

Canada: Consumer Insolvencies Declined Again in December

- Total Canadian insolvencies declined in December for a second consecutive month, but 2019 still ended with the highest number of insolvencies since 2009.
- Total consumer insolvencies fell to their lowest number of new incidences since January 2019 despite higher debt burdens.

TOTAL INSOLVENCIES CONTINUED TO DECLINE

Total new incidences of consumer and business insolvencies declined for the second consecutive month in December, but the year still ended with the highest number of insolvencies since 2009 (charts 1 and 2). In seasonally adjusted terms, new insolvencies in December increased by 5.8% m/m sa, setting an increase of 13.0% y/y from December 2018. The rise in the seasonally-adjusted trend emphasizes that the lower number of insolvencies in December is still high.

CONSUMER INSOLVENCIES FELL BELOW THEIR 12-MONTH AVERAGE

In December, new consumer insolvencies—which account for about 97% of total insolvencies—totaled their lowest number since January 2019 (chart 3). This marked decline in new insolvencies in December follows a rather stable—though recently weakening—macroeconomic picture accompanied by strength in employment, and favourable borrowing rates as the Bank of Canada keeps the overnight rate on hold.

Through the year, consumer insolvencies trended upward on the backdrop of rising household debt burdens, sparking concern over the ability of households to manage their debt. While mortgage borrowing showed a rebound through the year as the housing market recovered from the lull in 2018, mortgage delinquency data remained low (chart 4), and the credit quality of mortgage holders simultaneously improved (chart 5).

Defaults on larger debt burdens such as mortgages, HELOCs, and lines of credit remained relatively low through the year (chart 4, again). Mortgage delinquency rates remained low in most provinces while defaults in Alberta and Saskatchewan continued to rise (chart 6). Nevertheless, delinquency rates in these provinces remain relatively low when adjusting for population (chart 7).

When comparing mortgage delinquencies by age, Canadians aged 65+ have the highest share of mortgage loans in arrears (chart 8). In contrast, mortgage arrears across the average of those aged 25–64 have been consistently lower since 2014, despite a slightly higher unemployment rate through the same period within this age cohort.

While mortgage delinquencies remained low, auto defaults showed an increase over 2019 as auto sales declined throughout the year (chart 4, again). Stringent policies around withdrawal from mortgage obligations imply that Canadians may prioritize mortgage repayment over auto loan payment.

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Chart 1

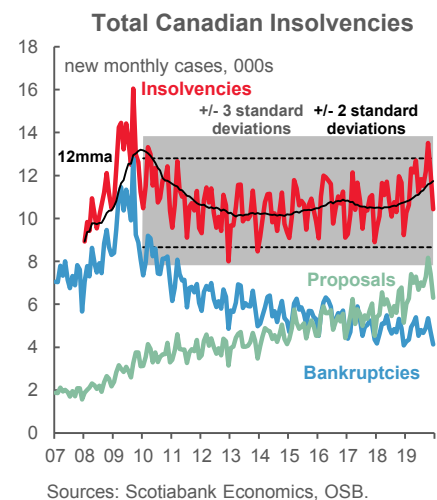
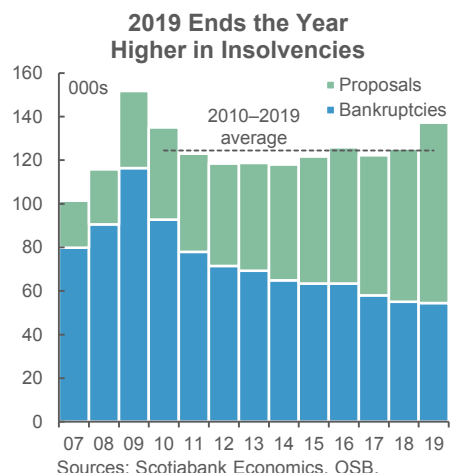


Chart 2



BUSINESS INSOLVENCIES

Business insolvencies declined in December, and remained in the lower edge of the one-standard-deviation band (chart 9). The trend of business insolvencies remains on an overall declining trajectory in the period following the Great Financial Crisis as the stability of interest rates continues to stimulate repayment on larger loans.

