ECONOMIC VIEWPOINT

With Non-permanent Residents Expected to Decline, Who Will Fill Their Jobs?

By Randall Bartlett, Senior Director of Canadian Economics

Highlights

- If the federal government follows through with its plan to reduce the number of non-permanent residents (NPRs) admitted to Canada, our analysis suggests it will weigh on real GDP growth and inflation, notably shelter costs. At the same time, fewer NPRs should boost per capita GDP and real wage growth.
- Some have argued that higher wages will persuade people to return to the labour force, but there is little evidence of people waiting on the sidelines to work. Underemployment is near an all-time low currently, as is the share of Canadians who aren't in the labour force but who want to work. Of that latter group, the majority are of prime age and have been sidelined largely due to illness or personal/family responsibilities—considerations best addressed with public policy.
- With labour likely to become scarcer and wages expected to rise, this should put more pressure on sectors of the economy most likely to employ NPRs, specifically accommodation and food services and retail trade. Unfortunately, these are also among the sectors most likely to be struggling coming out of the pandemic and to have experienced a surge in insolvencies at the start of 2024. Reducing the availability of low-cost, temporary labour will only increase their challenges. However, it may also force these low-productivity sectors to innovate quickly.

On March 21, 2024, the Government of Canada announced that it would be "targeting a decrease in our temporary residents population to 5% over the next three years." Shortly after this announcement, we published research detailing the impact of this policy on our economic and inflation forecasts. While our analysis touched on the labour market implications at a very high level, the details we provided were scant. However, we did conclude that the unemployment rate is likely to be slightly higher than it would otherwise be in the coming few years. Real wage growth should be higher as well. In this note we address some of the questions and comments that we have since received from members and clients.

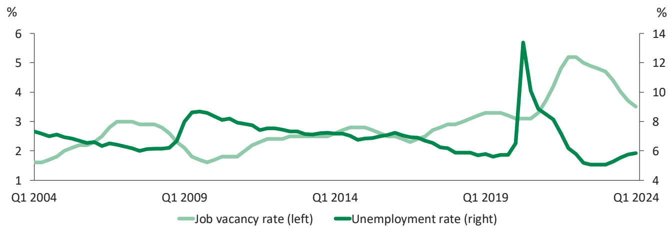
A Brief History of Canada's Labour Market

As the global economy ground to a halt at the beginning of the COVID-19 pandemic, joblessness skyrocketed in Canada and around the world. At the same time, job vacancies dipped as companies slowed hiring in the face of significant uncertainty. But as economies reopened and government transfers soared, the job vacancy rate reached unprecedented heights and the unemployment rate fell rapidly as consumer spending surged (graph 1 on page 2).

From a peak of just over 1 million in May 2022, job vacancies in Canada steadily fell to around 650,000 by September 2023 and have remained around that level ever since. Over the same period, the number of payroll employees increased by around 600,000. But employment among workers born in Canada was broadly unchanged (graph 2 on page 2). Instead, it was newcomers to Canada who filled these job vacancies, with the employment gains of landed immigrants and others (including NPRs) not born in Canada increasing in similar proportions.

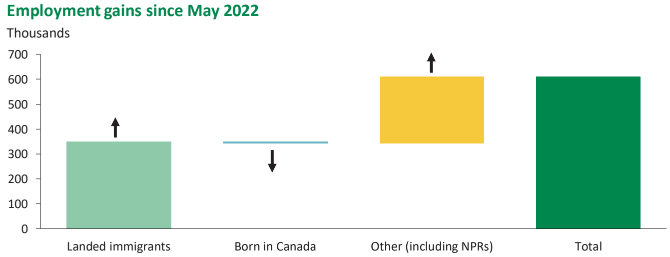
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

Graph 1
The Job Vacancy Rate Reached Unprecedented Levels in 2022



Canadian Federation of Independent Business, Statistics Canada and Desjardins Economic Studies

