

Rising Consumer Proposals Continue To Push Insolvencies Higher In Canada

- Consumer insolvencies continued to grow in June in year-on-year terms at 4.6%, bringing the 3-month moving average (3mma) pace to 7.4% y/y, in line with last month's near-decade-high 3-month trend.
- Year-on-year growth in consumer proposals ticked down slightly in June—while declining in month-on-month terms—though trend growth remains elevated, posting its largest expansion in almost 9 years at 16.0% y/y 3mma. Trend-growth in consumer bankruptcies (y/y 3mma) posted its 31st consecutive contraction following a 7.4% y/y drop in June.

CONSUMER AND BUSINESS INSOLVENCIES CONTINUE TO RISE

Total consumer insolvencies contracted by 4.2% month-over-month (m/m) at a seasonally-adjusted annualized rate (saar) in June, following three months of expansion. The three-month-moving-average (3mma) of year-on-year growth, however, did not waver much from its overall upward trend, accelerating at 7.4% y/y—only slightly below the 7.8% y/y recorded last month which marked the largest trend-growth expansion since December 2009. June's increase was mainly driven by an acceleration in proposals, in contrast to falling, albeit at a slower pace, consumer bankruptcies.

Total business insolvencies also reached new heights at 11.4% y/y 3mma—an eleven-year high. The overall growth trajectory in business insolvencies in y/y 3mma terms is mainly owing to an acceleration of insolvencies in the manufacturing sector, which constitutes over one-third of the goods-producing sector GDP. In June, the manufacturing sector experienced an acceleration of 42.7% y/y in business insolvencies, 6.4 percentage points (pts) below February's all-time high expansion of 49.1% y/y 3mma. Insolvencies in the accommodation and food services sector, which contributes only around 3% of the service-producing industry sector GDP, expanded by 21.3% y/y in June—though down from a record high 45.9% y/y in February. Insolvency growth in the wholesale and retail trade sector remained relatively muted at 2.6% y/y, while in the construction sector insolvencies contracted by 1.0% y/y (chart 2).

CONSUMER BANKRUPTCIES DECLINE AGAIN

Consumer bankruptcies contracted by 6.0% m/m saar, and by 3.0% in 3mma y/y terms, marking the 31st consecutive month that the 3-month trend has been sitting in contractionary territory. In year-on-year terms, bankruptcies contracted by 7.4% in June—the largest contraction in a year, likely owing to a stabilization of interest rates as the Bank of Canada's policy stance holds relatively accommodative following a series of interest rate increases through 2017–18 (chart 3). Overall, Canadian consumer bankruptcies, excluding Alberta, have been persistently contracting in year-on-year terms since January 2014. After a period of recovery from the oil crisis Alberta experienced 2014, insolvency rates fell in 2017 until they began to accelerate again in mid-2018 (chart 4).

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Chart 1

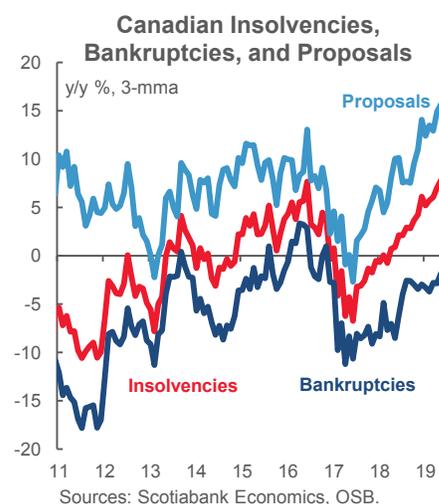


Chart 2



DOUBLE-DIGIT GROWTH IN CONSUMER PROPOSALS PERSISTS

Consumer insolvency proposals posted their largest month-on-month contraction since September 2018 at -3.0% in m/m saar terms, though the y/y change continued to climb at 14.2%, marking the 9th consecutive month with a double-digit acceleration. Year-on-year growth over the last three months has averaged its highest rate since October 2010, at 16.0% y/y. The acceleration in the growth rate of consumer proposals began shortly after the Bank of Canada dove into its tightening spell. Despite rates remaining on hold since October 2018, proposals have continued to climb. Ontario proposals have been on a persistent expansion since late-2017 and in year-on-year terms the 3mma currently reads 23.3%, which is comparable to levels last seen toward the beginning of 2010, and almost two times larger than the Canada-wide pace excluding Alberta and Ontario. Alberta's pace of 3mma 10.7% y/y as of late, however, has been losing momentum and appears to be nearing the Canada ex. ON/AB rate of 12.5%.

Chart 3

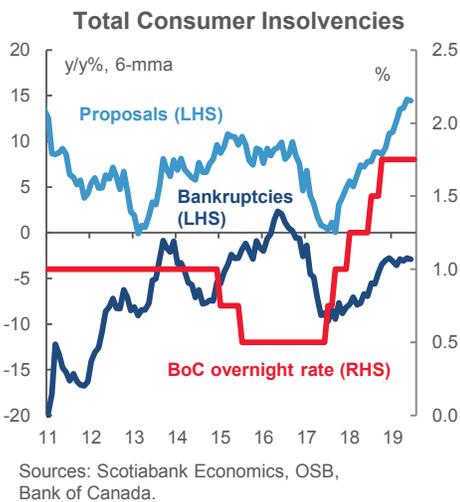


Chart 4

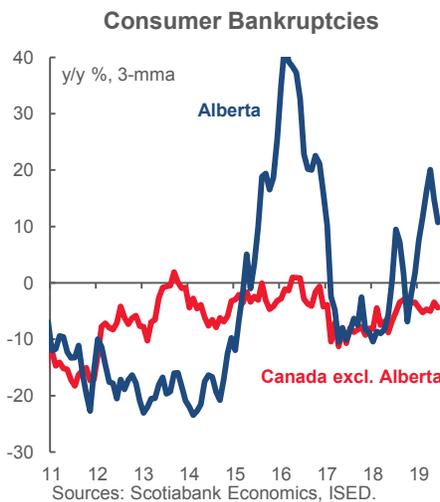
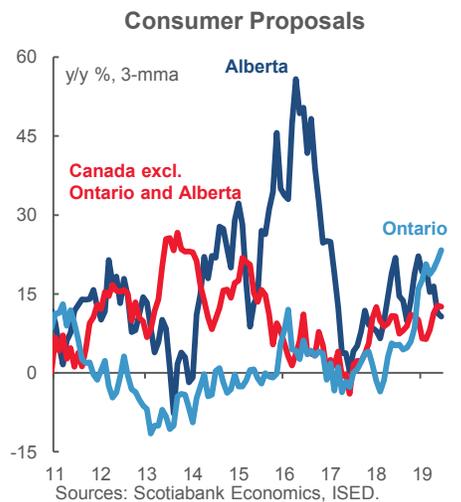


Chart 5



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