

# ECONOMIC VIEWPOINT

## For Canada's Newest Immigrants, The West Is Best

### Assessing the Provincial Impacts of Ottawa's Latest Immigration Target Increase

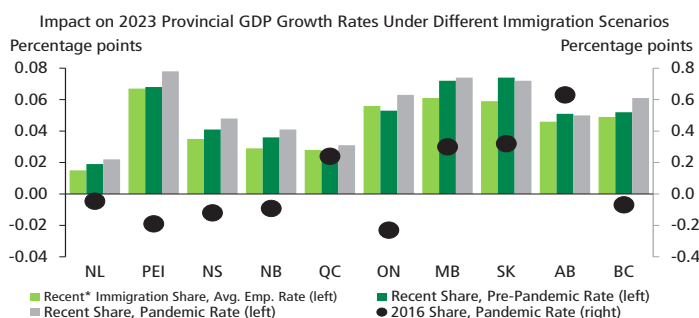
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#### Summary

- ▶ This note estimates the economic impacts of the recent national immigration target increase on Canada's provinces.
- ▶ The target increase alone will add only incrementally to GDP growth. Each of the scenarios we estimated included a boost of only about 0.05 percentage points to all-province growth in 2023, though economic contributions would rise over time.
- ▶ At the provincial level, immigration's potential economic contribution is highest when: a) immigrant intake makes up a large enough share of the existing population, and b) immigrants can successfully integrate into the labour market.
- ▶ Newcomers to BC and the Prairies have fared the best in the labour market in recent years, while Prince Edward Island admits the most immigrants per population. These provinces could see some of the largest economic gains from higher immigration if recent patterns hold (graph 1).
- ▶ Alberta, Saskatchewan, and Manitoba would experience more significant 0.3 to 0.6 percentage point boosts to GDP growth if their stronger economic conditions and better affordability attract a higher share of newcomers in the next few years.
- ▶ But immigrants to all parts of Canada saw hugely improved labour market outcomes during the COVID-19 pandemic. Continuation of these trends could not only lift output but also contribute to a small rise in GDP per working-age population—a measure of economy-wide wellbeing.
- ▶ Immigration is not a panacea, but our results highlight potential benefits of further efforts to align admissions to economic conditions, as well as the need to spur business investment and advance infrastructure and affordable housing objectives.
- ▶ This note is part of ongoing work at Desjardins Economic Studies on the economic impacts of Canada's changing demographics. Look for future commentary on the implications of higher immigration targets on Canadian housing and entrepreneurship.

#### GRAPH 1

##### The West (and PEI) Best for Canada's Newest Immigrants



#### Introduction

You can't talk about Canadian economic policy without talking about immigration. Since 2015, the federal immigration target has been increased multiple times, with [the most recent boost announced in November 2022](#). Each time, the principal

motivations have been to combat the long-run economic drag from an aging population and address labour shortages in key sectors. Today, to quote a recent Statistics Canada study, ["Immigrants make up the largest share of the population in over 150 years and continue to shape who we are as Canadians."](#)

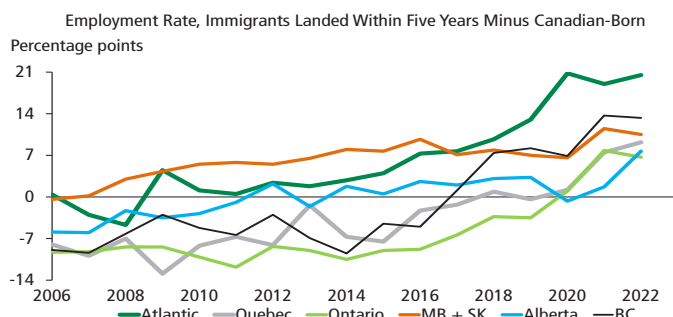
This note assesses the potential impacts of recent target increases and immigrant labour market trends on Canada's provincial economies. While many analysts have discussed immigration's impacts, few have quantified or compared them at a sub-national level. That is even though the provinces will surely feel the coming global recession differently, and immigrant labour market performance has changed during the COVID-19 pandemic. As such, there are potentially wide-ranging economic outcomes for newcomers in different parts of Canada, both during the coming downturn and in the eventual recovery.

### Immigrants' Significant Economic Contributions

Immigrants' outsized role in Canada's pre-pandemic expansion is clear. From 2015 to 2019, immigrants accounted for over 70% of Canadian employment gains, despite making up only about a quarter of the population aged 15 years or older. During that time, net new positions among immigrants outpaced those of Canadian-born workers in every single province. By 2019, employment rates for new immigrants had also outpaced those of the population born in Canada in nearly every province (graph 2). This unfolded as a range of federal and provincial programs were put in place to improve newcomers' labour market integration.

