

## Personal bankruptcies climb back up in Quebec: Is this the beginning of an upward trend?

While the recent household debt indicators did not show any deterioration in the financial position of households, personal bankruptcies started heading up last year. Given the fast increase in debt levels since the beginning of the 2000s and Quebecers' low savings rate, they have become more vulnerable to unforeseen events, such as losing a job. The rough patch that the labour market went through last year would be the cause of the increase in insolvency cases in Quebec. This reminds us that a steady income generally determines the financial ability of households to meet their payment obligations. The long-lasting low interest rates have little impact on bankruptcies.

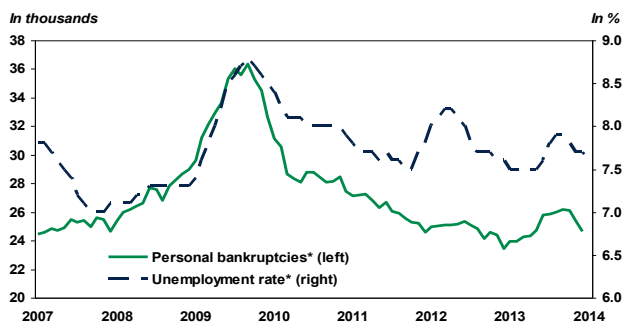
### THE LABOUR MARKET IS KEY

Household financial health depends on many factors: the burden of debt, the value of assets, the ability to save for a rainy day, changes in interest rates and the state of the labour market. The latter factor has played a key role in recent years. The recession of 2008–2009 triggered job losses and a spurt in the unemployment rate (graph 1). That rate jumped from a low of 7% to nearly 9%, sending the number of personal bankruptcies soaring by over 30% in the space of two years. At a time when many people were apprehending a hike in interest rates, the deterioration in

the labour market caused serious damage. Subsequently, the economic recovery generated a rapid rally in employment in Quebec, and a decline in bankruptcies ensued between 2010 and 2012 (graph 2).

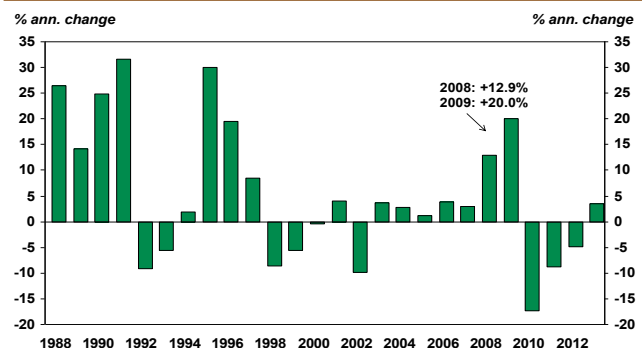
Bankruptcies are not the only evidence that some households are having trouble making ends meet. Rather than declare bankruptcy, individuals can offer a consumer proposal to their creditor, e.g. consolidating their debts in order to repay them over a longer period of time, and sometimes even reducing their amount. Such households are considered

**Graph 1 – The increase in personal bankruptcies is due to the labour market turmoil in Quebec**



\*6-month moving average  
Sources: Office of the Superintendent of Bankruptcy and Desjardins, Economic Studies

**Graph 2 – A slight increase in personal bankruptcies in Quebec in 2013**



Sources: Office of the Superintendent of Bankruptcy and Desjardins, Economic Studies

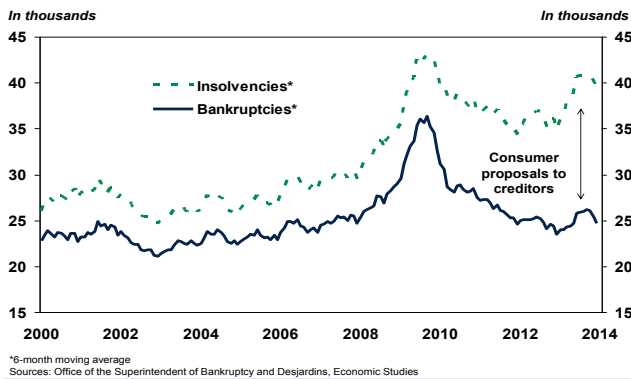
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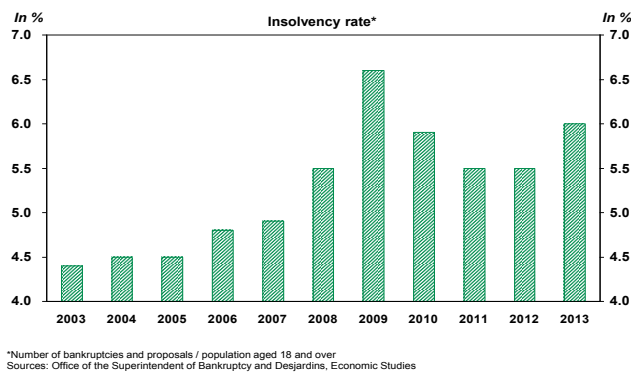
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**Graph 3 – Bankruptcies and borrowers' proposals have escalated insolvency cases in Quebec**



