February 19, 2025

NOT COMING TO AMERICA

Key macro themes

Migration nation – The US labour market continues to show extraordinary resiliency, with strong final demand fueling job growth, and supporting perceptions around job security (F1). Yet strong employment growth also reflects plentiful worker availability, enabled by **very rapid growth in the foreign workforce**, particularly of undocumented migrants.

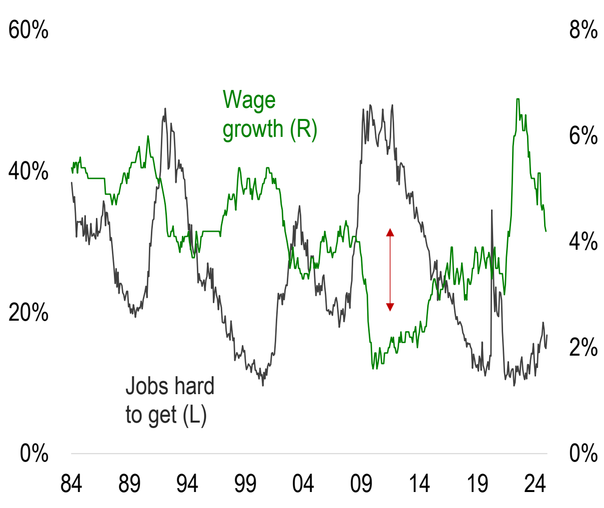
The policy threat – President Trump is **looking to reduce the number of undocumented workers** through a combination of deportations and reduced entry. This month, we explore how this policy shift could affect economic activity, inflation and the Fed response. The study complements our recent work on the macro impact of protectionist trade policy.

Investment strategy

Tighten further – We find that a reduction in the foreign population weakens employment, partly because of migrants' stronger workforce attachment (F2). **Yet jobs fall less than labour supply**, causing the unemployment rate to decline. Inflation rises modestly, but not enough to alter the Fed's response. The policy shift calls for tactical inflation hedging.

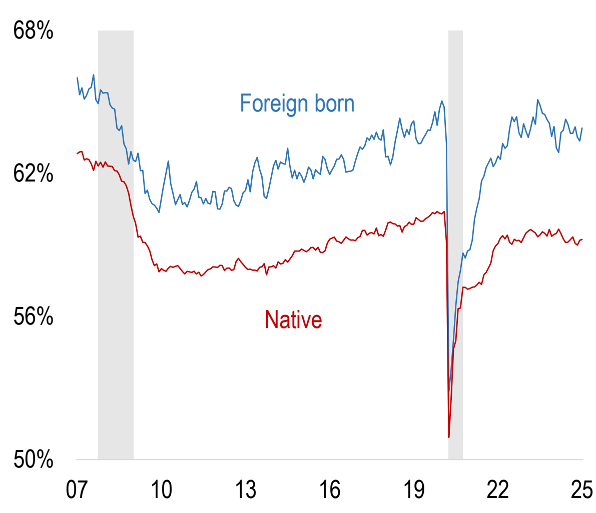
Charts of the month

F1: Labour market remains very resilient
Job availability vs. median wage growth



Note: Chart compares median wage growth against the share of workers who believe that jobs are hard to get. Source: Atlanta Fed, Conference Board.

F2: Do deportations endanger job growth?
Employment-to-population by citizenship, SA



Note: Chart compares the share of the foreign born and native working age population that is employed. Source: BLS, Numera Analytics.

