

Economics

# THE WEEK AHEAD

June 27-July 1, 2022

## The rising role of international students in the Canadian labour market

by Benjamin Tal [benjamin.tal@cibc.com](mailto:benjamin.tal@cibc.com)

In a recent speech, the Bank of Canada’s Senior Deputy Governor Carolyn Rogers stated that “exactly what’s going on in the Canadian labour market right now isn’t perfectly clear”. That might be the understatement of the year. The Canadian labour market is a puzzle. In a report we will release in the week ahead, we search for answers.

But here and now we focus on one aspect of that puzzle — the role that international students play in easing the labour supply shortage in Canada. The job vacancy rate remains in the stratosphere and as expected, we are seeing a significant shortage of low-skilled workers. It’s no surprise that wages on both sides of the border are rising, but they are rising faster in the US.

In previous publications we demonstrated that immigration played a significant role explaining that discrepancy. Another force here is international students. Currently, there are more than 600,000 international students in Canada — a number that is 75% larger than it was in 2015. During the same period, the number of international students in the US fell by 4% to reach only one million students (Chart).

Why is that important? Because international students are playing an increasingly important role in the labour market. Based on research conducted by Immigration, Refugees and Citizenship Canada and Statistics Canada, the share of international students that participate in the labour market rose from less than 5% in 2000 to just under 50% in 2018. Moreover, the labour market contribution of international students in the accommodation and food services sector was considerably higher than in other sectors, accounting for just under 5% of all workers.

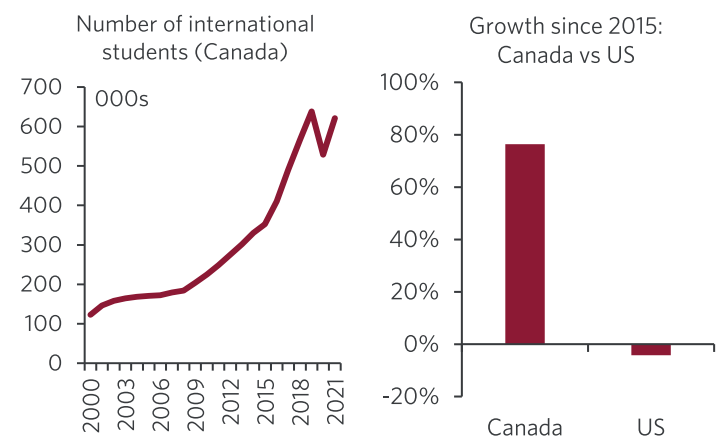
This jump in the labour market participation of international students was in part due to changes in regulations. As of June 2014, international students were no longer required to obtain a work permit in order to participate in the labour market. That clearly boosted participation, but also made it almost impossible to track those workers on an ongoing basis (the research mentioned above was a one-off).

While Census Canada and the labour force survey incorporate non-permanent residents (including international students), there might be a significant sampling issue. First, many of those students arrive from countries in which talking to the government is unadvisable. Second, in order to exclude short-term visitors, temporary foreign workers are included in the sample only if they identify their dwelling as their “usual place of residence”. It’s anybody’s guess how a 22-year-old international student will respond to that question.

And there are some indications of mis-sampling. In an excellent research report that sheds light on the entire issue of the data shortage regarding non-permanent residents, professors Ian O’Donnell (Western) and Mikal Skuterud (Waterloo) demonstrated that as of December 2021, the number of study permit holders stood at 621,565, while the entire non-resident population according to the labour force survey was only 233,900. So, something does not add up here.

Bottom line: International students are another factor limiting wage inflation in Canada relative to the US, and that contribution might be larger than perceived.

Chart: More international students in Canada, fewer in the US



Source: IRCC, NCES, CIBC

## Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority  
 SAAR = Seasonally Adjusted Annual Rate  
 Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, June 27	-	-	-	-	-	-	-
Tuesday, June 28	-	-	-	-	-	-	-
Wednesday, June 29	-	AUCTION: 30-YR CANADAS \$2B	-	-	-	-	-
Thursday, June 30	-	AUCTION: 2-YR CANADAS \$4B	-	-	-	-	-
Thursday, June 20	8:30 AM	GDP M/M	(Apr)	(H)	0.2%	-	0.7%
Friday, July 1	-	Markets Closed (Canada Day)	-	-	-	-	-

## Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority  
 SAAR = Seasonally Adjusted Annual Rate  
 Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, June 27	-	AUCTION: 2-YR TREASURIES \$46B	-	-	-	-	-
Monday, June 27	-	AUCTION: 5-YR TREASURIES \$47B	-	-	-	-	-
Monday, June 27	8:30 AM	DURABLE GOODS ORDERS M/M	(May P)	(H)	0.3%	0.10%	0.50%
Monday, June 27	8:30 AM	DURABLE GOODS ORDERS EX-TRANS M/M	(May P)	(H)	0.5%	0.4%	0.40%
Monday, June 27	10:00 AM	PENDING HOME SALES M/M	(May)	(M)	-	-3.50%	-3.90%
Tuesday, June 28	-	AUCTION: 7-YR TREASURIES \$40B	-	-	-	-	-
Tuesday, June 28	8:30 AM	ADVANCE GOODS TRADE BALANCE	(May)	(M)	-\$100.4B	-\$101.9B	-\$106.7B
Tuesday, June 28	8:30 AM	WHOLESALE INVENTORIES M/M	(May P)	(L)	-	-	2.20%
Tuesday, June 28	8:30 AM	RETAIL INVENTORIES M/M	(May)	(H)	-	-	0.70%
Tuesday, June 28	9:00 AM	HOUSE PRICE INDEX M/M	(Apr)	(M)	-	-	1.50%
Tuesday, June 28	9:00 AM	S&P CORELOGIC CS Y/Y	(Apr)	(H)	-	21.10%	21.17%
Tuesday, June 28	10:00 AM	CONF.BOARD CONSUMER CONFIDENCE	(Jun)	(H)	99.2	100.6	106.4
Tuesday, June 28	10:00 AM	RICHMOND FED MANUF. INDEX	(Jun)	(M)	-	-	-9
Tuesday, June 28	12:30 PM	Speaker: Mary C. Daly (President, San Francisco)	-	-	-	-	-
Wednesday, June 29	7:00 AM	MBA-APPLICATIONS	(Jun 24)	(L)	-	-	-
Wednesday, June 29	8:30 AM	GDP (annualized)	(Q1 T)	(H)	-1.5%	-1.4%	-1.5%
Wednesday, June 29	8:30 AM	GDP DEFLATOR (annualized)	(Q1 T)	(H)	-	8.1%	8.1%
Wednesday, June 29	9:30 AM	Speaker:Lagarde, Powell, Bailey, Carstens	-	-	-	-	-
Wednesday, June 29	11:30 AM	Speaker: Loretta Mester (President, Cleveland) (Voter)	-	-	-	-	-
Wednesday, June 29	1:05 PM	Speaker: James Bullard (President, St Louis) (Voter)	-	-	-	-	-
Thursday, June 30	8:30 AM	INITIAL CLAIMS	(Jun 25)	(M)	-	-	229K
Thursday, June 30	8:30 AM	CONTINUING CLAIMS	(Jun 18)	(L)	-	-	1315K
Thursday, June 30	8:30 AM	PCE DEFLATOR Y/Y	(May)	(H)	6.5%	6.4%	6.3%
Thursday, June 30	8:30 AM	PCE DEFLATOR Y/Y (core)	(May)	(H)	4.8%	4.8%	4.9%
Thursday, June 30	8:30 AM	PERSONAL INCOME M/M	(May)	(H)	0.5%	0.5%	0.4%
Thursday, June 30	8:30 AM	PERSONAL SPENDING M/M	(May)	(H)	0.5%	0.5%	0.9%
Thursday, June 30	9:45 AM	CHICAGO PMI	(Jun)	(M)	-	58.8	60.3
Friday, July 1	10:00 AM	ISM - MANUFACTURING	(Jun)	(H)	54.6	55.0	56.1
Friday, July 1	10:00 AM	CONSTRUCTION SPENDING M/M	(May)	(M)	-	0.4%	0.2%
Friday, July 1	-	NEW VEHICLE SALES	(Jun)	(M)	-	13.5M	12.68M

## Week Ahead's market call

by Andrew Grantham

In the **US**, a relatively quiet week for data means that the main focus will be on central bankers, with an ECB policy forum including the Fed Chair and BoE Governor the highlight. The ISM will likely be the key data release at the end of the week, and judging by the souring mood regarding the economy globally we expect a downside miss relative to the consensus expectation.

In **Canada**, the monthly GDP print for April, combined with the advance estimate for May, are likely to show that the economy is on track for more modest growth in Q2 than the Bank of Canada had previously expected in its April MPR. However, with some of the factors weighing on growth linked to supply constraints rather than slowing demand, a softer GDP profile won't give policymakers any comfort on the inflation front.

