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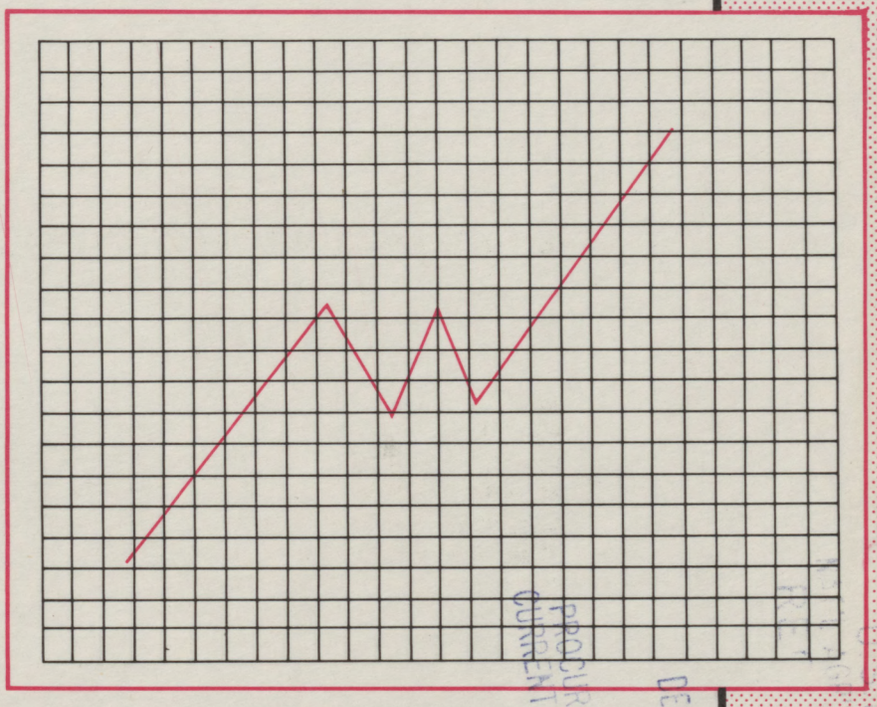

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ANNOUNCEMENTS, COMMENTS AND NOTES

COMMENT

THE EFFECT OF DEBT BURDEN, INTEREST RATES AND INFLATION ON THE SURVIVAL OF FARMING ENTERPRISES

Comment by J. van Zyl, University of Pretoria

In a recent article Van Zyl, Van der Vyver & Mostert (1987) used a simulation model to show that initial solvency position, interest rates and structural inflation have a significant effect on the financial results of farming enterprises and that these factors and their effects are interdependent.

Three types of inflation are assumed in the model according to the experience of agriculture since the mid-seventies. In the specification of the respective inflation rates, input and producer prices that increase at the same rate are, however, wrongly compared with a period where no inflation is experienced. Agricultural input price increases of three per cent more than that of agricultural products are also wrongly equated to the situation where input prices increase at three per cent per annum while producer prices of agricultural products remain constant. In both cases the situation with constant producer prices is only a special case of the previous statement. The future net expendable income of a farming enterprise is not only a function of the difference between the rates of increase in input and output prices and the original margin (Louw, 1981), but also of the absolute size of the rate of increase. One of the reasons for this is that the nominal value of existing capital and debt repayment obligations stays constant.

Although the model used by Van Zyl *et al.* (1987) only takes into account the case where producer prices stay constant and input prices increase at different rates, it does not change the findings, results and conclusions of the study. Structural inflation has a significant effect on the financial results of farming enterprises. The size of the effect is a function of the difference in rates of increase between input and output prices, the original margin and the absolute size of the rates of increase, as well as interest rates and initial debt burden.

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