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Immigrant communities experience better economic conditions outside Canada's major urban centres

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In recent decades, rural Canada has faced significant demographic challenges, particularly in the aging and decline of its population. These demographic trends are leading to social, economic and political changes within these communities. Regardless of the cause, a decline in a community's population will invariably bring about budgetary consequences. The tax base, i.e., the number of its taxpayers, decreases, which reduces the community's ability to fund its fixed costs and maintain its infrastructure.

In a CIRANO study (Zhu and Zhong, 2026), the authors analyze the relationship between the movement of immigrants to non-metropolitan areas in Canada and the income distribution in these regions. Using data from Canadian censuses, they show that the settlement of immigrants in non-metropolitan regions contributes to an increase in their average income and a reduction in income inequality within this group.

The arrival of international immigrants in rural areas can foster the development of economic activities and revitalize the rural communities. As a result, various levels of government are implementing a number of policies to facilitate immigration to small towns and rural communities (Carter et al., 2008; Wiginton, 2013). With the help of these changes, many immigrants are being welcomed into small communities in Canada.

Immigration to rural areas, however, raises important questions regarding the integration of immigrants and the new social relationships emerging at the local level. While their arrival can strengthen the socio-economic vitality of small communities, it also creates major challenges for which planners are often not well prepared. Compared with the native-born population, new immigrants are over-represented among low income individuals, exacerbating social segregation. This situation poses problems for the settlement of immigrants in non-metropolitan areas, where the socio-economic environment and markets are very different from those in metropolitan areas.

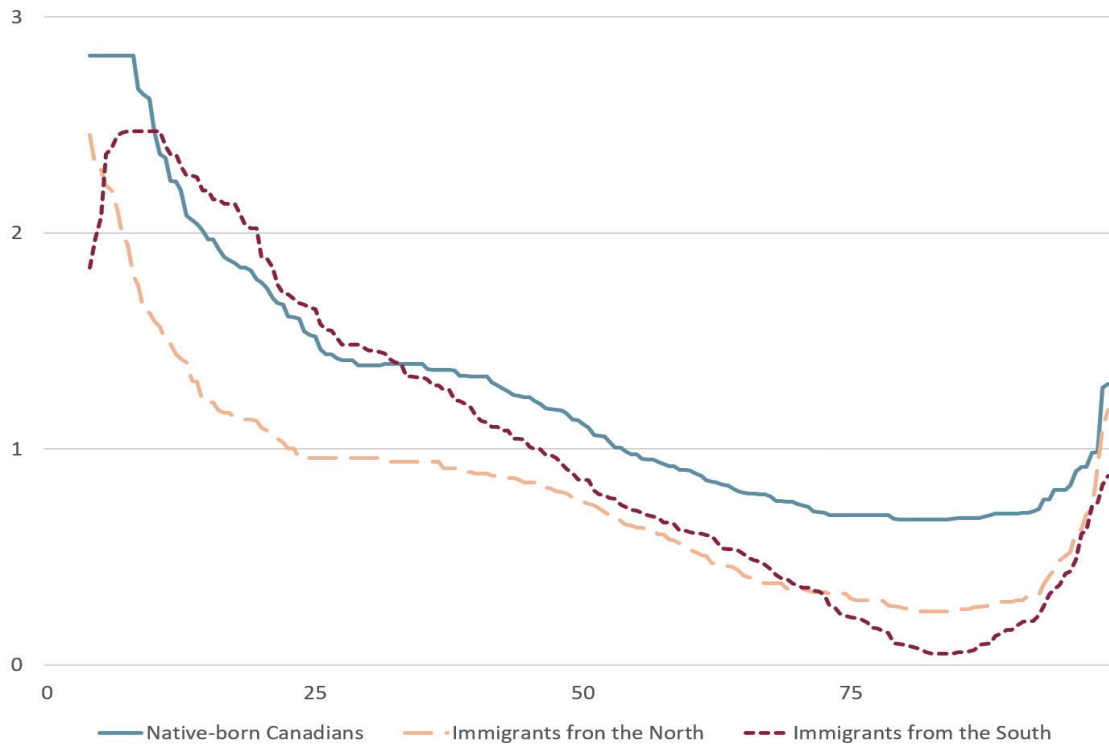
From 1991 to 2021, both native-born Canadians and immigrants experienced an increase in real income and a reduction in inequality

We conducted a series of analyses, using the Census Public Use Microdata Files. We compared three groups: native-born Canadians, immigrants from the United States and Europe—referred to as “immigrants from the North”—and other immigrants from developing countries who constitute the newer sources of immigration to Canada—referred to as “immigrants from the South.” Our analyses focused on people residing in non-metropolitan areas.

Our analyses covered the period from 1991 to 2021. According to census data, the average real income declined between 1991 and 1996 before beginning to rise in 2001. The Gini coefficient, which increases with the degree of inequality, rose between 1991 and 2006 and fell between 2006 and 2021.

In order to analyze the causes of these changes in income distribution and to identify the segments of the population most affected by these fluctuations, we plotted the Growth Incidence Curves (GICs) for native-born residents, immigrants from the North and immigrants from the South, using the approach developed by Ravallion and Chen (2003) (see box).

