

ECONOMIC VIEWPOINT

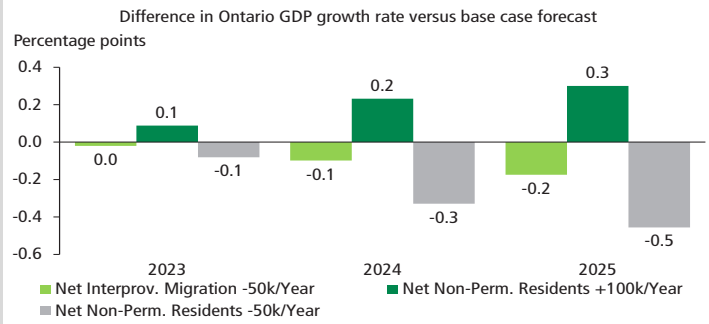
A Place to Land, But Is it Still a Place to Grow? Ontario's Population Growth: Recent Trends and Implications

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Summary

- ▶ Following the release of Statistics Canada's Q1 2023 population data, we review recent demographic trends in Ontario, quantify their potential impacts and discuss their implications.
- ▶ Immigrant landings and net non-permanent resident admissions helped Ontario's population grow by 504.6k (3.4%) in the 12 months to Q2 2023—the fastest year-over-year pace since the 1970s. Those explosive gains came despite record numbers of Ontarians leaving for other provinces.
- ▶ Like new immigrants, non-permanent residents have not traditionally fared as well in the labour market as Canadian-born workers, but the gap appears to have narrowed more recently.
- ▶ Yet, under a plausible downside population growth scenario, our modelling suggests a permanent drag of up to 0.5 percentage points from Ontario's annual economic growth rate by mid-decade (graph 1). That is a meaningful impact with Canadian growth expected to slow to a rate near zero as we progress through 2024.
- ▶ Amid fundamental shifts in its demographic growth, Canada's largest province must remain laser-focused on improving housing affordability. And policymakers and researchers alike need more data on temporary workers in Canada. Only then can Ontario realize its full economic potential.

GRAPH 1
Small Near-Term Growth Impacts Under Different Population Scenarios, but Longer-Term Questions Remain



Sources: Statistics Canada, Ontario Ministry of Finance, and Desjardins Economic Studies

Introduction

The steep pickup in Canada's population growth, per yesterday's Q1 2023 population data, [carries with it many implications](#) for the national economy. But one particularly striking development in that release was the continued surge in and contribution from net non-permanent residents, notably in Ontario (graph 2 on page 2). That contrasts with the narrative about outsized gains

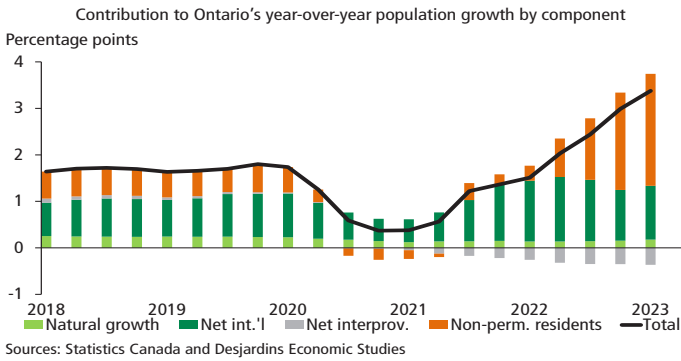
from immigration, and occurs against a backdrop of record net migration from Ontario to other provinces.

In this note, we review trends in Ontario's population, quantify their potential economic impacts and discuss their implications.

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GRAPH 2
Movement Out of Ontario Is Dwarfed by Non-permanent Resident and Immigrant Admissions



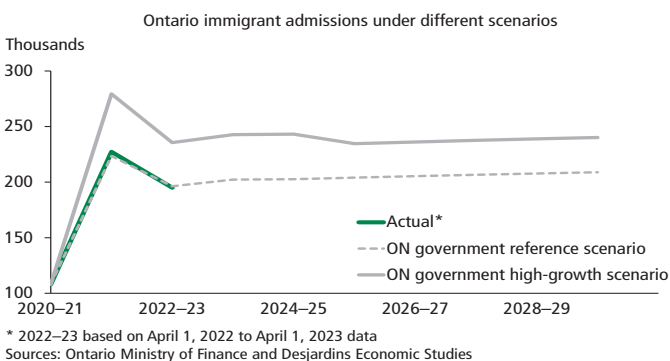
Anatomy of Ontario's Population Growth

Ontario's population grew by 504.6k people (3.4%) in the 12 months to Q2 2023. Stunningly, that was the fastest year-over-year pace of expansion for the province since the early 1970s, and trailed only the growth rates of Alberta and the Maritimes.

