

The potential for higher cost increases could pose as great a threat to the survival of many farmers as price declines. Prices of many commodities have been discounted for some time and the probability of further substantial price declines is low. Producers have cut back on input use and there is little room left for further adjustment. Therefore, cost increases might have large impacts on profitability.

C. OPTIMISTIC PROJECTION

Agriculture is laden with examples of disastrous conditions reversing themselves in a matter of one or two years. The early 1970's was one such example. In 1970 and 1971, grain inventories were at peak levels, prices were low and the long-term outlook for the industry was dismal. Events reversed themselves in 1972 and 1973, leading to a period of recovery which for the most part, lasted until the early 1980's.

An argument can be made for the same thing happening over the coming crop years. The failure of the GATT discussions contributing to the current low prices could set the stage for a price recovery in the grains industry. While world stocks of grains are low relative to the average for the past 10 years, North America, and possibly Europe, might not aggressively seed grains in 1991-92. The acreage in the U.S. set-aside program has doubled. The use of production enhancing inputs such as fertilizers and chemicals will be reduced. Furthermore, it is not likely that the favourable growing conditions experienced globally in 1990 will be repeated in 1991.

A grain price recovery is an important economic possibility to evaluate and in this context it is coupled with strength in other farm prices as well. This simulation has been examined under the following assumptions: (i) Total farm revenue in each of the type-of-farm categories is increased by 10 percentage points more than in the base case. (ii) Reflecting that grain is an input to the livestock sector, the operating expenses of these enterprises, and of the supply-managed industry, was increased by 2 percentage points. Off-farm income was reduced slightly. (iii) Total and long-term liabilities have been decreased by 5 percent from the base case. Asset values have been increased by 3 percentage points. The results of these changes are discussed below.

Table 4.7 illustrates the changes in excess debt by region and for Canada. The level of excess debt decreases nationally to \$4.35 billion, but with quite different regional characteristics. Excess debt moderates significantly in Saskatchewan and the Atlantic provinces. More modest improvements are shown in other provinces.