The Feds Did a Good Job: Bankruptcies in Canada in 2020 Hit a 20-Year Low

Description

The COVID-19 pandemic was a shock to Canada and elsewhere. As economic conditions deteriorated, unemployment rates rose to unprecedented levels. Likewise, consumer confidence went down, while many businesses either temporarily closed or shut down permanently.

Business insolvency became a major concern of companies and enterprises regardless of size. However, believe it or not, insolvency filings didn't soar in Canada last year. Instead, it hit a 20-year low.

Giver credit to the feds

The chairman of the Canadian Association of Insolvency and Restructuring Professionals, Mark Rosen, knows the real score behind the historic low insolvency filings. He said the government aid programs kept many individuals and businesses afloat, despite the significant financial distress caused by the pandemic.

Give credit to the feds that bankruptcies are way down during the COVID-19 year. The government-funded emergency-assistance programs for individuals and businesses alike were incredibly helpful. According to economists, debt-servicing costs also were significantly lower due to mortgage payment deferrals and discounted interest rates.

Business insolvencies fell 24% — the lowest level since Canada began tracking the data in 1987. Total insolvencies plummeted nearly 40% from the peak in 2009. Meanwhile, consumer insolvencies posted an 18-year low, down 30% from 2019. In the fourth quarter of 2020, consumer filings declined by 33.5%.

Insolvencies were highest in the arts, entertainment, and recreation sectors, not to mention management of companies and enterprises. The construction and manufacturing sectors registered the largest declines.

Not-so-good news ahead

The record-low insolvencies is welcome news, although a tidal wave of business closures is still possible when government transfers end. **CIBC** Deputy Chief Economist Benjamin Tal said hard-hit businesses are alive artificially, notwithstanding the fallout from COVID-19, because there's a safety net.

The lifting of the government support programs must happen gradually, or else bankruptcies could rise sharply. Tal said, "If we have all of the businesses going under at the same time when the government support is not there, it will be chaotic." Tal added that if a business declares bankruptcy or shuts down, bad management is not the reason. The stigma will not be as bad as in 2018 or 2019, before the coronavirus.

Find your safety net

In times of uncertainty and potential insolvency, you must also have a safety net. Among the safest income stock choices is **Emera** (TSX:EMA). The $12.91 billion company engages in the generation, transmission, and distribution of electricity — a 24/7 need. Hence, the business model is low risk.

About 65% of Emera's earnings come from residential, commercial, and industrial end users in the United States. The total number of customers in North America and the Caribbean is roughly 2.5 million. Since its portfolio of electric and natural gas utilities and natural gas pipelines are predominantly regulated, revenue streams are stable and recurring.

Prospective investors can expect uninterrupted dividend payments, too. At $51.79 per share, the dividend yield is a 4.92%. An initial $100,000 position in Emera can produce $4,920 in passive income. If you hold the utility stock for 20 years, your capital will compound to $216,315.78.

Financial cushion

Household savings rate skyrocketed during the health crisis. A CIBC report showed that Canadians have $90 billion in excess cash (4% of total consumer spending), the highest in the country's history. If you have free cash, consider investing in a defensive asset like Emera in 2021.

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