

Economics

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Canada's student immigration surge: Neither a curse, nor a blessing

by Ali Jaffery ali.jaffery@cibc.com

University and college campuses around Canada are looking a bit empty this semester. The government's big shift on immigration policy last year has shrunk the size of the international student population, and schools will be feeling the squeeze for the next few years as the government tries to bring population growth close to zero.

Of course, there was a sound economic case for the government's aggressive policy "U-Turn". Promoting rapid population growth without fixing our housing market made little economic sense. Still, immigration did not crash our economy, with challenges to growth and investment spending more tied to a post-pandemic hangover, monetary policy tightening and low commodity prices. In fact, the increased supply of workers and the extra spending from newcomers added about 1% to the level of GDP by the end of 2024, a welcome buffer during what was a challenging period.

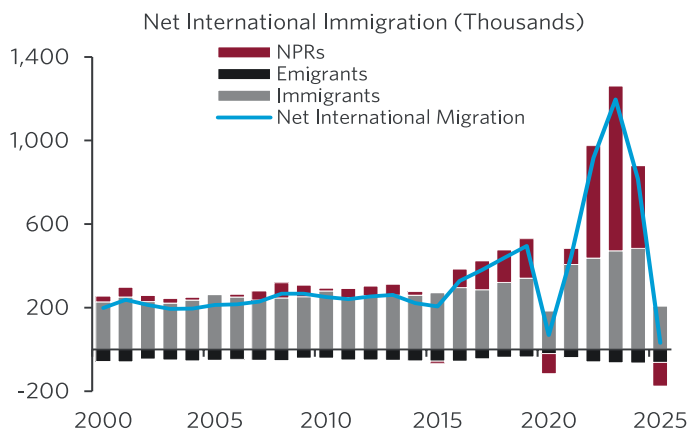
In the end, the rapid student immigration of the past was neither a total blessing, nor a complete curse for our economy, and we need to seek a balance in setting policy ahead. Canada

needs a moderate, steady and predictable pace of immigration that prioritizes high-skilled workers, including attracting the best students from across the globe. Global talent is being shunned south of the border, Canada is looking to diversify international partnerships, and there is a renewed imperative to strengthen our domestic economy. After the near term squeeze has adjusted the population level back to its prior path, the medium term plan should prioritize attracting and retaining as many of the best quality students that we can house on a sustainable basis.

A retrospective

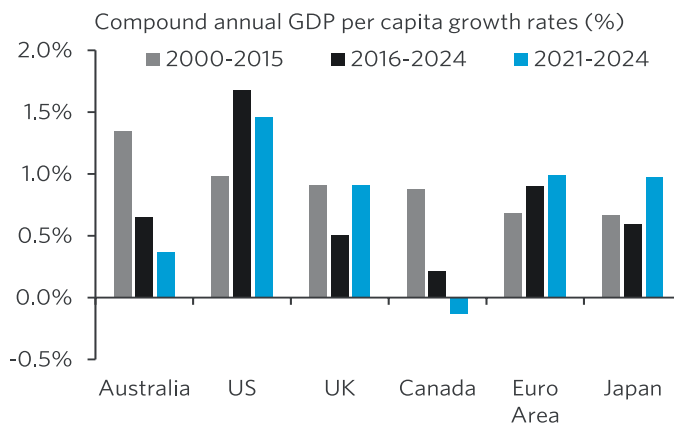
How did we get here? After a period of stable immigration from 2000 to 2015, in which permanent residents comprised most of the roughly 200K new arrivals per year, the government began to gradually increase the inflow of family members, refugees, temporary economic immigrants and international students, alongside more permanent residents. The result was a doubling of average international immigration levels from 2015 to 2019 (Chart 1). Net international immigration hit 500K

