Economics | Current Economic Trends

B.C. Economic Briefing

Volume 28 • Issue 32 • Week of August 8 - August 12 2022 | ISSN: 1981-355

central 1 Economics

Highlights

- B.C. consumer insolvencies remained moderate in Q2 but accelerating trend is likely ahead
- More housing price correction was seen in suburban markets

B.C. consumer insolvencies reported modest change despite national spike in Q2

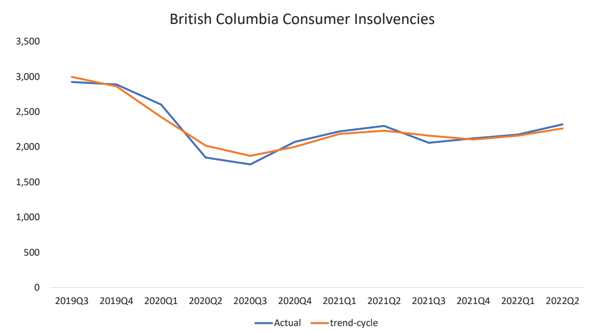
Ivy Ruan, Economic Analyst

B.C. consumer insolvency[1] filings in Q2 2022 reached 2,321 cases, highest reading since Q2 2020 but merely 1.0 per cent higher than the same quarter last year. Further normalization after a period of excessively low filings during the pandemic could continue to contribute to the increase in cases. That said, the relatively quicker recovery in the labour market and more relaxed public health restrictions in B.C. might be the reason for the moderate change on the year-over-year basis compared to the rest of provinces. The number of consumer insolvency filings in Q2 2022 was 19.6 per cent (567 cases) below pre-pandemic levels in Q4 2019, and 10.8 per cent (282 cases) less than Q1 2020.

While insolvency normalization was observed nationwide, a faster trend is anticipated in the coming quarters. The deterioration in household finances due to a return to normal spending patterns post-pandemic, high inflation and rising interest rates on borrowings may all lead to significant increases in insolvency filings. Having said that, in addition to the higher wages and the tight labour market conditions, excess pandemic savings could cushion the blow for consumers.

1 Insolvency is a term for when an individual or company can no longer meet their financial obligations to lenders as debts become due. Before an insolvent company or person gets involved in insolvency proceedings, they will likely be involved in informal arrangements with creditors, such as setting up alternative payment arrangements. Insolvency can arise from poor cash management, a reduction in cash inflow, or an increase in expenses.

B.C. consumer insolvencies reported modest change despite national spike in Q2



Source: OSB and Central 1 Credit Union. latest 2022Q2

National business insolvencies jumped by 14.6 per cent in June compared with June 2021. While mining and oil and gas extraction sectors reported the biggest decreases in the number of insolvencies, the drops were largely offset by the gains in construction, transportation, and warehousing sectors. Having Canada's housing correction and strong demand for Canadian energy sector, the shift in business insolvencies among various sectors will likely continue.

Housing price retreat more severe in suburban markets

Bryan Yu, Chief Economist

This week we take a closer look at the July Housing Price Index data released by the Fraser Valley and Greater Vancouver real estate boards that capture the area spanning Metro Vancouver and Abbotsford-Mission, alongside the Sea-to-Sky area and parts of Sunshine Coast. Specifically, we graphically illustrate the change in price indices over the latest 12- and 3-month periods, based on area and a rough approximation of distance from the City of Vancouver.

The data aligns well with expectations. Suburban markets have generally experienced the strongest price gains during the pandemic. Low interest rates, housing starved buyers, and demand for space pushed demand to and fueled the suburban markets. The shift to remote work facilitated this easterly upshift in demand as location mattered less for work commutes.

This pattern looks to be working in reverse as interest rates rise and affordability is sapped. Prospective buyers chasing affordability have seen higher rates cut purchasing power. These relatively affordable regions are showing signs of retreating faster as interest rate-sensitive buyers, hammered by rising variable rates, are pushed out of the market. However, the pattern is not as clear cut as the upside move. Investor demand in these areas has likely retreated as well. We expect this pattern of weakening suburban prices to continue going forward. Core urban areas will likely see less downside due to rental market demand and as more individuals return to places of work.

For more information, contact economics@central1.com.