

## Laying out the welcome mat is good for growth

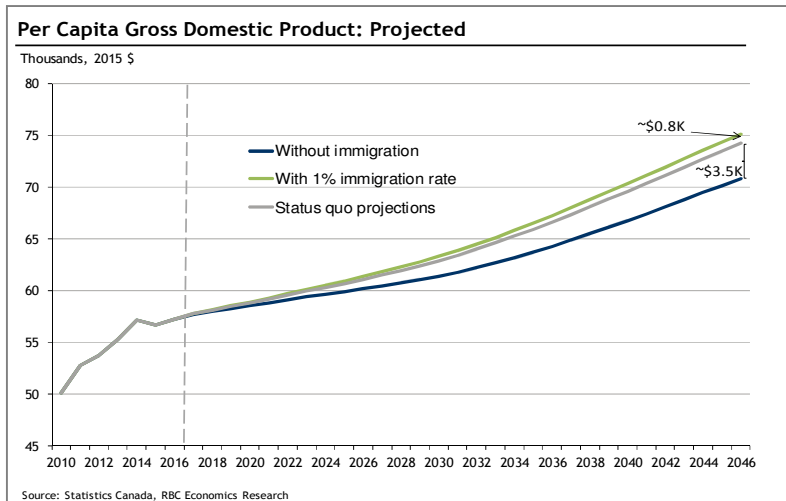
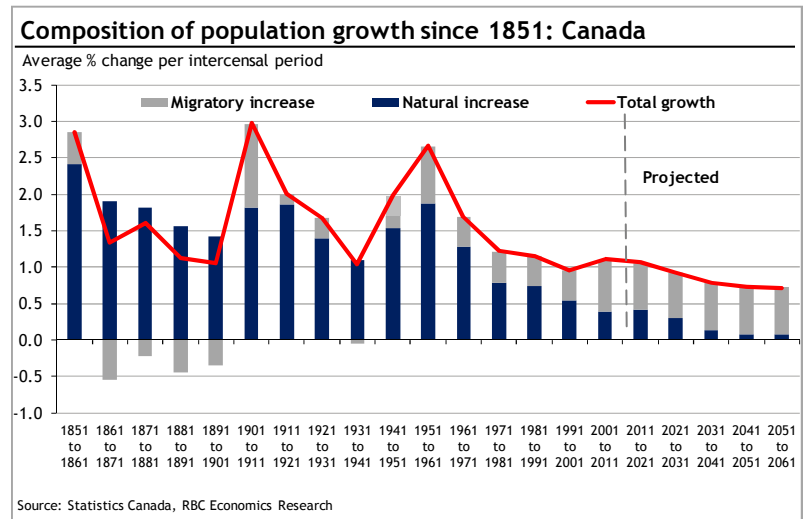
February 2017

Amidst a world increasingly suspicious of the touted benefits of globalization, Canada continues to lay out the welcome mat to those born outside of its borders. Foreign Affairs Minister Freeland, in a December 2016 speech, proudly championed Canada's open-door stance, remarking that the country is clearly defying the recent trend "toward protectionism and closed borders"<sup>1</sup>. The immigration rate is expected to remain elevated, but how is the policy impacting trends across the country and is it achieving its objective to offset the impact of an aging population?

### Raising the target

The numbers support the story. Canada welcomed more than 320K newcomers in 2016, an uptick from the 260K average seen over the previous few years. "Special circumstances" related to Canada's response to the Syrian refugee crisis underpinned the annual bump; however, the trajectory for the inflow of individuals is set to remain elevated. By setting a target for 300K newcomers in 2017, the government hopes to address the "demographic squeeze" facing Canada—namely, there will be fewer working-age Canadians to support a rising number of retirees<sup>2</sup>.

Beyond the mix of backgrounds, perspectives and cultures that foreign-born individuals bring to Canada, immigrants will play an increasingly important role in sustaining economic growth and in turn, the standard of living in Canada. If Canada were to close its borders and immigration subsequently fell to zero, it is estimated that real per-capita incomes would be ~\$3.5K lower in three decades than if the current levels of immigration were to be sustained<sup>3</sup>. This potential loss, attributed to fewer workers contributing to economic activity, is equivalent in size to the Canadian mining, oil and gas industry in 2015. A sizeable boost to productivity, a recent laggard on the Canadian economy, could help to offset some of the decline; however, with average annual productivity gains sitting below 1.0% over the past decade, it is evident that immigration will play a key role in supporting Canada's economic future.