Chart 1: The rise in NPR driven immigration actually began in 2016



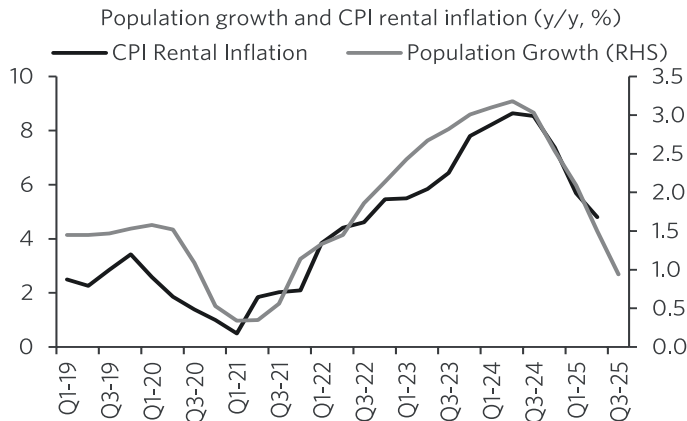
Source: Statistics Canada

Chart 2: Canada's per capita GDP has lagged behind its peers



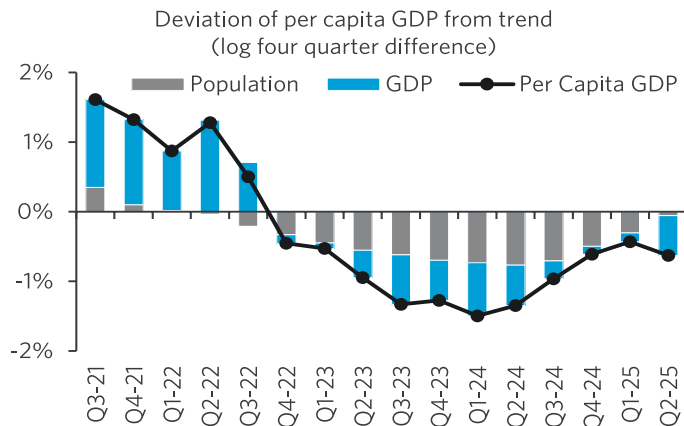
Source: OECD, CIBC calculations

Chart 3: NPR-led population growth partly fueled higher rental inflation



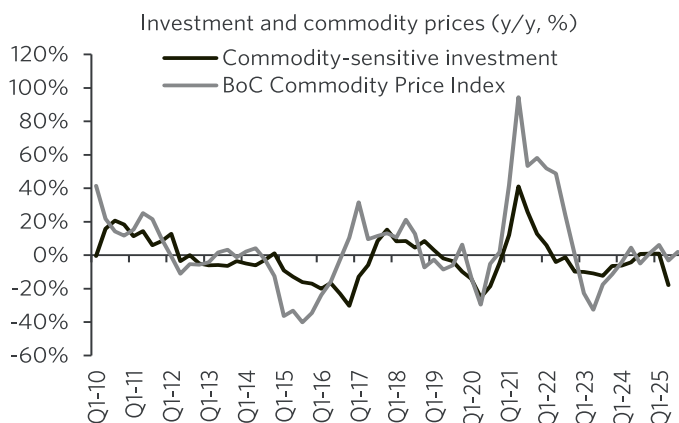
Source: Statistics Canada

Chart 4: But it was both, high population growth and a weak economy, that pushed down trend per capita GDP



Source: Statistics Canada, CIBC calculations

Chart 5: And soft commodity prices played an important role in our investment underperformance over the past few years



Source: Statistics Canada

in 2019 and non-permanent residents (NPRs) comprised almost 40% of that number.

After COVID disruptions, targets for permanent resident immigration were set to 450K to 500K, while also creating more flexible conditions for allow NPRs to arrive and stay. NPRs jumped to almost 60% of total immigration which ballooned to nearly 1 million per year from 2022 to 2024. Many of these NPRs initially arrived as students, but transitioned to work permits through a patchwork of lax rules, some which exempted employers from labor market assessments, and little government oversight. It wasn't until the 2025-2027 plan that targets for NPRs were first set, almost a decade after being the main category of rising immigration.

