



Canada reins in population boom

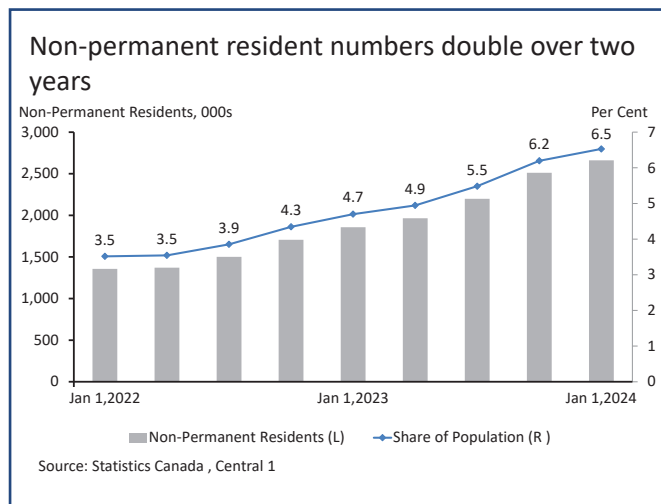
Over the past month, the federal government’s view on the country’s rapid population growth has shifted dramatically as a slowing economy, weak productivity, and a housing affordability crisis has shifted public opinion and created an untenable political position for the government. Canada’s population added 1.27 million over the past year in large driven in large part by a surge in the number of non-permanent residents, representing temporary student and work permit and asylum seekers. The federal government has done a 180 after downplaying the role of rapid population gains. On March 21, Immigration Minister Miller committed to a curb in inflows of students and other non-permanent newcomers over the next three years in response.

Canada is likely to see a drastic cut in population growth and a slowdown in economic activity and mild relief for the rental housing market.

The numbers

Canada’s population growth numbers have been nothing short of astounding over the past year. Expansion of the population by 1.27 million persons or 3.2 per cent has dwarfed its peer countries, including the 0.5 per cent seen in the U.S. What would have already been solid immigration led population growth was accelerated by massive inflows of temporary or non-permanent resident inflow.

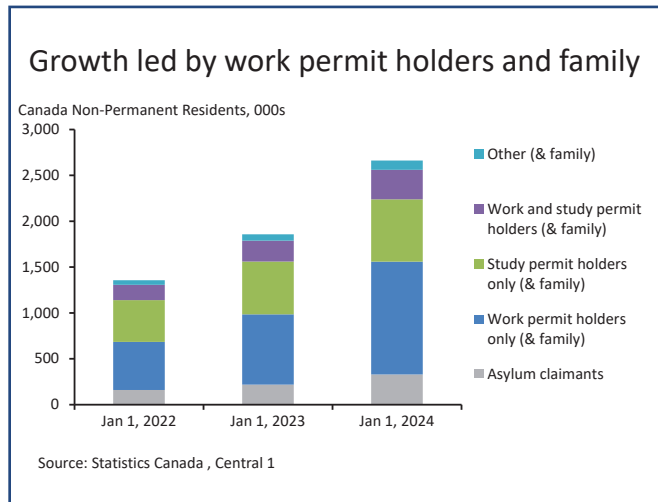
As of January 1, 2024, Canada’s non-permanent resident population reached a record 2.66 million individuals. Growth has surged, with levels up 43 per cent or 804,000 individuals from the prior year. Since 2022, levels have nearly doubled as this subset has driven population gains. In 2022, net NPR contributed about 50 per cent of total population growth, and 63 per cent in 2023. In comparison, this was 15 per cent in 2021 and ranged from 20 to 32 per cent from 2016 to 2019. As a result, as a share of the total population NPRs have climbed to 6.5 per cent from 6.2 per cent in October, and 4.7 per cent one year prior.



While media and government commentary has been focused on the influx of international students, the data suggests the bulk of growth in non-permanent residents are work permits. Study-only permits (and their families) rose from about 450k to 650k in the past two years. Work permits (and their families) more than doubled from 524k to 1.2 million, although representing more multiple person households. An additional 322k persons are dual study/work permit holders.

