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

The U.S. economy expanded by

2.3%

in 2017

The strength and resilience of the U.S. economy continued in 2017, with strong macroeconomic fundamentals leading the transatlantic economy to break out from years of a sluggish recovery to an environment of accelerated growth. In addition, corporate tax reform in the United States is expected to alter significantly the international investment landscape, attracting more investment from abroad, and leading to a surge in capital expenditures, further boosting productivity and economic growth.

The latest figures suggest that the U.S. economy expanded by 2.3% in 2017. Meanwhile, the pick-up in growth has become increasingly broad-based, with about 120 economies seeing an improvement in annual growth in 2017, according to the latest figures from the International Monetary Fund (IMF). This widespread global growth has many benefits not only for the health of the U.S. corporate sector but also for U.S. labor markets, with higher demand from abroad propping up exports and increased foreign investment supporting jobs. The U.S. unemployment rate is at the lowest level since 2000, or 4.1% at the end of 2017.

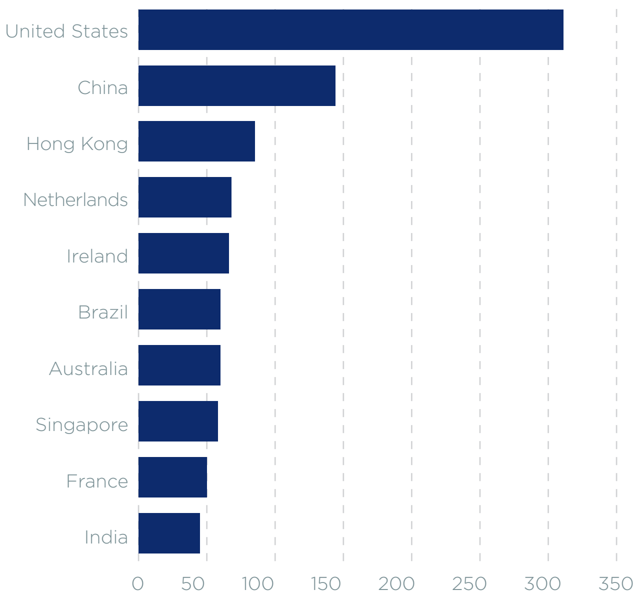
Even as the U.S. economic expansion approaches its tenth year, the pace of U.S. growth is expected to accelerate in 2018 for a number of reasons, including elevated consumer confidence and spending, pro-business fiscal and regulatory policies, a projected upturn in business investment, and higher external demand caused by a synchronized global upswing. These factors have caused the IMF to revise its projections upward for real economic growth in the United States, from 2.3% to 2.7% in 2018, and from 1.9% to 2.5% in 2019.

Meanwhile, this constructive outlook is coming off of an already strong base, with U.S. economic output an estimated $19 trillion in 2017, measured in nominal U.S. dollar terms. In other words, America's economy is presently one of the strongest, most competitive and most resilient in the world.

Against this backdrop, it is little wonder that the United States remains one of the most attractive countries in the world for foreign direct investment (FDI). For the past eleven years, the United States has ranked number one in the world in FDI inflows, attracting over $300 billion in 2017 (Table 1).

As Table 2 depicts, no nation has attracted more FDI this century than the United States, taking in $3.5 trillion cumulatively since 2000, more than the total for the next two nations (China and the UK) combined. The table also underscores that, in general, most global FDI flows have been directed at mature, rich developed nations rather than poorer, underdeveloped nations. The United States has attracted 16% of total global foreign investment flows this century, and of the top ten receiving countries for investment flows, six are developed nations.

Table 1 FDI Inflows: Top 10 Host Economies, 2017 ($Billions)



Source: United Nations Conference on Trade and Development (UNCTAD).
Data for 2017 are preliminary estimates as of January 2018.

Table 2 Cumulative Investment Inflows 2000-2016 Rankings

Rank	Country	Cumulative Flows (Billions of U.S. $)	Percent of World Total
1	United States	3,484.2	16.0%
2	China	1,567.9	7.2%
3	United Kingdom	1,476.9	6.8%
4	Hong Kong	1,089.5	5.0%
5	Brazil	744.7	3.4%
6	Germany	739.3	3.4%
7	Canada	725.6	3.3%
8	Belgium	708.5	3.2%
9	Netherlands	692.4	3.2%
10	Singapore	650.2	3.0%

Source: United Nations Conference on Trade and Development (UNCTAD).
Data as of January 2018.

