

Insolvencies in Canada in 2004

Overview

In 2004, the number of new insolvency cases filed with the OSB dropped by 0.4% to 110,940. This decrease contrasts with the 6.3% increase recorded in 2003. This year, consumer insolvencies grew by 0.3%, with 101,084 new consumer cases. In 2004, business insolvencies were down by over 6.0% for the third year in a row. During 2004, the number of new business cases filed with the OSB was 9,856, down by 7.6% compared with the previous year.

Two economic factors limited the growth of consumer insolvencies in 2004. A third factor could have triggered a more significant increase, if it had not been for such a good performance by the first two factors. The first positive factor was the creation of 228,000 jobs, all full-time, during 2004. The second factor was that, contrary to financial market expectations, the 5-year mortgage interest rate only grew modestly, by 0.1 percentage point, between the third quarter of 2003 (6.3%) and the third quarter of 2004 (6.4%). The third factor was the higher debt ratio, which rose by 6.2 percentage points to 113.7% during the third quarter of 2004, compared with 107.5% in the third quarter of 2003.

The decrease in business insolvencies was also part of the favourable economic climate. In 2004, the gross domestic product (GDP) was up 2.7%, compared with a 2.0% increase in 2003. Stronger domestic demand in the U.S., coupled with a strengthening global demand, resulted in Canadian exports growing by 9.0% in spite of a 7.7% appreciation in the Canadian currency. The value of the Canadian dollar was \$0.82 US in December 2004, compared with \$0.76 US in December 2003. Another major factor was the drop in the cost of business financing. This cost, which is measured by the 90-day commercial paper interest rate, declined by 0.5 percentage points between the third quarter of 2003 (2.8%) and the third quarter of 2004 (2.3%).

Insolvencies in the 6 major canadian regions in 2004

In 2004, the filing of new insolvency cases was up in three provinces out of six. The steepest increase was in the Atlantic region with 8.0%, followed by Ontario with 1.3% and Quebec with 0.7%. British Columbia, Alberta and the Manitoba/Saskatchewan region recorded declines of 9.7%, 4.0% and 4.4% respectively. As all regions benefited from good

Table 1: Insolvencies, Canada, 2003-2004

	2003	2004	% Change
Total	111,415	110,940	-0.4%
Consumer	100,745	101,084	0.3%
Bankruptcies	84,251	84,426	0.2%
Proposals ¹	16,494	16,658	1.0%
Business	10,670	9,856	-7.6%
Bankruptcies	8,844	8,128	-8.1%
Proposals ²	1,826	1,728	-5.4%
Corporations	2,960	2,781	-6.0%
Sole proprietorships ³	7,710	7,075	-8.2%

Table 2: Insolvencies, regions, 2003-2004

	2003	2004	% Change
Atlantic			
Total	9,347	10,092	8.0 %
Consumer	8,693	9,466	8.9 %
Business	654	626	-4.3 %
Quebec			
Total	29,200	29,390	0.7%
Consumer	26,341	26,840	1.9%
Business	2,859	2,550	-10.8%
Ontario			
Total	41,928	42,453	1.3%
Consumer	38,531	39,341	2.1%
Business	3,397	3,112	-8.4%
Manitoba/Saskatchewan			
Total	6,699	6,405	-4.4%
Consumer	6,004	5,778	-3.8%
Business	695	627	-9.8%
Alberta			
Total	12,417	11,924	-4.0%
Consumer	10,532	10,065	-4.4%
Business	1,885	1,859	-1.4%
British Columbia			
Total	11,824	10,676	-9.7%
Consumer	10,644	9,596	-9.8%
Business	1,180	1,080	-8.5%

¹ Consumer proposals under Divisions I and II.

² Corporate proposals under Division I and sole proprietorship proposals under Divisions I and II.

³ Sole proprietorship means a non-incorporated business as opposed to a corporation.

economic conditions in 2004, the insolvency differences between them are very hard to explain. Local factors probably played an important part.

Consumer insolvencies were up in the Central and Eastern regions of the country. Atlantic Canada saw the highest increase (8.9%). In the three Western regions, consumer insolvencies were down, with the strongest drop in British Columbia (-9.8%).

The number of consumer insolvencies per thousand residents 18 years of age and over remained essentially the same in Canada in 2004. On the other hand, in the Atlantic region, consumer insolvencies increased by 0.39 case to 5.08 cases per thousand in 2004. In British Columbia, consumer insolvencies decreased by 0.36 case to 2.86 cases per thousand in 2004.

