

STRENGTHENING
RURAL
CANADA



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STRENGTHENING RURAL CANADA: **Fewer & Older: The Coming Demographic Crisis** **in Rural Ontario**

An Executive Summary

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INTRODUCTION

Significant portions of rural Ontario are in trouble. Data derived and analyzed from both the 2001 Census and the 2011 National Household Survey (NHS) contained in this study paint a picture of rural Ontario at a crossroad. The migration of youth, aging populations, lower educational attainment levels and long-term population decline in rural areas does not bode well for rural Ontario's future economic health. For some rural, remote and small town communities, the slow slide to no longer being viable is clearly in sight.

This is not good news for either rural or urban Ontario. Rural, remote and small towns play an integral role in the province's future economic growth, whether it is natural resources, agri-foods or tourism. Aside from the economic arguments, rural Ontario is an essential part of the cultural and political fabric of the province. Some of the key findings include:

- While Ontario's urban population grew by 15.13% over 2001-2011, rural and small town population in Ontario declined by 7.34%.
- Population projections for 2011-2025 indicate that Ontario's rural population will continue to decline – from 1,118,065 to 925,299.
- Younger working age adults are leaving and most are not returning. The prime working age population (those aged 20-44) declined by 26% between 2001 and 2011. It is expected that many of these younger working age adults left to pursue post secondary and employment opportunities in urban areas.
- Postsecondary attainment rates in rural communities are significantly lower than the provincial average.
- Rural Ontario is not attracting immigrants: Despite a large increase in immigrants over the last 10 years, only 2.8% reside in rural areas in Ontario.

This study, ***Fewer & Older: The Coming Demographic Crisis in Rural Ontario***, is the first in a series of research reports related to the Strengthening Rural Canada initiative, a multi-year project funded by the Government of Canada's Adult Learning, Literacy and Essential Skills Program, as well as in part by the Roadmap for Canada's Official Languages 2013-18: Education, Immigration and Communities. This project is providing a comprehensive understanding of the relationship of human capital on both population and economic growth in rural, small town and remote communities in Canada. Working in twenty-eight rural communities in four provinces across Canada (British Columbia, Ontario, Newfoundland and Labrador and Saskatchewan), the project will purposefully explore

approaches and frameworks to support rural communities across Canada in building their own place-based strategic plans towards addressing the issues of human capital and economic growth.

The main objective of this particular report is to analyze past, present and future demographic changes in rural and urban Ontario, as well as measure the impact of human capital in rural and urban settings. The study focuses primarily on rural-urban demographics and examines how these changes have impacted four population groups, namely the total provincial population, Francophone, Aboriginal and immigrant populations.

The study is organized into three parts:

Part I analyzes the overall demographic changes that have occurred in the province to develop a better understanding of the broad changes that impact Ontario's population.

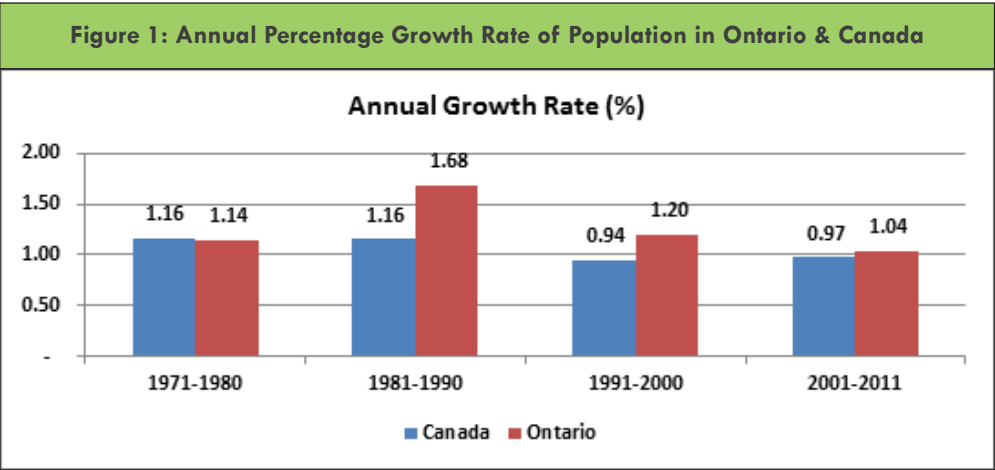
Part II examines demographic and socio-economic trends in rural and urban Ontario. This part also studies rural-urban earnings differential and investigates factors explaining the existing earnings gap between rural and urban Ontario. The study finds that a significant part of the earnings gap between rural and urban areas is explained by differences in the human capital composition of their employed workforce.

