DEPORTATION AND DOGE

21 February 2025

DEPORTATION, ANTI-IMMIGRATION, D.O.G.E

Earlier in the year, as Trump stepped into his second term in office, he took a serious stance on undocumented immigrants and declared the deportation a national emergency. The policy regarding deportation has the potential to impact the macroeconomic landscape of the United States of America.

Due to the United States' heavy reliance on immigrant workers, predominantly in the lower-wage, labour-intensive sectors, deportation would have a slight impact on the labour market and hence affect employment numbers. Certain industries could experience an effect, namely, agriculture, hospitality and construction. The rationale behind this is as the number of participants in the labour force decreases, disruption in food production arises due to a reduction in supply and as a result, translates unilaterally into food inflation. Furthermore, a decline in staff count could result in a delay in the completion of construction projects.

The economic productivity resulting from the reduced workforce participants will translate into slowed productivity and growth, which the long-term effects are a slower economic expansion. The costs associated with deportation are also hefty culminating in deportation costs, legal processing costs, detention and arrest costs. As a result, government spending increases, with the potential for tax revenue loss.

Both business and consumer sentiment get affected as the overall consumer spending drops, accounted for in rental, goods purchases and services. On the business aspect, a reduction in new business and lower levels of entrepreneurship in seen. Supply chains will be disrupted, leading to delays, increased costs, and reduced availability of goods.

Previous efforts were seen namely, operation wetback of 1954. The operation was aimed at the removal of undocumented Mexican immigrants by the US government which led to an estimated 1 million individuals being deported. During this time the agriculture sector was impacted due to crops going an extended amount of time unharvested. The impact that the operation had on inflation is uncertain due to the recession from late 1953 to early 1954 as shown in Figure 2.

**Figure 1: Number of undocumented immigrants residing in the U.S.**
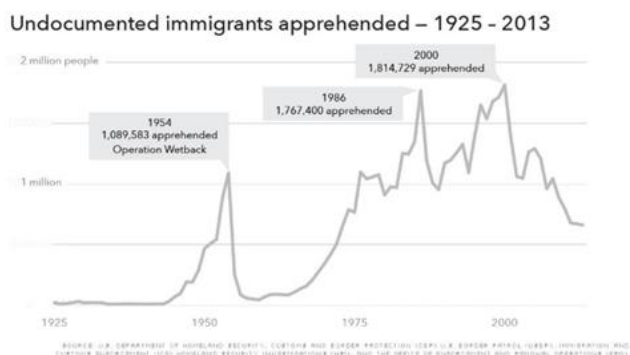
Source: U.S. Department of Homeland Security, Bloomberg

Figure 2: US Food Inflation
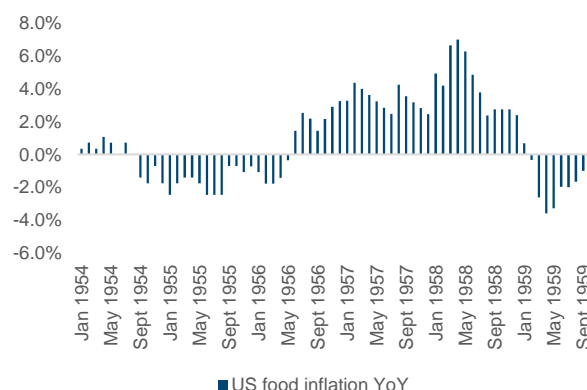
More recent efforts were displayed in Trump's first term of office, there was an increase in deportation of undocumented immigrants with and without criminal records. The areas which had a larger rate of deportation experienced declines in consumer spending, and economic activity (food services, agriculture and construction) as well as declines in the housing markets. We can observe an uptick in the number of deportations, especially around 2018 and 2019, in Figure 3. However, the number does drop in 2020, possibly COVID has halted Trump's policy plans.

