

Canada: Insolvencies Fall in August Following July's Spike

- The total number of Canadian insolvencies came down in August by 8.3% m/m sa after July's spike to levels last seen in 2009 following the outbreak of the global financial crisis
- Consumer insolvency volumes declined from the previous month by 7.3% m/m sa, but year-on-year growth of the three month average remained expansionary at 9.6% y/y 3mma, falling only slightly below July's figures which were comparable to those in 2009.
- Total business insolvencies dropped markedly in August, falling well below one standard deviation from the average—decreasing by 36.2% m/m sa from the prior month

TOTAL INSOLVENCIES RE-ENTER THRESHOLD

The total number of Canadian insolvencies came down in August after July's spike to levels last seen in 2009 following the outbreak of the global financial crisis (GFC). Overall, total insolvencies declined by 8.3% in month-on-month seasonally adjusted (m/m sa) terms following a 15.2% uptick in July. August's numbers come as a relief after July's increase took the total number of monthly insolvencies to nearly two standard deviations above the average since the beginning of 2010 (chart 1). Consumer insolvencies accounted for around 98% of all Canadian insolvencies in August, and drove the contraction this month with a 7.3% m/m sa decline. The number of business insolvencies declined markedly in August with a 36.3% m/m sa drop, pushing below one standard deviation of the monthly average since 2010 (chart 2).

August's reduction in insolvencies re-entered the upper-edge of one standard deviation above the historical average, providing a touch of regularity after July's figures broke through the boundaries on the backdrop of high debt levels in Canada. However, these higher recent numbers appear less worrisome when adjusted for developments in the Canadian economy over the last decade. When scaling consumer insolvencies credit outstanding, or the total pool of Canadian enterprises—both of which have grown progressively over the last decade, Canadian insolvency figures in recent months do not appear abnormal.

CONSUMER INSOLVENCIES DECLINE

Consumer insolvency volumes perceptibly fell relative to numbers in the prior month, driven by consumer proposals in number, as well as a fall—albeit smaller in volume—in bankruptcies this month. Consumer insolvencies overall posted a 7.3% decline from the prior month in seasonally-adjusted terms. However, last month marked the largest surge since the beginning of 2013.

Trend growth in consumer insolvencies continued to accelerate in August following two years of gradual rate increases from the Bank of Canada (chart 3). Market rates have been on an overall declining trajectory over the course of 2019, relieving some pressure on households (chart 4). The three-

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com
[@BrettEHouse](https://twitter.com/BrettEHouse)

Alena Bystrova, Senior Research Analyst
416.866.4212
Scotiabank Economics
alena.bystrova@scotiabank.com

Chart 1

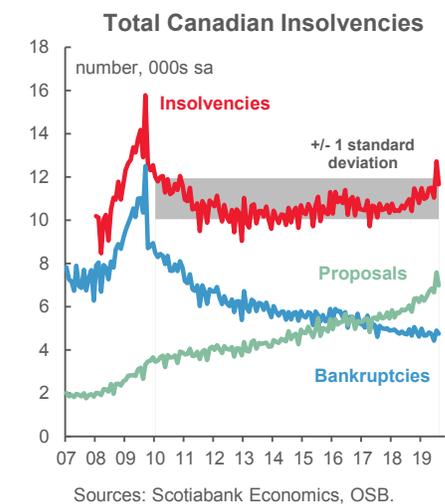
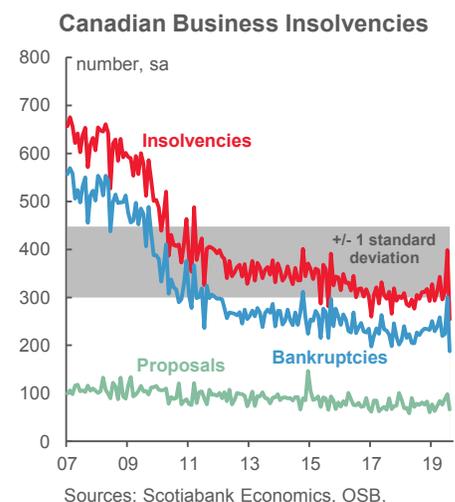


Chart 2



month-moving average trend of consumer insolvencies continued on an upward path, posting a comparatively large increase of 9.6% year-on-year, coming off its largest increase in the same terms since the end of 2009 at 10.0% in July.

