



Office of the Superintendent  
of Bankruptcy Canada

An Agency of  
Industry Canada

Bureau du surintendant  
des faillites Canada

Un organisme  
d'Industrie Canada

# Insolvency

## in Canada in 2006

Canada 



Protecting the  
Integrity of the  
Insolvency System

Protéger l'intégrité  
du système  
d'insolvabilité

## Overview

In Canada in 2006, the number of new cases filed with the OSB decreased by 4.6% to 106,629. We have to go back to 1998 to witness a decrease in new cases filed that was larger than 4%. In 2002 and 2004, decreases in volumes were under 1%. In 2006, consumer insolvencies recorded a 4.1% decline, bringing the number of new consumer files to 98,450. Business insolvencies declined by 10.6% and the number of new cases filed totalled 8,179. This is the fifth consecutive annual decrease in business insolvencies; all of them more than 6%.

The 4.1% decline in consumer insolvencies can be explained in part by the good performance of the Canadian labour market. During 2006, employment growth came in at 1.9% compared to 1.5% in 2005. In total, 304,000 full-time jobs and 11,000 part-time jobs were created during 2006. This increase did more than soften the negative impact of rising interest rates and an increasing indebtedness rate. The average 5-year mortgage rate grew by 0.45 percentage point to 6.6%. The indebtedness ratio continued to grow, reaching 123.1% in the 3<sup>rd</sup> quarter of 2006, which corresponds to an increase of 5.4 percentage points over the 3<sup>rd</sup> quarter of 2005.

The decrease in business insolvencies is also related to the favourable economic climate. In 2006, gross domestic product (GDP) rose by 2.7%, a slight drop compared with the increase of 2.9% posted in 2005. The growth in GDP is mainly driven by solid domestic demand (consumer spending, business investment and government spending). In 2006, the strong Canadian dollar had negative effects on the manufacturing sector while contributing positively to the resources sector.

**Table 1: Insolvency, Canada 2005-2006**

	2005	2006	% Change
<b>Total</b>	111,807	106,629	-4.60%
<b>Consumer</b>	102,660	98,450	-4.10%
Bankruptcies	84,638	79,218	-6.40%
Proposals <sup>1</sup>	18,022	19,232	6.70%
<b>Business</b>	9,147	8,179	10.60%
Bankruptcies	7,519	6,756	10.10%
Proposals <sup>2</sup>	1,628	1,423	12.60%
<b>Corporations</b>	2,560	2,494	-2.60%
<b>Sole proprietorship<sup>3</sup></b>	6,587	5,685	13.70%

<sup>1</sup> Division I and II proposals filed by Consumer.

<sup>2</sup> Division I proposals filed by corporations and sole proprietorship and Division 2 proposals filed by sole proprietorship.

<sup>3</sup> The term "sole proprietorship" is used to indicate a non-incorporated business as opposed to corporations.

## Insolvencies in the 6 major Canadian regions in 2006

In 2006, 5 of the 6 regions saw a decrease in the number of new insolvency cases filed. With a 6.0% increase in new cases, Quebec was the only region where insolvency cases were on the rise. The most significant decrease came in Alberta where the number of insolvency cases declined by 29.6%. In British Columbia and in the Manitoba/Saskatchewan region, insolvency filings fell by about 12%. In the Atlantic region, the number of new insolvency cases filed with the OSB decreased by 8.3% while in Ontario the decrease was 2.1%. Regional variations in the performance of the labour market and in GDP growth could explain some of these differences. In Quebec and in Ontario, employment rose by 1.3% and 1.5% in 2006. The high exchange rate of the Canadian dollar had a negative impact on exports from the manufacturing industry of these two provinces. In Quebec, the situation was worsened due to the poor performance of the forestry sector. In Ontario, growth in the services sector offset in part the decline of the manufacturing sector. In the other four regions, economic growth was largely fuelled by the high prices of raw commodities. Employment grew by 4.8% and 3.1% respectively in Alberta and British Columbia. In 2006, the unemployment rate was under 5.0% in three western regions while being over 6.0% in the three eastern regions.