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. European companies investing overseas routinely look to the United States, with a population of 325 million and per capita incomes in excess of $50,000. With less than 5% of the global population, the United States still accounts for around 30% of global personal consumption expenditures, a testament to the purchasing power of American consumers and healthy consumer sentiment in the world's largest economy.

Second, the United States boasts a hyper-competitive economy, moving up to second place in the World Economic Forum's latest Global Competitiveness rankings, and trailing only Switzerland. This competitiveness is driven by a strong innovative, risk-taking corporate culture and is underpinned by strong institutions, technological readiness, world-class universities, a strong capacity and culture of entrepreneurship, and a dense web of university-industry collaboration in R&D. The ability to attract R&D from companies abroad is important to the innovative health of the U.S. economy. In fact, R&D performed by U.S. affiliates of foreign multinationals accounts for about 17% of the total R&D conducted by all U.S. businesses.

European firms will continue to deepen and spread their footprint in the United States in the years ahead

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 European multinational enterprises topped 4.4 million in 2016.

Meanwhile, the United States is a friendly locale to do business, climbing two spots in the World Bank's Ease of Doing Business rankings to 6th place in 2017. Supporting this business environment are a number of factors, including transparent rule of law, sophisticated accounting, auditing and reporting standards, secure access to credit, ease of entrepreneurship, and respect for intellectual property rights, among other things. Another competitive endowment of the U.S.: relatively cheap energy costs thanks to the U.S. energy renaissance that has seen oil production more than double since 2008, in addition to soaring natural gas production.

And with a lower corporate tax rate and strong economic growth projected for 2018, we anticipate that FDI flows to the U.S. economy will strengthen in the near-term. Add in the rising risks of U.S. protectionism under the current U.S. administration, which will spur more foreign firms to be inside the U.S. economy, we expect European firms will continue to deepen and spread their footprint in the United States in the years ahead.

Europe's Stakes in the United States

European firms maintained their dominant foreign investment position in the United States again in 2017. Although flows from Europe were relatively flat in 2017 from a recent peak in 2015-2016, most investment streaming into the United States continues to be sourced from European countries. Based on our preliminary estimates, we anticipate that 54% ($168 billion) of the total $311 billion worth of U.S. FDI inflows in 2017 were from Europe, reflecting European firms' strategy to be "inside" the world's largest and most dynamic market.

The UN estimates that 2017 was an unstable year for developed markets' investment inflows, with the United States attracting less capital due to a considerable reduction in flows from offshore financial centers such as Ireland, Luxembourg, and Switzerland.

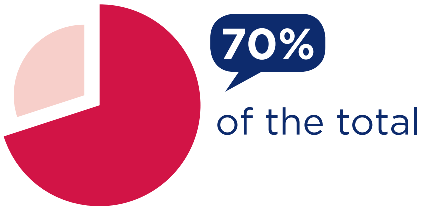
Data from the Bureau of Economic Analysis similarly suggests a retreat in U.S. FDI inflows in 2017. During the first nine months of last year, U.S. FDI inflows from Europe came in at $126 billion, which is less than half of the comparable figure from a year earlier. Almost 90% of the shortfall in flows from the first three quarters in 2017 versus the first three quarters in 2016 came from lower investment from four key markets: Ireland, Luxembourg, the Netherlands, and Switzerland. For instance, Swiss investment flows to the United States were $25 billion in the first nine months of 2017, a considerable decrease from the first nine months of 2016 ($73 billion) but higher than the full four quarters of inflows in 2015, reflecting the highly volatile nature of foreign investment flows.

Despite the drastic year-over-year decline in investment flows, Europe continues to have an outsized investment presence in the United States, as reflected by its foreign direct investment position, a more stable metric of foreign investment in the U.S. In terms of foreign capital stock in the United States, Europe again leads the way. The region accounted for 70% of the total $3.7 trillion of foreign capital sunk in the United States as of 2016. Total European stock in the United States of $2.6 trillion was more than four times the level of comparable investment from Asia.