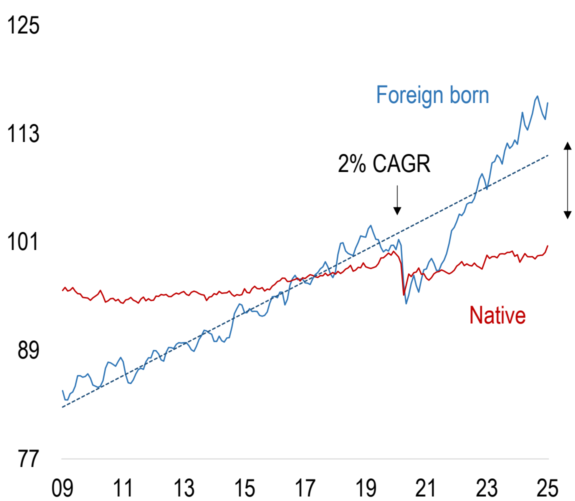
In this section:

- How is immigration shaping job market dynamics? (p. 2–3)
- Do deportations threaten US exceptionalism? (p. 3–5)

The supply factor – Job market resilience is undoubtedly one of the main factors behind 'soft landing' optimism, and US exceptionalism. While job creation usually slows during Fed easing cycles, payroll growth has averaged 240k over the past three months, well above its historically average. On the demand side, this reflects **strong consumer and business spending**, and ongoing catch-up from the 10M+ jobs lost in contact services like health care.

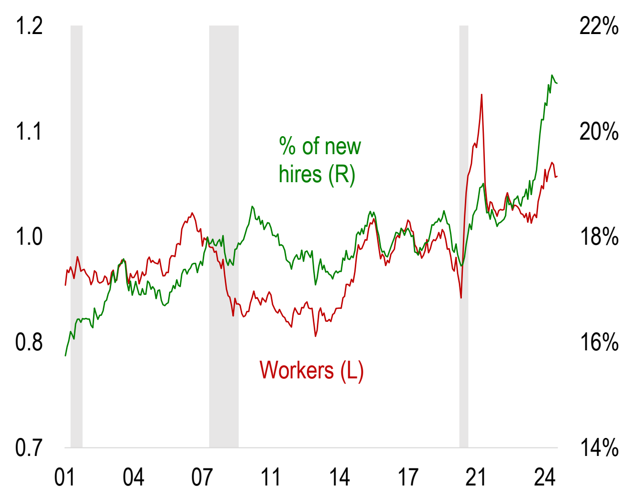
Yet strong job creation **also reflects ample worker availability**. The workforce grew well above trend last year, despite stalled progress in labour participation. Rapid growth in labour supply has enabled businesses to fill existing openings, while supporting labour demand by lowering wage growth back to pre-COVID levels (green line in F1).

F3: Policy shift would hurt labour supply
Labor force by immigration status (2020=100)



Note: Chart compares the foreign and native born US labour force. Series are indexed to 2020=100 for comparison. Source: BLS; Numera calculations.

F4: Immigration supporting job creation
Foreign-born hires (millions and % of total)



Note: Chart compares the number of new foreign-born workers hired per month to the share of new hires accounted for by foreign workers. Source: Upjohn Institute New Hires Quality Index (NHQI).

Split by source, **60%+ of growth in supply came from immigration**, a remarkable feat considering foreign workers make up 18% of the labour force (F3). Indeed, while overall hiring is now back to pre-COVID levels, hiring for foreign workers kept rising throughout 2024, with immigrants now exceeding one-fifth of all new employees (F4).

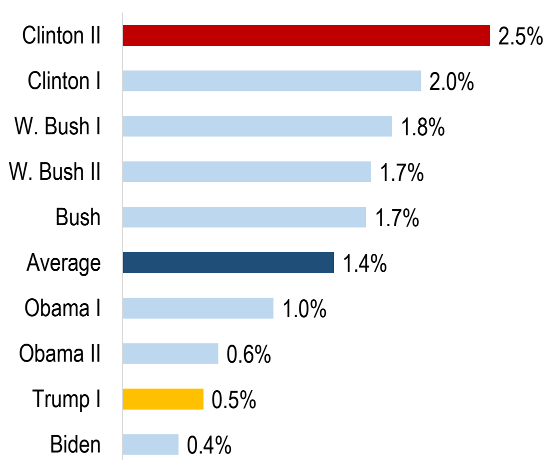
The role of immigration as a growth driver becomes all the more relevant given one of President Trump's cornerstone policies: the threat of mass deportations. Details on the number of workers at risk remain vague, with the administration so far deploying troops to reduce border crossings, and curtailing the entry of undocumented immigrants and asylum seekers. In addition, the government is reviving expedited deportations, a policy suspended under Biden.

