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Morningstar DBRS Canada's Population Surpasses 41 Million: Ambitious Immigration Levels a Key Ingredient for Grocers' Long-Term Revenue Growth

Key Highlights

- Canada's population set a new record, surpassing 41 million people only nine months after exceeding the 40 million mark.
- The recent surge in immigration—and ambitious immigration targets for the coming years—should provide a notable tailwind to the country's grocery sector as newcomers spend on essential services and goods, including groceries.
- A material decline in immigration levels could negatively affect the long-term revenue growth trajectory and increase the sector's intense competition.
- To fully benefit from the population-driven growth in market size and maintain their market position, grocers will have to ensure they allocate sufficient capital expenditures to growing their store and logistics infrastructures.

Canada's population set a new record yesterday, with Statistics Canada's real-time population clock surpassing 41 million people only nine months after exceeding the 40 million mark.¹ Although the recent surge in immigration—and ambitious immigration targets for the coming years—will contribute to the strain on Canada's housing availability, healthcare systems, and overall infrastructure, we anticipate that it will also provide a notable tailwind to the country's grocery sector. While new immigrants may not exhibit spending patterns that benefit all sectors of the economy equally, they will certainly spend on essential services and goods, including groceries. Because inflation and population growth are the principal drivers of the grocery sector's aggregate long-term revenue evolution, the recent immigration influx should provide a partial, near-term offset to the decelerating trend in revenue growth resulting from moderating inflation and strained consumer purchasing power. More importantly, the ambitious immigration targets should underpin the grocery sector's long-term volume growth and, by extension, its revenue growth prospects. That said, a material decline in immigration levels, particularly against the backdrop of a declining birth rate that is already well below the replacement level, could negatively affect long-term revenue growth and increase the sector's already intense competition.

¹ Statistics Canada. Canada's population clock (real-time model). Online.



EXHIBIT 1

Canada's Population Growth



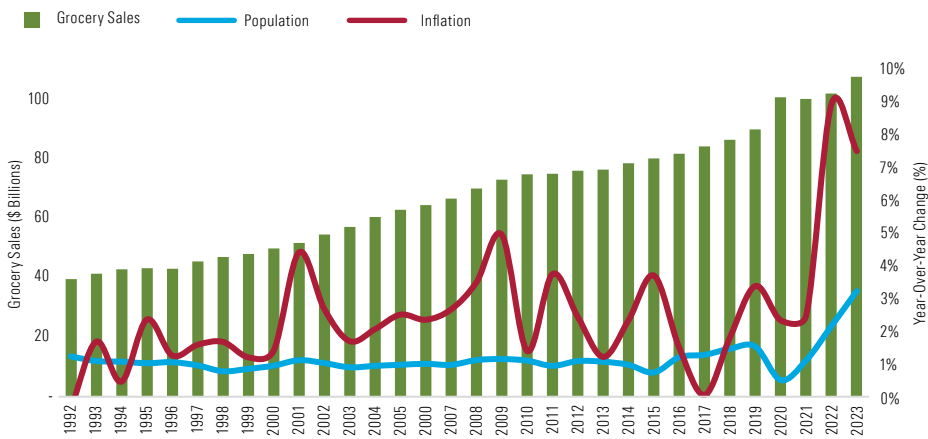
Source: Morningstar DBRS, Statistics Canada. Table 17-10-0009-01.

Ambitious Levels of Immigration Driving Population Growth

In 2023, Canada led the G7 countries in population growth with one of the fastest-growing populations in the world.² During the year, Canada's population grew by more than one million people, surpassing 40 million in June (see EXHIBIT 1). This level of growth represented the largest annual increase since Confederation in 1867 and was driven almost exclusively by international migration, including both new permanent residents and non-permanent residents (i.e., temporary workers and students). This momentum appears to be continuing in 2024, as the population surpassed 41 million people yesterday, adding one permanent and two non-permanent resident roughly each minute.¹ This is within the context of the ambitious immigration targets of bringing 485,000 permanent newcomers to Canada in 2024, as well as non-permanent immigrants, including 360,000 students.

EXHIBIT 2

Grocery Sales Versus Inflation and Population Growth



Source: Morningstar DBRS, Statistics Canada. Tables 18-10-0005-01, 20-10-0008-02, 20-10-0056-02, and 17-10-0009-01.