There was no change in terms of leading investors in the United States. The United Kingdom remains by far the largest foreign investor, based on FDI on a historic cost basis, with total FDI stock in the United States totaling $556 billion in 2016. Luxembourg ranked second in Europe ($417 billion), followed by the Netherlands ($355 billion), Switzerland ($311 billion), Germany ($292 billion), and France ($253 billion). Many firms from these countries are just as embedded in the U.S. economy as in their own home markets.

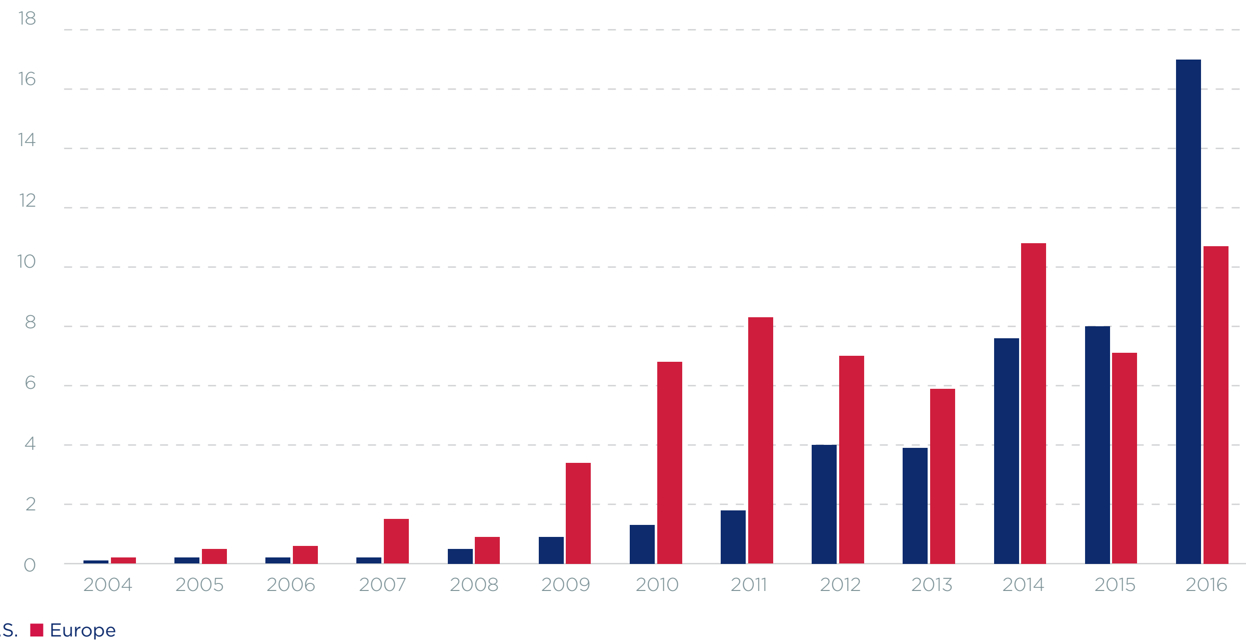
$2.6 trillion

Total European FDI stock in the U.S.



While both U.S. and European stakes in China are on the rise, and vice versa, the transatlantic ties that bind the United States and Europe together are much thicker and far deeper than comparable ties with China. The United States and Europe represent large, wealthy markets, with respect for the rule of law and transparent rules and regulations. China, on the other hand, remains relatively poor, with many barriers to entry in various sectors, all wrapped in an opaque regulatory environment that favors local firms or large state-owned enterprises. Table 3 highlights that Chinese investment in both the United States and Europe has risen sharply over the past few years, yet it still remains relatively shallow. In addition, there is a growing concern in both the United States and the EU over the lack of reciprocity with China. Chinese investors, for instance, spent four times as much on acquisitions in the EU as European companies in China in 2016. There was also an investment gap in the United States, however China's regulatory crackdown on outbound capital flows is expected to have diminished these figures in 2017 to a certain extent. In addition, a growing backlash against Chinese investment in both the United States and Europe may also dim the outlook for Chinese investment outflows.

