

Canada's Population Boom: An International Student Story

Sri Thanabalasingam, Economist | 416-413-3117
Yasmine El Baba, Research Analyst | 416-415-0881

June 11, 2019

Highlights

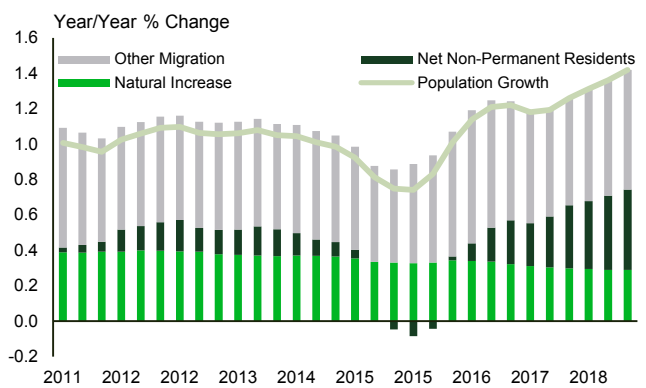
- Population growth in Canada has been on a tear since 2016, reaching 1.4% in 2018, the fastest in a generation and highest among G7 countries. Strong growth in the non-permanent resident population, specifically international students, has been the primary reason for the population surge.
- Canada has long been a popular destination for international students due to the high quality and relative affordability of post-secondary education in this country. More recently, changes to Canada's immigration system and available capacity at Canadian post-secondary education (PSE) institutions have helped to take international student inflows to a new level.
- In addition to the uptick in international student volumes, a growing share appear to be choosing to permanently settle in Canada.
- To the extent that these trends are sustained, Canada's economy would benefit over the longer run through a larger, more diverse and highly-skilled pool of labour.

Slowing population growth is a common phenomenon observed across many advanced economies. But in recent years, Canada has diverged from its peers with population growth accelerating sharply. In 2018, the growth in overall headcount in this country reached 1.4%, the fastest rate in 28 years. It was also the highest among G-10 nations, where growth last year averaged 0.5%.

While Canada's booming population growth has made headlines, what is less well known is the primary driver of the rising headcount. It is not economic or family class immigrants, whose combined contribution to population growth has remained relatively stable at around 0.6 ppts per year over the past decade (see "other migration" in Chart 1). Rather, the main driver of the recent increase in Canadian population growth has been an increase in net non-permanent residents, thanks mainly to an accelerating number of international students choosing to further their education in Canada.

The key factors likely boosting population inflow over the past couple of years are changes to Canada's immigration program, which favours younger and higher skilled immigrants, and in-

Chart 1: Non-Permanent Residents Drive Population Growth in Canada



Source: Statistics Canada, TD Economics

creasing recruitment efforts by Canadian post-secondary institutions. However, the rise of international students in Canada is a longer running trend. For some time, Canada has been a destination of choice for international students for reasons such as the favourable mix of quality and affordability of post-secondary education among other factors.

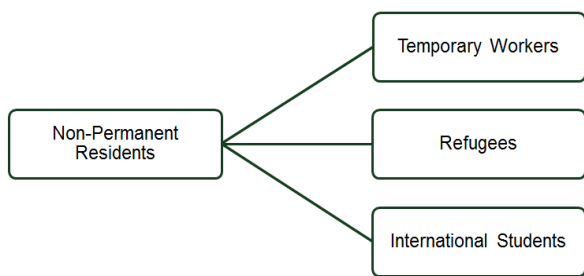
To the extent that these recent trends are sustained, Canada's economy could stand to reap longer-term benefits. As more former international students are selected to stay in Canada as permanent residents, it could contribute to easing the pressures of an aging population, help address labour shortages, boost sagging productivity and increase diversity in Canada.

Students, the largest category of non-permanent residents

Chart 1 reveals that the category of non-permanent residents is not always a contributor to rising population. In the first half of the decade, contributions were modest at 0.1-0.3 ppts per year, before turning negative in 2015, corresponding to the period of low oil prices. However those declines are now a distant memory, with the share steadily increasing to a substantial 0.5 ppts in 2018.

