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## CAPITOL ANALYSTS NETWORK, INC.

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### ILLEGAL IMMIGRATION AND THE MARKETS

According to consensus estimates, more than 11 million illegal immigrants live in the United States; six million come from Mexico and another 2.5 million come from elsewhere in Latin America. Of the 11 million, 6.3 million are employed. Although these illegal immigrants make up 4 percent of the workforce, they do not represent 4 percent of the workforce in all industries. Instead, they find jobs in industries with few requirements for English language skills or formal education. What happens to home builders, hotels, restaurants, meat packers, fruit and vegetable growers, nursing homes, and construction companies if 6.3 million of their workers are forced to go home in three to six years, as President Bush and conservative Congressional leaders want? Alternatively, what happens if “undocumented” workers get to stay and are put on a glide path toward full citizenship as John McCain (R-AZ) and Ted Kennedy (D-MA), along with many business leaders, seek?

The Nation may find out soon, as Congress turns its attention toward debating what to do about illegal immigration – a controversial topic for both Democrats and Republicans. Things are moving fast; the House is expected to pass an enforcement bill next week. **One thing is certain: all reform proposals will raise business costs, and therefore lower profits, if any become law.** The squeeze on profits would start slowly. It would take time to build a 2,000 mile fence, to beef up internal enforcement, or to legalize millions living in the shadows. Within five years, however, the future earnings of many companies would be compromised by higher labor costs.

Not just small operations are affected. Businesses, big and small, now comply with immigration laws with a cursory visual inspection of documents given to them by workers seeking employment. With wages seven times higher here than in Mexico, illegal immigrants pay for skillful forgeries of these needed documents. Companies are under no obligation to check their veracity, and they do not. Furthermore, current interpretations of civil rights laws allow “foreigners” to sue companies if they are not treated equally.

#### **Where is the Greatest Bottom Line Impact from Immigration Reform?**

It is apparent why labor costs in industries where illegal aliens most often find employment would go up if 6.3 million of them are sent home. In the fruit and vegetable industry, for example, picking costs are probably between 37 percent to 44 percent of total expenses. A mass exodus of illegal workers would especially hurt the bottom line. Wallace Huffman and Alan McCunn, authors of the Center for Immigration Studies report, “How Much is That Tomato in the Window,” assert that wages paid to legal agricultural workers will rise by 15 to 30 percent if illegal aliens must leave the fields. Perhaps less obvious, wages paid to illegal workers *also* will go up if their status is normalized and they are allowed to stay as permanent guest workers or as citizens. Then, they can bargain more aggressively and join

unions. The profit impact of wage increases will depend on how expensive it is to replace undocumented workers and their share of total costs.

These 6.3 million undocumented workers play a critical role in some industries because the jobs they do represent a large percentage of key *occupations* within these industries. Try, for example, to build houses without dry wall installers, 27 percent of whom are “unauthorized workers.” This is true although illegal aliens comprise 10 percent of all builders. The Urban Institute has identified over a dozen occupations where the national percentage of unauthorized workers is especially high.

<b>Occupation</b>	<b>Unauthorized Workers (%)</b>	<b>Occupation</b>	<b>Unauthorized Workers (%)</b>
Drywall/ceiling tile installer	27%	Grounds maintenance workers	26%
Cement masons and finishers	22%	Dishwashers	24%
Roofers	21%	Cooks	18%
Construction laborers	20%	Maids and housekeepers	22%
Butchers/Meat, poultry workers	25%	Cleaning/washing equip. operator	20%
Agricultural Workers	23%	Hand packers/packagers	22%
Graders & sorters/agriculture	22%		

The following table presents the industries likely to have the highest percentage of undocumented workers, expressed as a percentage of total industry workers. By combining industry workforce shares with regional concentrations, CAN has prepared this list of publicly-traded companies who appear to have an unusually large stake in the illegal immigration debate, because of the industry they are in *and* because of the states where they do most of their business makes it likely that a large percentage of their workforces will be affected. Interested investors may wish to contact the investor relations departments to confirm these results. Within each industry, companies are listed by perceived sensitivity, the most sensitive listed first.

