DAVIES

Issue 12

Insolvency Now

Navigating Uncertainty: The Impact of Tariffs and Economic Shifts on Canadian Insolvencies

Contents

DAVIES

In this issue of *Insolvency Now*, we continue to report on data trends from Q3 and Q4 of 2024. In our previous issue, we delved into the significant increase in insolvency filings observed in early 2024 compared with our initial data from 2019. After the release of Q3 and Q4 data, we noted that the number of insolvency filings had steadily decreased compared with the previous year, returning to Q2 and Q3 2023 levels. While lower levels of insolvency filings suggest healthy business operations and domestic demand, the Bank of Canada's January Policy Report warns of relatively weak levels of business investment, which could be masked by growth in consumer spending and a pickup in residential investment as indicated in Q4 2024 economic growth data. Growth in government spending was strong through much of 2024; however, it is estimated to have eased in Q4, in line with plans laid out in federal and provincial budgets, fiscal updates and election campaign agendas.

In addition to the general insolvency data, the data on filings under the *Companies' Creditors Arrangement Act* (CCAA) for the second half of 2024 revealed some noteworthy trends. The number of companies seeking protection under the CCAA remained relatively stable, at historically high levels of activity for most of 2024, with a sharp – but temporary – drop in Q3 2024. Heightened filing activity appears to be primarily driven by filings in the manufacturing and retail sectors, likely due to competition, supply chain disruptions, uncertainty over the unforeseen implications of U.S. tariff policies, interest rates, the weak Canadian dollar, other geopolitical uncertainty and changing consumer behaviour.

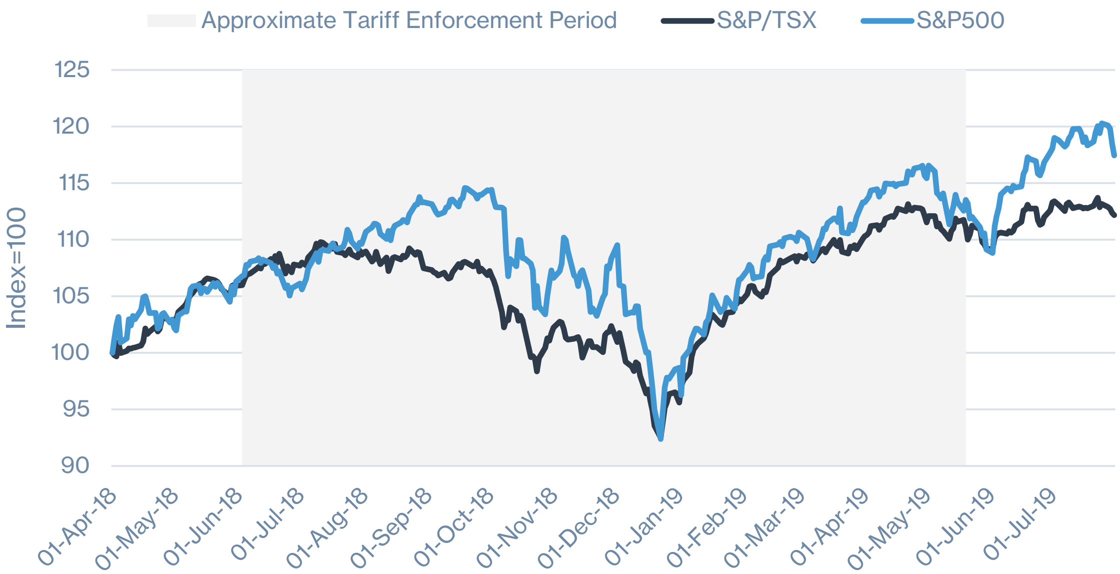
Spotlight on Potential Impact of U.S. Tariffs

More broadly, the uncertain tariff policies of Canada and the United States have created a challenging environment for many business owners, prompting them to consider selling their operations, holding off on expansion plans or exiting their industries entirely. Prolonged uncertainty can be particularly destabilizing for small to medium-sized enterprises that may not have the financial resilience to absorb such shocks. According to the Canadian Federation of Independent Business, its small business confidence indicator showed a lower mark at the start of 2025 than it did during the 2020 pandemic and the 2008 financial crisis. Implications of tariffs, counter-tariffs and other trade restrictions are taking a significant toll on business optimism. And the lowered business confidence is reflected in the rising number of business closures and transitions observed in the latter part of 2024, as owners seek to navigate the complexities of an unpredictable economic landscape.

Starting in April 2025, the United States has been levying a 25% tariff on common imported Canadian goods (such as grocery items, manufacturing inputs, appliances, electronics), steel products, aluminum products, automobiles and automobile parts. Moreover, energy products (such as crude oil, natural gas, uranium, biofuels and certain critical minerals) and potash are subject to a 10% tariff. In response, the Canadian government imposed a 25% tariff on about $30 billion worth of U.S. goods in March 2025, and subsequently announced on April 3, 2025 that it plans to impose a 25% tariff on fully assembled vehicles that are not covered by the Canada-United States-Mexico Agreement (CUSMA) and a 25% tariff on non-Canadian and non-Mexican content of CUSMA-compliant fully assembled vehicles.

Given the current state of uncertainty, it is helpful to examine the tariffs imposed during the first Trump administration to estimate the Canadian market reaction to the volatile U.S. trade policy that we see today. From June 2018 to mid-2019, the United States imposed a 20% tariff on softwood lumber, followed by a 25% tariff on steel and a 10% tariff on aluminum products. Canada imposed retaliatory tariffs on roughly $16.6 billion worth of U.S. imported steel, aluminum, maple syrup, shaving products and other consumables. At the implementation of the 2018 steel tariffs, Canadian exports of steel products to the United States declined by 37.8% and exports of aluminum products declined by half. Canadian consumers would have experienced the impact of tariffs on several levels, such as a depreciation of the Canadian dollar alongside higher prices. At the same time, investors appeared to be unfazed during the 2018–2019 tariff disputes. Despite the temporary pull-back due to U.S. interest rate hikes at the end of 2018, as shown in Figure 1 below, the S&P/TSX composite gained roughly 5% over the period when the 2018–2019 tariffs were imposed against Canada, and the S&P 500 gained around 7%.