Population growth > GDP growth

Progressively rising immigration for a decade is difficult to keep up with, and GDP growth has lagged behind that rapid pace of population growth. Canada's GDP per capita sits at the bottom amongst it's peers, and has been negative over the more recent period (Chart 2). Cause and effect is complicated here, and one should not attribute this decline entirely to fast population growth. But nonetheless, it is not the picture one wants to see, and suggests the need for a course correction on population growth and its composition.

The explosion of students and younger workers also increased stress in parts of Canada's supply-starved housing market, mainly through upward pressure on rental inflation (Chart 3). Other countries with less population growth, like the UK and the US, have also seen rising rents, so it's difficult to attribute all of this to the rise in immigration in Canada. But it's safe to say, it didn't help.

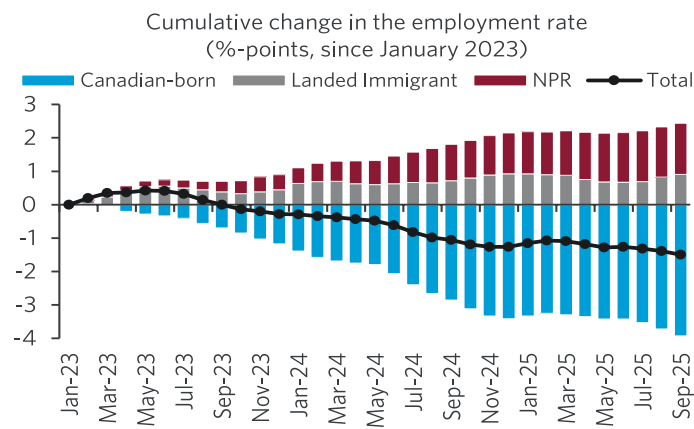
The numerator was also bad

The weakness in per person income was not just about a rising denominator. Memories are fickle, and we forget there were several powerful forces that also weighed on the numerator, GDP, completely unrelated to higher immigration (Chart 4).

For starters, we were coming of the post-pandemic rebound in 2021, where growth was charged by vaccine availability, policy support and massive pent-up demand for housing. But then, there was a rapid tightening of monetary policy in response to global supply-induced inflation and that strength in post-pandemic demand. All of this far pre-dated peak population growth. The BoC's rate hikes helped push the most interest-sensitive parts of our economy, including housing and business investment, into outright declines. At the same time, resource prices came off the boil after the start of the Russia-Ukraine war, weighing on investment in related sectors, which it's easy to forget, account for 20% of capital spending in Canada and a substantial share of investment growth (Chart 5).

True, immigration may have also undermined some investment as firms added workers rather than investing in labour-saving capital, but our assessment is the impact of that substitution was likely very modest over 2022 to 2024. Our models suggest

Chart 6: NPRs have partly offset lower employment rates of those born in Canada



Source: Statistics Canada

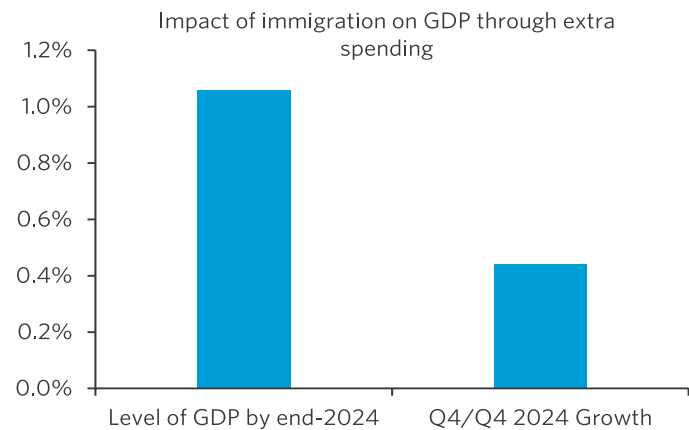
higher financing costs and weaker commodity prices explain the overwhelmingly majority of investment underperformance. That view is backed up by the BoC’s firm survey, where the most consistent theme surrounding subdued investment intentions, at the time, were higher rates and worries about the economy’s future.