Part III looks at future population trends through projections of population change in rural and urban Ontario to develop a better understanding of what the province's future will look like.

The findings reveal that the population in rural Ontario is declining in both absolute and relative terms. The rural population is aging rapidly and a large proportion of the younger population (aged 20-30) are moving to cities for education and employment opportunities. This trend is problematic because, unlike urban areas, rural Ontario experiences very little immigration. If this trend continues unabated, the rural population will decline even further, declining from its current population of 1,118,065 to 925,299 by 2025. The study also finds that a large portion of the wage gap between rural and urban areas can be explained by human capital levels, which suggests that interventions aimed at increasing human capital in rural areas may be beneficial in preventing further decline.

PART I: POPULATION GROWTH IN ONTARIO

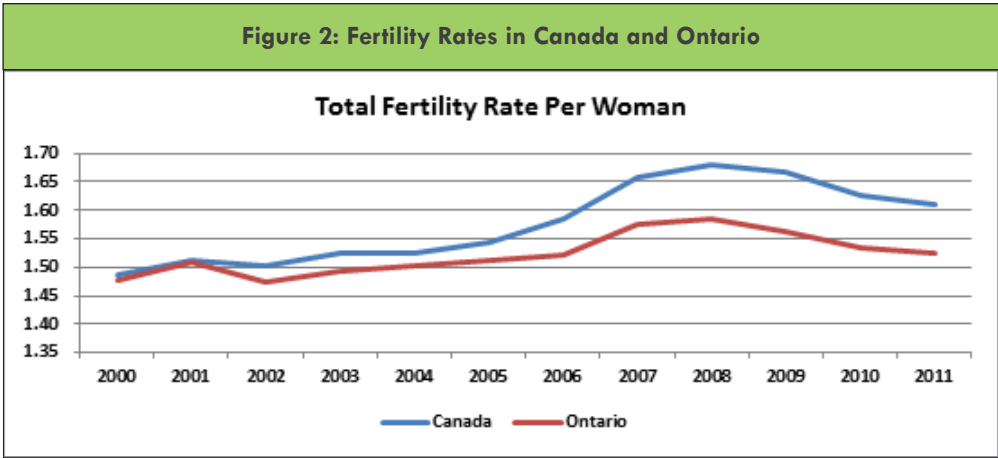
The province of Ontario has experienced considerable demographic changes between 1971-2011, growing from 7.85 million in 1971 to 12.85 million in 2011, a growth rate of about 1.59 percent per year. However, its growth rate has declined from the high of 1.68 percent per year during the 1980s to a historical low of about 1.04 percent per year during 2001-2011 (Figure 1).



Declining fertility rate is one of the main reasons for declining population growth rate in Ontario and Canada (Figure 2). In Canada, the total fertility rate reached 3.94 in 1959. It declined below the generational replacement rate of 2.1 in 1972 and reached its historical low of 1.49 in 2000. It currently stands at 1.61 children per woman in 2011. In Ontario, the total fertility rate reached its

historical record low of 1.47 in 2002. It now stands at 1.52 children per woman in 2011. This is less than half of the rate seen at the 1960 peak of the baby boom when Ontario's total fertility rate reached a record high of 3.80 children per woman.

Average life expectancy at birth has increased from 71.13 years in 1960 to 81.24 years in 2012. The low fertility rate and rising life expectancy have resulted in the aging of Ontario's population. The baby boomers were followed by much smaller generations in number primarily due to a declining fertility rate. As a result, the share of seniors has increased from 8.3 percent in 1971 to 14.2 percent in 2011. The aging of the population is also reflected in rising median age of Ontarians from 27.1 years in 1971 to 39.8 years in 2011.

