

Canada: Insolvencies Retreated A Bit in November, but Still Elevated

- New incidences of Canadian insolvencies declined by 7.3% m/m sa in November despite recently-released data that imply a softening in the overall macroeconomic picture in Canada during Q4-2019.
- Consumer insolvencies generally account for around 97% of the total monthly number of new insolvencies. They fell by 7.3% m/m sa in November, the sharpest monthly pullback since April 2017.
- The ratio of consumer insolvencies to adult population has been higher in Canada than in the US since 2013 as debt levels north of the border have climbed. Nevertheless, Canadian arrears remain much better contained.
- Business insolvencies were relatively unchanged in November, and continued on the overall declining trend they've been on since 2009.

TOTAL NEW INSOLVENCIES PULL BACK FROM A DECANAL HIGH

In November, the incidence of new Canadian consumer and business insolvencies declined, providing some relief after October saw the highest number of new insolvencies since September 2009. On a seasonally adjusted basis, the total number of new incidences declined by 7.3% m/m, cutting year-on-year trend growth to 3.7% y/y—down from 12.4% y/y in October. November's drop in new incidences puts insolvency numbers back within two standard deviations above the January 2010–onward average after approaching nearly three standard deviations above that mean in October (chart 1).

NEW CONSUMER INSOLVENCIES EBB DESPITE WEAKER MACRO

Total consumer insolvencies declined notably from October's peak—dropping from three standard deviations above the 2010–present average to inside two standard deviations (chart 2). Although insolvencies aren't exclusively linked to contemporaneous macroeconomic conditions, November's drop in consumer debt workouts contrasts with Canada's weak start to Q4-2019. The most recent Scotiabank [Nowcast](#) implies that Q4 is tracking a mild contraction of -0.03% q/q saar—much weaker than the 1.3% expansion forecast in the Bank of Canada's most recent [Monetary Policy Report](#). Although jobs growth cooled in Q4, 2019 job gains remain higher year to date (i.e., to end-November) compared with all of 2018 (chart 3), and wage growth throughout 2019 was especially strong (chart 4).

Although the raw number of monthly new consumer insolvencies is high compared with most of the past decade, 2019's rise looks less marked when scaled for the increase in Canada's adult population Canada over the years. Whereas the raw number of consumer insolvencies recently hit three standard deviations above the post-global financial crisis (GFC) mean (chart 2, again), the ratio of consumer insolvencies to adult population has mostly stayed within two

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Chart 1

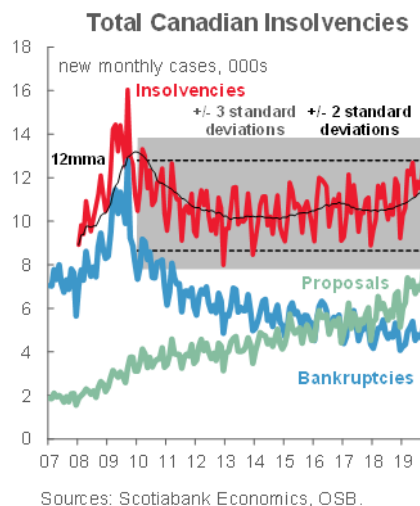
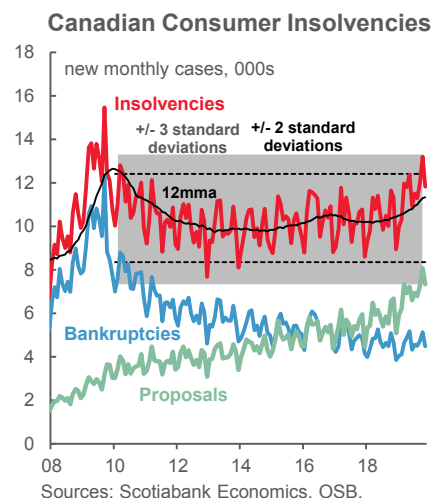


Chart 2



standard deviations of its post-GFC mean (chart 5). Comparing new consumer insolvencies during January–November 2019 with the first 11 months of recent years implies that 2019's consumer insolvencies year to date are only slightly above the 2010–19 average (chart 6). If seasonal patterns hold through end-December, 2019 is likely to record the highest number of insolvencies since 2010 (chart 7).

The increase in consumer insolvencies during 2019 does not obviously square with still-modest rates of delinquencies on credit cards and mortgages (chart 8). Both default rates remain near 5-year lows.

CANADIAN INSOLVENCIES FOLLOWING OTHER HOUSEHOLD DEBT METRICS ABOVE US COUNTERPARTS

Canadian consumer insolvencies, scaled for adult population and the total stock of household credit outstanding, rose above their US counterparts around 2013 and the gap has been sustained ever since. The rise in Canadian per capita consumer insolvencies compared with those in the US (chart 9) likely reflects Canada's substantially higher household debt burdens (chart 10) and smaller savings cushions (chart 11). The relative increase in the number of Canadian consumer insolvencies for every dollar of household credit outstanding implies a comparative deterioration in Canadian consumer credit quality (chart 12). Nevertheless, macroprudential and regulatory tightening in Canada over the last decade has ensured that mortgage delinquencies remain negligible in Canada compared with south of the border (chart 13). Full-recourse mortgages in Canada may also play role in keeping arrears here relatively low.

