ECONOMIC VIEWPOINT

Temporary Workers, Temporary Growth?

How a Slowdown in the Recent Migration Surge Could Exacerbate Canada's Downturn

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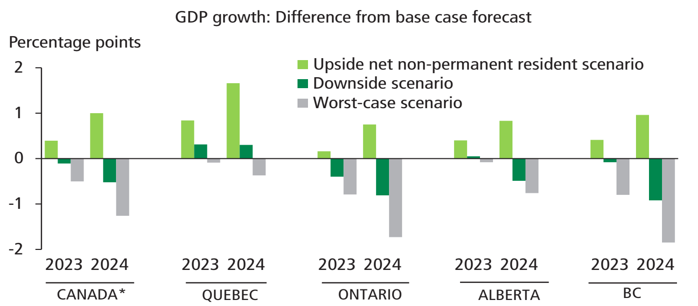
Summary

- Non-permanent residents—not permanent resident immigrants—are driving the majority of Canada's near-record population gains. Given how volatile this category of newcomer is, and that admissions tend to fall when the economy weakens, we see downside risk to demographic and economic growth across the country next year.
- Temporary workers appear to account for the bulk of the recent surge in non-permanent residents, though international students are also contributing.
- We estimate that a worst-case scenario for net non-permanent resident admissions could cut up to 1.3 percentage points (ppts) from Canada's real economic growth next year. The hit to Ontario's and British Columbia's (BC) expansions could be even bigger, but all four of the largest provinces are vulnerable in this respect (graph 1).
- Our work yields two takeaways. One is that the recent population-induced boost to economic activity and tax revenues may not last forever. The other is that we need better data on temporary migration to Canada in order to appropriately calibrate labour and housing market policy.

GRAPH 1
A Drop in Temporary Migration Could Hit Canada's Economy Hard

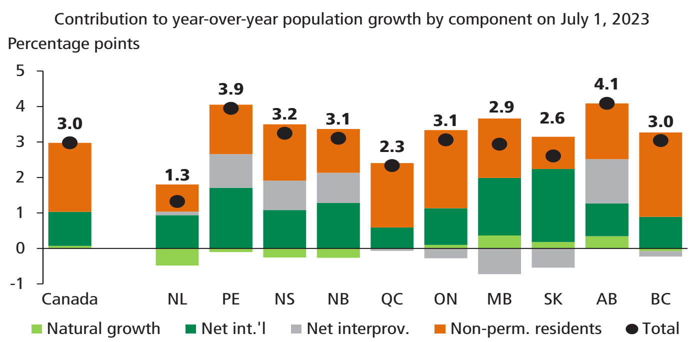


* Estimate based on four largest provinces
Sources: Statistics Canada, Institut de la Statistique du Québec, Alberta Treasury Board and Finance, British Columbia Ministry of Finance and Desjardins Economic Studies

Introduction

Canada's skyrocketing population growth has become one of the biggest economic stories of 2023, and net non-permanent resident (net NPR) admissions are anchoring gains in most provinces (graph 2). That's a change from recent history, when immigrants arriving as permanent residents dominated demographic growth as well as discussion about labour and housing market policy. This change brings significant uncertainty. Unlike government-determined permanent resident immigration targets, net arrivals of NPRs, which include work permit holders and international students, are volatile. And net NPR admissions tend to fall when the economy weakens. Canadian GDP contracted in the second quarter of 2023 and was soft in July.

GRAPH 2
Non-permanent Residents Continue to Drive Population Gains



Sources: Statistics Canada and Desjardins Economic Studies

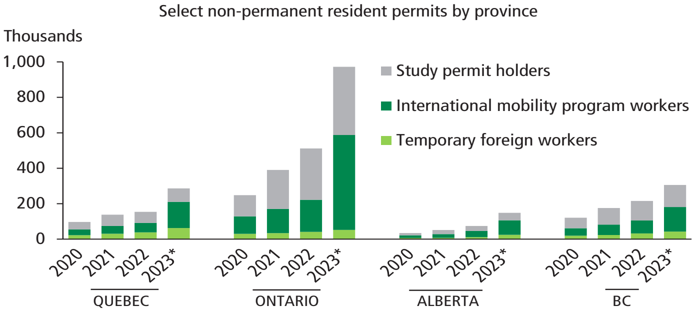
With a recession looming and GDP getting a growth boost from net NPRs at the national level, in this note we estimate the impact of slowing arrivals on Canada's four largest provincial economies.

What Are Non-permanent Residents?