## Week Ahead's key Canadian number: Gross domestic product—April

(Thursday, 8:30 am)

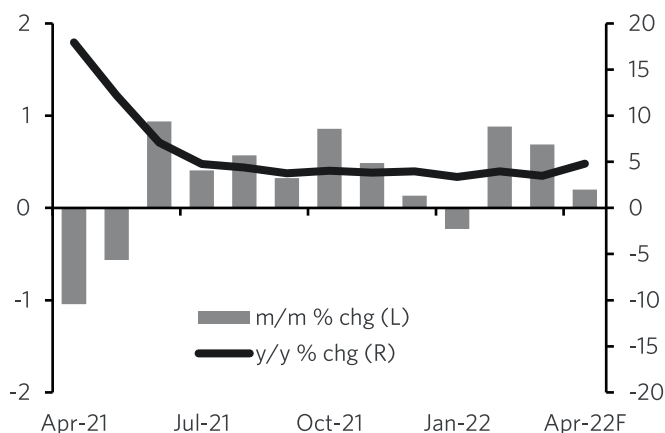
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GDP (%)	CIBC	Mkt	Prior
GDP m/m (April)	0.2	-	0.7

Restaurants, transportation and other services that had been most negatively affected by the pandemic continued to see demand rebound quickly in April, with that trend continuing into May as well. Retail sales growth also appears to have been solid during the spring, with the main negative for growth stemming from a demand standpoint likely to be a sharp pull back in real estate transactions.

However, the monthly GDP prints for April, and advance reading for May, are likely to show only modest growth in the economy as a whole despite the rebound in demand for services. Declines in oil production and wholesale sales likely weighed on April's figure, while advance data for May suggested a big drop in manufacturing shipments driven once again by the auto sector.

Chart: Canadian GDP at basic prices (%)



Source: Statistics Canada, Haver Analytics, CIBC

**Forecast implications** — Outside of a notable pull back in real estate transactions, continued growth in retail sales, restaurants and other services suggests that domestic demand is rising at a solid clip still. The expected dampening effects on growth in April and May will mainly come from industries where supply constraints have been prevalent. As such, while overall GDP growth will likely be tracking below the Bank of Canada's April MPR forecasts, the composition won't provide any reassurances that this will lead to a cooling in inflation.

## Week Ahead's key US number: Personal income and outlays—May

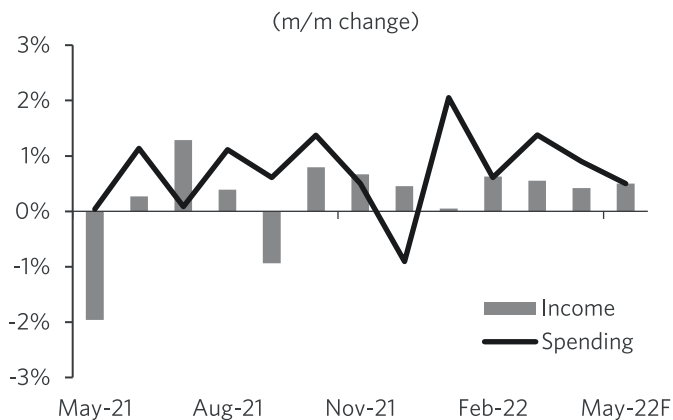
(Thursday, 8:30 am)

Katherine Judge [katherine.judge@cibc.com](mailto:katherine.judge@cibc.com)

Personal income and outlays (%)	CIBC	Mkt	Prior
Personal income (m/m)	0.5	0.5	0.4
Personal spending (m/m)	0.5	0.5	0.9
Core PCE price index (y/y)	4.8	4.8	4.9

A drop in retail sales in May, combined with a stalling in some high-frequency indicators of services activity as Omicron subvariants spread suggest that higher prices will be the main driver of an expected 0.5% rise in consumer spending. With incomes likely advancing by 0.5% on labor income gains, the savings rate will have remained well below pre-pandemic levels, as consumer budgets continue to be strained by the acceleration in inflation.

Chart: US Personal income and spending



Source: BEA, Haver Analytics, CIBC

**Forecast implications** — The growth in nominal spending implies a modest advance at best in volume terms, reflecting the erosion in purchasing power from higher inflation. And with aggregate income growth likely to slow ahead along with a cooling in the labor market, the second half of the year will see a slowdown in consumption.

**Market impact** — We are in line with the consensus on spending and incomes which should limit any market reaction.

## Other US Releases:

### Advance international trade in goods—May

(Tuesday, 8:30 am)

Overall prices for US exports were up more than imports in May, implying that the advance goods trade deficit could have narrowed further, to \$100.4bn. Given the backlog of goods ready to be offloaded at major US ports, the lockdowns in China likely won't have weighed much on imports in May, a positive sign for the replenishment of inventories in Q2, while exports won't look as impressive in volume terms.

### ISM Manufacturing—June

(Friday, 10:00 am)

Moves in regional PMIs suggest that the ISM's gauge of manufacturing activity could have eased off to 54.6 in June. That would likely reflect a fading of supply chain issues as China moved to end lockdowns, while any progress on the employment, production, and new orders measures could have been limited by signs of a global slowdown in demand related to higher prices.

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