



Canadian consumer bankruptcies soar in May

Numbers show slight improvement over April, but to analysts this is no 'light at the end of the tunnel'

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Bankruptcies in Canada continued to soar in May versus year-earlier levels as consumers succumbed to crushing debt loads and job losses, but the tally improved modestly from April.

Results released yesterday by the Office of the Superintendent of Bankruptcy Canada showed a total of 10,364 bankruptcies registered in May, up about 31 per cent from May of last year. But the May total, was nearly 10 per cent below April's total of 11,465 bankruptcies.

Industry experts were doubtful that May marked a turning point in a string of soaring bankruptcies in recent months. "I'm not confident that it's the light at the end of the tunnel," said Andy Fisher, a bankruptcy trustee with A. Farber & Partners, which has locations around the GTA and Ontario. "June was probably the busiest month we've ever had," catering to debt-swamped Canadians being chased by creditors and collection agencies, he said.

"There's so much more credit available to people than there was a generation ago," Fisher said. Amid widespread job losses and reduced incomes, "struggling people see credit as a way to get by," even for purchasing seemingly discretionary items such as DVD players or video games, he said. "Attitudes have changed. It's not a stigma to have credit."

But many who have embraced credit clearly can't keep up. The May figures include 9,900 consumer bankruptcies, up about 34 per cent from a year earlier. Ontario recorded 4,067 consumer bankruptcies in May, up 39 per cent from a year earlier.

There were 464 business bankruptcies in May, down 16.2 per cent from a year earlier. Analysts said though many businesses are hurting, they've avoided bankruptcy by cutting jobs and costs.

"It's no secret Canadians are carrying a higher level of debt" as a ratio to assets and disposable income these days compared with past years, said TD Bank economist Grant Bishop. A recent report by Equifax Canada said rising delinquency rates have left more than a half million behind on their various credit payments.

Bishop said the bankruptcy figures can be volatile so he doesn't read much into a single month of improvement. He said consumers are going bankrupt with greater amounts of debt, and he expects bankruptcy figures to rise this year as Canada's jobless rate pushes past 10 per cent by year's end, from the May level of 8.4 per cent, an 11-year high. Bishop sees the rolling 12-month total of consumer bankruptcies climbing above 150,000 later this year, compared with the latest figure of 131,945 for the 12 months ended May 31.

BMO Capital Markets deputy chief economist Doug Porter, however, said the improved bankruptcy figures for May versus April are "consistent with an economy that is past the worst point," noting bankruptcies in past downturns have continued to climb even as the broader economy was

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Bankruptcy in Alberta

improving. Bankruptcies are likely to remain "relatively lofty over the next year or so," he said, but increases over year-earlier levels will become smaller.

Meanwhile, U.S. consumers are also falling behind on their bills in droves. The American Bankers Association yesterday said balances on delinquent credit-card accounts jumped "dramatically" to a record 6.60 per cent in the first quarter from 5.52 in the fourth quarter. Late payments on home equity loans climbed to 3.52 per cent from 3.03.

"The number one driver of delinquencies is job loss," said ABA chief economist James Chessen. "When people lose their jobs, they can't pay their bills. Delinquencies won't improve until companies start hiring again and we see a significant economic turnaround," he said in a news release.

Recent statistics showing a surge in the U.S. savings rate, however, indicate Americans may be quickly changing their financial habits.

"Many people are taking greater control of their finances by cutting spending, lowering debt and saving more money," Chessen noted.