

## Canada is caught in a population trap

By Stéfane Marion and Alexandra Ducharme

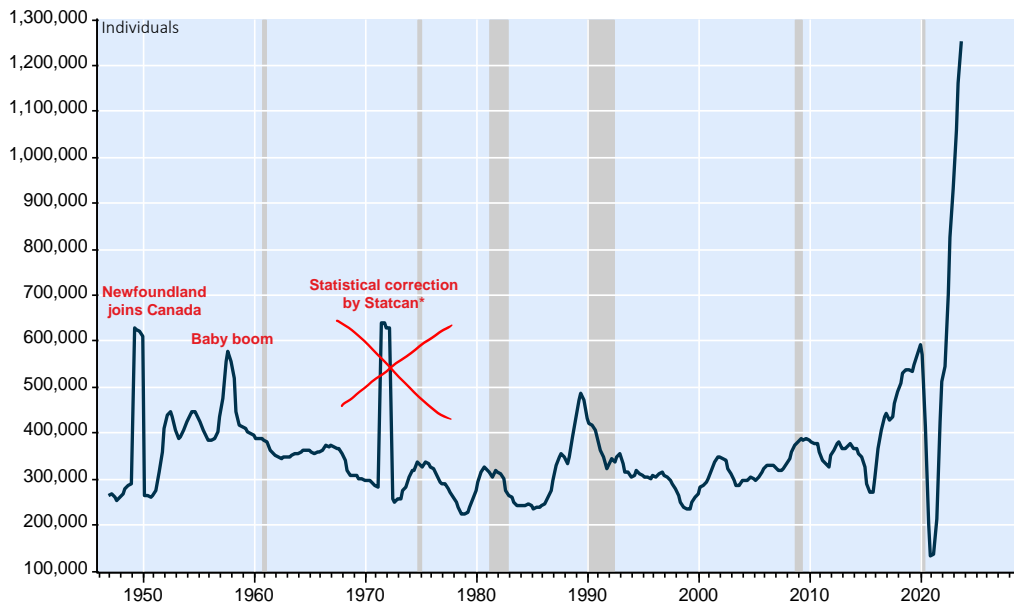
*"Population trap: A situation where no increase in living standards is possible, because the population is growing so fast that all available savings are needed to maintain the existing capital-labour ratio"*

*Oxford Reference*

The debate on the viability of our current immigration policy is intensifying in Canada. Finance Minister Freeland recently stated that "immigration is a huge economic strength and a real driver of our economic growth at a time when all of the industrialized countries in the world are facing huge demographics challenges... Canada has the social capacity to welcome immigrants".<sup>1</sup> We agree that immigration is good for our potential GDP, but all good things have their limits. Is it possible that the economic capacity to absorb new people is less than the "social capacity" mentioned by the Minister? Keep in mind that Canada's population increased by more than 1.2 million in 2023, an incredible number given that it followed a rebound of 825,000 in 2022 after the Covid recession. These are staggering numbers when you consider that prior to this, you would have to go back to 1949, when Newfoundland joined the federation, to see our country's population increase by more than 600,000 in one year - chart.

