Bankruptcy Filings Jump Again

The economic impact of the COVID-19 pandemic continues to be felt across various industries, with bankruptcy filings seeing a significant surge once again. They are up 68% overall in the first half of this year. Much of that increase is due to monetary policies that were adopted during the pandemic.

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The end of easy money supplied by the federal and state governments is having a devastating impact on business and families alike. It was a misguided policy in the first place but has been made worse by the actions of politicians in general and the FED in particular.

A considerable surge in bankruptcy filings is a significant indication of this shift. The increased filings are a result of high debt loads faced by families and businesses, a consequence of rising interest rates, elevated inflation, and an uptick in borrowing costs. The FED's response to rising inflation has been to raise the benchmark interest rate on ten separate occasions. And all indications are that they intend to continue this policy. As of last week, the interest rate for a 30-year fixed rate loan had risen to 7.22%; close to double what it was just a year and a half ago.

As bad as the situation is for homeowners, it is worse for business owners who hold commercial real estate. That's because most homeowners have long term fixed rate loans. Businesses don't have that luxury. Most commercial real estate loans are only fixed for the first five years. After that, property owners need to refinance. And that will prove to be impossible for many of them due to the current high rates and high vacancy rates in commercial property. Eventually, a large number of commercial properties are likely to be foreclosed upon. This in turn could easily lead to a number of bank failures.

Statistics from the first half of 2023 reveal a drastic increase in bankruptcy filings across the United States. Much of this is being driven by the aforementioned higher interest rates. Of particular note were Chapter 13 filings by individuals and Chapter 11 filings for small businesses. Compared to the same period last year, there was a rise of 23% for individual Chapter 13 filings and a massive 55% boost in Chapter 11 filings for small firms.

We expect these trends to continue going into the last half of the year, and they could actually accelerate if the FED holds to its policy of increasing rates.

by Jim Malmberg

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