Economics

IN FOCUS

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What to believe? Using provincial data to assess the economic impact of immigration

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Many different opinions have been expressed surrounding the economic impact of immigration on the Canadian economy, meaning that deciding what to believe is difficult. Is the rapid rise in the population driving inflation, not just in housing, but in other areas as well? Is immigration responsible for the decline in per capita GDP, as we place too much focus on bringing in additional labour, rather than trying to raise productivity?

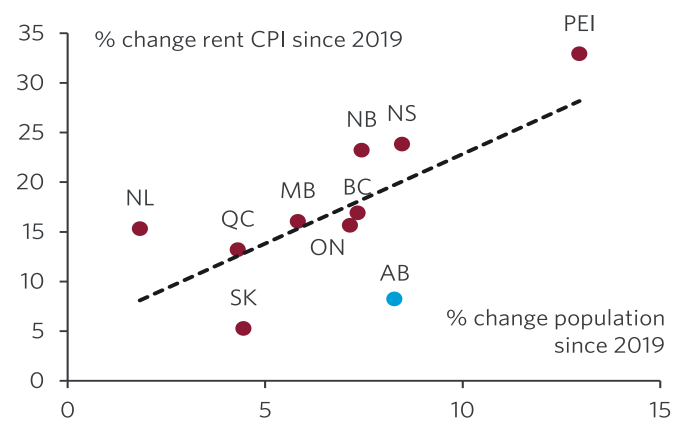
We challenge some of these assumptions with the use of provincial level data and conclude that, even though population growth is having a clear effect on housing costs, there is far less evidence that it is impacting wider inflation or watering down per capita GDP. In fact, the reverse is true in some areas of the country, with immigration helping to grow some provincial economies even in the face of aging populations.

Inflating more than just house prices?

Firstly though, we must acknowledge the obvious — that immigration-led population growth is driving up rents (Chart 1). Three of the provinces that have seen the strongest increases in population since 2019 have also seen the biggest rise in housing costs — PEI, Nova Scotia and New Brunswick. While Alberta is a bit of an outlier because it too has seen rapid population growth, the economy there was suffering more than others before and during the pandemic when oil prices were low. More recently, house prices and rent inflation have been playing catch up there.

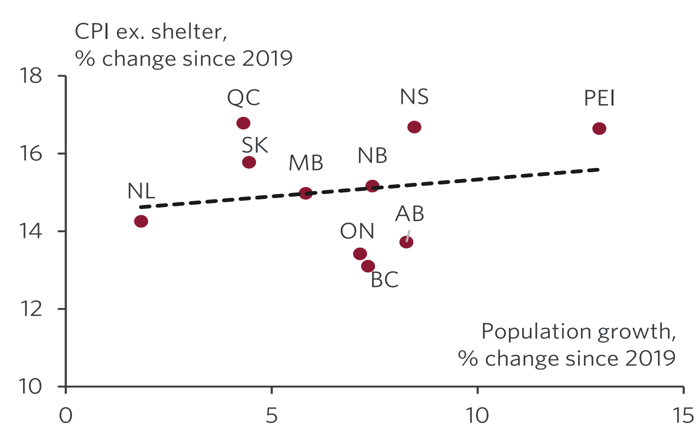
That said, we find no clear link between population growth and inflation outside of shelter (Chart 2). In other categories, it's possible that the disinflationary impacts of immigration through improved labour availability offset the push to prices from additional demand for goods and services. Quebec, which has seen softer than average population growth because of its stricter limits on immigration, has also seen the highest rate of inflation. That could reflect labour shortages and the very high job vacancy rates that have generally persisted in recent years

Chart 1: Population growth has boosted rents across Canada



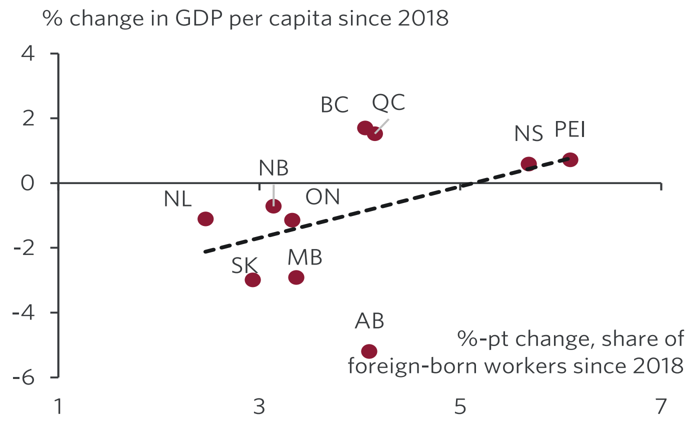
Source: Statistics Canada, CIBC

Chart 2: Little evidence of population growth driving inflation outside of housing



