

ECONOMIC VIEWPOINT

Immigration Nation: Economic Impacts of Federal Immigration Targets

By Randall Bartlett, Senior Director of Canadian Economics

KEY TAKEAWAYS

- ▶ **Immigration to Canada has been hitting record highs and is expected to climb even further. This will help to boost Canada's population growth over the medium term.**
- ▶ **Newcomers to Canada are disproportionately economic immigrants, which favours younger, better educated and more experienced applicants.** As a result, new immigrants tend to have higher employment and participation rates than workers born in Canada. Adding to their number will help to boost potential GDP growth, both on an aggregate and per capita basis.
- ▶ **These new Canadians also have a higher average unemployment rate than people born in Canada, although this difference disappears over time.** Their unemployment rate also tends to be more cyclical. This has raised concerns that heightened immigration at a time when the Canadian economy is teetering on recession may exacerbate a potential labour market rout. However, with a record-setting job vacancy rate in Canada, the labour market is currently very tight. The economic downturn is also expected to be short-lived. There is a role for policy to play here in smoothing the path to employment for these new Canadians as well, as they are vital to boosting long-term economic prosperity.
- ▶ This note is part of ongoing work at Desjardins Economic Studies on the economic impacts of Canada's shifting demographic picture. Look for future commentary on the implications of higher immigration targets on provincial economies and the Canadian housing market.

On November 1, the Government of Canada announced that it would be increasing its immigration targets for 2023 and 2024. It also said it would aim to welcome 500,000 new Canadians in 2025. This left many people with questions about what these higher immigration targets will mean for the Canadian labour market and economy. In this note, we try to answer some of these questions and lay the groundwork for additional future research on the topic.

How Many Newcomers Are Coming to Canada and Who Are They?

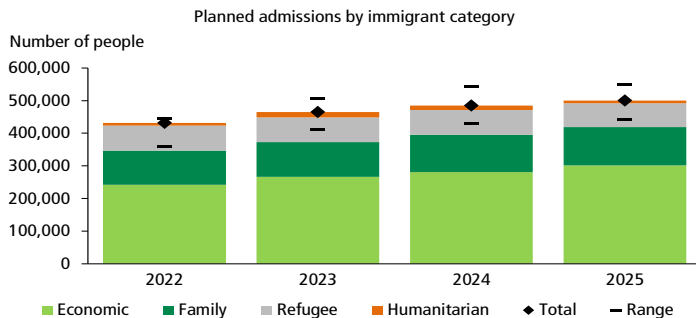
In 2021, Canada welcomed just over 400,000 immigrants, the most since the end of World War II. Then along came 2022. Data so far this year suggests immigration could surpass the upper end of the Government of Canada's [target range](#), which is set at 445,000. But it doesn't stop there. The federal government

recently increased its [immigration targets](#) for 2023–2025 to 465,000, 485,000 and 500,000, respectively.

These are big numbers. But who are these newcomers to Canada? Up to 60% of them are expected to be economic immigrants (graph 1 on page 2). This category includes immigrants in several different programs, the largest of which are the Provincial Nominee Program and the Federal High Skilled Program. We'll be focusing on the Federal High Skilled program in this piece and will touch on the Provincial Nominee Program in a separate note.

The [Federal High Skilled Program](#) includes the Federal Skilled Worker Program, the [Federal Skilled Trades Program](#) and the [Canadian Experience Class](#). In the Federal Skilled Worker program, applicants are attributed points based on six selection

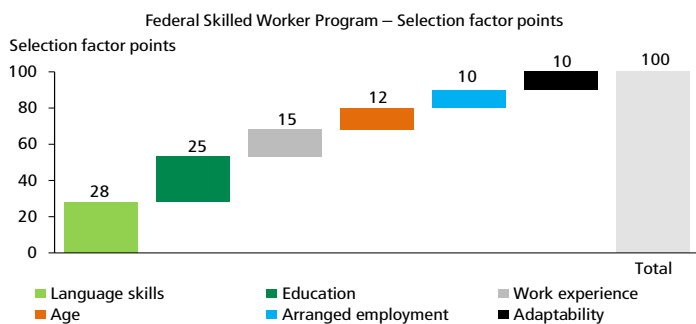
GRAPH 1
Over half of new immigrants are expected to be in the economic category



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

factors (graph 2). Applicants can receive the most points for language, education and work experience. They can also earn points for age, arranged employment and adaptability. They can earn up to 100 points, and the current pass mark is 67. For the Federal Skilled Trades Program, even more weight is put on language skills, education and work experience. The same is true for the Canadian Experience Class, which is for skilled workers who have Canadian work experience and want to become permanent residents.

