

The Effect of Ethnic Clustering on Immigrants' Earnings

Newcomers (including refugees) are one of the National Housing Strategy (NHS) priority populations who experience housing need (and related vulnerabilities).

Background

Policymakers should consider the ethnic composition of neighbourhoods in the design of public policies for two main reasons. Firstly, there is strong theoretical and empirical support for the role of social interactions on individuals' labor market outcomes through the referral effect, which may have important implications for housing affordability given the direct link between household earnings and consumption. Secondly, ethnic clustering is a well-established characteristic of immigration in Canada (see Zucchi (2007)). Therefore, understanding the impact of the ethnic composition of a neighbourhood on newcomers' labor market and housing outcomes is key in designing housing policies aimed at improving the social and economic inclusion of this target NHS priority population. In this regard, this study examines the effects of living in an ethnic enclave on the earnings of recent immigrants to Canada.

Objective

The goal of this study is to answer the following questions: What are the effects of living in an ethnic enclave (a neighbourhood where the majority of the residents belongs to a visible minority group) on the earnings of recent immigrants to Canada? What are the implications of living in an ethnic enclave on their ability to afford housing that meets their needs? Answering these questions will reveal whether and how, in the context of the National Housing Strategy (NHS), the ethnic composition of the neighbourhood should be taken into account, either when it comes to decisions on where to build new affordable housing units, or the allocation, to eligible households, of affordable housing renewed with NHS funds. This study also contributes to the literature on the immigrant–Canadian–born wage gap by highlighting how ethnic-related social interactions at the neighbourhood level impact this wage disparity.

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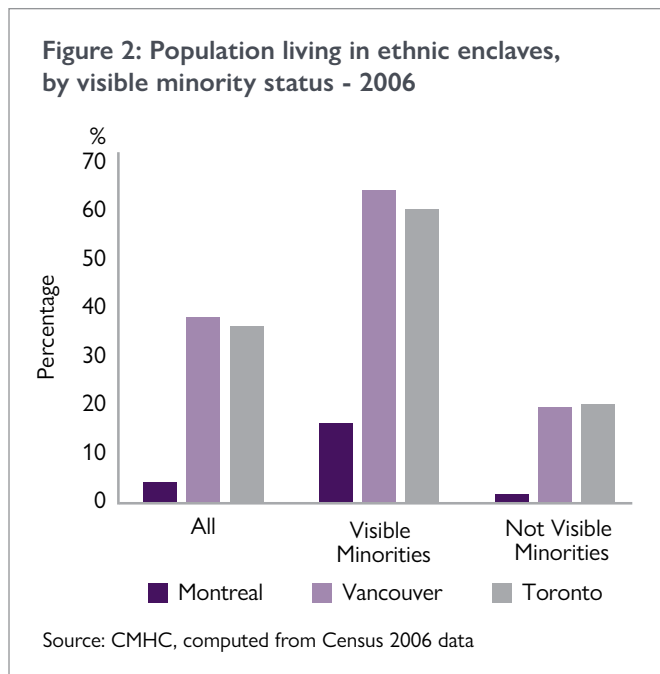
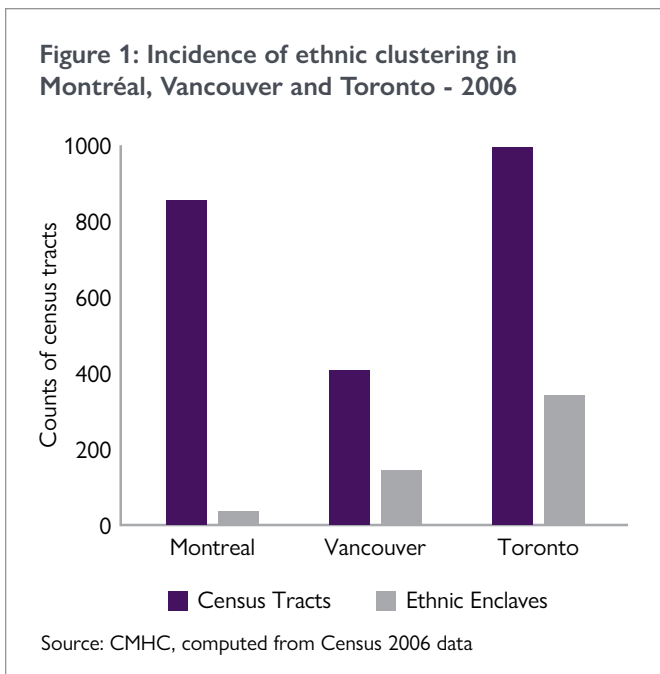
Approach

