

# ECONOMIC VIEWPOINT

## The Ins and Outs of Immigration and Canada's Housing Market

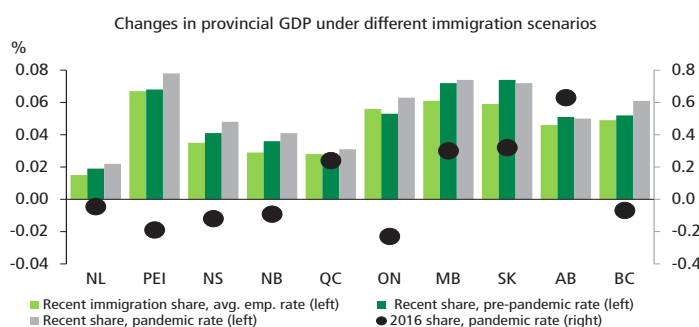
by Randall Bartlett, Senior Director of Canadian Economics and Marc Desormeaux, Principal Economist

- ▶ The Canadian housing market has corrected sharply from its pandemic highs. But looking ahead, we expect it to find a bottom by the end of the year. This is likely to be the result of falling interest rates, a tight labour market, elevated household savings and heightened immigration.
- ▶ Naturally, an increase in immigration will spur sales activity. If these newcomers to Canada continue the recent trend of moving to Ontario and British Columbia, affordability there and nationally will erode further. However, if they move to places that have done a better job historically of integrating immigrants, such as the Prairie provinces, this will provide a substantive offset to the impact of higher immigration on home prices.
- ▶ Increasing the housing supply beyond the typical demand response would also take pressure off prices but requires extraordinary policy intervention and resolve. Indeed, we estimate that housing starts would have to increase immediately by almost 50% nationally relative to our baseline scenario and stay there through 2024 to offset the price gains from the increase in federal immigration. This is equivalent to about 100,000 more housing starts on average annually in 2023 and 2024 relative to our baseline, and would lead to the highest level of housing starts in Canadian history.
- ▶ Canada needs talented, young immigrants to increase productivity and offset the economic and fiscal drag from aging. Economic immigrants are more likely to be employed and have higher earnings than native born Canadians, thereby raising Canada's economic potential. Turning them away because of an inability or unwillingness to build more housing would leave Canada worse off.
- ▶ This note is part of ongoing work at Desjardins Economic Studies on the economic impacts of Canada's shifting demographics.

Over the last couple of months, Desjardins Economic Studies has released two reports looking at the economic impacts of the federal government's increased immigration targets (you can find them [here](#) and [here](#)). That analysis concluded that, under reasonable assumptions, the scope and scale of planned immigration will lead to higher real GDP growth than it would be otherwise. This is true at both the national level and in all 10 Canadian provinces (graph 1). At the same time, the impact on per capita real GDP growth is more mixed, depending crucially on where immigrants settle.

Missing from that conversation so far has been the impact of elevated immigration on provincial housing markets. In this note, we try to analyze that issue, as well as provide broader context and considerations around how it can be addressed.

**GRAPH 1**  
The West (and PEI) are Best for Canada's Newest Immigrants



Sources: Statistics Canada and Desjardins Economic Studies

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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### Impacts of Elevated Immigration on Housing

The baseline outlook presented in [our most recent housing market forecast](#) includes the most recent immigration targets published by the federal government. In this scenario, we assume that the share of immigrants going to individual provinces returns to the 2018–2021 average. This forecast is one where sales and listings rise steadily starting in the second half of 2023, spurring a return to a seller's market in some provinces and, hence, higher prices. This will act as a brake on any rebound in affordability resulting from the price correction that started in early 2022 even as interest rates fall.

To gauge the impact of immigration on provincial housing markets, we take a few different approaches. The first is to adjust the level of overall immigration, starting with the previous immigration targets and then looking at a return to past levels of immigration. We then adjust the share of immigrants going to different provinces. Finally, we look at the housing supply response required to meet the needs of incoming new Canadians.

### Adjusting Immigration Targets

Naturally, an increase in immigration will spur sales activity. Of course, this isn't without a response in housing starts and listings. However, using history as a guide, the supply response is likely to be insufficient to prevent an increase in prices and an erosion of affordability.

