Scotiabank.

GLOBAL ECONOMICS

INSIGHTS & VIEWS

October 25, 2024

Contributors

Rebekah Young
VP & Head of Inclusion and Resilience Economics
Scotiabank Economics
416.862.3876
rebekah.young@scotiabank.com

Laura Gu
Economist
Scotiabank Economics
416.866.4202
laura.gu@scotiabank.com

Anthony Bambokian
Senior Economic Analyst
Scotiabank Economics
416.866.4211
anthony.bambokian@scotiabank.com

The New Hard-Versus-Soft Landing Debate

CANADA'S IMMIGRATION PLAN WOULD STALL POPULATION GROWTH IN ITS TRACK BUT WILL IT?

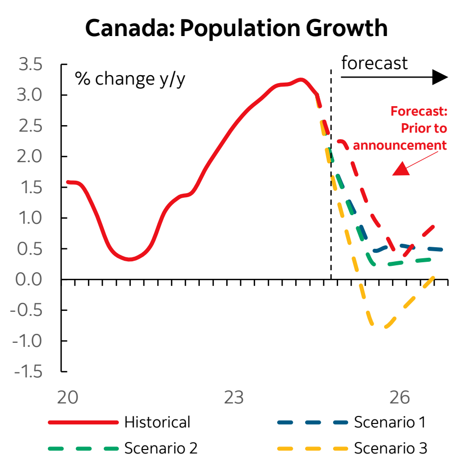
- **Earlier this week, Canada's Prime Minister and Immigration Minister announced material changes to Canada's immigration plans over the next three years.**
- **A pullback in permanent resident admissions, along with a sizeable contraction in non-permanent residents, would drive a modestly negative contraction in population growth (-0.2%) over the next two years, before returning to positive territory by 2027 (0.8%).**
- **There are still enormous uncertainties on the economic impacts to be weighed, but a contraction in the labour force would very likely dampen economic activity, albeit with a wide range of uncertainty around the magnitude. It is not yet clear whether supply or demand factors would dominate when it comes to the inflation and hence the interest rate path.**
- **A first step in fleshing out these potential impacts is determining possible path(s) for population projections. The aggressive policies set out imply serious implementation risks, but political resolve suggest they should not be dismissed.**
- **We set out three plausible population paths that could reasonably unfold over the horizon. They fall somewhere in the range of 0 to 1% annual population growth with our bias towards the mid-range (charts 1 & 2).**
- **Scotiabank Economics will examine the range of macroeconomic outcomes predicated on various population scenarios in the near future.**

HIGH ALTITUDE

On October 24th, the Prime Minister and Immigration Minister announced substantial changes to Canada's Immigration Levels Plan. The plan will officially be tabled in the House of Commons on or before November 1st, but this early preview provided a detailed preview of what is to come. Whereas prior Plans have provided a 3-year line of sight on permanent resident (PR) targets and their composition, this year's plan adds targets for non-permanent residents (NPRs).

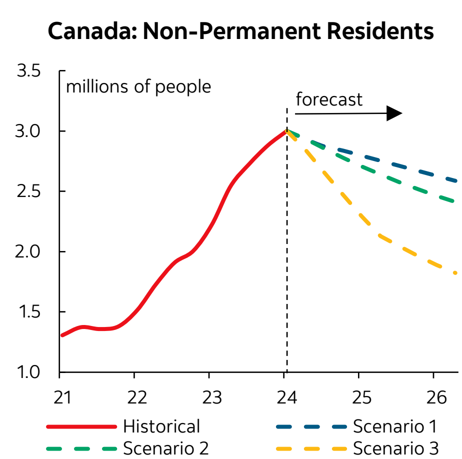
Permanent residents will be scaled back materially. The new plan would grant permanent status to 1.14 mn over the next three years: 395 k, 380 k, and 365 k in 2025, 2026, and 2027, respectively versus last year's plan that saw PR levels stabilize at 500 k

Chart 1



Sources: Scotiabank Economics, Statistics Canada, GoC.

Chart 2



Sources: Scotiabank Economics, Statistics Canada, GoC.

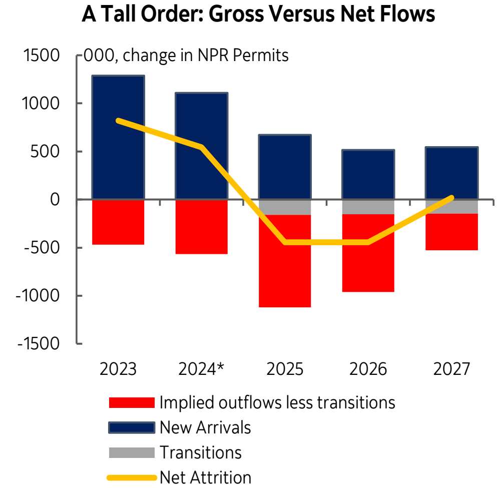
annually over the horizon. They notionally indicate about 40% of PR visas will be granted to those already in the country.