Despite this shift in stance, it is **unclear the extent to which immigration policy will weaken labour supply**. During Trump's first term, removals and returns amounted to 1.8M people, 0.5% of the population. As we can see in F5, this is much lower than under previous Presidencies, with deportations declining markedly since the 2010s.

Even without mass deportations, limiting the entry of undocumented migrants would have a larger impact on activity than in the past. The reason is that this group has become **the main driver of supply growth in recent years**. We can see this in F6, which decomposes growth in potential labour supply (i.e. abstracting from cyclical changes in the participation rate) by source over the past decade, based on the CBO's latest demographic estimates.

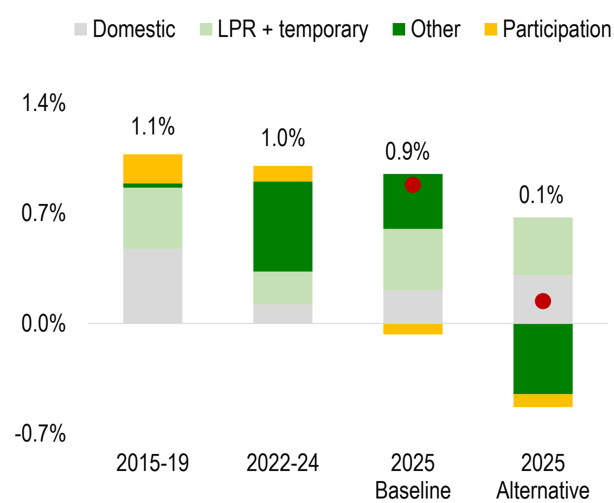
Supply growth has kept up with its pre-COVID trend since 2022, as a surge in undocumented migrants compensated for tepid growth in the domestic adult population, weak participation, and even a slowdown in permanent and temporary residents. The CBO expects growth to slow down this year, due to reduced entry of noncitizens at the southern border. But if the flow of undocumented migrants were to reverse, this would stall growth in potential labour supply.

F5: Deportations have declined over time
Deportations by Presidency (% population)



Note: Chart compares deportations by Presidency as a share of the overall population. Source: Department of Homeland Security; Numera calculations.

F6: Labour supply could slow sharply
US potential labour force growth by status



Takeaway: Estimated growth in potential labour supply. The last column shows the expected change assuming no growth in legal immigration and 1.3M deportations. LPR stands for lawful permanent residents. Source: CBO and Numera Analytics.

Fuel to the fire – What are the macro implications of this policy shift? Earlier this month, we employed our toolkit to investigate the impact of trade barriers on growth, inflation and Fed policy. **We now turn our attention to immigration policy**, simulating the effect of a 1.3M drop in the foreign population. As with the tariffs study, this is not a forecast, but rather a tool to evaluate the net impact of the policy shift absent any other shocks.

The magnitude of the population loss is subjective, since we still lack specifics. However, we based this on a set of reasonable set of assumptions. For example, if the government deported twice as many people than last year, and brought entry of undocumented workers back to its historical average, this would lower the migrant flow by 1.3M.

