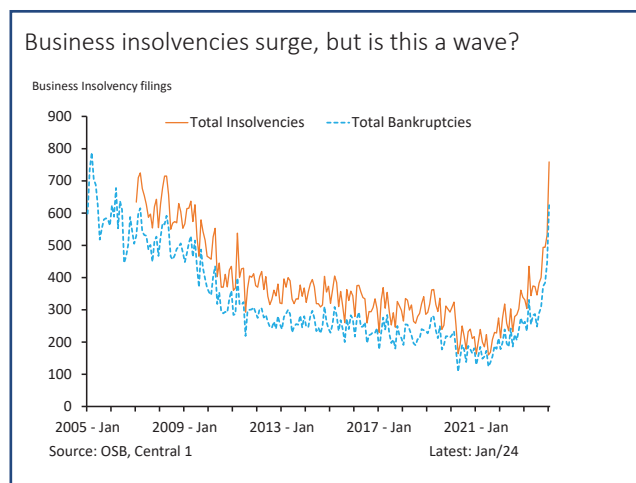




## Business Insolvencies: January spike a trend or anomaly?

The wave of business insolvencies in January has been headline news in recent weeks. Growth in the numbers has been staggering. According to data from the Office of the Superintendent of Bankruptcy, insolvency filings jumped to 759 across Canada, up from about 400 filings during the fall months and the highest since the mid-2000s, albeit unadjusted for the size of the economy. There are fears that businesses are buckling under the weight of higher interest rates and repricing of loans, a slowing economy, and CEBA loan repayments deadline. These conditions may be catching up to businesses, ushering in a wave of filings after the end of the calendar and fiscal year.



At the same time, we should be cautious in putting so much weight on a single data point as data below the surface was far from uniform. Monthly business insolvencies in the Atlantic, territories, Manitoba and Saskatchewan are non-existent. About 80 to 90 per cent of insolvencies last year were in Ontario and Quebec and the entirety of insolvency increase in December and January from the fall months can be attributed to the two provinces. Smoothing some of the volatility with a two-month average, Ontario insolvencies averaged 350 filings over the past two months, compared to about 260 from August to October, while Quebec saw a doubling from about 100 filings to 220 during the period. At under 30 average monthly insolvencies, B.C. and Alberta both saw a pickup of about 20 per cent from the fall but were a non-factor in growth. This divergence among provinces could reflect the prominence of larger companies based in Ontario and Quebec that would impact labour markets across the country. Most businesses are small and would not go through the process of filing for insolvency when shuttering, choosing instead to just wrap up operations.

Insolvencies among sectors also varied significantly and given few in each month are susceptible to wide variation, it is early to conclude clear patterns. There was a notable increase in sectors like accommodations and foodservices, which could reflect challenges from CEBA loans, high costs and slower demand in metro core areas. Increases were also notable in the construction sector, retail/wholesale trade, and professional services although as we note, the absolute numbers are low.

| Business Insolvencies     |        |        |          |                         |                          |
|---------------------------|--------|--------|----------|-------------------------|--------------------------|
|                           | Jan/24 | Jan/23 | Y/y % ch | Dec-Jan average filings | Aug- Oct average filings |
| Newfoundland and Labrador | 2      | 0      | na       | 2                       | 3                        |
| Prince Edward Island      | 2      | 0      | na       | 1                       | 0                        |
| Nova Scotia               | 3      | 5      | -40.0    | 4                       | 3                        |
| New Brunswick             | 3      | 3      | 0.0      | 3                       | 3                        |
| Quebec                    | 398    | 189    | 110.6    | 352                     | 259                      |
| Ontario                   | 275    | 101    | 172.3    | 222                     | 102                      |
| Manitoba                  | 7      | 1      | 172.3    | 5                       | 5                        |
| Saskatchewan              | 7      | 3      | 133.3    | 6                       | 4                        |
| Alberta                   | 33     | 17     | 94.1     | 28                      | 23                       |
| British Columbia          | 29     | 12     | 141.7    | 26                      | 23                       |
| Canada                    | 759    | 331    | 129.3    | 646                     | 426                      |

Office of the Superintendent of Bankruptcy, Central 1

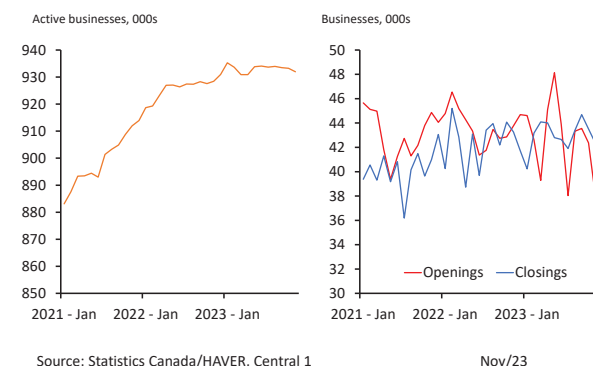
## Does the January uptick represent a wave?