Figure 3: Total removals and returns
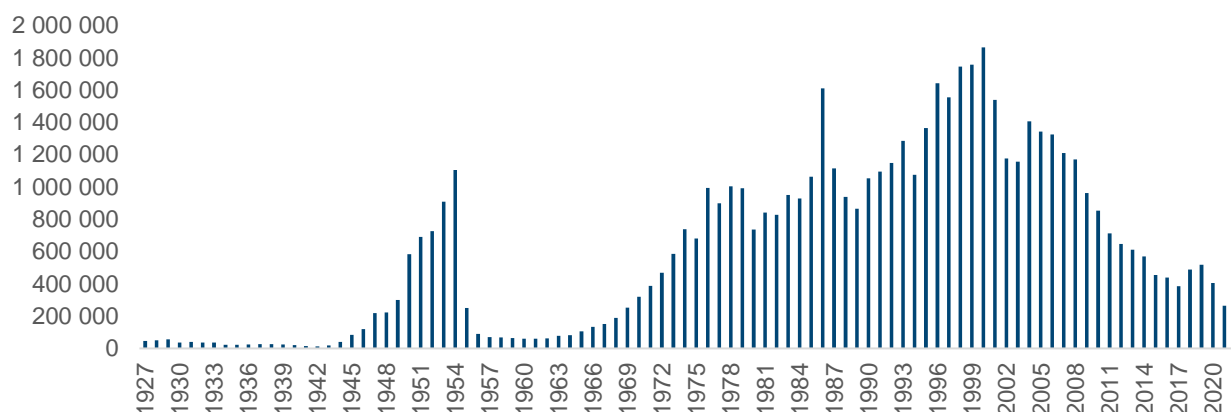
Source: Bloomberg

From analysis, the asset class positioning as a result of deportation is as follows:

Figure 4: Asset Class Positioning
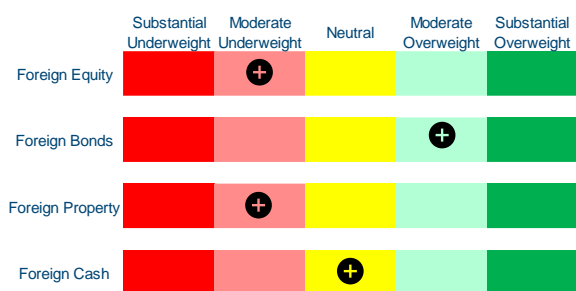
Rationale:

- **Equity**: Stock prices may fall in immigrant-dependent sectors (consumer services, consumer discretionary and consumer staples). However, Information Technology sectors may see a boost given a gap in labour markets which would be filled by automation. Due to the uncertainty in labour markets posed by sector disruptions, this could affect corporate earnings and growth.
- **Bonds**: Due to a labour shortage imposed by deportation policies, and a potential slowdown in economic growth, The Fed might reduce interest rates to support the economy.
- **Property**: Residential and commercial property in large immigrant populations could see a decline in demand and falling prices. With construction delayed due to labour shortages, construction companies may also face a bit of margin squeeze.
- **Cash**: The dollar might weaken due to economic concerns and trade disruption with remittances to countries declining. However, given the volatility of the dollar, the safest bet is to go neutral.

Early in January 2025, the announcement of Elon Musk in collaboration with the Department of Government Efficiency (D.O.G.E) was announced to streamline federal agencies and reduce expenditures. A few key initiatives were implemented:

- **Agency Streamline:** Downsizing of major departments (incl. U.S. Agency for International Development, Department of Education, and the General Service Administration).

- **Budget Cuts:** seeking to cut at least $1 trillion from the federal budget by the 4th of July 2026 (essentially reducing the budget deficit by half). Aimed at reduction of budget deficit and efficient reallocation of resources.
- **Privatisation Opportunities**: the reduction of public authorities opens room for the private sector to secure contracts.