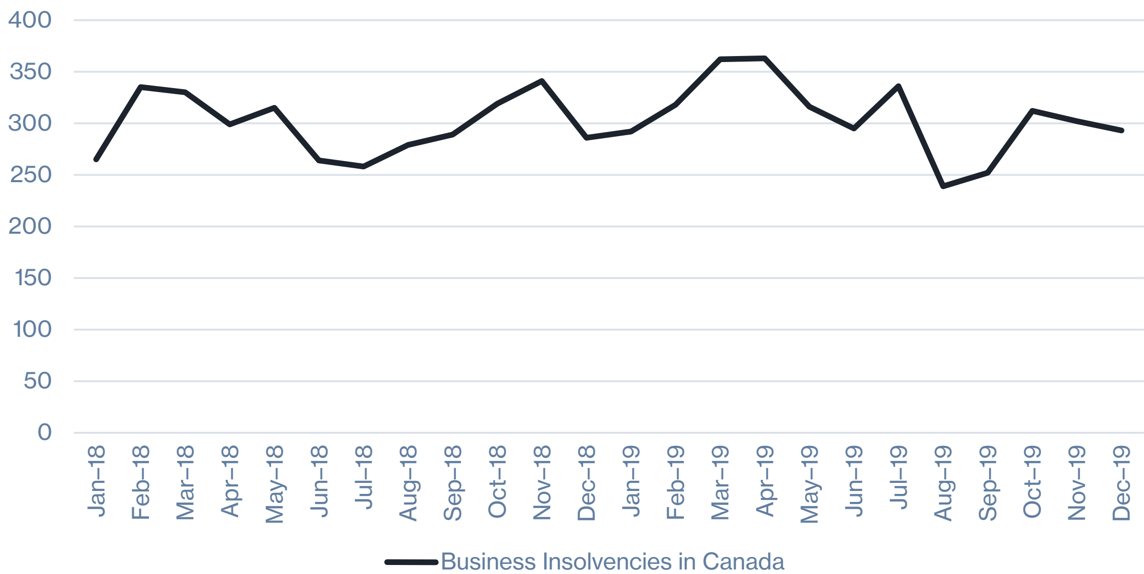
Figure 1: Stock Market Performance in the United States and Canada under Steel and Aluminum Tariffs (2018–2019)



In comparison with tariff policies announced this year, the 2018–2019 tariffs targeted specific goods and industries and the duration proved to be short. Although the 2018–2019 tariffs created turmoil for certain industries, the 2025 tariffs were enacted in a relatively more fragile geopolitical and macroeconomic context. So far, U.S. tariff policies have caused sharper market swings, and the scale, scope and duration of trade policy worldwide are altogether harder to predict. Further, with essential goods and the supply of energy products being considered in tariff negotiations, consumers may feel the pinch faster and companies may be less willing to absorb costs, even though the same companies may have been willing to ride out short-lived volatility in the past.

As Figures 2 and 3 show, aside from publicly listed companies, business insolvency filings in 2018 and 2019 were not markedly more volatile than in more recent years. The average monthly business insolvency filings totalled 230 during the period when tariffs were imposed, contrasted with 232 average monthly filings between January and May 2018 before tariffs were announced. Most Canadian small and medium-sized businesses were only indirectly or minimally affected by steel and aluminum tariffs. It appeared that retailers, service providers, manufacturers – the sectors that tend to engage more in insolvency proceedings – benefited from domestic demand for construction and manufacturing, as well as stable credit conditions.

Figure 2: Business Insolvencies in Canada (2018–2019)



As we look ahead, CUSMA is scheduled for a joint review in mid-2026, at which time the parties may negotiate amendments to CUSMA and confirm their intention to extend the term of CUSMA for another 16-year period. An extension would push out the expiry of CUSMA from 2036 to 2052, whereas a decision not to extend will trigger annual reviews for extension for the remainder of CUSMA's 16-year term. The potential non-extension of CUSMA in 2026, or during subsequent annual review processes, and its continuation under unfavourable terms are both substantial economic risks for Canadian businesses.

Tariff negotiations are likely to overlap with CUSMA renewal discussions, centring on steel and aluminum tariff policies, digital services taxation and softwood lumber trade issues. Under CUSMA, over 75% of Canadian exports are currently destined for the United States, a quantity that was last seen in 2006. Aside from automotives, the following sectors all have outsized exposure to the U.S. market: energy, chemical, plastic, rubber manufacturing, forestry products, and machinery. According to economic research conducted by Scotiabank, all goods exporting sectors, other than agriculture and metals and minerals, rely on the U.S. market for 74% to 100% of overall exports.