GRAPH 2

#### Immigrant Integration Gains Accelerated During Pandemic



Sources: Statistics Canada and Desjardins Economic Studies

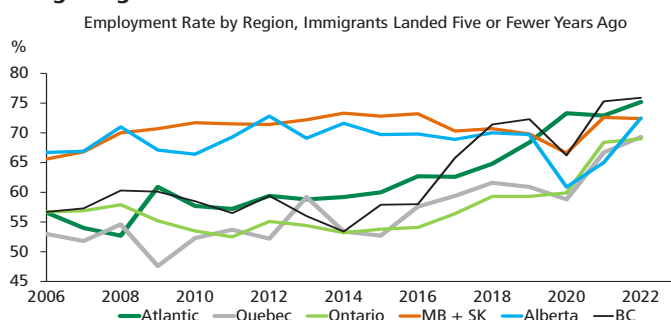
Since the COVID-19 pandemic, newcomers' economic contributions have grown. We noted Canada-wide trends in [Immigration Nation: Economic Impacts of Federal Immigration Targets](#); new immigrants experienced surges in employment and participation rates across the provinces in 2021 and 2022. That, in turn, helped narrow the gap between the unemployment rate of new immigrants and that of Canadian-born workers.

One key recent development is that the most significant improvements came in provinces that have not historically been the most successful with respect to integration. Immigrants to the Prairies, some of the first jurisdictions to embrace Provincial Nominee Programs to select newcomers based on region-specific economic needs, have traditionally had the best labour market outcomes (graph 3). Yet other provinces in Central and Atlantic

Canada saw the biggest gains. BC was a bit of an outlier. New immigrants to Canada's westernmost province experienced significant integration improvements in the leadup to the pandemic, but more modest gains after 2020.

GRAPH 3

#### Prairie Provinces Have Historically Been Most Successful in Integrating Newcomers



Sources: Statistics Canada and Desjardins Economic Studies

Another development is the particularly strong performance of recent immigrants, who normally bear the brunt of economic downturns. From 2020 to 2022, immigrants landed within the last five years accounted for more net new employment than the Canadian-born population nationally and in half the provinces. That is despite the fact that the former group was less than 5% the size of the latter group in that time.

We suspect that the strong labour market performance of recent immigrants reflects two forces. One is federal policy. During the pandemic, Ottawa [granted permanent resident status to non-permanent residents](#) like temporary foreign workers and international students to get closer to its admissions targets. Immigrant admissions in that period included unusually large numbers of people with Canadian work experience and existing social and professional networks in Canada. Labour shortages represent the second force. Oil-consuming provinces began 2020 with more economic momentum and tighter labour markets, which meant more labour shortages during the pandemic and appears to have prompted many firms to hire recent newcomers.

### Four Scenarios

With such significant changes in newcomer labour market patterns and differences in provincial growth likely in the coming recession, Ottawa's recent immigration target increase brings many possibilities. To quantify some of the possible economic impacts by province, we devised four forecast scenarios for 2023–25 (table 1 on page 3).

"Recent shares/average employment rate" assumes each province holds its 2018–21 share of immigrant admissions, and newcomers have the same unemployment and participation rates as the total population.

**TABLE 1**  
**Provincial Immigration Scenarios**

	Immigrants (000s)			Provincial Share (%)	Rate for New Immigrants (%)	
	2023	2024	2025		Unemployment	Participation
<b>Base Case</b>	447	451	455	2018–21 average	—	
<b>Recent Share/Average Employment Rate</b>	465	485	500	2018–21 average	Projection for total pop. based on provincial history, Canadian forecast	
<b>Recent Share/Pre-Pandemic Rate</b>	465	485	500	2018–21 average	2015–19 average, immigrants landed ≤ 5 years ago	
<b>Recent Share/Pandemic Rate</b>	465	485	500	2018–21 average	2021–22 average, immigrants landed ≤ 5 years ago	
<b>2016 Share/Pandemic Rate</b>	465	485	500	2016	2021–22 average, immigrants landed ≤ 5 years ago	

Sources: Statistics Canada; Immigration, Refugees, and Citizenship Canada; Desjardins Economic Studies

“Recent shares/pre-pandemic integration” maintains 2018–21 immigrant admission shares and sets newcomer unemployment and participation rates in each province to their 2015–19 mean.

Our “recent shares/pandemic integration” scenario assumes 2018–21 admissions shares and 2021–22 labour market outcomes for each province. This is meant to estimate the economic gains if strong COVID-19-era immigrant labour market integration persists post-pandemic.

