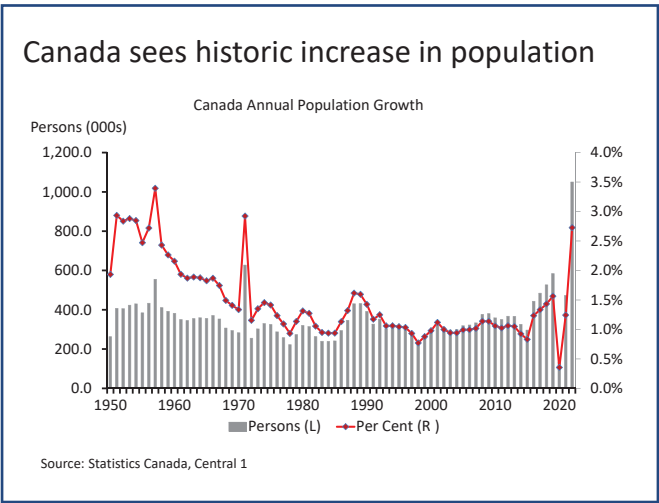




Canada experiences a historic population boom

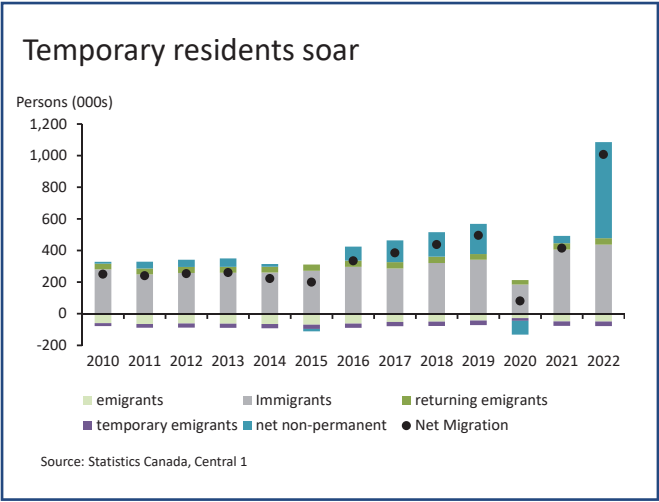
Among the many stories of pandemic, Canada’s swelling population has taken the spotlight in recent quarters amidst severe labour shortages in the economy and need for more workers, with the conflicting challenge of housing affordability and insufficient housing supply. The latest data has done little to shift this focus as the surge in newcomers to Canada persisted if not accelerated through the fourth quarter and propelled annual population growth to a historic high.

An increase of 273,900 persons in Q4 lifted full-year growth to 1.05 million persons, marking the first-time the country added more than a million people in a calendar year. As of January 1, the national population reached an estimated 39.566 million persons. This marked a 2.7 per cent annual increase and compared to 1.2 per cent (472,690 persons) in 2022. During the 2010s, annual growth averaged 1.1 per cent.



The last time we saw comparable growth to 2022 was in 1971 at 2.9 per cent and 1957 at 3.4 per cent. The latter reflected a strong period of growth driven by post-war baby boom and immigration of refugees during the Hungarian war. In contrast, the current population boom reflects a surge in newcomers to the country which represented 95 per cent of population growth.

With an exceptionally tight labour market and strong economy, a potentially more welcoming environment for newcomers than the U.S. and pathways to citizenship, Canada is attracting the world. Indeed, Canada’s population growth numbers are significantly exceeding many developed countries.