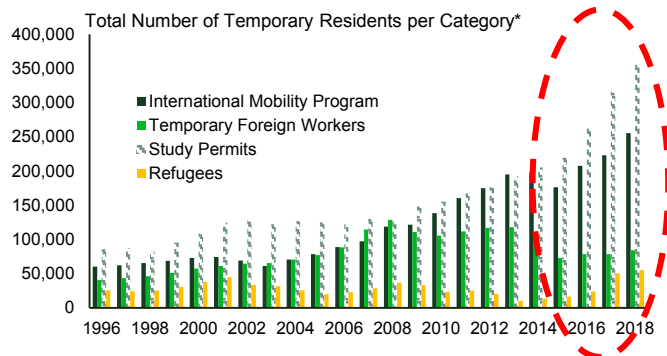
To better understand the drivers of this recent trend, it is useful to first identify who falls under the banner of non-permanent residents. A non-permanent resident is a non-Canadian who is legally authorized to enter and reside in Canada for temporary purposes. Statistics Canada breaks down non-permanent residents into three categories: temporary workers, refugees, and international students (Chart 2).

Chart 2: Categories of Non-Permanent Residents



Source: Statistics Canada, TD Economics

Chart 3: International Students Are Behind the Increase in Non-Permanent Residents Since 2016



*Year signed and permit became effective. Source: IRCC, TD Economics

First, temporary workers are those who have been permitted to work in Canada under two main programs: the Temporary Foreign Workers Program (TFWP) or the International Mobility Program (IMP). Applicants may also obtain work permits for other purposes, which include humanitarian and compassionate reasons.

The TFWP aims to fill gaps in the labour market that arise when there are no available Canadians to carry out responsibilities of a job. To establish this need, an employer must undergo a Labour Market Impact Assessment (LMIA). On the other hand, applicants to the IMP are not required to complete a LMIA as its purpose is to fulfill Canada's larger economic and cultural goals. For example, the IMP serves Canada's major trade agreements such as the North American Free Trade Agreement (NAFTA) and Canada's reciprocal exchange agreements. It also awards post-graduation work permits to eligible international student graduates which allows them to gain Canadian work experience and fill labour market needs.

Chart 3 shows how net inflows of TFW have stacked up relative to other non-permanent residents over the past decade. (Given data limitations, we used IRCC source data to infer trends of the various components.) The TFW category has been dropping in recent years since reaching a peak in 2013. This development can be explained by reported abuses of the program, which prompted efforts by the federal government to tighten the qualifying criteria.

Next, refugees are those who request protection upon or after arrival to Canada. This has historically been the smallest category of non-permanent residents.

Finally, the last and largest category is international students. These are people who are permitted to study in Canada in any program of their choice.

Canada: A destination of choice for international students

Both the rise of international students and its importance in overall population is not a new development. Canada has long been an attractive location for foreign students from around the world. High-quality post secondary education (PSE) institutions on offer within a diverse, politically stable and safe country have represented magnetic pulls.

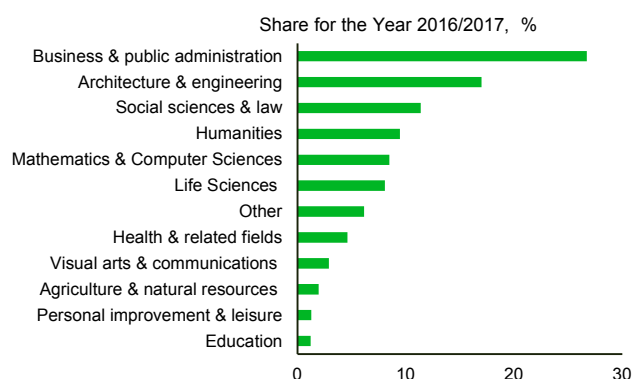
Above all, the economics of studying in this country has fuelled foreign student interest. Canadian PSE institutions have offered competitive tuition fees compared to other international student destinations, such as the US and the UK (See table 1). Moreover, a weaker Canadian dollar has helped to further reduce the relative cost of tuition as well as the overall cost of living for international students.¹

Chart 4 shows the most popular areas of study for international students. Typically, international students have headed to the larger cities, which are also home to some of Canada's largest and most reputable universities. In 2017, Toronto, Montreal, and Vancouver, together hosted more than half of Canada's international students.

Student inflows rise to a new level since 2016

While the trend of students coming to Canada on study permits has clearly been up over the past decade, annual net inflows over the past three years alone have surged

Chart 4: International Students Education Programs Registration



Source: Statistics Canada, TD Economics

from about 250,000 to 350,000 people. We boil down this recent surge to a combination of factors both on the demand and supply sides of the equation, led by changes to federal immigration policies that improved the job prospects for students coming to Canada.

