

Economics

# IN FOCUS

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## The Covid immigrants—Implications for the job market and housing

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Despite Covid, the number of new immigrants is rising faster than the pace seen before the crises, carrying important implications for the labour market and housing demand. Equally significant here is the evolving composition of those new immigrants. A closer look suggests that the employability of newcomers is on the rise, which should work to ease the pressure on the Bank of Canada to hike aggressively in 2022 and beyond.

### Elevated immigration targets

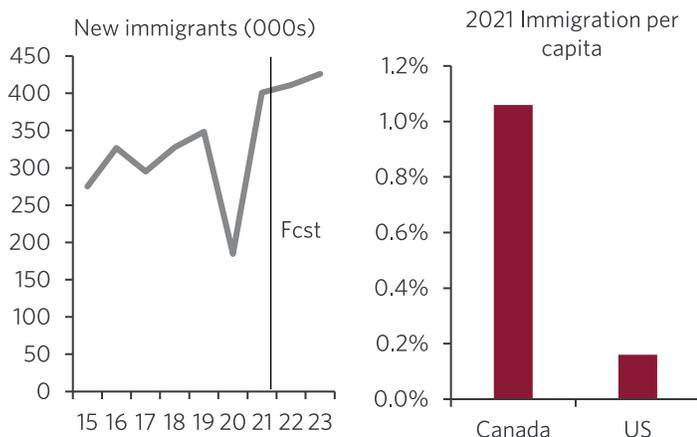
In late 2020, when the Canadian government announced that its goal was to see immigration rise by 401,000 over 2021, few believed it was achievable. The target, nevertheless, was met. Data as of November 2021 is consistent with a full-year immigration level of 401,000, following just over 185,000 newcomers in 2020. Per capita, that level of new immigrants is six times larger than what was seen south of the border (Chart 1). The acceleration in the number of new immigrants constitutes a catch up to recent multi-year trends, with

approvals from 2020 when Covid resulted in travel restrictions, landing in Canada concurrently with 2021 approvals. Streamlined interviews and other administrative processes used during Covid have dramatically improved the capacity of Immigration Canada to process applications. The targets for 2022 and 2023 are 411,000 and 421,000, respectively, and represent a significant acceleration from pre-Covid numbers.

### Arriving to Canada... from Canada

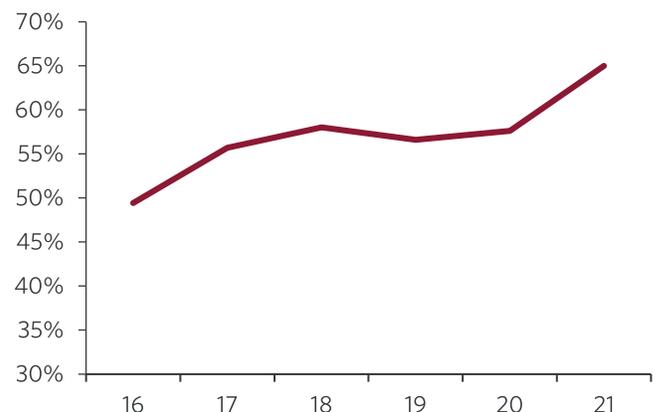
Broadly speaking, there are three main application categories for new immigrants: Economic, family sponsored, and resettled refugees or protected persons in Canada. Economic immigrants qualify based on their education, language, and employment prospects, and are more readily employable in more skilled and higher salaried occupations. As illustrated in Chart 2, the share of economic immigrants has risen consistently since 2015, but Covid has accelerated that trend dramatically, with the share of economic immigrants climbing to just under 65% in 2021—reaching a record-high number of 255,000.

