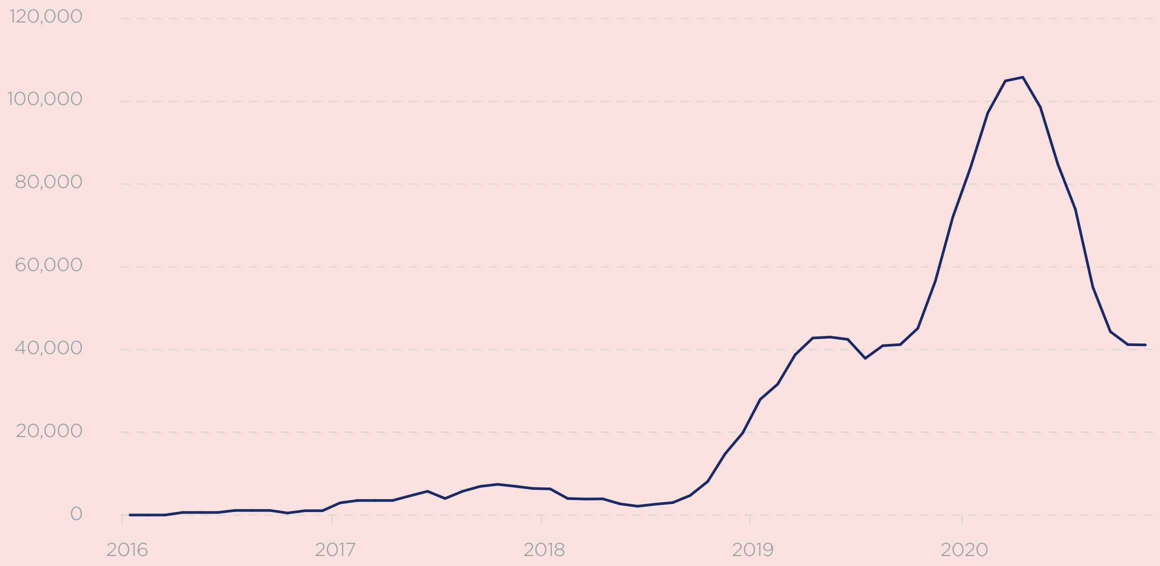
Table 10 Sustainable Debt Issuance Hits Record High in 2020
Global Sustainable Debt Issuance (Billions $)



Data includes sales of green, social and sustainability bonds, sustainability-linked bonds, green loans, and sustainability-linked loans.
Source: Bloomberg New Energy Finance.
Data as of January 2021.

In terms of international trade, U.S. energy exports slumped in 2020 on account of the pandemic-induced slowdown in global travel. That said, U.S.-EU trade in energy products is still much higher today than a few years ago. Rising domestic and foreign investments in the U.S. energy economy, as well as a liberalization of energy trade policy, have helped propel the United States to become a top producer and exporter of energy. Monthly liquefied natural gas (LNG) exports from the United States to Europe dipped in 2020, but still averaged 65 billion cubic feet for the year, up from 57 billion cubic feet in 2019 (See Table 11).

Table 11 U.S. Liquefied Natural Gas (LNG) Exports to the UK and EU Countries
Million Cubic Feet (6 month moving average)

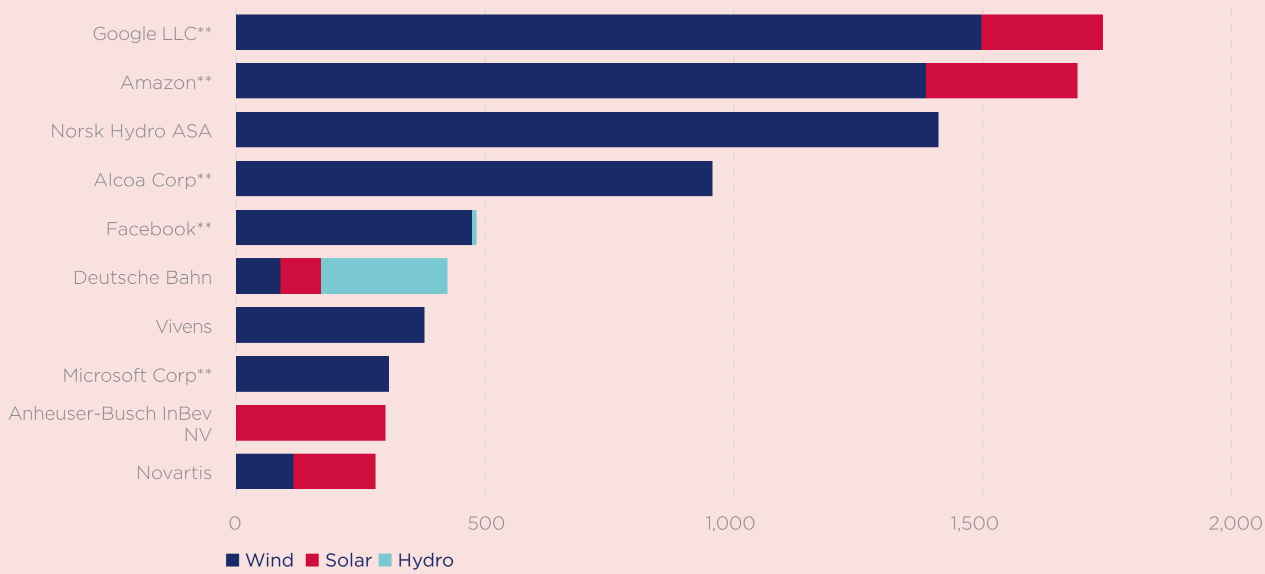


Source: U.S. Energy Information Administration.
Data as of February 2021.