Insolvency Data Analysis

Figure 3: Total Business Insolvencies in Canada

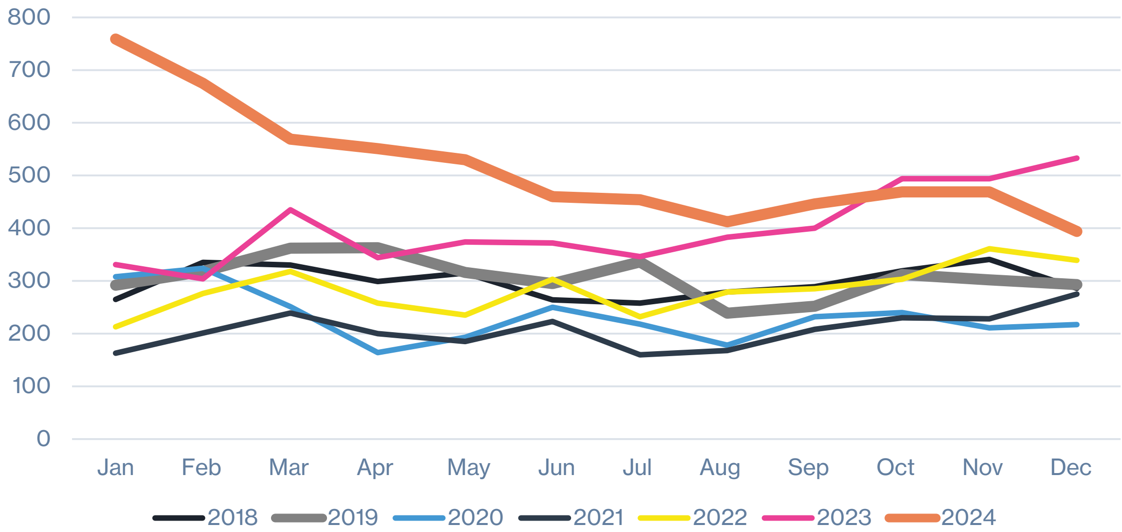


Figure 4: Business Bankruptcies in Canada

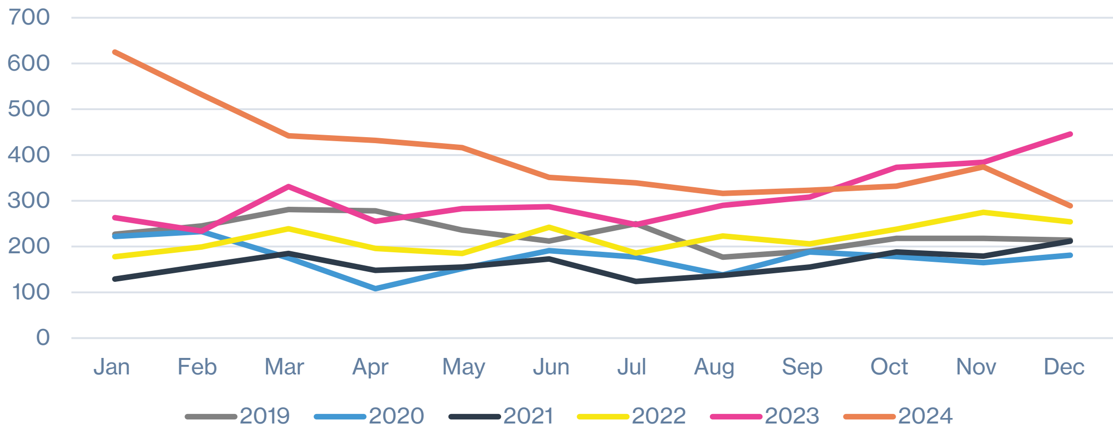
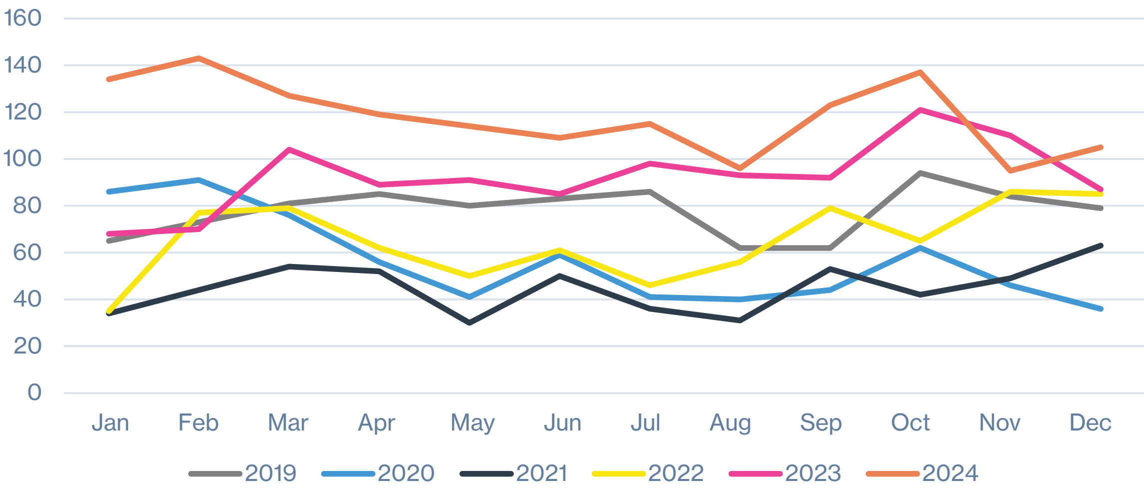


Figure 5: **BIA Business Proposals in Canada**

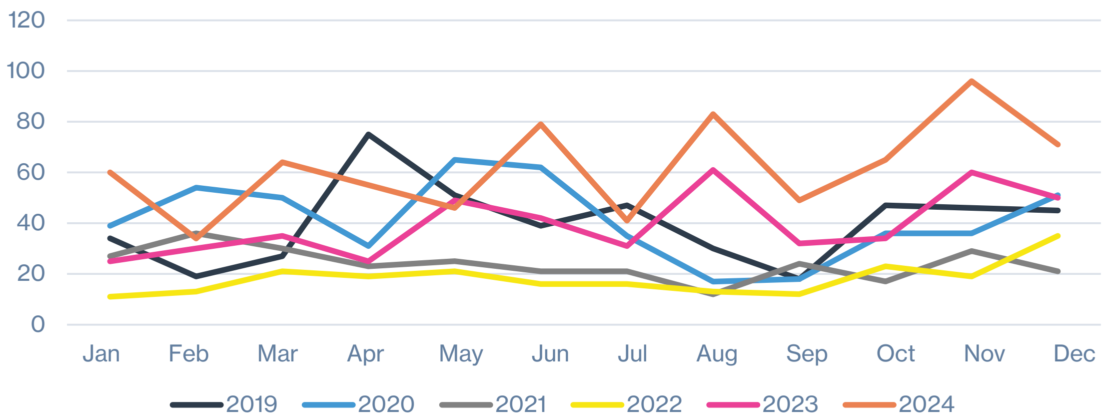


As shown in Figure 3, 2024 started with a high of 759 total business insolvencies in January, followed by a decline through the first half of the year, reaching a low of 460 business insolvencies in June. The second half of 2024 showed a mixed pattern, with a gradual recovery peaking in November at 469 insolvencies before dropping to 394 in the December holiday season. The total number of business insolvencies mirror the trends observed in individual categories of bankruptcy proposals and bankruptcies (see Figures 4 and 5).

In total, 2024 had 6,188 business insolvency filings. Compared with a total of 4,810 filings and 3,402 filings in 2023 and 2022, respectively, the 2024 volume of filings represents a 28.6% and 81.9% increase over 2023 and 2022, respectively. In 2024, monthly filings averaged 516, whereas in each of 2023 and 2022, the filings averaged 401 and 284, respectively.

We observed relatively more variability in businesses' choice to pursue bankruptcy proposals rather than bankruptcy filings. This variability may have been the result of increased market uncertainty, which in turn affected the ability of debtors to negotiate terms with creditors, to plan for refinancing or debt consolidation, or to finalize restructuring arrangements at the appropriate time. An uptick in business proposals in Q3 2024 could suggest that debtors saw Q3 as presenting a relatively more favourable window of market or economic conditions over the year to restructure debt obligations.

Figure 6: **Receiverships in Canada by Volume**



In 2024, a total of 743 receiverships were recorded in Canada, representing a 56.8% increase over a total of 474 receiverships in 2023. The total value of declared assets in receivership totalled $3,438,685,016, with court-appointed receiverships making up 93.6% of the assets by value. In 2023, a total value of $2,486,653,328 of assets were in receivership, with court-appointed receiverships making up 95.1% of the assets by value.

Specifically, as seen in Figure 7, Q4 2024 had 31.2% of total annual receiverships and 53.5% of total assets by value entering receivership. The greater proportion of receivership assets declared in Q4 was mainly driven by receivership data from British Columbia.