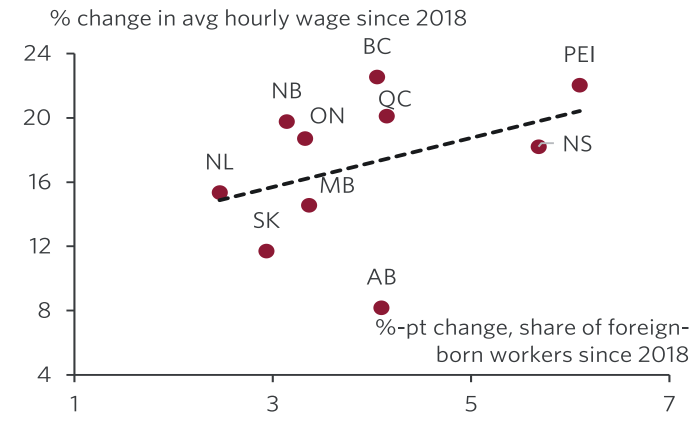
Source: Statistics Canada, CIBC

Chart 3: Immigration loosely linked to stronger GDP per-capita



Source: Statistics Canada, CIBC

Chart 4: Larger labour supply pool from immigration not holding wage growth back



Source: Statistics Canada, CIBC

in that province. In contrast, Alberta has seen a relatively low rate of ex-shelter inflation, despite a rapid rise in population.

Putting a cap on per capita GDP?

When it comes to the impact of immigration on GDP, few people (hopefully) would dispute that it is a positive at the aggregate level. After all, the rate of labour force growth, along with productivity, is a key driver of the economic potential within a country or province. A faster growing population usually means a faster growing labour force.

However, there is increasing speculation that immigration may not be a positive for GDP on a per capita basis, with a larger population keeping wages down, potentially discouraging productivity-enhancing business investment and thereby diluting the average wealth of households.

On a provincial basis, we find little evidence of that. Comparing growth in GDP per capita, wages and investment intentions with the change in the proportion of foreign-born workers in the labour force reveals a slight positive correlation for each (Charts 3-5). That suggests that an increased proportion of immigrants within the labour market can actually be a positive for per capita GDP, and that it doesn't necessarily discourage investment or reduce wages.

Admittedly, though, the correlation is not particularly strong and there is a great deal of divergence across the country. Nova Scotia and PEI, along with Quebec and BC, appear to have clearly benefitted on a per capita basis from the increased proportion of foreign-born workers within the labour force.

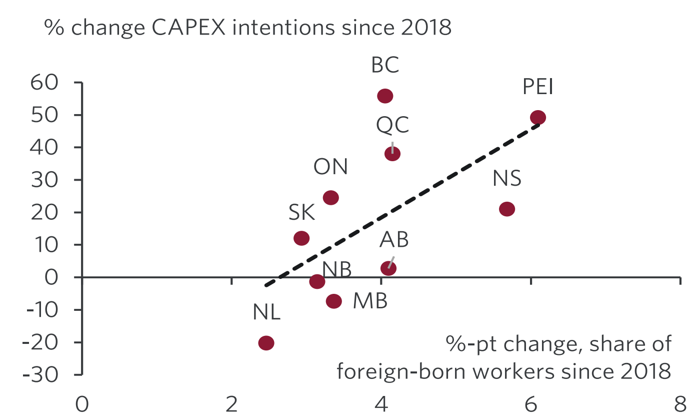
However, on the flip side, Alberta has also seen a large increase in its foreign-born labour force, but a decline in real GDP on a per capita basis.

Why the divergence?

