

ECONOMIC VIEWPOINT

The Role of Foreign Students in Higher Education: Does Ontario Receive a Passing Grade?

By Kari Norman, Economics Document Production Specialist and Randall Bartlett, Senior Director of Canadian Economics

Highlights

- ▶ Tuition freezes in Ontario since 2019, combined with stagnant financial support from the provincial government, have forced postsecondary institutions to lean on increasing international student enrollment—and the significantly higher tuition fees that come with it—to keep the doors open.
- ▶ The federal government has recently floated the idea of cutting back on the number of foreign students admitted to Canada. But any policy that reduces the number of foreign students entering the country without other changes to the funding model risks sending some postsecondary institutions into a fiscal tailspin. We estimate that tuition and fees from foreign students generate between \$5B and \$6B in revenues for Ontario's postsecondary institutions every year.
- ▶ Possible restrictions on foreign student admissions look to be, in part, motivated by a desire to improve housing affordability in Canada. Postsecondary students are hard-pressed to get into dorms, as student residence construction has lagged increases in enrollment. They have turned to market housing as a result. But instead of focusing on limiting enrollment, all levels of government need to work together to ensure students—and indeed all Canadians—have safe, stable and affordable housing.

When the weather starts to cool and days get shorter, thoughts turn to back to school. Parents pack up their no-longer-small children to drop them off at dorms and student rentals at colleges and universities across the province. At the same time, an ever-growing number of international students are also attending these institutions.

This influx of foreign students has both positive and negative implications. On the one hand, international students bring diversity and cultural enrichment to campuses and foster a global learning environment. They also contribute to the local economy by renting housing and spending on other things. Moreover, training international students creates an excellent opportunity for Canada to gain well-educated, highly employable young workers in an era of retiring baby boomers.

However, recent discussion has centred on the idea of reducing the number of foreign students studying in Canada. The conversation has primarily focused on alleviating the pressure

on Canada's strained housing market, which has left students struggling with deteriorating affordability. But as with most policy decisions, there would be myriad repercussions on other sectors that must be taken into account.

Postsecondary Institution Financials Are Strained

Colleges and universities typically get their revenue from a variety of sources, including government funding, tuition and other fees, research grants, and donations. Over the past two decades, revenues and expenses have risen over 150% at Ontario colleges to about \$5 billion per school year and at universities to over \$17 billion per school year. But as funding from the Ontario government hasn't risen by much, fees have accounted for the bulk of the increased revenues (graph 1 on page 2). [Higher Education Strategy Associates](#) reports "100% of all increased operating spending over the past thirteen years has come from international student fees."

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

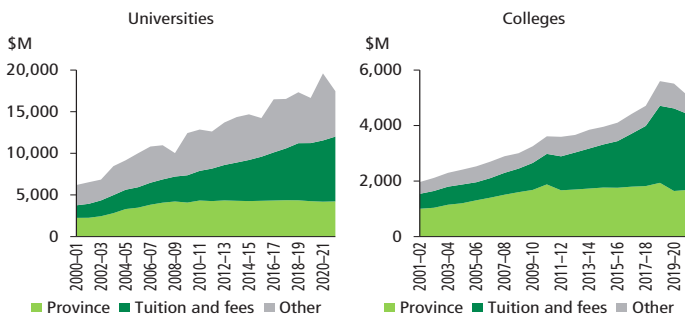
NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. Data on prices and margins is provided for information purposes and may be modified at any time based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. Unless otherwise indicated, the opinions and forecasts contained herein are those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2023, Desjardins Group. All rights reserved.

University and college expenses have risen dramatically over the same period, particularly faculty and staff salaries, wages and benefits (graph 2), even though the number of full-time professors hasn't kept up with the rapid rise in university enrollment (graph 3). At Ontario universities, the number of full-time teaching staff fell from just under 40 per 1,000 students in 2000–21 to less than 30 by 2020–21. Other expenditures

include facilities, student services, research and development, and administrative and other operational costs.

