

WEEKLY COMMENTARY

Skyrocketing Population Gains Highlight Canada’s Perennial Problem: Poor Productivity

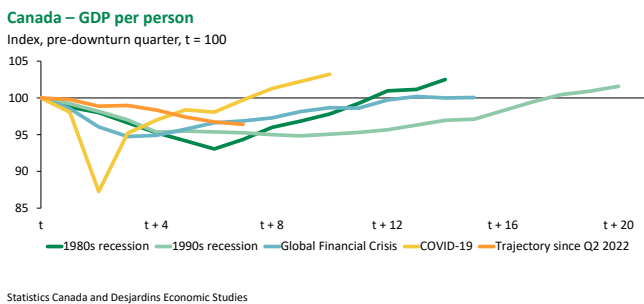
By Marc Desormeaux, Principal Economist

Demographic data released this week were no April Fools’ joke: Canada’s population climbed by a near-record 3.2% between April 1, 2023, and April 1, 2024, to exceed 41 million for the first time ever. These gains are keeping Canada’s economy afloat, but output per person has now fallen in six of the last seven quarters—a streak not previously seen outside of a recession (graph 1). What does this tell us about where Canada’s economy is right now and where we may be headed?

Canada’s economy is still growing and churning out jobs, many people and businesses feel worse off than they did a year and a half to two years ago. The severe 1980s and 1990s downturns are the only other times Canadians experienced such persistent standard of living declines, though output per person has fallen far less dramatically this time around.

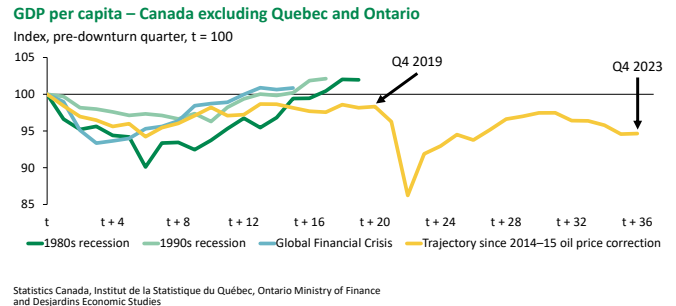
The entire country is feeling the pain. In our latest Provincial Outlook, we noted that 2023 was the broadest-based standard of living decline in Canadian history aside from the pandemic. Early-2024 data suggest that trend continued early this year. The data outside the two largest provinces are particularly troubling. Excluding Quebec and Ontario, GDP per person remains below both the 2014–15 peak and the Q4 2019 pre-pandemic level (graph 2). This mirrors the particularly difficult

Graph 1
Canada’s in a “Per Capita Recession”



Per capita output measures our overall standard of living. Since GDP is the total income generated across the economy, declining real GDP per person means that the money being created—by households and firms—is less than what we should be getting from population growth alone. So even though

Graph 2
Outside Central Canada, Output per Person Hasn’t Recovered from COVID-19 or the 2014–15 Oil Price Downturn



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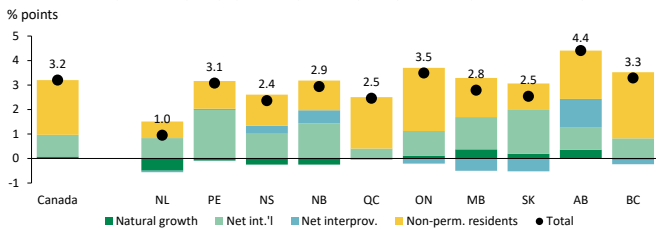
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conditions that oil and gas producers faced beginning in the mid-2010s. That means many people outside our two biggest provinces feel worse off today than they did 10 years ago.

Non-permanent residents—a category dominated by temporary foreign workers—continue to drive the bulk of the population surge (graph 3). But this tailwind to population and economic growth should fade over the coming quarters. Our work shows that Ottawa’s decision to reduce the temporary resident population by 25%–30% will [weigh down](#) overall Canadian economic activity.