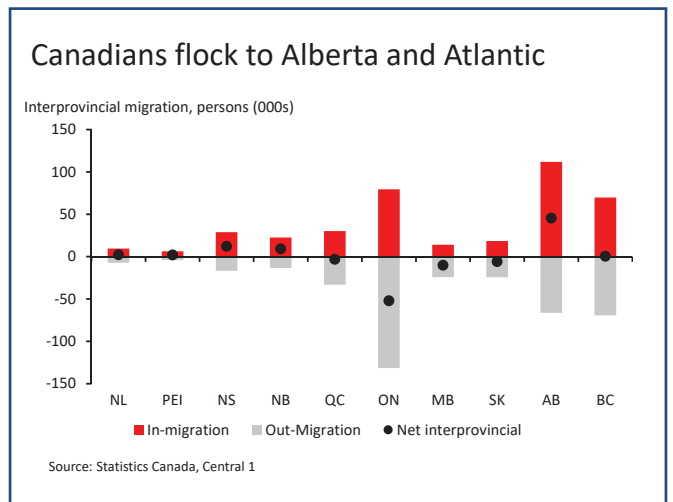
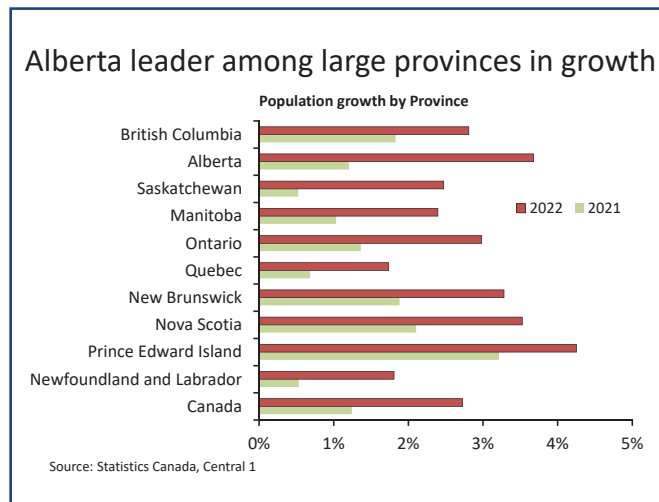
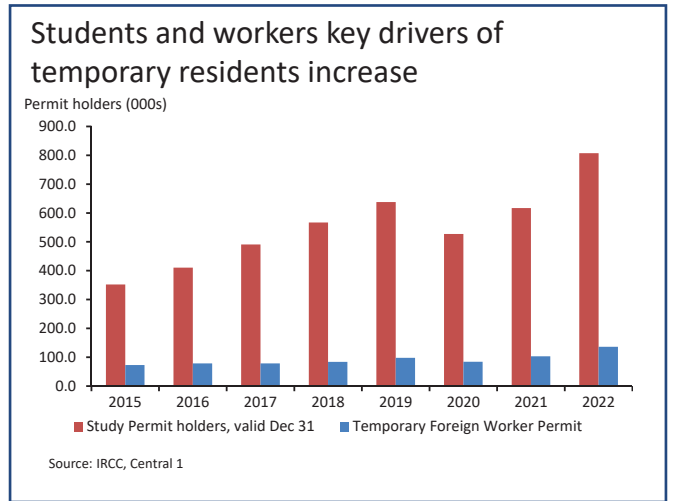


While the number of immigrants rose 8 per cent to a record 437,180 persons after a 2021 surge and are far above pre-pandemic levels, it was an unprecedented increase in temporary residents that drove the latest annual gain. The number of temporary residents jumped to 607,780 persons which was more than 10 times 2021 levels and triple 2019 levels. Impacts of COVID may have shifted timing of entry into Canada but sharply higher flows reflect a combination of higher study permits, work permits, and humanitarian drivers of refugee intake from Ukraine.

According to the Immigration, Refugees and Citizenship Canada data, the number of valid study permits in Canada jumped 31 per cent by year-end 2022 to 807,260 permits from 2021, and 60 per cent from the 2015-2019 period. Growth has been particularly acute in Ontario, Alberta and New Brunswick. The temporary foreign worker program also experienced a sharp increase in inflows with a 30 per cent gain to 136,000 permit holders over 2021.

