



Who wins with immigration reform?

The Senate has approved a sweeping bill, though much work remains in the House. Here's a look at how the law might impact key sectors -- tech, hotel chains, restaurants, agriculture and more -- and your stocks.

By: Michael Brush – July 2, 2013

With Senate approval of the so-called Gang of Eight's immigration reform plan June 27, it's time to take stock of how the changes will impact one important group of companies.

The ones in your investment portfolio.

My key takeaways in some key groups and names:

Proposed immigration reform from the Senate is great news for high-tech companies such as Google (GOOG -0.66%, news), Facebook (FB -1.21%, news) and Microsoft (MSFT -1.48%, news), because it will let in more high-skilled workers. These companies have long lamented shortages of these workers in the immigration pool, compared with what's available globally. Who knows? It might even mean that we see the next Google.

More immigrants, and more legalizing undocumented workers, will put downward pressure on wages for low-skilled jobs. This will benefit companies that use lots of these kinds of workers, such as restaurant chain Chipotle Mexican Grill (CMG +2.16%, news), hotelier Marriott International (MAR +0.02%, news) and homebuilder Lennar (LEN -0.48%, news). It would also help ease shortages of drivers for companies like FedEx (FDX) and United Parcel Service (UPS).

Giving legal status to undocumented workers means they will spend more on things that last a long time, such as houses, cars and washing machines. That should help companies including Lennar, General Motors (GM +0.59%, news), and Home Depot (HD +0.88%, news).

A big part of immigration reform involves stepped-up enforcement -- and border-control measures may get tougher as the bill moves through the House. This would likely help companies such as Raytheon (RTN -1.66%, news), United Technologies (UTX -0.55%, news) and Halliburton (HAL +1.08%, news).

But will anything happen?

Of course, it's no sure bet that anything like the version of immigration reform approved by the Democratically controlled Senate will see the light of day, given the polarization in Washington, D.C., and the fact that the House is controlled by Republicans.

However, because Republicans got trounced in the last presidential election -- in part because immigrants rejected their hard-line stance on immigration reform -- my guess is that something will get through the House.

Sen. Chuck Schumer, D-N.Y., has a natural bias, of course, as a big proponent of reform. But he agrees. He recently predicted that public pressure on Congress to pass immigration reform would have the House putting up something like the Senate plan for a vote within the next few months. It would be the most sweeping immigration action since the 1980s.

Given that, here's a closer look at what might change in key sectors, and how it would impact some brand-name stocks a lot of investors own.

The next Google?

In the emotional and polarizing debate on immigration, we often hear the warm and fuzzy -- and mostly true -- assertion that "we are a nation of immigrants." The subtext is that excluding newcomers is tantamount to excluding yourself, or your parents or grandparents.

That makes you stop and think about the importance of immigration on a personal level.

But to understand the potential economic impact immigration reform, forget all that and consider the following eye-opening observation from famed technology analyst Mary Meeker: 60% of the top 25 U.S.-based tech companies were founded by first- or second-generation immigrants.

They include Apple (AAPL +1.71%, news), Google, IBM (IBM +0.26%, news), Amazon.com (AMZN +0.69%, news), Yahoo (YHOO -0.71%, news) and LinkedIn (LNKD 0.00%, news).

Not only have all of these companies deeply changed our lives -- mostly for the better -- but they have also created 1.2 million jobs, says Meeker, who is now with the venture capital firm Kleiner Perkins Caufield & Byers. Many of these jobs pay quite well, thus they contribute to overall economic growth. (You can see the full list of tech companies founded by immigrants or their immediate offspring on page 87 of Meeker's slide show [here](#).)

Similarly, 25% of high-tech startups in the United States from 1990 to 2005 were founded or co-founded by an immigrant, according to the National Venture Capital Association.

Immigration reform measures now moving through Congress increase the odds that more paradigm-shifting tech companies will be founded here. The Senate version substantially increases the number of high-skilled, highly educated workers who can immigrate here under H1B visas and green cards, says Greg Siskind, an immigration attorney in Memphis with Siskind Susser. The legislation also lifts country quotas, which relaxes restrictions on immigrants from India, a main source of tech workers, notes Siskind.

Even if these immigrants don't found the next Google, they will help satisfy the deep shortages of highly skilled workers in the tech sector that tech companies have complained about for years. "This is very good news for recruiting highly skilled workers," says Siskind. So it would be a big plus for tech companies like the ones mentioned above, as well as for manufacturers such as Intel (INTC -0.69%, news), Texas Instruments (TXN +0.30%, news), Caterpillar (CAT -0.19%, news) and General Electric (GE -1.33%, news), which need high-skilled workers to set up and manage plants and IT systems.

"Despite our relatively high unemployment rate, there are probably three million science and engineering jobs that have gone unfilled for over a year in the U.S.," says Oliver Pursche, author of "Immigrants: Unleashing the Economic Force at our Door" and manager of the GMG Defensive Beta (MPDAX +0.42%, news) fund, which has beaten competing funds by 5.9% a year, annualized, over the past three years, according to Morningstar.

On the downside, new rules in the Senate version would slow down the process of granting H1B visas, hike the fees and double or triple the amount of time approval takes, says Siskind. Even worse, a House version of immigration reform rules makes no new concessions for green cards for these kinds of workers, although that could change.

