THE GLOBE AND MAIL

BUSINESS BRIEFING

‘The worm is turning’: More Canadians are going broke, defaulting on their debts

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‘The worm is turning’

Two recent reports shed a troubling light on how Canadians are coping with their debts.

Consumer insolvencies and delinquencies are rising modestly. But rising they are, and observers predict more Canadians will go under.

“As we expected, the worm is turning in the Canadian credit market,” Bill Johnston, vice-president of data and analytics at Equifax Canada, said as he released the group’s look at delinquencies in the fourth quarter.

“Rising delinquency is likely to become the norm in 2019,” he added.

Notable, too, is the number of seniors in trouble.

This comes after a rise in interest rates, though the Bank of Canada has stopped for now, and is expected to hold steady again today amid economic uncertainty.

The first report, from the Office of the Superintendent of Bankruptcy Canada, showed insolvencies among consumers rose 7.2 per cent in January from a year earlier.

Important here is that there are two types of insolvencies, bankruptcies and proposals, the latter being a renegotiation of one’s debts.

When looked at that way, proposals climbed 11.5 per cent in January from a year earlier, with outright bankruptcies rising by just 1.3 per cent.

“Those living paycheck to paycheck are struggling to meet their debt repayment obligations,” said Chantal Gingras, chair of the Canadian Association of Insolvency and Restructuring Professionals.

“Many Canadians may be technically insolvent in terms of being unable to pay their bills, but they haven’t sought debt relief yet. That said, the number of consumer insolvencies are likely to continue to increase over the next two years as more individuals seek help.”

As for failing to pay debts, Equifax’s latest report showed delinquencies began a “modest turn higher” in the final quarter of last year.

Where mortgages are concerned, the 90-day delinquency rate rose 1.5 per cent to a still-small 0.18 per cent. For non-mortgage loans, the rate inched up 0.4 per cent to 1.07 per cent.

This differs across the country, of course.

Debt (excluding mortgages) and delinquency rates, by city

CITY	AVERAGE DEBT, Q4 2018	AVERAGE DEBT CHANGE*	DELINQUENCY RATE, Q4 2018	DELINQUENCY RATE CHANGE*
Calgary	$30,099	2.10%	1.21%	3.10%
Edmonton	$28,863	6.00%	1.41%	-3.30%
Halifax	$23,680	-0.80%	1.54%	7.90%
Montreal	$17,733	1.70%	1.21%	-0.10%
Ottawa	$22,567	2.40%	0.90%	-3.90%
Toronto	$22,935	4.50%	1.12%	0.10%
Vancouver	$26,518	2.90%	0.70%	3.50%
St. John's	$25,538	0%	1.65%	15.10%
Fort McMurray	$39,914	4.10%	1.76%	0.40%

*Year-over-year percentage change, Q4 2017 vs. Q4 2018

SOURCE: EQUIFAX

Equifax also warned that Canada's seniors are facing worrisome times, with their delinquency rate up 7.2 per cent in the last three months, and "the increases are gaining momentum."

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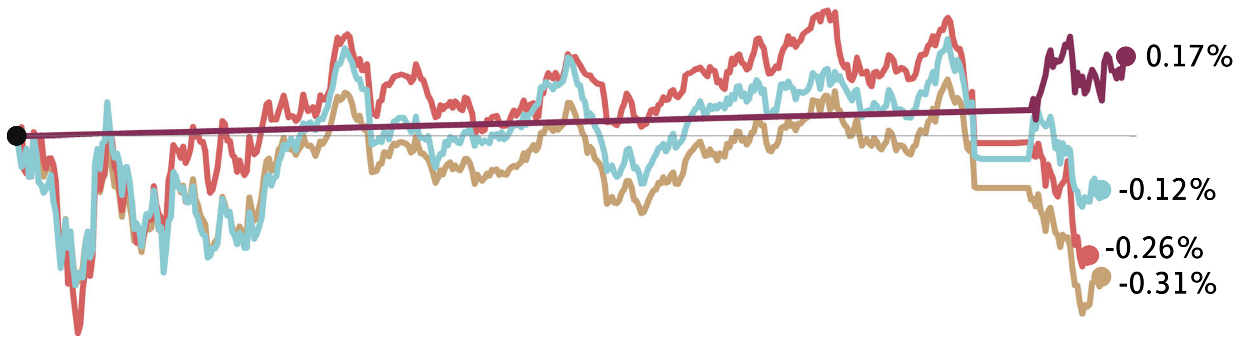
Markets at a glance

TSX COMPOSITE INDEX 16,114.41 +27.87 (0.17%)
DOW JONES INDUSTRIALS 25,789.19 -13.02 (-0.05%)
NASDAQ COMPOSITE 7,557.84 -1.21 (-0.02%)
S&P 500 INDEX 2,784.23 -3.16 (-0.11%)