Graph 3
Non-permanent Residents Are Still Driving Population Growth

Contribution to year-over-year population growth by component – April 1, 2023, to April 1, 2024



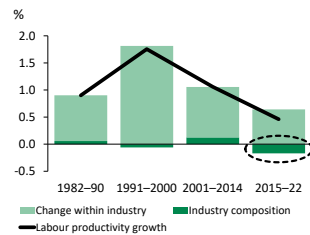
Statistics Canada and Desjardins Economic Studies

To be clear, skyrocketing population growth hasn’t been driving the recent slide in our standard of living. It simply illustrates the weaknesses under the hood of Canada’s economy. In fact, we think skilled newcomers can help boost Canada’s economic quality of life over time. For instance, [employment outcomes](#) have improved significantly in recent years for both permanent residents and temporary workers. Economic immigrants in particular often fare better than Canadian-born workers. Nearly all the jobs created since the early-2022 peak job vacancy rate have gone to newcomers. As the latest waves of international migrants more fully integrate into the Canadian labour market, they can reasonably be expected to bolster productivity by applying their skills, experiences and international networks.

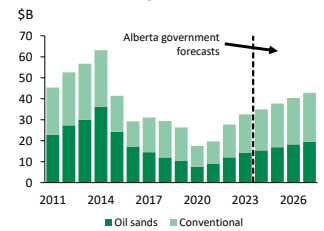
Still, recent demographic gains have brought new attention to Canada’s longstanding productivity issues. [Oil and gas extraction is by far the most productive sector in the country](#), and its recent challenges explain some of our more recent productivity results. Although oil and gas investment will remain a critical driver of Canada’s prosperity going forward, neither the Alberta government nor the Alberta Energy Regulator see it returning to pre-2014 rates this decade (graph 4). Against that backdrop, new approaches must be considered. We recently made a [series of policy recommendations](#) to promote innovation and productivity in Canada. [Artificial intelligence](#) also offers tremendous opportunity (and risk), and getting adoption right is critical for Canadian businesses to be competitive.

Graph 4
Oil and Gas Can’t Do the Heavy Lifting on Productivity Anymore

Canada – Labour productivity growth and its components



Alberta – Oil and gas investment



Statistics Canada, Alberta Treasury Board and Finance and Desjardins Economic Studies

Population growth has supported Canada’s economy significantly and can continue to do so in the future, but it’s also masking deeper weakness and highlighting longstanding challenges. Ultimately, for Canadians to truly feel better off over time, we need to fix our productivity problem.

What to Watch For

TUESDAY June 25 - 9:00

April	y/y
Consensus	7.00%
Desjardins	6.90%
March	7.38%

TUESDAY June 25 - 10:00

June	
Consensus	100.0
Desjardins	102.5
May	102.0

WEDNESDAY June 26 - 10:00

May	ann. rate
Consensus	650,000
Desjardins	625,000
April	634,000

THURSDAY June 27 - 8:30

May	m/m
Consensus	0.0%
Desjardins	-0.7%
April	0.6%

FRIDAY June 28 - 8:30

May	m/m
Consensus	0.3%
Desjardins	0.3%
April	0.2%

UNITED STATES

S&P/Case-Shiller home price index (April) – Month-on-month growth in existing home prices slowed in March, rising just 0.3% after a 0.6% advance in February. Growth probably remained unchanged at 0.3% in April. That would bring the Case-Shiller index’s year-on-year gain to 6.9%, somewhat below the 7.4% posted in March.

Conference Board Consumer Confidence Index (June) – In May, the Conference Board index surged by 4.5 points, its biggest monthly jump so far in 2024. Lower gasoline prices were likely a big driver of this change. We don’t expect confidence to have increased anywhere near as much in June. On the one hand, both pump prices and mortgage rates have continued trending downward in recent weeks, while the stock market has been on a month-long rally. On the other hand, the rest of the confidence indexes haven’t really shown the same kind of gains. In fact, the University of Michigan index and the TIPP index both slid in June. Furthermore, unemployment claims have been on a slight uptrend over the past few weeks. All told, we expect a mild uptick in the Conference Board Consumer Confidence Index.

New home sales (May) – Sales of new single-family homes are still highly volatile. After plummeting 5.0% in February, they soared 5.4% in March before tumbling 4.7% in April. Monthly data releases often include drastic revisions to these figures, which makes things hard to predict. We nevertheless believe sales dropped again in May. That’s the message we’re getting from decreases in both single-family building permits and the builder confidence index.

Durable goods orders (May) – Durable goods orders ticked higher by 0.6% in April despite aviation orders plunging 6.0%. The aviation sector’s woes may have deepened in May as Boeing orders fell even further. But the automotive sector probably continued to rise, though not enough to lift transportation orders into positive territory. In line with the recent boom in manufacturing, we expect orders excluding transportation to show a slightly bigger gain than the 0.4% bump posted in April. That said, the ISM Manufacturing index’s weak May print calls that forecast into question. We’re anticipating a 0.7% slump in durable goods orders overall.

