GLOBAL ECONOMICS
| SCOTIA FLASH

November 12, 2019

Canada: Insolvencies Surge Again in September

- **Growth in the total number of Canadian insolvencies spiked again in September to 5.11% m/m sa after a small pull-back in August.**
- **Consumer insolvency volumes increased in September by 5.1% m/m sa, but year-on-year growth posted a 19.6% gain—the largest since the end of 2009.**
- **Total business insolvencies picked up by 12.1% m/m sa from the prior month, but the total volume of business insolvencies remained within recent norms.**

NOTABLE PICKUP IN INSOLVENCIES

The total number of Canadian insolvencies in September spiked to levels more than two standard deviations above the January 2010-onward average (chart 1). Total insolvencies increased by 5.1% in month-on-month seasonally adjusted (m/m sa) terms following an inter-month decline in August. September's notable move was led by a 7.2% m/m sa expansion in proposals and supported by a 2.9% m/m sa increase in bankruptcies. As always, consumer insolvencies dominate the total Canadian insolvency numbers.

CONSUMER PROPOSALS ABOVE RECENT NORMS, SECOND TIME IN 2019

Consumer insolvencies drove September's surge, with proposals leading the spike even as consumer bankruptcy numbers were just above those recorded in August. In year-to-date terms, total consumer insolvencies in 2019 are running ahead of comparable numbers in every year since 2009 (chart 2). As chart 3 implies, Canadian consumer insolvencies tend to crowd somewhat into the last quarter of the year, so we may anticipate consumer numbers to worsen further as data for the remainder of 2019 come in.

September's consumer insolvencies take the monthly total to two standard deviations above the January 2010-onward average for the second time this year, mirroring the blip we observed in July (chart 4). September's increase in consumer insolvencies, at 19.6% y/y, is the highest trend growth that Canada has seen in a decade. Scaled to Canada's over-15 population, the total consumer insolvency numbers look only a touch better (chart 5).

September's continued trend acceleration in consumer proposals growth follows two years of gradual rate increases from the Bank of Canada (chart 6). Monetary policy remains accommodative, and Canadian households continue to take on debt. Despite relatively low interest rates in historical terms, household-debt-service ratios are now at their highest level in 30 years (chart 7).

The 7.1% m/m sa increase in consumer proposals in September may be both a source of concern and a more benign by-product of changes in the broader macroeconomic backdrop. On the one hand, September's increase in proposals comes on the heels of a general decrease in lending rates over the course of 2019 (notwithstanding a bit of a back-up in rates during September

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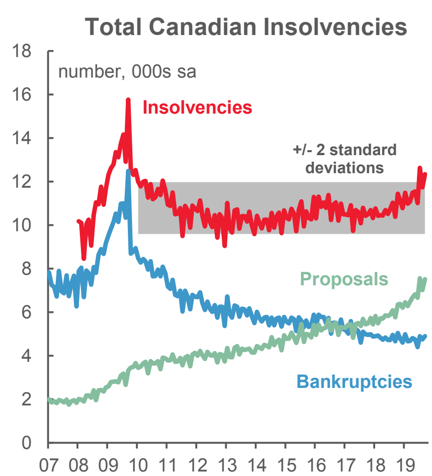
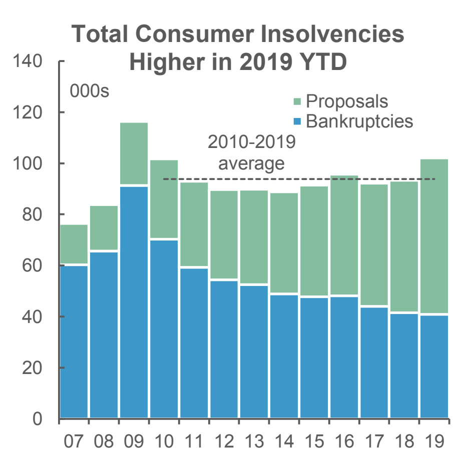
Chart 1



Sources: Scotiabank Economics, OSB.

Chart 2



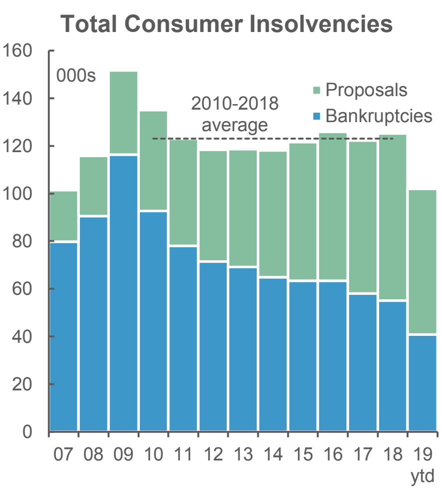
Sources: Scotiabank Economics, OSB.
January-September figures yearly

itself) and nine months in which Canadian labour market metrics have been on a tear, with hiring, unemployment rates, and wage gains all remaining strong. It is, therefore, a bit concerning to see proposals increase in this context. On the other hand, the increase in proposals may itself be a technical and more neutral by-product of the year's fall in market interest rates. As today's Scotiabank Economics *Daily Points* notes, lower rates may themselves be bringing forward alterations in the terms of existing debt contracts as lenders and borrowers act to reprofile debt and put it on a more easily sustainable footing with longer maturities that don't necessarily involve a haircut in net-present value terms.

