

OBAMA'S IMMIGRATION AMNESTY: WHO GETS HURT

Two weeks ago, President Obama made good on his promise "to act on immigration reform if Congress did not." He promised five million undocumented aliens they could come out from the shadows and fully participate in American life. Four million of them qualify if they are parents of American citizens, have been here five years, and have not committed felonies. Another 1 million qualify on other grounds. Legally, this amnesty is temporary, good for only three years, but it includes the right to leave the country and return. It does not apply to the remaining six million undocumented immigrants.

It will not happen overnight. The Administration's [fact sheet](#) makes clear that the four million beneficiaries with children born here will have to wait six months before a new bureaucracy will be up and running and in position to receive and process their applications. The remaining one million beneficiaries will be able to apply much sooner, by late February 2015. However, after applying, all five million applicants must wait for up to a year before receiving the good news that they can legally stay and even travel out of the country and return. Beneficiaries will receive their amnesty letters mostly in the second half of 2016, just as the 2016 U.S. presidential election season intensifies.

Does this matter to investors? Yes, because it will raise labor costs and hurt profits of several publicly-traded companies while boosting sales and profits in others. By 2016, sixty-nine percent of the five million illegal aliens in the American workforce will become legal workers according to [Pew Research](#). They then will be free to bargain more aggressively in the labor market. Researchers conclude that illegal immigrants who received amnesty in the past soon enjoyed ten percent pay raises on average. Assuming this research is valid, 3.5 million workers will get a 10 percent pay raise in late 2016 or 2017. In several industries and firms, this would be a material event, either by shrinking their margins or boosting their sales.

Will the Congressional GOP Block Obama's Unilateral Immigration Plan?

The question has two components: Can they do so, and do they really want to?

Often, Congress' best weapon in fights with the Executive is to exercise the power of the purse. The Constitution makes clear that no federal funds can be used unless Congress first approves. Some congressional Republicans believe they should include in an appropriation bill early next year, statutory language explicitly forbidding the Administration from spending anything to implement Obama's amnesty. Before any such legislation reaches Obama, where he likely would veto it, it will first have to clear the Senate and a probable Democratic filibuster. Assuming Senator Mary Landrieu (D-LA) does lose her run-off this Saturday, there will be only 54 GOP Senators next year, well below the 60 needed to shut a filibuster down. So, Obama will likely prevail if the GOP tries a "limitation amendment."

Despite what some GOP leaders are saying, they may not even want to reverse Obama's action -- because polls show Obama's action is popular. Historically, Americans have welcomed newcomers, carrying on a 1783 tradition that still shines. According to a [Quinnipiac University](#) poll, 56 percent believe illegal immigrants should stay and be offered a path to citizenship. Another 10 percent believe they could be allowed to stay, but not become citizens. Among pivotal independent voters, 53 percent favor allowing them to grant eventual citizenship and 11 percent believe they should be allowed to stay, but not as citizens. Among GOP voters, only 40 percent approve of granting citizenship.

46. Which comes closest to your view about illegal immigrants who are currently living in the United States? A) They should be allowed to stay in the United States and to eventually apply for US citizenship. B) They should be allowed to remain in the United States, but not be allowed to apply for U.S. citizenship. C) They should be required to leave the U.S.

	Tot	Rep	Dem	Ind	Men	Wom	Wht	Blk	Hsp
A) Stay/Citizenship	56%	40%	74%	53%	51%	59%	50%	77%	70%
B) Stay/Not citizen	10	11	8	11	11	10	10	8	13
C) Not stay	30	46	16	30	34	27	35	13	13
DK/NA	4	3	3	6	4	5	4	3	4

Source: Quinnipiac University

While Obama's policy is popular, his unilateral immigration diktat is viewed as heavy handed. [CNN](#) finds that 41 percent approved of his approach, while 56 percent did not. The political sweet spot for the GOP appears to be to complain about Obama's unilateralism, and then send him a bill or bills that tighten border security, increase enforcement of laws against hiring illegal aliens, and expand the number of visas and work permits given to skilled workers and field hands. These, ideas, too, are popular. At the end of the process, expect that Obama will win, and 3.5 million workers will have the right to stay and will get 10 percent pay raises.

Once Undocumented Workers get Green Cards, Employers Must Pay Up

Undocumented workers have found jobs most easily in five industries, where they represent a significant share of the workforce: Meat packing (27%), Construction (14%), Farming (13%), Restaurants (12%), and Hotels (10%). Legal status will give these workers power to negotiate better wages. Amnesty hurts these employers' bottom lines.