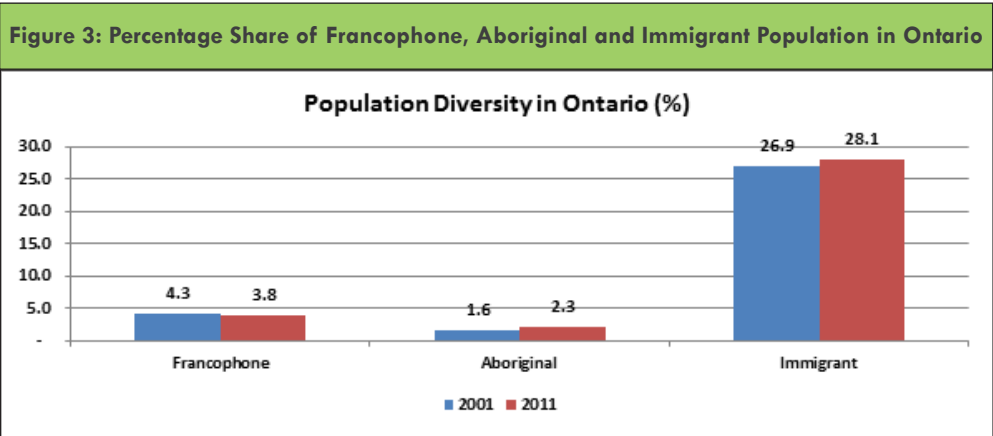


Slower growth and aging of the population affect the labour force and hence Ontario’s ability to generate output and income. In fact, an aging population affects virtually all other aspects of the economy. It affects patterns of saving and household consumption. It influences sales, production, and investment levels. Furthermore, its impact falls unevenly on different industries and sectors of the economy. An aging population also affects the tax base from which the provincial government draws revenue and it also influences demand for government program expenditures such as health care. What healthcare related services will be essential to meet the requirements of a rapidly aging provincial population? How many doctors, nurses and other types of healthcare providers do we need to train to replace the aging healthcare providers while satisfying the growing demand for healthcare services? How much of specific types of services and facilities do we require? These are important questions that policy makers need to address in the coming years.

The gap between the total fertility rate in Canada and Ontario has also been growing (Figure 2). The implication of the declining fertility rate is that the natural increase (births minus deaths) has become a less important factor in provincial population growth. As such, dependence on immigration has become an increasingly significant factor to sustain our workforce and population base.

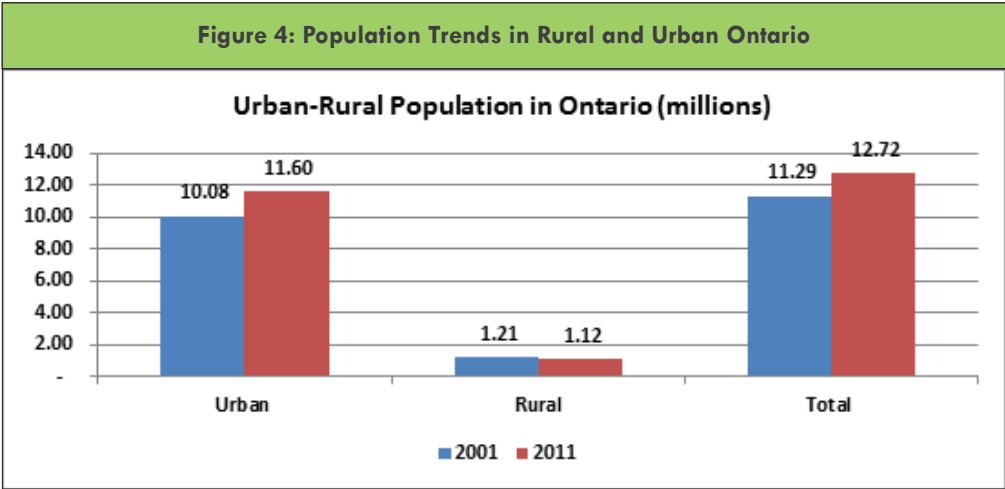
The make-up of Ontario’s population has also changed in recent years (Figure 3). The share of the Francophone population declined from 4.3 percent in 2001 to 3.8 percent in 2011. This is in spite of the fact that the Francophone population grew by 2.3 percent during that period. The share of the Aboriginal population increased from 1.6 percent to 2.3 percent during 2001-2011. Similarly, immigrants comprised 26.9 percent of Ontario’s population in 2001. Their share increased to 28.1 percent in 2011.

While the province of Ontario has grown as a whole, does this hold for rural and urban settings? What are the socioeconomic differences between rural and urban with respect to income, employment and educational attainment? And what are the impacts of human capital composition on income in rural areas?