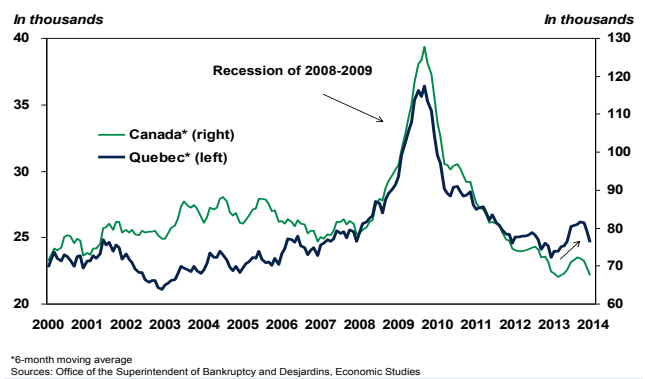
insolvent<sup>1</sup>, as are those that declare bankruptcy. The total of consumer proposals and bankruptcies make up the total cases of insolvency (graph 3). In Quebec, the number of such proposals has soared since the recession of 2008–2009. Contrary to bankruptcies, which subsequently declined, financial recovery plans proposed by borrowers have kept rising and even spiked by approximately 25% last year. In 2013, a total of 14,726 proposals was added to the 25,221 personal bankruptcies (+3.4%) in Quebec, bringing the total cases of insolvency to 39,947 (+11.2%). The proportion of the adult population that is considered insolvent also rose in 2013 (graph 4), showing that households struggling to repay their debts are becoming more and more common.

**Graph 4 – The proportion of insolvent households dipped after the last recession, but climbed again in 2013**



<sup>1</sup> The inability to repay one's debts in full according to the schedule that was initially agreed to with the financial institution.

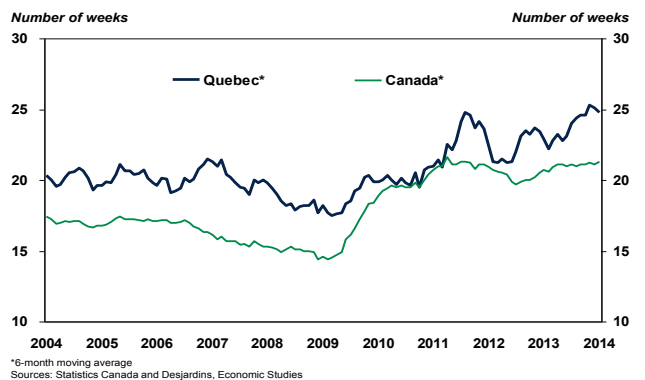
**Graph 5 – Personal bankruptcies climbed back up in 2013**



**LONGER PERIODS OF UNEMPLOYMENT**

The personal bankruptcy trend has reversed course since 2013 (graph 5). In fact, employment had quite a bumpy ride that year. The number of workers see-sawed, and full-time jobs declined year over year. The spike in the unemployment rate created hardship because the period of unemployment became longer (graph 6). Prior to the recession of 2008–2009, the average duration of unemployment<sup>2</sup> in Quebec was less than 20 weeks. Since then, despite the economic recovery, the period of unemployment has continued to lengthen for many workers, even culminating at over 25 weeks at the end of 2013. These five additional weeks of unemployment, with no paycheque, meant that some households were unable to make a go of things, even with temporary government assistance. Furthermore, the federal government's reform of employment insurance recently restricted the period of coverage and the amount of benefits might have had an impact.