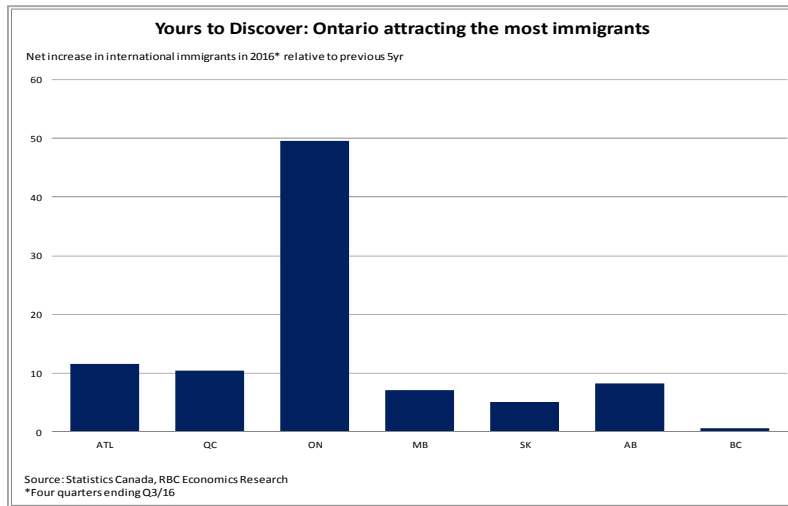


### Enough to temper demographic headwinds?

#### Working-age population

The new millennium marked a turning point for the drivers of population growth with immigrants contributing more than the natural rate of increase. This trend was evident in 2016 as the immigration bump contributed to the Canadian population expanding at its fastest pace to end the year since 1991.

Encouragingly, growth in the number of working-age persons (15 to 64) picked up in 2016 for the first time in more than a decade. The pace was still subdued relative to historical trends, but was a step in the right di-



recession after recording the slowest pace in 2015 since records began in 1976.

Going forward, young, successfully integrated immigrants will play an important role in helping to mitigate the labour force decline arising from an increasing number of retirees leaving the workforce.

**Provincial distribution**

The impact of higher immigration is being felt across the country as all provinces saw a population boost in 2016. Ontario witnessed the largest net increase in immigration levels of all provinces, which helped to drive population growth to its fastest pace in a decade. Similarly, the bump in Manitoba drove its population to expand at the highest rate since 1961.

The Atlantic region also saw a substantial increase in newcomers; unfortunately, the arrival of immigrants was not enough to reverse the outright decline in the region’s working-age population—one of Atlantic Canada’s greatest challenges. Even if current immigration levels were to be sustained, the region is facing a “demographic squeeze” whereby the ratio of Canadians of retirement age to the working-age population is expected to nearly double over the next decade from current levels around 25%.

**Labour market conditions rule**

The headline increase in newcomers masked the ultimate flow of people across the country. These movements were instead guided predominantly by labour market conditions. Alberta, for example, benefited from higher immigration levels in 2016, but the bump was not enough to offset the number of Albertans choosing to leave that province. Population growth slowed for the third consecutive year in the province as anemic job prospects owing to low crude oil prices lingered. Instead a greater number flocked to Ontario and BC, where hiring conditions were more favorable.

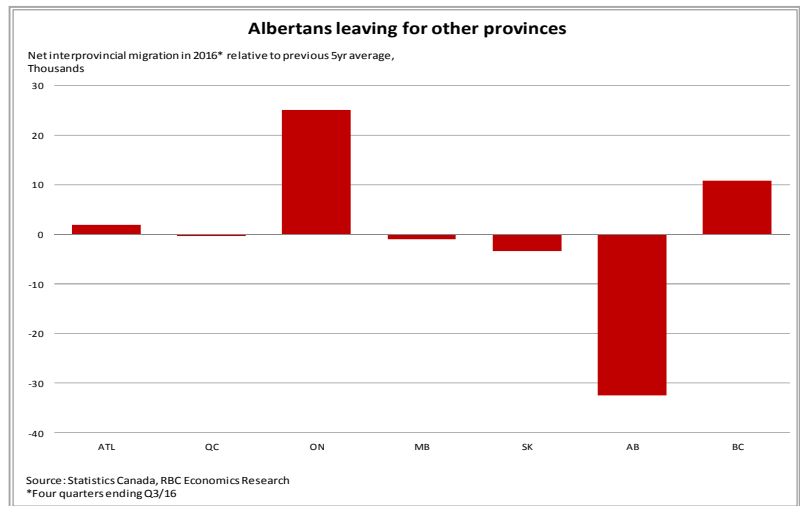
**Other developments influencing immigration flows**

