

Article

The UK trade and investment relationship with the United States of America: 2015

Recent changes in the UK's trade and investment relationship with the USA.

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1 . In 2015 the United States of America accounted for 15.8% of global gross domestic product (GDP) compared with 2.4% for the UK

The United States of America (USA) accounted for 15.8% of global Gross Domestic Product (GDP)¹ in 2015 according to the International Monetary Fund (IMF), compared to 2.4% for the UK. The USA's GDP was the 2nd largest in the world in 2015 when adjusted for different living costs across countries². In contrast, the UK's GDP is the 9th largest.

The USA is made up of 50 states, with just 8 of these (California, Texas, New York, Florida, Illinois, Pennsylvania, Ohio and New Jersey) accounting for around half of the country's GDP in 2015. California accounted for the largest share of US GDP in 2015, with 13.8%, while Vermont accounted for the smallest share, with just 0.2%. Ranking California as a country in GDP terms positions it in 11th place in the world (adjusted for living costs), between France and Mexico.

Notes:

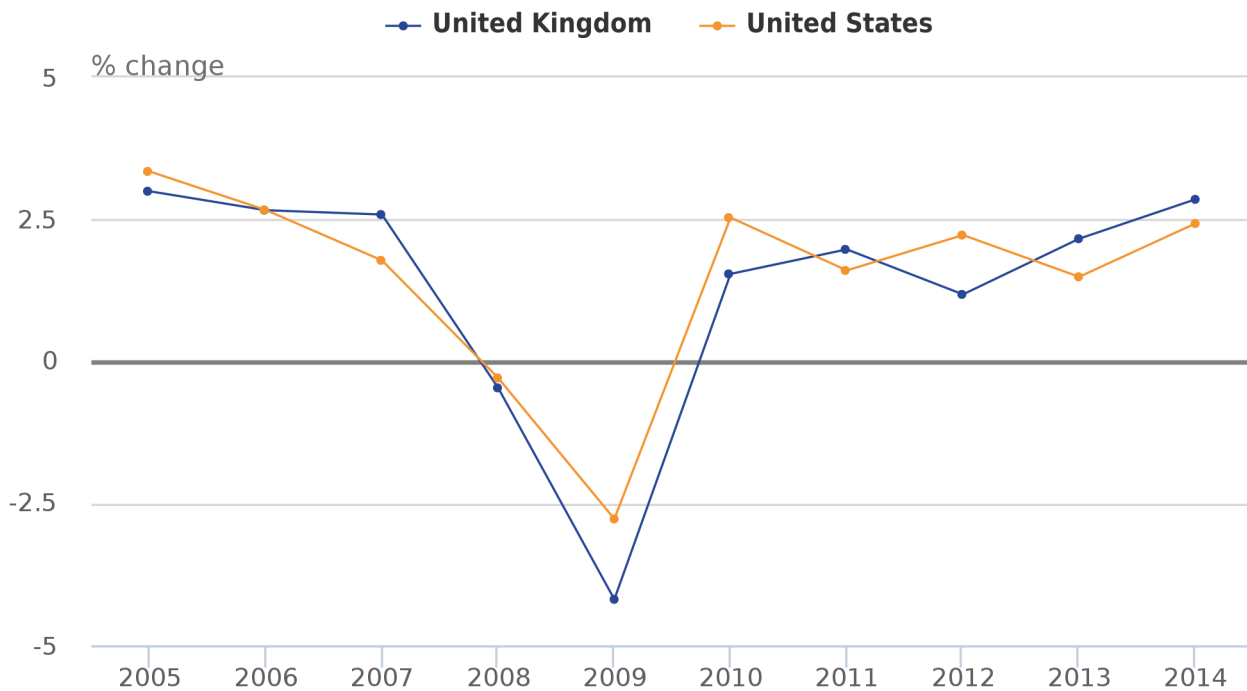
1. Adjusted for Purchasing Power Parity (PPP)
2. Referred to as Purchasing Power Parity. When using nominal terms, the USA's GDP is the largest in the world.

2 . Both the USA and the UK had slower growth rates than the world growth rates in 2015

For the past decade, the USA share of world GDP has been considerably larger than that of the UK; however, the shares of both countries have been declining over this period. The USA share of world GDP fell from 19.5% to 15.8% between 2005 and 2015, whereas the UK's share of world GDP fell from 3.0% to 2.4% over the same period. These declines are partly explained by faster growth in emerging economies such as China and India.

The USA's real GDP growth has followed a similar trend to that of the UK over the last decade, with both experiencing negative growth following the 2008 economic downturn. Economic activity in the USA fell by 3.1% between 2007 and 2009 in real terms, while economic activity in the UK fell by 4.6%. By 2015, world GDP growth was 3.1%, whereas the USA and UK had growth rates of 2.4% and 2.2% respectively.

