WEEKLY COMMENTARY

Striking the Balance Between Population Gains and Economic Growth

By Randall Bartlett, Senior Director of Canadian Economics

Immigration has historically been a strength for the Canadian economy. Canada has attracted some of the world's best and brightest to work and study here, while avoiding the worst demographic destinies currently playing out in Europe and Japan. The points system, as it has applied to skilled workers, has generally worked well and been emulated elsewhere in the world. Economic immigrants have been particularly successful, while other permanent and non-permanent resident (NPR) groups had been steadily closing the earnings gap with their Canadian-born counterparts. Immigrants have historically been more likely to start and own businesses than their Canadian-born peers, and these businesses were more likely to invest in new technologies, engage in international trade and be led by someone with a post-secondary education and background in a STEM field.

But a lot has changed over the past couple of years. The share of NPRs in the population has more than doubled, up from about 3.5% three years ago to 7.3% in the second quarter of 2024. It's not difficult to understand how Canada started down this road. In mid-2022, the job vacancy rate hit its highest level on record, while the unemployment rate hit an unprecedented low. Businesses were desperate to find workers at a time when Canadians were desperate to get out of their homes to socialize and spend the savings they amassed while stuck indoors. And the sectors hardest hit by the pandemic and experiencing the most job vacancies in its aftermath were also those that stood to gain the most from this surging demand. At the same time, post-secondary institutions (PSIs), also hard hit by the pandemic due to slumping enrollment, were desperate to open their doors to international students to collect the higher tuition that would help meet their revenue shortfalls.

In response, the federal government lifted many of the constraints on allowing NPRs into Canada. Business groups and PSIs applauded the moves, and it was evident from the rapid increase in temporary workers and international students that these weren't just hollow platitudes. As a result, the job vacancy rate began to fall from its historic high and the unemployment rate arrested its decline before gradually grinding higher.

There is no reason to think the federal government had anything other than good intentions when it developed its current immigration policies. But with many businesses and PSIs behaving rationally in their own self-interest, and some bad actors taking advantage of the system, NPR admissions have skyrocketed to the point that they have become unsustainable. Rents are soaring across the country, particularly in those provinces without rent controls, and existing home sale prices remain elevated despite interest rates having ratcheted up. And while rapidly accelerating labour force growth has helped to keep wage pressures and inflation more subdued than they would be otherwise, that's cold comfort to Canadians who are facing the higher cost of feeding their families and keeping a roof over their heads.

So, what should policymakers be mindful of as they seek to bring newcomer admissions down from their currently unsustainable levels? [Our research](#) has shown that there are trade-offs to a

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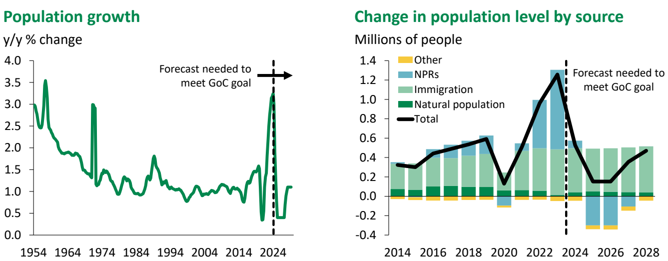
change in immigration policy. If the federal government reaches its intended target of reducing the number of NPRs to 5% of Canada's population over three years, there is a risk that the Canadian economy could tip into recession and that growth in government revenues could slow considerably. That's because the number of NPRs would need to decline by nearly one million people, which would cause Canada's population gains to hit pandemic lows (graph). But this would come with the benefit of slowing the growth in shelter costs and overall inflation while boosting real wage gains, productivity growth and advances in real GDP per capita. Weighing these benefits against the potential costs of reduced economic momentum will be a delicate balancing act.

Graph
Population Gains Will Need to Hit Pandemic Lows to Meet GoC Goal



GoC: Government of Canada; NPRs: Non-permanent residents
Note: Annual population is presented on a calendar-year basis.
GoC, Statistics Canada and Desjardins Economic Studies

What concerns us most is the seeming reactionary nature of immigration policy changes in Canada, first by opening the floodgates and now by potentially slamming them shut. There needs to be more intentionality in designing immigration policy to not only meet short-term labour market demands, but also steer the labour market where the country needs it to go in the long term. These requirements aren't necessarily one and the same. Over the long term, the current immigration system, which is tilted toward a points-based approach to determine who should enter the country, has a lot of merits, provided it is subject to regular evaluation and improvement. At the same time, some type of temporary foreign worker program should be available to address acute labour market needs on a time-limited and industry-specific basis, but it shouldn't come at the expense of local hiring or discourage firms from making productivity-enhancing investments. It's a difficult balance to strike, but it's one the federal government must get better at managing.

What to Watch For

UNITED STATES

MONDAY October 7 - 15:00	
August	**US$B**
Consensus	13.400
Desjardins	6.000
July	**25.452**

Consumer credit (August) – In July, consumer credit posted its biggest monthly jump since November 2022, with both revolving credit (lines of credit and credit cards) and term credit rising sharply (+US$10.6 billion and +US$14.8 billion, respectively). But weekly bank credit data is pointing to an August pullback. This would also be in line with declines in motor vehicle sales and gasoline prices.