Chart 3

Canadian Job Gains Still Outpacing 2018

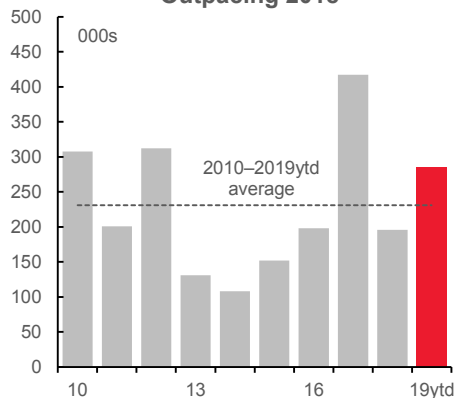


Chart 4

Canadian Wage Growth Is Rebounding

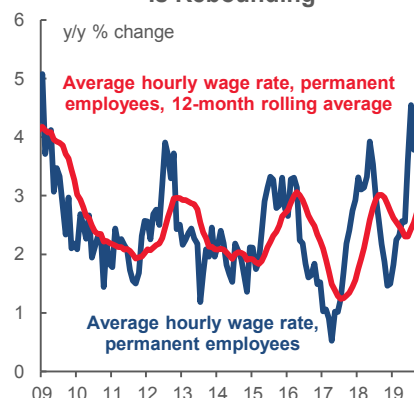


Chart 5

Consumer Insolvencies by Population

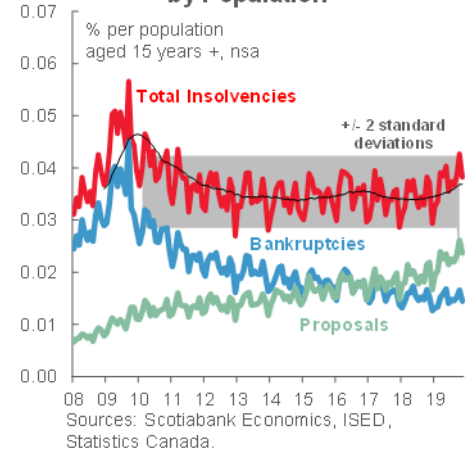
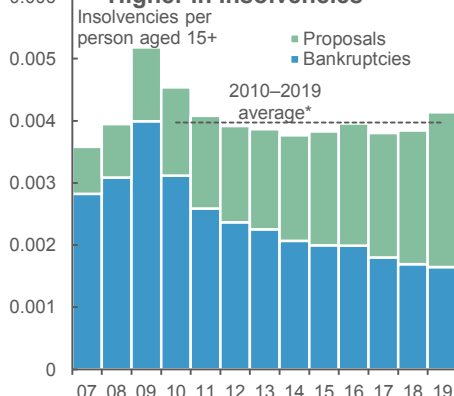


Chart 6

2019 is Shaping Up to Be Higher in Insolvencies



*January–November figures yearly

Chart 7

Total Consumer Insolvencies

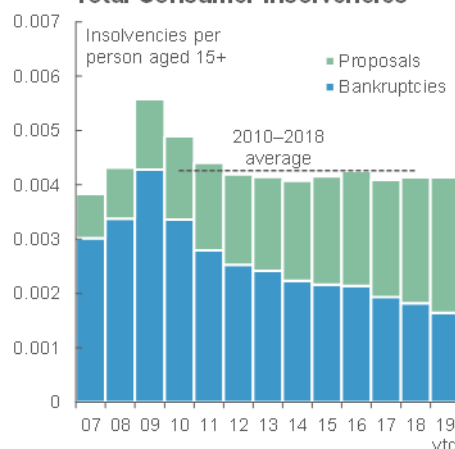
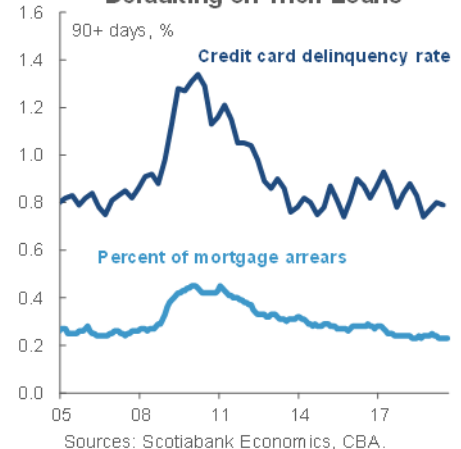