U.S. and European companies will be critical to the development of a cleaner energy future. The EU's ambitious European Green Deal outlines a wide set of initiatives ranging from the de-carbonization of the energy sector, development of cleaner modes of transport, renovation of buildings to reduce energy use, and investments in the circular economy. The plan will require trillions of euros in investments to achieve the ambitious target of making the continent climate neutral by 2050. More recently, policymakers in the EU reached an agreement in November for a €1.8 trillion package from 2021-2027 to "rebuild a greener, more digital and more resilient Europe."[3] According to data tracked by Rhodium Group, stimulus spending commitments for "green" initiatives made up 15% of total COVID-19 stimulus announced by the EU and its member states' governments in 2020.[4]

Largely unnoticed by media and politicians, U.S. companies in Europe have become a driving force for Europe's green revolution, especially through the addition of wind and solar capacity on the continent. Since 2007, U.S. companies have been responsible for more than half of the long-term renewable energy agreements in Europe. As shown by Table 12, U.S. companies account for four of the top five purchasers of solar and wind capacity in Europe.

Table 12 Top Purchasers of Renewable Energy in Europe, 2007-2020 (Megawatts)

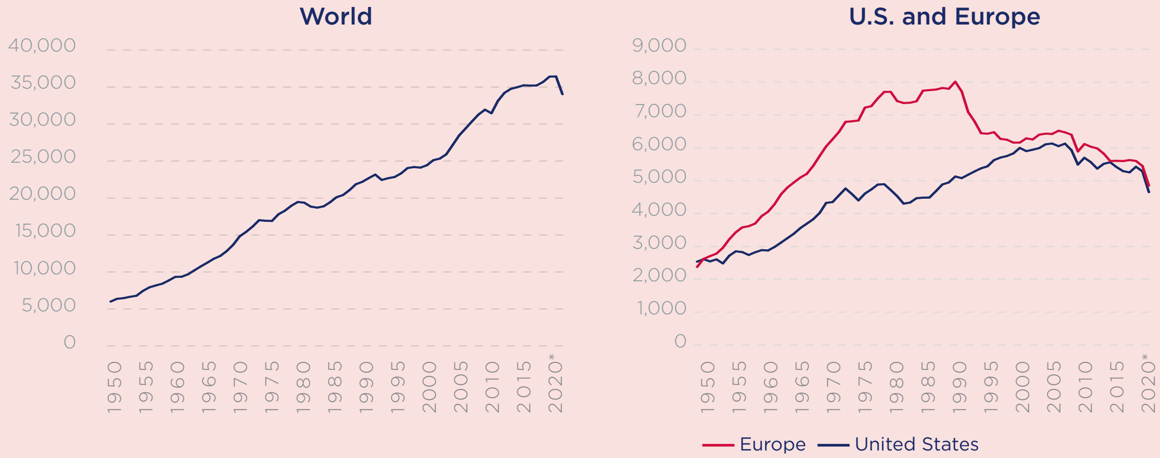


*** Companies with asterisks are U.S. companies*
Source: Bloomberg New Energy Finance.
Data as of January 2021.

Meanwhile, in the U.S., the new administration has made climate change a top priority, moving to rejoin the Paris Climate Accord in early 2021. Future stimulus plans in the U.S. are likely to be focused on rebuilding jobs through sustainable infrastructure development and clean energy. According to the U.S. Energy Information Administration, the renewables share of electricity generation in the United States is estimated to increase from 21% today to 42% by 2050.[5]

Supporting the discovery of future green technologies, government budgets for energy research, development, and demonstration (RD&D) in the United States and Europe were $17 billion in 2019, according to the International Energy Agency – about double the amount spent in China. Business-funded R&D has also become an increasingly important source of R&D in the United States and Europe. A dynamic and innovative private sector should continue to drive investments and innovations in renewable energy R&D over the coming decade.

Table 13 Total CO_2 emissions (MMtons CO_2): Transatlantic Economy vs. the World



**Global Carbon Project estimates for 2020.*
Sources: Our World in Data; Global Carbon Project.
Data as of 2021.

Endnotes

1 Bureau of Economic Analysis, total inward foreign direct investment position on a historic cost basis in 2019 in petroleum and related industries, and electric power generation transmission and distribution.
2 SelectUSA, https://www.selectusa.gov/servlet/servlet.FileDownload?file=015t00000001nSg
3 European Commission, Recovery Plan for Europe, https://ec.europa.eu/info/strategy/recovery-plan-europe_en
4 Rhodium Group, "2020 Green Stimulus Spending in the World's Largest Economies," February 4, 2021.
5 U.S. Energy Information Administration, Today in Energy, February 8, 2021.