THURSDAY October 10 - 8:30	
September	**m/m**
Consensus	0.1%
Desjardins	0.1%
August	**0.2%**

Consumer price index (September) – US headline inflation continued to recede, sliding to 2.5% in August. Year-on-year growth is expected to have cooled slightly in September. Energy prices likely helped curtail month-on-month growth in the all items consumer price index (CPI). Prices at the pump dove 5.7%, the largest decline since December 2023. What's more, we expect the rise in food prices to have been somewhat muted, like the 0.1% uptick seen in August. Month-on-month growth in core CPI probably totalled 0.3%, with the all items increase limited to 0.1%. Year-on-year, CPI likely rose 2.3% in September, down from 2.5% in August, while core inflation probably amounted to 3.2%, as it did in the two preceding months.

FRIDAY October 11 - 10:00	
October	
Consensus	70.3
Desjardins	70.1
September	**70.1**

University of Michigan consumer sentiment index (October – preliminary) – In September, consumer sentiment as measured by the University of Michigan index climbed to its highest point since April. Tumbling gasoline prices clearly helped fuel this surge. Since gasoline prices are lower than they were in mid-September, we expect them to keep boosting consumer confidence. The strength of the stock market and lower interest rates are also encouraging signs in early October. What's not so promising is the September drop-off in the Conference Board Consumer Confidence Index, which sometimes foreshadows where the University of Michigan index is headed. The labour market has been sending mixed signals for several months, although the jump in hiring in September is very good news. Finally, the US election, which is just over a month away, is still a major factor. Over the past few months, confidence has risen more among Democrats than among Republicans. Overall, we expect the University of Michigan index to level off in October.

CANADA

TUESDAY October 8 - 8:30	
August	**$B**
Consensus	0.03
Desjardins	-1.20
July	**0.68**

International trade (August) – Canada likely entered a trade deficit in August. Exports dropped further following a modest decline in July. Despite a recovery from wildfires in Alberta boosting production, energy exports fell further because of a drop in oil prices. Our recent research shows that gains in energy exports and production from the TMX will materialize in the coming months. In addition, a decline in seasonally adjusted motor vehicle production likely drove down exports. In contrast, we expect the Canadian import print to have experienced a strong uptick following a decline in July. Indeed, the US advance trade data showed a notable increase in US exports of motor vehicles and parts.

FRIDAY October 11 - 8:30	
September	
Consensus	34,900
Desjardins	15,000
August	**22,100**

Labour Force Survey (September) – Hiring in the Canadian economy likely slowed to 15K in September. This downshift should be in part explained by weakness in education following last month's strong reading. A slowdown in foreign student admissions should also present another headwind to hiring in that sector. The unemployment rate is expected to drift one tick higher to 6.7% as labour force growth continues to outpace hiring. This one-tick increase in the unemployment rate shouldn't trigger our estimate of the Sahm Rule in Canada, but anything bigger than that would trigger the rule and could spark further recessionary fears. Outside of the headline unemployment figure, we will also be paying attention to unemployment rates for those ages 34–54, as these cohorts have the greatest exposure to mortgages and tend to spend the most overall. Slack is building in the labour market, and policymakers will want to get ahead of this sooner rather than later. An inline or weaker-than-expected print will likely see Canadian central bankers easing policy rates by 50 basis points later this month.

OVERSEAS

FRIDAY October 11 - 2:00	
August	**m/m**
Consensus	0.2%
July	**0.0%**

United Kingdom: Monthly GDP (August) – The last two GDP readings for the UK showed month-on-month growth flatlined in June and July. This doesn't bode well for quarterly real GDP, which is expected to post weaker growth after solid non-annualized gains of 0.7% in the first quarter and 0.6% in the second. Carry-over growth for the third quarter is currently only 0.1% (non-annualized). Monthly GDP needs to have risen substantially in August (and September) to make up for it. We're getting mixed signals in this respect. First, retail sales proved relatively strong, advancing 1.0% in August, and the composite PMI ticked up slightly. But the labour market appears to have slackened again in August, and the riots early in the month may have negatively impacted the economy.

SATURDAY October 12 - 21:30	
September	**y/y**
Consensus	0.6%
August	**0.6%**

China: Consumer price index (September) – Price pressures remained subdued in China. Year-on-year consumer price growth has stayed below 1% for 18 months now. That said, the situation has improved somewhat since the end of last year and the start of this one. It's worth noting that food inflation is responsible for most of the recent gains. Core inflation, which strips out food and energy, remained muted at 0.3%, the lowest it's been since the beginning of 2021. We don't expect prices to pick up anytime soon. Confidence in China is still shaky, and it will be some time before the economic stimulus measures recently announced by the government and the central bank have much of an effect.