T1: Impact of deportations Simulated effect by year (%)	Population	Labour force	Employment	Unemp. Rate	Inflation
2025	-0.4%	-0.5%	-0.2%	-0.3%	0.2%
2026	-0.5%	-0.6%	-0.5%	-0.1%	0.2%
2027	-0.6%	-0.6%	-0.5%	0.0%	0.1%

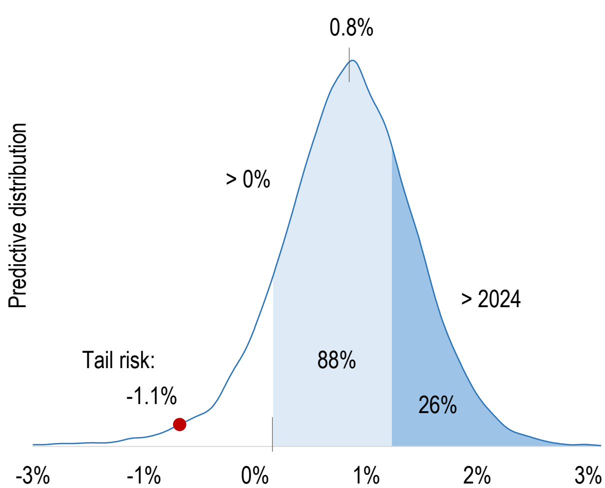
Note: Table shows the simulated impact of a 3% (~1.5M) drop in the foreign working age population on the labour market and inflation. All results are shown in percentage deviations from a no-shock baseline. Source: Numera Analytics.

Just like with the tariffs study, it is important to use a framework that accommodates second round effects. For example, if the number of immigrants declined, this would weigh on employment since their attachment to the workforce is higher than for the local population (F2 in p.1). But reduced competition for jobs, and potentially upward pressure on wages **could cause the employment rate of domestic workers to increase**, mitigating the drag.

T1 shows our key findings, derived from a detailed structural model for the US job market (an extension to our core US model). The policy shift would dent the size of the labour force by 0.5% this year, more than the population loss as the reduction in foreign workers also lowers the participation rate. **Reduced supply also hurts payrolls, but the effect takes longer to materialize**. By 2026, however, employment falls by 0.5%, posing a significant headwind.

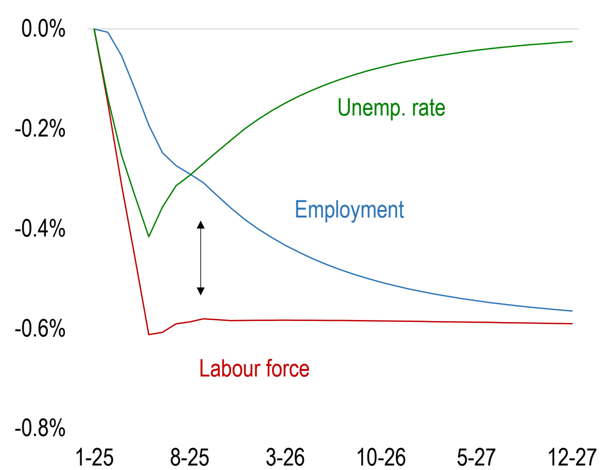
This is consistent with our updated employment outlook, shown in F7. Payrolls should continue to grow over the next two years, but there is only a **one-in-five chance they do so at the same rate than in 2024** (1.3%). Underlying this weaker pace of growth is a slowdown in final demand, as well as a likely deceleration in labour supply.

F7: Job creation will very likely decelerate
Non-farm payrolls growth - 2025/26 (%)



Takeaway: There is an 88% probability that payrolls grow over the next two years, and a 26% chance that it grows faster than in 2024. Should payrolls fall, the worst potential outcome is a 1.1% conctraction. Source: Numera Analytics.

F8: Unemploy. *rate* falls with deportations
Impact of deportations on labour market