Fast food, hotels, homebuilders and farmers

There's an understandably heated and emotional debate about the impact on wages from letting more immigrants in, and from legalizing undocumented workers already here. The academic research isn't much help because it is mixed. Companies that employ the undocumented don't share much data on the subject, for obvious reasons. But here's my own take, based on interviews with several experts and on basic logic.

More immigrants, and the legalization of undocumented workers, will put downward pressure on wages for low-skilled jobs. And this will benefit companies that employ lots of low-wage, low-skilled workers, including Chipotle, McDonald's (MCD +0.04%, news), Starwood Hotels & Resorts Worldwide (HOT -0.53%, news), Marriott International, homebuilders including Lennar, and farming and agricultural companies, which run on low-skilled jobs.

Transport companies such as FedEx, United Parcel Service and trucker Swift Transportation (SWFT -1.16%,news) should also benefit because they suffer from a shortage of drivers, says Fariborz Ghadar, the director of the Center for Global Business Studies at Penn State's Smeal College of Business. Legalizing undocumented workers will help these companies, because their new legal status will allow these immigrants to more easily get driver's licenses and insurance.

Big picture, immigration reform proposed by the Senate will "keep wages from rising, which they haven't been doing for years anyway," concludes Ross Eisenbrey, an attorney with the Economic Policy Institute. "Business will get cheaper workers."

Why?

I'll cite four reasons:

- Illegal immigrants I know personally here in New York City typically work under the assumed identity and Social Security number of another person. My contacts are no exception to the rule. An estimated 4 million undocumented workers do this, says Siskind. Their wages aren't going to change much if they become citizens, because their employers already think they are.
- Giving legal status to undocumented workers will give them more freedom to job-hop. Creating a more fluid job market is tantamount to increasing labor supply, which puts downward pressure on wages.

Undocumented workers who go legal gain an incentive to invest in their own skills and English language training, points out Nathaniel Karp, chief economist for BBVA Compass, a subsidiary of Compass Bancshares, which is part of Banco Bilbao Vizcaya Argentaria (BBVA -1.35%, news). This makes them more productive. So even if employers wind up paying these workers more, they will be getting more for their money, says Alex Nowrasteh, an immigration reform expert at the Cato Institute.

- Businesses such as construction companies that pay for labor contractors to supply undocumented workers -- to try to keep the legal liability at arm's length -- would no longer have to do this, notes Karp. So they can eliminate the cost of this finagle.
- Finally, some immigration experts, like Tamar Jacoby at ImmigrationWorks USA, argue that the 200,000 guest workers a year who would eventually be allowed under the Senate bill won't be enough, because the flow of illegal immigrants can hit 500,000-600,000 annually in peak years.

But I think this overlooks the fact that proposed stepped-up enforcement -- from building a wall along the Mexican border to photo-document checks for hiring -- might not really stem the tide of illegal immigrants. Why not?

Many of the undocumented workers I know arrived on a plane instead of jumping the border on foot. They then just overstayed their visas. Again, this is pretty typical. About 40% to 50% of illegal immigrants overstayed a tourist, student or work visa, says Nowrasteh. The incentives are far too great to keep others from sneaking in in any way possible.

"As long as people can earn three times as much in America as in Mexico or Latin America, you are going to see legal and illegal immigration," says Pursche. Plus, greater enforcement may actually wind up keeping undocumented workers here. "By trying to lock them out, we end up locking a lot of them in," says Nowrasteh. Also, keep in mind that enforcement was a big component of Reagan-era immigration reform, but it never came through, points out Karp.

Now, wage stagnation isn't good news for most American workers or for the companies that sell them stuff, points out Eisenbrey, at the Economic Policy Institute. But it is good news, in terms of wage costs, for companies that employ lots of low-skilled workers -- and for their stockholders.

Homebuilders, car makers and other durable-goods producers

If you give legal status to undocumented workers, you instantly change their buying habits. After all, once you remove the specter of deportation and create a sense of permanence, a person is going to spend on more things that last a long time -- such as houses, better cars, washing machines, refrigerators and air conditioners, points out Karp, of BBVA Compass. He estimates that if the 11 million or so undocumented workers were given legal status, 3 million of them would buy a home within 10 years.

"That's a huge amount of demand for housing," he says. That not only helps the construction industry, but also spills over into banking and retail.

Overall, Karp estimates the move to legalize the 11 million workers would add one percentage point of gross-domestic product. . That's good news for shares of the likely winners: Lennar, General Motors, Ford (F +2.73%,news) and Home Depot.

Enforcement-related companies

A big part of immigration reform is stepped-up enforcement -- including speeding the construction of a wall along the border with Mexico and greater use of sensors and helicopters to monitor for illegal immigrants. If stepped-up enforcement goes through, it should help companies including Raytheon and United Technologies, which sell sensors and helicopters that might be used there. Halliburton might benefit, too, because it often gets the contracts for this kind of construction work.

One group that could lose out is private prison companies, such as Corrections Corporation of America (CXW -1.71%, news), says Pursche. The reason: A big chunk of their business comes from the detention of illegal immigrants. "If all of the sudden, immigration-related detention drops because of immigration reform, what they perceive as guaranteed pool of residents in their detention centers shrinks significantly."