Table 1: Canada - Non-Permanent Resident Flows (2025-2027)			
Year	**Target Inflow**	**Implied Outflow**	**Target Net Growth**
2025	673,650	1,119,551	-445,901
2026	516,600	962,262	-445,662
2027	543,600	526,161	17,439

Sources: Scotiabank Economics, GoC.

The number of non-permanent residents in the country would be scaled back over time, consistent with its earlier-announced attrition target. Last March, the government had committed to bringing the number of NPRs to 5% of the total population by 2026. Putting numbers on paper, they indicate this would result in an annual net attrition of 445 k NPRs in 2025 and 2026 before seeing a small uptick (17 k) in 2027. The plan also details NPR arrival targets—tallying 1.7 mn over the next three years—with a slight majority accruing to students (53%). These figures imply gross outflows of 2.6 mn NPRs (1.7 mn arrivals plus 445 k attrition in both 2025 and 2026) needed to meet the target over the next three years (table 1 and chart 3).

Chart 3



Sources: Scotiabank Economics, GoC. * GoC has fixed targets for gross new issuance and net NPR attrition. Implied outflows are backed out. 2024 Q2 flows annualized.

The net impact of the plan would effectively stall population growth over the next two years. By the government's own estimates, population would contract by -0.2% y/y growth over the next two years as net NPR outflows modestly exceed permanent resident inflows (once those already in the country are excluded). Population growth would only return to positive territory (0.8%) by 2027.

See Tables 2–4, back, for full details of the new plan.

GRAVITATIONAL FORCES

Setting aside the merits of the plan, a key challenge for forecasters is determining a baseline for population assumptions. This underpins a host of important economic drivers from labour supply to consumption and housing demand to name a few. There is inherent risk in most policy execution against plan, often requiring judgement. The Bank of Canada had padded its population projections back in July—pending further policy details—maintaining an outlook of about 1.5% annual growth over the horizon in its recent update. Scotiabank Economics' latest forecasts were predicated on population growth slowing to about 0.8–0.9% y/y over the horizon.

The new immigration plan is extremely aggressive. For one population growth has begun decelerating recently, but no where near the pace suggested under the new plan. Annualized population growth in the most recent quarter (end-September) was 2.4% sa, but a contraction of 0.2% by next year would require a sharp halt to visa issuances across a highly decentralized labyrinth of programs. Total NPR visa issuances would contract by 36% by next year alone and by around 50% over the horizon. The government would simultaneously require an aggressive approach to monitoring and enforcing country exits. Recent quarter gross outflows annualize to about 545 k, but this would need to scale to 1.1 mn next year alone and 2.6 mn cumulative over the horizon.

The suite of policies announced to date does not yet cover the full landscape. Since March, the government has imposed caps on international student visas, limitations on post-graduate work permits (PGWP), and restrictions on temporary foreign worker program (TFWP) permits among other changes, but there is minimal detail on how the curtailment of International Mobility Program (IMP) visas will be achieved, apart from PGWP changes and spousal work restrictions. IMP visa holders reflect about 40% of all NPRs in the country—of which PGWPs (a component of IMP) comprise only 30%.

The most blatant risk may be underestimating the impact on labour markets and ultimately economic output. We earlier set out some of the potentially disruptive impacts of not only stalled labour force growth, but attrition of some of the 1.1 mn temporary residents actively employed in businesses across the country. Against a labour supply shock, there would also be changes to consumption and demand patterns. The business response function is also at play: will businesses replace workers (and from where), double-down on capital investments, or simply pause plans against no shortage of global and local uncertainties? Reponses will likely vary across sectors and over time.

It is not hard to lay out a range of competing narratives that could play out absent greater policy certainty, but they mostly point to a range in downside risk to current output projections. Further compounding complexity in interpretation, outcomes measured on a per capita basis are very likely to pop. But just as the earlier declines had not (yet) translated into eroded welfare for the majority of Canadians, an uptick in the math is not likely to translate into observable gains for most Canadians in the near term at least. If anything, the feedback from a contraction in economic activity could have the opposite effect.