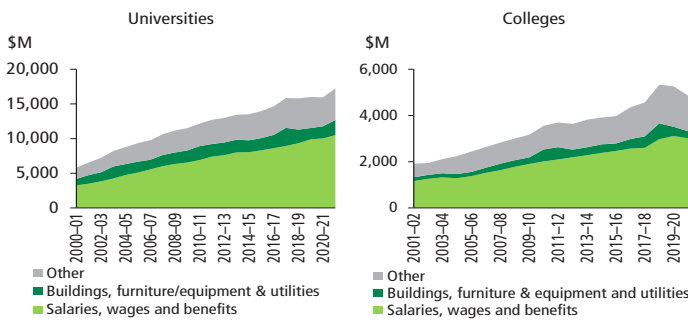
Following Laurentian University entering the Companies' Creditors Arrangement Act process, Ontario's Auditor General published a report on [Financial Management in Ontario Universities](#) in 2022. In her report, she found that many universities have struggled to meet financial health indicators such as net income/loss ratio, net operating revenues ratio, primary reserve, interest burden ratio, viability ratio, in-year surplus and expendable net assets (graph 4). Moreover, they have an average debt of nearly \$9,000 per full-time equivalent student, with a high of almost \$20,000 per student at Ontario Tech.

GRAPH 1
Provincial Funding for Colleges and Universities Has Stagnated...



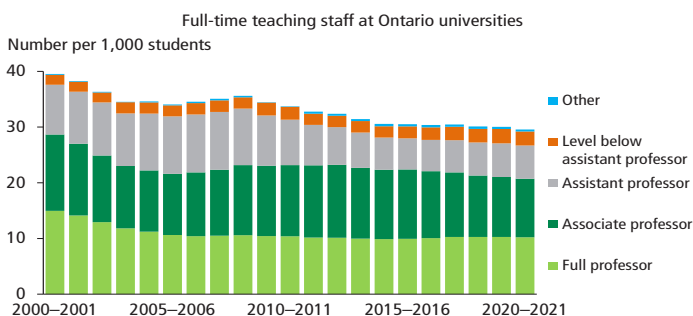
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 2
...While Their Expenses Keep Rising



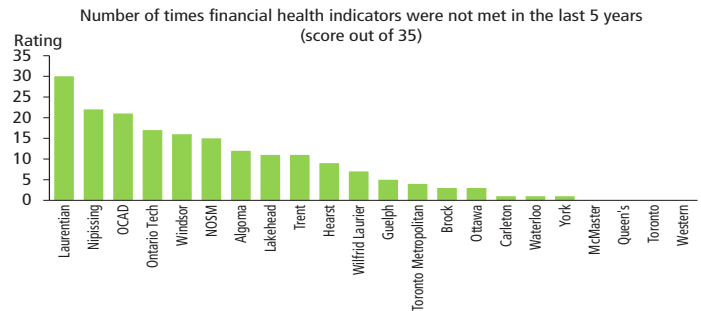
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 3
Full-Time Teaching Staff Hasn't Kept Up with Enrollment



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 4
Some Universities Have Struggled to Meet Financial Health Indicators

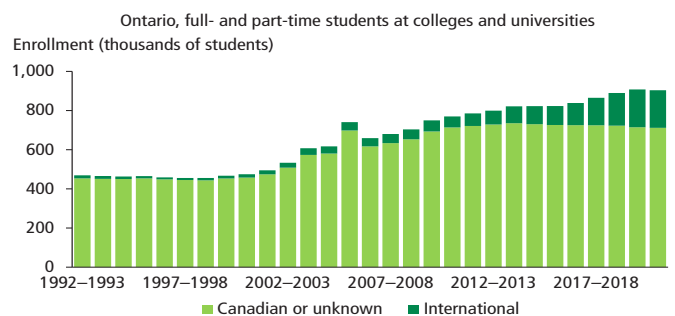


Sources: Ontario Ministry of Colleges and Universities and Desjardins Economic Studies

Ontario's Higher Education System Depends on International Students

Ontario has always welcomed international students to its university and college campuses, but the rate of acceptance for foreign students has risen recently (graph 5).

