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Counting heads in Canada — a conundrum

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Even if by a miracle we start doing all the right things to increase housing supply, it will take years for that supply to come to the market. Meanwhile, demand is rising fast. Lately there has been a growing focus on the rapid increase in the number of non-permanent residents (NPRs) in general, and foreign students in particular. In the following note, we suggest that the official number of NPRs that is widely quoted and used for planning purposes undercounts the actual number of NPRs residing in Canada by close to one million. That means that any policy aimed at capping the number of NPRs is more urgent than perceived.

A big miss

Forecasting is tough but necessary. Provinces and municipalities all over the country rely heavily on Statistics Canada and CMHC’s population and household formation forecasts to allocate resources and establish zoning and budgets for new housing in order to accommodate the projected increase in demand. What if 10 years ago we had known that Canada’s population would reach 40.2 million in 2023? We probably would have been better prepared, and the size of the housing shortage would have been smaller. But we didn’t know.

In 2013, the official forecast and the base for planning was that the Canadian population would reach 38.7 million in 2023. No less than 1.1 million of that 1.5 million forecast miss was due to a much larger than expected increase in the number of NPRs, and most of the remaining miss was due to stronger than expected immigration (Chart 1). Translating that figure into housing demand, that miss is equivalent to more than 2 years of building capacity.

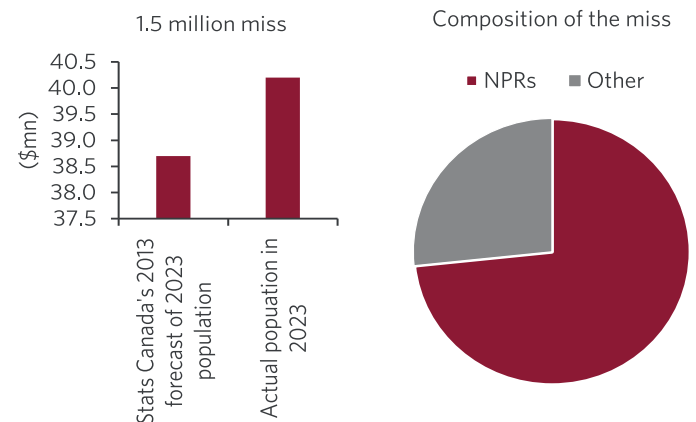
That’s a big number. But it turns out that the real number is much bigger. Of course you cannot blame anybody for forecast errors. Things happen. Government policies and priorities change. But two measurement issues related to the counting of NPRs suggest that the size of the miss might be closer to 2.5 million — a full million larger than the reported miss.

Undercounting NPRs

Statistics Canada produces two population counts: the census, and the more dynamic quarterly and annual estimates of population growth. Zooming in on the estimate of the NPR count in those two sources reveals a big gap. The 2021 census suggests that there were just under 925k NPRs in Canada, while the quarterly estimate suggested the count was 1.17 million (Chart 2).

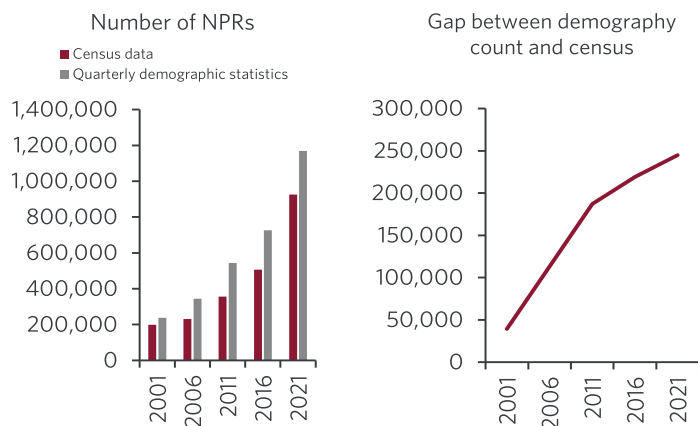
That gap is something that Statistics Canada has acknowledged in the past. The 2011 census is estimated to have undercounted the number of NPRs by more than 40%. Back then, the absolute number of NPRs was relatively small, so the undercounting did not have profound implications on population growth and housing market demand planning, unlike today’s situation. While the gap in counting has apparently narrowed since 2011 to just over 20%, the exponential increase in the absolute number of NPRs in recent years suggests that in absolute terms the gap between the two measures in 2021 rose to close to 250k.

Chart 1: Population growth forecast — big miss



Source: Statistics Canada, CIBC

Chart 2: NPRs — how many?