Chart 1: Strong immigration growth



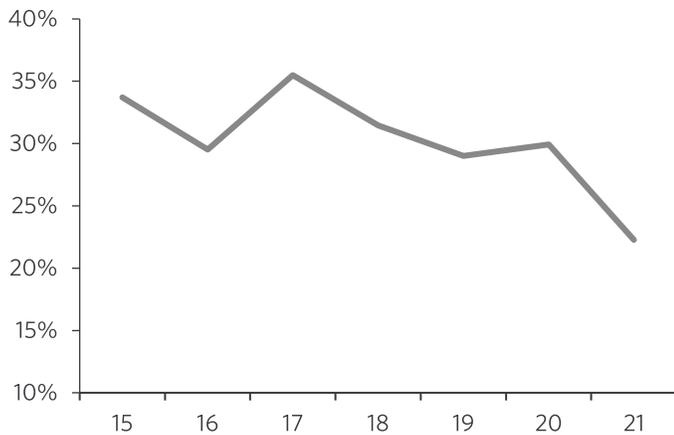
Source: Statistics Canada, Immigration, Refugees and Citizenship Canada (IRCC), CIBC

Chart 2: Share of economic category in total immigration



Source: Statistics Canada, IRCC, CIBC

**Chart 3: Falling combined share of caregivers and family class in total immigration**



Source: Statistics Canada, IRCC, CIBC

The other side of the coin is the decline in the number and share of immigrants who are expected to be low income, and less likely to generate new employment or new demand for housing. These are caregivers and sponsored parents and grandparents. Caregivers, who are economic immigrants, have fallen dramatically since 2015, from 27,255 to 9,800 in 2019, and 2,195 through November in 2021. Arrivals of parents and grandparents sponsored under Family Class immigration fell from 22,010 in 2019 to 10,305 through November in 2021 (Chart 3).

When you think about new immigrants, the picture that comes to mind is an individual or a family arriving to Canada via one of the country's major airports. During Covid, only 30% of immigrants arrived this way. The other 70% of "new arrivals" arrived in Canada... from Canada. That is, those new permanent residents have lived in Canada as temporary residents. For them, becoming a permanent resident meant only a change in status, not a change of address (Chart 4, left). By far, the fastest growing category in that group is Canadian Experience. As the

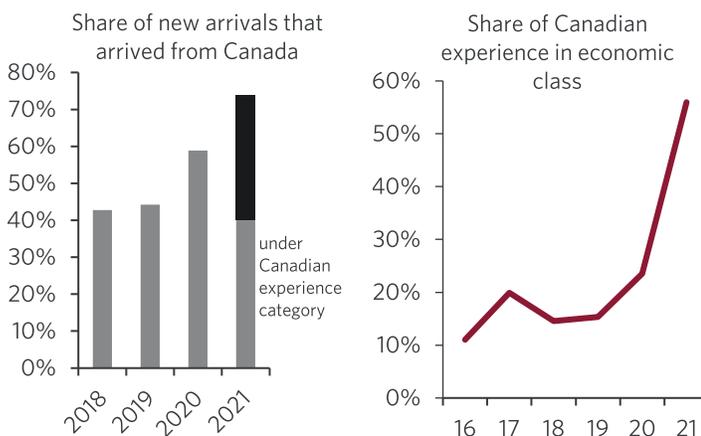
name implies, the Canadian experience category includes individuals with specific Canadian work experience, as well as many who applied within Canada and had temporary work visas (including international students with work visas). Covid travel restrictions kept many of these visa holders in Canada, contributing at least in part, to the exponential rise in Canadian Experience immigration "arrivals" in Canada from 30,300 in 2019 to an estimated 135,000 in 2021 (Chart 4, right).

Naturally, we expect the share of new permanent residents already residing in Canada to decline from the very elevated level seen in 2021. However, recent government communication along with a significant rebound in work and international visa applications and approvals will work to maintain and grow the pool of potential non-permanent residents that will be eligible to become permanent. Therefore, we expect that in the coming years, led by the Canadian experience category, the share of new immigrants that already reside in Canada, will stabilize at a higher level seen before covid and reach close to 50%-55% of total new immigrants.

