

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

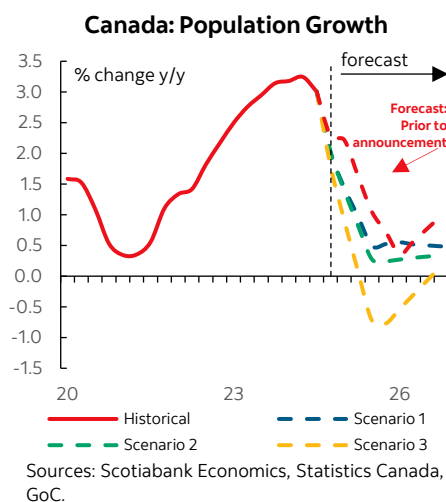
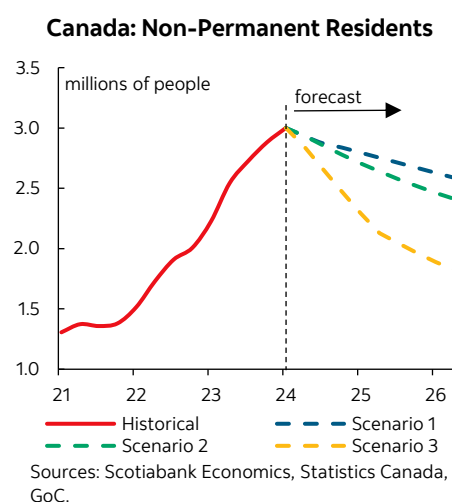


Chart 2



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

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).

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? Responses 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,

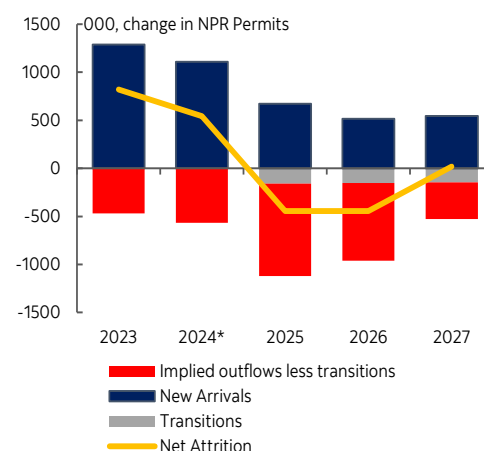
Table 1: Canada - Non-Permanent Resident Flows (2025-2027)

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.

Chart 3

A Tall Order: Gross Versus Net Flows



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.

October 25, 2024

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
<i>of which</i>			
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
<i>of which</i>			
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
<i>of which</i>			
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
<i>of which</i>			
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.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.