Non-Permanent Residents and their impact on GDP per capita

Research Summary
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Key message

Canada's GDP per capita has been criticized for growing too slowly—but the problem isn't necessarily weak economic growth. Instead, it's rapid population growth, especially from non-permanent residents (NPRs), which lowers GDP per capita. Reducing NPRs as the federal government plans to do as outlined in the Immigration Levels Plan (ILP) will increase GDP per capita, but it doesn't mean real economic growth is taking place—it is just an artifact of how the metric is calculated.

What's the issue?

GDP per capita is a simple measure: it divides total economic output (GDP) by the population. When population grows faster than GDP, GDP per capita can fall—even if the country is producing more goods and services. This is an arithmetic quirk.

That's what's happening in Canada. As has been suggested, real GDP growth has not performed poorly by international standards, but because the population—especially NPRs—has grown faster, GDP per capita hasn't grown as quickly.

The federal government's plan to cap NPRs has been forecasted to have a positive effect on GDP per capita but will it really increase economic growth and improve economic well-being?

The role of non-permanent residents

NPRs include temporary foreign workers, international students, and asylum seekers. From 2019 to 2024, NPRs increased from 3.6% to 7.4% of the population but contributed only 0.17% to 0.36% of GDP.

This mismatch means NPRs and overall population lowered GDP per capita. If there had been no

NPRs, GDP per capita would have been $61,819/person in 2019—an increase of $2,138/person (3.58%), and $63,365/person in 2024—an increase of $4,486/person (7.62%). However, real GDP would have been lower by 0.17% and 0.36% in 2019 and 2024 respectively.

If NPRs had been capped at 2% of the population in 2024, GDP per capita would have been $62,177/person—an increase of $3,298/person (5.6%), but real GDP would have been lower by 0.1%. Reducing the number of NPRs would have increased GDP per capita, making the economy appear to grow, while having a declining effect on real GDP.