Keeping provincial immigration shares at their 2018–2021 average directs a larger share of immigrants to Ontario and British Columbia relative to history. Unfortunately, these provinces were characterized by strained affordability even prior to the COVID-19 pandemic. As such, the increase in the federal immigration targets is likely to boost prices and erode affordability there and nationally. And that's what we see in our analysis, although the recent increase in planned immigration is likely to have only a modest impact (graph 2). That said, a return to the average level of immigration from 2018–2021 would have a much more pronounced impact on keeping home prices lower and minimizing the erosion in affordability.

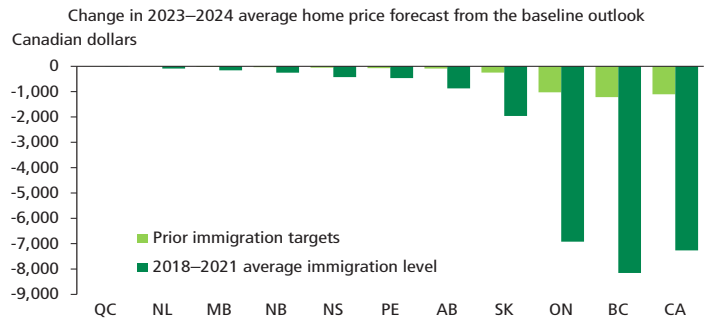
### Reshuffling of the Immigration Shares

This said, per our recent analysis on the impacts of immigration on provincial economies, the Prairie provinces have historically had the most success at integrating immigrants. We also expect these to be the best performing economies in Canada in 2023 and possibly beyond. They have the most affordable housing markets in Canada as well, and are anticipated to see affordability improve more than in other parts of the country by the end of 2024. As such, a greater share of new Canadians destined for the Prairie provinces would support higher economic growth there and nationally (graph 3). At the same time, this would put less pressure on home prices and housing affordability in regions where it is already stretched (graph 4). Indeed, if the share of immigrants returned to its 2016 distribution, where

more immigrants choose to live in the Prairies, the downward adjustment to national home prices would be more than enough to offset the upward effect from the recent increase in planned immigration.

### GRAPH 2

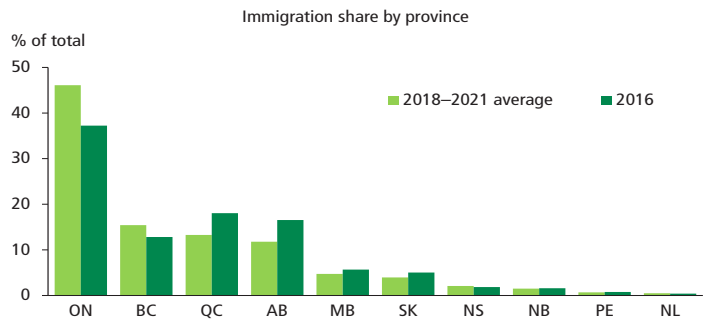
#### Lower Immigration and Housing Demand Would Reduce Price Growth



Source: Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

### GRAPH 3

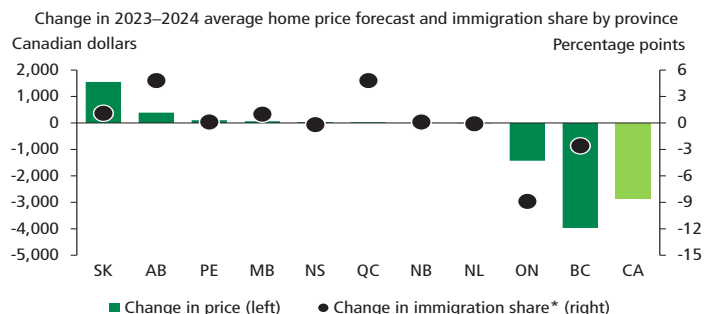
#### More Immigrants than in the Past Have Been Coming to Ontario and BC



Source: Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

### GRAPH 4

#### Home Prices Would Be Lower if More Newcomers Move to The Prairies



\* 2018–2021 average immigration share less 2016 immigration share

Source: Statistics Canada, Canadian Real Estate Association and Desjardins Economic Studies