PART II: POPULATION DECLINE + THE SOCIO-ECONOMIC CHALLENGES IN RURAL AREAS

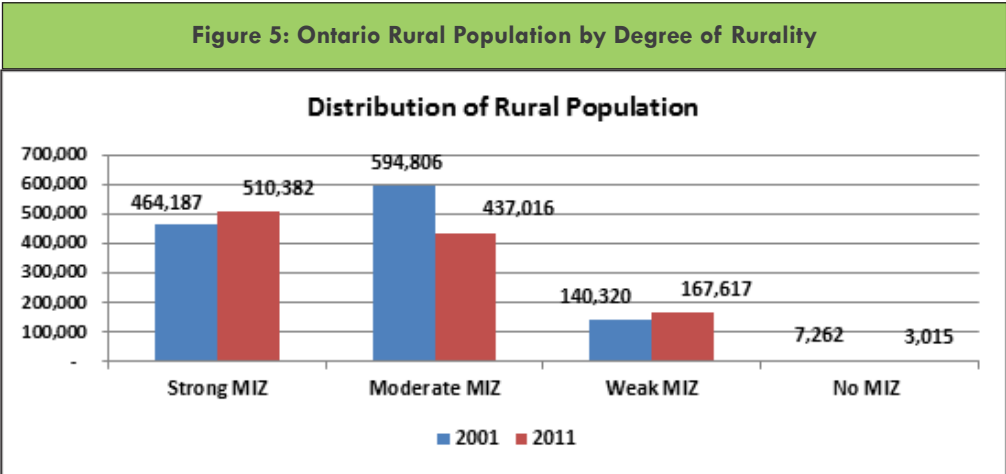
Ontario’s total population increased from 11.29 million in 2001 to 12.72 million in 2011, a growth of about 12.73 percent during 2001-2011 (Figure 4).¹ The urban population grew by 15.13 percent while the rural and small town population declined by 7.34 percent during 2001-2011. In fact, the population living in rural and small towns has declined both in absolute and relative terms. The share of Ontario’s population living in rural and small towns declined from 10.7 percent in 2001 to 8.8 percent in 2011.



The study classifies all 574 Census Subdivisions (CSDs) in the province of Ontario into 92 Census Metropolitan Areas (CMAs) and 56 Census Agglomerations (CAs) which are considered as urban areas. The other 426 CSDs are classified as rural areas with different degrees of rurality based on the degree of metropolitan influence as indicated by the degree of commuting to any CMA or CA. This classification disaggregates rural areas into four

types of zones, namely strong, moderate, weak and no metropolitan influenced zones (MIZ).

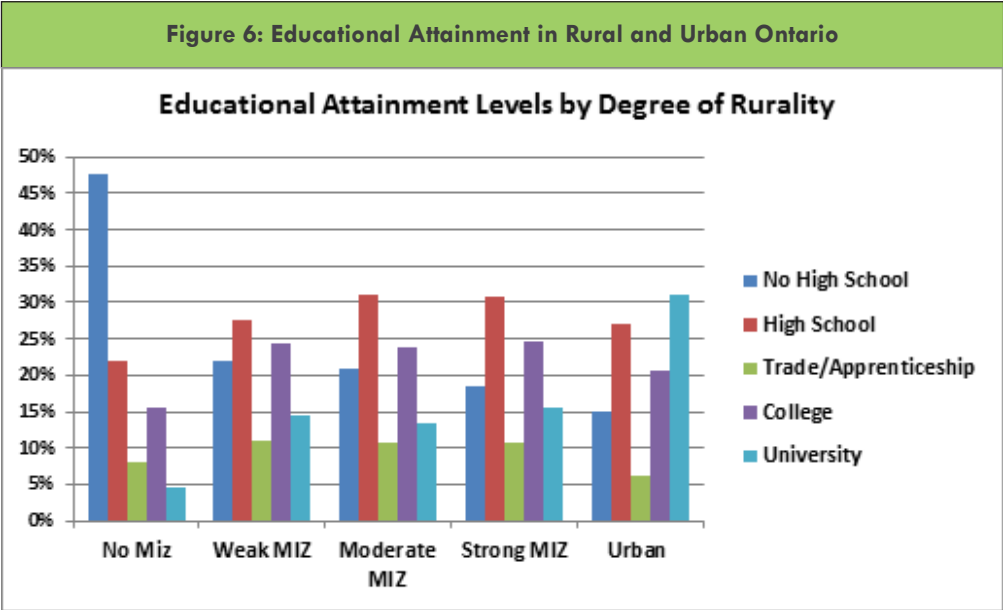
The distribution of rural population has also changed over time (Figure 5). The rural population living in areas designated as strong MIZ increased during 2001-2011. This is likely due to relocation of ex-urbanites to the countryside. The rural areas designated as moderate MIZ experienced population decline during 2001-2011. The rural areas designated as weak MIZ show slight increase in their population. Finally, areas designated as no metropolitan influenced zones lost population during 2001-2011.



The study also examines various socio-economic characteristics of rural and urban Ontario in 2011 and pays special attention to the degree of rurality. It is found that the average labour force participation rate is highest in urban areas and declines as the degree of rurality rises. The difference between the participation rate in urban and remote regions is 14.0 percent. On the other hand, the unemployment rate is lowest in urban areas and increases as the degree of rurality rises.

