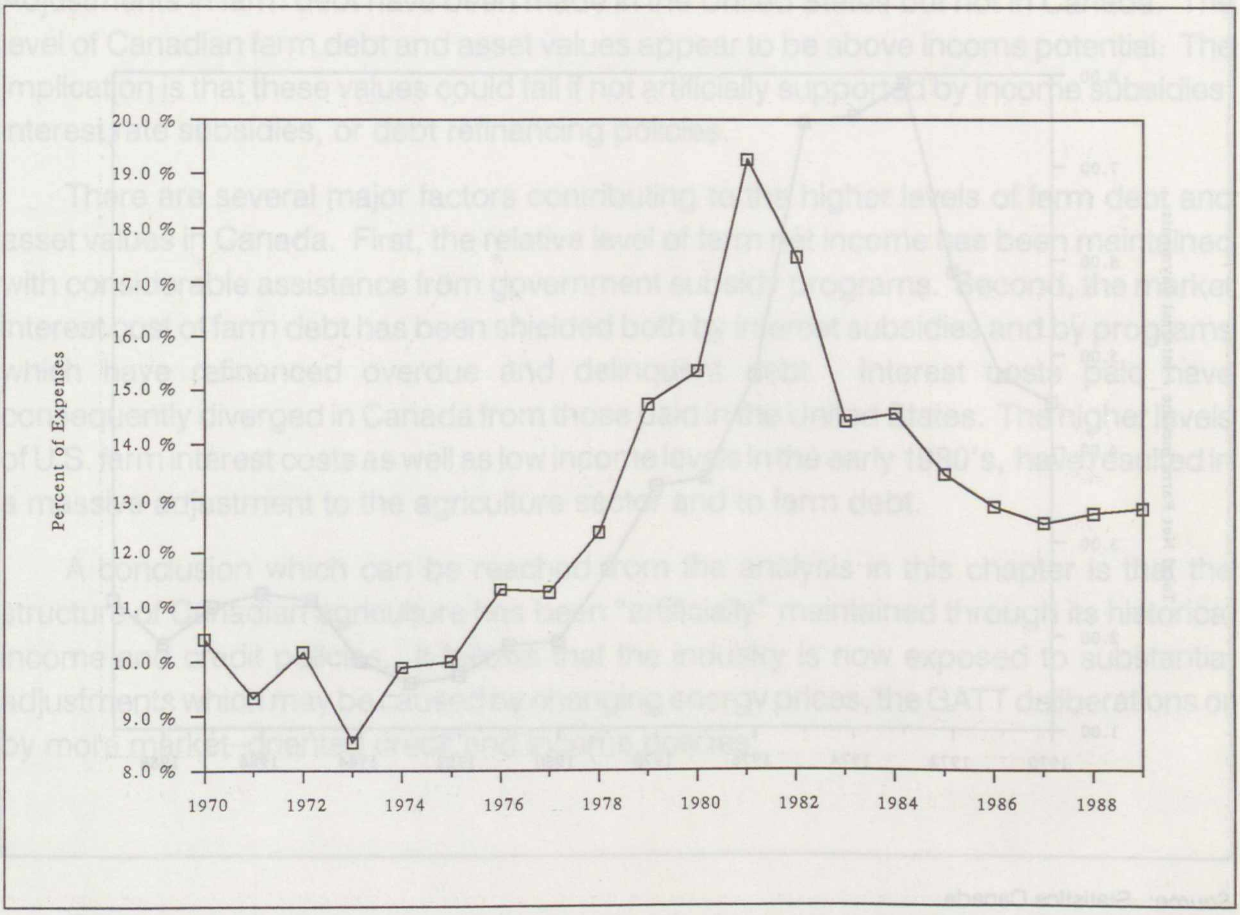
Figure 2.10
Interest Payments (Effective Rate) in Proportion to Total Cash Operating Expenses, Canada, 1970 – 1989



Source: Statistics Canada

An alternative way of evaluating the relative cost of farm debt is by using the ratio of net farm income to interest payments. This ratio represents the number of dollars of net income for each dollar of interest expense. It is very sensitive to minor variations in income or interest costs. Figure 2.11 tracks the ratio over the past twenty years. In 1973, there was nearly $8.00 of net income for each dollar of interest expense, a very low risk financial position. This ratio deteriorated quickly over the balance of the 1970's and early 1980's. For the latter part of the 1980's, this ratio stabilized around 2.0. It is likely that at this low level, there will be a continued large amount of interest expense which cannot be serviced on a scheduled basis.