Population Growth a Key Driver of Grocers' Long-Term Earnings Growth Trajectory

Annual grocery sales growth in Canada has averaged in the low- to mid-single digits since the early 1990s. Aside from temporary effects such as pandemic-related restrictions, sales growth has been driven primarily by inflation and population growth (see EXHIBIT 2). Over the near term, the recent immigration influx should provide a partial offset to the deceleration in revenue growth as a result of moderating inflation and strained consumer purchasing power. More importantly, ambitious immigration targets over the coming years should underpin the trajectories of the grocery sector's long-term growth in volume and, by extension, in revenue. Additionally, as population growth drives volumes and revenues higher, the grocery sector should benefit from operating leverage and efficiency gains³ that in turn should amplify the positive effects on operating income.

² Ephraim Vecina. BoC's inflation campaign made 'more difficult' by immigration, says economist. Canada Mortgage Professional. January 18, 2024.

³ Operating Efficiency is a key business risk factor as outlined in our "Global Methodology for Rating Companies in the Merchandising Industry."



Furthermore, we note that these benefits should extend to the grocer's auxiliary pharmacy and drug store businesses, such as Loblaw Company Limited's (Loblaw) Shoppers Drug Mart and METRO Inc.'s (Metro) Jean Coutu.

A Material Decline in Immigration Levels Could Increase the Competitive Environment

A material deviation from this population growth pattern could negatively affect the sector's long-term earnings growth trajectory. Such a deviation could result from changes to the country's immigration policy, an albeit in and of itself not material example of this is the recent 35% reduction in study permits to be issued in 2024. Material changes to immigration levels would be particularly noticeable against the backdrop of a declining birth rate that, at 1.33 children per woman, is already well below the replacement level of 2.1 children per woman.⁴ While a stagnating or declining population would limit the primary source of the grocery sector's long-term revenue growth to inflation and reduce the effects of revenue growth driven by operating leverage gains, it could also increase the intensity of competition in the sector. This could in turn negatively affect grocer's operating margins. That said, even stagnant population levels are unlikely to have a material negative effect on the overall credit risk profiles of grocers in our portfolio, including Loblaw (BBB (high), Stable), Sobeys Inc. (BBB, Stable), Metro (BBB (high), Stable), Walmart Inc. (AA, Stable), and Costco Wholesale Corporation (AA (low), Stable).

Strategic Capital Investments Required

To capitalize on the population-driven growth in market size and maintain their market position,⁵ Canada's grocers will have to ensure they allocate sufficient capital expenditures to growing their store and logistics infrastructures in order to grow with the market. As an example

of this, Loblaw recently announced its plan to add more than 40 new discount grocery stores and 140 new pharmacy care clinics across the country. However, grocers will have to also ensure their blueprints for growth are aligned with the geographic regions benefitting the most from population growth and that their banner and product mixes are calibrated to the diverse set of needs newcomers may bring.

Related Research

- [Foreign Discount Grocers' Entry Into Canada Could Noticeably Intensify the Competitive Environment, but Will They Come?, March 14, 2024.](#)
- [Delayed Closing of Kroger and Albertsons Deal Highlights Regulatory Risks Associated with Megamergers, January 17, 2024.](#)
- [How McKesson's Potential Disposition of Rexall Could Have a Notable Impact On Canada's Retail Landscape, January 16, 2024.](#)
- [Global 2024 Food Retailer Outlook: Grocers Are Set to Weather Macroeconomic Challenges, January 4, 2024.](#)
- [Battle of the Brands: Private Labels Filling Grocery Carts...For Now, October 25, 2023.](#)
- [UK Discount Grocers Taking a Bigger Slice of the Pie as Food Inflation Remains Stubbornly High, June 1, 2023.](#)
- [Price Check: Discount Grocery Stores Set to Largely Outperform Their Conventional Peers Worldwide in 2023, January 23, 2023.](#)
- [Global 2023 Food Retailer Outlook: Grocers Largely Immune to Macroeconomic Challenges, January 5, 2023.](#)

⁴ Statistics Canada. Demographic Documents. Fertility in Canada, 1921 to 2022. February 1, 2024.

⁵ Market Position is a key business risk assessment factor as outlined in our "Global Methodology for Rating Companies in the Merchandising Industry."

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