Among provinces, the key standouts were Alberta which saw its population balloon by 3.7 per cent after a 1.2 per cent increase in 2021. Indeed, a stronger economy, turnaround in energy markets and affordable housing likely contributed to the acceleration. On a quarter-to-quarter basis, Alberta posted nation-leading strength over the second half of 2022 including a 1 per cent gain in Q4. Other leaders were the smaller provinces in Atlantic Canada including New Brunswick (3.3 per cent), Nova Scotia (3.5 per cent) and Prince Edward Island (4.3 per cent). These areas saw large gains during the pandemic as Canadians searched for more affordable regions with remote working arrangements.

On the other side of the spectrum, Quebec's population grew by a comparatively mild 1.7 per cent followed by Newfoundland and Labrador (1.8 per cent).

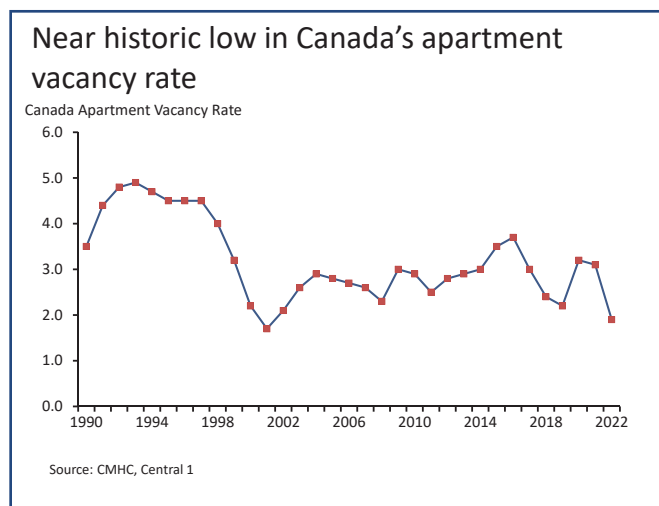


Takeaway

The latest population growth numbers point to persistent and exceptionally robust momentum into 2023. In many ways this boom in population has been positive. The risks of an economic downturn, which many projected for late 2022, never materialized. A net increase of a million people settling in the country, spending on goods and services likely provided a substantial boost to consumption and neutralized this weakness. The existing home market, while down sharply due to higher interest rates, has likely been supported by population growth. Meanwhile, the tight labour market and wage pressures may have received some relief from the boost in new permanent immigrants, temporary workers and students, the latter of whom who can now work more off campus. Over the long-term, more of these temporary residents may find pathways to full citizenship and become a permanent part of the labour force.

It is not all roses and Canada's housing infrastructure has been ill-equipped to handle the surge in newcomers. The influx of immigrants and temporary residents is amplifying affordability challenges in the housing market. Newcomers often enter rental markets before transitioning to homeownership, and a shift to the latter has been made even more difficult given high interest rates and still high home prices which is impacting all buyers. The national apartment vacancy rates sat below two per cent in late 2022 and rent rose nearly six per cent. Tighter rental markets have likely been amplified by the surge in housing demand that outstripped significant additions to the rental stock during the year.

There is no sign that the population boom is set to stop just yet although the current pace is not sustainable. The federal government has set high targets for permanent residencies, including an incremental lift to 500,000 persons in 2025 from 465,000 this year. This suggests still elevated levels of immigration, but the trend in temporary residents is likely to pull back sharply. Gravity will kick in, while we expect a slower economy and post-secondary institution capacity could also curb study permits. In fact, some of these individuals may leave. Additionally, applicants will increasingly be cautious as well given the lack of and expense of housing in Canada.