Source: Statistics Canada, CIBC

What’s the source of the undercounting of NPRs in the census? First, many students arrive from countries in which talking to the government is unadvisable. Second, in order to exclude short-term visitors, temporary foreign workers and student visa holders are included in the sample only if they can navigate through census instructions such as: You are to complete the form if this address was your “main residence on May 11, 2021”. Students are not to complete the census form at that address “who return to live with their parents during the year”. It’s anybody’s guess how a 22 year-old international student interprets those instructions and others. What if they believe they fall into multiple categories, and in some categories they are eligible to complete the census where they live, and in others they are not? This is why even Statistics Canada believes that the census continues to undercount NPRs with valid visas in Canada.

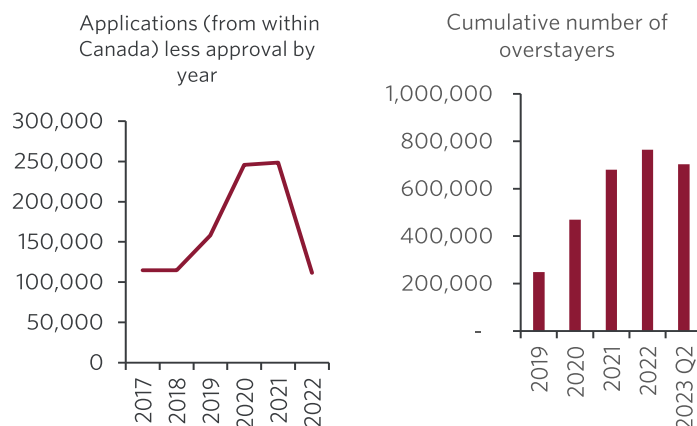
Why is that important? Because CMHC uses the census data (not demographic division data) to derive its household formation forecast — a forecast that is used widely by planners all over the country. And if your starting point is far too low, your forecast will be far too low, resulting in a suboptimal planning process.

Not counting overstayers

But wait, there’s more. How temporary are those temporary residents? Apparently not so temporary. Statistics Canada’s system assumes that temporary resident (TR) visa holders have left the country 30 days after the expiry of their visa. But the majority of those temporary residents don’t leave after their visas expire. According to the 2021 International Student Survey of the Canadian Bureau of International Education, 60% of those students planned to apply for permanent residency.

With subsequent changes to work visas for students, a larger share of more recent arrivals are believed to have the intent of extending their stay in Canada to work and apply for permanent residency. Many are awaiting an “invitation” through the

Chart 3: Overstayers



Source: Statistics Canada, Integrative Trade and Economics, CIBC

Express Entry Program. Most of the remainder, while eventually intending to return to their home country, are attracted to extend their stay given ample employment opportunities in Canada. There is no known administrative action by IRCC to remove these expired TR visa holders from Canada. Nor is there a known mechanism to withdraw their employment or tax slip issuances by the CRA.

Accordingly, Statistics Canada’s practice of assuming an exit a month after the visa expiry has resulted in materially understating population, housing, and service demand forecasts (especially in university cities and towns) well before COVID began.

Most critically, during the pandemic, expired TR visa holders were simply unable to return to their source country in 2020 and much of 2021. In 2021 and 2022, even when international transportation was available, most remained working in occupations treated as essential, and resumed their education in-person or online in Canada. They were celebrated in mainstream media. IRCC demonstrated good policy and compassion by using its website during lockdowns, as backlogs exploded, urging those in Canada with new or renewal applications to stay in Canada, and extended their reapplication deadlines by up to eighteen months. The inability to return to home countries, and these “blanket” extensions are not yet recognized in Statistics Canada measurements.

How big is the army of overstayers? While there are no official statistics available, we can estimate that figure by looking at the gap between applications (for PRs, student visas, work visas and the extension of resident visas) submitted from Canada and approvals. Using IRCC’s special tabulations (Chart 3)¹, and assuming a conservative 60%-70% share of expired visas among that group, we estimate that the stock of overstayers between 2017 and 2022 was north of 750k. Note that we assume zero overstaying before 2017 — a very conservative assumption — and we excluded expired visa holders that have not (yet) applied for a new visa, either temporary or permanent.

¹ Data obtained from Integrative Trade and Economics

Between the clear understating of NPR counts in the census, and the exclusion of overstayers in the quarterly demographics statistics, the number of NPRs that are missing from official statistics used by planners is approaching one million. The practical implication of that undercounting is that the housing affordability crisis Canada is facing is actually worse than perceived, and calls for even more urgent and aggressive policy action, including ways to better link the increase in the number of NPRs to the ability to house them. The federal government's fall fiscal update is a prime opportunity to demonstrate that kind of thinking.

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