Consumer insolvency was down in 5 out of the 6 regions, the exception being Quebec with a 6.0% increase. The most significant decrease was in Alberta (-27.6%), followed by the Manitoba/Saskatchewan region (-12.7%), British Columbia (-11.0%), the Atlantic region (-8.2%), and Ontario (-1.8%).

**Table 2: Insolvencies, regions, 2005-2006**

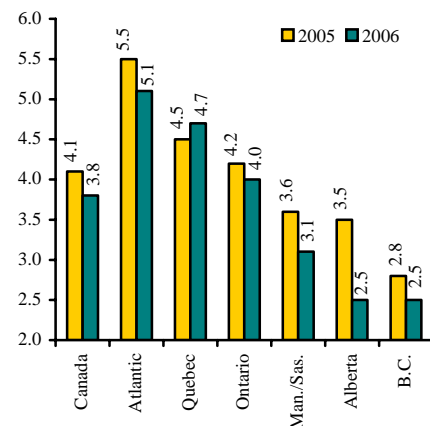
	2005	2006	% Change
<b>Atlantic</b>			
<b>Total</b>	10,963	10,057	-8.30%
<b>Consumer</b>	10,326	9,479	-8.20%
<b>Business</b>	637	578	-9.30%
<b>Quebec</b>			
<b>Total</b>	29,568	31,332	6.00%
<b>Consumer</b>	27,351	28,997	6.00%
<b>Business</b>	2,217	2,335	5.30%
<b>Ontario</b>			
<b>Total</b>	43,979	43,063	-2.10%
<b>Consumer</b>	40,687	39,936	-1.80%
<b>Business</b>	3,292	3,127	-5.00%
<b>Manitoba/Saskatchewan</b>			
<b>Total</b>	6,536	5,724	-12.40%
<b>Consumer</b>	5,893	5,145	-12.70%
<b>Business</b>	643	579	-11.00%
<b>Alberta</b>			
<b>Total</b>	10,340	7,278	-29.60%
<b>Consumer</b>	8,898	6,443	-27.60%
<b>Business</b>	1,442	835	-42.10%
<b>British Columbia</b>			
<b>Total</b>	10,421	9,175	-11.90%
<b>Consumer</b>	9,509	8,460	-11.00%
<b>Business</b>	912	715	-21.60%

The number of consumer insolvency cases per thousand residents 18 years of age and older decreased by 0.3 cases to 3.8 in Canada in 2006. Alberta posted a decrease of 1 case, going from 3.5 cases in 2005 to 2.5 cases in 2006, the same as in British Columbia. Quebec is the only region showing an increase in the number of cases (0.2) to reach 4.7 cases.

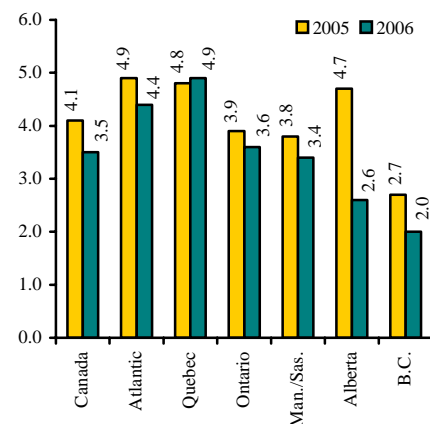
Business insolvency has decreased in every region, with the exception of Quebec. The largest decrease was in Alberta (-42.1%), while the increase in Quebec was 5.3%.

In Canada, the number of business insolvency cases per thousand businesses decreased by 0.6 cases, coming in at 3.5 cases in 2006. Alberta experienced a significant decrease of 2.1 cases, down to 2.6 cases. In 2006, British Columbia still saw the lowest number of cases per thousand businesses, at 2.0, and Quebec posted the highest rate, at 4.9.

**Number of consumer insolvency cases per thousand residents 18 years of age and over, Canada and regions**



**Number of business insolvency cases per thousand businesses, Canada and regions**



## Insolvencies by major economic sector in 2006

In 2006, for the second consecutive year, business insolvencies decreased in the 8 major economic sectors. In 4 out of the 8 sectors, the decrease was more than 10.0%. The finance sector showed the greatest decline (-20.2%) while the decrease in the transport and communications sector was limited to 4.0%.