Table 3 Chinese Foreign Direct Investment Outflows - U.S. and Europe (Billions of U.S. $)



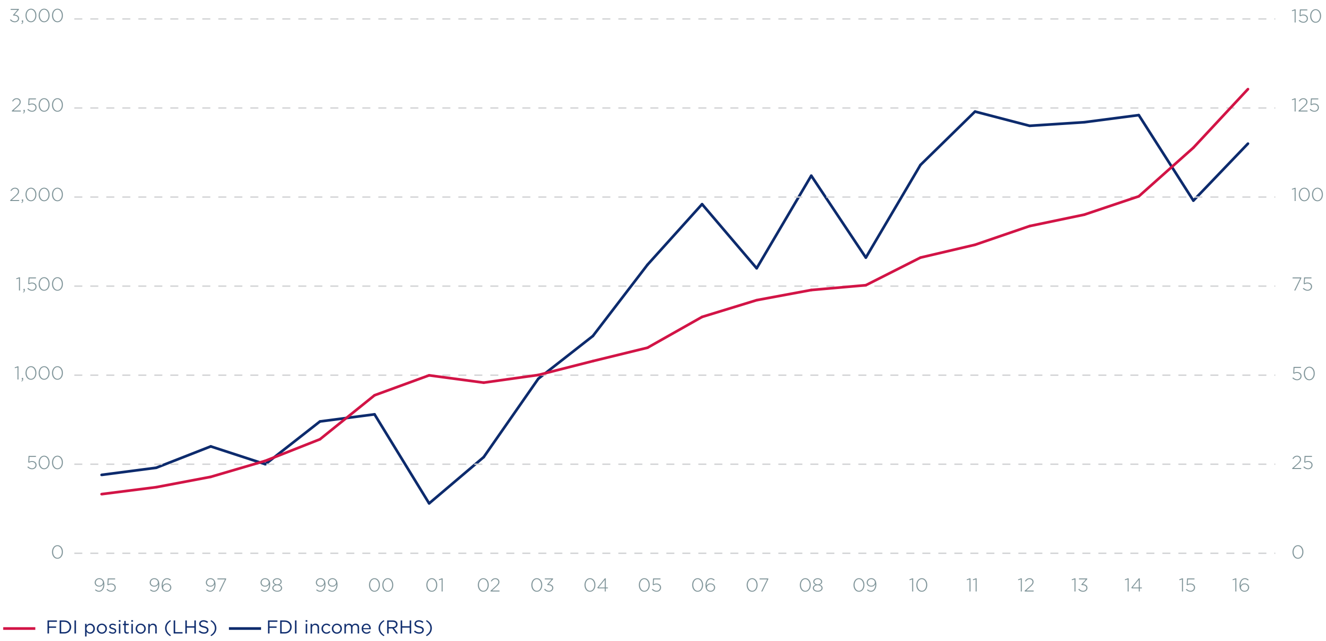
Source: China National Bureau of Statistics/Haver Analytics. Data as of January 2018.

While European investment in the United States has paid off rather well, the benefits have not been one way. The United States has benefitted as well in terms of **increased jobs and wages for U.S. workers, and rising exports** via European affiliates operating in the United States.

Whether Swiss pharmaceutical corporations, German auto manufacturers or British services providers, European firms' corporate and commercial links to America have been hugely important and beneficial to their bottom line. That said, European firms earned an estimated $113 billion in the United States last year, in line with the $115 billion in income that European affiliates recorded in 2016. Through the first nine months of 2017, European affiliate income earned in the U.S. totaled $85 billion. Affiliates of British multinationals are the top earners and saw a steady increase in income of 3% in the first nine months of 2017, compared to the same period in 2016. 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.

Table 4 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 past decades, notably since the Great Recession, given the growth differential between the United States and Europe. That said, while European investment in the United States has paid off rather well, the benefits have not been one way. The United States has benefitted as well in terms of increased jobs and wages for U.S. workers, and rising exports via European affiliates operating in the United States.