NPRs are an umbrella category. According to Statistics Canada, the NPR population includes individuals ranging from foreign workers and international students to refugees. They're different from permanent residents—the focus of the latest federal government immigration targets—who are granted resident status for an indefinite period of time. New data released in September show that while students appear to have helped the recent NPR surge, migrants with work permits made up about 70% of the rise in the national NPR population over the last year. Work permit holders also drove most of the increase in the four biggest provinces. That's an intuitive result: job vacancies that have plagued businesses since the COVID-19 pandemic could reasonably be expected to prompt firms to seek employees from outside Canadian borders. Asylum seekers have not played as big a role in the recent surge.

Digging deeper into permitting data, it seems that most of the workers in the recent surge have arrived under the International Mobility Program (IMP) (graph 3). The IMP aims to support Canada's broad economic, cultural and social policy objectives. It differs from the better-known Temporary Foreign Worker (TFW) Program, whose explicit goal is to address labour shortages. The TFW Program also requires documentation proving that hiring foreigners will not adversely affect Canadian workers, whereas the IMP does not.

GRAPH 3
Temporary Workers and International Students Are Contributing to Population Gains

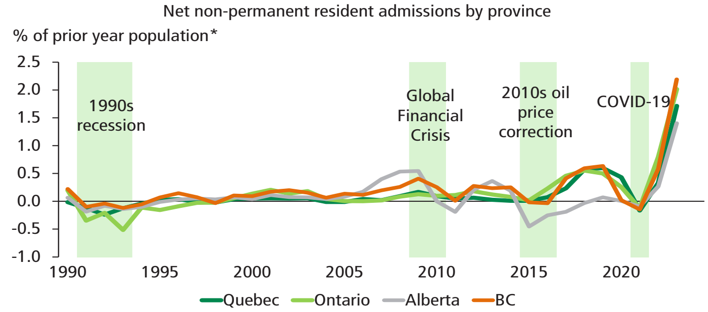


* Projection based on January to August 2023 growth rates
Sources: Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

How Have Non-permanent Resident Admission Trends Changed Over Time?

In Canada's largest provinces, historical net NPR flows have varied significantly, but they have tended to mirror the economic cycle. Already grappling with labour shortages amid relatively strong growth, Quebec, Ontario and BC all admitted net NPRs at an elevated rate in the years before the pandemic. They pulled back during the early-1990s recession that hit them hard and amid the Global Financial Crisis (GFC) (graph 4). Meanwhile, Alberta's admissions rate has often spiked during oil price booms and dropped following commodity price corrections, especially in 2014–15.

GRAPH 4
Non-permanent Resident Admissions Have Historically Moved with the Economic Cycle



* Population on July 1
Sources: Statistics Canada and Desjardins Economic Studies

Several provincial governments have changed their forecasts to account for the recent surge in net NPRs. In July 2023, Ontario increased 2023–24 net NPR projections more than four-fold, to 265k. In September, BC boosted total international migration forecasts by more than 40% for 2023–24, even though federal permanent resident targets had not changed since the province's February 2023 budget. Alberta also released NPR forecasts this summer, though that province's expectations remain well below the pace seen in 2022–23. Quebec's last demographic forecast was published in 2022, so it doesn't reflect the recent surge in net NPRs.

How Could Non-permanent Resident Growth Evolve?

While the latest government projections prudently assume a slowdown in net NPR admissions, the size of the recent surge, historical volatility and our point in the economic cycle imply further risk. Therefore, to estimate the provincial economic impacts of different net non-permanent resident admission rates, we devised three alternative scenarios using the provincial governments' baseline demographic projections (table 1 on page 3). We focused on Canada's four largest provinces, as they provide detailed and regular demographic forecasts by component. These jurisdictions also made up almost 90% of Canadian GDP in 2022.

In an upside scenario, we assume that net non-permanent resident arrivals continue at their sky-high 2022–23 rates for the next two years.

TABLE 1
Net Non-permanent Resident Scenarios

THOUSANDS OF PEOPLE	2022–23				2023–24				2024–25			
	Government baseline	Upside	Downside	Worst case	Government baseline	Upside	Downside	Worst case	Government baseline	Upside	Downside	Worst case
Quebec	**15**		149		**10**	149	61	-5	**3**	149	3	-46
Ontario	**360**		305		**265**	305	164	64	**145**	305	30	-114
Alberta	**38**		63		**10**	63	16	0	**5**	63	-66	-86
British Columbia	**117***		117		**79***	117	72	4	**63***	117	-18	-39

* Assumes net non-permanent resident admissions slow in line with total international migration
Sources: Statistics Canada, Institut de la Statistique du Québec, Alberta Treasury Board and Finance, British Columbia Ministry of Finance and Desjardins Economic Studies

In our downside scenario, we assume that net non-permanent resident admissions slow at a rate consistent with the average decline experienced during the four most recent recessions. These are the early 1990s downturn, the GFC, the mid-2010s oil price crash and COVID-19. Every recession is of course different, and the downturn we're predicting at the national level is mild by historical standards. Still, the average over these four periods gives a sense of the pace at which NPR admissions typically fall during times of diminished labour demand.