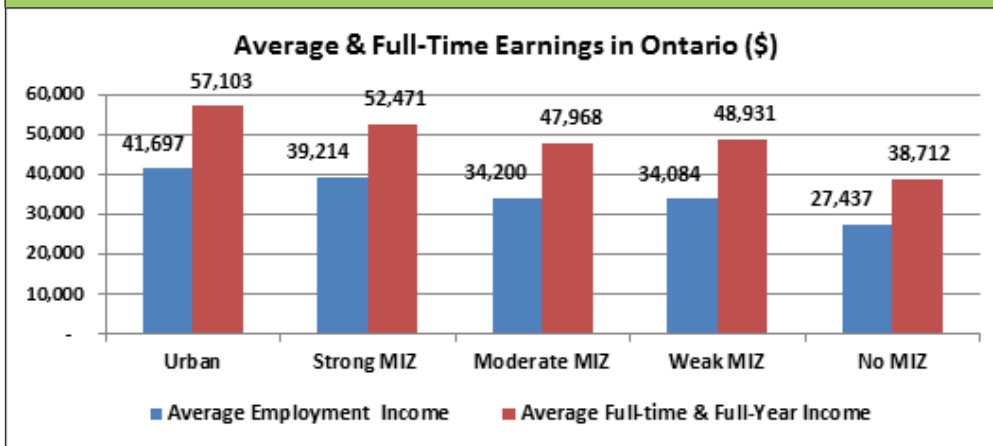
In terms of dependency on government transfer payments, the study finds that an average of 9.2 percent of individuals in Ontario’s urban areas receive transfer payments. Again the dependency rate increases as the degree of rurality rises. The dependency rate in remote areas of Ontario is about 2.8 times greater than that in urban regions.

As expected, the level of educational achievement in urban areas is much higher than that in rural regions (Figure 6). The level of schooling declines as the distance between rural areas and population centres increases. Almost half of the remote rural population do not have a high school diploma.



The average earnings in remote areas are about 65.8 percent of earnings in urban regions (Figure 7). The earnings of those who worked full-time and full-year decline as one moves towards more rural areas. Again, the average earnings of full-time workers in remote regions are about 67.8 percent of their counterparts in urban areas.

Figure 7: Employment Earnings in Rural and Urban Ontario



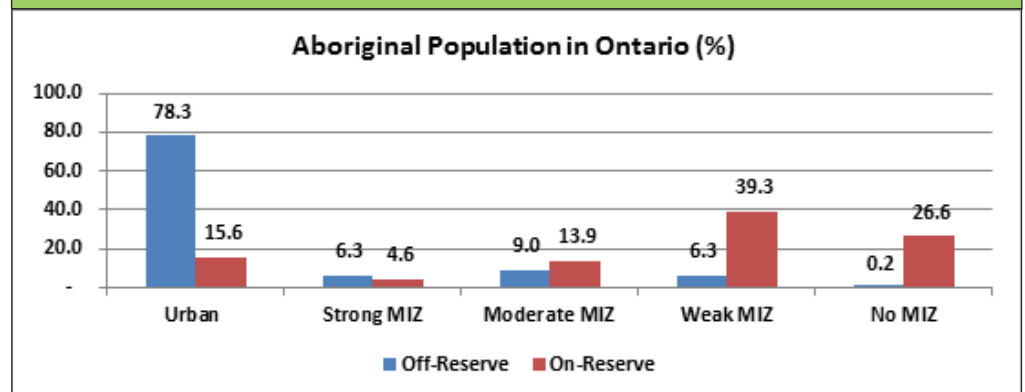
Focussing on various population groups, the study finds that the Francophone population in Ontario increased from 482,340 in 2001 to 493,295 in 2011, an increase of about 2.3 percent. Ontario's Francophone population is aging slowly. Overall, the average age of the Francophone population increased from 40.9 in 2001 to 43.9 in 2011. The median age increased from 42 years in 2001 to 47 years in 2011. The

The majority or 79.9 percent of the Francophone people live in urban areas. About 19.9 percent live in rural areas with weak to strong links with urban centres. Only 0.3 percent live in remote rural communities.

With attention to the Aboriginal populations, we find that on-reserve populations have declined slightly during 2001-2011. This is primarily due to the migration of Aboriginal individuals from reserves to off-reserve areas. During the same period, off-reserve populations increased by 72.2 percent. Overall, the total Aboriginal population increased from 184,555 in 2001 to 290,795 in 2011, a growth rate of about 57.6 percent. Various factors explaining the significant growth of Ontario's Aboriginal population are examined in the study.