Extremely poor affordability and lack of available housing in Vancouver likely played a role in BC recording the lowest immigrant increase of all provinces relative to past years in 2016. This did little to sway Canadians from relocating to the province, however, as labour market conditions attracted a near record number of Albertans to the province. Ontario also benefited from an influx of Albertans, which combined with the rise in immigrants to Ontario, contributed to fueling the region’s hot housing markets.

**Bolstering the talent (and growth) landscape**

Beyond attracting immigrants to Canada as a means to boost the working-age population, tapping into the talents of these skilled immigrants—as well as international students, half of whom hope to stay in Canada—presents a unique opportunity for the country. This is especially important as the economy pivots away from a goods-based economy to one that relies to a greater extent on services and leverages our comparative advantage of a highly educated population.

Immigrants are playing a growing role in small and medium-sized enterprises, which is particularly relevant for Canada, where SMEs represent 99.8% of all employer establishments, account for nearly one-third of economic activity, contrib-



ute close to 30% of R&D expenditures, and have accounted for nearly all of the net employment change over the past decade<sup>4</sup>.

First, a disproportionately high share of Canadian immigrant-owned businesses were start-ups in 2014 (32.9% of the firms had been around less than two years, up from 28.2% in 2011). While not all newcomers are in the technology and high-growth sectors, it appears they could play an important role in cultivating innovation through start-up clusters, made famous by the Silicon Valley tech hub. In fact, firms owned by foreign-born residents already accounted for nearly 40% of businesses in Canada's Information, Communication and Technology sector in 2014, second only to accommodation and food services.

There is also evidence that Canadian firms owned by immigrants are more likely to expand beyond the U.S.—the latest foreign stop for many Canadian businesses—to Europe, Latin America and Asia. As a result, they are also more inclined to pursue export-oriented strategies. Importantly, the propensity of SMEs to export is often tied to better revenue performance, competition-led investment, and ultimately, higher productivity growth<sup>5</sup>.

Newcomers contribute different perspectives, and connections to far-flung networks and they become entrepreneurs at a higher rate than Canadian-born residents. The entrepreneurial drive, diverse perspectives and global network brought by immigrants suggests that Canada can leverage this segment of the population to advance its innovation objectives and bolster growth prospects beyond the population growth story.

### More than a growth story

Recent policy tweaks to target high-skilled, younger workers, to retain Canadian-educated foreigners, and to emphasize language proficiency should boost working-age population growth and importantly, strengthen the integration of immigrants into the workforce. As job market trends, policy changes and growth prospects will continue to determine where immigrants settle within the country's borders, ensuring newcomers are able to successfully participate is an important step forward.

Beyond driving population growth and lessening demographic headwinds, immigration will continue to strengthen Canadian diversity. Canada has the highest share of its population foreign-born amongst G8 countries and one in two Canadians are projected to be foreign-born or be a second-generation immigrant over the next two decades<sup>6</sup>. In a world increasingly skeptical of opening its borders to foreigners, Canada is leaning against the wind—and despite challenges related to evenly distributing the impact across the country—ultimately, the country is poised to benefit.

### Notes

1. Minister Freeland—Speech to the Toronto Board of Trade, December 2016.
2. 'Attracting the Talent Canada Needs Through Immigration'. Advisory Council on Economic Growth. October 20, 2016.
3. Assumptions related to participation rates, average hours worked, unemployment rates and productivity growth.
4. Key Small Business Statistics - June 2016. Innovation, Science and Economic Development Canada.
5. "Doors open for Canada's SME exporters". RBC Economics Research. October 2015.
6. Statistics Canada. "Immigration and Diversity: Population Projections for Canada and its Regions, 2011 to 2036". January 25, 2017.

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