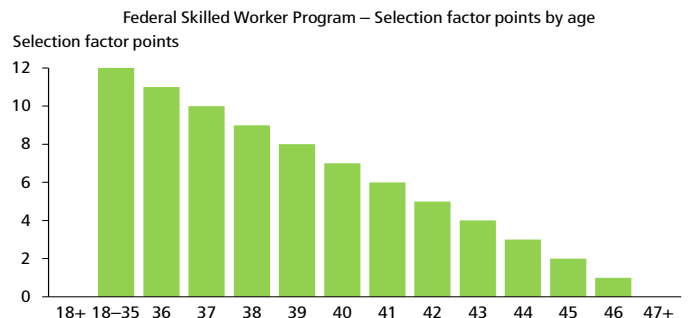
GRAPH 2
Economic immigrants are determined by a points system



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

A disproportionate share of immigrants entering Canada through the Federal Skilled Worker Program are young adults (graph 3). This is a good thing, as young people become prime-aged workers (25 to 54 years) who are more likely to be employed and pay taxes, thereby supporting the services enjoyed by all Canadians. We've incorporated the government's preference for this age group for new immigrants into our demographic forecast.

GRAPH 3
Young adults are allocated the most points for age



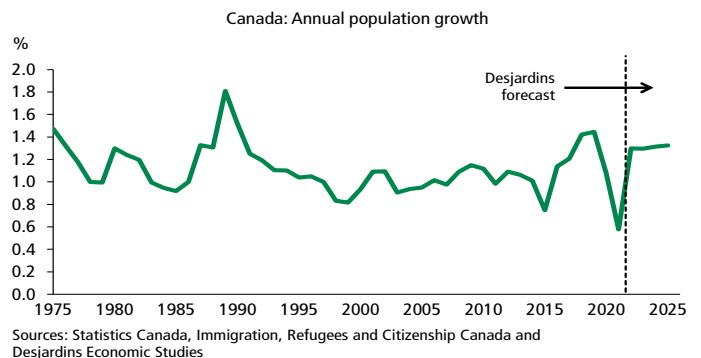
Sources: Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

But economic immigrants aren't the only newcomers to Canada. People coming to Canada for family reunification make up nearly 25% of planned international immigration. Meanwhile refugees and people coming for humanitarian, compassionate and other reasons are expected to make up just shy of 20% of immigrants to Canada between now and 2025.

What Do the New Immigration Targets Mean for Canada's Population?

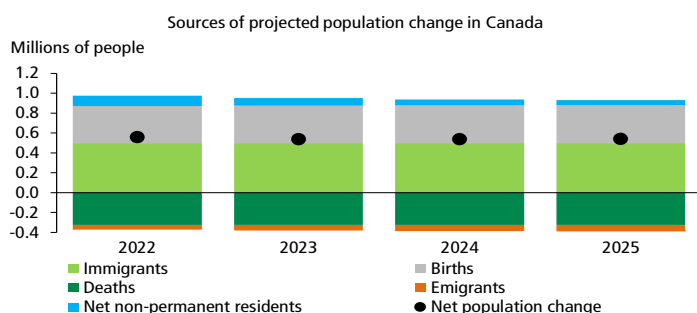
Canada's population will grow more quickly as a result of the increased immigration targets (graph 4). Indeed, immigration will continue to be the primary driver of population growth in Canada (graph 5 on page 3). It also means Canada's population will become younger than it would be under the previous immigration targets due to the preference given to younger adults in the economic immigrant stream (graph 6 on page 3).