The majority or 78.3 percent of the off-reserve Aboriginal populations live in urban areas. About 15.6 percent of the Aboriginal people live in urban reserves. The majority or 65.9 percent of the reserve population live in relatively remote rural areas with a weak or no link to urban centres (Figure 8). These are areas with potentially significant mineral resources development requiring a skilled labour force and developed infrastructure which are both absent at the present time.

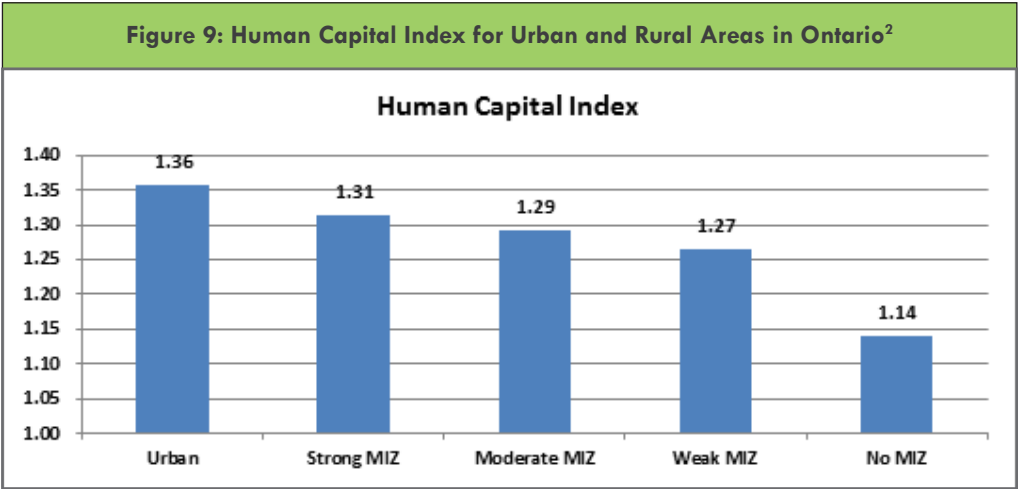
Figure 8: On-Reserve and Off-Reserve Aboriginal Population



Turning attention to the immigrant population, the study finds that it has increased by more than 124.0 percent during 2001-2011. This amounts to a growth rate of 12.4 percent per year. The number of immigrants has increased in all age categories. However, like the overall population, the average age of immigrants has increased from 45.9 years in 2001 to 47.0 years in 2011. Similarly, the median age of immigrants has risen from 46.2 years in 2001 to 47.4 years in 2011.

What factors explain the earnings gap between rural and urban Ontario? Is it the distance, population size, economies of agglomeration or the stock of human capital that explains the earnings differential between rural and urban region. Part II of the study also examines factors explaining the earnings gap between rural and urban regions.