**Graph 6 – The average duration of unemployment lengthened**



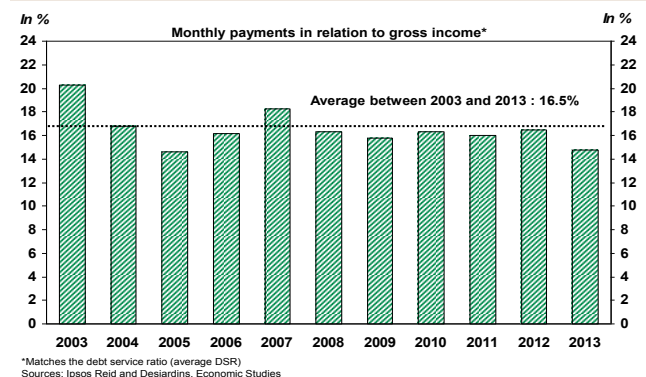
<sup>2</sup> The number of continuous weeks during which a person has been without work and is looking for work or is on temporary layoff.

In short, the combination of a brief increase in the unemployment rate, the longer duration of unemployment, which reduces the income of jobless workers for longer, and the recent changes of employment insurance would seem to account for the increase in bankruptcies in Quebec in 2013.

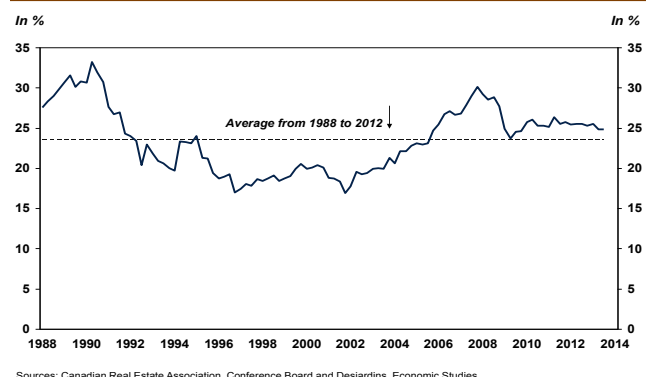
**THE BURDEN OF DEBT IS NOT GETTING HEAVIER**

The various indicators that describe the weight of total household debt did not deteriorate last year. According to the data of the Canadian Financial Monitor survey, compiled by Ipsos Reid, the ratio of households' monthly payments to their after-tax income did not increase in 2013; in fact, it stayed below the average of the past 10 years (graph 7). The biggest financial commitment for homeowner households is usually their mortgage. But despite rising property prices over the past 10 years or so, the burden of the monthly payment for this type of loan has remained close to the historical average (graph 8) due to the falling interest rates during that period. The proportion of mortgage loans that are three months overdue is actually quite low, and is the same as it was at the beginning of the 2000s (graph 9).

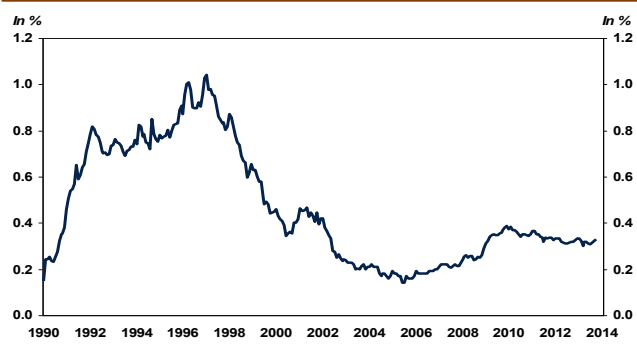
**Graph 7 – The burden of principal and interest payments has not increased for Quebec households**



**Graph 8 – Quebecers' mortgage payments are reasonable in relation to their after-tax income**



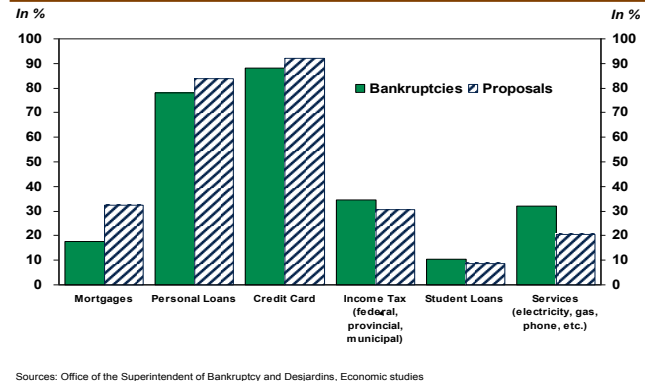
**Graph 9 – The percentage of overdue mortgage loans in Quebec is relatively low**