We use data from the 2006 Census to identify and classify census tracts from Montréal, Vancouver and Toronto census metropolitan areas (CMAs) as ethnic enclaves or otherwise. Then, for each census tract, we computed the total population and the population of individuals belonging to a visible minority group as defined in the Census. An ethnic enclave is then defined as a census tract with more than 50% of its population composed of individuals identifying as visible minorities. We then use data of permanent residents, who landed in the Montréal, Vancouver and Toronto CMAs in 2001 aged 20-49, from the 2017 Canadian Employer-Employee Dynamics Database (CEEDD) to track average annual earning differences between newcomers who landed in non-ethnic-enclave neighbourhoods and those who landed in ethnic enclaves as of 2001. We find that immigrants who landed in ethnic enclaves had, on average, persistently lower earnings relative to their counterparts who landed in non-ethnic-enclave neighbourhoods.

Findings and Implications

There are more ethnic enclave neighborhoods in Vancouver and Toronto compared to Montréal.

There are notable differences between the three CMAs in terms of both the incidence of ethnic enclaves and their relative importance. Figure (1) shows quite a small incidence of ethnic clustering in Montréal. Among the 855 census tracts identified in the data, only 36 of them had more than 50% of their population belonging to visible minority groups. Therefore, in Montréal, only 4.2% of neighbourhoods can be considered as ethnic enclaves. However, in Vancouver and Toronto, the picture is quite different. Toronto has more ethnic enclaves than Vancouver (342 compared to 142). Nonetheless, the proportion of this type of neighbourhood is slightly higher in Vancouver; ethnic enclaves represent 34.8% of neighbourhoods in Vancouver, whereas the corresponding proportion is 34.4% for Toronto.

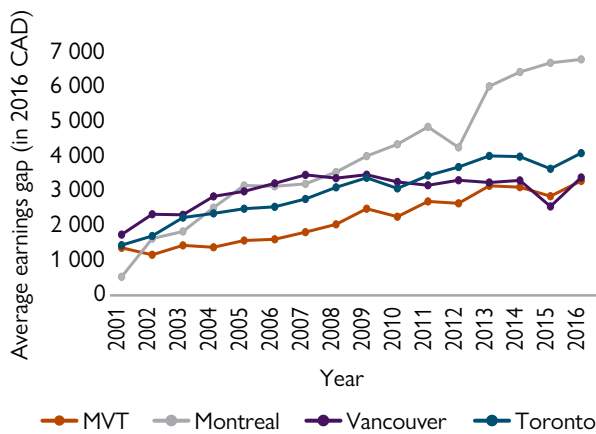


These differences are also reflected in the distribution, within each CMA, of the population across ethnic enclave neighbourhoods and neighbourhoods that are not ethnic clusters. Figure (2) shows that Montréal differs significantly from Vancouver and Toronto with respect to the distribution of the population across census tracts. In Montréal, only 4.3% of the population lived in ethnic enclaves in 2006. Furthermore, the proportion of individuals not belonging to visible minority groups who lived in an ethnic enclave was close to eight times lower (2%) than the proportion of people from visible minorities who lived in this type of neighbourhood. On the contrary, in Vancouver and Toronto, it is a different picture: the proportion of individuals not belonging to visible minorities who lived in an ethnic enclave is only three times lower than the proportion of people from visible minority groups who lived in this type of neighbourhood. Additionally, in Vancouver and Toronto, a very high proportion of individuals from visible minority groups lived in ethnic clusters; 64.7% and 60.7%, respectively.

Newcomers who landed in ethnic enclave neighborhoods earn less, on average, compared to other newcomers who landed in non-ethnic-enclave neighborhoods.

We find a strong and persistent difference between the average earnings of newcomers who landed in neighbourhoods with more than 50% of the population belonging to a visible minority group (also called ethnic enclaves) and their counterparts who landed in non-ethnic enclaves (see Figure 3). Immigrants who landed in ethnic enclaves earned less, on average, than their counterparts who landed in non-ethnic-enclave neighbourhoods. Furthermore, the earnings gap between the two groups also increased over time. This observation is consistent across the three CMAs by sex at birth, age group and education.

