

Laying out the Welcome Mat **“Car!” A Canadianism.**

Cars replaced babies in my old neighbourhood, so now we need immigrants to fuel growth.

Street hockey and dinner time -- a painful clash of priorities. We needed at least two or three guys per team, but more was better. The games were all Stanley Cup finals to us. We hated to stop, even for the occasional: “Car!” So if John and Dennis were called home for dinner, taking their net, we might figure out something with just one net – half-court – but if Roy and Danny’s moms called too, it was hard to muster the same enthusiasm with just a couple of us. Every night my friends left a wind in their wake, often scented in pleasant aroma of pork chops or other delights wafting from their nearby homes. These boys had moms at home who made dinner, which annoyed me because it interrupted the real action. The evening meal at my place was whatever I or my sister could throw together, and PBJ isn’t something that generally lingers in the air like a spring barbeque.

More Cars, Fewer Kids

Driving down that very street in a shiny rental car not long ago, the wisp of those street battles flew past me like a ribbon in the wind -- with a pork chop tied to one end. I don’t know how one could pull off such a match there now. What was once the working-class suburbia of Vancouver, is now the realm of two-per-family sports cars and SUV’s. And, owing to the massive increase in real estate prices, many of those homes have basement suites, meaning four cars per home. Everywhere: “Car!” With all those vehicles parked on the street there’s nowhere to play road hockey, despite the street layout remaining precisely as it was.

Where did all the kids go? Boomed off to the 80’s and beyond, like a load of old growth timber. Reminiscence aside, the financial implications of this transition is the stuff of economics textbooks.

Is immigration enough to temper demographic headwinds?

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, an economic necessity. It is not my purpose here to opine on the politics of this policy, (and especially not the recent trend of allowing unfiltered walk-ons) but rather to analyze the broad economic ramifications of immigration, and whether an accommodative policy will offset the impact of our aging population?

Raising the target

Canada welcomed more than 320,000 newcomers in 2016, an uptick from the 260,000 average seen over the previous few years. 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. Humanitarian crises aside, by setting a target for 300,000 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. In short, we need to import people to work and pay taxes so you and I can retire someday because our kids are not producing grandchildren. Slackers.

Immigrants 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 approximately \$3500 lower in three decades. Fewer workers contributing to economic activity, is equivalent in size to the Canadian mining, oil and gas industry in 2015. Speaking strictly in financial terms, we need immigrants – or more babies – or both.

Working-age population

The new millennium marked a turning point, with immigrants contributing more than the natural rate of population increase. 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 direction 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 Labour market conditions

Alberta, 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. Many flocked to Ontario and BC, where hiring conditions were more favorable.

Immigrants are renting

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. But this did little to sway Canadians from relocating to the most beautiful place on earth. But as labour market conditions attracted a near record number of Albertans to the most westerly 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.

Much of the data from this submission is taken from a February 2017 RBC Economics Special Report called: Laying out the Welcome Mat is Good for Growth.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund). This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.