Consumer spending (May) – Real consumption fell 0.1% in April. This was the second monthly decrease in four months, but it seems like a minor hiccup compared to the 0.3% and 0.4% jumps posted in February and March, respectively. Besides, we expect consumer spending to have started heating up again in May. New vehicle sales suggest a pickup in the automotive sector. Furthermore, May retail sales, expressed in real terms, suggest real consumer spending on other durable and nondurable goods accelerated. But, as in April, services are only expected to have edged up 0.1%. All in all, real consumer spending probably rose 0.2%, while the current-dollar gain was likely 0.3%. PCE inflation probably slowed a little year-on-year, with the total PCE deflator slipping from 2.7% to 2.6% and the core deflator, which strips out food and energy, dropping from 2.8% to 2.6%.

TUESDAY June 25 - 8:30

May	m/m
Consensus	0.3%
Desjardins	0.3%
April	0.5%

FRIDAY June 28 - 8:30

April	m/m
Consensus	0.3%
Desjardins	0.3%
March	0.0%

SATURDAY June 29 - 21:30

June	n/a
Consensus	n/a
May	51.0

CANADA

Consumer price index (May) – Headline consumer price growth likely slowed a tick to 2.6% on an annual basis. Excluding food and energy, core inflation is also expected to moderate to 2.6%, the slowest pace since mid-2021. The notable decline in services prices over the past few months has helped decrease the share of components growing faster than 3 percent, an indicator the Bank of Canada watches closely. The Bank of Canada’s preferred core inflation measures are also expected to decline further on an annual basis. With price stability in sight, the Bank of Canada should be on track to cut rates again in July barring any surprises in the May inflation report.


Real GDP by industry (April) – After stalling in March, growth in real GDP by industry is expected to have reaccelerated in April, advancing by 0.3% in the month. That’s in line with Statistics Canada’s flash estimate. The expected advance was likely driven by a solid rebound in goods-producing sectors, with mining and oil and gas extraction leading the charge higher. Manufacturing probably also contributed to the rebound, albeit much less so. Looking to services-producing sectors, wholesale trade likely topped the leader board in pushing the headline number higher, although most services sectors are anticipated to have posted modest gains in April. But that may be where the good news ends, as limited data so far for May suggest real GDP growth may again have stalled, with a flat print anticipated for the month.


OVERSEAS

China: Composite PMI (June) – China’s composite PMI fell from 51.7 in April to 51.0 in May. The decline was mainly concentrated in the manufacturing sector, which lost 0.9 points. Most of the drag came from production (-2.1 points) and new orders (-2.3 points). This decrease is also in line with the year-on-year slowdown in industrial production posted last month. Meanwhile the non-manufacturing PMI lost 0.1 points. This moderation in PMI indexes suggests economic growth is cooling in China. Although the central government’s latest measures are finally addressing China’s structural problems, it will take some time before they have a visible impact on key indicators.