## More employable

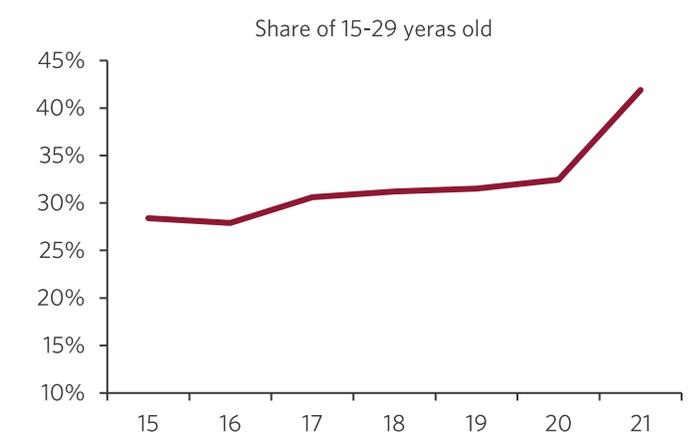
One derivative of the ongoing compositional change in immigration is a gradual increase in the share of young adult immigrants. Naturally, the immigrant age profile is significantly younger than the domestic population. But the gap is widening, as the median age of non-immigrants is rising alongside the share of prime-age immigrants. Zooming in on the important age group of 15-29, its share in total new immigrants rose slowly before Covid but has accelerated dramatically during Covid to account for no less than 42% of all new immigrants in 2021 (Chart 5). At the same time, the shares of new immigrants below the age of 14 and above the age of 60 have declined notably during Covid. The recent dramatic change in the age profile of new immigrants was in large part due to the increased reliance on existing residents (including students) as a source of new immigration. As discussed earlier, to the extent that that trend continues (albeit at a lower level seen in 2021), look for

**Chart 4: Rising share of Canadian experience**



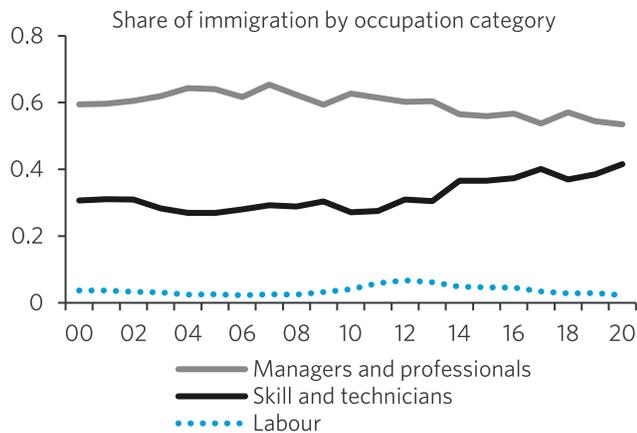
Source: Statistics Canada, IRCC, CIBC

**Chart 5: Growing share of young adults among young immigrants**



Source: Statistics Canada, IRCC, CIBC

**Chart 6: Immigration by occupation category**



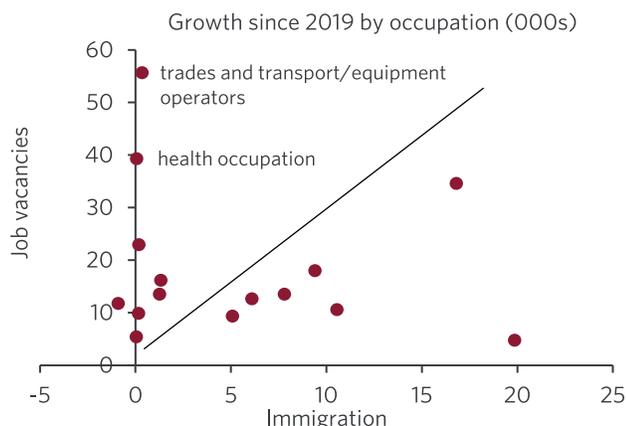
Source: Statistics Canada, IRCC, CIBC

the average age of new adult immigrants to be lower than it was pre-Covid.

The combination of an increased share of new immigrants with Canadian experience, and the rise in the share of young adults, means increased employability. But to what extent are their skill sets aligned with what the labour market needs. Chart 6 takes a long-term view and reveals a gradual decline in the share of managerial and professionals in the labour market, alongside an increase in the share of skilled and technical occupations. The share of labourers among new immigrants is still relatively low.

Digging deeper, we mapped the growth since 2019 in newcomers by their intended occupation, against the increase in job vacancies by occupation (Chart 7). There is clearly a positive correlation, which implies reasonable alignment, but there are some notable exceptions. While the need for trades and transport, as well as equipment operations workers is on the rise, the growth in the number of newcomers in those occupations is close to nil. The same goes for health

**Chart 7: Reasonable alignment between job vacancies and immigration skill set — with some exceptions**



Source: Statistics Canada, IRCC, CIBC

occupations that are in high demand — suggesting that the system can benefit from some fine tuning.