Figure 7: **Court-Appointed Receiverships in Canada by Volume**

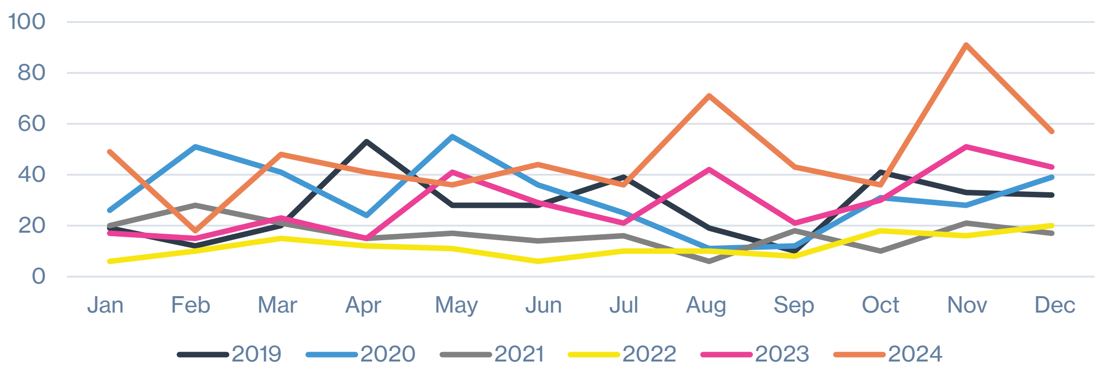
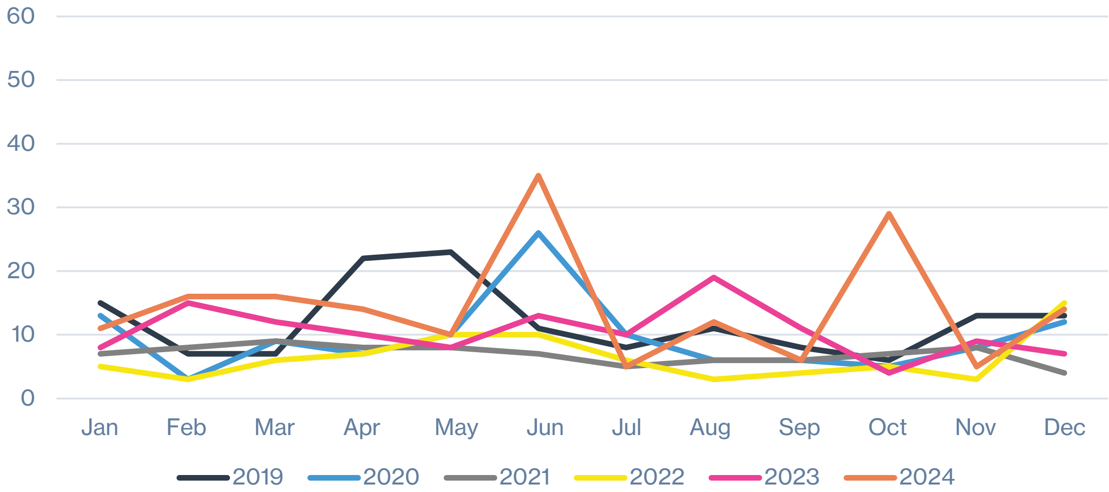


Figure 8: **Privately Appointed Receiverships in Canada by Volume**

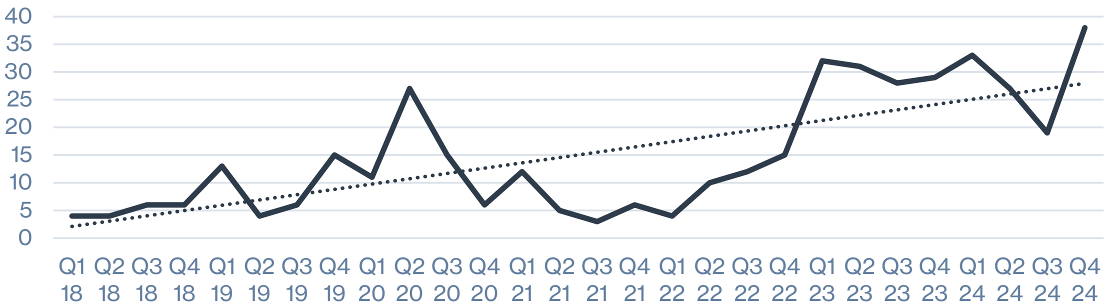


CCAA Proceedings in Canada

In 2024, there were a total of 117 CCAA proceedings in Canada. This number of proceedings indicates that CCAA proceedings in Canada continue to hover around historically high levels of activity, keeping pace with a total of 120 CCAA proceedings in Canada during 2023 (see Figure 9).

From 2020 to 2022, government assistance programs provided billions of dollars in funding for businesses nationwide, aiming to mitigate the economic impact of the COVID-19 pandemic. These measures provided a crucial lifeline to many companies, but also allowed certain “zombie” firms – that is, firms that have persistent or irreversible profitability issues – to continue operating. As we look ahead to 2025, the expected tightening of fiscal budgets in Canada and around the world is expected to result in reductions in business funding and public consumption. Therefore, insolvency activity will likely accelerate over the next year, which will contribute to the reallocation of resources from less competitive business models and from zombie firms to more productive uses. While full details of new government support programs to deal with tariff effects await the outcome of the federal election, it would be helpful if this second round of relief measures does not repeat previous efforts and seeks rather to implement economic support measures that are restricted to “healthy companies.”

Figure 9: **CCAA Proceedings in Canada (2018–2024)**



Q4 of 2024 had the highest number of CCAA proceedings in a quarter since the beginning of 2018, with a total of 38 filings (see Figure 9). In comparison, the whole of 2022 had a total of 31 filings. Notably, CCAA activities did not decrease in tandem in the later half of 2024 with the decrease of business insolvencies discussed earlier. The growing popularity of cross-border restructurings, by way of recognition proceedings both by U.S.-based businesses under Part IV of the CCAA and by Canadian-based businesses under Chapter 15 of the U.S. Bankruptcy Code, also contributed to the higher volumes of CCAA proceedings in Canada.

Moreover, in 2025, we expect CCAA activity to be sustained by firms harmed by U.S. tariff policy and a weaker Canadian dollar. Over a period of prolonged market uncertainty, even businesses with healthy business models and margins can find themselves with insufficient cash reserves or financing options, forcing them to seek protection under insolvency regimes.