The flip side

A post-pandemic pullback, high interest rates and soft commodity prices held back growth over 2022 to 2024, limiting our economy’s capacity to absorb what was an overly large influx of young immigrants. That’s most of the story, but there are also the benefits that came from immigration, to both supply and demand in the economy.

While NPRs have also contributed to the jobless rate, these new entrants have an above average labour force participation. One should therefore look at the employment rate, which combines

Chart 7: The immigration surge added 1% to GDP by end-2024, or almost 0.5% to growth



Source: CIBC, Statistics Canada, CIBC calculations

the unemployment rate and the participation rate. By that broader metric, the recent immigration wave has provided a supply-side boost to our economy, partly offsetting declines in the aggregate employment rate by about 1.5%-point (Chart 6). If we assume all NPRs and youth are competing for the same jobs, the contribution of NPRs to the employment rate net of the drag from non-NPR youth is still a material 0.7%-points. Also, the BoC’s estimates of potential output growth — the current underlying trend of rate growth — showed population growth has been main driver of the economy’s potential output over 2022 to 2024 (Abraham et al, 2025), offsetting weaker labour productivity in Canada.

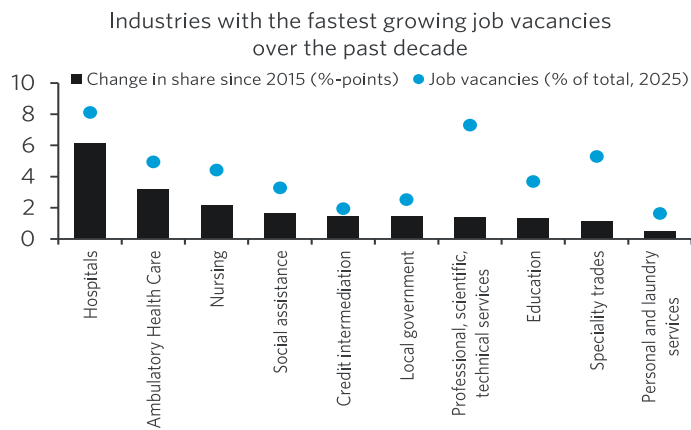
Those supply-side benefits helped to lower price growth in other parts of the economy, by helping resolve labour shortages and creating capacity for firms, especially in restaurants and other services, to meet rising demand without raising prices substantially. That went some ways in mitigating against the higher cost of rental inflation generated by the influx of newcomers.

Less is understood about the demand generated from student immigration, however. To get at that question, we use our credit card data to try to isolate consumer spending by international students and foreign workers. Using that as a proxy, and the estimated feedthrough of additional spending to housing and business investment, we find that GDP got a lift of around 1% by the end of 2024. In growth terms, that translates into almost half-a-percentage point on Q4/Q4 growth in 2024 (Chart 7).

All high-skilled hands on deck, please

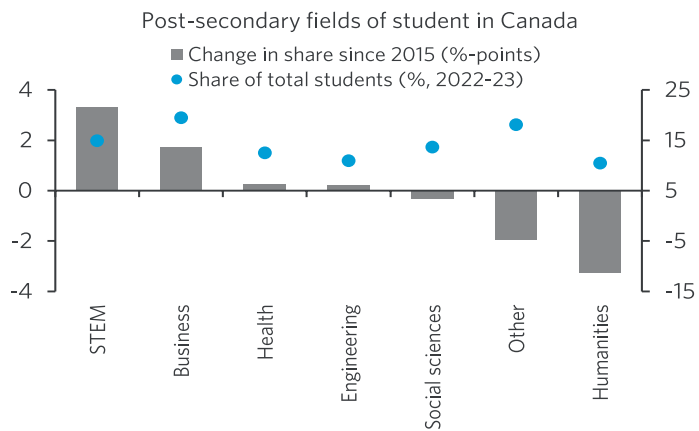
Looking ahead, we need to go back to thinking of student immigration as a stable source of high-skilled talent, not a short-term economic tool to fix pockets of immediate labour market stress. Foreign students are essential to address population ageing and support the job market of the future, especially in health, technology, and engineering, where demand has grown significantly; health-related vacancies now account for nearly 20% of all job openings in Canada (Chart 8).

