

# ECONOMIC VIEWPOINT



## Canada's Population Growth Exceeds Expectations

Against all expectations, Canada's population growth has accelerated in recent years, exceeding even the most optimistic demographic projections. Canada is in fact the G7 country with the fastest growing population. This surprising result is due primarily to a marked acceleration in the country's international immigration. That said, the tangible benefits for the labour force are not as great as one might think. Labour force growth is still fairly sluggish, a sign of the significance of the broad trends stemming from the ageing of the population. There are nonetheless some positive effects on the Canadian economy, such as increased demand in the housing market.

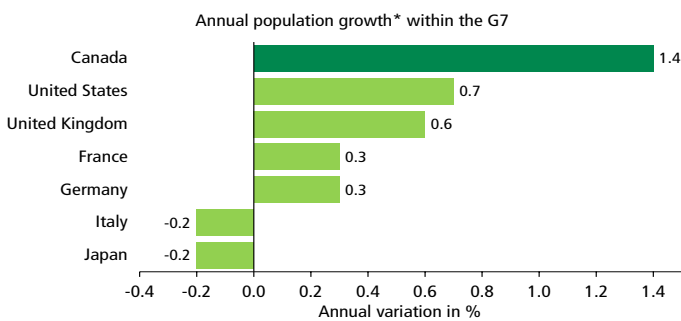
Canada's demographic issues have been in the spotlight for quite some time now, as the working-age population is ageing. This leads to increasing labour shortages in some sectors and certain parts of the country. According to a Bank of Canada (BoC) survey, close to four in ten businesses faced a labour shortage that limited their ability to meet demand in the third quarter of 2018.

### Canada Stands Out

It is in this context that Statistics Canada recently published a rather surprising [result](#): Canada is now apparently the G7 country with the strongest population growth (graph 1). With a 1.4% increase in its population between July 1<sup>st</sup>, 2017,

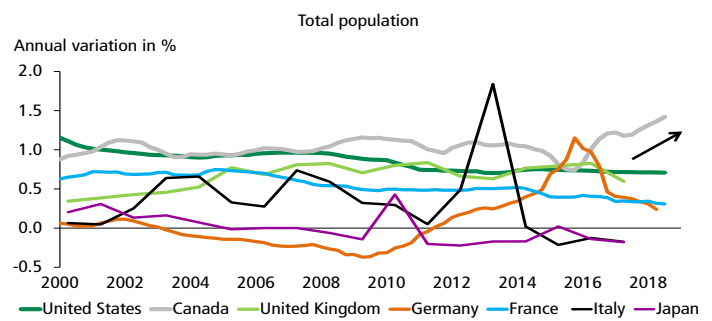
and July 1<sup>st</sup>, 2018, Canada has close to double the growth of the second-ranked country, the United States. While the gap between Canada and the other G7 members widened recently, Canada's strong position is nothing new, as its population growth has been one of the highest for more than a decade (graph 2). Canada also stacks up very well against the industrialized countries as a whole, as annual population growth among members of the Organisation for Economic Co-operation and Development (OECD) has been only about 0.5% over the past few years. Although very real, Canada's population issues thus appear less significant than those of a number of other regions around the world, at least on the surface.

**GRAPH 1**  
Canada posts the strongest population growth of G7 countries



\* According to the most recent observation available for each country.  
Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 2**  
Unlike in other G7 countries, population growth accelerated in Canada



Sources: Datastream and Desjardins, Economic Studies

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

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### Growth Beating Out Projections

The recent change in Canada's population is surprising in that the numbers significantly exceed Statistics Canada's latest demographic projections. According to the most recent projections updated in 2015, the medium-growth scenario indicated that annual population growth in Canada would slow gradually in the ensuing decades, dropping from about 1% in 2015 to a low of just 0.6% between 2040 and 2059. Clearly, the population growth observed since 2015 has far exceeded that outlook (graph 3). As a matter of fact, in recent years the population has grown even faster than the most optimistic demographic projections made at the time based on Statistics Canada's high-growth scenario. At 1.4% on July 1<sup>st</sup>, 2018, annual population growth is at its highest level since 1990.