GRAPH 4
Population growth should rebound toward its pre-COVID pace



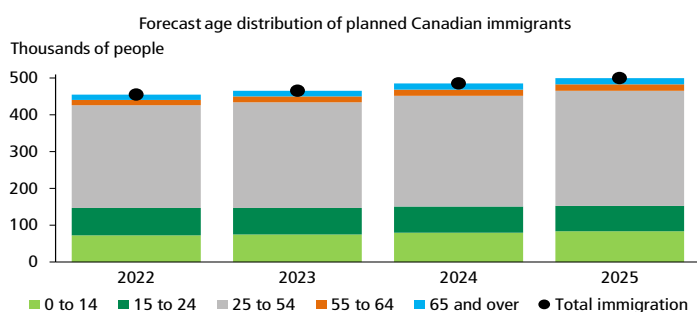
Sources: Statistics Canada, Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

GRAPH 5
Immigration is the primary driver of population growth in Canada



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

GRAPH 6
The bulk of planned immigrants are expected to be of prime age



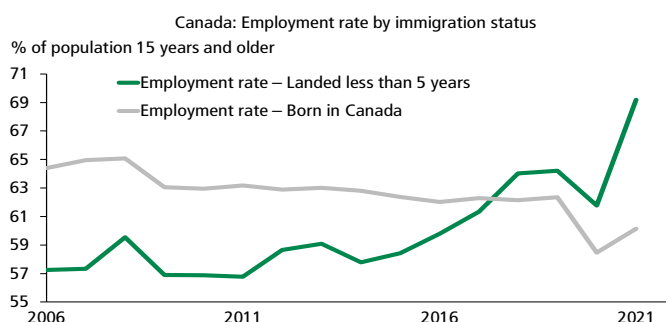
Sources: Statistics Canada, Immigration, Refugees and Citizenship Canada and Desjardins Economic Studies

What Do the New Immigration Targets Mean for Canada's Labour Market?

Contrary to popular belief, people new to Canada are more likely to be employed than people born in Canada (graph 7). But this is a recent phenomenon. It's the convergence of two trends: a sharp increase in the employment rate of new immigrants starting in 2016 and the gradual decline in the employment rate of people born in Canada. Some of this relates to the age structure of these groups as our existing population is aging rapidly, while newcomers to Canada tend to be much younger. It also speaks to the effectiveness of policies aimed at improving integration, as the employment rate of new immigrants began to rise as the number of immigrants to Canada was setting new records.

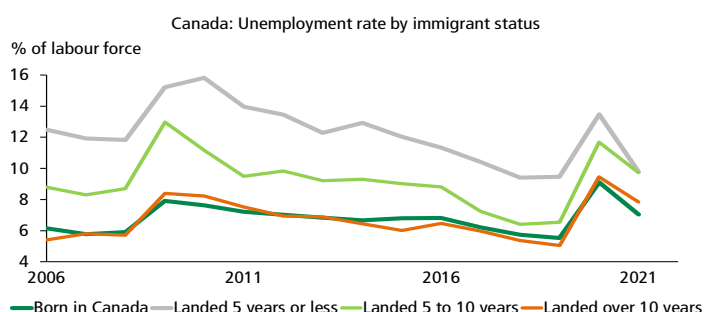
Similar trends can be seen in the participation rates of these same groups of Canadians. However, this doesn't just reflect a higher employment rate. It's also due to higher unemployment among new Canadians. This is to be expected, as new immigrants to Canada may need time to build networks and get their credentials recognized. The good news is that after living in Canada for 10 years or more, landed immigrants have

GRAPH 7
Recent immigrants to Canada are more likely to be employed



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 8
The difference in the unemployment rate gradually disappears



Sources: Statistics Canada and Desjardins Economic Studies

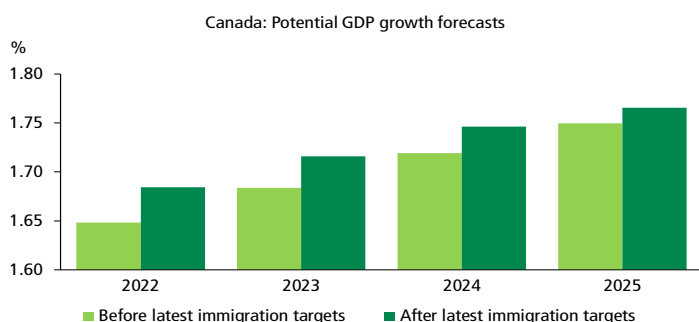
an unemployment rate that is largely indistinguishable from that of workers born in Canada (graph 8). It's also worth noting that new immigrants tend on average to have better labour market outcomes than youth in Canada.