1. Express Entry

The Express Entry system was introduced by the federal government in 2015 to improve the efficiency and the outcomes of Canada's immigration program, as well as provide flexibility in selection and application management. In this system, applicants who meet the minimum criteria of the Federal Skilled Worker Program, the Federal Skilled Trades Program, or the Canadian Experience Class are entered into a pool, awarded points based on information in their profile and ranked by the Comprehensive Ranking System. Human capital points are awarded for: age, level of education, official languages proficiency, and Canadian work experience. Additional points are awarded for: post-secondary education in Canada,

Table 1: Canada Offers a Competitive Package

| | Canada | U.S. | U.K |
|--|-----------|---------------|---------------|
| Undergraduate Degree Fees (USD/ Year) | 20,600 | 25,620 | 14,130-53,700 |
| Graduate Degree Fees (USD/ Year) | 12,500 | 20,000-35,000 | 15,545-45,200 |
| Post-Graduate Visa (Duration) | ≤ 3 Years | 60 Days | 4 months |
| Minimum amount Needed (USD/Year) | 7,570 | - | 17,200 |

Note: U.S. and Canadian Programs are longer than the ones offered in the UK. Tuition fees are for the Years 2017/2018. Source: Statistics Canada: TopUniversities, TD Economics

French language skills, arranged employment, having a family member in Canada, or a provincial nomination. The provincial nominations are awarded through Provincial Nominee Programs which are designed to meet regional labour market and economic development needs. Provinces have used these programs in tandem with the express entry system to increase the number of permanent residents flowing into their respective regions.

Overall, the express entry system eases the immigration process for international students as it awards additional points for a Canadian post-secondary credential. It also allows for younger and higher skilled immigrants to be fast-tracked through Canada’s immigration system and gain permanent residency in six months or less, a likely pull factor for many international students.

2. Canada’s International Education Strategy

In November 2014, the federal government unveiled a strategic plan to promote Canada’s knowledge-based economy and attract 450,000 international students to Canada by 2022.

The strategy appears to be paying dividends, as the government has actually managed to exceed its target for international students well ahead of schedule.

3. A Rise in Federal Immigration Targets

Along with the express entry system and international education strategy, Canada also implemented an ambitious multi-year immigration plan in 2018, which may have also contributed to the rise in international students in Canada. The plan set out ambitious targets to raise the number of permanent residents accepted into Canada with the majority of spaces allocated for economic class applicants (Table 2), the category encompassing international students. Early indications suggest that the plan is already in full flow as the number of permanent residents accepted through economic programs surged in 2018. In response

to this growth, the government revised up future targets in the 2018-2019 immigration outlook.

This change to federal immigration policies adds to other comparative strengths that were already in place. Historically, international students in Canada have been offered up to a 3-year work permit upon completion of a post-secondary degree, the longest permit compared to the U.K. and U.S. The U.S. grants its international graduates 60 days to find a job and a 1-year work permit sponsored by the employer thereafter. The U.K., on the other hand, grants its graduates 4 months to find a job and a 2-year work permit thereafter sponsored by the employer. Canada grants a longer work permit to graduates irrespective of employment status, thus providing international students enough time to find a job in their field of interest. By gaining Canadian work experience, international students are then eligible to apply for permanent residency.

4. PSE Institutions Ramp Up Recruitment

Facing declining enrolment rates and slowing revenue growth, many PSE institutions across Canada have stepped up their efforts to recruit more international students in recent years.

Chart 5: Canadians Driving the Decline in Post-Secondary Enrolment

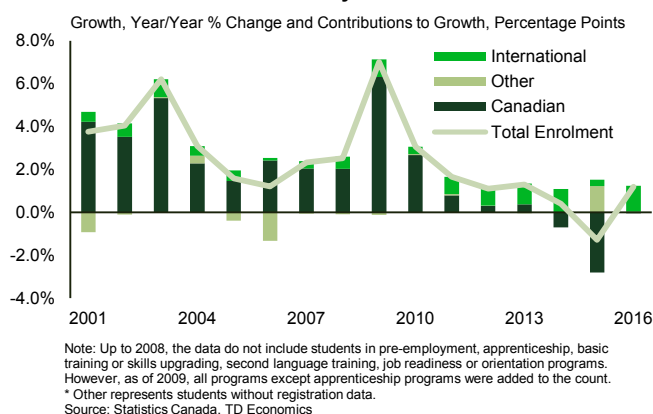


Table 2: Federal Government Targets for Permanent Residents Under Economic Program