Figure 1: USA and UK GDP growth rates 2005 to 2014



Source: International Monetary Fund

Notes:

1. Adjusted for inflation.

3 . In relation to trade in goods and services in 2015, the USA stands as the UK's largest export partner and second-largest import partner

Data from 2015, the latest period for which figures are available from, indicates that the USA ¹ stands as the UK's largest export partner and second-largest import partner – second only to Germany – in terms of trade in goods and services. In 2015, the USA accounted for 19.7% and 11.1% of UK's total exports and total imports, respectively.

In the time period 2005 to 2015, the UK has continually run a trade surplus with the USA with an average value of £28.1 billion. This figure peaked in 2013 at £40.3 billion and has since fallen to £39.4 billion in 2015.

Figure 2: UK trade with the USA (£ billion), 2005 to 2015



Source: Federal Reserve Economic Data and International Monetary Fund

When looking at the breakdown of the UK's exports to the USA, services and goods account for a similar proportion of total exports, with services accounting for only a slightly greater proportion (52.9%) of exports in 2015. By contrast, the UK has tended to import a greater proportion of goods as compared to services from the USA over the time period 2005 to 2015; in 2015 imports from the USA consisted of a greater proportion of goods (57.0%) as compared to services (43.0%).

Notes:

1. United States of America includes Puerto Rico

4 . The USA stands as the UK's largest single inward and outward investor in terms of foreign direct investment positions in 2014

In terms of foreign direct investment stocks (FDI positions), the USA stands as the largest single inward investor into the UK and the largest single outward investor for the UK in 2014, accounting for almost a quarter of the UK's total inward (24.5%) and outward (23.6%) FDI respectively.

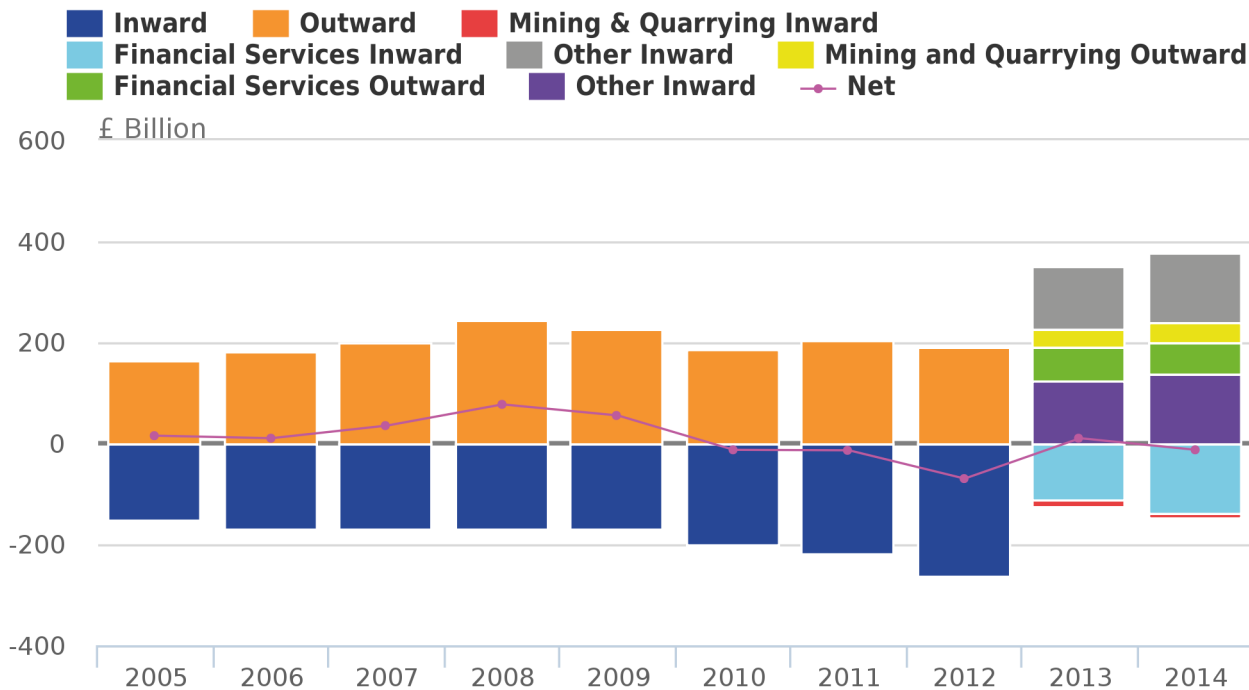
In 2014, the value of the stock of FDI held by UK investors in the USA reached £239.8 billion. This was similar to the stock of FDI held in the UK by investors in the USA, which stood at £253.0 billion.

The value of the stock of FDI held by UK investors in the increased by 45.9% between 2005 and 2014. The increase was driven by the main industrial groupings in receipt of UK FDI in the USA – financial services and mining and quarrying – which accounted for 26.5% and 15.8% of total UK FDI stocks in the USA in 2014 respectively.

