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## **HOG PRODUCERS ENJOY PROFITABLE TIMES**

After a disastrous year in 1998, hog production has become profitable again. A reduction in pork output, strong product demand and low feed costs have all contributed to the better times. While producers experienced their lowest returns on record in 1998, returns above all costs in 2000 were at their highest level since 1990.

Data for this report is summarized by University of Illinois agricultural economists in cooperation with the Illinois Farm Business Farm Management (FBFM) Association. Individual records tabulated were from farmers enrolled in the FBFM record keeping and business analysis program.

### **2000 RETURNS**

Higher market hog prices in 2000 resulted in Illinois hog producer profits to increase by \$3.42 per hundredweight produced compared to 1999 (Table 1). Total returns in 2000 averaged \$42.65 per hundredweight produced. Total returns for the farrow-to-finish hog enterprises exceeded total production costs by \$6.13 per hundredweight produced in 2000. Continued low feed costs contributed to the positive returns. The 1999 return was \$2.71. For the five-year period, 1996 through 2000, production costs exceeded returns by 41 cents per hundredweight. Three of the past five years show a positive return for farrow-to-finish enterprises.

### **COST OF PRODUCTION**

The total cost of production in 2000 averaged \$36.52 per hundredweight of pork produced, compared with \$34.62 in 1999 (Table 1). Feed costs made up 55 percent of total costs, or \$19.96 in 2000, as compared to \$20.17 in 1999. Feed costs have decreased every year since 1996 and were at their lowest level since 1972 (Figure 1).

The nonfeed cost data reported in Table 1 have been divided into two categories: "Operating costs" and "Other costs." This classification of production costs is important when making short-run management decisions concerning the level (volume) of production, particularly during periods of low prices. Nonfeed costs accounted for \$16.56 in 2000, an increase of \$2.11 from 1999. Nonfeed costs included \$6.53 per hundredweight of operating costs and \$10.03 per hundredweight of other costs.

The "Other costs" category includes depreciation, labor, and an interest charge on all capital, although on most farms part of the labor and the interest charge are cash costs. The proportion of labor that is hired largely depends on the farm's size. A one-man farm does not hire much labor, while a four-man farm may hire a major share of the labor.

The share of the interest charge that is a cash expenditure depends upon the owner's equity in the business. It could range from zero to nearly 100 percent. On most farms, some share of the interest charge will be paid in cash.

## 2001 PROJECTIONS

Hog prices are expected to average about \$46.50 per hundredweight in 2001. The size of the corn and soybean crop will have a significant effect on feed costs. Current crop prospects would indicate that feed costs should not increase significantly. Feed costs are expected to average about \$19.70 per hundredweight and nonfeed costs \$16.50 in 2001. Total costs of production would be \$36.20 per hundredweight, or about \$10.30 per hundredweight below the average price received. If these projections materialize, 2001 will be another profitable year for hog producers and one of the more profitable years in recent times.

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Figure 1.

