Simulations of the future are important to help anticipate what policy choices may be necessary. Five simulations have been performed:

i) most likely, based on current industry forecasts;

ii) higher input cost projection, due to energy costs and inflation;

iii) optimistic outlook;

iv) impact of higher interest rates and inflation; and

v) impact of lower interest rates and lower inflation.

Each of these future simulations demonstrates unique impacts on the economic welfare of farmers. Tables 5.1 through 5.3 consolidate the results of the five projections.

Excess debt is expected to increase at least modestly in the future simulations except for the most optimistic simulation and the one with the lower interest rates (Table 5.1). From a regional perspective, only in the two provinces with the highest level of debt — Alberta and Ontario — is the excess debt projected to drop in all of the scenarios. Saskatchewan and Manitoba, in the west, and Quebec, in the east, lose ground in all the simulations except the most optimistic. A major factor in the deteriorating condition in Quebec is the projected increase in excess debt in the supply-managed industry in all simulations except the most optimistic (Table 5.2).

Several elements contribute to the potential difficulties in the supply-managed sector. There is no price recovery expected for this sector due to the pressure of GATT. Because of previous stable income levels, this industry has used debt to a greater proportion than most other enterprises (with the exception of the hog industry), and its operating costs are higher.

In contrast, the decline of excess debt in Alberta is associated with the improved situation projected for the cattle industry where revenues were forecast to increase markedly. Of the various future possibilities considered, higher input costs and higher interest rates have marked impacts on the future ability of farmers to service existing debt or to reduce debt, with excess debt rising from $4.9 billion in 1989 to $5.1 billion in 1992 in each case. Input cost increases have been moderate for most of the 1980's. There is now increasing upward pressure on these costs, which pose more financial risk than do falling commodity prices. Increases in input costs, particularly if they are coupled with higher interest rates, will be the most significant obstacles to the reduction of farm debt.