In 2013, CAN completed a sensitivity analysis for major firms in these sectors, identifying the following most at risk: Pilgrim's Pride (**PPC**), Fresh Del Monte (**FDP**), Wendy's (**WEN**), Bloomin' Brands (**BLMN**), Red Robin (**RRGB**), Bob Evans Farms (**BOBE**), Cracker Barrel (**CBRL**), and Hyatt Hotels (**H**). CAN's 2013 model estimated labor costs increases and operating profit reductions under the following assumptions:

- these undocumented workforce percentages are correct;
- the undocumented earn 20 percent less than others; and
- this differential would be cut to 10 percent upon legalization.

Companies Vulnerable to Increased Labor Costs of Undocumented Workers

Industry	Percentage of Industry Labor Force that is Undocumented	Company*	Ticker
Meat Packing	27%	Pilgrim's Pride	PPC
		Tyson	TSN
		Dean Foods	DF
Farming	13%	Fresh Del Monte	FDP
Food Prep	12%	Wendy's	WEN
		Bloomin' Brands	BLMN
		Red Robin	RRGB
		Bob Evans Farms	BOBE
		Cracker Barrel	CBRL
		Texas Roadhouse	TXRH
		Darden Restaurants	DRI
		Burger King	BKW
Hotels	10%	Hyatt Hotels	H
		Starwood Hotels	HOT
Nursing Homes	2%	Kindred Healthcare	KND
		Capital Senior Living	CSU

*Companies with estimated undocumented labor costs impacting profitability by 5% of more

What Corporations Win Under Amnesty?

Astute investors could enhance their portfolios with companies that capture the growth opportunities offered by this valuable demographic.

- Newly-legalized aliens, enjoying a 10 percent rise in income, will travel to their birth homelands when they please. An estimated 58 percent grew up in Mexico, and their illegal status prevented them from returning to see family and friends. In just two years, two million newly legalized residents will plan long-awaited visits. This will benefit the Mexican airlines, Grupo Aeromexico (**Aeromex.mx**), and the "Spirit Airlines of Mexico," ultra low-cost carrier Volaris (VLRN) -- as well as three major Mexican airports, Grupo Aeroportuario del Sureste (**ASR**), Grupo Aeroportuario del Pacifico (**PAC**), and Grupo Aeroportuario del Centro Norte (**OMAB**).
- Wealthier, newly-legalized aliens, 81 percent of Hispanic origin, will buy more, enjoying products that more affluent, legal Hispanics have been buying for years, favoring brands promoted in Spanish media advertising. This means ad growth for Spanish-language media outlets Grupo Televisa (**TV**) and Spanish Broadcasting System (**SBSA**). Market

studies have shown that an increase in culturally relevant ad spending targeted at the Hispanic population is correlated with revenue gains.

- The BLS and Information Resources have found that Hispanic consumers spend up to twice as much as a share of income as others on laundry and cleaning supplies, apparel, and personal hygiene products. This is good news for warehouse and supermarket companies with heavy presence in California and Texas: Safeway (**SWY**), Costco (**COST**), and Kroger (**KR**). Nationally, Proctor and Gamble (**PG**), Kimberly Clark (**KMB**) and Colgate (**CL**) have targeted American Hispanic consumers with tailored products and advertising strategies. (See, for example, P&G, Colgate, and The Association of Hispanic Advertising Agencies.)
- Used cars dealers should see a gain sales, especially those in California and Texas. Newly-legal aliens no longer fear deportation that could come from being questioned about traffic violations or fender benders. Many will head to Carmax (**KMX**) and AutoNation (**AN**). Used cars break down and need replacement parts, which would help Group 1 Automotive (**GPI**), O'Reilly Automotive (**ORLY**), Pep Boys(**PBY**), and Sonic Automotive (**SAH**).

New Green Card Holders in 2016 Face an "Immigration Cliff" in 2018

For now, Obama's amnesty has polarized debate -- rarely a harbinger of compromise, but in the end it may result in one. Five million people, along with their families and friends, will lobby for a law so that the temporarily-amnestied are not pushed over an "immigration cliff" in 2018 when it expires. The drama created will pressure the GOP to relent, and investors should expect that they will. Unless Republicans decide to sacrifice the Hispanic vote, a suicidal move, their 2016 agenda will include immigration in a way that mollifies conservatives, yet appeals to Hispanics.

For further analysis or information, contact Capitol Analysts Network, Inc. at:

2230 Decatur Place, N.W.

Washington, D.C. 20008

Email: capnet@xecu.net

Phone: 202-223-4014

Fax: 202-223-3380

website: www.capitolanalysts.com

© 2014 Capitol Analysts Network, Inc. All rights reserved

Disclaimer: This report is based on material we believe to be accurate and reliable; however, the accuracy and completeness of the material and conclusions derived from said material in this report are not guaranteed. Capitol Analysts Network, Inc. makes no recommendation as to the suitability of such investment for any person. Capitol Analysts Network, Inc. employees or officers may have long or short positions or holdings in the securities or other related investments of companies mentioned herein.