Figure 1: Contribution of NPRs to Canadian GDP and Population

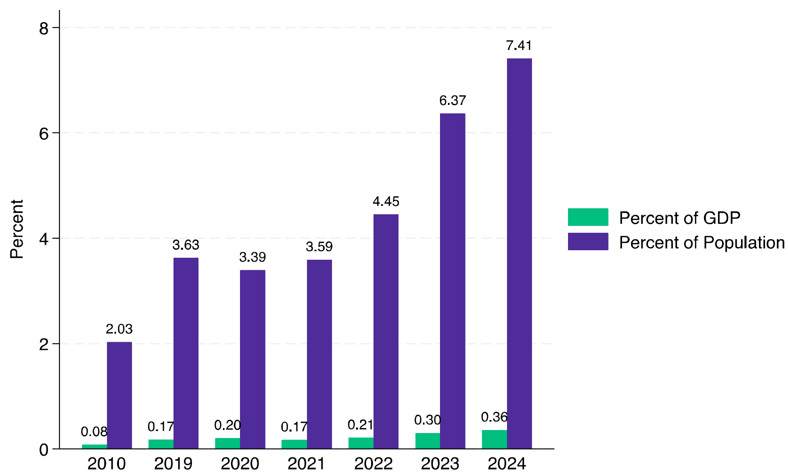
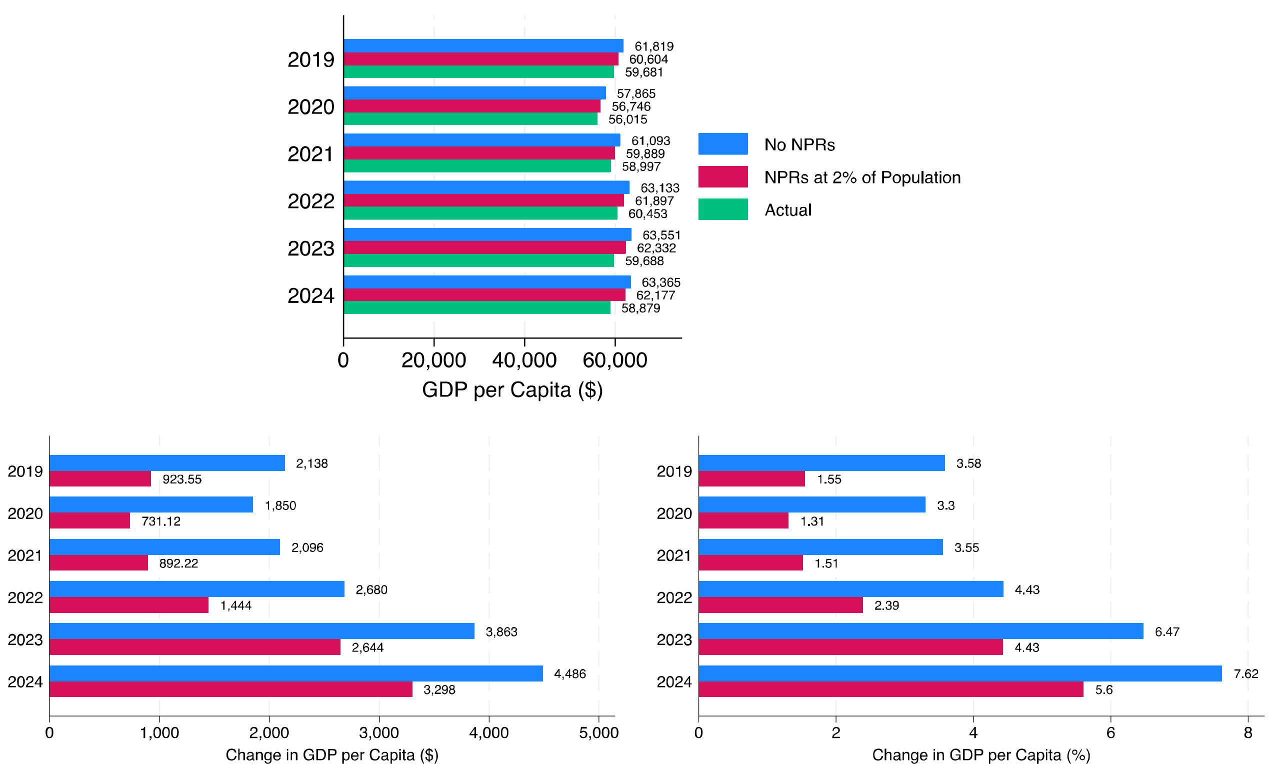
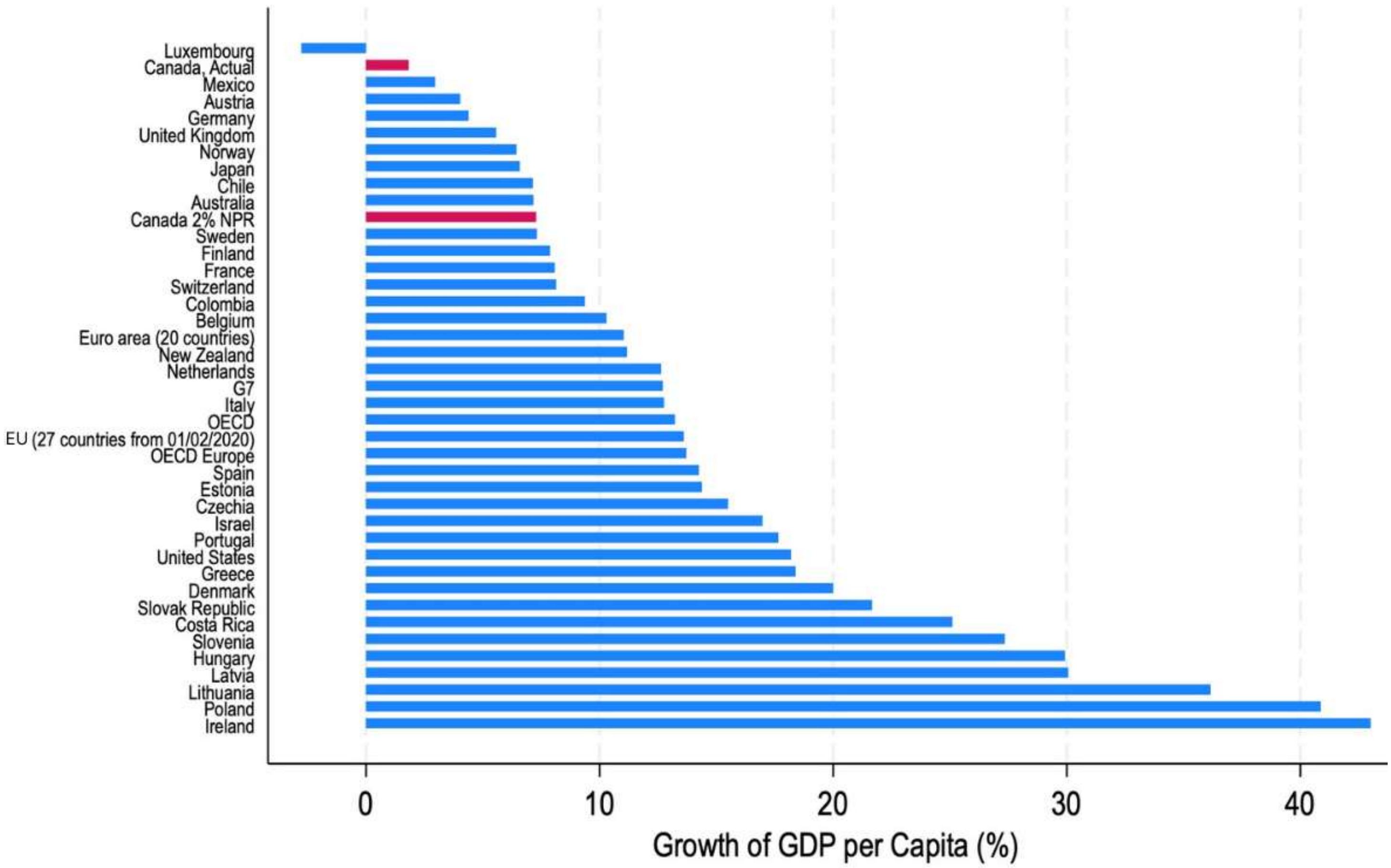