Under the worst-case scenario, net non-permanent resident admissions fall at the same rate they did during the worst recession witnessed in each province. In the net oil-consuming jurisdictions, that means the 1990s experience. In Alberta, the greatest net outflows occurred in the mid-2010s amid the last pre-pandemic oil price correction. This worst-case outcome is probably the least likely in Wild Rose Country. We do not anticipate a significant drop in commodity values over the next several years, and that's part of why we think Alberta will be a provincial growth leader in 2023–24.

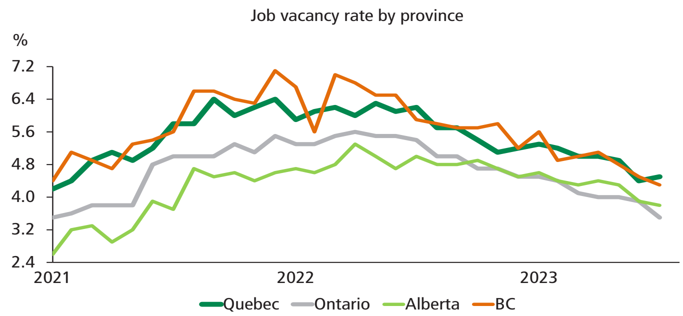
As in our study of provincial immigration, we conducted the scenario analysis using a simple approach based on Finance Canada's NAOMI framework. In it, economic activity is driven by the trend level of sustainable long-run output, interest rates and commodity prices. In each scenario, we altered the pool of available labour per differences between our assumed rate of net NPR admissions and those forecast by the provincial government. We assumed that NPRs have higher labour force participation and unemployment rates than the rest of the population, in line with national-level results from a 2023 Statistics Canada study based on data from the 2021 census. Data from prior censuses confirm that NPR unemployment rates have historically exceeded those of the entire Canadian population, while the surge in labour market participation appears to be a more recent trend.

Ontario and BC Are Most Vulnerable to a Slowdown

In both our downside and worst-case scenarios, the Ontario and BC economies would take the biggest hits (graph 1 on page 1). Our downside scenarios are linked to a 0.8- to 1.9-percentage point drag on growth next year in both provinces. Outsized hits in Ontario and BC mostly reflect the fact that those provinces have gotten some of the biggest boosts from NPRs. As such, they've raised their base case demographic forecasts significantly higher for the next several years, and the drag under the more pessimistic trajectories is greater than it is elsewhere.

We're already seeing signs of slowing labour demand across Canada, but it's especially clear in Ontario. Labour shortages—which contributed to much of the recent rise in NPR admissions—are already easing more quickly in Ontario than in the other three largest provinces (graph 5).

GRAPH 5
Job Vacancies Are Coming Down Faster in Ontario than Elsewhere



Sources: Statistics Canada and Desjardins Economic Studies

Quebec's population growth has gotten the biggest assist from net NPRs over the past year. That province will therefore likely be subject to more downside risk once it updates its demographic forecasts. Quebec's economy already contracted sharply in the second quarter of 2023 despite decades-high headcount gains. That doesn't bode well for worker demand in the coming quarters.

Of Canada's four largest provinces, Alberta appears least susceptible to a net NPR-induced economic downturn next year. Though past downturns have seen net inflows reverse sharply, its relatively low reliance on NPRs for demographic growth minimizes the drag. Indeed, its nation-leading population growth has been helped significantly by an influx of Canadians from other provinces. What's more, oil prices—and by extension broader hiring demand across the province—are expected to remain reasonably well supported during the coming global slowdown.

Aggregating the two downside scenarios across these four provinces implies a Canadian GDP growth rate 0.5 to 1.3 percentage points less than our current forecast next year. That's a meaningful hit when most forecasters think the country's expansion will hover near zero in 2024. (See our latest Economic and Financial Outlook for more information.)

Final Thoughts

Record rates of net non-permanent resident admissions—not immigrants—are driving near-record population gains. This is helping to sustain the Canadian economy's expansion amid sharply higher rates and supporting government revenues. But history suggests the recent surge could ease significantly, exacerbating a nascent economic slowdown. That could have significant consequences nationwide, most notably in the largest provinces. Governments in Canada have wisely based their projections on declining net NPR admissions over time, and BC's and Ontario's most recent fiscal plans stand out for large contingency allocations that should act as buffers against downside risk. But we must nonetheless consider downside demographic scenarios, particularly when potentially higher-for-longer interest rates pose risks for economic growth, borrowing costs and debt sustainability over time.

We also reiterate our call for more and better data on temporary migration. For the foreseeable future, Canada and all its provinces will continue to grapple with the immense challenges of a rapidly aging population and a lack of affordable housing supply. To meet these challenges, we'll need clear information about the individuals who can help address them.