

Economics
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Canadian immigration and inflation: It's complicated

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No, this is not another article about the impact of rapid population growth on housing demand and prices. It should be well understood by now that housing completions are falling well short of immigration-fueled demand, putting upward pressure on resale and rental prices despite high interest rates. However, anyone who lived in Canada during the 10 years prior to the pandemic knows that it is possible to have rapid house price increases and still on-target CPI inflation.

This article examines other ways in which recent immigration is impacting the supply and demand balance within the economy, by utilizing data from the monthly Labour Force Survey. Increased employment rates among immigrants in Canada 5 years or less suggests a bigger boost to supply and potential growth from immigration than in the past. However, sector analysis suggests a disconnect between the jobs undertaken by new immigrants and the current or future needs of the economy. Moreover, an improvement in the earnings of new immigrants also points to a greater demand boost from immigration than we were seeing pre-pandemic. Where does this balance out from an inflation point of view? It's

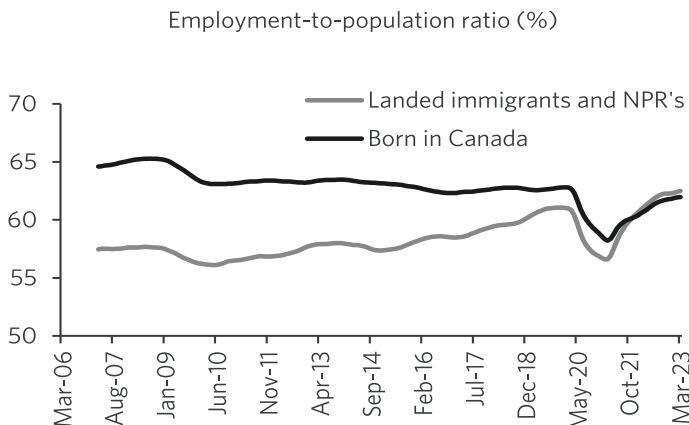
complicated.

The supply side

With an aging domestic population bringing retirements and a drop in the overall employment rate, immigration has become an important way of growing the labour force and the economy in general. As immigration policy has become more focused on the economic category, the participation rates among newcomers into the country has risen. The tight labour market has also meant that unemployment rates among immigrants are historically low.

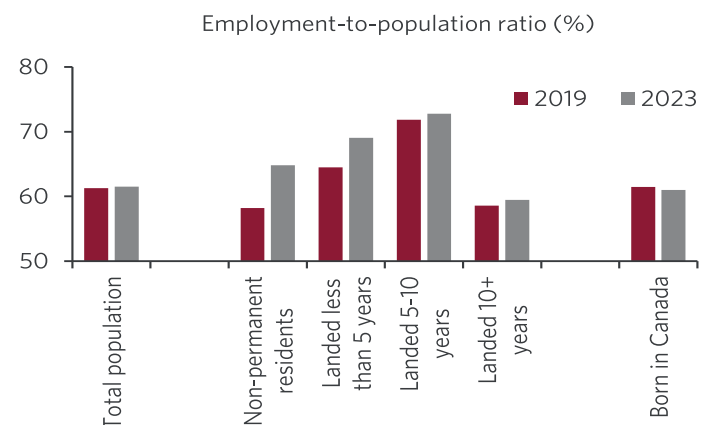
Added together, the employment ratio for persons born outside the country has risen above that of the domestic-born population for the first time since at least 2006 (Chart 1). Compared to 2019, which was the last pre-pandemic year but also a year that saw a big immigration-fueled population boost, the employment rates of non-landed (temporary workers, students etc) and recently-landed immigrants (Chart 2) have

Chart 1: Employment rates are now higher among people not born in Canada



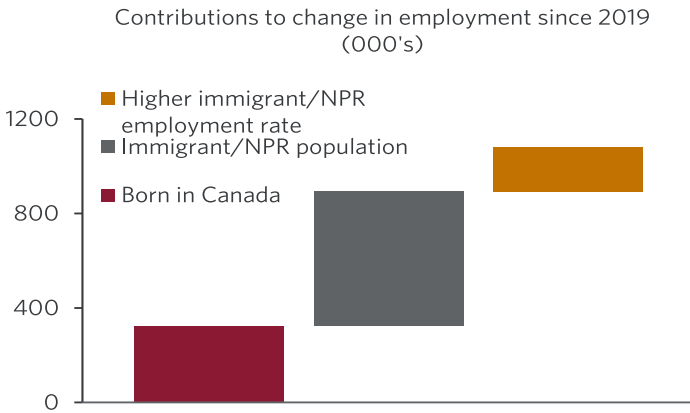
Source: Statistics Canada, CIBC

Chart 2: Employment rates have risen the most among non-landed and recently landed immigrants