In contrast with consumer proposals, bankruptcies have been on an overall declining trajectory since 2009 as a result of Bankruptcy and Insolvency Act (BIA) reforms that made proposals relatively more attractive. Bankruptcies increased by only 2.6% m/m sa in September following a contraction in the previous month, but continued to trend downward in year-on-term terms (charts 4 and 5, again).

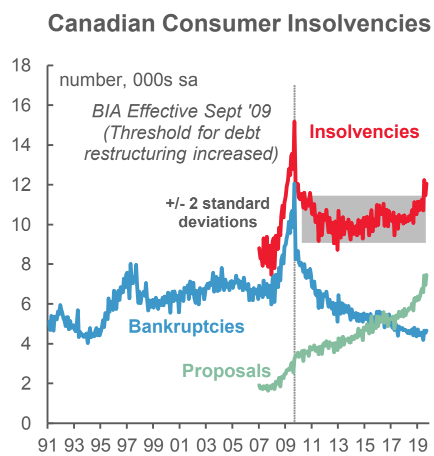
The majority of household debt is centralized in mortgage credit, which currently makes up almost three-quarters of all household borrowing—in line with its long-term average share. Despite rising mortgage credit levels, there has been a consistent decline in the percentage of mortgages in arrears since 2010, even as the overall consumer proposal rate has gone up (chart 8). Canadians continue to prioritize their mortgages over other debt service.

Chart 3



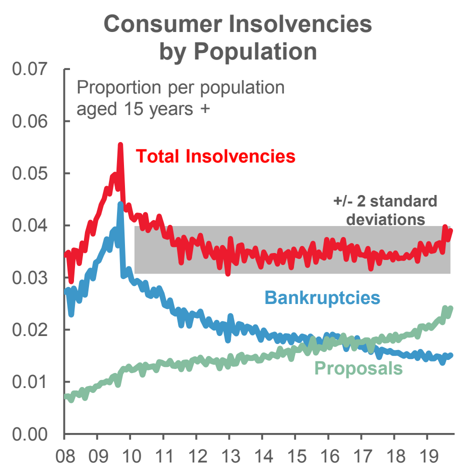
Sources: Scotiabank Economics, OSB.

Chart 4



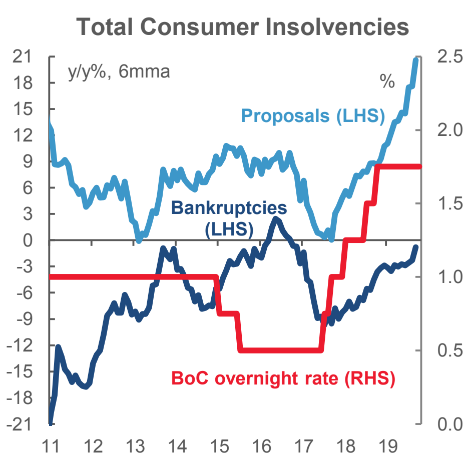
Sources: Scotiabank Economics, OSB.

Chart 5



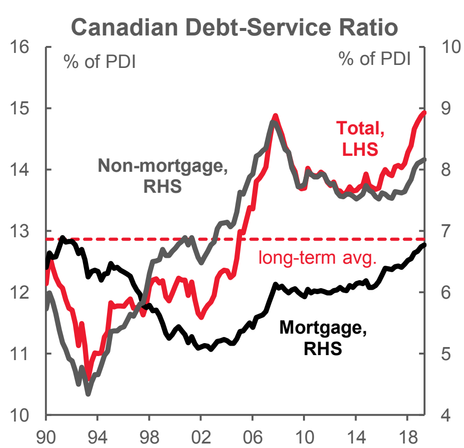
Sources: Scotiabank Economics, ISED, Statistics Canada.

