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Report

# Businesses Lean on Revolving Credit Amidst Rising Financial Stress

Q1 2023 | Equifax Canada Market Pulse Quarterly Business Credit Trends

June 2023



New data suggests a pattern of credit expansion and a significant shift in credit usage, indicating potential challenges for businesses according to the Equifax Canada Market Pulse Business Credit Trends Report for Q1 2023.



Additionally, the report highlights growing financial stress in the industrial and financial trades.

The total outstanding balance on bank-issued installment loans in Canada currently stands at \$12.9 Billion, which experienced a year-over-year decline of 2.4 per cent, a first since 2019 when Equifax began monitoring this data. By contrast, during the same period, credit card balances grew by 15 per cent, while lines of credit showed an 11 per cent increase.

“The decline in installment loans and the shift towards credit card usage could be impeding their growth potential and hindering their ability to make larger investments,” said Jeff Brown, Head of Commercial Solutions at Equifax Canada.

Of particular significance in the report is the decline in loan balances, considering that installment loan balances grew by more than 35 per cent compared to 2020. This suggests that borrowers could increasingly gravitate towards credit products that don’t lock them into fixed repayment periods and offer greater flexibility in terms of interest rates. The recent hikes in interest rates by the Bank of Canada may have contributed to this shifting trend.

## Slump in New Business Starts

In Q1 we saw a slowdown in new business openings, which is a deviation from the previous growth trajectory. For the past two years, the months of January, February, and March showed a consistent month-over-month increase in business establishments as the economy began to recover from the impacts of the pandemic. However, in 2023, there has been a noticeable dip in new business starts at the start of the year. As of the end of February, new business starts are down year-over-year by 16.5 per cent in Ontario, 14.2 per cent in B.C., 11.4 per cent in Alberta and 7.5 per cent in Quebec.



## Industrial and Financial Trades Show Signs of Stress

The industrial and financial trades are also showing signs of financial stress. “Delinquencies in industrial trades are nearing pre-pandemic levels, with late delinquencies rising by nine per cent within a 60-day window annually,” highlighted Brown. “We’re seeing this primarily in trades located in British Columbia and Alberta, suggesting that businesses operating in these regions are facing a particularly challenging economic environment.”

Brown further emphasized the impact of early delinquencies on both financial and industrial trades. “The persistent rise in early delinquency rates in these trades suggests that businesses are struggling to meet their financial obligations,” he explained. “Typically, businesses prioritize paying their suppliers to maintain operations, but it is disturbing to see consecutive quarterly increases in delinquencies on the supplier side as well.”

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**Jeff Brown**

Head of Commercial Solutions, Equifax Canada

## Majority of Canadian Businesses Have a Positive Outlook

Despite the challenges posed by rising interest rates and high inflation, Statistics Canada data shows that 73.5 per cent of businesses surveyed are optimistic about their future over the next 12 months.

“Equifax data also suggests some regional gains in the demand for commercial credit, which is a positive sign and speaks to the resilience and optimism of Canadian businesses,” Brown acknowledged. “However, it is essential to consider the potential consequences of the current credit landscape. Equifax Canada continues to monitor the situation closely and provides crucial data to support businesses and lenders so they can make [informed credit decisions](#) during these uncertain times.”

As borrowing behaviours continue to evolve, financial institutions and lending organizations should consider adapting their offerings to meet the changing demands of consumers and businesses. Understanding these trends can help individuals and organizations make informed decisions regarding their credit choices.



## How Equifax can help grow your business

Reputational, operational, and financial risk are real concerns for Canadian business owners and all need to be handled with care. Let us help **improve your business credit portfolio**, and enable growth for your small business clients.

We offer specialized products and solutions to help you gain insights on markets, acquire more customers, minimize portfolio risk and reduce loss related to fraud. Our unmatched data assets and innovation help protect you, your clients, and your bottom line at every stage of the customer lifecycle.

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