Graph 2
Newcomers Played an Important Role in Filling Job Vacancies



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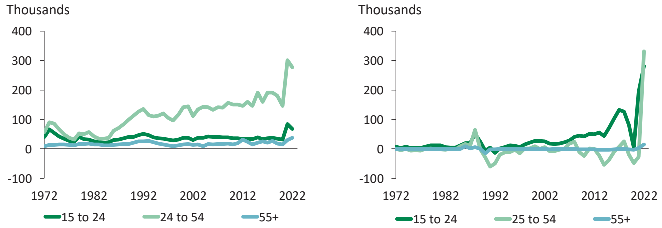
Digging into who these newcomers to Canada are, many are young. Unlike NPRs, immigrants are permanent newcomers to Canada. And the vast majority of them are of prime working age, between 25 and 54 years old (graph 3). This has generally been the case historically, and the recent surge in population is no exception. In contrast, growth in the NPR population is typically concentrated among the youngest members of the labour force—those ages 15 to 24. But more recently, prime-age NPRs have arrived in similar numbers to younger NPRs. Meanwhile immigrants and NPRs ages 55 years and over make up just a very small share of total newcomers to Canada.

Graph 3
Recent Gains in Canada's Population Have Been Driven by Net NPRs



NPRs: Non-permanent residents
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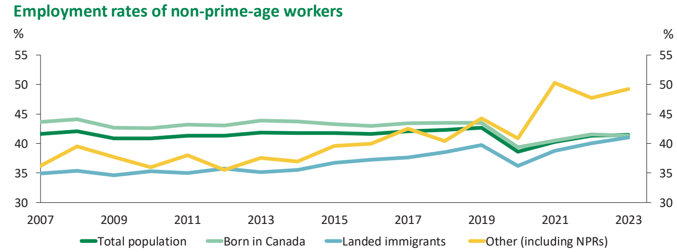
Importantly, there is a notable distinction between NPRs who are of prime age versus those who aren't. Proxied by employed people who are neither born in Canada nor landed immigrants, prime-age NPRs appear less likely to be employed than their peers. However, the opposite is true for non-prime-age NPRs (under the age of 25 and 55 and over), who are disproportionately young, as we've demonstrated (graph 4). Since the rules around working while studying were relaxed during the pandemic, this group has stood out from their peers by choosing to work. That said, the employment rate among young NPRs remains low when compared to prime-age NPRs, as is the case more generally in the Canadian labour market. This gap should widen further as a result of new rules intended to limit the number of hours international students can work.

Graph 4
Young NPRs Have Become More Highly Engaged in the Labour Force



Note: Prime-age workers are defined as workers ages 25 to 54; NPRs: Non-permanent residents
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Who Could Replace These (Largely) Young Workers?

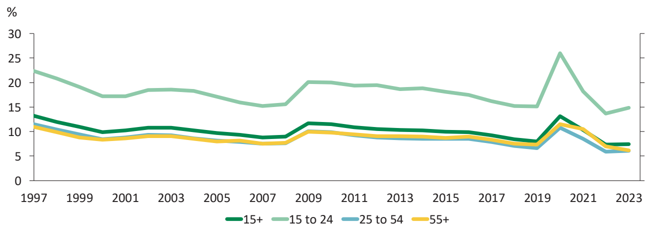
The fact that young NPRs have a higher propensity to work than their peers suggests that reducing their number will weigh on the overall employment rate in Canada. All else equal, this would push up the unemployment rate as the level of unemployment would be little changed but the size of the labour force would be smaller.

But some have argued that sustained labour demand would increase wages and hence pull people back into the labour market who may currently be on the sidelines. However, this argument rings somewhat hollow. For instance, while the unemployment rate is no longer at its all-time low, the broadest measure of underemployment (the so-called "R8") remains at or near record lows for all age groups (graph 5 on page 3). This measure is particularly low for older workers. And while it has picked up modestly for younger and prime-age workers since the lows of 2022, it remains below pre-pandemic levels.