### Raising the Housing Stock

Regardless of where newcomers to Canada decide to settle, the home price impact of higher levels of immigration can be offset by an increase in the stock of housing. But we estimate that housing starts would have to increase immediately by almost 50% nationally relative to our baseline scenario and stay there through 2024 to offset the price gains from the increase in federal immigration (graph 5). This is equivalent to about 100,000 more housing starts on average annually in 2023 and 2024 relative to our baseline, and would lead to the highest level of housing starts in Canadian history (graph 6). It would be required, in part, due to the lag between when new home construction begins and when those homes are listed for sale. This is much more ambitious than the federal government's plans, most recently discussed in [Budget 2022](#). However, it falls short of the lofty plans laid out by the Government of Ontario in [Bill 23, the More Homes Built Faster Act](#), although there would be an opportunity to catch up in later years. Indeed, if housing starts were to reach 150,000 annually in Ontario in 2023 and 2024, this would have a disproportionate offsetting impact on the average home price in Canada.

### Why Can't We Have Nice Things?

Discussions around housing affordability in Canada have recently focused on the elevated level of immigration. Some have suggested that the rate at which immigrants are arriving in Canada is outpacing the ability of the country to adequately supply housing. Indeed, our analysis shows that in the absence of new policies to accelerate homebuilding beyond the pace at which the economy typically responds to demand, prices will begin to rise quickly again in 2024. This will further erode affordability and make it more challenging for Canadians to buy a home.

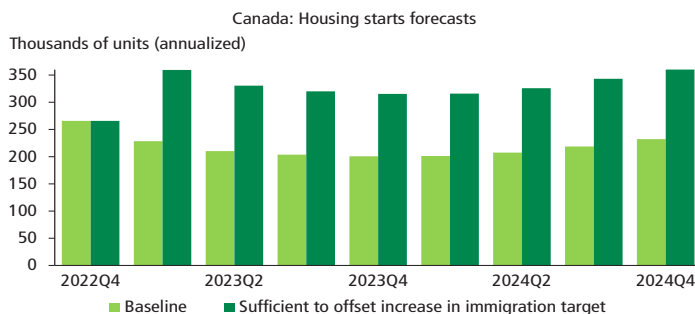
However, we believe putting the blame squarely on immigration as the primary cause of rising home prices is wrongheaded.

First, Canada is currently building housing at a near record pace. Unfortunately, this has only been the case since the start of the pandemic. By way of comparison, as the baby boomers came of age in the 1970s, Canada built housing at a similar torrid pace but on a more sustained basis. But the need for housing today is even greater than it was then given the size of our existing population and planned population growth.

This begs the question: If Canada could step up to meet the challenge of building housing on a sustained basis when the baby boomers were entering the market, why can't it be done now? We suspect this is a question that can be best answered by policymakers. The escalation of barriers to residential construction through policies such as exclusionary zoning and the use of heritage designations are often cited as having resulted in higher home prices, lower density and urban sprawl. The reliance on development charges for municipal revenues has also played a role in some provinces, as it has acted to discourage density. (For more information on policies to increase the housing supply, see [Canada's Housing Market Correction Has Begun. Is It a Good or Bad Thing?](#), by Desjardins's Chief Economist Jimmy Jean).

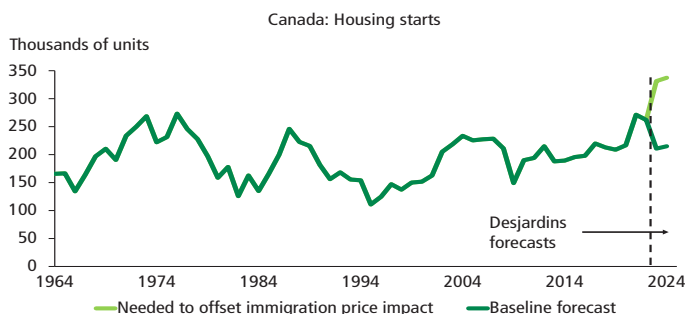
At the same time, there are genuine issues related to labour shortages and supply constraints. Indeed, the job vacancy rate in construction is well above the other industries average (graph 7 on page 4), despite the ongoing correction in the Canadian housing market. Infrastructure investment, particularly public transit, has not kept up with the growing footprint of our cities, leading to longer commute times for homeowners. In an era where measures are being put in place to slow climate change, urban sprawl makes less sense as a way of housing people than it might have at one time.