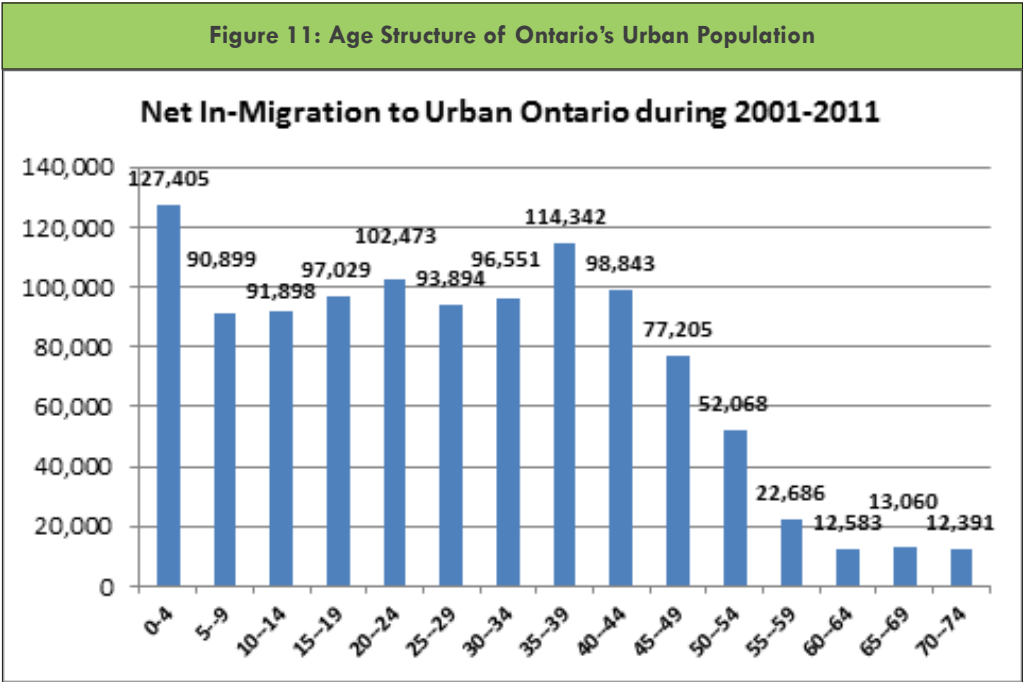
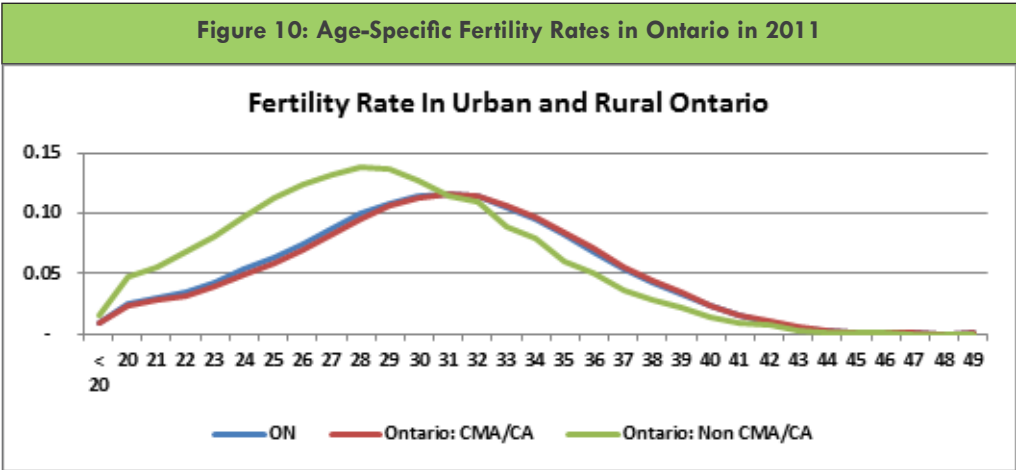
There are at least two competing explanations for the observed earnings gap. One relates the earnings gap to the differences in human capital composition in rural and urban regions. The other relates the earnings gap to the presence of agglomeration economies resulting from the concentration of workers and proximity of firms in larger urban areas. The study finds that a significantly larger share of the earnings gap is explained by the differences between the stock of human capital in rural and urban areas (Figure 9). More specifically, the study finds that 100 percent of the earnings gap between rural areas with a strong MIZ and urban regions are accounted for by differences in the human capital composition of their employed workforce. The effect of agglomeration economies is almost nil. Similarly, about 66.7 percent of the earnings gap is attributed to the differences in the human capital composition of the employed people in moderate MIZ areas and urban regions. The rest or 33.3 percent of the gap is likely due to agglomeration economies. Also, 82.4 percent of the earnings gap between urban and rural areas with a weak MIZ is accounted for by differences in their human capital composition. Again, the rest or 17.6 percent is likely to be explained by agglomeration economies. Finally, about 96.0 percent of the earnings gap between remote areas and urban areas is due to differences in their human capital composition. The rest is due to agglomeration economies. Though it is evident that rural Ontario is experiencing population decline, will this trend continue and what will the future labour force look like?



PART III: THE FUTURE POPULATION OF RURAL ONTARIO

Part III of the report makes projections of the rural and urban population from the base year of 2011 to 2025. The study shows that the fertility rates in rural Ontario have been higher than those in urban regions for women aged 15 to 30 and lower for women older than 30 years of age (Figure 10). Overall, the total fertility rate for women in rural Ontario equals 1.83 compared to 1.53 for women in urban Ontario.