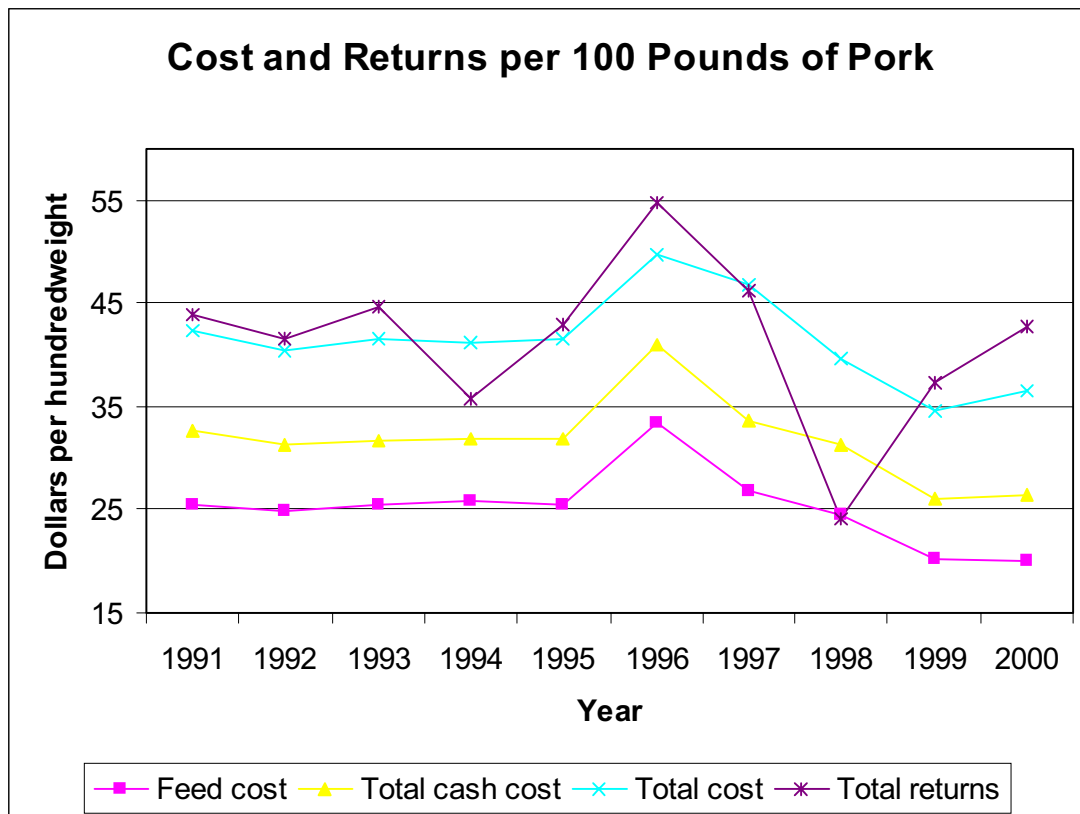


Table 1.

## Returns per hundredweight for farrow-to-finish hog enterprises, 1991 - 2000

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total returns	\$ 43.92	\$ 41.50	\$ 44.73	\$ 35.70	\$ 42.86	\$ 54.71	\$ 46.29	\$ 24.10	\$ 37.33	\$ 42.65
Feed costs	<u>25.56</u>	<u>24.86</u>	<u>25.50</u>	<u>25.93</u>	<u>25.39</u>	<u>33.48</u>	<u>29.75</u>	<u>24.49</u>	<u>20.17</u>	<u>19.96</u>
Return above feed costs	\$ 18.36	\$ 16.64	\$ 19.23	\$ 9.77	\$ 17.47	\$ 21.23	\$ 16.54	\$ (0.39)	\$ 17.16	\$ 22.69
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.91	\$ 3.13	\$ 3.13	\$ 3.00	\$ 3.02	\$ 3.72	\$ 3.32	\$ 3.46	\$ 3.26	\$ 3.06
Livestock expense	2.16	2.15	2.15	2.00	2.31	2.45	2.44	2.16	1.72	2.59
Ins., taxes & overhead	<u>1.03</u>	<u>1.23</u>	<u>0.99</u>	<u>1.03</u>	<u>1.15</u>	<u>1.27</u>	<u>1.13</u>	<u>1.10</u>	<u>1.00</u>	<u>0.88</u>
Total operating expenses	\$ 7.10	\$ 6.51	\$ 6.27	\$ 6.03	\$ 6.48	\$ 7.44	\$ 6.89	\$ 6.72	\$ 5.98	\$ 6.53
Other costs										
Depreciation	\$ 2.17	\$ 2.58	\$ 3.10	\$ 2.79	\$ 2.76	\$ 2.25	\$ 3.15	\$ 2.16	\$ 2.59	\$ 3.41
Labor	4.30	3.94	4.18	3.94	3.97	3.81	4.04	3.89	3.69	3.73
Interest charge on capital	<u>3.23</u>	<u>2.52</u>	<u>2.50</u>	<u>2.58</u>	<u>2.92</u>	<u>2.68</u>	<u>2.97</u>	<u>2.28</u>	<u>2.19</u>	<u>2.89</u>
Total other costs	\$ 9.70	\$ 9.04	\$ 9.78	\$ 9.31	\$ 9.65	\$ 8.74	\$ 10.16	\$ 8.33	\$ 8.47	\$ 10.03
Total nonfeed costs	\$ 16.80	\$ 15.55	\$ 16.05	\$ 15.34	\$ 16.13	\$ 16.18	\$ 17.05	\$ 15.05	\$ 14.45	\$ 16.56
Total all costs	\$ 42.36	\$ 40.41	\$ 41.55	\$ 41.27	\$ 41.52	\$ 49.66	\$ 46.80	\$ 39.54	\$ 34.62	\$ 36.52
Returns above all costs	\$ 1.56	\$ 1.09	\$ 3.18	\$ (5.57)	\$ 1.34	\$ 5.05	\$ (0.51)	\$ (15.44)	\$ 2.71	\$ 6.13