Chart 3

Canadian Consumer Insolvencies

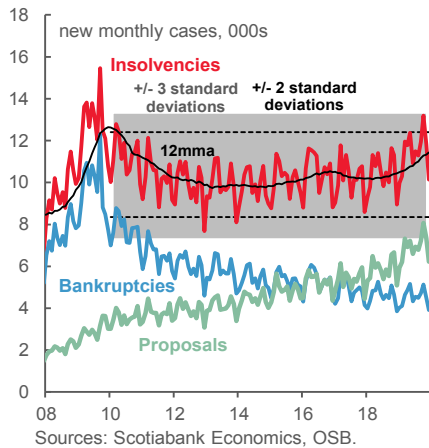


Chart 4

Delinquency Rates

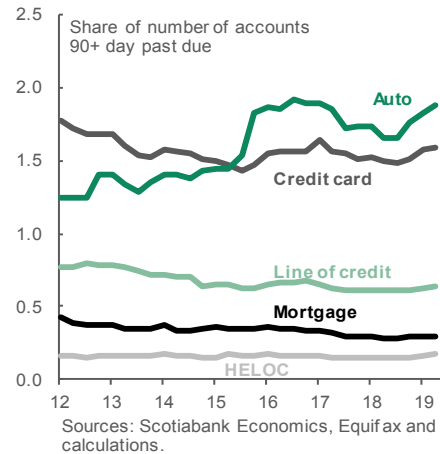


Chart 5

Average Credit Score by Type of Consumer

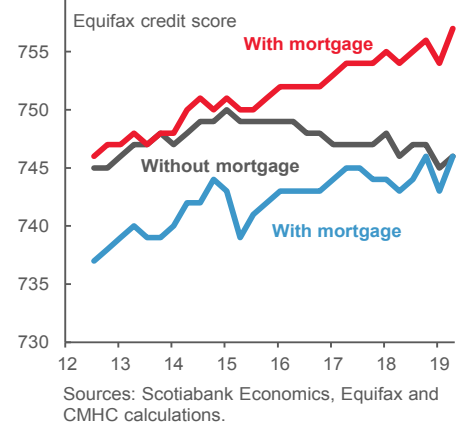


Chart 6

Residential Mortgages in Arrears

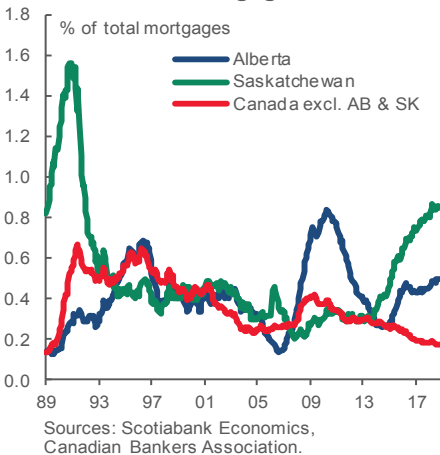


Chart 7

Total Consumer Insolvencies Scaled by Population

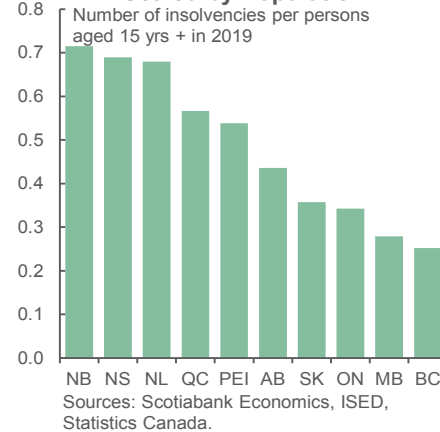


Chart 8

Mortgage Delinquencies vs Unemployment by Age

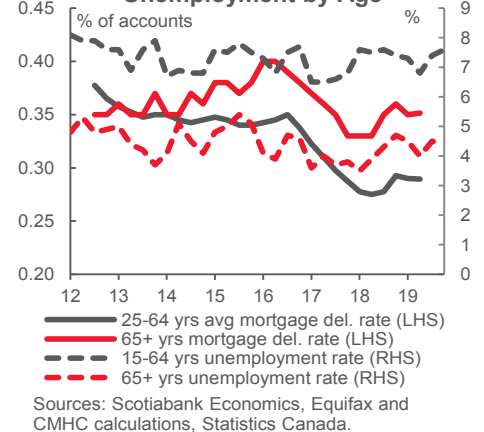
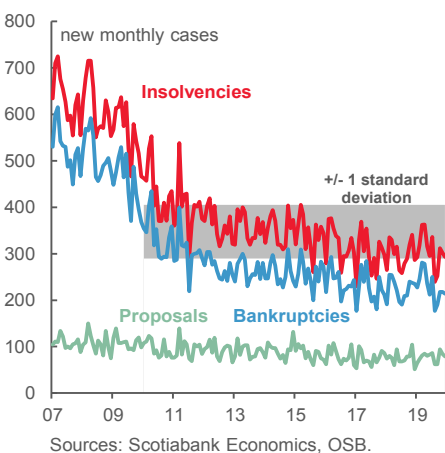


Chart 9

Canadian Business Insolvencies



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