Massive growth in this subset of the population has amplified stress in the housing market and already tight rental markets. Households across the country have experienced rapid rent increases and record low vacancy rates. At the same time, given

a slowing economy unable to absorb the inflow of newcomers, population growth has contributed to lower GDP per capita and average living standards, while productivity has eroded. Firms can re-allocate to hiring lower cost employees rather than in equipment. Politically, this has increasingly become untenable and while housing supply expansion remains a key theme in addressing affordability and the housing crisis, the federal government has done a 180 to tackle the demand side of the equation.



Reversing non-permanent resident flows

On March 21 Immigration Minister Marc Miller announced the Federal Government's intent to lower the share of non-permanent residents relative to population to five per cent over three years. At that time, the numbers showed a 6.2 per cent ratio as of October 1, which has now risen to 6.5 per cent.

This shift in policy direction to lower the share of NPRs requires a sharp reduction in non-permanent residents. While a growing denominator due to high targets for traditional immigration (permanent residents) will ease the share even if NPR counts remain unchanged, it will still be insufficient.

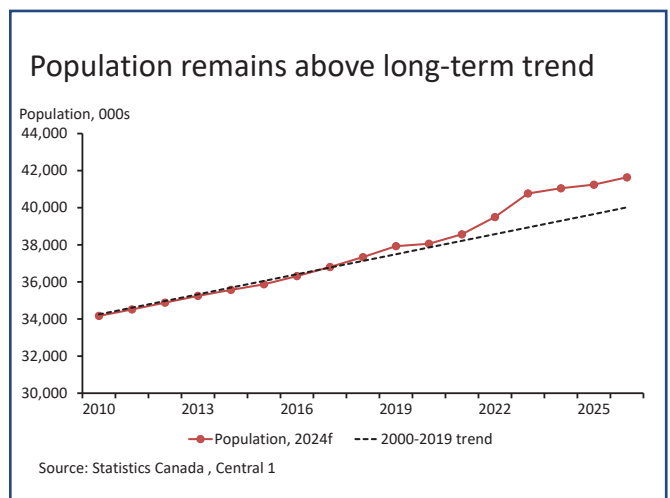
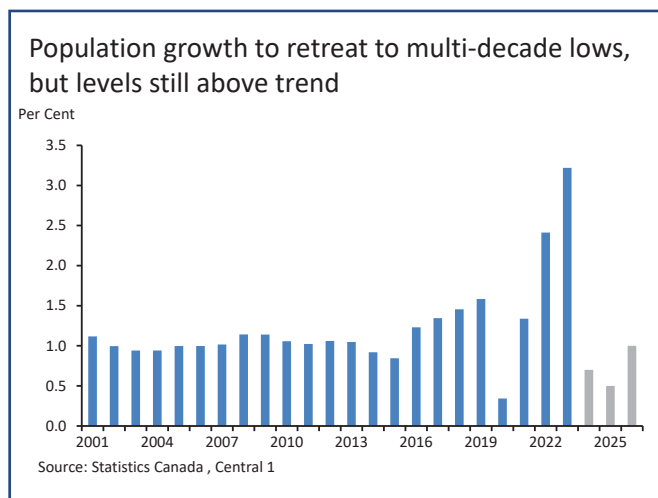
Canada's immigrant (permanent resident) targets currently are set at 485,000 people in 2024, and

500,000 people in both 2025 and 2026, with an upper and lower range of 10 per cent. We assume that these inflows are met and for simplicity, and that other components of growth such as emigration and natural growth are consistent with recent years. Emigration is 35,000 persons annually and net natural growth is set at about 30,000 persons per year.

We calculate under the above assumptions that total NPRs would need to be reduced by about 600,000 persons or more than 20 per cent from the January level. With NPRs continue to climb partway through 2024 due to lagged effects of policy, this would require an even greater decline from peak and a reversal of the bulk of 2023 additions. Lower rates of permanent resident flows would require deeper reductions in NPRs.