Source: Statistics Canada, CIBC

Chart 3: Foreign born population has contributed to most of the employment growth seen since 2019



Source: Statistics Canada, CIBC

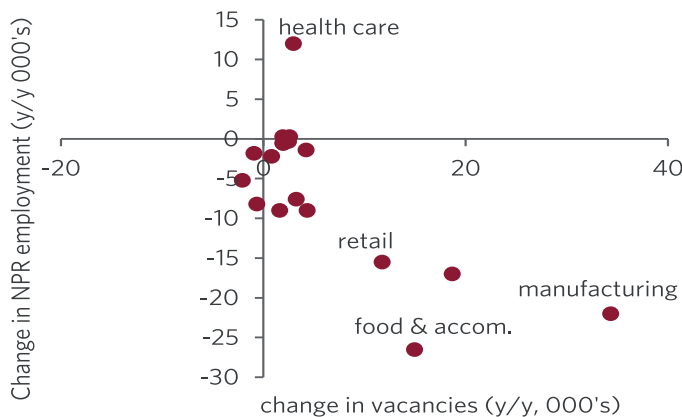
improved the most.

There has, therefore, been an even bigger boost to supply and potential growth per immigrant than we were seeing in the pre-pandemic economy. While work-from-home capabilities and the rollout of lower cost childcare has helped participation and employment rates in the domestic population, immigration still accounts for approximately three quarters of the jobs created since 2019 (Chart 3).

Job matching

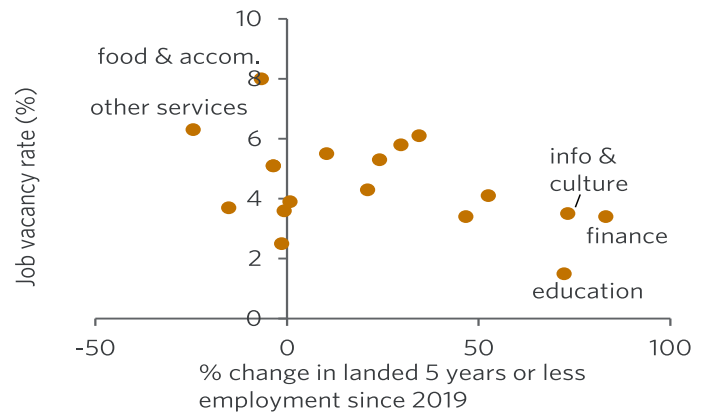
The next question is how closely newcomers into the country are matching up with the jobs that are in greatest demand. A close relationship would be most impactful not just from the point of view of improving growth, but also controlling inflation. When it comes to the non-landed immigrant population there is a clear correlation between the increase in employment and reduction in job vacancies over the past year (Chart 4). This is

Chart 4: Non-permanent residents have helped lower job vacancies in some industries



Source: Statistics Canada, CIBC

Chart 5: Strong immigrant employment growth keeping vacancy rates low in some areas; lack of growth leading to high vacancies in others



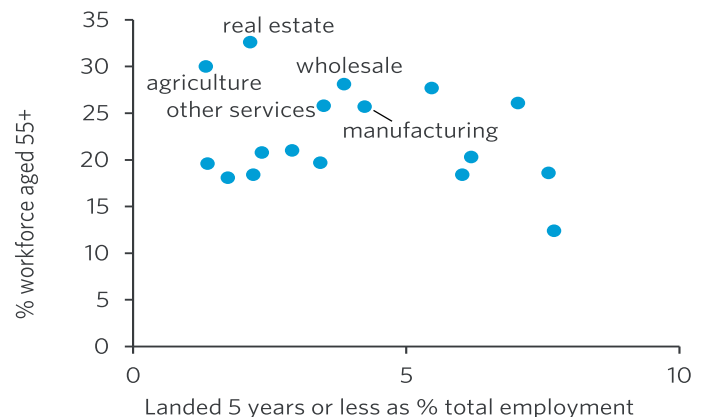
Source: Statistics Canada, CIBC

partly by design, as this group includes temporary foreign workers specifically brought into Canada to fill job vacancies. However, it also picks up the return of international students whose absence during the pandemic contributed to high vacancy rates in areas such as hospitality and retail.

