The number of farmers by risk class (Table 4.9) shows some adjustment. The proportion in the moderate risk class falls by 19 percent and the severe group increases by 6 percent. There appears to be only marginal change in either the stable or insolvent group.

Table 4.9
Calculated Number of Farms by Risk Category, Optimistic Projection, 1989 and 1992

Risk Category	1989	1992 Projection	Percent Change from 1989
Stable	145,518	154,569	6.2
Moderate	43,697	35,352	-19.1
Severe	12,605	13,396	6.3
Insolvent	47,948	46,451	-3.1
Total	249,768	249,768	

Source: Ashmead Economic Research Inc.

D. HIGHER INTEREST RATES AND INFLATION

As this study is focusing on farm debt, an important alternative to evaluate is the impact of higher interest rates and the accompanying inflation. While interest rates are expected to continue to moderate for most of 1991, however, it is interesting to examine the effect of financial and inflationary pressures which could lead to a resurgence in interest rates in 1992.

The assumption used in this analysis is that interest rates could move up markedly from current levels. It was assumed that the effective interest rates paid by farmers could increase by approximately one percentage point above the base case. The resulting impacts on debt payments were assessed. Finally, together with higher interest rates, a general inflation impact on operating costs was included. Operating costs in this context were increased by one and a half percentage points from the level used in the base case. Living expenses were increased by two percentage points. Revenues were increased by one percentage point over the base case for the supply-managed sector, stemming from cost of production formulas. The debt for this sector was increased by one percentage point. All other parameters remain as in the base case. The results of this analysis are summarized below.