Figure 2: Effect of NPRs on GDP per Capita



Moreover, had NPRs been capped at 2% of the population over the last decade, Canada's ranking in GDP per capita growth would have improved modestly. Canada would have risen from second-to-last place (ahead of only Luxembourg, which experienced negative GDP-per-capita growth) to 31st, squarely in line with our comparator countries: a little bit higher than countries like Germany, the United Kingdom and Australia and a little bit lower than countries like Belgium, Sweden and France. This improvement in rankings would be driven by a decline in NPR population, not real GDP growth.

Figure 3: Change in Canada's GDP per Capita Ranking if NPRs held at 2% of Population

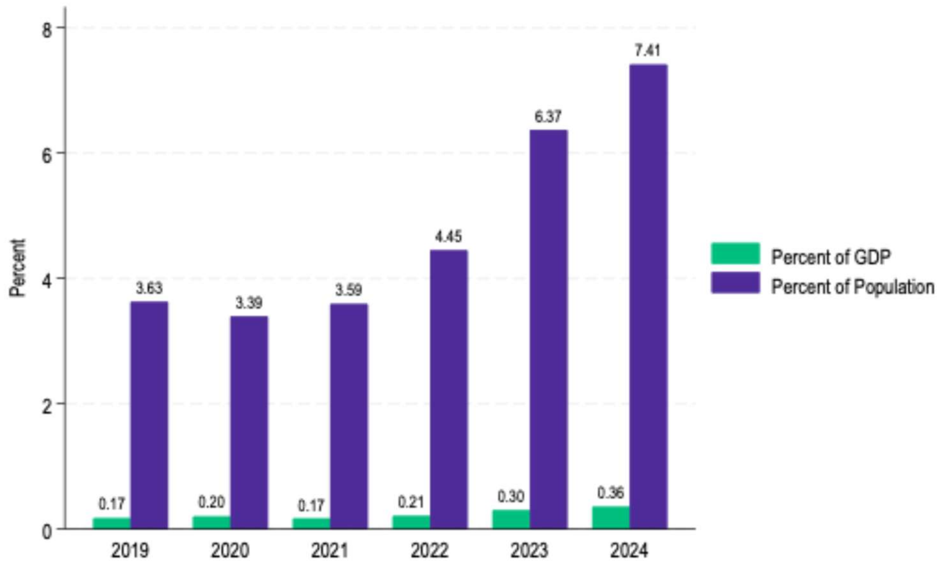


Data Source: OECD Data Explorer. Quarterly GDP per capita growth, chained prices in USD adjusted for PPP, Q1 2015 to Q3 2024. Includes OECD countries plus selected aggregates.

The government's plan

The federal government's Immigration Levels Plan (ILP) aims to reduce NPRs to 5% of the population by 2026. If achieved, this could increase GDP per capita by 1.8% by 2027. But again, this would be due to a shrinking population—not because the economy is growing faster. Real GDP would actually decline.

Figure 4: Contribution of NPRs to Canadian GDP and Population



Why it matters

- **GDP per capita is a flawed measure**: A rising GDP per capita driven by population decline does not reflect improved economic well-being and, so, it is a poor summary measure for a country's overall economic well-being.

- **NPRs do contribute**: Many work in essential but low-productivity sectors (e.g., food services, agriculture) or are students preparing for future careers. Canada should have some NPRs and a sustainable number are good for the overall economy—even if their presence has the effect of reducing measured GDP per capita.

- **Real, sustainable economic growth requires improved productivity**: Long-term prosperity depends on increasing labour productivity—not reducing the population.

Bottom line

Reducing NPRs can make GDP per capita rise—but that's an artifact of how the measure is calculated, not a measure of true economic growth and certainly not a measure of overall economic well-being. Using changes in GDP per capita as evidence of either improving or deteriorating economic well-being—or as evidence that economic policies are working or not—is poor economics, poor public policy and poor reasoning.