What Do the New Immigration Targets Mean for Canada's Output?

New immigrants are more attached to the labour force, and that will help boost potential GDP growth in Canada over the medium term (graph 9 on page 4). But the more important question may be: Will higher immigration raise GDP per capita in the coming years? The answer is very likely to be yes. An increase in the population of prime-aged Canadians with a greater attachment to the labour force will drive up labour input in Canada—an important contribution to our estimate of potential GDP. And raising potential GDP helps reduce inflationary pressures by supporting the supply side of the economy.

The bigger challenge is estimating the impact of immigration on labour productivity. For simplicity, we've assumed that the productivity of newcomers to Canada will be broadly equivalent to that of workers born in Canada. Of course, there are a lot of

GRAPH 9
Increased immigration targets are expected to raise potential GDP

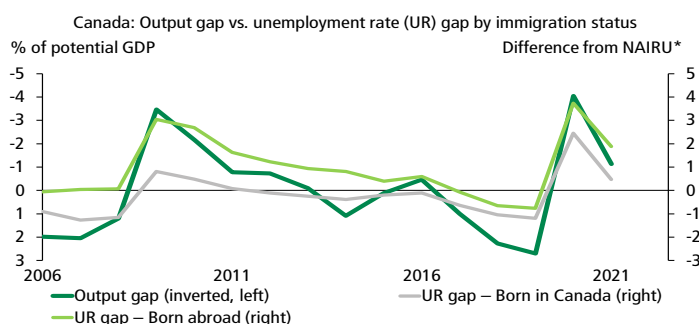


Source: Desjardins Economic Studies

arguments that could refute this assumption, such as the lack of credential equivalency. This is an area where governments, most notably provincial governments, could quickly increase the productivity of new Canadians. The federal government could also take steps to better align the points system for economic immigrants with provincial labour market needs. But again, this is an area for future analysis.

When we look at the unemployment rates of Canadians by immigrant status, another trend that stands out is the greater cyclicity of labour market outcomes among landed immigrants (graph 10). This is the case even for immigrants who have been in Canada for 10 years or more, but it's even more pronounced among more recent immigrants. It also takes longer for landed immigrants to regain their footing in the labour market after recessions than it does for workers born in Canada. This has raised concerns in some quarters that heightened immigration at a time when the Canadian economy is teetering on recession could only exacerbate a potential labour market rout. It's a reasonable concern, and one the federal government would be

GRAPH 10
The unemployment rate of landed immigrants is highly cyclical



*NAIRU: Non-Accelerating Inflation Rate of Unemployment
Sources: Statistics Canada and Desjardins Economic Studies

wise to be mindful of. That said, the job vacancy rate in Canada is roughly double what it was before the pandemic, indicating that the Canadian labour market is currently very tight. But with the unemployment rate expected to rise to nearly 7% by the end of 2023 (see our latest Economic and Financial Outlook), new immigrants may have a harder time than ever finding gainful employment.

There is a role for policy to play here in smoothing the path to employment for these new Canadians, as they are vital to boosting long-term economic prosperity. At the federal level, this could include increasing the points assigned for arranged employment in the economic immigrant category. This would not only ensure employment upon arrival but also better align newcomer skills with those demanded by employers. It might help to alleviate some of the concerns of provincial premiers as well. Additional federal support for immigrant employment and training services typically provided by provincial and municipal governments could also accelerate the process of matching employers with prospective employees. These initiatives would go a long way to ensuring the success of economic immigrants. Provincial and municipal governments also have an important role to play, which we will explore in future research.

Bottom Line

So where does all of this leave us? Given the nature of the planned immigration through 2025, we expect it will increase both population and employment at a time when the Canadian economy is experiencing labour shortages. It should help boost potential GDP growth over the medium term as well, including on a per capita basis. However, the planned immigration is also likely to increase unemployment in the near term just as the Canadian economy is going into a cyclical downturn. But this effect should be short-lived. As such, the Government of Canada's planned immigration should be a net positive for the Canadian economy.

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