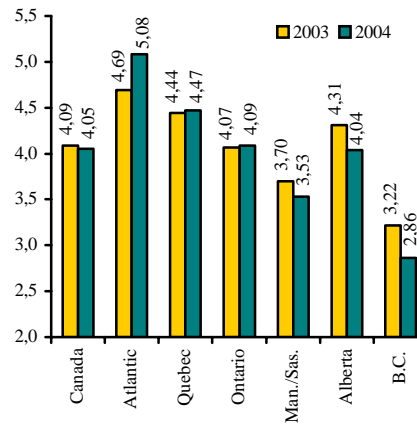
Business insolvencies declined in all regions. The decreases ranged from 10.8% in Quebec to 1.4% in Alberta. This resulted in a general reduction in the number of cases per thousand businesses. In Canada, the number of cases went down by 0.59 case to 4.2 cases per thousand businesses in 2004. Alberta continued to show the largest number of business insolvencies per thousand businesses with 5.89 in 2004. The lowest number was in British Columbia, with 3.15.

Insolvencies by major economic sector in 2004

In 2004, 7 out of 8 major economic sectors saw a drop in the number of new business insolvency cases. The sharpest declines were in transportation and communications (-19.0%), services (-11.2%), and accommodation and food services (-10.4%). The only sector with an increase was finance, insurance and real estate services (7.9%).

However, the finance sector showed the lowest number of insolvency cases per thousand businesses. There was 1.31 case per thousand businesses in this sector in 2004. Two sectors recorded significant improvements. In the transportation and communications sector, the number of insolvency cases went down from 9.94 in 2003 to 7.59 in 2004, a drop of 2.35 cases per thousand. In the accommodation and food services sector, the number of insolvency cases decreased by 1.43 case per thousand businesses to 9.48 cases in 2004.

Number of consumer insolvency cases per thousand residents 18 years of age and over, Canada and regions



Number of business insolvency cases per thousand businesses, Canada and regions

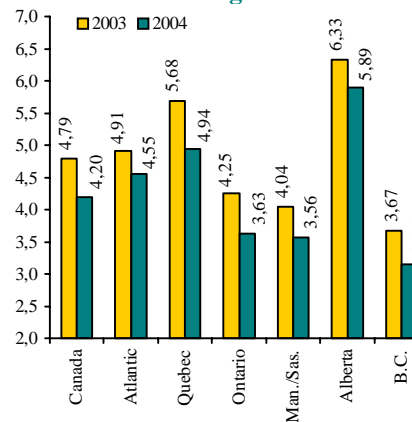


Table 5: Insolvencies by major economic sector, Canada, 2003-2004

Sector	2003	2004	% Change
Primary	604	588	-2.8%
Manufacturing	1,067	988	-7.4%
Construction	1,614	1,586	-1.8%
Transportation and communications	1,362	1,103	-19.0%
Wholesale and retail trade	1,974	1,922	-2.7%
Finance, insurance and real estate	343	371	7.9%
Services	2,472	2,195	-11.2%
Accommodation and food services	1,232	1,103	-10.4%
Total	10,670	9,856	-7.6%

International insolvencies

In the U.S., statistics for the first three quarters⁴ indicated a 2.6% drop in non-business insolvencies. If this trend is not reversed in the fourth quarter, 2004 could be the first year since 2000 to record negative growth in non-business insolvencies. All indications are that business insolvencies should show negative growth for a third consecutive year. After the first three quarter of 2004, U.S. business insolvencies had declined by 0.8%.

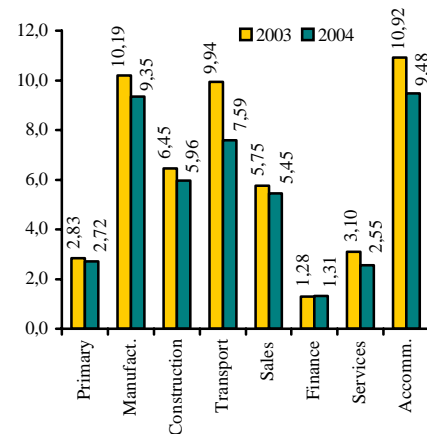
In the U.K., personal insolvencies rose by 31.0%, whereas business insolvencies went down by 14.0% in 2004. The 31.0% increase in personal insolvencies was largely the result of a legislative reform reducing the time period required for obtaining a debtor's discharge from 36 to 12 months.

Conclusions

In 2004, there was a 0.4% decline in the number of new insolvency cases filed with the OSB. The number of new consumer insolvency cases increased by 0.3%, whereas the number of new business insolvency cases decreased by 7.6%. Overall, this good performance was due to the favourable economic climate, which should continue to prevail into 2005. In addition, certain forecasters now believe that interest rates could continue to abate moderately until late 2005 and start an upward trend in early 2006. Therefore, the changes in the insolvency picture are expected to be modest in 2005. However, strong regional variations are likely to continue.

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Number of business insolvency cases per thousand businesses, major economic sectors



⁴ 2004 statistics will be available at the end of February.