PAST DAY

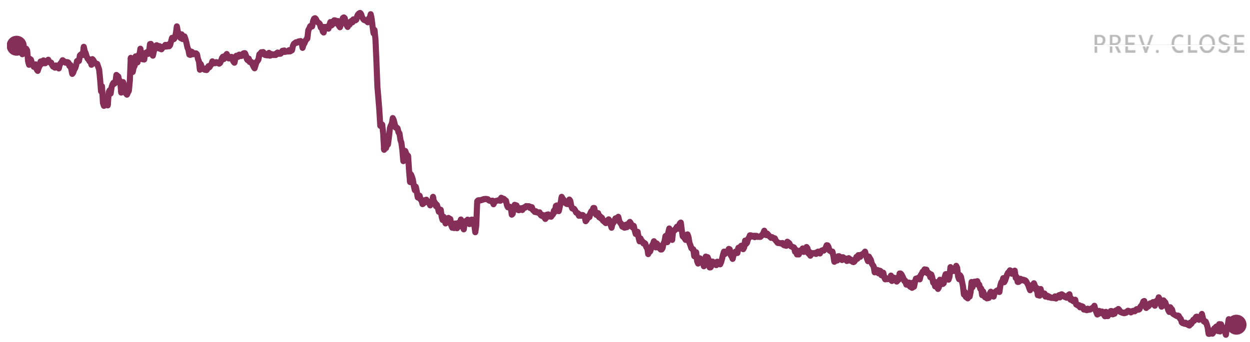


CLOSE, MARCH 4 **10:09 A.M., MARCH 6**

SOURCE: BARCHART

CANADIAN DOLLAR/U.S. DOLLAR 0.7473 -0.0127 (-1.6710%)

PAST FIVE DAYS

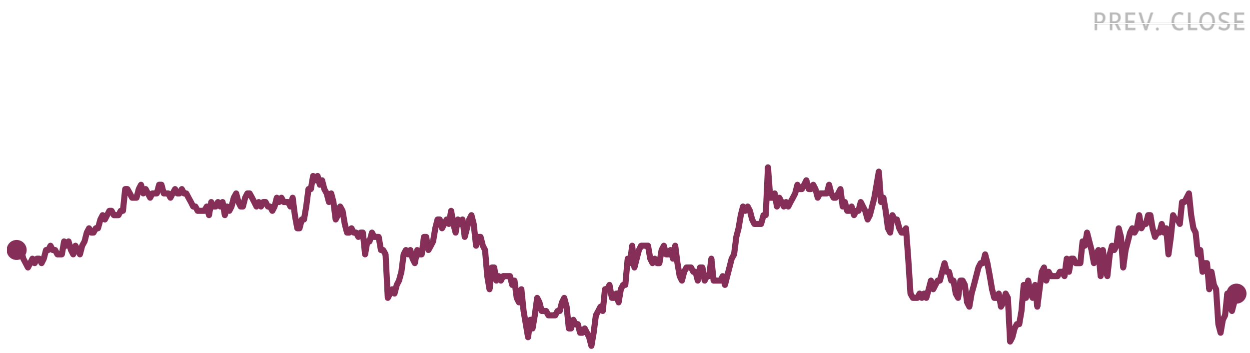


FEB. 28 0.7600 **MARCH 6** 0.7473

SOURCE: BARCHART

WTI US$55.94 -0.62 (-1.10%)

PAST DAY



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US$56.04
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Trade gap swells

Canada's trade deficit now stands at a record $4.6-billion.

Having said that, a drop in exports of 3.8 per cent in December was largely because of declining energy products, which tumbled by 21.7 per cent, Statistics Canada said today.

If you strip out energy, exports were flat in December, the federal agency said. At the same time, export prices fell 2.4 per cent, with volumes down 1.4 per cent.

Imports, in turn, rose 1.6 per cent, largely on stronger volumes, fattening up the overall trade surplus from $2-billion in November.

"While exports were absolutely pounded by a sharp drop in oil prices at the end of last year (down 20 per cent, month over month, by one measure) - which has since reversed - the bigger picture is far from friendly for trade at this point," said Bank of Montreal chief economist Douglas Porter.

"At best, we look for trade to move sideways this year, with the deficit holding roughly steady and net exports about neutral. A persistent trade gap and weak productivity - not exactly a winning combination for the Canadian dollar, or a ringing endorsement for further rate hikes."

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- Canada racks up record trade deficit in December as energy exports slump
- U.S. trade deficit jumped to 10-year high; record gap with China

What to watch for today

Expect a downbeat Bank of Canada today. But maybe not too downbeat.

Governor Stephen Poloz, senior deputy governor Carolyn Wilkins and their colleagues are expected to hold their benchmark overnight rate at 1.75 per cent when they release their decision and accompany statement this morning.

Bank of Canada senior deputy governor Carolyn Wilkins and governor Stephen Poloz

CHRIS WATTIE/REUTERS

That will be followed Thursday by a speech on the economy by deputy governor Lynn Patterson.

Today’s statement has to be downbeat, given that Statistics Canada reported Friday that the economy contracted mildly in December, bringing fourth-quarter growth to an annual pace of just 0.4 per cent.

“Surely governor Poloz, and deputy governor Patterson who speaks the following day, will have every reason to put aside the chatter about getting to a 2.5-per-cent to 3.5-per cent neutral range,” said CIBC World Markets chief economist Avery Shenfeld.

“But at this point, markets are already pricing in only a very slim chance of any hikes this year, and we don’t see the statement as making the case of an ease just yet.”

Economists believe the current quarter isn’t faring all that much better, for that matter.

“However, don’t expect Poloz to be overly negative as growth is expected to rebound in Q2,” said Benjamin Reitzes, BMO’s Canadian rates and macro strategist.

“Given the weaker growth backdrop, with the trade and housing uncertainties unlikely to be resolved, we look for the BoC to be on hold through most of this year.”

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