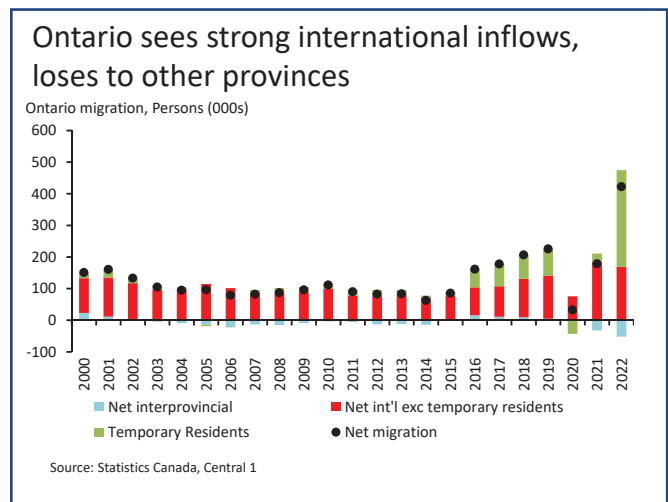
Nevertheless, pressure on the housing and specifically rental markets will continue. Strong immigration numbers will continue to drive low vacancy rates and lift rents across the country and contribute to future homeownership demand. Meanwhile, undersupply in new home markets could worsen as weak current conditions in resale markets and high interest rates curb condominium construction (including investor/secondary rental product) in 2023 and into 2024. This points to a buildup in pent up demand due to delayed household formation and immigration which is likely to be unleashed when interest rates decline, leading to sharper home price increases. Governments should prioritize policies to incentivize rental construction, increase density and invest in social housing to meet the broad spectrum of housing needs.

Ontario and B.C. summary

Ontario

Ontario had a standout year for population growth, outpacing the national performance. The population ballooned by a record 445,500 persons during the year to more than double 2021's increase. This marked a 3.0 percent increase, the strongest pace since 1971 and the 1950s. Following a gain of 123,750 persons in Q4, the population reached 15.38 million persons as of January 1.

Consistent with the national pattern, international migration drove growth. In fact, the net population increase reflected international inflows. While the number of landed or permanent status immigrants slipped from 2021 from 184,000 persons to 168,570 persons in 2022, this was offset by the surge in temporary residents which ballooned to 305,950 persons. Moreover, Ontario lost more residents to other provinces with a net 52,000 leaving the province compared to 32,100 persons in 2021.



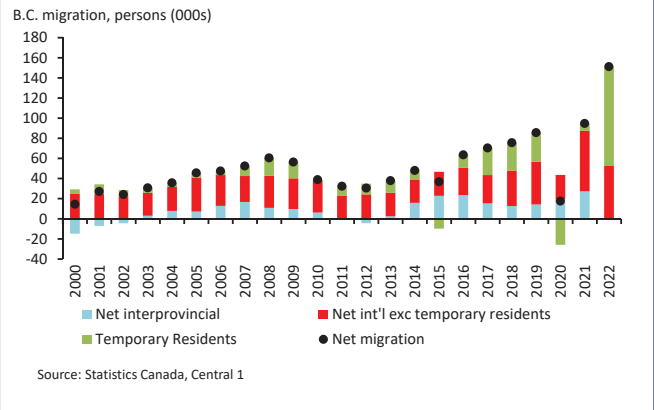
British Columbia

B.C. population growth kept pace with the national picture in 2022 with growth of 2.8 per cent and an expansion of 150,000 persons. As a January 1, the population reached nearly 5.4 million persons with 0.6 per cent or 30,800 persons increase during Q4. That said, we do not have to look as far back as the national picture to find comparable growth rates. During the early 1990s, growth was regularly near three per cent which reflected the influx of Hong Kong immigrants in advance of the 1997 handover from Britain to China.

Like the national picture, migration flows drove population growth as deaths outpaced births in the province. All the 2022 increase was due to international inflows. Net immigration remained robust

at 52,000 persons during the year but slipped from 60,300 in 2021. This was offset by the huge increase in temporary residents which ballooned to nearly 100,000 persons highlighting the increase in students, temporary workers, and refugees. Unlike 2022, B.C. increasingly lost residents to other provinces – namely Alberta – during the second half of 2022. On net, B.C. gained only 480 persons from other provinces during the year after a net increase of 27,225 persons in 2021. It is likely that affordability has played a role in this net loss as B.C. residents left in search of cheaper cost of living.

B.C. migration surges despite interprovincial retrenchment



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