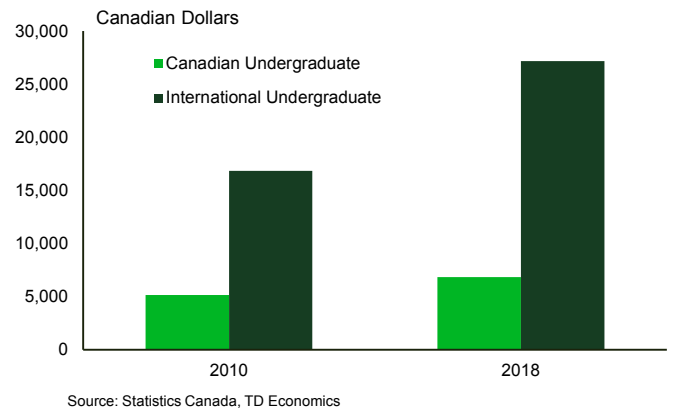
| | 2017 | 2018 | 2019 | 2020 | 2021 |
|--------------------------|----------|----------|----------|----------|----------|
| Actual | 159,262 | 186,355 | | | |
| Target | 164-183K | | | | |
| 2017-2018 Outlook | | 169-188K | 175-201K | 181-202K | |
| 2018-2019 Outlook | | | 174-209K | 181-206K | 189-212K |

Source: IRCC Notice Supplementary Information 2014-2017, IRCC Annual Parliament Report 2018, TD Economics

Chart 6: The 18 to 24 Year Old Population Declined in Recent Years



Chart 8: International Tuition is Higher than Domestic Tuition, and has Grown Faster



Following a sharp increase in 2009 (due to Statistics Canada expanding the programs covered in enrolment data), university enrolment rates have slowed considerably, driven by a decline in Canadian student enrolment (Chart 5). This was brought about by a demographic squeeze hitting the population of 18 to 24 year olds in Canada, those that typically attend PSE institutions (Chart 6). Given these developments, international students do not appear to be displacing Canadian students, but are helping fill the gap left by them.

Not only are international students supporting enrolment rates, they are also providing a partial offset to declining university and college revenue growth. Canadian PSE's have faced slowing revenue growth for over a decade (Chart 7) and international student tuition fees, which are considerably higher and have grown faster than that of Canadian students, are providing some relief (Chart 8). In 2018, the average undergraduate tuition fee for inter-

national students stood at \$27,159 per year, nearly four-times as high as Canadian fees.

Recognizing common challenges, Canadian PSE institutions have worked together to promote Canadian education internationally. They have organized undergraduate tours for students in Latin America, India and Middle East and produced promotional material for international students.⁴ PSE institutions have set aside funding for international undergraduate students and many have also established satellite schools in countries around the world.

Canada benefits from international students

Not only do international students benefit from studying in Canada, but Canada benefits from international students as well.

First, international students contribute to the national economy. A recent study commissioned by Global Affairs Canada, found that international students contributed around \$21.5 billion to Canada's economy in 2018.

Second, as more and more international students' transition from non-permanent resident status to permanent resident status, they support long-term prosperity of the Canadian economy. Specifically, they help ease demographic pressures, provide a potential boost to productivity and promote diversity in Canada. Indeed, recent data suggest that not only is the share of students on study permits increasing, but so too are retention rates upon completion of PSE and temporary work permits (Chart 9). In a 2018 survey conducted by the Canadian Bureau of International Education, around 60% of respondents stated that they in-

