

Report on **Business**

Bankruptcies soar by 31%

May's yearly rise a measure of the recession's toll on Canadian businesses and consumers

Heather Scoffield

Ottawa — Globe and Mail Update Last updated on Tuesday, Jul. 07, 2009 04:31PM EDT

The number of bankruptcies in Canada in May was 31 per cent higher than a year ago, as overburdened consumers facing job loss or lower incomes find they can't make ends meet.

May wasn't as bad as April; compared to a month earlier, the number of bankruptcies fell 9.6 per cent. And the number of companies going bankrupt has been declining steadily, according to new data from the [Office of the Superintendent of Bankruptcy Canada](#).

But companies seem to be staving off bankruptcy by deeply slashing their payrolls – driving more and more consumers into personal financial trouble.

“It's pre-emptive downsizing,” said Benjamin Tal, economist at CIBC World Markets.

And since many consumers entered the recession with low savings and eroding net worth, they are vulnerable to the effects of lower pay and unemployment, he said.

“We jumped into this recession totally unprotected.”

Consumer bankruptcies were 34.4 per cent higher than a year ago, which is slightly less severe than the 36 per cent increase in April and much less dramatic than the 57 per cent rise in March, but still well above February's 25 per cent rise and January's 21 per cent increase.

Bankruptcy trustee Andy Fisher with A. Farber & Partners Inc. is seeing the phenomenon first hand. Most of the people walking into his office are preparing to declare personal bankruptcy – not corporate.

And while he saw a slowdown in May, June was one of his busiest months ever.

Companies, he said, “are laying people off and trying to stick it out.” The strategy comes at the expense of employees.

“It's a stressful time for individuals,” he said.

“A lot of it is lack of income...Canadians are carrying a lot more credit than they did a generation ago,” he explained, adding that when they lose their jobs or see their hours cut, they can't manage their debt.

Still, the rise in personal bankruptcies in this recession is not as stark as in previous recessions, probably because more households have two income earners, said Mr. Tal. The recession has taken a huge bite out of employment for men, but hardly touched women.

“You have a cushion,” he explained.

For businesses, May was a month of improvement all around. There were 16.2 per cent fewer bankruptcies than a year ago, and 12.3 per cent fewer than a month ago.

On the month, Alberta was the only province to record an increase in total insolvencies, with a rise of 2.2 per cent. Compared to a year ago, bankruptcies are up an astounding 82.4 per cent in the oil-rich province.

By sector, agriculture, mining and retail had a rough month. But bankruptcies in manufacturing and construction – two key industries that have been hard hit by the recession – were not as high in May as in April, or compared to a year ago.

While the falling business bankruptcy rate comes at the expense of employment right now, the trend is good news for the long-term prospects of Canada's job market, Mr. Tal said.

Trimmed-down companies are in a good position to hire again quickly when the economy rebounds, he said. Defunct companies, on the other hand, have a hard time coming back to life and building up their work forces from scratch.

“The resiliency of business bankruptcies bodes well for the recovery in the labour market in 2010.”