As shown in the figure on the following page, the three GICs lie above the zero axis throughout the 1991–2021 period. This means that all segments of the population, from the lowest to the highest percentiles, experienced an increase in real income for all three groups. For immigrants from the South, the increase of real income at the lower end of the distribution is more pronounced than that at the upper end (75th to 100th percentiles), where the real income increase is less or comparable to that of other immigrants. However, the rise of real income at the upper end of the distribution for immigrants is still much lower than that of the native-born population. Furthermore, all GICs are downward-sloping, implying a reduction in real income inequality between 1991 and 2021 in non-metropolitan areas.



Annual income growth rate (in %) by population percentile (ranked by real income), native-born Canadians, immigrants from the North and immigrants from the South living in non-metropolitan areas, Canada

Note : Using consumer price indices, we convert nominal income into real income (2002=100) in order to measure the actual purchasing power of nominal income.

Source : Census Public Use Microdata Files for 1991 and 2021, authors' estimations

Reducing inequalities played a key role in lowering the incidence of poverty among immigrants from the South

We then considered whether the general improvement in living standards that we observed leads to an overall reduction in poverty, and whether this reduction is undermined by a deterioration in income distribution. We examined the relationships between income growth, inequality and poverty. To do this, we drew on the Poverty-Growth-Inequality Triangle method proposed by Bourguignon (2003)(see box).

Our approach first consists of defining a single poverty threshold that can serve as a criterion or benchmark for comparing poverty across different periods and for analyzing changes in income distribution.

The low income cut-off figures (LICOs), published by Statistics Canada, are not applicable for our approach. In order to establish a single threshold, we define a 'poverty line' equal to the average real income of respondents belonging to a household whose total income falls below Statistics Canada's 1991 LICO. This threshold is \$10,104 and applies to all periods.

We divide the periods under study into three sub-periods: 1991 to 1996, characterized by a period of economic recession; 1996 to 2011, characterized by a period of economic expansion; and a recent period from 2011 to 2021. We distinguish, on one hand, the proportional change in total income, which does not alter the distribution of relative income (the growth effect), and on the other hand, the change in the distribution of relative income, which by definition is independent of average income (the distribution effect). The results are shown in the table below.

During the 1991–1996 period, among native-born Canadians and immigrants from the North living in non-metropolitan areas, the change in the incidence of poverty was small. It was immigrants from the South who were most affected by economic fluctuations. Within this group, the growth effect (2.3 percentage points), from the decline in real income, predominated the rise in poverty and completely offset the reduction in poverty associated with the distribution effect (-0.2 percentage points), resulting in the incidence of poverty rising by 2.1 percentage points.

Over the following period, poverty fell for all groups due to the general increase in average income. Between 1996 and 2011, the growth effect was the dominant factor in reducing poverty. Among the native-born population, both effects were negative: the improvement in average income and the reduction in inequality together. Both contributed to the decline in poverty. For the two groups of immigrants—those from the South and those from the North—we observed a negative growth effect and a positive distributional effect. In other words, the reduction in poverty, which resulted from the increase in average income, was partially offset by rising inequality.

During the 2011–2021 period, poverty fell significantly. Immigrants from the South experienced the greatest reduction in poverty. For all three sub-groups, we observe a negative growth effect and a negative distribution effect. Among immigrants from the South, the distribution effect is much greater than the growth effect, which highlights the important role played by the reduction in inequality in lowering the incidence of poverty.

	Growth effect (percentage points)	Distribution effect (percentage points)
1991-1996		
Native-born Canadians	0.2	0.6
Immigrants from the North	0.3	-0.4
Immigrants from the South	2.3	-0.2
1996-2011		
Native-born Canadians	-4.8	-0.5
Immigrants from the North	-3.9	0.3
Immigrants from the South	-4.6	0.9
2011-2021		
Native-born Canadians	-4.1	-4.9
Immigrants from the North	-1.7	-4.0
Immigrants from the South	-1.6	-10.1

Decomposition of the change in the incidence of poverty by period, native-born Canadians, immigrants from the North and immigrants from the South living in non-metropolitan areas, Canada

Source : Census Public Use Microdata Files for 1991 and 2021, authors' estimations

The Growth Incidence Curve

The growth incidence curve (GIC), developed by Ravallion and Chen (2003), analyzes the rate of income growth at each percentile along the income distribution between two points in time. The curve plots the population percentiles, ordered by income on the x-axis, with the rate of income growth for the corresponding percentile on the y-axis. If the curve represents a decreasing function over time for every percentile, then inequality decreases over time. Conversely, if the curve represents an increasing function over time for every percentile, then inequality increases over time.

The Poverty-Growth-Inequality Triangle

The Poverty-Growth-Inequality Triangle method proposed by Bourguignon (2003) expresses the changes in poverty as a function of average income growth and shifts in the relative income distribution. It allows the change in poverty from one period to another to be broken down into two components: (1) a proportional change in all incomes that does not alter the relative income distribution—the *growth effect*—and (2) a change in the relative income distribution that is independent of average income—the *distribution effect*.

