

Canada's 'demographic heat dome' can't break soon enough

By Warren Lovely

Looked at a thermometer (or consulted a weather app) lately? Well a good number of Canadians are currently suffering under a so-called 'heat dome', atmospheric temperatures dialed up to downright dangerous levels. And so it is with Canada's population growth, as StatCan's latest national headcount again makes clear.

The good news? There may just be some relief headed our way, one key driver of Canada's rather extreme 'demographic heat dome' poised to break up a bit. That might help turn the temperature down on some components of heretofore-steamy shelter inflation, notably rent. To many, that might sound like a breath of fresh air, even if less-forceful population gains crimp headline GDP growth a bit.

Diving into the latest quarterly data, we see that Canada's population moved past 41 million as of April 1st. The country added a net 1.273 million new bodies in the past year alone. If that sounds like super-charged population growth it is. It's nonetheless useful to put these population counts in some perspective.

On an outright basis (i.e., in level terms), you won't find a larger four-quarter increase in Canada's population, the prior period's record eclipsed by the narrowest of margins. In percentage terms, Canada's population is bubbling up at a 3.2% yearly pace, roughly three-times the pre-pandemic run-rate. As most surely realize, Canada's national economy has **not** been growing anywhere near 3.2%, which is to say real GDP per capita is contracting—and has been for some time. The evident loss of economic traction, measured on an individual or household basis, likely contributed to the BoC's recent decision to dial back policy rate restrictiveness. More relief is needed.

Compare Canada's swelling population with the U.S., where the latest official tally is barely 0.5% higher than year-ago levels. On second thought, that's no comparison at all. Rather, consider the inter-provincial story, which has some compelling elements. Between them, Ontario and Quebec—the two most populous provinces—are now home to 25 million people (61% of the national total). Here, abundant headcounts support large, diversified regional economies. Bond market investors will likewise recognize in Ontario and Quebec

two jurisdictions with large, liquid benchmarks and sophisticated/well-diversified borrowing programs.

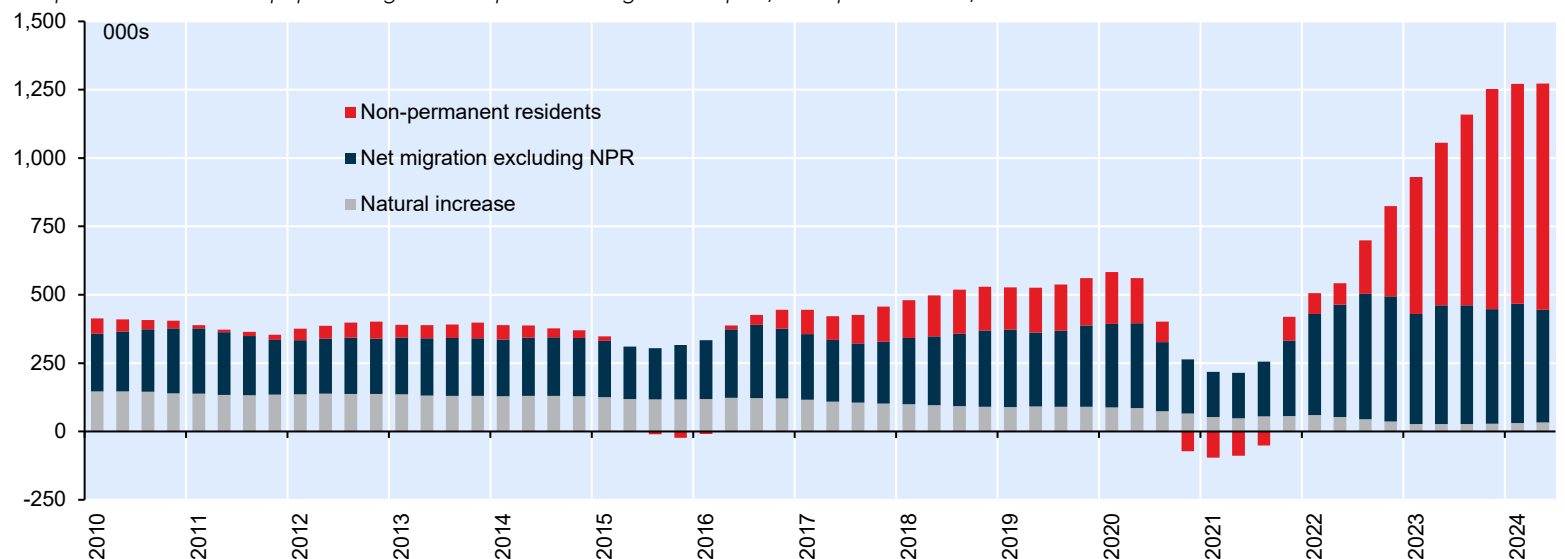
But it's Alberta that boasts the fastest population growth in the land, the year-over-year pace an ultra-brisk 4.4%. Alberta's unequalled growth rate captures significant inter-provincial in-migration. In the past four quarters, Alberta attracted net in-migration from every other province and territory. More affordable housing surely helped, as would a well-performing regional economy. (As an aside: No other province matched Alberta on relative budget balance in fiscal 2023-24 either, credit rating agencies generally liking what they've seen.)

Back to the national figures, where attribution analysis shows key trends very much intact. That is, Canada's population growth is overwhelmingly an immigration story. Based on the latest four-quarter period, natural increase (i.e., the excess number of births over deaths) accounted for the tiniest sliver (just 3%) of the nation's population gain. The other 97%? That came via international immigration, both of the permanent and temporary variety. The former, while certainly non-trivial, has clearly taken a backseat to the latter (i.e., non-permanent residents or NPR) of late. In the past year, Canada invited in a net 828,000 non-permanent residents. That's an unprecedented rate of increase, adding much strain to an under-supplied housing stock to say nothing of other 'system' pressures, including on assorted public infrastructure.

If Canada's hard-to-absorb population boom is, more than anything, a non-permanent immigration story, then it's here where solutions must be sought. And winds are shifting, some marginal relief perhaps in sight. The governing minority Liberals in Ottawa have pledged to reduce the NPR share of the population (from more than 6% today to 5% by 2027). A magic bullet or immediate fix this is not, but a gradual moderation in the net NPR component should see Canada's population growth rate cool... if not in the very next quarter than one suspects by the turn of the year. Mind you, even if it the worst of the 'demographic heat dome' soon breaks, Canadians are still likely to be feeling the lingering impacts on the economy for some time.

Chart 1: Visualizing Canada's 'demographic heat dome'... as national population surges by 1.273 million in past year

Components of Canadian population growth: 4-quarter moving sum to April 1, 2024 | Source: NBF, StatCan





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