When the U.S. tariffs were imposed between 2018 and 2019, about 29 CCAA proceedings were recorded in Canada. In terms of volume, this level of activity is relatively modest, averaging 7.25 proceedings per quarter. The spike to 13 proceedings in Q1 of 2019 is likely also attributable to U.S. and Canadian interest rate hikes at the time. For Q1 and Q2 2018, when businesses were largely spared unexpected tariffs, the quarterly average was 4 proceedings. After tariffs were lifted, by Q3 2018, the average quarterly number of proceedings during Q3 and Q4 2018 rose to 10.5. Given substantial differences in the global economic climate, greater uncertainty as to what conditions could remove trade barriers, and how businesses worldwide are tested by severe and changing trade shocks, the experience of 2018-2019 tariffs likely offers only limited guidance for the potentially more severe impact of the 2025 tariffs.

Figure 10: **CCAA Proceedings in All Sectors (2023–2024)**

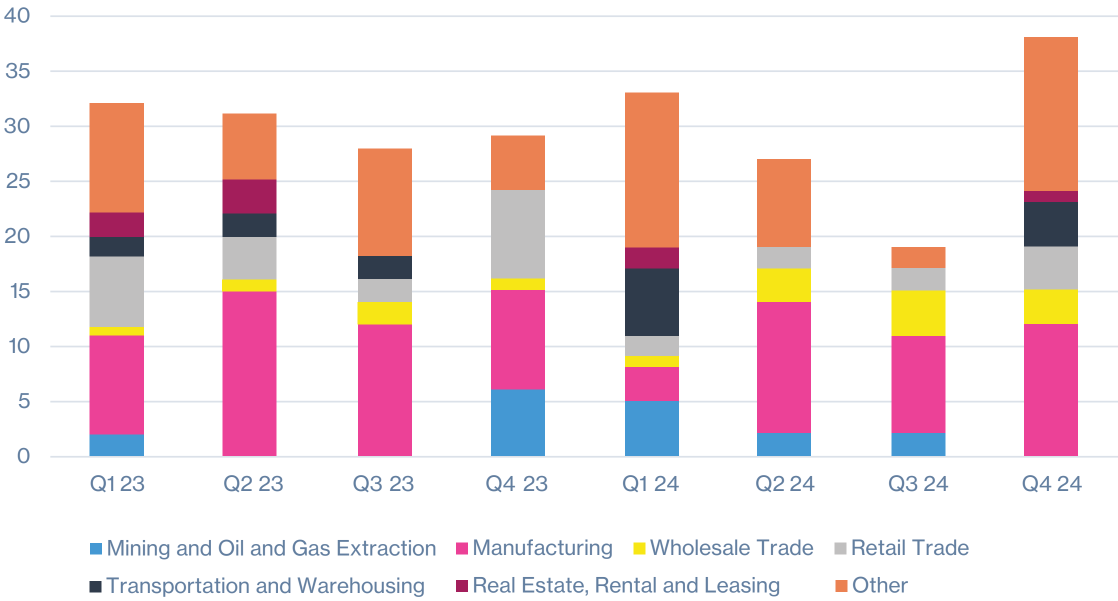
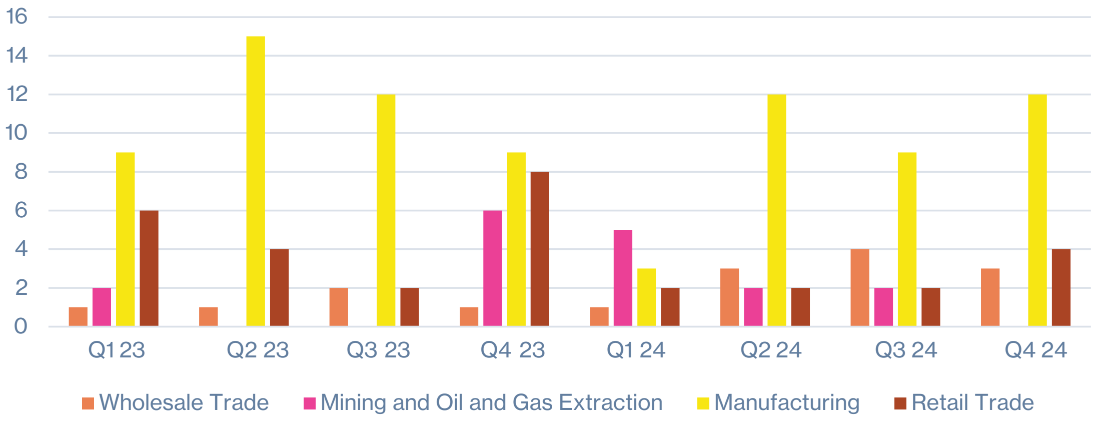


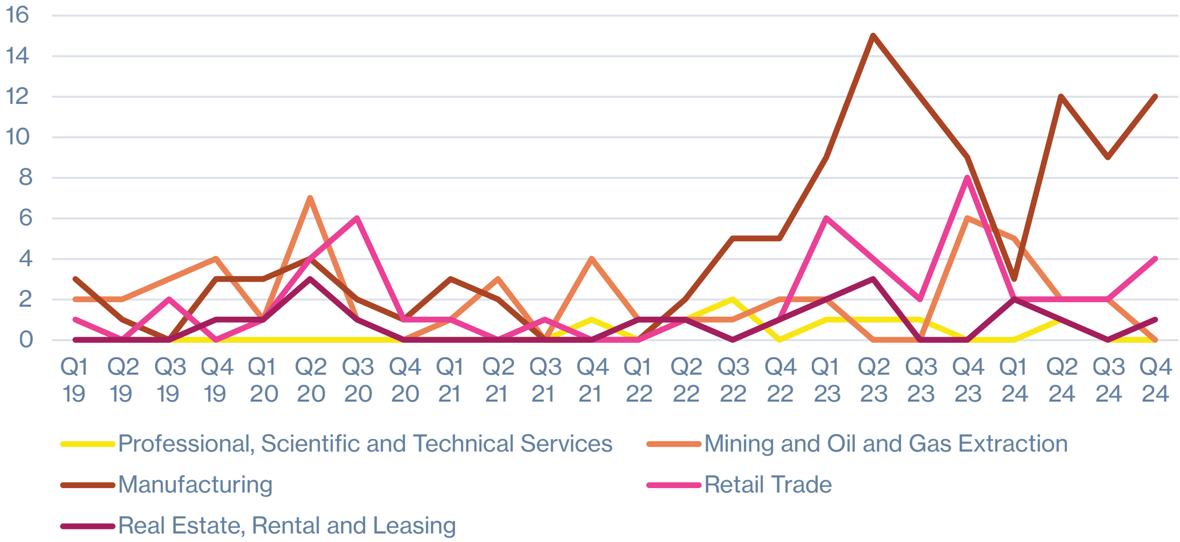
Figure 11: **CCAA Proceedings in Select Sectors (2023–2024)**



In 2024, proceedings in the manufacturing sector continue to make up the single largest category of CCAA proceedings in Canada, with a total of 36 filings (see Figure 11). This has been the case since 2022, when a total of 12 proceedings and 45 proceedings were recorded in 2022 and 2023, respectively. In 2024, the manufacturing sector made up 30.8% of all CCAA proceedings.

