Report

Insolvencies Rise Amid Mounting Financial Stress on Canadian Businesses

Q4 2023 | Equifax® Canada Market Pulse Quarterly Business Credit Trends

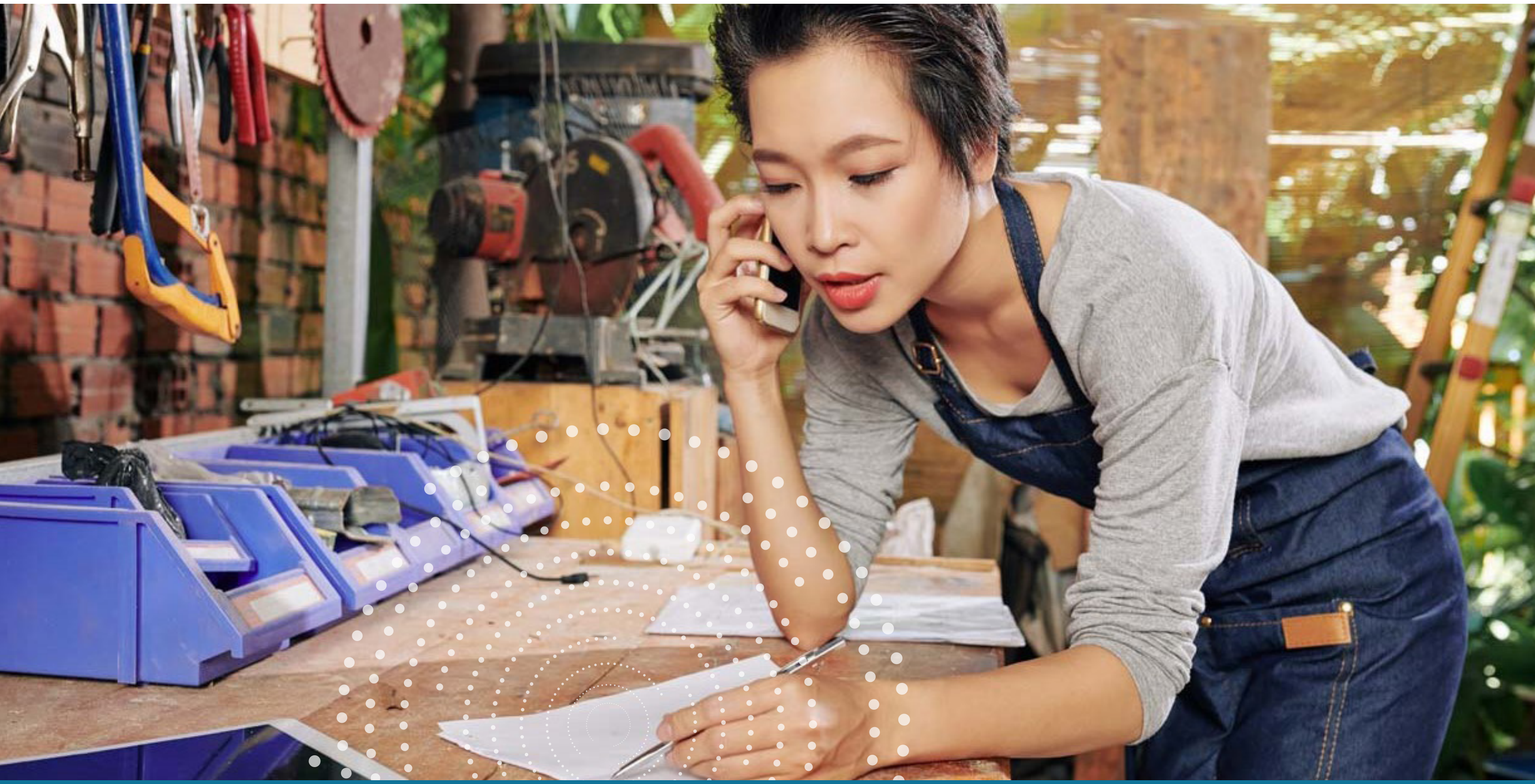
March 2024

Many Canadian businesses are facing an uphill battle, as evidenced by a 41.4 per cent surge in business insolvencies in 2023 when compared to 2022. The latest data from Equifax® Canada's Market Pulse Quarterly Business Credit Trends Report also points to a 14.3 per cent uptick in the number of businesses that missed a payment on a credit product (Q4 2023 vs. Q4 2022).

One significant contributor to this mounting stress is the repayment of Canada Emergency Business Account (CEBA) loans. With the deadline for CEBA loan repayments now passed, many businesses find themselves navigating the financial strain of monthly payments accompanied by a higher interest rate — a stark contrast to the initial terms of interest-free and no monthly payments. On January 19, 2024, CEBA loans converted to a three-year term loan with five per cent interest payable per year.

"Canadian businesses are facing a perfect storm of economic pressures," says Jeff Brown, Head of Commercial Solutions for Equifax Canada. "The end of the initial grace period for CEBA loans, combined with high input costs, labour expenses, a slowdown in consumer spending and high interest rates, is creating a challenging environment."

“These factors are contributing to a growing trend of business failures,” continues Brown. "The sharp rise in insolvencies, representing a 30.3 per cent surge since 2019, underscores the financial pressures faced by businesses. There is a need to manage debt and adapt to changing market conditions through strategic financial planning and proactive measures.”



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Missed Payments Adding Up

Delinquencies across business credit accounts continued to rise, with industrial and financial trades experiencing increases in account-level delinquencies. In Q4 2023, industrial trades experienced an 8.8 per cent increase in 30+ day account-level delinquencies, reaching 11.2 per cent. Financial trades saw a 3.1 per cent increase to 3.3 per cent.

Installment loan delinquencies reported a significant surge, with early-stage delinquencies up by 12.5 per cent and late-stage delinquencies up by 16.3 per cent year-over-year, suggesting that businesses are struggling with monthly loan payments. Revolving credit (cards and line of credit) delinquencies of 30+ days grew by 1.3 per cent year over year, reaching 3.2 per cent in Q4 2023. Real estate, rental, leasing, and retail trades also witnessed substantial increases in missed payments.

The provinces with the highest financial trade delinquency rates are Alberta (3%), Ontario (2.9%) and Quebec (2.6%), with Quebec also having experienced the largest uptick year over year from 2.4 per cent to 2.6 per cent in severe (90+ days) delinquency rate.

Reported outstanding balances from financial trades continued to rise, reaching $31.8 billion in Q4 2023, and marking a 7.4 per cent annual increase driven primarily by a 15.3 per cent increase in credit card balance.

Demand for Credit Continues

Despite a slowdown in inflationary pressure, new credit growth remains subdued, with high interest rates and tighter lending criteria constraining lending activities. This is evidenced by a notable decline in new originations for both financial (-24.4%) and industrial trades (-15.3%) compared to the previous year. However, despite reduced lending activity, the demand for credit among businesses remains robust, as reflected in a 5.5 per cent increase in credit inquiries.

"The demand for new credit may point to signs of growth and expansion as Q4 2023 saw a 21.9 per cent rise in establishment of new businesses when compared to the same time period in 2022," says Brown. "As always, we will monitor this closely and we will **provide insights** to help businesses respond to the ever-evolving market conditions."

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