Chart 8

Canadians Are Not Defaulting on Their Loans

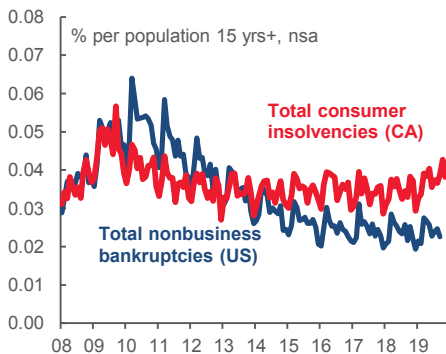


BUSINESS INSOLVENCIES REMAIN RELATIVELY STABLE

In November, business insolvencies recorded little change after a small uptick in October and remain nearly one standard deviation below the 2010–present average (chart 14). Business insolvencies account for only around 3% of the total number of new monthly insolvencies and have been trending downward since the GFC. The distribution of insolvencies across industrial sectors has remained roughly constant over the course of the last five years.

Chart 9

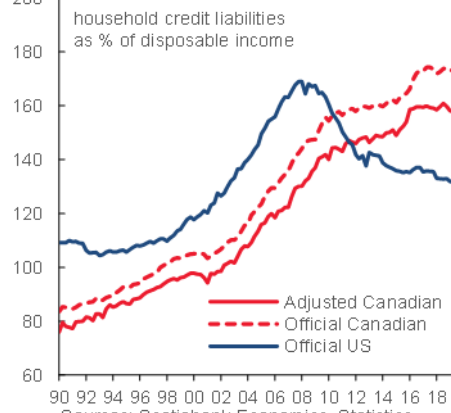
US versus Canada: Consumer Insolvencies Scaled by Population



Sources: Scotiabank Economics, Administrative Office of the U.S. Courts, Census, ISED, Statistics Canada. NB: Total nonbusiness bankruptcies inclusive of both Chapter 7 and Chapter 13.

Chart 10

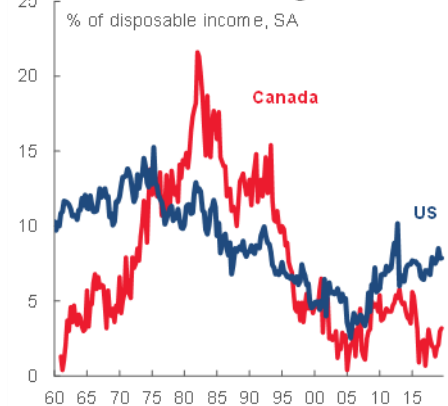
Household Credit Market Debt to Disposable Income



Sources: Scotiabank Economics, Statistics Canada, BEA, Federal Reserve Board.

Chart 11

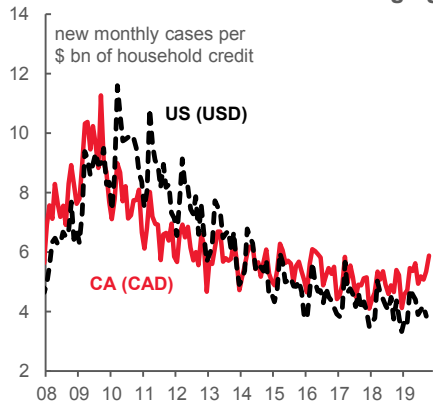
US and Canada Divergence: Household Saving Rates



Sources: Scotiabank Economics, Statistics Canada.

Chart 12

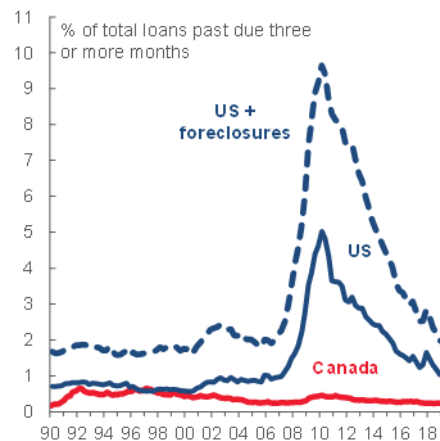
Consumer Insolvencies vs Stock of Household Credit Diverging



Sources: Scotiabank Economics, BoC, OSB.

Chart 13

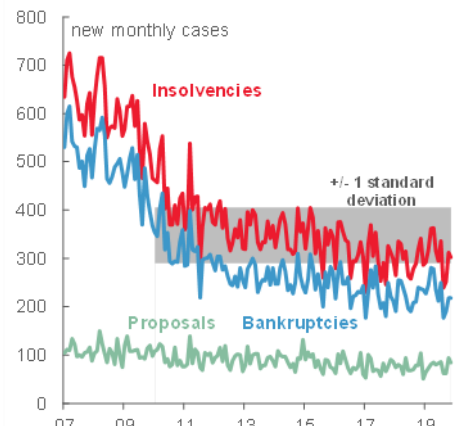
Mortgage Delinquencies



Sources: Scotiabank Economics, MBA, CBA.

Chart 14

Canadian Business Insolvencies



Sources: Scotiabank Economics, OSB.

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