The number of farmers who are in the most severe risk class, called insolvent in this study, has remained almost constant between 1987 and 1989 at over 47,000. Farmers in this group are in danger of losing control of their farm businesses. This study suggests that this group is unlikely to be salvaged through further subsidies or special assistance.

An important part of analyzing financial problems in agriculture is to assess the amount of excess debt which is held by farmers. Excess debt is defined as that amount of the total debt which cannot be serviced on a scheduled basis under current income and cost conditions. The study shows that while there has been no major change in the level of excess debt at $4.8 billion, between 1987 and 1989, it has been regionally redistributed. Alberta and the Atlantic provinces show the greatest increases in excess debt and Manitoba the greatest decrease. Saskatchewan's amount of excess debt has begun to stabilize in response to the $1 billion reduction in total debt that has occurred over the past two years; however, the excess debt continues to represent a substantial portion of the debt outstanding.

To understand the direction farm debt may take and how different factors may influence it, five projections of the financial structure of the industry were made. The study recognizes the limitations of these projections as they are based on estimates of changes that might occur in the industry, in this time of uncertainty. These simulations are presented in Chapter Four.

A base case simulation includes current projections of farm income, government payments, costs and interest rates. Overall, this projection suggests that there will be a slight increase in total excess debt. The debt problem is shifting to include the supply-managed industry, which had not been as severely affected by the debt problems of the 1980's as some other sectors.

A second simulation shows the impact of higher than expected cash operating expenses. This alternative is considered particularly appropriate as the ability to hold operating costs down will depend upon fluctuating energy prices and the capacity to adjust input usage. The results show a greater rise in excess debt. The central point of this evaluation of higher costs is the impact they could have on farmers in the provinces of Quebec and Saskatchewan.

The third projection evaluates the possibility of a grain sector price recovery and associated strength in other farm prices. For grains, this could arise from relatively low stock levels and from the current level of pessimism among grain producers which could lead to a fall off in production. Excess debt would lessen in this scenario, significantly in Saskatchewan and the Atlantic Provinces. Among industries, the supply-managed and other groups would benefit least.