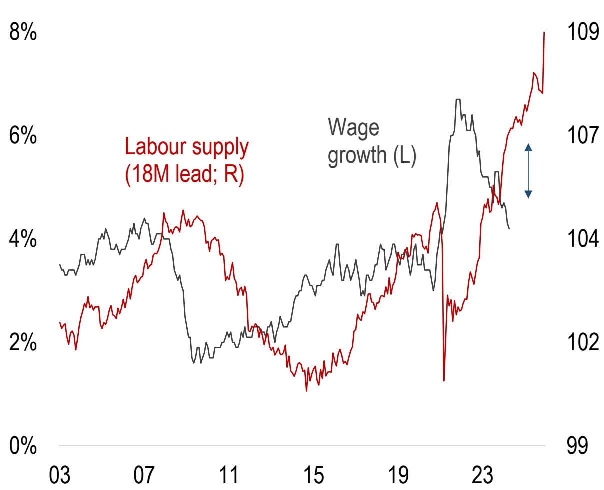


Takeaway: A 1.5M decline in the foreign population would lower the labour force by 0.6%, and employment by ~0.4% by mid-2026. The larger impact on supply would cause a drop in the unemployment rate. Source: Numera Analytics.

Because labour supply would fall faster than employment, this would actually cause the unemployment rate to fall temporarily. We can see this in F8 above, which tracks the simulated impact on the three metrics through 2027. A reduced pool of workers initially lowers the unemployment rate by 0.4%, but the effect fades as employment adjusts.

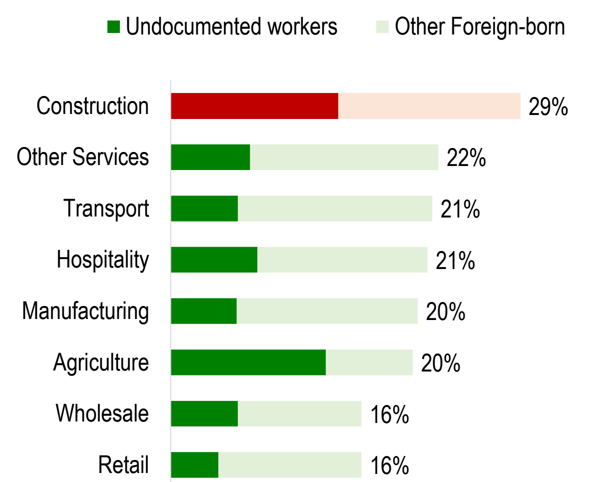
In assessing the Fed response, we also need to evaluate the impact on inflation. This is particularly relevant today, as strong domestic demand and higher inflation expectations are causing inflation to reaccelerate. We find that **the 1.3M reduction in foreign workers would lift inflation by around 0.2%** this year and the next (see T1).

F9: Impact on wages would take longer
Wage growth vs. prime age labour force



Takeaway: The prime age (20-54) civilian labour force leads YoY median wage growth by 18 months. Source: Atlanta Fed, BLS.

F10: Construction shortages are a key risk
Foreign-born workers by industry (%)



Note: Chart compares the proportion of workers by industry that are foreign-born, isolating the share of undocumented workers. Source: Bureau of Labor Statistics, American Immigration Council, Numera calculations.

Why does inflation react less than employment? One reason is that lower labour supply **has a delayed impact on wages**, a point we have stressed in recent months. We can see this in F9, which plots YoY wage growth to an 18M lead in the prime age (25-54) civilian labour force. The fact that labour supply has increased so rapidly since 2023 will continue to exert downward pressure on wages this year, even with a reduction in migrant workers.

In the near-term, inflation would then rise in response to two other factors. One is **higher inflation expectations as firms anticipate supply shortages**. In addition, the supply hit would prove especially disruptive to the construction industry, where about 15% of workers are undocumented immigrants (F10). This would cause construction costs to rise in an already tight market, exerting upward pressure on housing prices, and on home maintenance costs.

Modestly higher inflation and a tighter job market would prompt a hawkish Fed tilt, as we are seeing today. Yet the impact of this kind of shock, at least, is not large enough to merit a hike. What it does mean, particularly when paired with the tariffs effect, is that near-term inflationary risks increase. This then calls for tactical inflation hedging, a topic we have covered earlier this year, and will expand on in our upcoming *Global Asset Allocation* report.

