Economic Commentary

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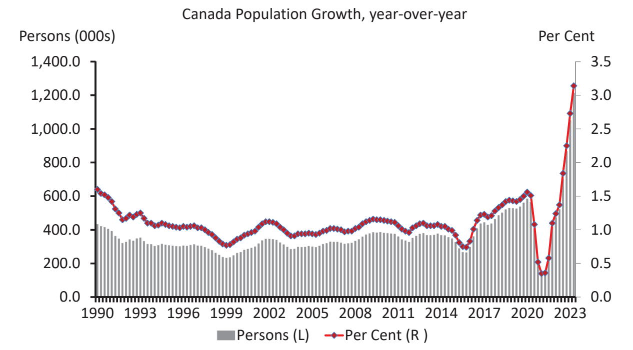
central 1 Economics

Population surges again in Q1, housing affordability could remain out of reach

Canada continued to flex its muscle as a preferred destination for international migrants with another reported population surge during the first quarter. According to Statistics Canada, the nation's population jumped by 292,232 persons (0.7 per cent) during the quarter, and 1.21 million persons (3.1 per cent) on a year-over-year basis. Seasonally-adjusted, growth was consistent with the fourth quarter gain. This stunning pace is a record high based on available comparable data going back to the early 1970s as newcomers arrive in droves. In comparison, U.S. population growth is closer to 0.5 per cent year-over-year. The acceleration of inflows since mid-2022 has reflected some catch up following the early pandemic pause but have been driven by policy efforts to lift immigration to support long-term labour market needs, and higher non-permanent residencies which includes ballooning work permits, and elevated student populations.

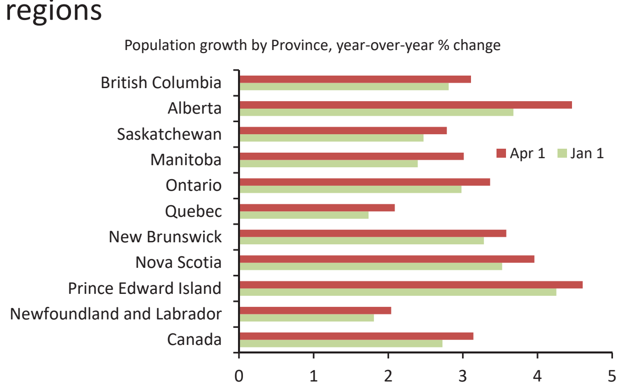
Canada's population soars 3.1 per cent over the past year



Source: Statistics Canada, Central 1

Net migration to Canada of 287,664 persons during the first quarter drove nearly the entirety of the increase. Permanent resident inflows reached 145,417 persons which was a record for the first quarter and exceeded year ago entries by 31,000. These gains were only slightly offset by exits from Canada. Meanwhile, the pace of net non-permanent residents remained exceptionally high with 155,300 persons, which was down from 196,262 in Q4 but compared to 29,000 persons a year ago. As a comparison, same-quarter permanent resident inflows from 2010-2019 averaged 64,000 persons, with non-permanent residents at 12,000 persons, highlighting the magnitude of the recent surge.

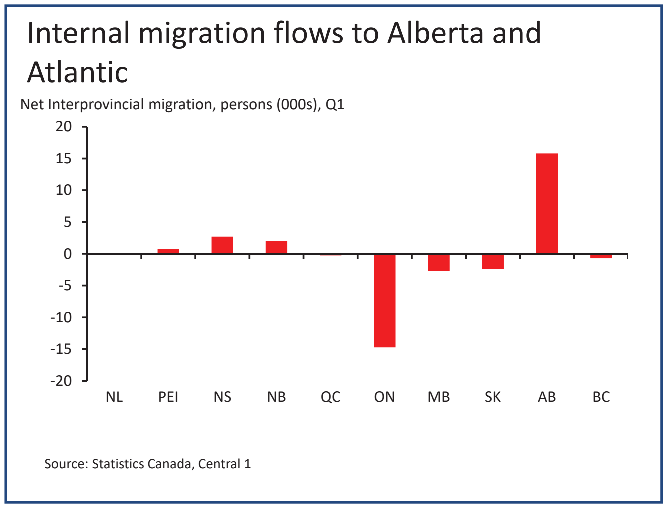
Alberta, Nova Scotia and PEI are high growth regions