The weakness in per capita GDP in Alberta will at least partly reflect the fact that fewer people are now employed within the mining, oil, and gas sector, which typically adds more GDP per hour worked than other industries. Having peaked at nearly 8% of total employment within the province in 2014, headcounts in that sector fell to 6% just before the pandemic and more recently sat at a little over 5% of the total workforce.

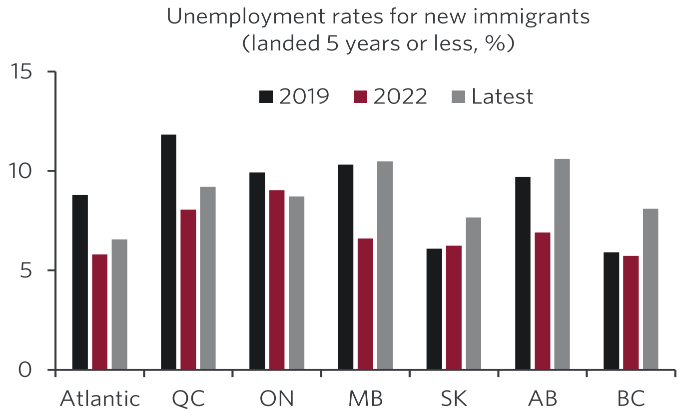
However, there is also evidence that some parts of the country are finding it easier to absorb new immigrants into the workforce than others. In Atlantic Canada, unemployment rates for the newest immigrants into the country remain much lower than they were pre-pandemic, despite rising somewhat recently as the economy has slowed. While unemployment rates among

Chart 5: Increased foreign-born employment positively correlated with investment intentions



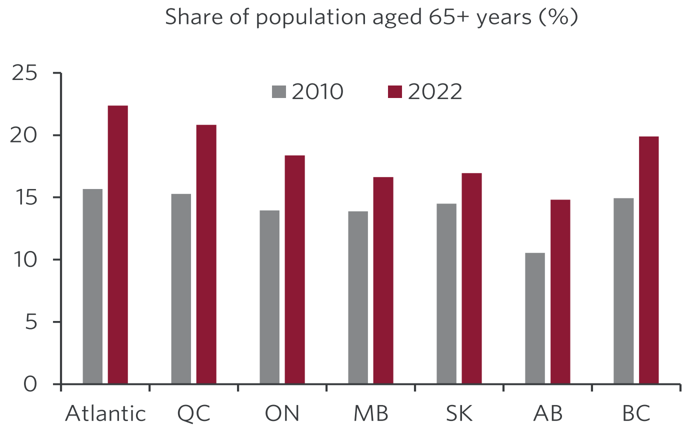
Source: Statistics Canada, CIBC

Chart 6: Immigrants absorbed more readily in Atlantic Canada



Source: Statistics Canada, CIBC

Chart 7: Immigration helping to offset aging population



Source: Statistics Canada, CIBC

new immigrants to Quebec were previously among the highest in the country, that is no longer the case (Chart 6). In contrast, Alberta and Manitoba, which are towards the bottom of the pack in terms of real GDP per capita growth since 2018, are now seeing the highest levels of unemployment for new immigrants.

That shouldn't be a reflection of demand easing more in some areas of the country as a result of higher interest rates. Given household debt levels, Ontario and BC should be the most negatively impacted by higher interest rates, rather than Alberta, Manitoba and the provinces of Atlantic Canada. It could instead reflect differences in the age of the domestically-born population within provinces. Provinces in Atlantic Canada, as well as Quebec, have had the oldest populations for some time, and as a result would benefit the most from a fresh influx of working-age immigrants (Chart 7). In contrast, Alberta and Manitoba have two of the youngest populations, and therefore fewer retirees to open up jobs for new immigrants.

What to believe?

The analysis we have conducted at a provincial level reveals why judging the economic impact of immigration for the Canadian economy as a whole is complex. While there is clear evidence that population growth is adding to house price and rent inflation, there is little evidence that it is resulting in inflationary pressures in other areas.

Provincial breakdowns don't provide any proof that rapid population growth is a significant contributor of the weakness seen in per-capita GDP. While for some areas of the country, the large influx of new workers may have been a case of too much too soon, in other areas it has helped offset an aging population to bring growth in both aggregate GDP and per-capita GDP.

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