GRAPH 5
International Students Have Driven Enrollment Growth over the Last Decade



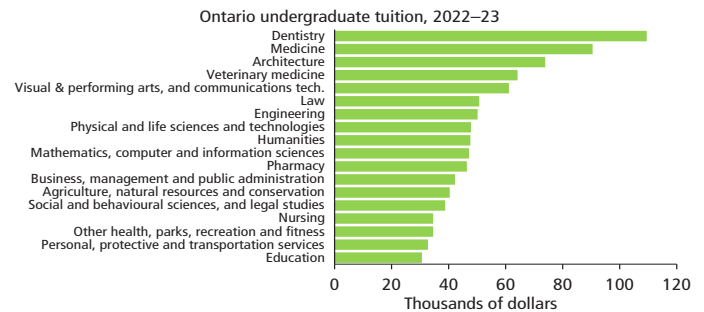
Sources: Statistics Canada and Desjardins Economic Studies

Ontario's share of Canada's international students has climbed dramatically in the past 30 years (graph 6). The province now educates just over half of all international students in Canada. Meanwhile, Ontario still accounts for about 40% of the country's domestic students, in line with its share of young people 18 to 24—in other words, those in their prime years for postsecondary education.

Domestic students going to school in Ontario pay slightly higher than the national average tuition at both the undergraduate and graduate levels. In the 2022–2023 school year, that was about \$7,900 and \$9,400 respectively. Compulsory student fees added about \$1,100 to the cost of education at both levels.

However, in an era of high inflation, paired with an unprecedented 10% reduction in tuition for the 2019–20 school year and tuition freezes through at least 2023–24, institutions have become heavily reliant on the high tuition fees paid by international students (graph 7). Most international students pay more than \$40,000 per year in undergraduate tuition fees, and as much as \$109,000 for dentistry (graph 8). Ontario's [Auditor General](#) said this about the increasing reliance of Ontario universities on foreign student tuition fees: "In 2020/21, international students represented 17% of total

GRAPH 8
Most International Students Pay More than \$40,000 per Year in Tuition



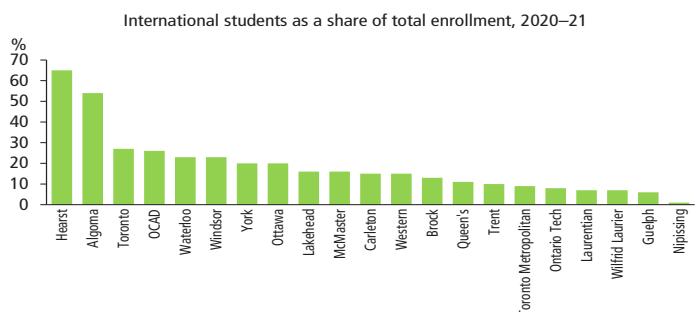
Sources: Statistics Canada and Desjardins Economic Studies

enrolment and 45% of tuition revenue, compared with 13% of total enrolment and 29% of tuition revenue in 2016/17." It has been [noted](#) elsewhere that the unexpected loss of students from Saudi Arabia in 2018 was a contributing factor leading to the bankruptcy of Laurentian University. The Auditor General reported that it also cost Ontario Tech University an estimated \$3 million.

These aren't the only examples of institutions' growing reliance on foreign student tuition. Algoma University fills a unique need to serve northern Ontario and foster cross-cultural learning between Aboriginal and other communities. However, the Auditor General reported that most of its enrollment growth has been at its Brampton campus, where international students bring in more than three-quarters of the university's total tuition revenue.