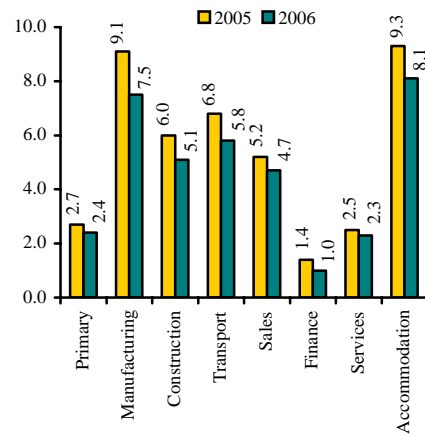
In 2006, the number of business insolvency cases per thousand businesses fell in the 8 major economic sectors. Decreases of the order of at least 1 case per thousand businesses were recorded in the manufacturing sector (-1.6), the accommodation and food services sector (-1.2), and in the transport

sector (-1.0). The number of cases per thousand businesses in the finance, insurance and real estate sector was the lowest at 1 case whereas the accommodation and food services sector showed the highest at 8.1 cases.

**Table 3: Insolvencies by major economic sector, Canada 2005-2006**

Sector	2005	2006	% Change
Primary	563	512	-9.10%
Manufacturing	883	735	16.80%
Construction	1,554	1,364	12.20%
Transportation and communications	963	925	-4.00%
Wholesale and retail trade	1,708	1,577	-7.70%
Finance, insurance and real estate	370	295	20.20%
Services	2,111	1,905	-9.80%
Accommodation and food services	996	867	13.00%
Total	9,147	8,179	10.60%

**Number of business insolvency cases per thousand businesses, by major economic sectors**




## International insolvencies

In the United States the statistics from the first three quarters<sup>4</sup>, ending September 30, indicate a decrease of 69.0% in non-business insolvencies. This decrease can be explained by the legislative reform that came into effect on October 17, 2005. It is estimated that nearly 500,000 debtors filed for bankruptcy in anticipation of the reform. This translated into a 30.0% increase in filings. Some American specialists expect that the volume of non-business insolvencies will gradually return to the levels that prevailed in the quarters preceding the 2005 reform. According to some experts, this would be explained by the fact that the foundations of the 2005 reform were erroneous. Based on the data for the first three quarters of 2006, our southern neighbours could see business insolvencies go down by nearly 45%. However, data for the first three quarters of 2005 also showed a decrease in business insolvencies, but the year ended with a 14.2% increase in business filings.

In the U.K., over the first three quarters of 2006, growth in consumer insolvencies reached 63.8%, compared to 44.9% in 2005. It seems that during the last year, the U.K. experienced a crisis of consumer debt fed by credit card spending. The consumer indebtedness ratio went from 99% in

<sup>4</sup> Statistics for the year 2006 will be available at the end of February.



2000 to 154% in 2005. Preliminary data show that this trend has continued in 2006. During the first three quarters of 2006, business insolvencies have increased by 2.6%, compared to 5.0% in the preceding year. GDP growth accelerated to 2.6% compared to 1.7% in 2005.

## Conclusions

There was a 4.6% decrease in the number of new insolvency cases filed with the OSB in 2006. The number of new consumer insolvency cases fell by 4.1%. The number of new business insolvency cases, which decreased for the fifth year in a row, was down by 10.6%. Overall, this positive performance is attributable to a favourable economic climate; in particular, labour market growth was higher in 2006 while GDP growth was similar to that in 2005. Regional differences in job creation and GDP growth explain in large part the regional variations in business and consumer insolvencies.

In 2007, the number of new insolvency cases filed with the OSB could decrease for a second year in a row and regional disparities will likely remain. Most forecasters expect that growth in economic activity will slow down in the first half of 2007 before picking up in the second half. Moreover, an anticipated drop in oil prices should have a downward effect on the value of the Canadian currency. This could have a positive impact in the manufacturing sector, especially for businesses that are heavily reliant on the export market. However, the lower Canadian dollar should not compromise the expansion of the resources sector in the western part of the country. Finally, the crisis in the forestry sector could still cause some job losses in many regions, particularly in Quebec.