Canada's Semi-Stealth Population Boomlet

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The latest Canadian population estimates hit some key milestones, with the overall tally pushing above 37 million in Q2, up by a round 500,000 in the past year alone, an increase of 1.4% y/y. The yearly percent change marks the fastest population growth in the country since 1991 and is a significant step-up from the 1.0% average annual trend of the past quarter century (*Chart 1*). **From an economic standpoint**, this has important implications since potential growth is determined by two key building blocks: labour force population and productivity. But rapid population gains have much wider-ranging implications—both positive and negative—from faster consumer spending growth and increased home building, to higher nominal interest rates, home prices, and social spending, not to mention environmental implications.

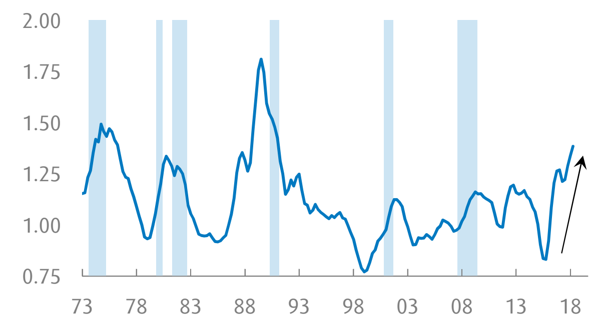
While the percentage rise in population is impressive as a stand-alone figure, note that the estimated net increase of 506,000 over the past four quarters marks the largest increase in sixty years (*Chart 2*). That takes us all the way back to the late 1950s, a period when the birth rate was especially high (the baby boom was reaching its apex) and Canada saw a wave of immigration—particularly from Hungary at that time. Of course, **the latest gains are driven much more by international inflows**, with a record 380,000 people moving into Canada on net in 2017 (of which just over 50,000 were refugee claimants). The country's annual immigration target will remain hefty in the coming years, set at 310,000 for 2018, rising to 340,000 by 2020. That is up from a typical annual level of around 250,000 in the 10 years through 2015, and poised to add roughly 0.8 ppts to annual population growth. By contrast, the natural increase (i.e., births minus deaths) is running at just over 100,000 per year, adding a modest 0.3 ppts to the tally. While that is above many other developed countries, it is a persistently slowing source of growth in Canada.

This combination of elevated immigration and still positive (albeit slowing) natural increases leaves **Canada above its G7 peers** (*Chart 3*) with annualized population growth over the past five years tops in the group. Parts of developed Europe experienced persistent natural declines (or even lower rates of natural increase). Across the broader OECD, Canada's accelerated population growth is solid and well above the 0.7% median annualized 5-year percentage change. But, it is still a few tiers below faster-growing countries such as New Zealand, Australia and Mexico.

Domestically, most provinces have experienced a clear acceleration in population in recent years, but there are still some **very stark demographic differences across the nation** (*Table 1*). Western Canada continues to see relatively strong growth trends, backed by firm immigration levels and, especially in Alberta's case (with a relatively young population), solid natural increases. What has changed recently is that interprovincial migration flows have largely balanced out. Recall that Alberta was drawing in nearly 40,000

Chart 1
The Boomlet in Percent Terms

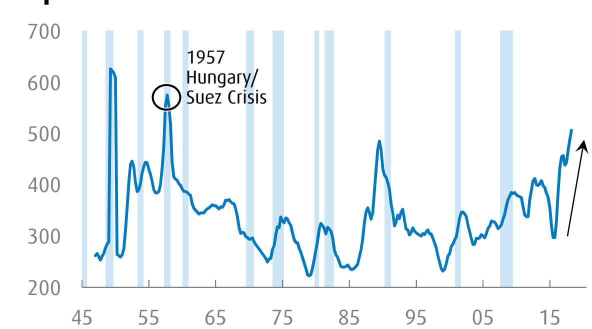
Canada (y/y % chng)
Population



Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

Chart 2
The Boomlet in Raw Numbers

Canada (000s : y/y chng)
Population



Shading marks periods of U.S. recession
Sources: BMO Economics, Haver Analytics

people per year (fully 1% of the province's population) at the height of the oil boom, and then losing nearly 20,000 per year after the oil shock. Ontario has arguably seen the largest boost from higher immigration levels, with 1.8% overall growth matching the highest level since the early-1990s. Ontario's relative economic strength has also attracted net interprovincial flows after a decade of outflows. A similar backdrop shows in Quebec, with one key exception—the province persistently loses people to other provinces. Finally, Atlantic Canada totals have seen a big lift from immigration, which has helped to turn around a period of outright population declines. The challenge for the region is now retaining these new Canadians in local (and usually much weaker) labour markets.