Ontario's surging population growth comes despite a record number of residents who left for other provinces in the four quarters to April 1, 2023. Changes in interprovincial migration have of course closely tracked oil price movements and energy sector prospects in the past, but this time is different. [Our analysis](#) shows that the current out-migration includes unusually high numbers of young Ontarians, who are moving in response to severe housing affordability challenges in Canada's largest province. And the range of destination provinces is much broader than normal.

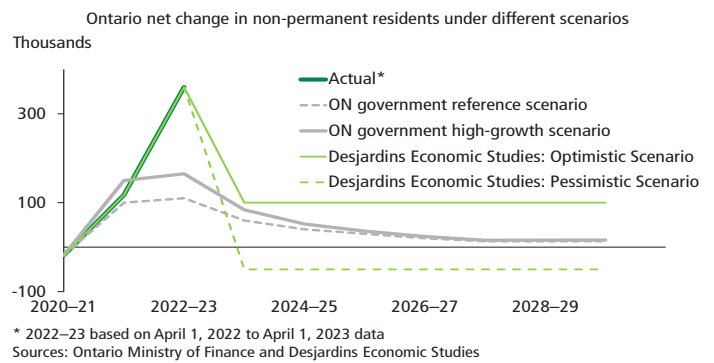
International immigration is helping to offset the interprovincial drag. Admissions are advancing in line with Ontario government forecasts from last year (graph 3). Should that continue, immigrant arrivals would trail only 2021–22's historic annual intake through the next decade.

GRAPH 3
Immigrant Intake Thus Far Is in Line with Government Forecasts...



But the particularly striking trend is the skyrocketing number of temporary workers. So far in 2022–23, admissions of non-permanent residents—who include international students and temporary foreign workers (TFWs)—are advancing at more than twice the rate anticipated under Ontario's high-growth scenario (graph 4)! Massive contributions from this category merit more analysis given historical admissions volatility, the public focus on immigration and the extent of outflows to other provinces amid acute affordability challenges.

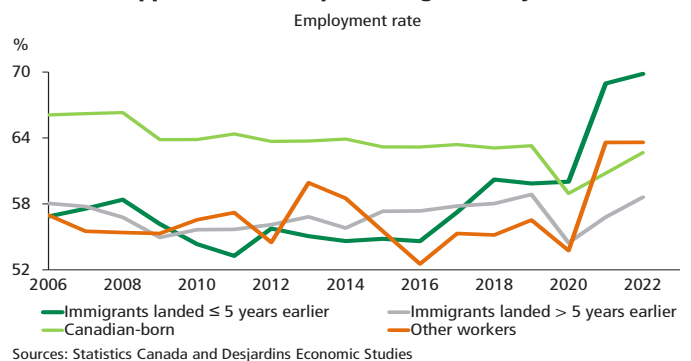
GRAPH 4
...But Non-permanent Resident Admissions Are Obliterating Projections



Improving Labour Market Fortunes

Like new immigrants, non-permanent residents appear not to have traditionally fared as well in the labour market as Canadian-born workers, but historical gaps in employment appear to be dwindling. For one thing, the sheer number of admissions in all provinces suggests a pressing need to fill labour shortages across the Canadian economy. Data on non-permanent resident employment outcomes isn't regularly published. Yet since 2020, there has been a clear improvement in labour market integration among workers who are neither Canadian-born nor immigrants (graph 5).

GRAPH 5
New Immigrant and Non-permanent Resident Labour Market Outcomes Appear to Have Improved Significantly in Ontario



We suspect that federal policies and a very tight Canadian labour market have contributed to both the higher numbers and any improved labour market outcomes for non-permanent residents. Recent measures include an [increase](#) in the number of TFWs that can be hired in sectors with demonstrated labour shortages. A boost to the number of allowable weekly working hours for international students also may have encouraged more of this group to enter the labour market. Those changes occurred in response to very high numbers of job vacancies built up across the country during the pandemic.

Modelling Approach

For ballpark estimates of the potential economic impacts of Ontario's shifting population flows, we used our quarterly econometric model of the province's economy and provincial government demographic projections. Ontario's reference population forecasts guide [our regular quarterly projections](#), so any deviation from those scenarios helps evaluate the effects of different headcount trajectories.

In our first scenario, we assume that net outflows from Ontario persist at a rate of 50k people per year through 2025. Although that is a lower rate than in the 12 months to April 1, 2023, it should still be considered a bearish scenario. The latest base case government projection assumes convergence towards zero net interprovincial migration over time. The low-population-growth trajectory has this component of population growth moving towards -10k to -15k by mid-decade. We assume that people leaving Ontario have the same long-run unemployment and labour force participation rates as the total population, and the same age distribution as seen in 2021–22 (the last available data).