Table 4 European Foreign Direct Investment and Income Earned in the United States (Billions of U.S. $)



Sources: Bureau of Economic Analysis.
Data as of January 2018.

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

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 5 provides a snapshot of state employment provided 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, thus underestimating 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. Given mounting labor shortages in the United States, many European affiliates have taken the lead in job training in the U.S., and have emerged as strong advocates and funders of vocational training.

As mentioned above, European employment is relatively diverse and spread across many U.S. states. Not surprisingly, California, Texas and New York – among the most populous states in the nation – are home to the largest share of European affiliate jobs. Over one million U.S. workers were on the payrolls of European affiliates in the three states combined in 2015. As the economy has recovered from the 2008/2009 recession, so have the payrolls of European affiliates, with an increase in hiring across many states and industries. In 2015, 19 of the top 20 states measured by European affiliate employment increased hiring.

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, greater sales for local suppliers and businesses, extra revenues for local communities, and more capital investment and R&D expenditures for the United States.

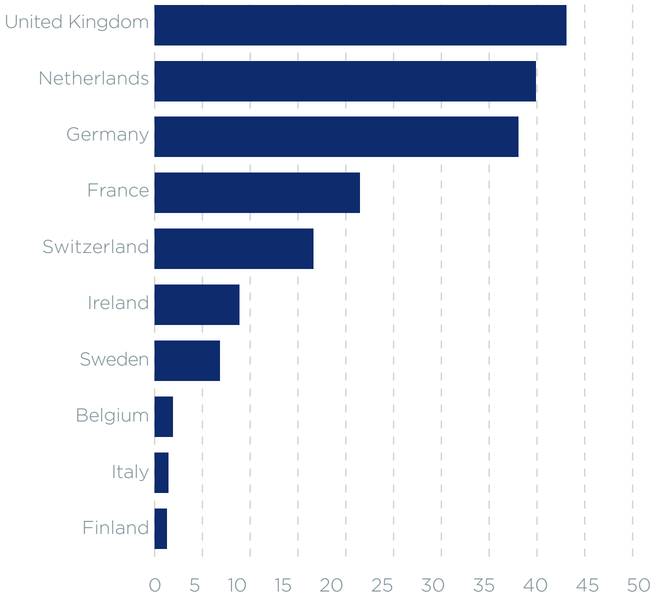
Table 5 Ranking of Top 20 States by Jobs Supported Directly by European Investment
(Thousands of employees)

U.S. State	2013	2014	2015
California	383.8	389.6	406.9
Texas	319.9	332.8	355.5
New York	302.1	310.0	327.9
Pennsylvania	216.0	213.7	220.6
Illinois	194.7	206.0	215.0
New Jersey	169.3	187.4	194.8
Florida	173.5	181.0	191.1
North Carolina	166.3	173.8	178.4
Massachusetts	154.1	161.9	160.1
Michigan	138.7	147.6	151.1
Ohio	144.8	145.1	150.8
Virginia	127.7	126.7	132.5
Georgia	131.0	124.8	131.3
Indiana	93.6	108.8	113.9
South Carolina	92.2	92.1	94.9
Tennessee	78.6	82.4	91.8
Maryland	81.5	87.5	89.4
Connecticut	82.2	80.9	81.2
Missouri	70.5	73.1	75.9
Minnesota	64.3	64.7	68.5

Source: Bureau of Economic Analysis.

Deep investment ties with Europe have also generated U.S. trade. Table 6 illustrates the export potential of European affiliates operating in the United States. As a point of reference, in any given year, foreign affiliate exports typically account for one-fifth of total U.S. merchandise trade, with the bulk of these exports resembling intra-firm trade, or trade between the affiliate and parent company. In 2015, the last year of available data, U.S. exports shipped by all foreign affiliates totaled $353 billion, with European affiliates accounting for 52% of the total. The United Kingdom, the Netherlands and Germany dominate European affiliate exports from the United States, with the three countries combined representing over 65% of European affiliate exports in 2015. By commodity, transportation equipment made up 26% of German-owned affiliate exports. 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.