Chart 6



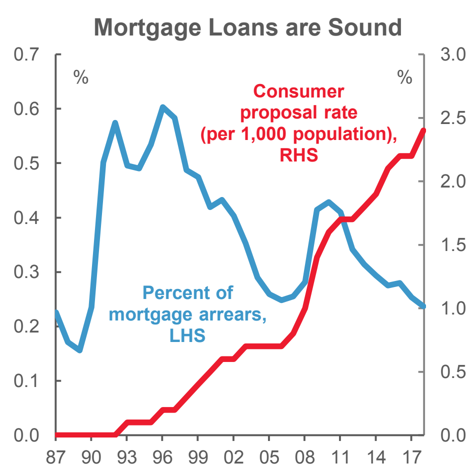
Sources: Scotiabank Economics, OSB, Bank of Canada.

Chart 7



Sources: Scotiabank Economics, Statistics Canada.

Chart 8



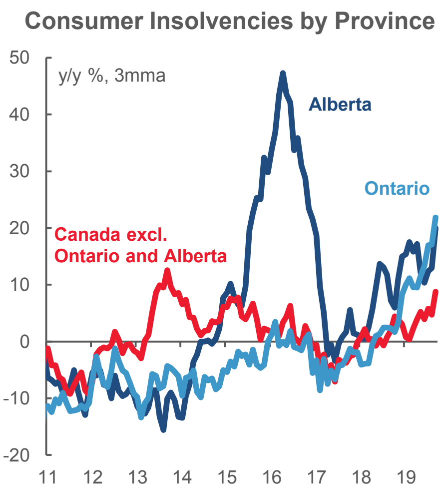
Sources: Scotiabank Economics, CBA, ISED.

Ontario, along with Alberta, leads the country in terms of trend insolvency growth rates (chart 9). Ontario and Quebec, with the two largest economies and population bases, unsurprisingly lead the country in terms of the total volume of monthly insolvencies ytd (chart 10), but adjusted for population, bankruptcy volumes in all these provinces are in the middle of the Canadian pack. The Atlantic provinces and Quebec have the highest insolvency numbers ytd scaled for their 15yrs+ populations.

BUSINESS INSOLVENCIES REMAIN IN LINE WITH RECENT NORMS

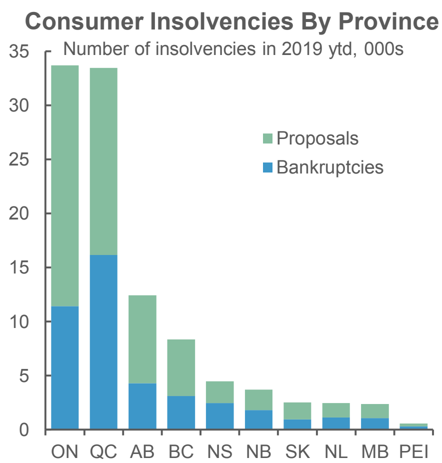
Total business insolvencies picked up 12.1% m/m sa in September, but still remained one standard deviation below the January 2010-onward average (chart 11). Business insolvencies make up only around 2% of all Canadian insolvencies. On a rolling 12-month basis, current business insolvencies remain in line with recent years, with wholesale & retail trade, construction, and hospitality dominating (chart 12).

Chart 9



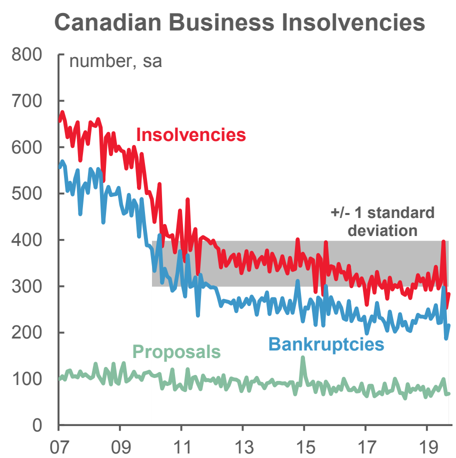
Sources: Scotiabank Economics, ISED.

Chart 10



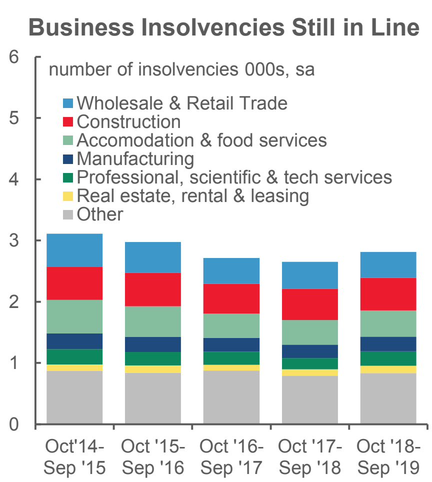
Sources: Scotiabank Economics, ISED.

Chart 11



Sources: Scotiabank Economics, OSB.

Chart 12



Sources: Scotiabank Economics, ISED.