A second scenario sets non-permanent resident admissions at 100k per annum beginning in the second half of 2023. This trajectory is possible if the sheer number of current job vacancies and federal government policy keep net non-permanent resident admissions high. We set the equilibrium unemployment and labour force participation rates for non-permanent residents equal to the 2015–19 average for non-immigrant and Canadian-born workers.

There is considerable uncertainty around the net non-permanent category, and as such, we also run a third scenario with a 50k per year net reduction in non-permanent resident admissions through 2025. That would be consistent with Ontario's recorded low of -54k in 1992–93. It represents a world in which use of the Temporary Foreign Worker Program diminishes as Canada's—and especially Ontario's—economy slows under the weight of sharply higher interest rates in the next year.

We make no change to net international immigration levels in any of our scenarios given that they are thus far evolving in line with government forecasts.

Results

Our modelling suggests incremental annual economic growth impacts of between 0.1 and 0.5 percentage points with the three population growth scenarios. While not enormous for a province whose economy advanced by 3.7% last year, the effects could be more meaningful if Canadian growth slows to a rate near zero—as expected—as we progress through 2024. And, of course, the impacts accumulate, so the longer population trends persist, the greater the changes in economic outcomes.

The first scenario, in which population outflows to other provinces persist at near-record rates, would shave between 0.1 and 0.2 percentage points per year off of near-term economic growth. This somewhat modest effect is partly a function of the extent to which Ontario's international population drivers are expected to dwarf interprovincial movements. It also reflects the fact that Ontario's base case already assumes net outflows until the middle of the decade.

Should net non-permanent resident arrivals maintain a pace of 100k per annum through the end of 2025, it would add 0.1 to 0.3 percentage points to Ontario's real GDP growth this year and leave provincial output almost 1% higher than the base case by the end of 2025. That boost comes even after we assume historically weaker labour market outcomes for non-permanent residents.

Our model estimates that a return to negative population contributions from net non-permanent residents would shave 0.5 percentage points from annual growth by 2025. That would leave provincial output 1.1% below the base case by Q4 of that year.

As with any modelling exercise, it's important to note what we haven't captured. Absent usable and up-to-date data on employment outcomes by sector, we are reliant on all-economy averages. As such, we can't measure potential economic gains that might come if permanent residents are absorbed by higher-productivity industries, or any drag associated with flows towards lower-productivity sectors. It's also worth noting that the +100k per year non-permanent resident scenario did not result in an increase in the level of GDP per working population. This reinforces the need for labour inflows and business investment to work together in driving economic growth. Relatedly, the migration of young people out of Ontario also means that the province is losing the next generation of entrepreneurs and innovators. These individuals are important to driving longer-run productivity gains and economic dynamism.

Policy Implications

We've said it many times before, but we'll say it again: the lack of housing affordability is a serious problem in Ontario, and boosting supply is of vital importance. Our analysis suggests that,

on its own, migration to other provinces in response to limited housing affordability may not severely weigh down economic activity in the near term. However, continuation of this trend will almost certainly limit Ontario's ability to harness the economic power of its young people over time. Moreover, if international migration is to remain a key source of population growth, newcomers will need an affordable place to call home if they are to contribute to their full potential. And Ontario will require infrastructure that meets the needs of its growing population.

Another takeaway is the distinction between different kinds of international migration. Immigrants admitted as permanent residents under Canada's various programs feature prominently in the public discourse. Yet they have contributed less significantly to the recent explosion in Canadian and Ontarian population growth than non-permanent residents. Ongoing discussions shouldn't treat international migrants as a homogeneous bloc. Instead, they should focus on the appropriate levels of combined immigration and non-permanent resident admissions, and the most productive ways to grant permanent residency to non-permanent workers.

Finally, more regular data needs to be collected and published on the number and labour market outcomes of non-permanent residents in Canada. Only then can we truly assess the contributions of this group and the efficacy of related policy.

Conclusion

The recent surge in Ontario's population is striking and should contribute to near-term economic growth, but a look under the hood reveals longer-run questions and challenges. For one thing, non-permanent residents are playing a greater role in driving headcount gains than they have historically. At the same time, young people are continuing to leave the province in record numbers due to a sustained erosion in affordability. Ultimately, Ontario must remain relentlessly focused on improving housing affordability, while policymakers and researchers alike need more data on temporary workers in Canada. Only then can the province realize its full economic potential.