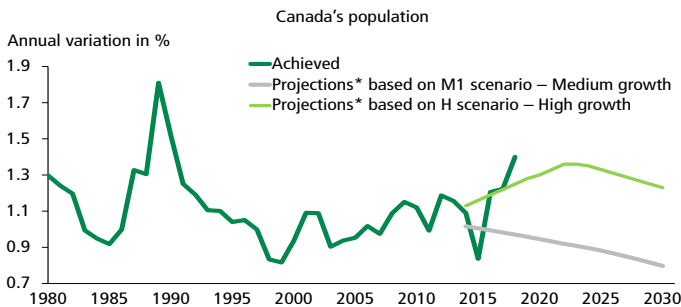
long ago, Canada saw a considerable influx of refugees with the mass arrival of Syrian nationals and immigrants from the United States as a result of the restrictive measures introduced by the U.S. administration.

What remains to be seen now is whether Canada's net international migration will remain as favourable in the coming years. It is obviously difficult to say whether it will, since federal and provincial immigration policies will be instrumental in that regard. The upturn of recent years is therefore fragile, and the broad population trends arising from a smaller natural increase in the population could quickly win out.

### What Are the Implications for Canada's Economy?

Regardless of what the future holds in terms of immigration, the faster population growth observed since 2015 is already having an effect on the Canadian economy. Firstly, the impact on the labour market is a positive one, as the more rapid increase in total population growth recently reversed the slowdown in the working-age population (graph 5). However, this quicker growth does not yet appear to be making a significant difference in the number of people who are actually participating in the labour market (graph 6). The labour force, which comprises workers, the unemployed and other individuals who would be available for

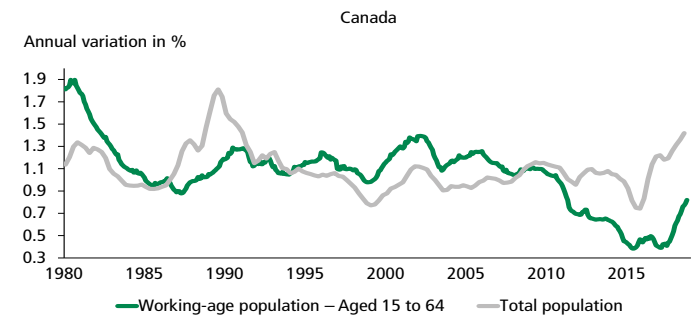
**GRAPH 3**  
Recent population growth exceeds demographic projections



\* Demographic projections established by Statistics Canada in 2015.  
Sources: Statistics Canada and Desjardins, Economic Studies

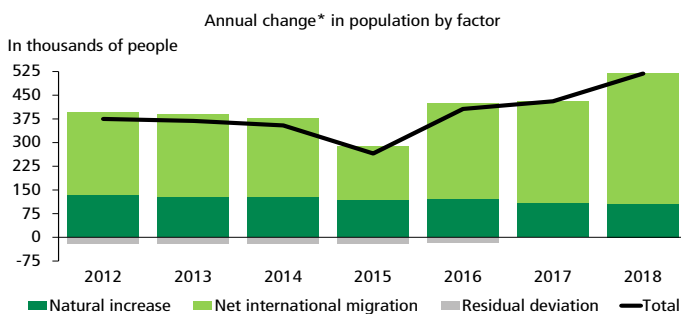
Yet, the natural increase in Canada's population, established by subtracting deaths from births, has been declining slightly over the past few years, as expected (graph 4). The strong results observed recently are therefore due to a substantial improvement in net international migration. Canada's policies of recent years to open its doors to the world appear to be paying off. Not so