The value of the stock of FDI held in the UK by USA investors also grew between 2005 and 2014, increasing by 68.9% from £149.8 billion to £253.0 billion. The main UK industrial grouping in receipt of FDI from the USA was financial services, which accounted for 54.7% of UK FDI stocks from the USA in 2014, with the second-largest industrial grouping being retail, wholesale and repair of motor vehicles (9.0%).

The larger increase in USA FDI into the UK compared with UK FDI into the USA resulted in the UK's net FDI position with the USA falling by £27.8 billion to negative £13.2 billion between 2005 and 2014, indicating that the USA now invests more in the UK than the UK invests in the USA.

Figure 3: UK foreign direct investment positions with the USA (£ billion), 2005 to 2014



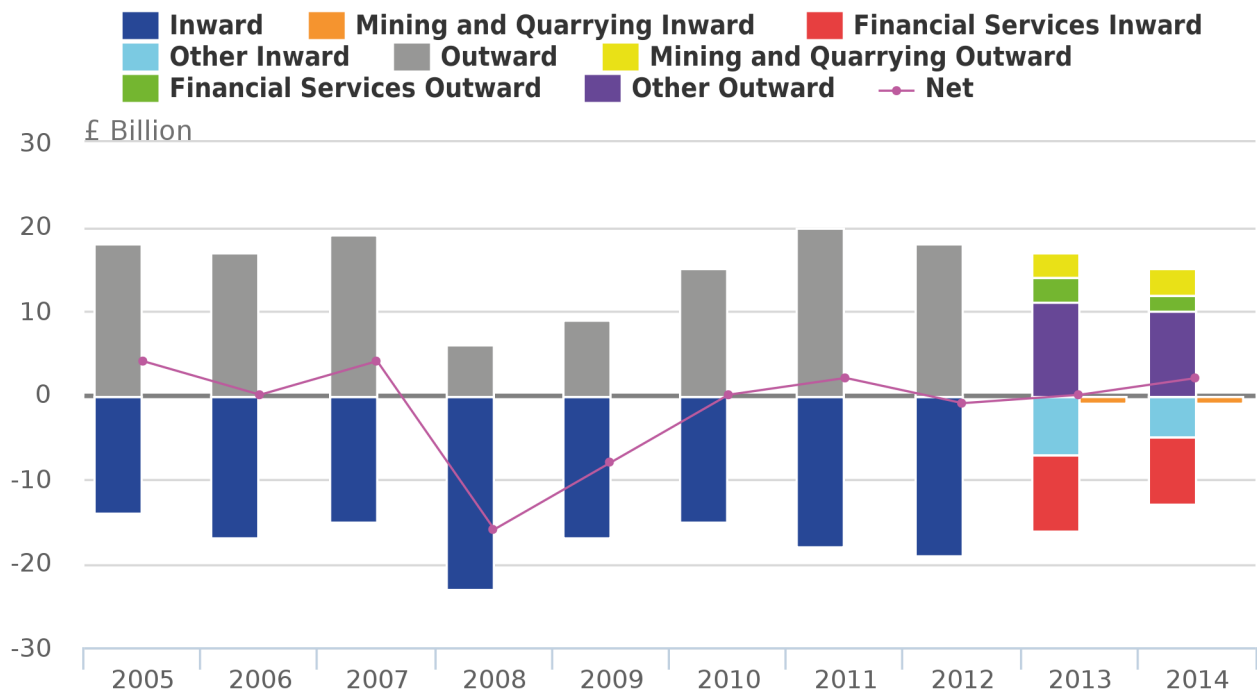
Source: Office for National Statistics

The amount of FDI earnings UK investors generated from their FDI in the USA (outward FDI) fell from £18.2 billion to £15.7 billion between 2005 and 2014. On the other hand the amount of earnings the USA generated from FDI into the UK (inward FDI) remained relatively unchanged, falling slightly from £14.2 billion in 2005 to £14.0 billion in 2014.

A key industry in the composition of UK FDI earnings from the USA is mining and quarrying, accounting for 20.8% of total earnings in 2014.

FDI earnings generated by USA-based investors in the UK have been smaller than those earned by the UK investors in the USA in most years since 2005, although this has fluctuated between years. As such, the UK's FDI earnings balance with the USA has tended to be in surplus. However, as Figure 4 shows, in 2008 (when the economic downturn emerged) the UK's FDI earning balance with the USA fell notably, from £4.1 billion in 2007 to a deficit of £16.5 billion in 2008. This was due to an increase in inward earnings and a decrease in outward earnings. This has since recovered, and recorded a £1.7 billion surplus in 2014.

Figure 4: UK foreign direct investment earnings with the USA (£billion), 2005 to 2014



Source: Office for National Statistics