The volume of consumer proposals had already been on an upward trajectory pre-dating what the trend-growth implies as a result of earlier policy change. The volume of consumer proposals began to spike in exactly September of 2009 (chart 5), when the Bankruptcy and Insolvency Act (BIA) was introduced. The Act changed the specifications of consumer proposals, increasing the threshold for liabilities from \$75,000 to \$250,000, allowing consumers to restructure their debt repayment instead of defaulting entirely on their loans.

Consumer bankruptcies have been on a rather consistent decline since 2009 as a result of the BIA, contrasting the path of proposals. Bankruptcies declined by 2.3% m/m sa in August, continuing along an overall decade-long declining trajectory since the debt-restructuring plan was introduced with the intention of relieving lenders from larger losses.

Rising levels of consumer insolvencies appear subdued when taking into account the growth of overall consumer credit. With debt levels on the rise and the Canadian debt-service ratio at an all-time high, the rising insolvency rates can appear especially worrying. However, total consumer insolvencies when scaled to total household credit have actually been rather resilient and have returned to their plateau after July's temporary spike (chart 6).

Currently, the majority of household credit is centralized in mortgage credit which makes up almost three-quarters of all household credit, in line with the long-term average. Despite rising mortgage credit levels, there has been a rather persistent decline in percentage of mortgage arrears since 2010. This trend of lower mortgage arrears is vividly contrasting the increase in the consumer proposal rate over the same period (chart 7)—suggesting that Canadians are paying their mortgages. Consumer credit, though constituting a smaller proportion of all household credit, has also continued to remain rather stable in recent years, also opposing the rise in the consumer proposal rate.

Breaking down insolvencies by province, Ontario and Quebec almost-at-par lead the country in volume of total insolvencies (chart 8). Ontario is currently leading the country in proposal growth rates as well as volume while Quebec houses a higher number of bankruptcies. Despite Alberta's relatively heightened growth rate of insolvencies in comparison to the remainder of the country, the volume of total insolvencies only makes up around one-tenth of the nation's total.

BUSINESS INSOLVENCIES FALL BELOW AVERAGE

Total business insolvencies dropped markedly in August, falling well below one standard deviation from the average. In terms of volumes, business insolvencies only make up around 2% of all Canadian insolvencies. Overall, the number of business insolvencies appears slow-to-react to rising interest rates, showing resilience. Despite higher numbers of business insolvencies in earlier months, when looking at 12-month volumes side by side over the last 5 years, the change is not as significant as growth-rates imply (chart 9).