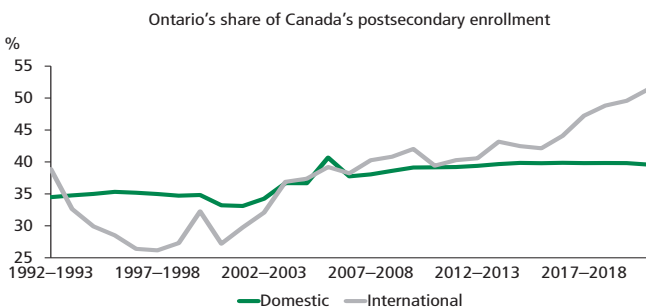
Indeed, many postsecondary institutions in Ontario are reliant on international student tuition fees as a key source of revenue (graph 9). We estimate that tuition and fees from foreign students generate between \$5B and \$6B in revenues for Ontario's postsecondary institutions every year. If the federal government follows through on its [suggestion](#) to reduce the number of student visas to provide a measure of relief amid the

GRAPH 9
Many Universities Are Dependent on International Student Tuition



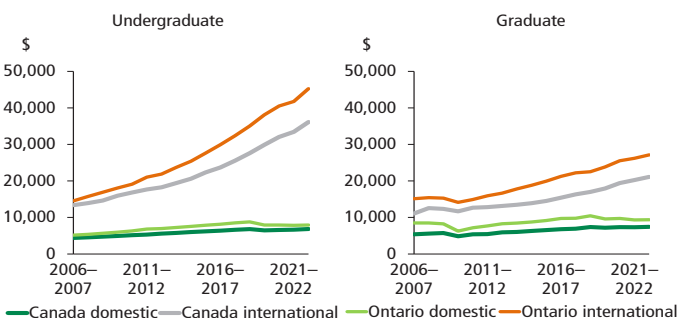
Sources: Ontario Ministry of Colleges and Universities and Desjardins Economic Studies

GRAPH 6
Ontario Educates More than Half of Canada's International Students



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH 7
International Student Tuition Has Skyrocketed



Sources: Statistics Canada and Desjardins Economic Studies

housing crisis, many institutions could be left scrambling to make ends meet.

This reliance on foreign student fees has led to concerns about the commodification of postsecondary education and increased competition domestically for limited spots. However, this does not appear to be the case. The tertiary educational attainment of Ontarians aged 25 to 34 keeps rising, from 54% in 2000, to 64% in 2010 and 74% in 2022.

International Students Are an Important Contributor to the Labour Force

Following recent changes at the federal level, eligible international students can now [work off-campus](#) in Canada without a work permit. Canada also made a temporary change so that foreign students are no longer limited to working 20 hours per week or less. The specific aim is to address the country’s labour shortages. Even prior to this change, [Statistics Canada](#) reported that the share of international students in Ontario with T4 earnings rose from 20% in 2000 to almost 48% in 2018. Moreover, their median earnings, in 2018 constant dollars, rose from \$6,900 to \$10,100 over that period.

That makes the over 190,000 international students studying in the province in the 2020–21 academic year an important part of the labour force of foreign workers. A reduction in their numbers could leave employers struggling to fill newly vacant positions at a time when Ontario has a very low unemployment rate and strong demand for workers.

Foreign Students Frequently Become New Canadians

Not only do these students add to the labour supply while they’re in school, but most stay to live and work in Canada as highly trained skilled workers after completing their studies. [Our report](#) on the right number of newcomers to welcome to Canada details how immigration is important to offset the old-age dependency ratio, lessening the economic impacts of population aging.

Foreign students with ties to their countries of origin have the potential to contribute strongly to international trade, networking, research exchanges and other partnerships. Even those who return home may stay connected with Canada based on their positive experiences and connections here. A recent [Canadian Bureau for International Education](#) report notes that “[a] cap on international student enrollment would also constrain Canada’s ability to use international education (i.e., “soft power”) to advance foreign policy objectives in certain regions.”

Students Struggle with Unaffordable Housing in Ontario

Canada’s housing market correction has been mild so far and hasn’t done much to improve affordability. [Our look](#) at the situation in Toronto found that even a deep 1990s-style recession would not make the city an affordable place to live.