Canadian manufacturers, along with construction firms, are likely to face more business insolvencies due to a combination of Canada-U.S. trade tensions and domestic economic uncertainty. Tariffs adopted by both trade partners can lead to increased costs for raw materials and finished products, difficulty in planning and hedging against price fluctuations – all of which reduce profit margins and make Canadian goods less competitive in international markets.

Figure 12: CCAA Proceedings in Select Sectors (2019–2024)



In other sectors, the mining and oil and gas extraction sector has shown relatively more volatility in CCAA restructuring rates since 2019 (see Figure 12). After a spike of six proceedings and five proceedings in each of Q4 2023 and Q1 2024, the number of proceedings dropped quickly to zero in Q4 2024. This fluctuation indicates that the sector remains highly sensitive to global commodity prices, regulatory changes, geopolitical events and the potential of successful adaptation strategies by market players in the face of financial distress.

The retail trade sector has experienced periodic increases in insolvencies, often correlating to broader economic downturns. In 2024, a total of 10 CCAA proceedings took place in the retail trade sector, which was only half of the peak of 20 proceedings in 2023. Higher levels of retail trade sector insolvency suggest that financial challenges were caused by decreased household savings since 2021–2022, when individuals and households received pandemic-era assistance and spending incentives.

Regional Observations

In Ontario, the declared asset value of $918,185,949 entering receivership during 2024 more than doubled the $437,526,577 asset value recorded in 2023. In terms of volume, 371 receiverships occurred in 2024, representing a 73.4% year-over-year increase (see Figure 13). In Québec, although the number of receiverships also rose significantly, by 95.7% over the same period (see Figure 14), the declared asset value declined from $633,845,971 to $104,578,221. We will, therefore, continue to watch whether the declared asset value entering receivership in Ontario continues to rise, while monitoring the increase of presumably smaller-scale receiverships in Québec.

In British Columbia, Q4 2024 had a considerable value of declared assets in receivership – a total of $1,543,422,069 in assets. This asset value propelled British Columbia to record a far higher annual value of declared assets in receivership, an annual total of $2,036,928,567. In 2024, British Columbia surpassed records of all jurisdictions over the past few years. This figure reported from British Columbia comes just shy of Ontario's total declared asset values in 2019 and 2020, when businesses reacted to the shock of the pandemic. Aligned with activities in Ontario, Québec and British Columbia, Alberta had a total value of $183,665,454 in declared assets in receivership, being a 78.2% year-over-year increase, and a 110% increase in number of receiverships over the same period (see Figure 16).