Source: Statistics Canada, Central 1

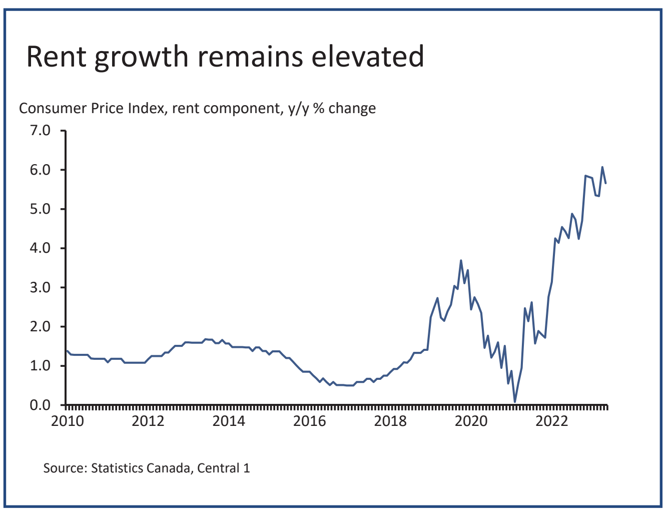
Provincially, three provinces led the way in growth from a year ago. Alberta (4.5 per cent), Prince Edward Island (4.6 per cent) and Nova Scotia (4.0 per cent) all recorded year-over-year growth of more than four per cent. Ontario's population rose 3.4 per cent and B.C. came in at 3.1 per cent. Driving the gap was robust interprovincial migration to the higher growth provinces which managed to attract more domestic residents. There is little doubt that housing affordability and general cost of living has promoted these internal flows which has been further supported by remote work availability and flexible hybrid arrangements.

The rapid pace of immigration and population growth has become a contentious area of debate in Canada. Strong immigration has been a factor supporting economic growth even as interest rates and inflation bite on consumer wallets. In a simplified sense, more people mean rising demand for consumer goods and services. Indeed, stronger than expected first quarter GDP performance was led by a growth in consumer spending. Newcomers have also supported expansion of the labour force and alleviating some labour supply pressures related to aging demographics, although this takes time as they adapt to Canadian society.



Immigration will remain robust given federal government immigration targets, and further plans to increase entry. While we do not anticipate non-permanent inflows to maintain the current pace, levels are likely to remain high. Consumer demand is likely to remain inflationary, despite labour supply expansion.

Canada will continue to see the pressures of unchecked population growth on the housing market, and particularly the rental market where many newcomers initially settle, regardless of residency status. Rental market conditions are particularly tight and while data will be skewed by location and use of platform, Rentals.ca suggests asking rents increased 11 per cent this year, with 9 per cent growth in the Vancouver, 12 per cent in Toronto, and 14 per cent in Calgary as examples. The rent index in the consumer price index shows a six per cent year-over-year increase.



Meanwhile, the homeownership market, which has already experienced a rebound in existing home sales and conditions remain tight even as interest rates rise, reflecting insufficient housing inventory. Not all newcomers will be able to purchase, but a sizable portion are likely to shift into homeownership sooner rather than later. Supply challenges are expected to be amplified by a downturn in housing starts. While we have been surprised by the resilience of housing construction thus far, impacts of higher interest rates on pre-sale condominium activity and the economics of rental construction are expected to curb construction just as we need more housing. This adds to housing price support and higher rents.

There is a need for governments of all levels to incentivize more housing construction, which could reflect cutting taxation, GST/HST credits, lowering community amenity contributions, and working with the private sector to deliver more projects on government lands. That said, all of this will take time, suggesting the booming population will continue to trigger further deterioration in housing affordability.

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