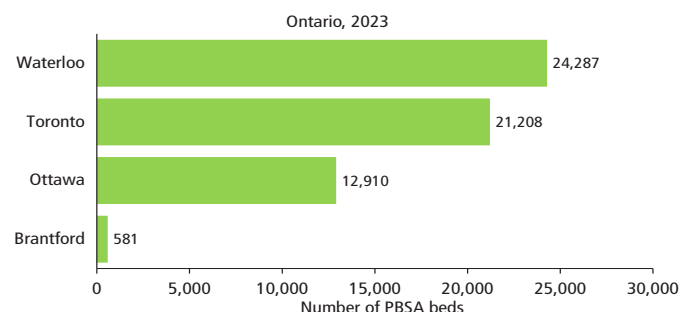
Ontario’s best hope of improving housing affordability rests with increasing the supply of housing. Our [recent report](#) took a deep dive into the state of Canada’s housing market crisis and the steps each level of government could take to boost home construction.

Despite doing all the necessary things to start their futures off on the right foot, young adults in Canada are more likely than ever to live with a parent. And in 2021–22, a record number of youth ages 15 to 34 left Ontario, most headed west, while other young families left Toronto for more affordable regions within the province. (See [our analysis](#) on how lack of affordability affects the life decisions of young Canadians.)

Students also face challenges finding affordable housing. Purpose-built student accommodation (PBSA) houses only about 12% of students in Canada—compared to 30% in the US and UK. With only 18,000 beds nation-wide under construction or in the pipeline, this situation isn’t likely to change anytime soon (graph 10). Government investment in additional PBSA would provide compact, high-density living for students since residences typically have centralized cafeterias in lieu of full in-unit kitchens and living rooms. Moreover, it would free up a substantial number of rental units in the community.

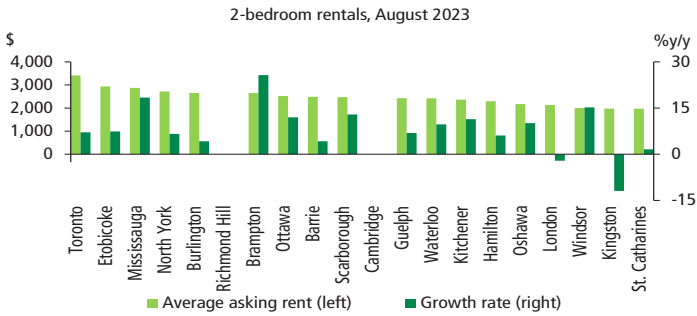
For those not living with family and unable to find a dorm room, most rent. [Rentals.ca](#) reports that the average rent for apartment and condo listings in Ontario increased 10% in August 2023 over the previous year. There is significant variation by city, but broadly speaking, two classmates will have trouble finding shared accommodation anywhere in Ontario for under \$1,000 per month apiece (graph 11 on page 5).

GRAPH 10
Ontario Needs More Student Residences



PBSA: Purpose-built student accommodation
Sources: Bonard and Desjardins Economic Studies

GRAPH 11
Student Renters Face High and Rising Costs



Sources: Rentals.ca and Desjardins Economic Studies

Conclusion

Looking ahead, the challenges facing Ontario’s higher education sector are complex. The financial strain on institutions doesn’t look to be abating. This could become particularly acute if the federal government follows through on its suggestion of reducing the number of international students allowed to enter Canada. The key will be to find a sustainable funding model that guarantees an affordable education for Canadian youth without compromising the quality of education that will lead to well-paying jobs. At the same time, postsecondary institutions and all levels of government need to work together to ensure all students have safe, stable and affordable housing that allows them to earn the best education possible.

APPENDIX

The discussion about limiting the number of international students isn't happening in a bubble. This appendix describes the broader environment for postsecondary enrollment trends as well as the opportunities and challenges facing all students.