The Oaxaca Decomposition

Changes in both individual characteristics and the returns to those characteristics can contribute to the disparities in workers' economic performance and thus to the changes in the distribution of income over time. Using an extension of the Oaxaca decomposition (Oaxaca, 1973; The World Bank, 2007), it is possible to quantify the influence of various attributes on income variation by breaking down the resulting effect of changes in workers' characteristics—the *main effect*—and the resulting effect of changes in the returns to these attributes—the *year effect*.

The growth in income among immigrants from the South living in non-metropolitan areas stemmed mainly from an improvement in the returns to their attributes

The 2011–2021 period was characterized by an increase in the proportion of immigrants in non-metropolitan areas, accompanied by growth in real income. We used an extension of the Oaxaca decomposition to examine the role of individual characteristics in changes in income between 2011 and 2021 (see box), focusing on immigrants from the South living in non-metropolitan areas across Canada.

As shown in the table on the following page, income growth was dominated by the year effect, namely changes in the returns to individual characteristics. The portion explained by changes in the parameters of the income equations accounted for 80.2 per cent of total real income growth.

Only 19.8 per cent of income growth can be attributed to the main effect. In other words, over this period, the average characteristics of immigrants from the South changed little, with the source of income growth being primarily the change in the returns to their characteristics.

	Main effect (%)	Year effect (%)
Growth in real income between 2011 and 2021 (total effect)	19.8	80.2
Contribution of various factors to growth in real income		
Male	< 0.1	5.5
Age group	8.0	45.7
Highest certificate, diploma or degree	-0.1	0.4
Place of study	0.2	-4.2
Region of birth	1.5	29.9
Arrived in Canada within the five years preceding the census	-5.7	21.2
Industry sector	7.1	-21.5
Other factors	8.7	3.2

Decomposition of income growth for immigrants from the South living in non-metropolitan areas, Canada

Source : Census Public Use Microdata Files for 1991 and 2021, authors' estimations

As for the contribution of different factors to income growth, both age-group effects are positive, each contributing to income growth. An analysis by age group showed that the main positive effect stemmed from the increase in the relative share of the 15–24 age group. As for the year effect, the relative income levels of young immigrants, particularly those in the 15–24 age group, rose between 2011 and 2021.

A significant source of income growth among immigrants stemmed from the two positive effects associated with region of birth; these accounted for 31.4 per cent of income growth among immigrants from the South in non-metropolitan areas. Analysis by region of birth showed that earnings (the comparative benchmark being Western and Central Asia, and the

Middle East) increased for all regions of origin, with the exception of Africa. The improvement in earnings was particularly significant for immigrants from the Philippines.

The year of arrival in Canada does have a negative main effect and a positive year effect on income growth. This reflects the decrease in the proportion of new immigrants and the improvement in their relative income. The industrial sector had a positive main effect and a negative year effect. The increase in the share of health care and social assistance sector employment contributed most to the positive main effect. Nevertheless, the fact that nearly all sectors recorded a decline in performance between 2011 and 2021 led to the negative aggregate year effect.

Migration to non-metropolitan areas plays an active role in improving the overall economic well-being of immigrants

The settlement of immigrants from the South in non-metropolitan areas not only contributed to an increase in their average income but also helped to reduce income inequality within the same group. These two combined effects reflected a positive dynamic: Migration to non-metropolitan areas, driven by rational choices aimed at maximizing individual utility, played an active role in improving the overall economic well-being of the immigrants concerned.

The reduction in income inequality among immigrants living in non-metropolitan areas in recent years is mainly due to a more pronounced rise in incomes at the lower end of the distribution, reflecting a significant improvement in the economic circumstances of the lowest-paid immigrants.

This equalizing effect has had a direct impact on reducing poverty among immigrants from the South living in non-metropolitan areas. In other words, the reduction in inequality has become the main driver of the decline in poverty within this population, even more so than overall income growth.

Ensuring that the fight against inequality is the core of integration strategies

Our findings suggest that immigrant integration policies in non-metropolitan regions should pay particular attention to reducing internal economic disparities. By placing the fight against inequality as the core of integration strategies, it is possible to consolidate gains in social cohesion while promoting a more equitable and sustainable integration of immigrants into the rural socio-economic fabric.

Our findings demonstrate the effectiveness of policies that encourage immigrants to settle in rural areas. Those actions appear to have contributed to a positive transformation of the demographic and economic structure of these regions. At the same time, the improvement in the relative income of newcomers in non-metropolitan regions constitutes an additional incentive—it could help attract additional immigrants.

However, this favourable trend is tempered by a worrying development: Certain sectors with a high concentration of immigrant labour—such as manufacturing, retail trade, health care and social work, as well as accommodation and food services—have seen their economic returns decline in non-metropolitan regions.

This trend could jeopardize these regions' ability to attract and retain immigrants in the medium term. It's therefore essential to strengthen the profitability and stability of these key sectors, particularly those that play a pivotal role in providing employment for immigrants from the South. Targeted measures—whether in the form of industrial policies, support for innovation or improvements to working conditions—are needed to maintain the attractiveness of these industries and ensure the sustainable economic integration of immigrants in rural areas.

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