Figure 13: Ontario Receiverships by Volume

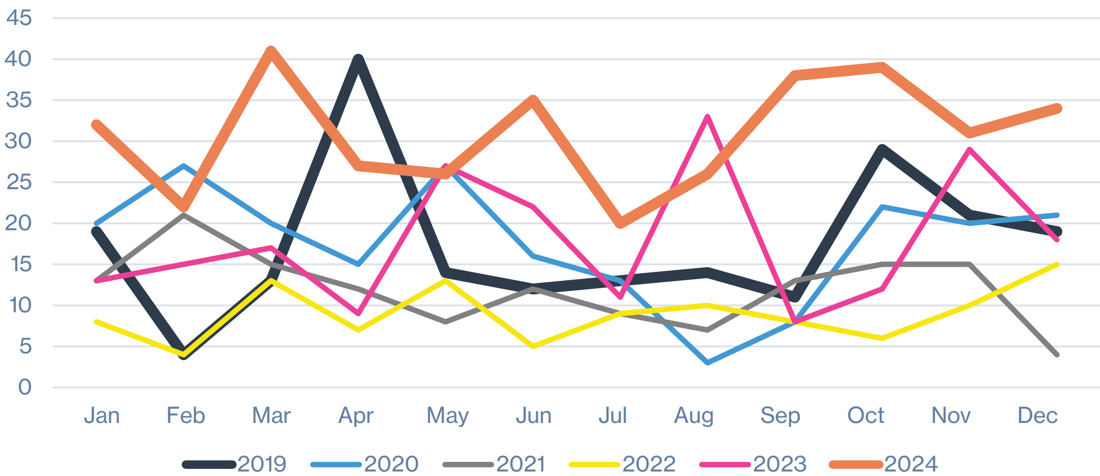


Figure 14: **Québec Receiverships by Volume**

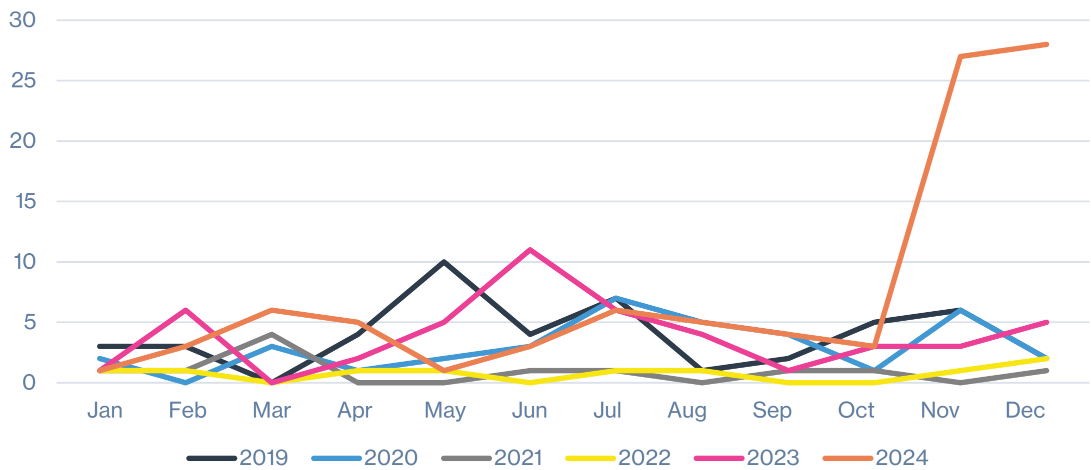


Figure 15: **British Columbia Receiverships by Volume**

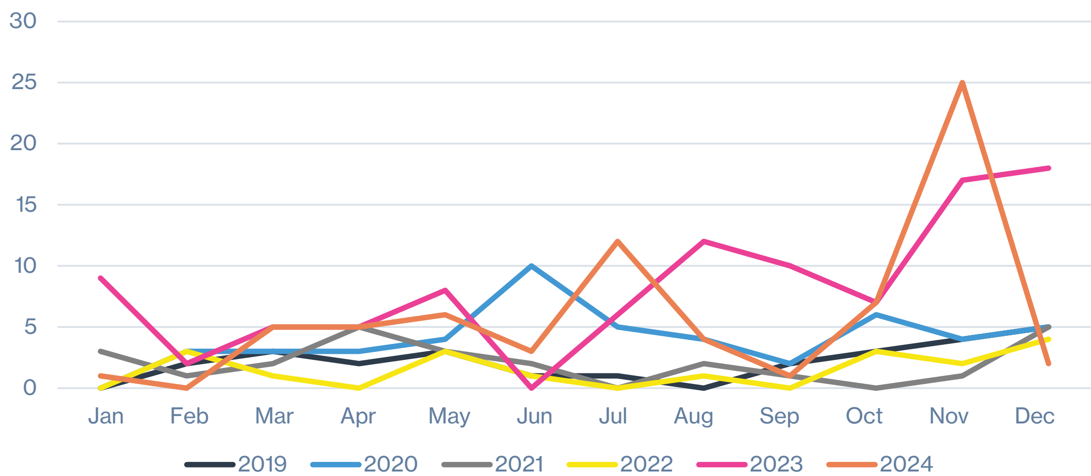


Figure 16: **Alberta Receiverships by Volume**

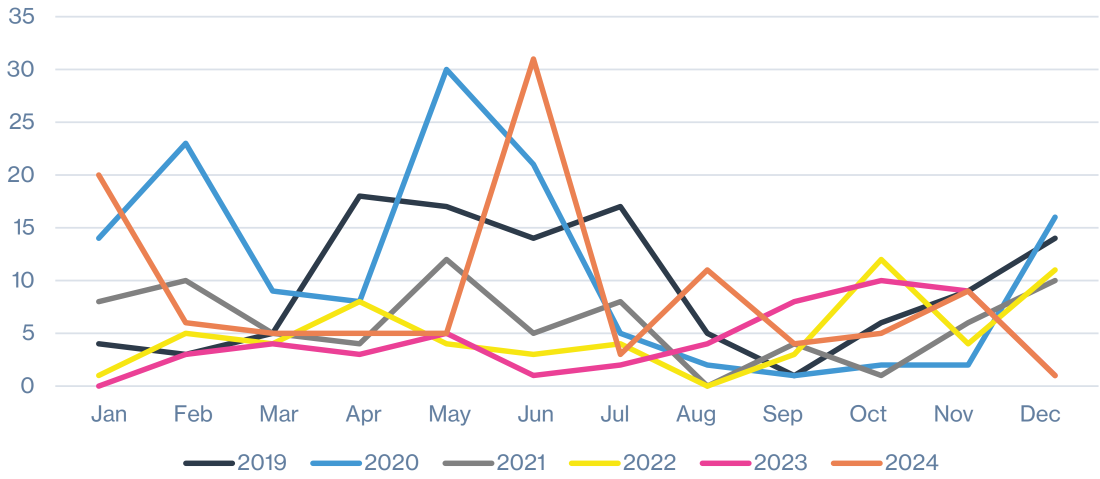
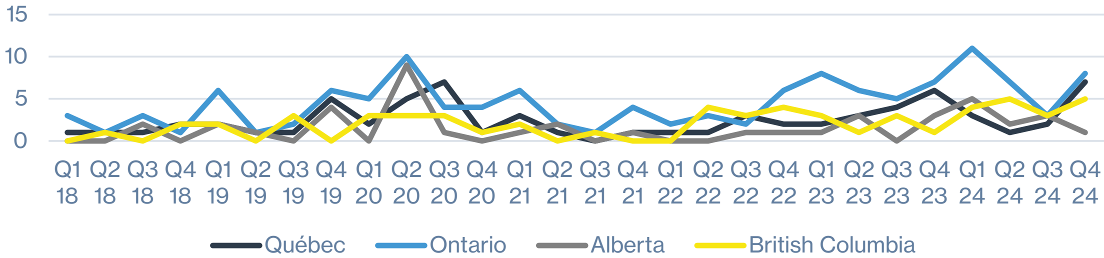


Figure 17: **CCAA Proceedings by Province**



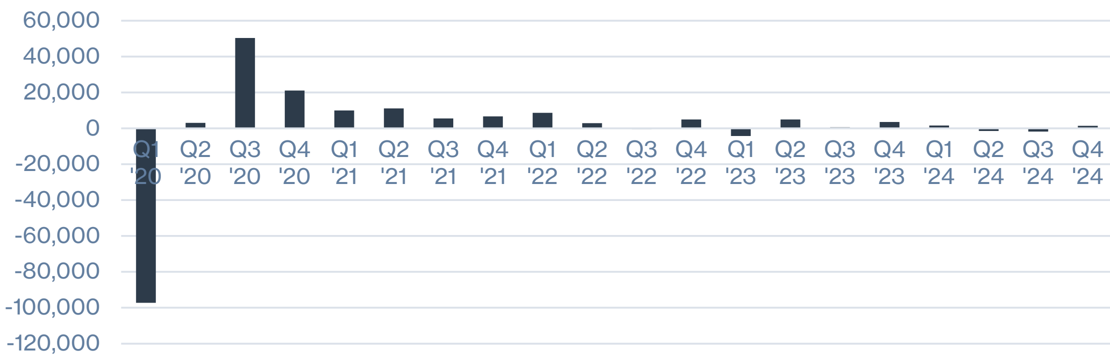
Despite a marked spike in receiverships in Québec, the relative increase in CCAA proceedings in Québec (as well as in other jurisdictions) is not as pronounced. Ontario, Québec and British Columbia each ended the year with relatively high levels of CCAA proceedings, particularly after experiencing a subdued level of activity in Q3 in 2024.

British Columbia appears to be on track to make increased use of the CCAA regime. In 2024, the province saw an average of 4.25 filings every quarter. In 2022 and 2023, the quarterly average number of filings were 2.75 filings and 2 filings, respectively.

Business Openings and Closures

For business openings and closures in Canada, 2024 data, as shown in Figure 18, indicated a positive but modest start to the year, likely due to a continuation of relatively stable business and geopolitical environments from 2023. After a slight net gain in Q1 in the number of business openings, Q2 and Q3 both had slight reversals from Q1, recording a net loss of 1,488 and 1,838 businesses, respectively. By Q4 2024, there was a small recovery, with a net gain of 1,385 businesses in Canada.