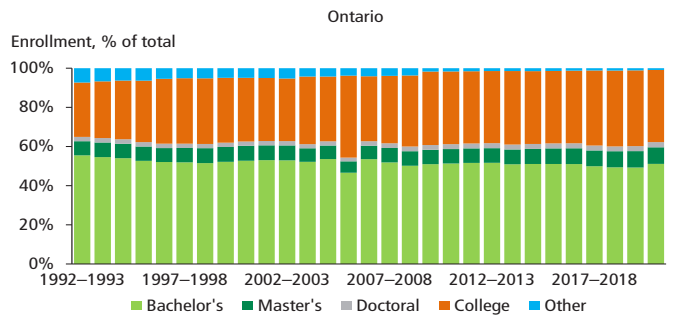
Postsecondary Enrollment Trends Are Mainly Positive

The postsecondary education landscape in Ontario has been shaped by the changing needs and expectations of youth, their families, employers and policymakers. The Canadian job market has become increasingly competitive, and obtaining a postsecondary education is often seen as a requirement for securing stable employment. This perception has led to a surge in enrollment in Ontario (graph A1). In the 2020–21 school year, institutions in the province hosted just over 900,000 students, almost double the number of students in 1992–93. Since the early 1990s, Ontario's share of postsecondary student enrollment in Canada rose from 35% to almost 42%. The vast majority of students attend full-time, which hasn't changed over the past three decades (graph A2).

Ontario has seen enrollment rise at all levels: bachelor's (77%), master's (125%), doctorate (137%) and college (156%). The role of college has grown slightly over the past three decades, but university bachelor's degrees are still more common than college diplomas (graph A3).

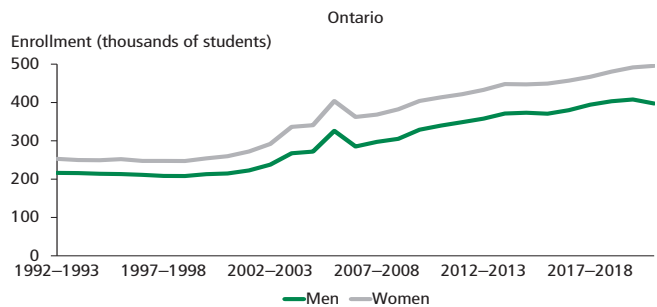
Women outnumber men in postsecondary enrollment (graph A4), with the gap widening slightly in recent years. But

GRAPH A3 College Enrollment Has Grown, but University Enrollment Is Still Higher



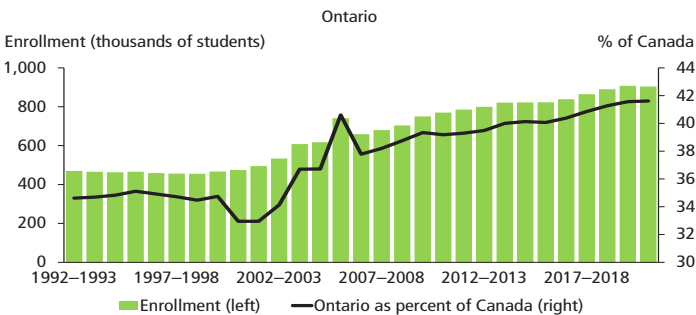
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH A4 Women Outnumber Men in Postsecondary Enrollment



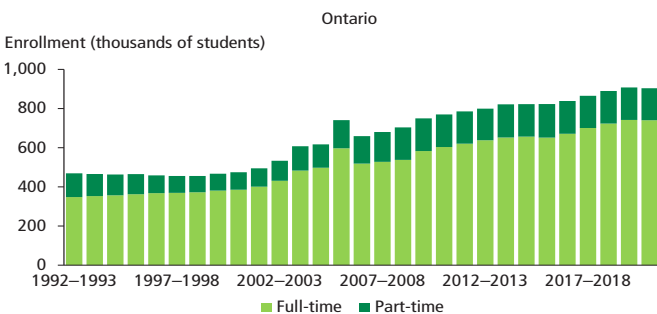
Sources: Statistics Canada and Desjardins Economic Studies

