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Fitch: Pressure Mounts for U.S. Colleges As Students Head Back to School

Fitch Ratings-Chicago-11 October 2024: A modest uptick in fall enrollment will not be enough to stem intensifying pressure for many U.S. colleges heading into next year and likely beyond, according to Fitch Ratings analysts during a webinar yesterday.

A closer look at overall steady enrollment expectations for 2024-2025 reveals clear winners and losers, according to Senior Director Emily Wadhvani and Head of Fitch's U.S. Public Finance Higher Education and Nonprofit group. "For example, some flagship public institutions, selective private institutions, and HBCUs are achieving record enrollment numbers," said Wadhvani. "Conversely, many smaller, less selective colleges continue to see their enrollment decline."

Demand for college is pressured from a rising number of high school and traditional college students questioning the value of pursuing a four-year college degree. Lower demand will also keep tuition increases in check, with more colleges carefully weighing the pros and cons of raising prices. Of note, institutional discounting levels have ticked up. "Discounting is at its steepest for every incoming freshman class, which then becomes a trailing reference point as those students head towards graduation," said Wadhvani.

Institutions are also devoting more attention to recruiting non-traditional college populations, such as older adults and international students, who have different cost and value expectations. These schools are also shoring up retention of existing students.

Macroeconomic factors are also at play. Fitch forecasts that consumer spending growth is likely to slow next year, while noting that debt levels are on the rise. This environment has mixed implications for the sector, according to Wadhvani. The most acute of the sector's expense challenges continue to center around labor cost pressures. While cooling wage and employment growth could be a plus, slowing consumer spending and rising debt-to-income levels could squeeze household tolerance and capacity for additional student loans. Investment portfolio performance, and energy cost volatility in an era of increasing energy needs and geopolitical instability are other macroeconomic pressures the sector faces.

While most Fitch-rated colleges maintain Stable Outlooks, downward Outlook revisions have risen over the last several quarters. This could indicate more downgrades are ahead, particularly for colleges unable to maintain positive operating performance, as well as erode financial resources. Rating Outlooks vary by geographic region, with far less stress evident in the South compared to the Midwest and Northeast.