As always, one should not put too much emphasis on the spike in business insolvencies, particularly given the low base value. With CEBA loans coming due, some individuals may have delayed the decision to file in hopes of significantly extended deadline. The lack of filings may have triggered an increase, but it is unlikely to be repeated.

Most business closures and duress would not be observed in business insolvency filings. They would shutter or feed through consumer insolvencies. While consumer insolvency filings have risen, levels have normalized to a level consistent with pre-pandemic levels. Moreover, duress in the business environment would be observed in other data such as business openings and closures. Data through November on active business counts points to some deterioration, but there has been no spike in closures. Fewer businesses are opening, which could reflect economic conditions as potential entrepreneurs pause. Labour market data is similarly steady.

Nevertheless, firms are increasingly struggling, with some sectors worse off than others. Corporate profits have declined by half from early 2022, albeit with non-financial corporations doing better than financial corporations which are showing losses. This environment is limiting needed capital investment in the economy. Businesses are also being squeezed by higher cost

## Business counts steady, no rise in closings



of debt repayment which is similar to consumers and observed in higher commercial delinquency rates.

At this point, we continue to monitor the business environment which is stressed but are not reading too much into January's spike in business insolvencies and bankruptcy filings. Levels are high, but given the consumer patterns, labour market data, and business counts, it is unlikely to mark a severe shift in economic conditions and we could see these numbers revert in coming months.

**Bryan Yu**  
Chief Economist  
Central 1 Credit Union  
byu@central1.com

## Business Insolvencies - by Industry

|   | Jan/24     | Jan/23     | Y/y % ch     | Dec-Jan average filings | Aug- Oct average filings |
|---|------------|------------|--------------|-------------------------|--------------------------|
| Agriculture, Forestry, Fishing and Hunting                            | 9          | 17         | -47.1        | 10                      | 5                        |
| Mining and Oil and Gas Extraction                                     | 9          | 3          | 200.0        | 5                       | 6                        |
| Utilities   | 1          | 1          | 0.0          | 2                       | 1                        |
| Construction  | 86         | 44         | 95.5         | 81                      | 64                       |
| Manufacturing   | 59         | 41         | 43.9         | 54                      | 38                       |
| Wholesale Trade   | 41         | 12         | 241.7        | 32                      | 18                       |
| Retail Trade  | 84         | 41         | 104.9        | 72                      | 46                       |
| Transportation and Warehousing  | 82         | 20         | 310.0        | 61                      | 30                       |
| Information and Cultural Industries                                   | 21         | 10         | 110.0        | 19                      | 12                       |
| Finance and Insurance   | 14         | 6          | 133.3        | 12                      | 5                        |
| Real Estate and Rental and Leasing                                    | 22         | 13         | 69.2         | 21                      | 11                       |
| Professional, Scientific and Technical Services                       | 67         | 19         | 252.6        | 53                      | 34                       |
| Management of Companies and Enterprises                               | 14         | 6          | 133.3        | 14                      | 10                       |
| Administrative and Support, Waste Management and Remediation Services | 32         | 7          | 357.1        | 28                      | 25                       |
| Educational Services  | 12         | 5          | 140.0        | 9                       | 4                        |
| Health Care and Social Assistance                                     | 19         | 2          | 850.0        | 15                      | 10                       |
| Arts, Entertainment and Recreation                                    | 22         | 10         | 120.0        | 21                      | 11                       |
| Accommodation and Food Services                                       | 121        | 57         | 112.3        | 96                      | 62                       |
| Other Services (except Public Administration)                         | 43         | 15         | 186.7        | 45                      | 34                       |
| Public Administration   | 1          | 2          | -50.0        | 1                       | 1                        |
| <b>Total</b>  | <b>759</b> | <b>331</b> | <b>129.3</b> | <b>646</b>              | <b>425</b>               |