Figure 18: **Net Business Openings in Canada by Quarter (2020–2024)**



As seen through an annual lens, 2024's total net loss of 391 businesses presents an unfavourable business environment compared with 2023's net gain of 4,580 businesses. This difference may indicate increased pressure on businesses due to prolonged periods of economic uncertainty, changing consumer behaviours and a reduction of public investment in small to medium-sized businesses. Additionally, it is important to consider that some of the business closures in 2024 were likely voluntary. Business owners might have chosen to shutter their current ventures to pursue more profitable opportunities or shift toward industries that are better insulated from U.S. Canada tariff uncertainty. Such voluntary closures, while contributing to the net loss figures, may ultimately lead to a more resilient and diversified business environment in the long term.

The data that measure reopening businesses that were active in a previous month since 2015 indicate that a total of 344,573 businesses reopened in 2024. In 2023 and 2022, respectively, 330,967 and 325,378 businesses reopened. These figures show a modest increase year over year in business owners' willingness to re-enter the market. The build-up of reopening businesses over these years could suggest that operators with prior experience are being particularly strategic in investing in tried-and-true business models, rather than in novel business enterprises.

As we face 2025, legitimate apprehension regarding U.S. trade policies and Canadian government and market reaction to such policies could keep entrepreneurial activity relatively modest. At the same time, if new businesses focus on the domestic market, there are opportunities for these businesses or reopened businesses to compete with less competitive ventures for talent and capital.

Between June 2018 and May 2019, Statistics Canada recorded a net gain of 1,111 businesses, or a net gain of about 925 businesses per month. In the months leading up to the imposition of U.S. tariffs in 2018, Canada saw a monthly average gain of 348 businesses (see Figures 19 and 20). After tariffs were lifted and until the wave of COVID-19 business insolvencies in early 2020, there was an average gain of 561 businesses per month. Therefore, 2018–2019 tariff policies may not have affected business openings and closures as much as other macroeconomic factors, including fiscal policy, monetary policy, inflation and global economic stability. For 2025 and beyond, macroeconomic complexities, coupled with shifting political and economic alliances, may be harder to navigate than in 2018–2019.

Figure 19: Active and Continuing Businesses in Canada (2018–2024)

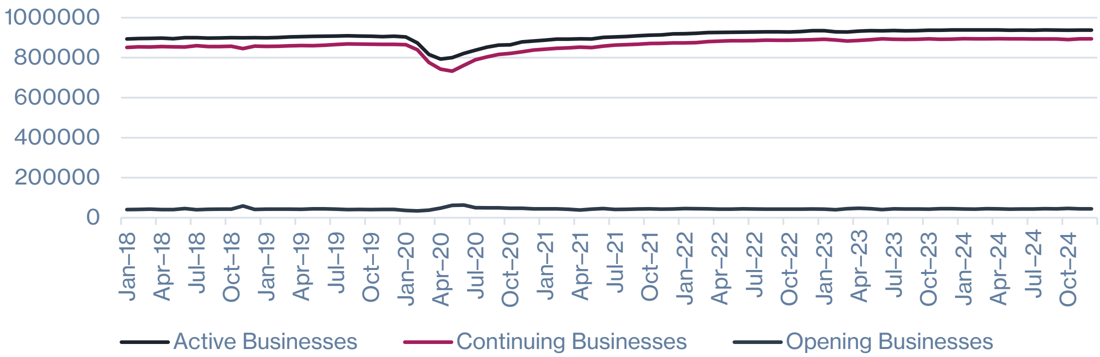
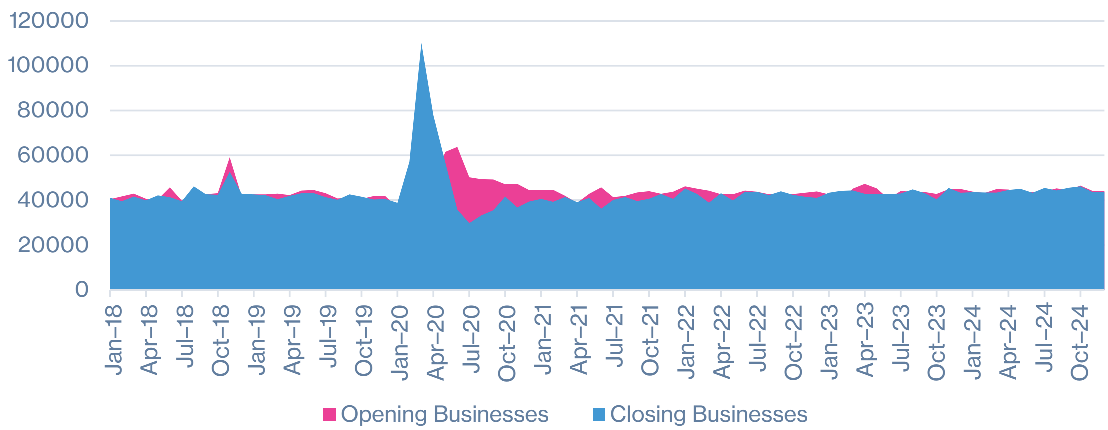


Figure 20: Business Openings and Closures in Canada (2018–2024)



Looking ahead

As we look ahead to the way 2025 will unfold, we will continue to monitor the following key issues our data have identified as the most central in the near term:

- **Economic uncertainty and business closures.** Will tariff policies between Canada and the United States continue to lead to increased business closures and transitions, particularly affecting the automotive, manufacturing, and retail sectors owing to supply chain disruptions and changing consumer behaviour?
- **Impact on manufacturing sector.** Facing significant challenges from Canada-U.S. trade tensions, the manufacturing sector experienced increased costs for raw materials and reduced profit margins, leading to 30.8% of all CCAA proceedings in 2024. Will this trend persist in 2025?
- **COVID-19–style government assistance.** Government assistance during the COVID-19 pandemic helped many businesses survive, but as support waned, less competitive zombie firms faced increased financial pressure, contributing to a delayed rise in insolvency activity. With close to four years of experience, will the government be in a better place to position tariff-related support only for healthy businesses?
- **Business openings and closures.** In 2024, Canada experienced a net loss of 391 businesses, contrasting with a net gain of 4,580 businesses in 2023, indicating increased economic pressure and voluntary closures as owners pursued more profitable opportunities. Will changes to post-election government policy and market conditions, among other factors, lead to more or less openings and closings?

Key Contacts

Across sectors, Davies has deep expertise in applying our data-driven approach to provide the most appropriate tools for recovery and resolution. Whether providing an early-stage overview or advising on a range of remedial options, we work with you to navigate your unique circumstances and reach your business goals. Please contact any of the individuals listed below or visit our website at www.dwpv.com.

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