Surge in Business Bankruptcies Reflects Economic Strain as Inflation and Interest Rates Bite

August 30, 2024 - The U.S. is experiencing a sharp rise in business bankruptcies, as economic pressures from sustained high inflation and elevated interest rates continue to challenge commercial enterprises. According to recent data from the American Bankruptcy Institute (ABI), the first half of 2024 saw a 34% increase in commercial Chapter 11 bankruptcy filings compared to the same period last year, totaling 3,016 cases. This surge is even more pronounced among small businesses, where filings have jumped by 61%.

The broader economic landscape has not spared individual consumers either. Overall bankruptcy filings have risen by 15%, with individual cases also increasing by 15%. The economic strain on both businesses and households is evident, as the prolonged period of high costs takes its toll.

The Federal Reserve's monetary policy has been a key factor in this environment. Since July 2023, the Fed has kept interest rates within a range of 5.25% to 5.5%, a move intended to curb inflation but which has also increased borrowing costs for businesses. Inflation, meanwhile, has remained stubbornly above 3% for over a year, exacerbating the financial burden on companies already grappling with higher expenses.

The impact of the economic environment is evident in the increasing number of corporate bankruptcies. Data from S&P Global indicates that there have been 275 corporate bankruptcy filings in the U.S. through May 2024, slightly below the 277 filings during the same period in 2023, but still the second-highest since 2011.

Interest rates are playing a critical role in these developments. Companies may get some relief in this area as the FED has recently indicated that it will begin lowering interest rates soon, but that move appears to be political in nature and may not provide long term relief if the FED reverses course after the November elections. It may also spur more inflation, driving the costs of doing business up in other areas.

As the year progresses, the situation remains uncertain, with the potential for further financial difficulties if economic conditions do not improve.
by Jim Malmberg
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