Scotia's modeling team will have more granular insights to share in the coming weeks, but a first order is determining appropriate population assumptions.

THE RUNWAY(S)

To inform our own population assumptions for forecasting purposes, we test the sensitivity of that pathway to implementation risk. We set out three scenarios. All scenarios assume the pullback of student visa issuance will continue largely as planned with early data confirming this is underway. We also assume PR issuance will be executed against plan with about 40% from within the country, consistent with recent trends. Otherwise, we consider the following scenarios:

1. **Announced programs with delayed effects**: The government is largely limited to levers already codified in program changes. Notably, the TFWP through its Labour Market Impact Assessment (LMIA) process drives the curtailment in work visas. The TFWP accounts for 20% of all outstanding temporary permits, with the LMIA stream making up half of that, representing just 10% of the total work permits. Due to administrative barriers and limitations, work visa issuances may only begin to decline in early 2025. Work visa issuance would decrease by 4% in 2025 and another 11% in 2026. This would leave population growth around 0.9% and 0.5% in 2025 and 2026, respectively.
2. **Announced programs with immediate effects**: The government achieves TFWP LMIA reductions as per scenario 1, but with curtailment effect showing up immediately. Work permit issuance would decline by 20% in 2025 and 10% in 2026. Population growth would land around 0.7% and 0.3% over that horizon.
3. **Stated plans**: The government introduces and aggressively executes attrition largely in line with stated intentions set out in its new immigration plan. Effectively 70% of current visa holders in the country would either renew, transition to PR or leave the country versus a historic expiration rate of around 30–40%. Population growth would collapse as per the government's stated plans.

These are not Goldilocks scenarios where there is a clear baseline. Enormous weight rests on political resolve. The **backlog** of work permits is approaching 50% (against a target 20%). This is a blunt lever, but would 'get the job done' if the government were pressed to demonstrate quick results. In perpetual election mode, this risk cannot be dismissed.

NO LANDING

The balance of risk likely rests on a more serious population deceleration—if not outright contraction—relative to prior assumptions. While Scotiabank Economics' is not immediately revising its economic outlook just yet, it will be examining the range of potential outcomes if and when more policy details are tabled and as more data confirm which path we're on. In this regard, the more timely Labour Force Survey population estimates may increasingly become a market maker (or breaker). That said, if forced to pick a path now, we'd lean towards the first scenario of a softer deceleration relative to plans set out this week.

Table 2: Canada - Non-Permanent Resident Composition Targets (2025-2027)

Non-Permanent Resident	2025	2026	2027
Workers	367,750	210,700	237,700
of which			
International Mobility Program	285,750	128,700	155,700
Temporary Foreign Worker Program	82,000	82,000	82,000
Students	305,900	305,900	305,900
Overall	673,650	516,600	543,600

Sources: Scotiabank Economics, GoC.

Table 3: Canada - Annual Permanent Resident Composition Targets (2025-2027)

Immigrant Category	2025 Target	2026 Target	2027 Target
Economic	**232,150**	**229,750**	**225,350**
of which			
Federal Economic Priorities	41,700	47,400	47,800
In-Canada Focus	82,980	75,830	70,930
Federal Business	2,000	1,000	1,000
Federal Economic Pilots	10,920	9,920	9,920
Atlantic Immigration Program	5,000	5,000	5,000
Provincial Nominee Program	55,000	55,000	55,000
Quebec Skilled Workers and Business	34,500	TBD	TBD
Regularization Public Policy	50	100	200
Family	**94,500**	**88,000**	**81,000**
of which			
Spouses, Partners and Children	70,000	66,500	61,000
Parents and Grandparents	24,500	21,500	20,000
Refugees and Protected Persons	**58,350**	**55,350**	**54,350**
of which			
Protected Persons in Canada and Dependents Abroad	20,000	18,000	18,000
Resettled Refugees - Government Assisted	15,250	15,250	15,250
Resettled Refugees – Blended Visa Office Referred	100	100	100
Resettled Refugees – Privately Sponsored	23,000	22,000	21,000
Total Humanitarian & Compassionate & Other	**10,000**	**6,900**	**4,300**
Total	**395,000**	**380,000**	**365,000**

Sources: Scotiabank Economics, GoC.

Table 4: Canada - Annual Population Growth Scenarios (2024-2026, %)

Scenario	2024	2025	2026
Baseline	2.9	1.4	0.7
Scenario 1	2.9	0.9	0.5
Scenario 2	2.9	0.7	0.3
Scenario 3	2.9	-0.1	-0.2

Sources: Scotiabank Economics, GoC.