Overall, judging from the lower pace of wage growth in Canada relative to the US, it is clear that those forces are already playing a role in easing the labour shortage in the Canadian labour market. The expected acceleration in the number of new immigrants, their changing composition, and a reasonable alignment with the needs of the job market, will work to provide the Bank of Canada with some flexibility in the pace of monetary tightening due to the taming impact of new immigrants on wage inflation.

## Faster path to homeownership

Another factor to consider here is the link between the increase in immigration and housing demand. The notable decline in immigration in 2020 did not impact the housing market materially, in part reflecting the fact that many non-permanent residents stayed in the country with extended or expired visas due to travel restrictions, and therefore continued to “consume” real estate. In 2021, the opposite was the case. The dramatic increase in immigration had an only limited impact on housing demand since, as indicated earlier, 70% of those new immigrants already resided in Canada and therefore did not introduce new demand for housing.

Two more important points here: first, the rising proportion of young adult new immigrants with Canadian experience might work to shorten the length of time between “arrival” and home purchasing. Today, the assumption is that new immigrants purchase a home, on average, five or six years after arrival. We suggest that given that many of them were already in Canada before the change in status, they might be in a position to purchase a home earlier.

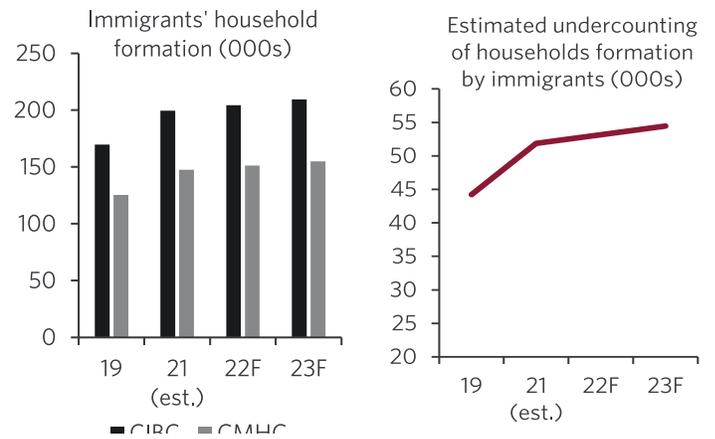
Second, we suggest that official figures underestimate actual household formation due to immigration, and therefore housing demand. Household formation is determined by translating population growth into the number of households by using estimates of headship rates, or the number of households created from a given number of persons. Headship rates accelerate rapidly from 0% to about 50% from the age of 15 through to early 30s, and then continue to rise at a more gradual pace into the 70+ age group when it starts falling.

Current official estimates of headship rates are based on the headship rates from the 2016 Census and are calculated by CMHC by translating Statistics Canada’s population growth into household formation. The issue is that those calculations assume the same headship rate for new immigrants and non-immigrants. That’s problematic. For example, the rate of headship creation of immigrants in their late teens and 20s is likely to be substantially understated, as the Census materially overstates the share of that age cohort that remains in their parental home. And the growing share of young adult immigrants suggests that this undercounting will be even more significant in the future. Overall, we estimate that in the 2021 official household formation count, actual formations were

underestimated by no less than 52,000 households, and that estimation gap is expected to grow in the coming years (Chart 8).

Bottom line: the growing number of new immigrants and their changing composition is helping to ease the labour shortage in Canada and is working to limit wage inflation and therefore provide the Bank of Canada with enough justification to hike more slowly than what's priced in by the market. The same trajectory of the increased share of young adults with Canadian experience might work to shorten the duration of the path to homeownership. We also suggest that housing demand is stronger than estimated by official figures due to the undercounting of household formation amongst new immigrants. A pre-condition for any supply-led housing policy is a more accurate and realistic picture of actual demand.

**Chart 8: Official estimates undercount household formation by immigrants**



Source: Statistics Canada, IRCC, CIBC

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