### Canada: Unprecedented surge

Annual growth in total population



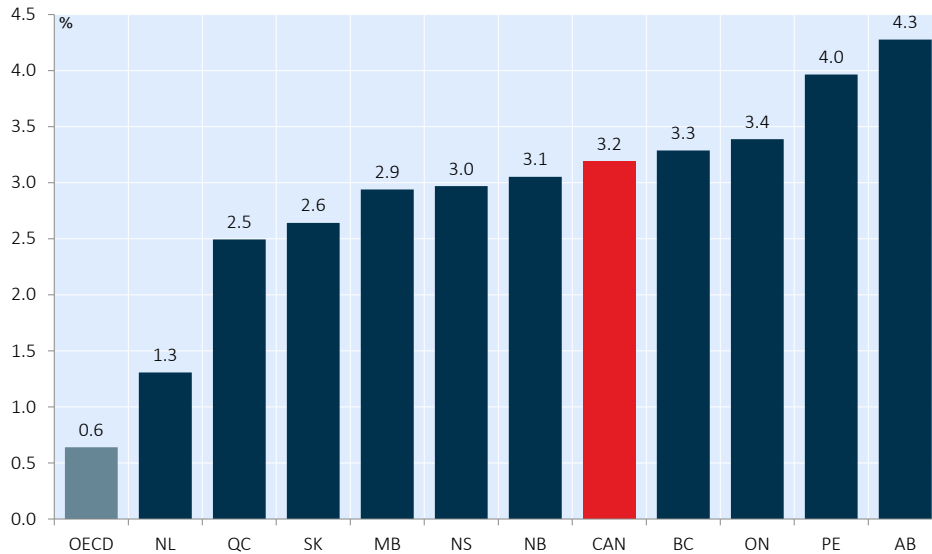
\* 1972 is a statistical correction from a re-benchmarking by Statistics Canada  
NBF Economics and Strategy (data via Statistics Canada)

<sup>1</sup> See: <https://nationalpost.com/news/freeland-on-why-immigration-levels-are-high-canada-has-the-social-capacity-to-welcome-immigrants>

To put things in perspective, Canada's population growth in 2023 was 3.2%, five times higher than the OECD average. What's more, all ten provinces grew at least twice as fast as the OECD, ranging from 1.3% in Newfoundland to 4.3% in Alberta - chart.

### Canada: All provinces grow at least twice as fast as OECD

Population change (2023Q4 vs 2022Q4)

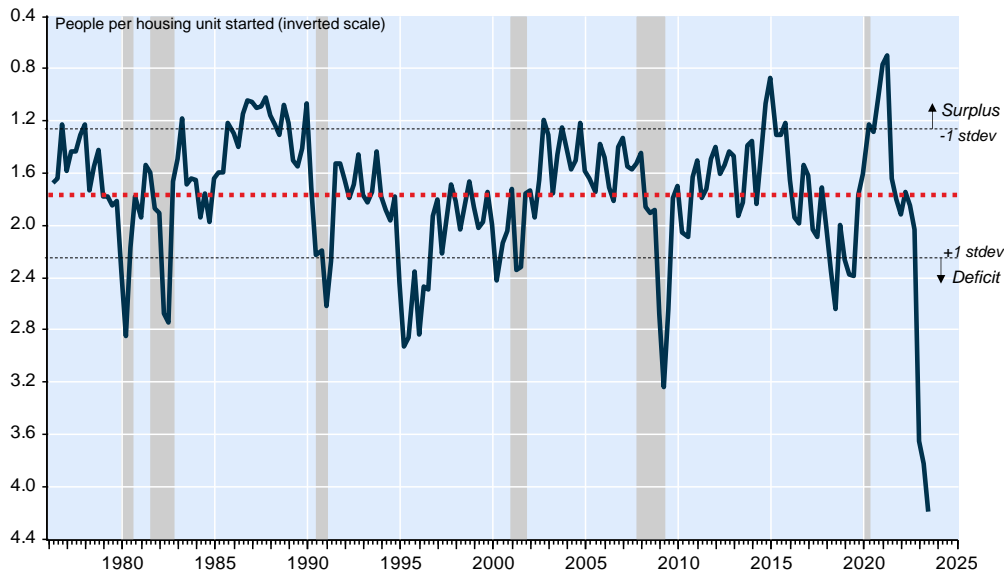


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Our country's current population growth appears extreme relative to the absorptive capacity of the economy and the fact that our workforce is not aging faster than the OECD average. Nowhere is this absorption challenge more evident than in housing, where the supply deficit reached a new record of only one housing starts for every 4.2 people entering the working-age population (compared to the historical average of 1.8) - chart.