**GRAPH 5**  
Working-age population growth also accelerated



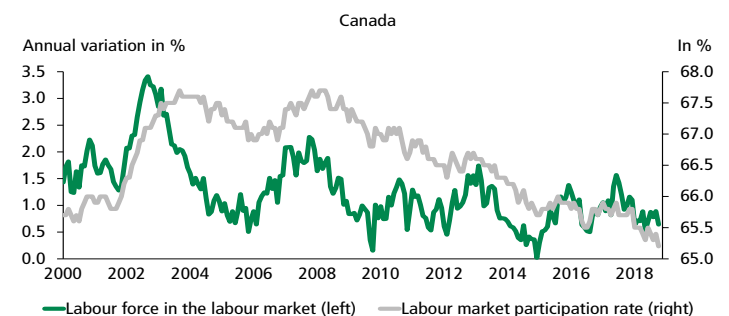
Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 4**  
International migration boosts population growth



\* As July 1<sup>st</sup> of each year.  
Sources: Statistics Canada and Desjardins, Economic Studies

**GRAPH 6**  
The benefits for the labour market are difficult to gauge



Sources: Statistics Canada and Desjardins, Economic Studies

employment, therefore continues to post rather sluggish growth. We should add that the participation rate (which is the size of the labour force relative to the total population) has dropped considerably in recent years. This decrease is obviously due to the ageing of the population, as a growing number of retirees are leaving the labour force. The recent acceleration in the growth of the working-age population is clearly insufficient to reverse the broad population trends that have been affecting the Canadian labour market for many years. It is also possible that a certain proportion of new immigrants have still not fully integrated into the labour market and are therefore still not part of the labour force. For now, the faster population growth therefore does not appear to be sufficient to solve the country's labour shortage.

Secondly, Canada's more rapid growth rate could have consequences for other spheres of the Canadian economy. The population aged 25 to 34, often identified as being the age group for first-time home buyers, has also accelerated in recent years in most parts of the country (graph 7). This boosts demand for homes, which drives residential construction and existing home sales. This higher demand has likely contributed to the vitality of the housing market in recent years. It could also partly offset the adverse effects of the gradual increase in interest rates on the housing market.

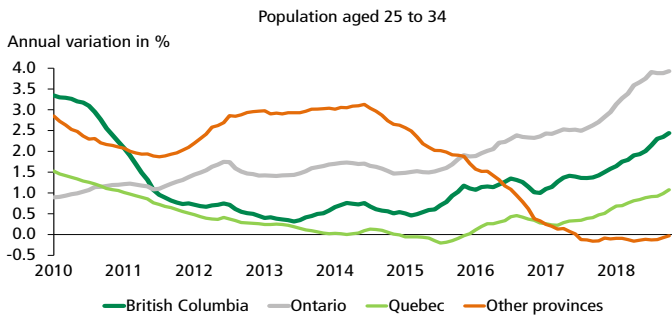
### Taking Comfort in Comparisons

Although encouraging in many respects, it is too early to truly celebrate the recent acceleration in Canada's population growth, as it is based mainly on Canada's capacity to maintain faster international immigration growth. Yet, nothing is certain in that regard due to the constraints of integration and future changes in government policy.

That said, it is reassuring to see that Canada is in the lead among G7 countries despite its many demographic challenges. Keeping population growth faster in Canada than in most other industrialized countries could prove beneficial in the long run.

**Benoit P. Durocher**, Senior Economist

**GRAPH 7**  
**Number of new households is up in many parts of Canada**



Sources: Statistics Canada and Desjardins, Economic Studies

Lastly, if Canada manages to keep its population growing at a faster pace, this should eventually have long-term effects on the Canadian economy by increasing its growth potential. Put simply, an economy's growth potential is determined by the change in its population as well as by gains in its productivity. If productivity remains constant, a more rapid population increase means a higher potential for economic growth for Canada in the long term. For the moment, the latest BoC projections for Canada's economic growth potential nevertheless do not point to a notable improvement by 2020. The situation could change, however, if Canada's population growth continues to beat out projections in the coming years.