Economic Indicators

Week of June 24 to 28, 2024

Date	Time	Indicator	Period	Consensus		Previous reading
UNITED STATES						
MONDAY 24	3:00	Speech by Federal Reserve Governor C. Waller				
	14:00	Speech by Federal Reserve Bank of San Francisco President M. Daly				
TUESDAY 25	7:00	Speech by Federal Reserve Governor M. Bowman				
	9:00	S&P/Case-Shiller home price index (y/y)	April	7.00%	6.90%	7.38%
	10:00	Consumer confidence	June	100.0	102.5	102.0
	12:00	Speech by Federal Reserve Governor L. Cook				
	14:10	Speech by Federal Reserve Governor M. Bowman				
WEDNESDAY 26	10:00	New home sales (ann. rate)	May	650,000	625,000	634,000
THURSDAY 27	8:30	Initial unemployment claims	June 17–21	240,000	232,000	238,000
	8:30	Real GDP (ann. rate)	Q1t	1.4%	1.3%	1.3%
	8:30	Durable goods orders (m/m)	May	0.0%	-0.7%	0.6%
	8:30	Goods trade balance – preliminary (US\$B)	May	-96.0	-97.0	-99.4
	8:30	Retail inventories (m/m)	May	n/a	n/a	0.7%
	8:30	Wholesale inventories – preliminary (m/m)	May	n/a	n/a	0.1%
	10:00	Pending home sales (m/m)	May	1.8%	n/a	-7.7%
FRIDAY 28	6:00	Speech by Federal Reserve Bank of Richmond President T. Barkin				
	8:30	Personal income (m/m)	May	0.4%	0.5%	0.3%
	8:30	Personal consumption expenditures (m/m)	May	0.3%	0.3%	0.2%
	8:30	Personal consumption expenditures deflator				
		Total (m/m)	May	0.0%	0.0%	0.3%
		Excluding food and energy (m/m)	May	0.1%	0.1%	0.2%
		Total (y/y)	May	2.6%	2.6%	2.7%
		Excluding food and energy (y/y)	May	2.6%	2.6%	2.8%
	9:45	Chicago PMI	June	40.0	40.0	35.4
	10:00	University of Michigan consumer sentiment index – final	June	66.0	65.6	65.6
12:00	Speech by Federal Reserve Governor M. Bowman					
CANADA						
MONDAY 24	12:45	Speech by Bank of Canada Governor T. Macklem				
	---	Holiday in Quebec (National Day)				
TUESDAY 25	8:30	Consumer price index				
		Total (m/m)	May	0.3%	0.3%	0.5%
		Total (y/y)	May	2.6%	2.6%	2.7%
WEDNESDAY 26	---	---				
THURSDAY 27	---	---				
FRIDAY 28	8:30	Real GDP by industry (m/m)	April	0.3%	0.3%	0.0%

NOTE: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).  Desjardins Economic Studies forecast.

Economic Indicators

Week of June 24 to 28, 2024

Country	Time	Indicator	Period	Consensus		Previous reading		
				m/m (q/q)	y/y	m/m (q/q)	y/y	
OVERSEAS								
MONDAY 24								
Germany	4:00	ifo Business Climate Index	June	89.6		89.3		
Germany	4:00	ifo Current Assessment Index	June	88.5		88.3		
Germany	4:00	ifo Expectations Index	June	90.8		90.4		
TUESDAY 25								
Japan	1:00	Leading index – final	April	n/a		111.6		
Japan	1:00	Coincident index – final	April	n/a		115.2		
WEDNESDAY 26								
Germany	2:00	Consumer confidence	July	-19.8		-20.9		
France	2:45	Consumer confidence	June	90		90		
Japan	19:50	Retail sales	May	0.8%	2.0%	0.8%	2.0%	
THURSDAY 27								
Sweden	3:30	Bank of Sweden meeting	June	3.75%		3.75%		
Eurozone	4:00	M3 money supply	May		1.5%		1.3%	
Italy	4:00	Consumer confidence	June	97.0		96.4		
Italy	4:00	Economic confidence	June	n/a		95.1		
Eurozone	5:00	Consumer confidence – final	June	n/a		-14.0		
Eurozone	5:00	Industrial confidence	June	-9.6		-9.9		
Eurozone	5:00	Services confidence	June	6.3		6.5		
Eurozone	5:00	Economic confidence	June	96.1		96.0		
Mexico	15:00	Bank of Mexico meeting	June	11.00%		11.00%		
Japan	19:30	Tokyo Consumer Price Index	June		2.3%		2.2%	
Japan	19:30	Unemployment rate	May	2.6%		2.6%		
Japan	19:50	Industrial production – preliminary	May	2.0%	-0.1%	-0.9%	-1.8%	
FRIDAY 28								
Japan	1:00	Housing starts	May		-6.2%		13.9%	
United Kingdom	2:00	Current account (€B)	Q1	-17.6		-21.2		
United Kingdom	2:00	Real GDP – final	Q1	0.6%	0.2%	0.6%	0.2%	
France	2:45	Personal consumption expenditures	May	0.1%	n/a	0.1%	1.2%	
France	2:45	Consumer price index – preliminary	June	0.2%	2.2%	0.0%	2.3%	
Italy	5:00	Consumer price index – preliminary	June	0.2%	0.9%	0.2%	0.8%	
SATURDAY 29								
China	21:30	Composite PMI	June	n/a		51.0		
China	21:30	Manufacturing PMI	June	49.6		49.5		
China	21:30	Non-manufacturing PMI	June	n/a		51.1		

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Times shown are Eastern Daylight Time (GMT - 4 hours).