#### **COMPANIES SHARING REGIONAL CONCENTRATIONS WITH ILLEGAL ALIENS**

<b>Industry</b>	<b>Illegal Alien Share of this Workforce</b>	<b>Company</b>	<b>Market Capitalization (\$ millions)</b>
<b>AGRICULTURE CROPS</b>	16%	Tejon Ranch Co. ( <b>TRC</b> )	700
		Alico Inc. ( <b>ALCO</b> )	339
		Fresh Del Monte ( <b>FDP</b> )	1,510
		Delta & Pine Land Co. ( <b>DLP</b> )	869
		Hormel Foods Corp. ( <b>HRL</b> )	3,099
<b>MEAT PACKING</b>	20%	Pilgrims Pride Corp. ( <b>PPC</b> )	2,184
<b>POULTRY</b>	20%	Bob Evans Farms ( <b>BOBE</b> )	866
<b>RESTAURANTS</b>	11%	Steak N Shake Co. ( <b>SNS</b> )	476
		Red Robin Gourmet ( <b>RRGB</b> )	899
		Landrys Restaurants ( <b>LNY</b> )	591
		Darden Restaurants ( <b>DRI</b> )	5,503
		Applebees Intl. Inc. ( <b>APPB</b> )	1,769
		CBRL Group Inc. ( <b>CBRL</b> )	1,732

		Rare Hospitality ( <b>RARE</b> )	1,083
		Buca Inc. ( <b>BUCA</b> )	113
		Lone Star Steakhouse ( <b>STAR</b> )	488
		AFC Enterprises Inc. ( <b>AFCE</b> )	353
		Brinker Intl. Inc. ( <b>EAT</b> )	3,462
		Ryan's Family Steak ( <b>RYAN</b> )	506
		CKE Restaurants Inc. ( <b>CKR</b> )	793
		O Charley's Inc. ( <b>CHUX</b> )	334
		Aramark Corp. ( <b>RMK</b> )	4,813
<b>HOTELS</b>	13%	La Quinta Corp. ( <b>LQI</b> )	2,225
<b>NURSING HOMES</b>	n/a	Odyssey Healthcare ( <b>ODSY</b> )	650
		Five Star Quality ( <b>FVE</b> )	150
		Res-Care ( <b>RSCR</b> )	480
		Kindred ( <b>KND</b> )	1,077
		Manor Care ( <b>HCR</b> )	3,116
		Extendicare ( <b>EXE</b> )	1,082
		Natl Healthcare ( <b>NHC</b> )	462
<b>BUILDERS</b>	10%	Centex Corp. ( <b>CTX</b> )	9,436
		Lennar Corp. ( <b>LEN</b> )	9,300
		Pulte Homes Inc. ( <b>PHM</b> )	10,988
		D. R. Horton Inc. ( <b>DHI</b> )	11,753
		KB Home ( <b>KBH</b> )	6,881
		Toll Brothers Inc. ( <b>TOL</b> )	5,547
		Standard Pacific Corp. ( <b>SPF</b> )	2,608
		Meritage Corp. ( <b>MTH</b> )	
		William Lyon Homes ( <b>WLS</b> )	978
		Avatar Holdings ( <b>AVTR</b> )	464
		Hovnanian Enterprises ( <b>HOV</b> )	3,130
		Ryland Group Inc. ( <b>RYL</b> )	3,389
		MDC Holdings Inc. ( <b>MDC</b> )	3,035
		Beazer Homes USA Inc. ( <b>BZH</b> )	2,950

Sources: Pew Hispanic Center, <http://pewhispanic.org/files/reports/46.pdf>, Compustat, Company Websites

The “Illegal Alien Share of This Workforce” figures in the table are national averages, hiding regional concentration. If 16 percent of all agriculture workers are undocumented nationwide, they may be forty percent in California. Illegal immigrants live primarily in just four states: California, Texas, Florida, and New York. Thirty-eight percent live in either California or Texas. Thus, any law that drives up labor costs is likely to have its greatest impact on companies having relatively large presences in these four states.