The path of decline will be variable and dependent on how quickly the government shifts gears on granting temporary visas. Expiring visas may not be renewed, and a deep reduction of new visas are likely. While the magnitude of annual adjustment is unknown, we expect a net reduction to occur over the next three years, particularly in 2025, reflecting the political pressure for a quick adjustment. Just as the recent upswing was unprecedented, so will be the swing in the opposite direction. That said, at five per cent of the total population, levels will remain well above historical norms and the abnormal growth in NPRs over the past two years will not fully fade.

A reversal in NPR flows will sharply reduce overall population growth. We estimate that population growth in Canada could slow from a pace of 3.2 per cent in 2023 to 0.7 per cent this year, 0.5 per cent in 2025 and 1.0 per cent in 2026. This would be slowest pace in decades as population growth bends lower, however, booming growth in recent years will mean levels remain well above long-term trend.



Canada Population Summary

	Jan 1, 2022	Jan 1, 2023	Jan 1, 2024	Jan 1, 2025	Jan 1, 2026	Jan 1, 2027
Population	38,567,576	39,498,018	40,769,890	41,049,890	41,244,890	41,639,890
Non Permanent Residents	1,356,622	1,856,883	2,661,784	2,461,784	2,161,784	2,061,784
% share of non perm	3.5	4.7	6.5	6.0	5.2	5.0
Population growth	1.3	2.4	3.2	0.7	0.5	1.0

Components of Growth

	2021	2022	2023	2024	2025	2026
Immigrants	406,046	437,612	471,771	485,000	500,000	500,000
Net emigration	37,131	35,015	35,903	35,000	35,000	35,000
Net Non Permanent	77,052	500,261	804,901	-200,000	-300,000	-100,000
Net natural	60,381	27,584	31,103	30,000	30,000	30,000
Net Change	506,348	930,442	1,271,872	280,000	195,000	395,000

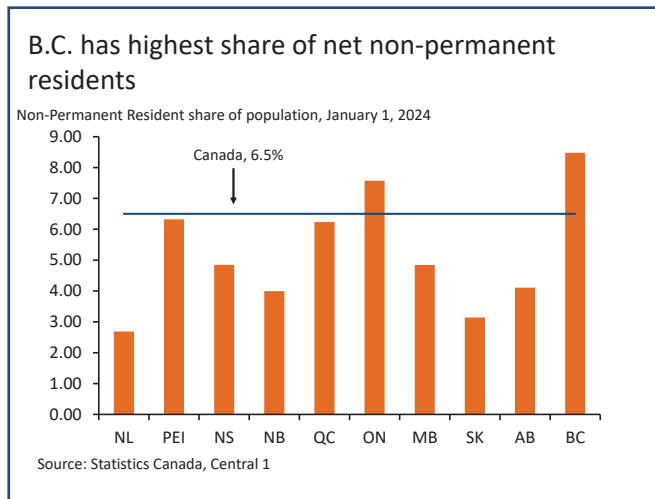
Statistics Canada, Central 1

Regional patterns

Regionally, we expect B.C. and Ontario to experience most of the impact of a reduction in NPR share. NPRs make up 8.5 per cent of B.C.'s total population and about 18 per cent of all of Canada's NPRs. In Ontario this share is 7.6 per cent of the provincial population and 45 per cent of all NPRs. This reflects the sheer number and size of the post-secondary institutions in these provinces and the many private colleges. Among other provinces, only Quebec and Prince Edward Island exceed five per cent. We can expect the most severe impact of NPR caps to come in B.C. and Ontario as larger reductions in students bite.

For the broader economic implications, a reversal in the flow of non-permanent residents is expected to have various impacts. For GDP growth, fewer newcomers are expected to curb underlying momentum in consumption

and contribute to slower headline growth rates. At the same time, per capita GDP is likely to improve as population growth slows more sharply than the economy. Labour markets which have shown signs of softening in part due to the hefty expansion of population-induced labour supply. A slowdown in population could firm up wages, although firms may be more willing to invest in capital, particularly as interest rates decline. On the housing market front, at best this will contribute to a bending of the curve, although we do not see much room for improved affordability. Rental markets remain tight, and homeownership markets will pick up once interest rates decline, as the swelling population sits impatiently on the side lines to buy. That said, at the margin, strength moderates as housing supply catches up.



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