At the same time, there are also very few Canadians who are not in the labour force but want to work. Among Canadian youth, the share of people not in the labour force who want to work hit 6.9% in 2023, the lowest level since records began in 1997

Graph 5
Underemployment Is Near Record Lows in Canada

Underemployment rate by age



The underemployment rate ("R8") is the official unemployment rate plus discouraged searchers, the waiting group and a portion of involuntary part-timers.
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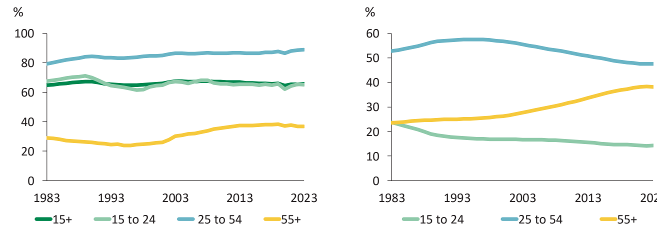
Graph 7
Canada's Weaker Participation Rate Reflects Its Aging Population

Participation rate by age — Share of population 15 years and over



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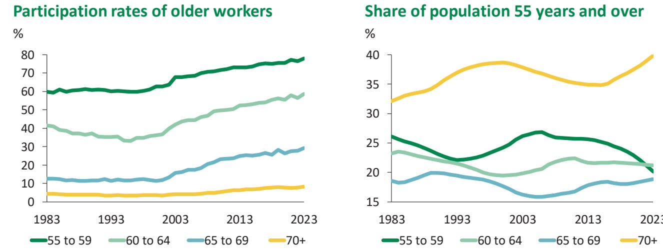
(graph 6). Among people 55 and over, only 1% said they were not in the labour force but wanted to work in 2023, roughly in line with historical norms. In contrast, while the share of prime-age people not in the labour force who want to work has come down from pandemic highs, it remains above the two-decade pre-COVID average. However, people in that age group who aren't working cite illness or personal/family responsibilities as the primary reasons, both of which are largely independent of the state of the economy. That said, there may be a role for public policy to play in bringing these individuals into the labour force, such as the ongoing expansion of $10 per day childcare.

Graph 8
Older Canadians Are Working More but Aging Even Faster

Participation rates of older workers — Share of population 55 years and over



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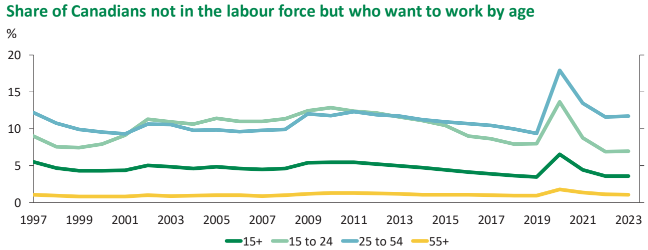
Graph 6
Very Few Canadians Are Waiting on the Sidelines to Come to Work

Share of Canadians not in the labour force but who want to work by age



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Meanwhile the Canadian labour force is old and getting older, and it's going to get even older as the number of NPRs falls. This aging has been the primary cause of Canada's moribund participation rate coming out of the pandemic, despite the influx of younger workers (graph 7).

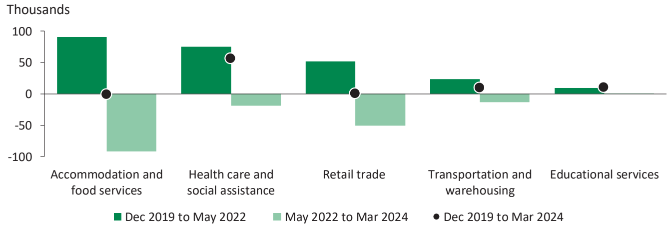
While it's true that the participation rate is rising for each age group over 55, participation rates decline progressively with age as individuals retire (graph 8). As a result, the aggregate participation rate among older workers has steadily declined since 2019 as the average age of those workers has steadily increased.