**GRAPH 5**  
Housing Starts Need to Rise Sharply to Offset Higher Immigration



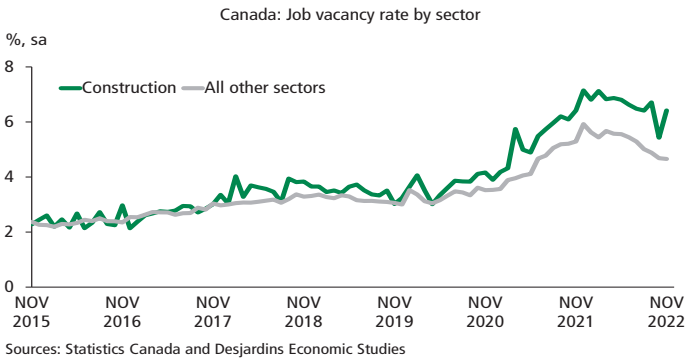
Sources: Canadian Mortgage and Housing Corporation and Desjardins Economic Studies

**GRAPH 6**  
Housing Starts Need to Top Historic Highs to Accommodate Newcomers

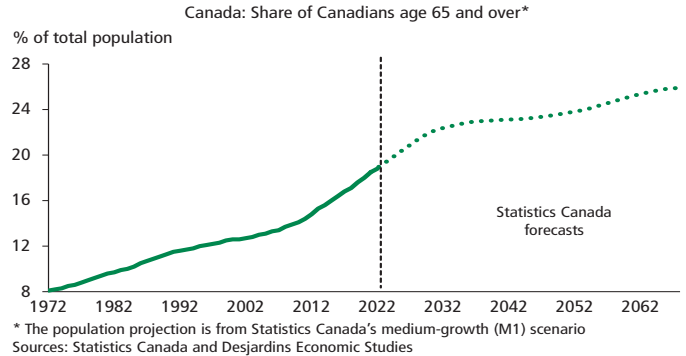


Sources: Canadian Mortgage and Housing Corporation and Desjardins Economic Studies

**GRAPH 7**  
The Construction Sector is Facing Particularly Acute Labour Shortages



**GRAPH 8**  
It's Expected That Eventually, More than 1 in 4 Canadians Will Be over Age 65

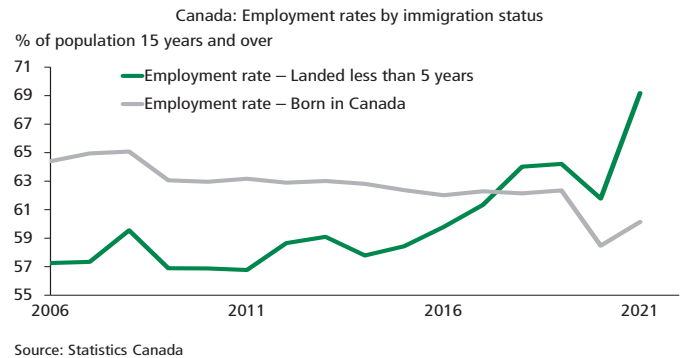


Second, Canada's population is aging rapidly (graph 8). That means increasing the number of younger immigrants, particularly economic immigrants that can quickly integrate into the labour force, is paramount. And this is what we're seeing. In the years just prior to the pandemic, the median economic immigrant was more likely to be employed and to earn more within the first few years of arriving in Canada than the typical Canadian (graphs 9 and 10). According to Statistics Canada, they are also [more likely to start businesses](#) and [engage in international trade](#) while shoring up the tax base to support the exponential rise in health care costs associated with aging. As such, turning talented young immigrants away because of a lack of willingness to address housing supply constraints would leave Canada worse off.

### Conclusion

Canada's housing market has corrected significantly from the frenetic pace of activity during the pandemic. Going forward, we expect sales activity to rebound in the second half of 2023 and into 2024, supported by falling interest rates and elevated levels of immigration. But while the surge in newcomers is likely to push home prices higher and erode affordability again, it is important that we recognize that this is not inevitable. Rather than being considered a reason to curb immigration, it should instead be a catalyst for reducing barriers to building more housing. The contribution of immigrants to the Canadian economy well outweighs their impact on the housing market.

**GRAPH 9**  
Recent Immigrants to Canada Are More Likely to Be Employed than People Born in Canada



**GRAPH 10**  
Economic Immigrants Earn More Than the National Average Income