Chart 3

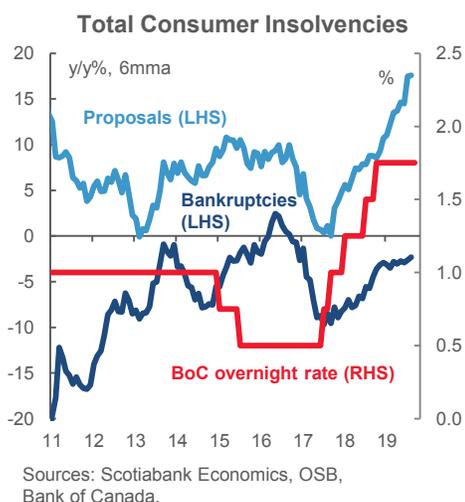


Chart 4

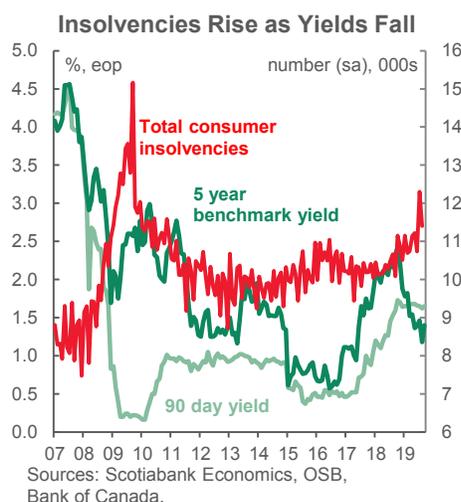


Chart 5

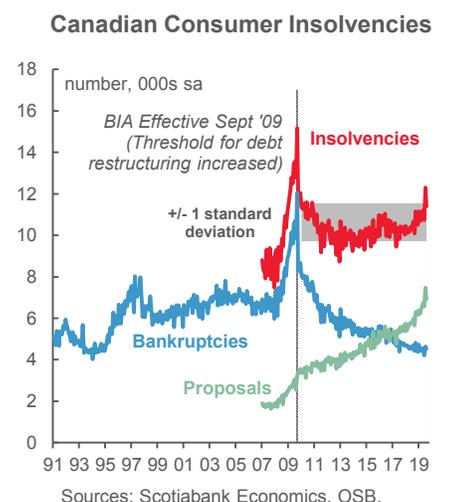


Chart 6

**Consumer Insolvencies Trend
Downward in Relation to
Household Credit Growth**

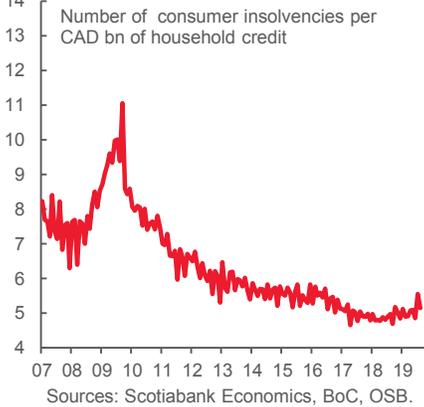


Chart 7

Mortgage Loans are Sound

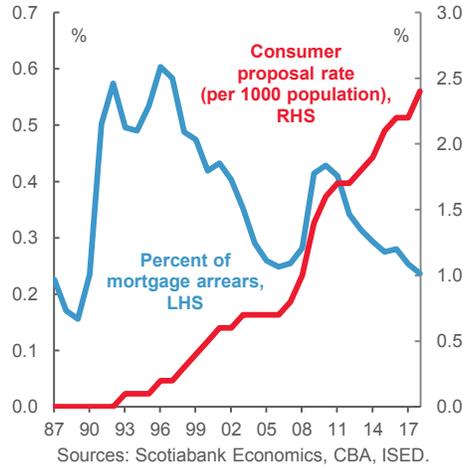


Chart 8

Consumer Insolvencies By Province

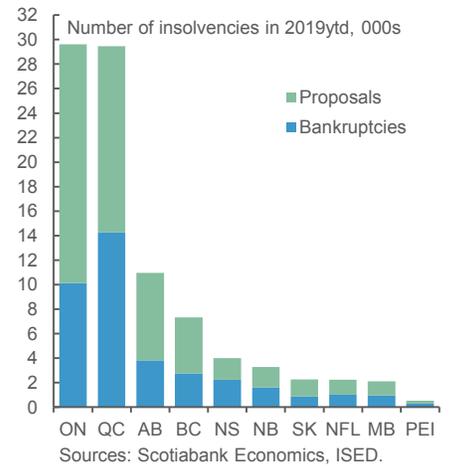
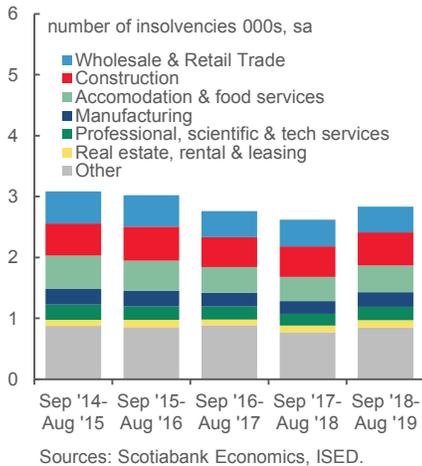


Chart 9

Business Insolvencies Still in Line



This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.