

The Armchair Analyst: Components of Population Growth



BCREA Chief Economist
Cameron Muir

In previous issues of the Armchair Analyst, we discussed how demand and supply factors influence home prices, how mortgage interest rates are derived and how eroding affordability can offset many of the benefits of improving economic conditions. This month, we look at the components of population growth and their impact on long-term housing demand.

Popular University of Toronto demographer David Foot once said, “Demographics explain about two-thirds of everything.” It certainly plays an important role in our housing market. It’s a simple equation: the more the population grows, the more new households are formed and more housing will be demanded, all other things being equal. A shrinking population, on the other hand, can virtually halt new construction activity and can even result in a ghost town.

BC’s population recently crested the 4.5 million people mark and currently leads all other provinces in the rate of population growth. While the province comprises 13 per cent of the Canadian population, it garners 19 per cent of national population growth. In fact, all four western provinces have growth rates stronger than the

national average. What’s more, BC’s enviable position is further bolstered by the composition of its growing population.

While the natural rate of increase (births less deaths) accounts for about 19 per cent of BC’s population growth, it has little impact on housing demand as individuals born today won’t likely be in the housing market for decades. By far, the largest component of population growth is immigration. More than 70 per cent of the increase in the provincial population is attributable to net international migration which added an additional 51,000 people to the province last year. In fact, from an economic perspective, BC attracts the cream of the crop when it comes to immigrants.

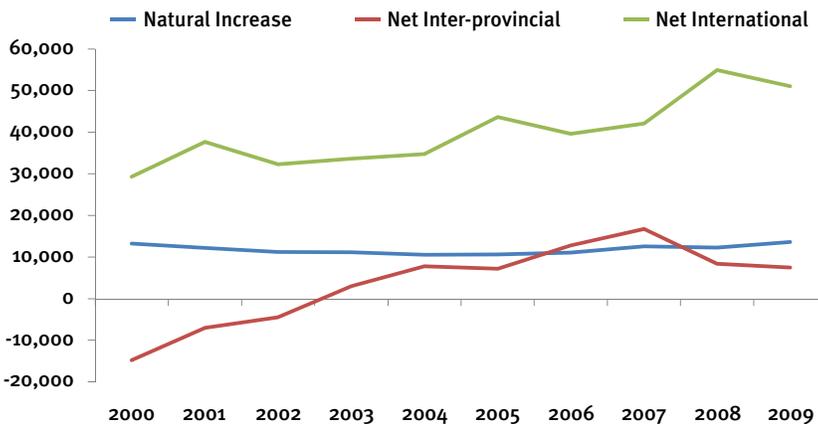
More than half the investor class immigrants to Canada settle in BC, and three-quarters of them are from China, BC’s top source country of immigrants. In stark contrast, Ontario attracts more than half the refugee class immigrants that come to Canada, with just 7 per cent destined for BC. So immigrants to BC are likely to have greater financial resources than immigrants to Ontario.

Some, as in the case of many newly landing immigrants on Vancouver’s tony Westside, have significant wealth.

BC is also in the number one slot in its share of migrants originating from other provinces. The popularity of Alberta as the go-to employment province has waned along with the downturn in the oil patch. Over the last three quarters, 5,000 more people left Alberta destined for another province than arrived. Coincidentally, BC was the top destination for inter-provincial migrants over the same period.

What matters is that a growing population helps underpin housing demand and price levels. It also supports expansion of the housing stock through new home construction, not to mention the jobs that go along with it. A growing population can help smooth out the oscillation of the business cycle by bolstering consumer demand during a slowdown, as well as set the stage for a more robust recovery. The long-term investor as well as armchair analyst can benefit from an understanding of a region’s population dynamics. Even the age-specific components can be revealing. For example, approximately 40 per cent of all home sales through the Vancouver Island Real Estate Board were retirees last year. Now that’s impressive!

Population Growth: British Columbia



Source: Statistics Canada