Economic Indicators

Week of October 7 to 11, 2024

Date	Time	Indicator	Period	Consensus	Desjardins	Previous reading
UNITED STATES						
MONDAY 7	13:00	Speech by Federal Reserve Governor M. Bowman				
	15:00	Consumer credit (US$B)	Aug.	13.400	6.000	25.452
	18:30	Speech by Federal Reserve Bank of St. Louis President A. Musalem				
TUESDAY 8	3:00	Speech by Federal Reserve Governor A. Kugler				
	8:30	Trade balance – goods and services (US$B)	Aug.	-70.7	-70.5	-78.8
	12:45	Speech by Federal Reserve Bank of Atlanta President R. Bostic				
	19:30	Speech by Federal Reserve Vice Chair P. Jefferson				
WEDNESDAY 9	9:15	Speech by Federal Reserve Bank of Dallas President L. Logan				
	10:00	Wholesale inventories – final (m/m)	Aug.	0.2%	0.2%	0.2%
	12:30	Speech by Federal Reserve Vice Chair P. Jefferson				
	14:00	Release of the Federal Reserve's meeting minutes				
	17:00	Speech by Federal Reserve Bank of Boston President S. Collins				
THURSDAY 10	8:30	Initial unemployment claims	Sep. 30–Oct. 4	237,000	229,000	225,000
	8:30	Consumer price index				
		Total (m/m)	Sep.	0.1%	0.1%	0.2%
		Excluding food and energy (m/m)	Sep.	0.2%	0.3%	0.3%
		Total (y/y)	Sep.	2.3%	2.3%	2.5%
		Excluding food and energy (y/y)	Sep.	3.2%	3.2%	3.2%
	9:15	Speech by Federal Reserve Governor L. Cook				
	10:30	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	11:00	Speech by Federal Reserve Bank of New York President J. Williams				
FRIDAY 11	8:30	Producer price index				
		Total (m/m)	Sep.	0.1%	0.0%	0.2%
		Excluding food and energy (m/m)	Sep.	0.2%	0.2%	0.3%
	10:00	University of Michigan consumer sentiment index – prel.	Oct.	70.3	70.1	70.1
CANADA						
MONDAY 7	---	---				
TUESDAY 8	8:30	International trade ($B)	Aug.	0.03	-1.20	0.68
WEDNESDAY 9	---	---				
THURSDAY 10	---	---				
FRIDAY 11	8:30	Net change in employment	Sep.	34,900	15,000	22,100
	8:30	Unemployment rate	Sep.	6.6%	6.7%	6.6%
	8:30	Building permits (m/m)	Aug.	-8.6%	-7.5%	22.1%
	10:30	Release of the Bank of Canada's Financial System Review				

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours). Desjardins Economic Studies forecast.

Economic Indicators
Week of October 7 to 11, 2024

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 7							
Japan	1:00	Leading index – preliminary	Aug.	106.9		109.3	
Japan	1:00	Coincident index – preliminary	Aug.	113.6		117.2	
Germany	2:00	Factory orders	Aug.	-2.0%	-1.6%	2.9%	3.7%
Eurozone	5:00	Retail sales	Aug.	0.2%	1.0%	0.1%	-0.1%
Japan	19:50	Current account (¥B)	Aug.	2,419.0		2,802.9	
TUESDAY 8							
Germany	2:00	Industrial production	Aug.	0.8%	-3.9%	-2.4%	-5.3%
France	2:45	Trade balance (€M)	Aug.	n/a		-5,884	
France	2:45	Current account (€B)	Aug.	n/a		-1.2	
New Zealand	21:00	Reserve Bank of New Zealand meeting	Oct.	4.75%		5.25%	
WEDNESDAY 9							
India	0:30	Reserve Bank of India meeting	Oct.	6.50%		6.50%	
Germany	2:00	Trade balance (€B)	Aug.	18.9		17.0	
Japan	19:50	Producer price index	Sep.	-0.3%	2.3%	-0.2%	2.5%
THURSDAY 10							
South Korea	---	Bank of Korea meeting	Oct.	3.25%		3.50%	
Italy	4:00	Industrial production	Aug.	0.3%	-3.0%	-0.9%	-3.3%
FRIDAY 11							
Germany	---	Current account (€B)	Aug.	n/a		16.0	
United Kingdom	2:00	Trade balance (£M)	Aug.	-5,950		-7,514	
United Kingdom	2:00	Construction	Aug.	0.4%	-0.3%	-0.4%	-1.6%
United Kingdom	2:00	Index of services	Aug.	0.2%		0.1%	
United Kingdom	2:00	Monthly GDP	Aug.	0.2%		0.0%	
United Kingdom	2:00	Industrial production	Aug.	0.2%	-0.5%	-0.8%	-1.2%
Germany	2:00	Consumer price index – final	Sep.	0.0%	1.6%	0.0%	1.6%
SATURDAY 12							
China	21:30	Consumer price index	Sep.		0.6%		0.6%
China	21:30	Producer price index	Sep.		-2.5%		-1.8%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).