Thus mortgage debt does not seem to be a financial burden, at least not by itself, for homeowner households. Generally speaking, it is consumer debt and credit cards (graph 10) that have people struggling to make monthly payments and that drive them into insolvency. Credit card debt appears to be the liability that is most frequently responsible for bankruptcies and consumer proposals to creditors, according to the Office of the Superintendent of Bankruptcy Canada.

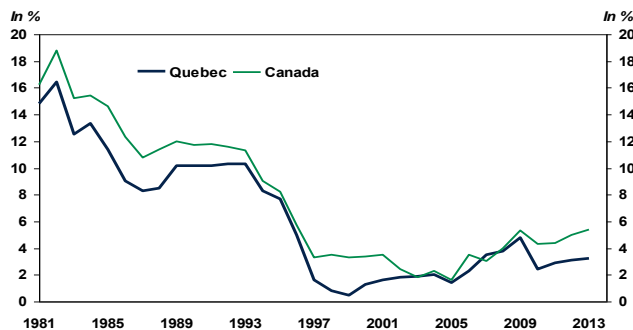
In cases where a household is forced to skip one of its monthly payments on various debts, the one that it chooses is often consumer debt rather than the mortgage, which could result in foreclosure on the property by the financial institution. In any event, the majority of bankruptcies are not declared by homeowners, but by tenants who have few assets and little savings.

**Graph 10 – Most frequent types of debts of insolvent consumers in Canada**



While the total household debt burden remained contained last year, it appears that Quebecers have little leeway for coping with an unforeseen calamity, such as a sudden drop in employment income. The savings rate is actually very low (graph 11), with the result that some households' financial cushion proves insufficient in the event of a job loss. The struggle to make monthly payments is also greater in such a situation. Many households are having a tougher time making a go of things because the average duration of unemployment has lengthened since the last recession in Quebec.

**Graph 11 – The low savings rate makes households vulnerable**



Sources: Statistics Canada, Institut de la statistique du Québec and Desjardins, Economic Studies

**SOME HOUSEHOLDS ARE VULNERABLE**

While the burden of household debt in relation to income did not vary much in 2013, a growing number of households can quickly find themselves unable to meet their financial obligations. The insolvency statistics are evidence of this. The number of consumer proposals submitted to creditors (which soared last year) and the slight increase in bankruptcies provide testimony of many borrowers' fragile financial status.

**Table 1 – Which components of Quebecers' financial position have changed?**

Indicators	Level	Direction in 2013
<b>Labour market</b>		
• Unemployment rate	Low	Up slightly
• Duration of unemployment	Long	Increasing
• EI benefits	–	More limited
<b>Households' financial position</b>		
• Total monthly debt payments / after-tax income	Reasonable	Stables
• Mortgage payments / after-tax income	Reasonable	Stables
• Proportion of overdue mortgage loans	Low	Stable
• Savings rate	Low	Stable
<b>Interest rates</b>		
• BoC key interest rates	Low	Stables
• Mortgage rates	Low	Downwards

Source: Desjardins, Economic Studies

Although the situation appears to be under control for the bulk of households, any change (table 1) that could affect their income or the weight of the interest they have to carry could quickly become problematic. The ups and downs of the labour market that occurred in 2013 were enough to generate major consequences for some households. In the event that a deterioration of the economy triggered a large wave of layoffs, that mortgage rates rose faster than expected or that Quebec home prices fell, the consequences for households' financial positions could be far more serious. The slight, temporary upturn in the unemployment rate and the less favourable conditions for the jobless were enough to reverse the bankruptcy trend in 2013. This confirms that households are vulnerable to any change that affects their financial position. The upturn in bankruptcies is not necessarily the beginning of a pronounced trend, to the extent that the expected acceleration of the economy this year will have a positive impact on employment.

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