Chart 8: Job vacancies are mostly in high-skilled areas, especially health care



Source: Statistics Canada, CIBC calculations

Chart 9: We have seen more STEM students, but not enough in health care or engineering

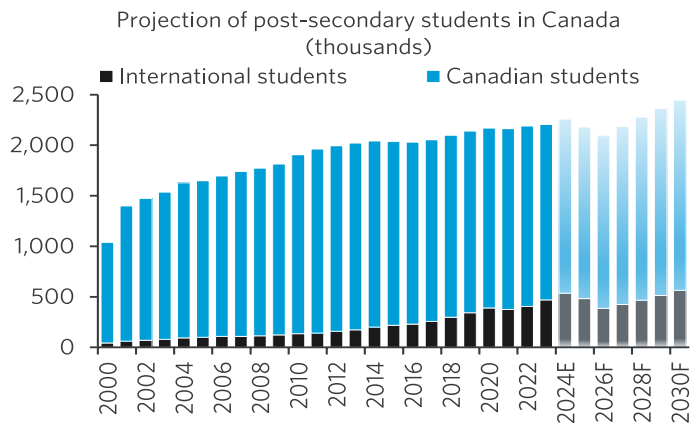


Source: Statistics Canada, CIBC calculations

But we also need to be more selective in who to bring in. Recent student immigration has been less diverse, with most students enrolling in business-related programs at colleges and vocational schools. That trend has increased the mismatch between student fields of study and labour market needs (Chart 9). And some research suggests that skill quality of these graduates may be lower than in the past (Devakos et al., 2024). While the share of STEM students has grown, there has been little increase in the number of health and engineering students. Had many of this past wave of students gone into health-related fields, the conversation about student immigration may very different.

If we look down south, the US experience shows just how economically impactful high-skilled immigrants can be. Almost a third of U.S. innovation is driven by high-skilled immigrants, and nearly 20% of inventors are immigrants (Kermani & McQuade, 2025; Bernstein et al., 2025). While a more supportive business environment has helped them a lot, it all starts with getting, and then integrating talent.

Chart 10: International student levels may return to 2024 levels by the end of the decade



Source: Statistics Canada, CIBC calculations

Historically, we’ve done that pretty well when our immigration system prioritized getting the best, especially into our universities. International students have outperformed other foreign-born immigrants in Canada’s labour market (Chen & Skuterud, 2018), retention of foreign students from STEM fields has improved (Choi & Hou, 2025), and international students at top universities have high transition rates to permanent residency and better earnings than Canadian-born peers (Blit et al., 2024).

Quality over quantity

We need to get back to that success, and may have a great opportunity with the US shunning global talent. The government should layout a more refined foreign student strategy that considers where and what they study, within a framework of population growth around 1%. That was the rate of population growth we had over the 2000 to 2015 period when per capita GDP growth was strong, a good starting point for the next levels plan.

After the government reaches its near term target to reduce the share of NPRs, we can see a path for the total number of international students to return back to 2024 levels, or 550K to 600K, by the end of this decade (Chart 10). Demographic trends point to more Canadian-born students in the coming years, arresting a period of decline, which would push the total number of post-secondary students to almost 2.5 million by 2030. International students would remain, on average, over 20% of post-secondary students in such a scenario, still above pre-pandemic shares.

The near-term adjustment process is a tough pill to swallow for many educational institutions, but we need to turn back to a focus on the quality over quantity of students. The hard part will be the transition from where we are now, to a supportive immigration system. As we prepare for that, let’s not let past missteps blind us from the benefits students have offered our economy, and prioritize bringing in as many the best students we can on a sustainable basis.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](#)

economics.cibccm.com

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