### Canada: Housing supply deficit hits new record

Ratio of growth in working-age population to housing starts (quarterly data)

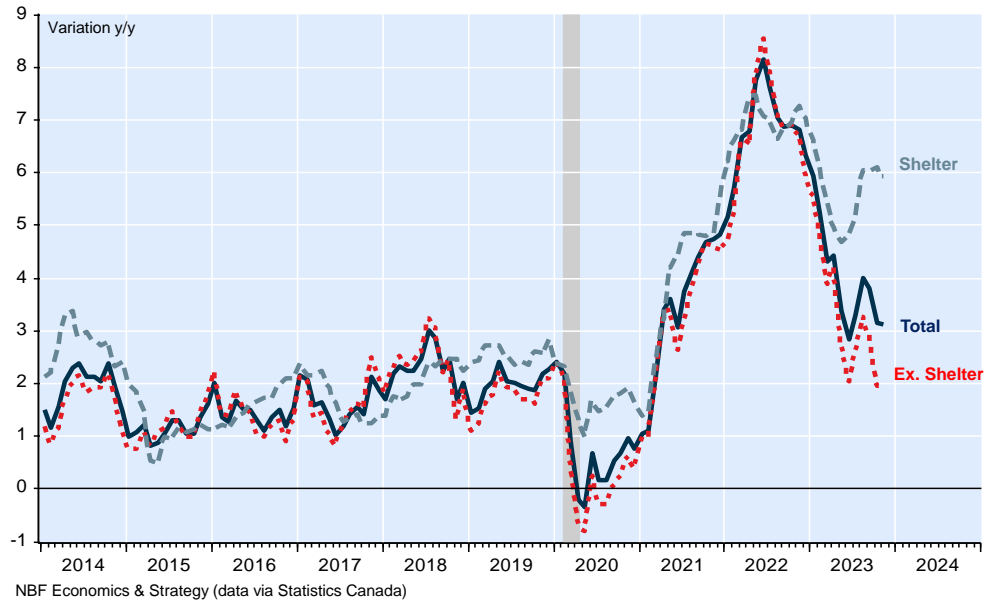


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To address the situation, the federal government has recently introduced programs to increase housing supply. But to meet current demand and reduce shelter cost inflation, Canada would need to double its housing construction capacity to approximately 700,000 starts per year, an unattainable goal.

### Canada: Shelter costs keep inflation above 3%

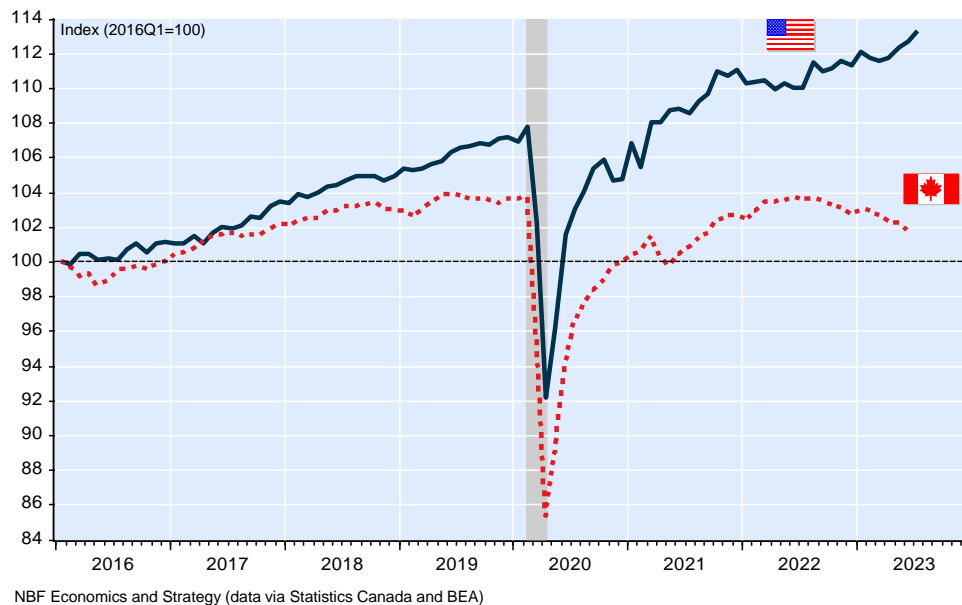
CPI inflation: Total, housing and ex-housing



In any case, our policymakers need to go beyond simply targeting housing supply and recognize that above a certain number, population growth is an impediment to our economic well-being. The fact that real GDP per capita has been at a standstill for six years is a case in point - chart.

