

## U.S. Bankruptcies Surged by 18% in 2023

January 27, 2024 - 2023 resulted in a sharp 18% increase in bankruptcies. This surge is attributed to a combination of factors, including high-interest rates, the end of pandemic-related financial aid and sluggish overall economic conditions throughout the year.

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Last year, the total number of bankruptcy filings in the U.S. jumped from 378,390 in 2022 to 445,186 in 2023; a substantial 18% rise. The data includes both businesses and individuals.

Commercial bankruptcies grew by 19%, with a significant 72% increase in Chapter 11 filings. Companies often resort to Chapter 11 to reorganize their debts and maintain their assets while devising a plan to settle their financial obligations.

Personal bankruptcy filings rose by 18%, with Chapter 13 filings increasing by 18% and Chapter 7 filings by 17%. Chapter 13 personal filings are similar to Chapter 11 business filings, allowing individuals to restructure their debts while providing protection for their homes during the process. Chapter 7, on the other hand, allows filers to be free from certain debts while relinquishing some assets.

Several factors are contributing to this uptick in bankruptcies. The end of pandemic stimulus, higher costs of funds, increased interest rates, growing delinquency rates, and historically high levels of household debt are among the key contributors. Reductions in full time employment, forcing people into multiple, lower paying jobs, is also having a significant impact.

The swift increase in interest rates by the FED has played a crucial role. Loan interest rates for both businesses and households rose significantly over the past two years.

Household debt reached a record \$17.29 trillion in the third quarter of 2023. At the same time, the personal savings rate is currently at a low of 4.1%, compared to 6.4% before the pandemic in December 2019.

There is no current indication that this trend of increasing bankruptcies will abate in 2024. As we told you earlier this

month, 38% of companies expect to conduct layoffs this year and 52% are considering hiring freezes. That isn't good news for the world of personal bankruptcies and it pretty well telegraphs that businesses too are facing economic issues.

by Jim Malmberg

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