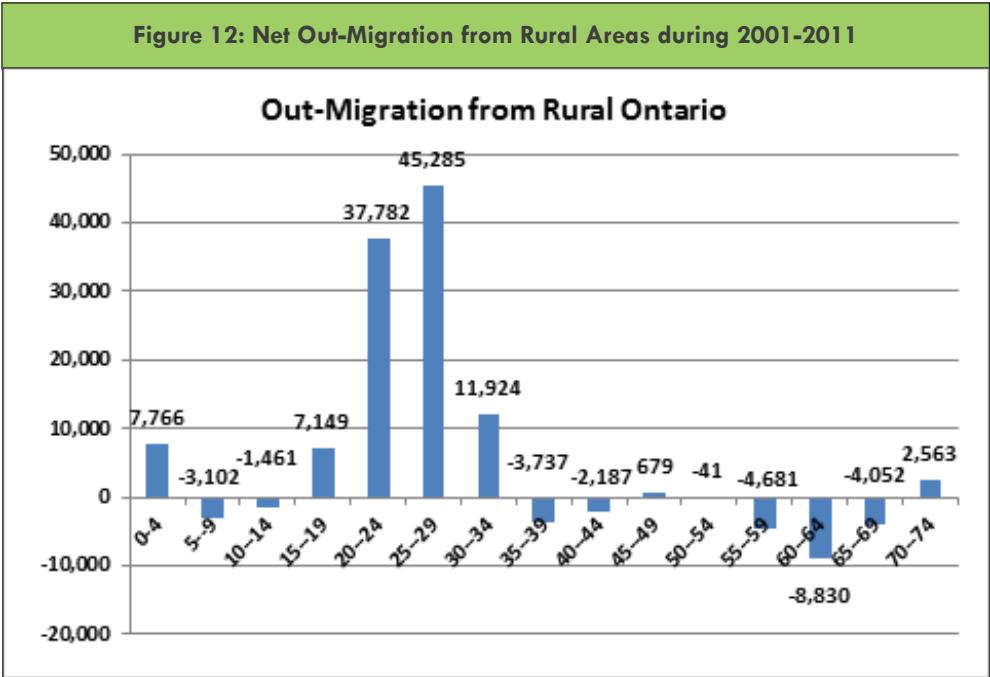
The study projects that Ontario's urban population will grow from 11.6 million in 2011 to 13.3 million in 2025, a growth rate of 1.04 percent per year. A significant factor responsible for this growth relates to a significant net in-migration that urban Ontario has been experiencing in the past (Figure 11). The newcomers come from other provinces, rural areas and other countries.



Although Ontario's urban population is expected to grow steadily over the next 15 years, Ontario's rural population is expected to decline significantly from 1,118,065 in 2011 to 925,299 in 2025, a decline of about 1.23 percent per year during the above period. The main factors responsible for declining rural population appears to be a significant out-migration of youth between the ages of 20 and 30 years old (Figure 12) and the inability to attract immigrants to rural areas. This process leaves these areas without the necessary human

capital that is required if they are to remain productive and vibrant. This is important since most of the untapped natural resources in Ontario are located in rural areas. The report also shows a significant out-migration of seniors likely because they are seeking better medical services in urban regions.

A large number of adults between the ages of 20 and 30 years old moved out of rural areas between 2001 and 2011. It is expected that the youth out-migrate in search of better employment opportunities in urban areas. Had it not been for out-migration, Ontario’s rural population decline would have been much smaller reflecting only relatively low fertility rates.



CONCLUSION

The study concludes that rural and urban Ontario have undergone significant demographic changes in recent years. Rural population has been declining and the projections suggest that the declining trend will continue well into the future. Relatively low fertility rates combined with out-migration of youth as well as inability to attract immigrants are the main causes of population decline in rural Ontario. There is a need to adopt policies that encourage immigrants to settle in rural Ontario.

A declining and aging rural population have important implications for resource development in both Ontario and Canada. Canada's economic prosperity has been based on a staples economy relying on the export of natural resources from Canada's peripheral and rural regions. Almost all the untapped mineral resources are located in the northern remote regions. Their development requires skilled labour and developed infrastructure, both of which are absent at the present time. In fact, lack of a qualified labour force constitutes an important barrier to economic development in rural regions. Various surveys suggest that multinational and multi-locational firms operating in rural Ontario face a significant shortage of a qualified labour force.³ This is especially true in resource-based communities.

This study shows that human capital is the main determinant of earnings in rural and urban areas. Given that the stock of human capital affects productivity and earnings capacity of the rural population, one approach to maintaining or even increasing earnings and production capacity in rural regions is to enhance productivity by increasing investment in education in rural areas. In fact, apart from increasing productivity and earnings, investment in education has significant positive social and economic consequences as well.

Investment in human capital not only provides significant monetary return but also enables rural residents to participate in the benefits of economic development in their communities, and thus facilitates a cooperative relationship between resource developers and rural residents. It is imperative for the provincial government to take the prospective demographic changes into account and to adopt policies that aim at addressing the major issues that rural communities in Ontario face in the coming decades.

ENDNOTES

¹ Note the sum of the urban and rural population based on the 2011 National Household Survey (NHS) is slightly different from the 2011 Census aggregate population estimate.

² The estimated Human Capital index ranges from 1 if none of the area's residents have completed high school to about 2 if all residents have obtained a university degree.

³ B. Moazzami, *Multi-national and Multi-locational Enterprise Initiative*, Industry Canada, March 30, 2011.

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