Figure 3: Average earnings gap, by CMA of landing



All results are significant at 1%. MVT = Montréal, Vancouver and Toronto.
 Source: CMHC, computed from Statistics Canada’s Canadian Employer-Employee Dynamics Database, 2017 Vintage

Secondly, this study also documented the existence of the “referral effect,” i.e. immigrants tend to use their social network (here composed of neighbours having the same country of birth) to find jobs. In fact, we observed a positive correlation between the number of immigrants from a given country in a neighbourhood and the likelihood of two immigrants from the same country of birth and living in the same neighbourhood to work in the same industry.

Finally, we estimated the effect of ethnic clustering on the earnings of recent immigrants. Overall, for immigrants who lived in ethnic enclaves, we observed a strong negative correlation between the number of neighbours having the same country of birth and their earnings. However, the effect is quantitatively small. We also observed important heterogeneities across CMAs by sex at birth, age group and education. More specifically, we observed a negative effect of ethnic clustering on immigrants’ earnings in Montréal and Toronto, but a positive effect in Vancouver. Furthermore, the effect of ethnic clustering is negative for women and immigrants aged 40-49 at landing. But we found no effect on men’s earnings and on the earnings of younger immigrants. In terms of education, ethnic clustering has a negative effect on immigrants with either less than 10 years of schooling or 13 years of schooling or more. For those with 10-12 years of schooling, however, the effect is positive.



Full Report

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https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_6/effect-of-ethnic-clustering_report-final_sep03.pdf

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Alternative text and data for figures

Figure 1: Incidence of ethnic clustering in Montréal, Vancouver and Toronto - 2006

| CMA | Census Tracts | Ethnic Enclaves |
|------------------|---------------|-----------------|
| Montreal | 855 | 36 |
| Vancouver | 408 | 142 |
| Toronto | 993 | 342 |

Source: CMHC, computed from Census 2006 data

Figure 2: Population living in ethnic enclaves, by visible minority status - 2006

| CMA | All | Visible Minorities | Not visible minorities |
|------------------|--------|--------------------|------------------------|
| Montreal | 4.26% | 16.51% | 1.92% |
| Vancouver | 38.49% | 64.71% | 19.85% |
| Toronto | 36.59% | 60.73% | 20.50% |

Source: CMHC, computed from Census 2006 data

Figure 3: Average earnings gap, by CMA of landing

| Year | MVT | Montreal | Vancouver | Toronto |
|-------------|---------|----------|-----------|---------|
| 2001 | \$1,371 | \$533 | \$1,752 | \$1,447 |
| 2002 | \$1,168 | \$1,636 | \$2,337 | \$1,714 |
| 2003 | \$1,441 | \$1,841 | \$2,321 | \$2,241 |
| 2004 | \$1,386 | \$2,527 | \$2,853 | \$2,364 |
| 2005 | \$1,583 | \$3,166 | \$3,000 | \$2,500 |
| 2006 | \$1,615 | \$3,145 | \$3,230 | \$2,550 |
| 2007 | \$1,823 | \$3,212 | \$3,473 | \$2,778 |
| 2008 | \$2,044 | \$3,555 | \$3,378 | \$3,111 |
| 2009 | \$2,496 | \$4,012 | \$3,477 | \$3,388 |
| 2010 | \$2,268 | \$4,355 | \$3,266 | \$3,085 |
| 2011 | \$2,707 | \$4,854 | \$3,174 | \$3,454 |
| 2012 | \$2,654 | \$4,265 | \$3,317 | \$3,696 |
| 2013 | \$3,157 | \$6,026 | \$3,252 | \$4,018 |
| 2014 | \$3,120 | \$6,435 | \$3,315 | \$3,997 |
| 2015 | \$2,859 | \$6,704 | \$2,563 | \$3,648 |
| 2016 | \$3,300 | \$6,800 | \$3,400 | \$4,100 |

All results are significant at 1%. MVT = Montréal, Vancouver and Toronto.

Source: CMHC, computed from Statistics Canada's Canadian Employer-Employee Dynamics Database, 2017 Vintage