1. Strategic Asset Allocation

Overweight	Neutral	Underweight
🟢	🟡	🔴

Strategic allocation Positioning by asset	Asset allocation[1]	Sector rotation[2]	Key macro factors / comments
Stocks	🟡	-	Earnings vulnerable to negative growth surprises in H2/25
Large-cap (S&P 500)	🟡	-	Remain OW in H1/25, reduce exposure as growth slows
IT	-	🟡	IT has a much better entry point after DeepSeek sell-off
Health Care	-	🔴	Staples, utilities have higher upside with similar protection
Financials	-	🟡	Neutral as banks gain from wider term spread, deregulation
Consumer Discret.	-	🟡	Upgrade due to improved risk-reard profile for e-commerce
Industrials	-	🟡	Downside risk contained by likely pick-up in US manufact.
Comm. Services	-	🟢	Greater resiliency to IT overall to growth fluctuations
Cons. Staples	-	🟢	Improving volume growth, recovering expenditure share
Energy	-	🟢	Effective near-term hedge to tariff-induced inflation risks
Materials	-	🔴	Worse inflation hedge than energy, as O&G affect chemicals
Utilities	-	🟢	Fed easing, AI investments improve risk-reward profile
Real estate	-	🟢	CRE prices are rebounding + high sensitivity to rate cuts
Mid-cap	🔴	-	Heightened volatility from trade policy favours quality
Small-cap	🔴	-	Heightened volatility from trade policy favours quality
Bonds	🟢	-	Mild OW, as markets understating extent of future Fed cuts
Sovereign bonds	🟢	-	Trading below 'fair' value, upside once growth decelerates
Corporate bonds	🔴	-	High coupon payments, but very tight spreads dent appeal
Investment-grade	🟡	-	High coupon payments, better risk-reward profile than HY
High yield	🔴	-	High coupon payments, but very tight spreads dent appeal
Money market	🟡	-	Fed easing cycle reduces appeal of short-term debt

1. Positioning relative to 60/40 benchmark. See our *US Asset Allocation* report for suggested portfolio weights and analysis.

2. OW/N/UW relative to market weights in the S&P 500. Positioning depends on projected risk-reward balance for each sector. See our *US Equity Sector Strategy* report for optimal sector weights and analysis.

2. Top Conviction Calls & Scorecard

US Investment Ideas Top Conviction Calls	Action	Open date	Recently closed	Trailing stop-loss[1]	P&L	Report
Real estate stocks	Long	21-Oct-24	-	-9.0%	-3.6%	PDF
S&P equal weighted	Long	30-Oct-24	-	-5.0%	2.0%	PDF
US aerospace & defense	Long	6-Nov-24	-	1.0%	3.1%	PDF
US refiners / E&P	OW	6-Nov-24	-	-8.0%	3.5%	PDF
US gasoline	Call option	20-Nov-24	15-Jan-25	47%	47%	PDF
US semiconductors	OW	11-Dec-24	27-Jan-25	5.0%	5.0%	PDF
OW defensives	OW	8-Jan-25	-	-5.2%	0.4%	PDF
Long duration	Long	8-Jan-25	-	-2.0%	3.8%	PDF
UW high yield	UW	8-Jan-25	-	-4.1%	-0.1%	PDF
Canada stocks	Long	27-Jan-25	-	-8.0%	2.3%	PDF
US inflation-linked bonds	Long	3-Feb-25	-	-3.0%	0.3%	PDF
US semiconductors	Long	3-Feb-25	-	6.9%	12%	PDF
US comm. serv.	Long	5-Feb-25	-	-5.0%	1.3%	PDF

1. Stop-loss threshold matches the expected loss over the remaining holding period, relative to the current P&L.

3. Benchmarks

- **Stocks**: Large-cap: S&P 500 by GICS sector; Mid-cap: S&P midCap 400; Small-cap: Russell 2000
- **Bonds**: ICE BofAML US Treasury, US Corporate and US High Yield, US TIPS; Money market: 3-month T-bill