Figure 4: U.S. Budget Balance
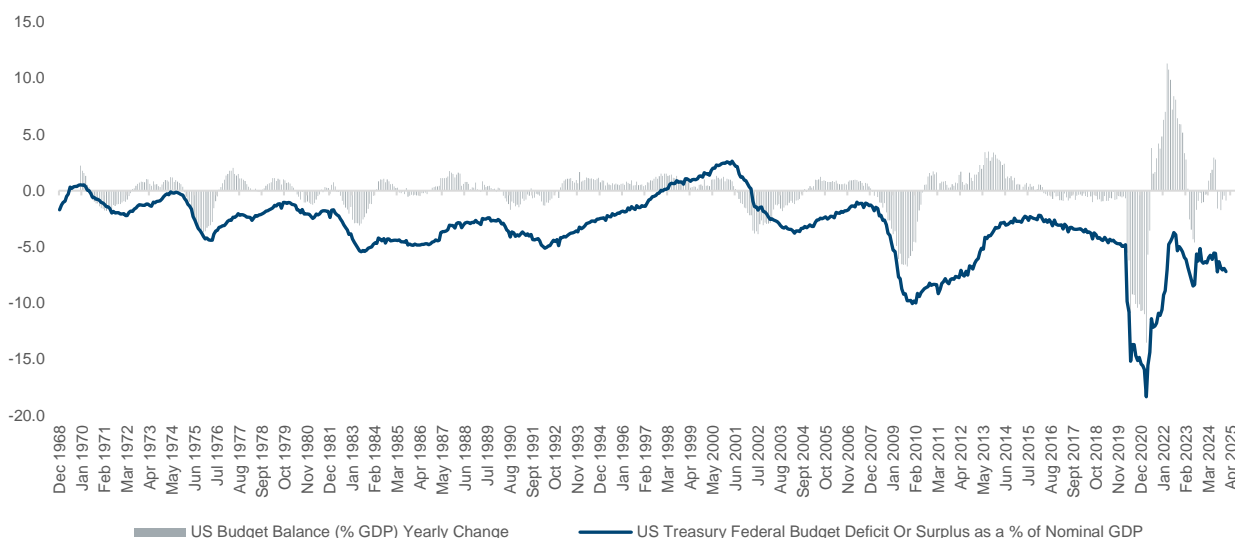
Source: Bloomberg

The budget deficit of the U.S. as of December 2024 sits at $2 trillion. DOGE claims to have saved $37.69bn to date however, there is still a long way to go to get to the $ 1 trillion target. If we look at it materially, there are roughly 2.4 million civilian federal government members in the workforce. On average, the annual pay for government employees sits at $62 575, which is a total of $150.2bn a year. With the hypothetical 50% cut the government would be saving $75bn, still miles away from the proposed target and this is also with the USAID (United States Agency for International Development) unspent aid which is worth $8.2 bn. Ultimately, if DOGE does manage to cut the US federal workforce by half and terminates USAID, total savings would amount to roughly $100bn, a tenth of the target. While Trump's proposed tax cuts and deregulation are pro-growth, with DOGE, the net impact on growth is difficult to determine.

A similar analysis can be done for South Africa, according to the MTPBS from September 2024 with the proposed 30 000 government employees cut, which could save the South African government roughly R14m, which won't move the needle in the budget balance but at least, these type of actions will move the country and the government debt situation in the right direction.

Figure 1: Effect on government and Remuneration structure

South Africa's government employees	2.08m
Average annual pay for government employee	R492k
Total pay	R1.017 trillion
Government's plan to cut 30 000 employees (saving)	R14m

Source: MTBPS
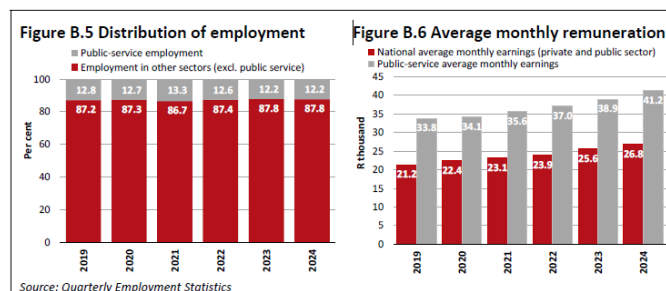
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