Report

Canadian Businesses Lean on New Installment Loans For Debt Repayment as Delinquencies Rise

Q1 2024 | Equifax® Canada Market Pulse
Quarterly Business Credit Trends

June 2024

According to the latest data from Equifax® Canada's Market Pulse Q1 2024 Business Credit Trends Report, new installment loan originations surged by 74 per cent year-over-year in the second half of 2023. Businesses that raced to meet the Canada Emergency Business Account (CEBA) forgiveness deadline of January 18th, 2024 could potentially be driving this higher-than-seasonal demand.

“While it may feel like CEBA is moving into the rear-view mirror, it’s truly a matter of businesses turning to new installment loans to secure their financial stability,” said **Jeff Brown, Head of Commercial Solutions for Equifax Canada**. “Many businesses were focused on the forgiveness deadline and paying back debt to take advantage of this timeline. The increased reliance on these loans has also contributed to a notable rise in delinquencies, particularly in installment loans.”

Financial Stress Continues for Businesses

The uptick in delinquencies, notably observed from April 2022 to April 2024, parallels the implementation of interest rate hikes commencing in March 2022. A noticeable shift occurred in this period, with the percentage of companies experiencing at least one delinquency rising from 4.3 per cent to 4.9 per cent.

Industrial trades (credit accounts between businesses and suppliers) have seen a significant increase in 30+ day delinquencies, rising from 10.1 per cent in Q1 2023 to 12.2 per cent in Q1 2024. Similarly, financial trades (credit accounts between businesses and financial institutions) have also experienced an increase in delinquency rates, with 30+ day delinquencies rising from 3.3 per cent in Q1 2023 to 3.4 per cent in Q1 2024. Financial trade delinquencies are primarily being driven by missed payments on installment loans and lines of credit where 30+ delinquency rates have risen from 2.4 per cent and 3.3 per cent in Q1 2023 to 2.7 per cent (up 24.8%) and 3.9 per cent (up 19.1%) in Q1 2024 respectively. Overall credit card delinquencies remained low. However, businesses that have opened new credit cards over the last two years are missing payments at a much faster rate on those cards, which may impact delinquency levels later in 2024. “It is more important than ever to monitor newer accounts for early warning signs of financial stress as it might take some time to see their impact on portfolios,” said Brown.

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Head of Commercial Solutions,
Equifax Canada

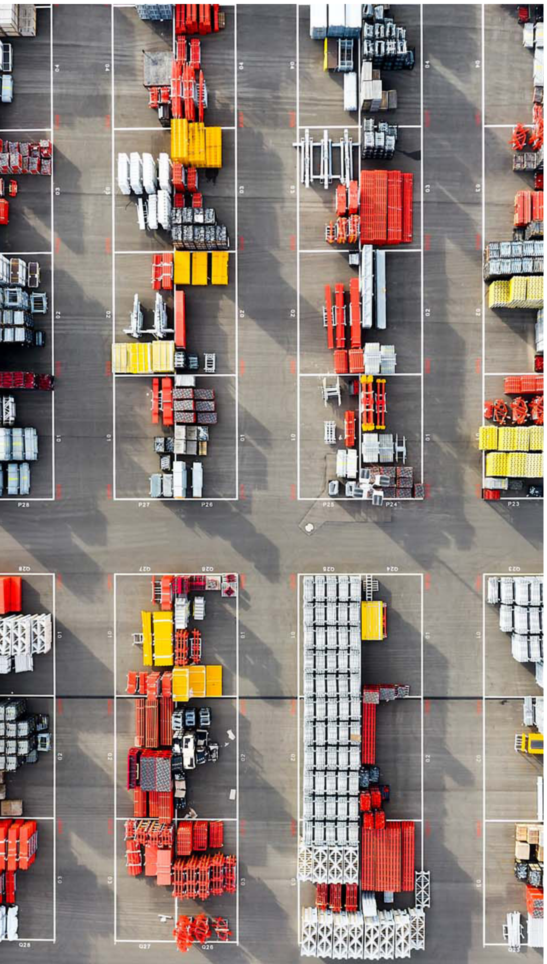
Delinquencies in Transportation and Retail at Record High Levels

Delinquencies on asset-based loans are at some of the highest rates seen in the last twenty years, driven largely by the transportation and retail industries. "The rise in missed payments strongly deviates from what would be expected, and may be cause for long-term concern. The asset-based loans include equipment leases that traditionally have lower-than-average delinquency. This makes sense because if, for example, you're running a pizza restaurant, you don't go delinquent on the lease of your pizza oven or if you're a trucking company you won't want to go delinquent on your trucks either — because if you do, it's game over for your business," notes Brown.

Business Debt Up, But Rate Cut Will Offer Some Relief

On top of the challenge of rising delinquencies, Canadian businesses are struggling under the weight of rising debt, with outstanding financial trade balances hitting a new high of $31.9 billion in Q1 2024 — a 7.4 per cent increase from last year.

"The recent rate cut by the Bank of Canada offers hope that we could be on a trend towards lower rates if inflation remains in check," said Brown. "Businesses may get some breathing room on debt payments, which could potentially free up resources for growth."



Rise in New Businesses, Strict Lending

Inquiry volumes for financing during the first quarter of 2024 jumped 2.4 per cent year-over-year, reflecting strong demand from businesses. While access to credit may be uneven with lower-risk borrowers receiving a larger share of new trades, there are positive trends emerging. More than 53,000 businesses have opened in Q1 2024, up 30 per cent from Q1 2023.

The industrial sector saw a 6.5 per cent rise in new originations in 2023 compared to 2022. Financial trades also increased with a 3.4 per cent increase in the last quarter and a significant 14.4 per cent jump year-over-year. "These figures paint a promising picture for future economic activity, despite some adaptations in the lending environment," concludes Brown.

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1.855.233.9226

solutions.ca@equifax.com

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