

AEGON INSIGHTS

# The impact of the DOGE reaper

*As the Department of Government Efficiency (DOGE) reaper's scythe plows through the employment ranks of the federal government, investors are focused on the potential impacts on both monetary policy and the markets.*

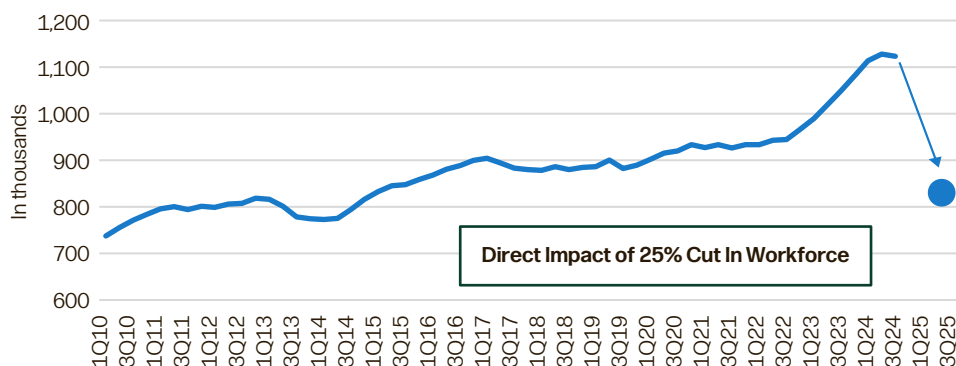
## The “opportunity set”

The federal government employs approximately 3 million workers, which whittles down to roughly 1.1 million when you exclude active-duty military personnel (1.3 million) and postal workers (600,000). The Trump administration's initial buyout offer netted 77,000 reductions, while there are 200,000 government workers still in the probationary period who have limited employee protections (similar to at-will employment in the private sector).

Additionally, the recently announced reduction-in-force memo (RIF) begins the formal process for large-scale layoffs of civil servants. Taken together, we think a 25% reduction relative to the opportunity set is realistic and would likely hit around the third quarter of this year.

## Federal workers: Excluding military, postal and census workers

In thousands



Sources: Haver Analytics, Aegon Asset Management. Data as of February 2025.



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The “pin-action”

To use a bowling euphemism, when job cuts strike the federal sector, it tends to knock down employment in tangential sectors, namely government contracting. While the multiplier can vary, we are using a 2x contractor employment reduction for every 1 federal government job loss.

Furthermore, the rapid speed of the reductions can accelerate the short-term impact on the aggregate labor picture. For example, if the cuts occur over 6 months it will have a greater near-term impact that if they are dragged out over 12 months.

The table below shows the potential impacts from various scenarios of the DOGE reaper. Note, it is simplistic in the sense that it does not assume a re-absorption rate nor a retirement rate for those who are shown the door and there could be some variability in the contractor multiplier. But keeping the focus at a 30,000 foot level, the main aim is to show the type of impact the reductions could have on short-term unemployment.

Impact of Federal Workforce Reduction					
Decrease In Federal Employees	-15%	-20%	-25%	-30%	-35%
Federal Employees ('000s)	-168	-225	-281	-337	-393
Contractors Reduced at 2x Federal Employees('000s)	-337	-449	-561	-674	-786
Total Reduction ('000s)	-505	-674	-842	-1,011	-1,179
% of Total Employment Base	-0.32%	-0.42%	-0.53%	-0.64%	-0.74%
Monthly Payroll Impact - Spread Over 12-Months ('000s)	-42	-56	-70	-84	-98
Monthly Payroll Impact - Spread Over 9-Months ('000s)	-56	-75	-94	-112	-131
Monthly Payroll Impact - Spread Over 3-Months ('000s)	-84	-112	-140	-168	-196
Unemployment Rate (12-month scenario)	3.9%	4.0%	4.1%	4.2%	4.3%
Unemployment Rate (9-month scenario)	4.0%	4.1%	4.2%	4.3%	4.4%
Unemployment Rate (6-month scenario)	4.1%	4.2%	4.3%	4.4%	4.5%

Assumptions:  
1). Annual employment increase of 1.5 million, or 125,000 per month.  
2). Population growth of 0.5%, employment/population of 60%.  
Sources: Bureau of Labor Statistics, Haver Analytics, Aegon Asset Management. Data as of February 2025.

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## The verdict:

On the back of a cooling labor market, the federal cuts would likely lead to a modest drift higher in the unemployment rate. A key factor would be the timeframe under which the reductions occur—the shorter the window the larger the immediate negative impact to the labor market.

## Market Impact:

If the upward drift in unemployment were to occur, it would support our call for Federal Reserve rate cuts in the back half of the year, with the possibility for more than the 2 we currently expect (especially if the shorter window scenario plays out).

Fears of a growth slowdown could spook the equity market in the near-term, but as unemployment starts to creep higher, those fears may be assuaged by rate cuts materializing later this year and stimulate a backend rally in equities.

Rate-wise, the modest drift higher in unemployment is unlikely to have a large impact on rates. We expect rates across the yield curve to feel downward pressure as impacts from tariffs and immigration play out and the Fed returns to rate cuts. Over a longer term, the re-absorption rate into private sector employment will be a more critical factor in determining whether longer-term rates could eventually rise.

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