With those facts in hand, let's dig a little deeper into **some of the possible economic implications** of the relatively sudden population acceleration (and assuming it is sustained for more than a year):

1. Labour force growth: With Canada's participation rate roughly holding steady over the past year for those aged 15-64, the upswing in overall population has (not surprisingly) translated into a faster expansion in the working-age population. This key building block of potential growth perked up from a meagre 0.4% annualized pace in the three years to 2017, to 0.8% y/y by July 2018—the quickest in more than seven years.

2. Productivity: The news is less positive for the other growth building block, as labour productivity has actually seen an outright decline in the past year. Given how this metric tends to bounce around, we would focus more on the underlying trend, which looks locked in around 1% (*Chart 4*). There are many factors that drive productivity, but there is some evidence that rapid immigration tends to act as a dampener. The latest country study of Canada by the OECD (July 2018) notes that recent immigrants typically earn less than their forerunners, with wages presumably acting as a proxy for marginal production. Moreover, theory would suggest that unless the capital stock rises as quickly as the labour force, then the capital/labour ratio will decline, also weighing on productivity.

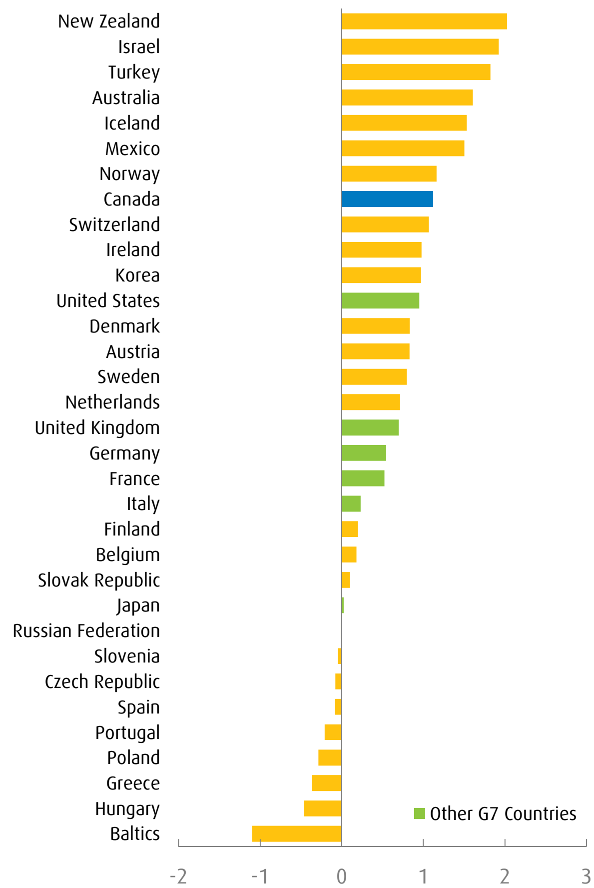
3. Potential growth: Combining items 1 and 2, we believe the first handily outweighs the second, so overall potential GDP will increase with rapid population growth. In its July Monetary Policy Report, the Bank of Canada nudged up its point estimate of potential GDP growth to 1.9% over the next two years, within a broader range of 1.3%-to-2.3%. As recently as two years ago, we would have leaned our estimate to the low end of that range, but the rebound in labour force population would leave us about in sync with the Bank's latest view.

4. Neutral interest rates: In turn, potential growth is a key building block of nominal interest rates, along with inflation expectations. If

Chart 3
In Good Company

Select OECD Countries — 2012-2017 (5-yr % chng : a.r.)