Table 6 U.S. Exports of Goods Shipped by Affiliates of European Multinational Corporations
($Billions)



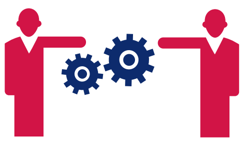
Source: Bureau of Economic Analysis. Data for 2015.

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 7 ranks the top 20 state goods exporters to Europe in 2016, with California ranked number one, followed by Texas, New York and Washington. Overall, exports fell moderately in 2016 from the prior year but have jumped sizably since 2000.

Table 7 Ranking of Top 20 U.S. States Total Goods Exports to Europe, by Value
($Billions)

U.S. State	2000	2016	% Change from 2015	% Change from 2000
California	27.9	34.2	3%	23%
Texas	12.3	28.8	-9%	134%
New York	15.3	26.2	-7%	71%
Washington	13.1	17.0	20%	30%
Illinois	7.3	11.2	-9%	53%
Massachusetts	8.0	10.2	7%	28%
South Carolina	2.8	10.2	4%	263%
Pennsylvania	4.7	10.1	-3%	117%
Florida	3.9	9.8	8%	151%
New Jersey	6.4	9.7	8%	52%
Kentucky	3.1	9.5	15%	211%
Indiana	3.1	8.9	-6%	184%
Louisiana	3.3	8.6	-19%	163%
Ohio	5.0	8.5	-11%	68%
Georgia	4.0	8.2	-9%	107%
North Carolina	4.6	7.7	10%	66%
Michigan	5.0	7.1	3%	41%
Tennessee	2.7	6.3	2%	134%
Connecticut	3.5	6.3	0%	80%
Alabama	2.5	5.3	15%	116%
U.S. Total	**187.4**	**319.6**	**-1%**	**70%**

Source: Foreign Trade Division, U.S. Census Bureau.



Deep investment ties with Europe also generate U.S. trade

Table 8 U.S. State Exports of Goods to Europe and China, 2016 ($Millions)

	Europe	China
Alabama	5,349	3,273
Alaska	789	1,181
Arizona	3,889	1,210
Arkansas	1,517	275
California	34,226	14,341
Colorado	1,649	589
Connecticut	6,283	798
Delaware	1,255	341
Florida	9,775	1,206
Georgia	8,211	2,581
Hawaii	23	83
Idaho	367	620
Illinois	11,223	5,108
Indiana	8,922	1,753
Iowa	2,163	491
Kansas	1,918	745
Kentucky	9,545	1,760
Louisiana	8,641	7,978
Maine	544	207
Maryland	2,691	484
Massachusetts	10,234	2,167
Michigan	7,077	3,268
Minnesota	4,349	1,826
Mississippi	2,130	564
Missouri	2,300	864
Montana	180	103
Nebraska	867	472
Nevada	4,848	585
New Hampshire	1,321	302
New Jersey	9,676	1,417
New Mexico	327	497
New York	26,239	2,774
North Carolina	7,650	2,186
North Dakota	234	22
Ohio	8,451	3,752
Oklahoma	1,070	218
Oregon	2,418	5,813
Pennsylvania	10,145	2,222
Rhode Island	543	163
South Carolina	10,151	6,432
South Dakota	107	65
Tennessee	6,306	2,200
Texas	28,782	10,793
Utah	4,935	648
Vermont	414	176
Virginia	4,568	1,626
Washington	17,034	16,130
West Virginia	1,422	465
Wisconsin	4,140	1,425
Wyoming	121	31

Source: U.S. Census Bureau, Foreign Trade Division.

Table 8 shows the importance of the European market to U.S. state exports. Even as an emerging middle class in China demands more foreign imports, merchandise exports to Europe are still more than double exports to China. On a state level, 45 of 50 states exported more to Europe than China in 2016. Goods exports from California to Europe were more than double those to China; New York exports to Europe were more than nine times those to China. Exports from Texas to Europe were almost three times larger than exports to China. Only the Pacific-oriented states of Alaska, Hawaii, Idaho, New Mexico and Oregon sent more goods to China than Europe in 2016.

In addition, while the 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 service 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 for individual states.

By destination, key markets in Europe for U.S. states include Germany, the United Kingdom, and the Netherlands. Appendix A highlights European-related jobs, trade, and investment for each of the 50 states.