GRAPH A1 Postsecondary Enrollment Has Grown Dramatically



Sources: Statistics Canada and Desjardins Economic Studies

GRAPH A2 The Majority of Students Attend Full-Time



Sources: Statistics Canada and Desjardins Economic Studies

GRADE 13

For students starting high school in Ontario in 1984, grade 13 was replaced by a fifth year called Ontario Academic Credits or OAC. Students were required to have 30 credits to graduate, of which 6 needed to be OAC in order to apply for university. Some students chose to graduate in 4 years, while others continued to finish high school in 5 years. This led to the first double-cohort year entering postsecondary in the fall of 1989. The last year of OAC was the 2002-03 school year, after which high school ended with grade 12. This second double-cohort entered higher education in the 2003-04 school year. However, some students continued to take a fifth year "victory lap" before leaving high school.

the fields of study they choose vary widely (graph A5). Women are more likely to graduate from BHASE fields—business, humanities, health, arts, social science and education. While STEM (science, technology, engineering and math) has fewer graduates overall, about 63% of them are men. Much has been said about encouraging women to enter STEM fields. It appears that some STEM fields are more likely to attract women, while others still have work to do.

Student Life Comes with Many Challenges

The challenges facing Ontario youth extend beyond access to higher education. Despite recent tuition rollbacks and freezes for domestic students, postsecondary education remains expensive.

Struggles with Affordability

With a likely recession looming on the horizon, reduced purchasing power due to high inflation has only added to the worries of young Canadians. Youth are spending a larger share of their budget on necessities such as food, transportation and shelter, which have seen some of the highest inflation. Indeed, [Statistics Canada](#) recently noted that 58% of people 15 to 24 reported being very concerned about their ability to afford housing or rent.

Struggles with Debt

Our [recent analysis](#) on how affordability affects life decisions of young adults noted that half of young people 18 to 24 carried student debt in 2019. It's concerning that youth under 35 have the highest non-mortgage debt-to-income ratio of any age group and that their consumer insolvencies are starting to rise.

RESPs

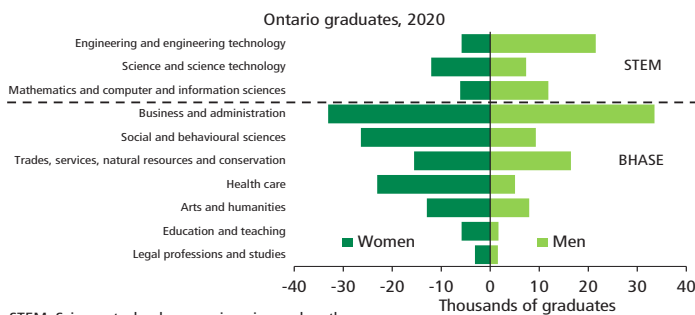
Parents, grandparents and other close relatives often help fund the cost of postsecondary education. The federal government offers a financial incentive to save in a tax-sheltered Registered Education Savings Plan (RESP). The federal government contributes 20% of the first \$2,500 in annual contributions made to an RESP as a [Canada Education Savings Grant](#). While some provinces also offer additional RESP incentives, Ontario is not among them.

As shown in our [recent analysis](#), investments in RESPs in Ontario are quite large, averaging over \$11,000 per family in 2019. This is slightly higher than the national average of about \$10,500 per family.

Struggles with Employment

Compared to older adults, youth in Ontario face higher unemployment rates. This was exacerbated during the pandemic, when many service jobs, such as those in the restaurant and retail sectors, were shuttered. While the unemployment rate for full-time students has improved from two years ago, it remains higher in Ontario than the national average (graph A6 on page 8). The share of involuntary part-time employment typically rises for all age cohorts, including young people, during recessions. Moreover, it's well documented that new graduates who struggle to get a foothold in the labour market after graduating are subject to more precarious employment and

GRAPH A5
Gender Imbalances Are Still Common in Certain Fields of Study



STEM: Science, technology, engineering and math
BHASE: Business, humanities, health, arts, social science and education
Sources: Statistics Canada and Desjardins Economic Studies