Population Growth



Sources: BMO Economics, Haver Analytics, OECD

Table 1
Regional Profile

2018:Q1 (4-qtr total)

	International Immigration	Interprovincial Migration	Births minus Deaths	Total Population
	— (% of population) —			(y/y % chng)
BC	1.1	0.2	0.1	1.4
AB	0.8	0.0	0.7	1.4
SK	1.3	-0.8	0.5	1.0
MB	1.4	-0.7	0.5	1.3
ON	1.3	0.2	0.3	1.8
QC	1.0	-0.1	0.2	1.1
NB	0.5	0.0	-0.1	0.4
NS	0.6	0.2	-0.1	0.7
PEI	2.0	-0.5	0.1	1.6
NL	0.2	-0.6	-0.2	-0.6
Canada	1.0	0.0	0.3	1.3

Sources: BMO Economics, Statistics Canada estimates of potential GDP are lifted, it would also boost where the Bank would see neutral interest rates. Officially, the BoC has maintained its view that the neutral policy rate is between 2.5% and 3.5%. Again, we would have been at the very bottom of that range until recently, but the sudden upswing in labour force population leans the estimate now slightly higher (albeit still below 3%, and probably still below the FOMC's estimate for the U.S. of 2.75%-to-3.0%).

5. Consumer spending, incomes, and savings: By sheer dint of numbers, more rapid population growth will boost almost all forms of spending, and nominal income tallies. As just one example, Canadian vehicle sales have pushed above the 2 million mark in the past few years, a level that was unthinkable a decade ago. The ratio of U.S./Canadian vehicles sales has ebbed to just a bit above 8:1, from a sustained ratio of more than 10:1 from the mid-1960s up until the mid-2000s.

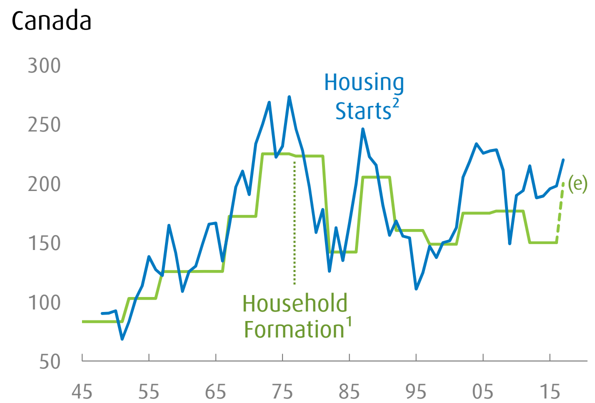
6. Home prices, home building, and borrowing: In a similar vein, strong population gains will also drive housing activity. The rise of more than 500,000 in the past year translates into roughly 180,000-to-200,000 additional households, and the demand for a similar number of housing units. As a result, our estimate of the baseline demographic driver for housing starts has also shifted higher—a level of 200,000 units should be viewed almost as a floor, rather than a high-side outlier (*Chart 5*). And with population inflows still so heavily concentrated in the major cities, it has also reinforced upward pressure on home prices in the priciest and more supply constrained markets.

7. Wages: This is an area of much contention, and the evidence is mixed. The one conclusion that the OECD draws from the extensive research on the subject is that robust immigration does tend to weigh on wages for low-skilled workers, certainly in relation to more highly trained workers.

Chart 4
Productivity Restrained?
(Index : 40-qtr % chng : ann.)

Sources: BMO Economics, Haver Analytics

Chart 5
Somewhere to Live



¹ (000s of units/year) ² (000s of units : a.r.) (e) = estimate
Sources: BMO Economics, Haver Analytics

8. Unemployment rate: The evidence is also mixed on this front. But we would simply note that Canada has posted its lowest jobless rate in more than four decades in the past year—while also stressing that many factors are at play, especially an aging workforce. One possibility though is that the so-called natural rate of unemployment may drift lower amid strong population increases, especially if that growth tends to dampen wages. Our best estimate of Canada's NAIRU is between 5.5%-to-6.0%, with recent mild wage gains suggesting that it may well be closer to the low end of that range.

9. Government finances: Again, by numbers alone, a rapidly rising population will pressure social spending costs (e.g., health care). The flip side, of course, is that rising employment and spending will support revenue growth. Again, the evidence is mixed, although the OECD asserts that strong immigration trends will have only a modest negative impact on government finances.