### **Good Fences Make Bad Neighbors**

Angered that Mexicans are “stealing American jobs” and worried that it is easy for terrorists to slip across the southern U.S. border, 51 percent of the American public supports

building a 2,000 mile fence between the U.S. and Mexico, according to a Fox News poll taken in October. Congress and President Bush will give the public what it wants, although much of “the fence” will be a virtual one; new roads across the U.S. desert, more border guards, ground sensors, and unmanned aerial surveillance will buttress physical barriers placed at a few key locations. House Republicans plan to authorize “the fence” this month before Congress recesses for the year.

Will a “fence” work? The number of illegal aliens in the U.S. is believed to grow by 700,000 per year. Of this number, 450,000 make it across the Mexican border undetected, and another 50,000 enter illegally from Canada. The remaining 200,000 enter legally, but break U.S. law by working indefinitely in the U.S. instead of going home when their temporary visas expire. If “a fence” is completely successful, 450,000 undocumented Mexicans will be unable to enter the United States every year.

However, not all 450,000 of these Mexicans would have entered the labor market. Overall, sixty percent of undocumented aliens work for employers in the U.S, with the remaining 40 percent keeping house for their partners. A fence could therefore block the annual flow of sixty percent of those that would now be excluded, or 270,000 illegal workers, mostly into the labor markets of California, Texas, Florida, and New York.

This data can be used to gauge the impact of a “fence.” Approximately 17 million legal American workers are “low-skilled,” never having graduated from high school. These are the Americans whose wages are undermined by the 6.3 million low-skilled illegal immigrants who also lack much schooling. Nationwide, therefore, a fence would stop the overall 23 million pool of low-skilled workers from growing by 1.2 percent per year. Taking into account that undocumented workers congregate mostly in few states, if a fence is built, the pool of low-skilled workers in these states would remain almost constant, rather than growing by 3 percent per year, by erecting a fence.

If demand for unskilled labor has an average elasticity, then the cost of hiring unskilled labor in these states would fall by up to 3 percent per year if no fence is built, as these 3 percent of added workers annually compete for jobs that become increasingly scarce. In industries where the hiring of additional labor will result in little added sales revenue, the impact may be greatest; the amount paid to the next hotel cleaning lady, for example, will do little to determine top line revenue. Thus, as the pool of potential cleaning ladies expands and they compete for the fixed number of jobs by lowering their asking prices, labor costs will fall and almost the difference will flow to the hotel’s bottom line.

Building a fence therefore will slow the growth in profitability of companies who hire the most low-skilled labor, as a percentage of total costs, and where the incremental demand for additional low-skilled labor is low.

### **Bush to the Illegal Aliens: Be My Guest**

The slogan, “Do not reward lawbreakers,” has a nice ring to it. However, the cost to round up 11 million illegal aliens and to send them packing would be sobering, an estimated

\$200 billion. The Bush Administration has another idea; let them stay for up to six years as “guest workers” if they report to authorities. Afterward, they must return home for at least one year before applying for readmittance.

With 72 percent telling Time Magazine that they favor a “guest worker” program, the White House hopes it can push this middle position, straddling the “send ‘em all home” and the “give them all green cards now” schools, into law. Senator McCain (R-AZ) calls the Bush idea, “report to deport” and doubts there would be many takers. The Senator probably is right unless the plan includes coercive elements, including the withholding of half of their pay until aliens are back home. Fines on employers who do not insist that their undocumented workers sign up also would have to be significant.

### **Legislative Prospects**

The House is expected to pass a border enforcement only package, “building a fence,” next week. Senate Majority Leader Bill Frist (R-TN) has announced his intention to put before the full Senate in February legislation on border enforcement and a guest worker program. After a contentious fight, it should clear the Senate, setting up a House-Senate conference where negotiators will try to design a compromise that can clear the House, which is currently hostile to a guest worker program because it is “too friendly” toward lawbreakers.

Cracking down on illegal immigration is popular. We therefore place the odds that Bush will sign a law to “build a fence” at 70 percent. The odds on a bill that regularizes guest workers are lower, perhaps 50 percent. Either way, prospects of companies that hire many undocumented workers likely will be heading south, along with their workforces.

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