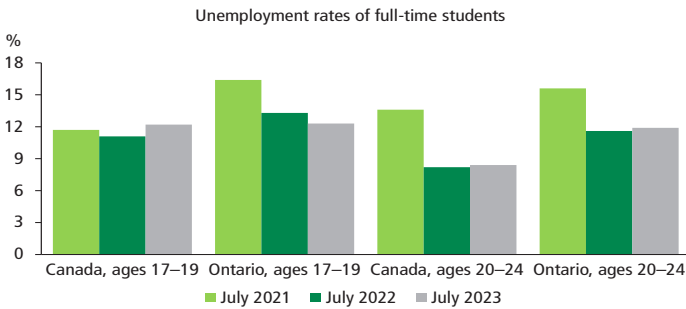
Is Education Addressing the Labour Market Skills Gap?

A recent survey of Canadian executives by [CERIC](#) found that 81% were having difficulty finding people with the right skill set to fill positions.

As we head into a future of ever-greater disruptive innovation, Ontario will need to increase the number of working-age adults with strong digital skills. Our [recent report](#) highlighted immigration as a primary way to bring these skills to Canada. Our [analysis](#) shows recent significant improvements in labour market outcomes for immigrants to Ontario. Educating Canadian youth as well as international students creates a homegrown talent pool with credentials recognized by employers. The [C.D. Howe Institute](#) highlighted the need for governments at all levels to work together to increase enrollment and graduation in STEM subjects.

The province has also acknowledged a labour shortage gap in the skilled trades sector, with at least one in three skilled workers age 55 or older. The [Ontario government](#) has taken steps to address this looming issue through the creation of a new agency called [Skilled Trades Ontario](#) and skilled trades career fairs for high school students to encourage youth to enter an apprenticeship stream.

GRAPH A6
Ontario Students Are Struggling with Unemployment



Sources: Statistics Canada and Desjardins Economic Studies

lower earnings for at least 10 to 15 years afterward as compared to those who graduate during economic prosperity (Schwandt, 2019).

But there is reason for optimism. The minimum wage in Ontario has been rising over the past several years after a long period of stagnation (graph A7). It's already the second highest of the 10 provinces and will increase from \$15.50 per hour to \$16.55 on October 1, 2023 (figure A1).

Despite these challenges, a postsecondary education pays off in the long run. Ontario youth 25 to 34 without a postsecondary education earned a median weekly wage of \$800 in 2019, whereas those with a higher education earned over \$1,100 per week with a university degree or trade certificate (graph A8). With their advanced knowledge and skills acquired through education, these graduates are well-equipped to enter the workforce and make meaningful contributions to their chosen fields.

GRAPH A7
Ontario's Minimum Wage Is Rising Quickly



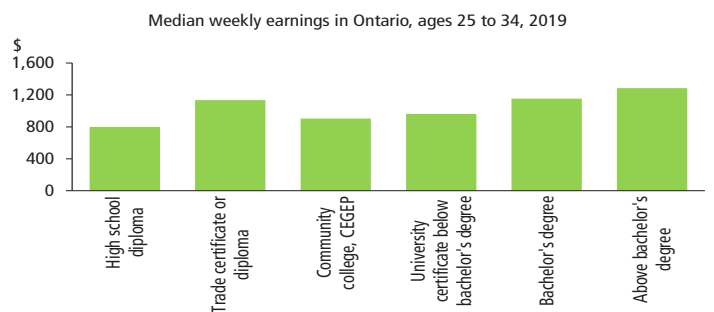
Sources: Government of Canada and Desjardins Economic Studies

FIGURE A1
Ontario's Minimum Wage Is among the Highest in Canada



* Planned increase by the end of 2023
Sources: Retail Council of Canada and Desjardins Economic Studies

GRAPH A8
Higher Education Pays Off



Sources: Statistics Canada and Desjardins Economic Studies