### Canada: Standard of living at a standstill

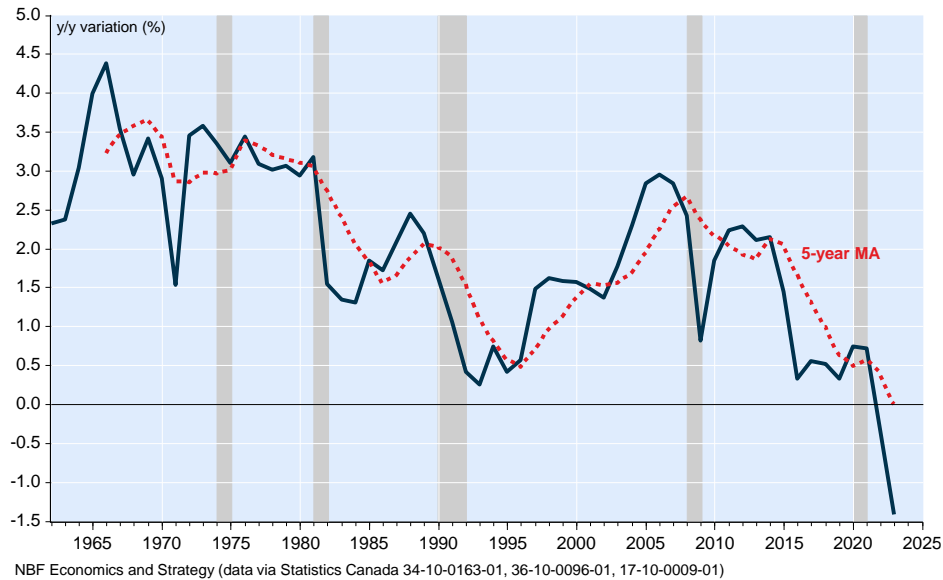
Real GDP per capita



Some economists will be quick to point out that this stagnation reflects poor productivity. But why is our productivity record so bad? Could it be that our demographic ambitions are too high relative to the stock of capital available in the country? According to our calculations, Canada’s capital stock per capita collapsed close to 1.5% in 2023 – chart.

### Canada: Caught in a population trap

Net real capital stock at year-end per person, all sectors (NBF estimation for 2023)

