

\$200 million between 1984 and 1986. Operating costs as a percentage of cash receipts with government payments rose from 55% in 1975 to 83% in 1986. Excluding government payments, they increased from 56% to 100% over the same period. While the estimates have subsequently been revised somewhat, the evidence of a severe problem is still apparent, with the drop in realized net income from 1984 to 1986 for the prairie provinces currently estimated at \$81 million. The Committee was also told by the Ontario Corn Producers Association that these growers "... have been just as devastated by low grain prices as have the grain farmers of western Canada" (Issue 19:5, 8-4-87).

Industry observers are not optimistic about improved market prices for grains in the near future. Low grain prices are likely to continue as long as excessive grain supplies exist. The FCC witnesses warned that "The coming two years could be the most severe in terms of the adjustment which the industry and FCC may have to deal with, given the growing number of farmers who are in poor financial shape" (Issue 14:5, 24-3-87).

With these prospects, programs to alleviate the financial pressures farmers are experiencing must be directed at the input side of the production equation.

For Canada as a whole, for all types of farming, the largest operating expenses are incurred for machinery expenses, fertilizer, other crop expenses, feed purchases, other livestock expenses, interest on indebtedness and wages to agricultural labour. Interest on indebtedness, accounting for 13.8% of operating expenses for all of Canada in 1986, rose from 13.5% in 1985 after dropping from 19.3% in 1981 when interest rates peaked. Meeting interest payments, never an easy task, becomes much more difficult when there is a sharp drop in the prices of the products sold, as in the prairie provinces where crop sales accounted for nearly two-thirds of cash receipts in 1986. Interest on indebtedness made up 15.1% of total operating expenses in these provinces last year (Table 1.1).

Since declines between 1984 and 1986 have been more pronounced in crop receipts, particularly receipts from grain, special attention will be given in the Committee's report to expense items of particular relevance in the prairie region such as fuel for machinery, fertilizer and pesticides, the latter being the largest item in the "other crop expenses" category.

Expenditures on gasoline, diesel fuel, lubricating oil and grease to run machinery still represent close to half of the operating costs of machinery, even though these expenses dropped back to the 1981 level in 1986 (Figure 1.3). In the prairie provinces the proportion of total expenses for this category was the highest at 9.4%. The main reason for the expenditure decline in 1986 was the drop in prices (Figure 1.4). Fertilizer also represents a major expense in crop production. Expenditures rose rapidly until 1986 when use was cut back. Even so, it still accounted for 13.0% of total expenses in the prairie provinces. Fertilizer prices to farmers have dropped off slightly from the peak reached in 1981. For pesticides, expenditures rose sharply from 1981 to 1985 and then levelled off in 1986. They accounted for 7.4% of total operating expenses in the prairie provinces. Their prices have risen throughout the past decade.

In other parts of the country, other expenses such as wages to agricultural labour, feed and other livestock expenses are relatively more important. Overall, farmers had a total of \$13.2 billion of operating expenses in 1986 and a further \$2.6 billion in depreciation on buildings and machinery. This total of \$15.8 billion, after having declined from \$16.3 billion in 1985, is projected to increase marginally in 1987.