Finally, the “2016 share/pandemic integration” scenario supposes that each province admits its 2016 share of Canadian newcomers, with 2021–22 unemployment and participation rates. This aims to capture a possible shift in immigration towards net oil-producing provinces, where near-term economic prospects are better. We noted this dynamic in the provincial section of our December 2022 [Economic and Financial Outlook](#).

Underpinning the scenario analysis is a simple approach that links each province’s actual economic growth to its underlying trend rate. Based on Finance Canada’s [NAOMI model](#), each province’s actual economic activity is driven by the trend level of sustainable long-run output, interest rates, and commodity prices. Trend growth was estimated using a Cobb-Douglas production function that includes capital stock, productivity, and the pool of available labour in each province. For each scenario, we altered the labour pool according to the number, unemployment rate, and labour force participation rate of immigrants.

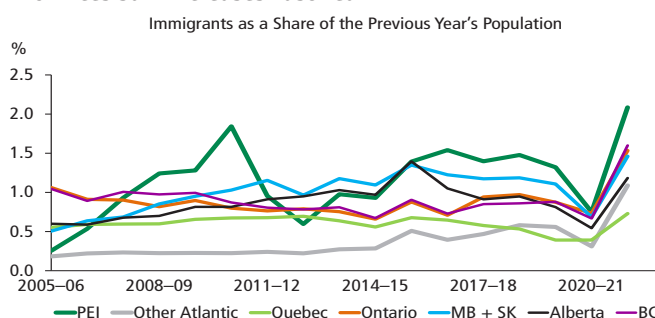
### Immigrant Admissions Shares, Labour Market Integration Matter Most

Consistent with an incremental increase in the national immigration target, our analysis predicts an incremental increase in all provinces’ output in 2023 (graph 1 on page 1). In each scenario, our framework suggests that higher admissions in line with the new target will generate a boost of less than 0.1 percentage points to all-province growth this year. Economic gains relative to the old target scenario could be expected to

become more significant beyond this year, lifted over time by higher admissions and greater labour market integration.

Across the first three scenarios, BC, the Prairie Provinces, and PEI see the greatest economic gains from higher national immigration targets. This reflects two factors. The first is the ratio of immigrant admissions to population. PEI has historically led on this front despite its status as Canada’s smallest province (graph 4). If it continues to lead, the growth impact should be among the strongest in any province. BC, Ontario, and the Prairies also rank highly on immigration as a share of population, and that is reflected in their relatively strong results. The second factor is the rate of immigrant labour market integration, where BC and the Prairies once again rank highly.

**GRAPH 4**  
**PEI Normally Welcomes Most Newcomers Per Capita, But All Provinces Saw Increases Last Year**



Sources: Statistics Canada and Desjardins Economic Studies

Alberta, Saskatchewan, and Manitoba would get even more meaningful GDP growth rate boosts ranging from 0.3 to 0.6 percentage points if more newcomers choose to settle there this year. That is certainly possible given the draw of the Prairie Region’s relatively affordable housing markets and strong near-term economic prospects. By contrast, such a scenario, the Maritimes and Ontario would see weaker growth than in our base case because of a weaker share of national immigration.

Another key result is that if strong pandemic-era immigrant labour market results persist, there would be a small increase in provincial GDP per population over 15 in most provinces and at the national level. That is important because while most research finds that immigration boosts economic output, there is debate about its contribution to economy-wide wellbeing, normally measured in per-capita GDP.

Whether the broad-based 2021–22 surge in employment rates is sustainable is an open question. The Canadian economy appears to be on the cusp of recession, while return to more in-person work could also limit the kinds of opportunities for immigrants that were available during the height of the pandemic. Yet, acute labour shortages, a still-aging population, and the apparent success of existing programs augur well for future integration.

### Final Thoughts

We anticipate economic gains from immigration across Canada this year, particularly if we can build on recent improvements in newcomers' labour market outcomes. The greatest benefits will likely come to those jurisdictions that combine sufficient numbers of newcomers and successful integration. In all the scenarios we devised, the Prairie Provinces saw some of the best results.

Still, immigration is not a panacea. Ultimately, skilled workers can only contribute economically in a climate conducive to business investment, where firms can make productive use of their skills and experiences. This speaks to the need for greater alignment between the skills required by provinces and the federal government's admission criteria, as well as the need to better recognize skills across jurisdictions. Accelerating population growth also raises the stakes for policymakers to deliver on infrastructure and affordable homebuilding objectives. Look for more research touching on these topics from Desjardins Economic Studies.