Unfortunately, the link between new permanent immigration into Canada and the current or future needs of the economy isn't as tight. Since 2019, there has been strong growth in immigrant employment within education, finance and information services, which at least partly explains the comparatively lower job vacancy rates in these industries today (Chart 5). However, other industries, such as food & accommodation and other personal services, have seen little-to-no increase in the numbers of new immigrants in the workforce, which may have contributed to higher-than-average vacancy rates in these areas.

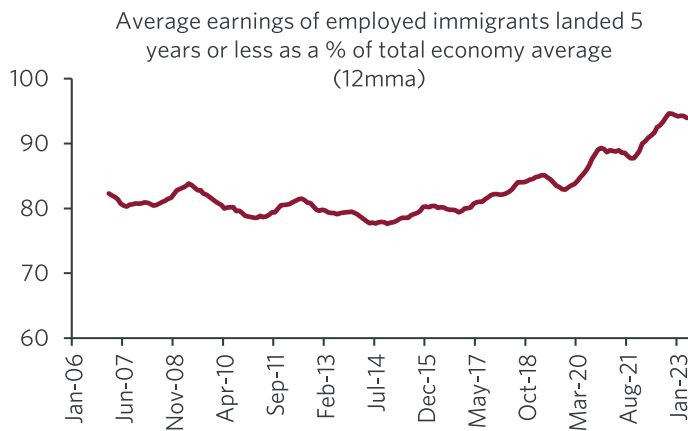
The correlation (Chart 6) between recent employment trends among new immigrants and the potential future needs of the

Chart 6: New immigrant employment rates don't correlate well with the potential future needs of the workforce



Source: Statistics Canada, CIBC

Chart 7: Average earnings of newest immigrants into Canada have risen closer to national average



Source: Statistics Canada, CIBC

workforce is also not ideal. Due to workforces that are ageing even faster than the economy-wide average, there may soon be even greater demand for workers in areas such as agriculture, real estate, wholesale trade, other personal services and manufacturing. While it would be unfair to expect newcomers into Canada to immediately know the intricacies of the real estate market and start selling houses (although over time immigrants into Canada certainly do become involved in this sector), a greater focus on attracting people with specific skills, in trades for example, may prove beneficial.

The Demand Side

New immigrants who come to live and work in Canada don't just add to supply, but also to demand. And not just for housing. Population growth brings increased demand for a whole range of goods and services.

Because the newest immigrants into the country are increasingly finding jobs in higher paid sectors such as business services, finance and information, the average earnings of this group have moved closer to the national average than they were prior to the pandemic. Indeed, throughout most of the pre-pandemic period, the average earnings of immigrants who had been in the country for 5 years or less were between 15-20% below the total economy average (Chart 7). More recently, that shortfall has been less than 10%. This is, of course, great news from a growth point of view. From an inflation point of view, however, it suggests that the addition to demand per immigrant

is also higher than it was before the pandemic.

Immigration and inflation: It's complicated

Rapid immigration-fueled population growth has undoubtedly raised the economic potential of the Canadian economy and contributed to some of the upside surprises that we have seen in terms of GDP performance recently. The fact that newcomers into the country appear to be participating in the labour market and finding jobs to a greater extent than they were in the prior economic cycle suggests that immigration is having an even bigger impact on growth and supply.

However, the impact of immigration on inflation is much more complicated. New entrants into the country from permanent residents are increasingly working in sectors that aren't necessarily where the current or future needs of the economy lie, or where wage pressures from labour shortages are most prominent. Moreover, higher earnings relative to the prior cycle suggests that, while immigration is having a greater impact on supply, it is also likely having a greater impact on demand as well.

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