Chart 7: Revenue Growth for Universities and Colleges has Steadily Declined

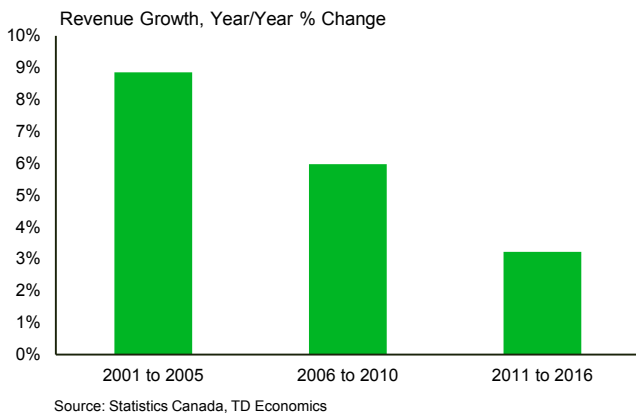
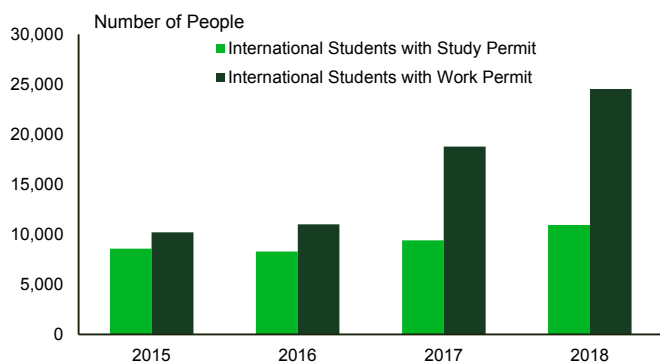


Chart 9: More International Students Are Becoming Permanent Residents



Source: IRCC, TD Economics

tended to apply for permanent resident status in Canada, up from 51% in 2015.

International Students Help Ease Demographic Pressure

As Canada's population ages, there will be more retirees, resulting in growing labour shortages, particularly in high-skilled areas of the economy. Younger skilled migrants will be needed to help ease the demographic pressure on labour markets. International students are best placed to fill this gap as they would have attained their education in Canada, which facilitates a smooth transition into Canada's labour market.

Productivity May Experience a Boost

International students can possibly provide a boost to slowing productivity growth. International students have higher levels of education and higher education implies greater productivity. Moreover, they are also immigrants and immigrants help drive innovation in Canada.⁵

With More International Students Comes Greater Diversity

International students come from all around the world, with the top five destinations being China, India, South Korea, France and Vietnam. This injects greater diversity into Canadian society, which has been shown to have a positive impact on GDP. Greater cultural diversity brings new skills and ideas to a country, promoting technological innovation, thereby boosting economic activity.⁶

Can Canada maintain the strength in foreign student inflows?

It is uncertain whether the recent strength in foreign student inflows can continue at this rapid pace. Much depends on the evolution of economies and government policies. In the near term, there appears to be little blocking further strength in inflows. However, over the medium-to-longer term, governments and policies can change.

In Canada, a more pressing downside risk relates to the federal immigration targets. While the new immigration programs eased the path for international students to become permanent residents, the current immigration targets surrounding permanent residents may not be high enough to absorb the projected number of international students over the next few years. However, the targets are not binding and the federal government has revised up the targets once already and it may do so again in the future.

It is also unclear the scope to which PSE institutions in Canada have the capacity to absorb more international students, especially when funding may be reduced in some provinces.

Bottom Line

Since 2016, population growth in Canada has experienced a revival, reaching the highest growth rates since the early 1990s. The major driver of that growth has been inflows of international students who have chosen to study in Canada for a variety of reasons including changes to immigration programs, and recruitment efforts by post-secondary education institutions.

However, Canada's popularity among international students is not something new. Canada provides international students with high quality education, affordable living, and other benefits, such as the longer post-graduate work permit. It is difficult to say whether the impressive strength in international student inflows will continue at this current rapid pace over the medium term. To the extent that Canada can continue to attract bright and diverse talent, the economy will stand to benefit over the longer haul.

Endnotes

1. "International Students in Canada" report by Canadian Bureau for International Education. <https://cbie.ca/wp-content/uploads/2018/09/International-Students-in-Canada-ENG.pdf>
2. Immigration and Citizenship Canada Help Center: <http://www.cic.gc.ca/english/helpcentre/answer.asp?qnum=509&top=15>
3. "Staying in the UK After Studying in London " <https://www.studyinlondon.ac.uk/application-advice/faqs/staying-in-the-uk>
4. "International Education: A Key Driver of Canada's Future Prosperity": https://www.international.gc.ca/education/assets/pdfs/ies_report_rapport_sei-eng.pdf
5. "Immigrants as Innovators: Boosting Canada's Global Competitiveness": https://www.peelnewcomer.org/site/peel_newcomer_strategy_group/assets/pdf/11-074-immigrantsasinnovators-web.pdf
6. "Migration, Diversity, and Economic Growth" <https://www.sciencedirect.com/science/article/pii/S0305750X16304466>

Disclaimer

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.