TD Bank Financial Group

TD Economics

Observation

August 11, 2009

RECESSION DRIVES SHARP INCREASE IN PERSONAL INSOLVENCY

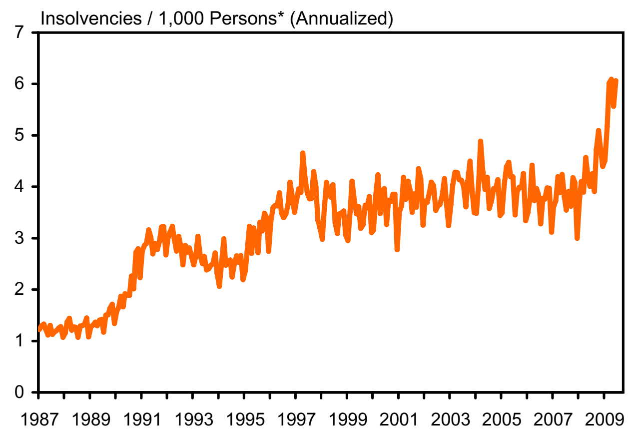
- Personal insolvencies rise 53% year-over-year in June
- Per capita insolvencies jumps from 5.3 per thousand in May to 6.1 per thousand in June
- The 12-month tally of insolvencies reached 137K in June and TD Economics is projecting a peak of 150K by December

News that personal insolvencies soared by 53% from June 2008 to June 2009 is certainly headline grabbing; but, the increase is far from surprising given the recessionary conditions that prevailed over the past twelve months. Even without the economic downturn, insolvencies have been rising over time. However, the pace of increase always escalates sharply during recessions. Indeed, during the 1990s recession, the rate in personal insolvencies rose by more than 60% year-over-year in six months towards the end of 1990 and the start of 1991 – with a peak increase of 93% in April 1991.

So, the large percentage increase in insolvencies is not unique, but there are couple of differences this time around that may not get the attention they deserve. First, the level of personal bankruptcy and consumer proposals (the sum of which is personal insolvencies) is significantly greater in absolute and per capita terms. The peak monthly level in December 1991 was 5,843 individuals, whereas in June 2009 the level was 13,792. To be fair, there are more Canadians now than in 1991, which is why it is important to look at this measure as a ratio of the population. On an annualized basis, per capita insolvencies peaked during the 1990-91 recession at 3 per thousand individuals. In June 2009, the ratio had reach 6 per thousand – in other words 0.6% of the population, which is a low percentage but a much higher ratio than in the past.

The second unique feature this time is the level of deficiency per insolvency, which is the average amount of debt being carried by the individuals running into financial difficulty. In the 1990s recession, the average debt load of those declaring insolvency averaged around $24,000. In 2009, the average deficiency has been around $36,000. However, if one adjusts for inflation since the end of the 1990-91 recession, the deficiency in 2009 in 1991 dollars is $26,000. At first blush, this suggests the debt levels aren't the problem – it is the rise in unemployment that is fuelling the rise in insolvency. However, the debt level relative to income could also be a key issue, as debt-to-personal disposable income was 92% in 1991 and is 142% today.

CONSUMER INSOLVENCIES PER CAPITA



Source: Office of the Superintendent of Bankruptcy, Statistics Canada
* Persons over 15 years old (from Labour Force Survey)

What is the outlook for personal insolvencies? In May, TD Economics projected that the 12-month average level of personal insolvencies would climb from around 106,000 in mid-2008 to around 150,000 in 2010. In June 2009, the 12-month increase in insolvencies had reached 136,749 – which suggests that no change to the forecast is required and more than two-thirds of the increase has now occurred.

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