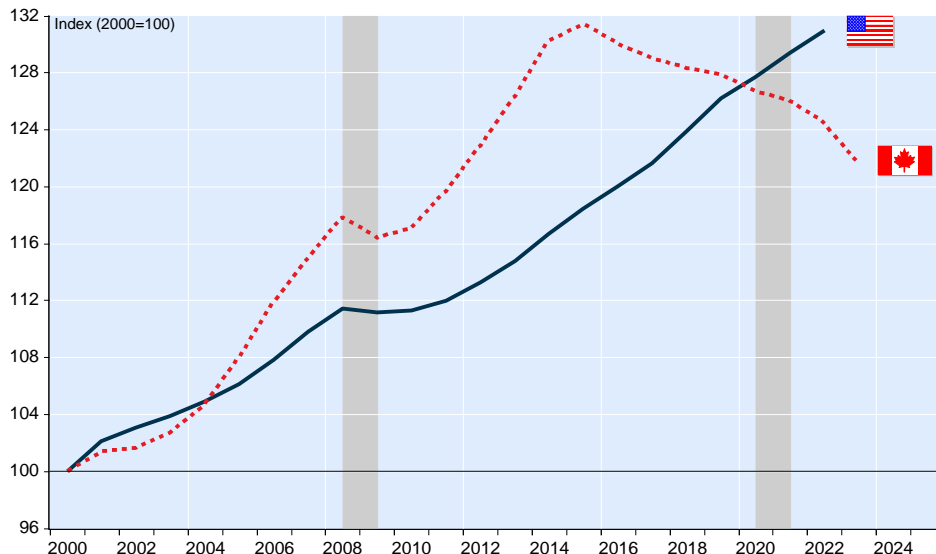


NBF Economics and Strategy (data via Statistics Canada 34-10-0163-01, 36-10-0096-01, 17-10-0009-01)

This means that our population is growing so fast that we do not have enough savings to stabilize our capital-labour ratio and achieve an increase in GDP per capita. Simply put, Canada is in a population trap for the first time in modern history. More worrisome is the fact that the decline is not simply due to a lack of housing infrastructure. In fact, the private non-residential capital stock to population ratio has been declining for seven years and is currently no higher than it was in 2012, while it is at a record high in the U.S. – chart.

### Canada: Canada: Non-residential capital stock per capita at decade low

Net real private non-residential capital stock per capita at year-end, (2023 estimation for Canada, 2022 for U.S.)



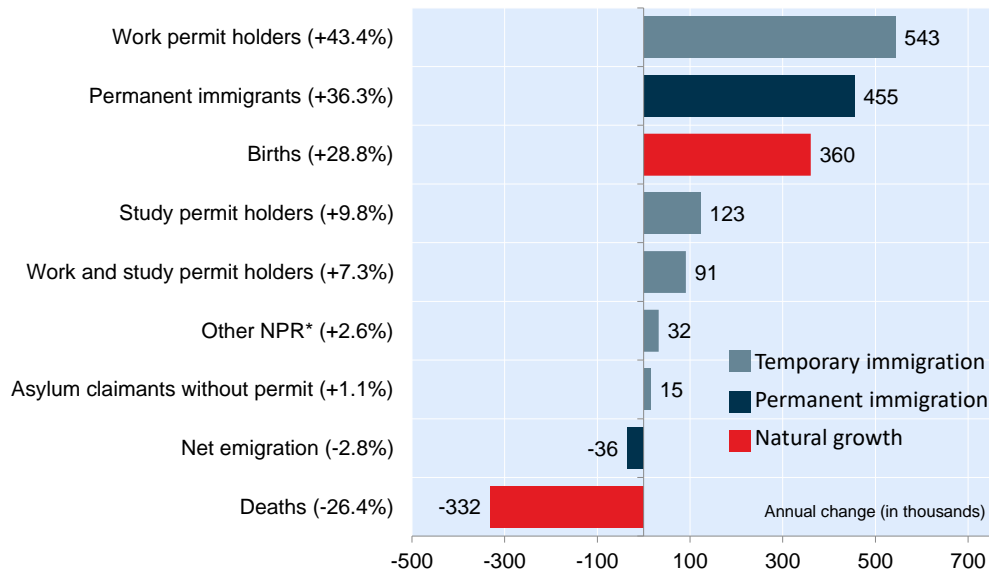
NBF Economics and Strategy (data via Statistics Canada 34-10-0163-01, 36-10-0096-01, 17-10-0009-01 and BEA table 1.2.)

### Conclusion

Canada is caught in a population trap that has historically been the preserve of emerging economies. We currently lack the infrastructure and capital stock in this country to adequately absorb current population growth and improve our standard of living. Our policymakers should set Canada's population goals against the constraint of our capital stock, which goes beyond the supply of housing, if we are to improve our productivity. At this point, we believe that our country's annual total population growth should not exceed 300,000 to 500,000 if we are to escape the population trap.

#### Canada: Breakdown of the 2023 annual population growth

Components of population growth (annual change in thousand people, total = 1,252K)



\* Mainly refers to family members living with permit holders  
NBF Economics and Strategy (data via Statistics Canada)

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