What Does This Mean for the Outlook?

Given the anticipated decline in younger workers as NPRs' share of the population falls, combined with few reinforcements waiting in the wings, the job vacancy rate could move higher. This should increase wage growth, albeit likely not enough to meaningfully impact inflation. That's because weaker overall demand from fewer NPRs should weigh on underlying inflation.

With wages expected to rise and labour to be scarce, those sectors that have leaned heavily on NPRs may need to adjust the most. According to Statistics Canada referencing the 2021 Census, NPRs were most likely to be employed in accommodation and food services; retail trade; transportation and warehousing; health care and social assistance; and educational services. Not surprisingly, these are also the sectors that saw among the largest increases in job vacancies during the pandemic and the largest declines since (graph 9 on page 4). Indeed, these five sectors explain more than half of the increase in job vacancies from December 2019 through May 2022—the month job vacancies peaked nationally. And as of February 2024, over 50% of outstanding job vacancies were still in these same sectors, up from about 45% prior to the pandemic. This despite outsized hiring, particularly in accommodation and food services and retail trade.

Graph 9
Hospitality and Retail Saw the Most Job Vacancies Filled since 2022



Note: Hospitality is used as shorthand for accommodation and food services.
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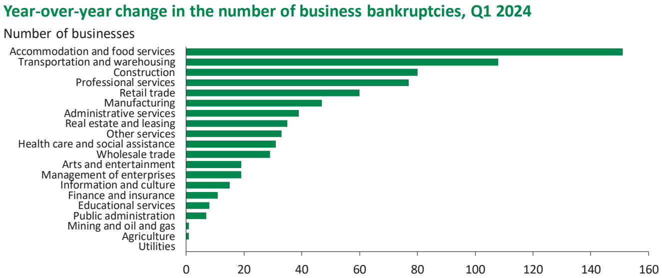
It's no surprise then that accommodation and food services and retail trade are likely to be the sectors most negatively impacted by a reduction in the number of NPRs admitted to Canada. Importantly, these are also the sectors we identified as being most vulnerable to adverse business conditions in the run-up to the January 2024 Canada Emergency Business Account (CEBA) loan repayment deadline. They are among the sectors that have seen the sharpest increase in business insolvencies so far this year as well (graph 10). High borrowing and input costs, on top of elevated debt levels coming out of the pandemic, have weighed on these industries even in an environment of ample and relatively inexpensive temporary labour.

Graph 10
Several Vulnerable Sectors Saw Bankruptcies Surge in Q1 2024



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Higher labour costs in the future will likely feed into consumer prices. But in sectors where firms lack pricing power, higher labour costs will come out of profit margins. And many of the same sectors with historically slim margins should feel this the most. As such, they may find that the gap between the cost of innovation and the cost of labour has narrowed, making innovation a relatively more attractive option. Given that these sectors have had relatively low productivity historically, this may provide a positive tailwind to national-level productivity. This too should help keep inflation in check while supporting growth in real wages. However, many of the companies in these sectors are small businesses with limited access to credit, which will act as a hurdle to investment. Our research suggests there is a role for public policy to play in helping small and medium-sized enterprises invest in new productivity-enhancing processes and technologies.

Conclusion

For sectors of the economy that emerged from the pandemic battered and bruised, the federal government's plan to reduce NPR admissions will make an already challenging situation even more difficult. Our analysis shows there isn't an abundance of Canadians waiting on the sidelines to fill positions left vacant as NPR levels fall. Most Canadians who want to work are already working, and those who aren't are generally elderly or ill or have family responsibilities. Wages should rise as a result. Some companies will be able to innovate to reduce their reliance on relatively low-cost, abundant temporary labour, thereby increasing their productivity. Unfortunately, others will not, posing ongoing challenges to Canadian businesses.