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## **HOG PRODUCTION PROFITABLE IN 2001, RED INK ON THE WAY**

For the third year in a row, total returns exceeded total costs for hog producers in 2001. Good market hog prices, especially during the second and third quarter, and continual low feed costs were the main factors for the positive profit margins. However, increased pork production, sluggish demand and increasing feed costs will result in negative profit margins for producers in 2002.

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.

### **2001 RETURNS**

Higher nonfeed costs resulted in Illinois hog producer profits to decrease by \$3.57 per hundredweight produced compared to 2000 (Table 1). Total returns in 2001 averaged \$42.54 per hundredweight produced. Total returns for the farrow-to-finish hog enterprises exceeded total production costs by \$2.56 per hundredweight produced in 2001. Good market hog prices and continued low feed costs contributed to the positive returns. The 2000 return was \$6.13. For the five-year period, 1997 through 2001, production costs exceeded returns by 91 cents per hundredweight. The negative returns were due to 1998, when total costs exceeded returns by \$15.44 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 2001 averaged \$39.98 per hundredweight of pork produced, compared with \$36.52 in 2000 (Table 1). Feed costs made up 51 percent of total costs, or \$20.37 in 2001, as compared to \$19.96 in 2000. Feed costs have remained at relatively low levels the last three years (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 \$19.61 in 2001, an increase of \$3.05 from 2000. Nonfeed costs included \$7.68 per hundredweight of operating costs and \$11.93 per hundredweight of other costs. Nonfeed costs were at their highest level of any year since 1992. Labor costs increase from \$3.73 per hundredweight to \$5.30.

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.

## 2002 PROJECTIONS

Hog prices are expected to average about \$35.75 per hundredweight in 2002. The size of the corn and soybean crop will have a significant effect on feed costs. As of the beginning of August, much of the crop is under significant stress due to dry, hot weather. Current crop prospects would indicate that feed costs could increase significantly. Feed costs are expected to average about \$21.75 per hundredweight and nonfeed costs \$17.75 in 2002. Total costs of production would be \$39.50 per hundredweight, or about \$3.75 per hundredweight above the average price received. If these projections materialize, 2002 will be the first year since 1998 that total costs exceeded total returns for hog producers.

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Figure 1.

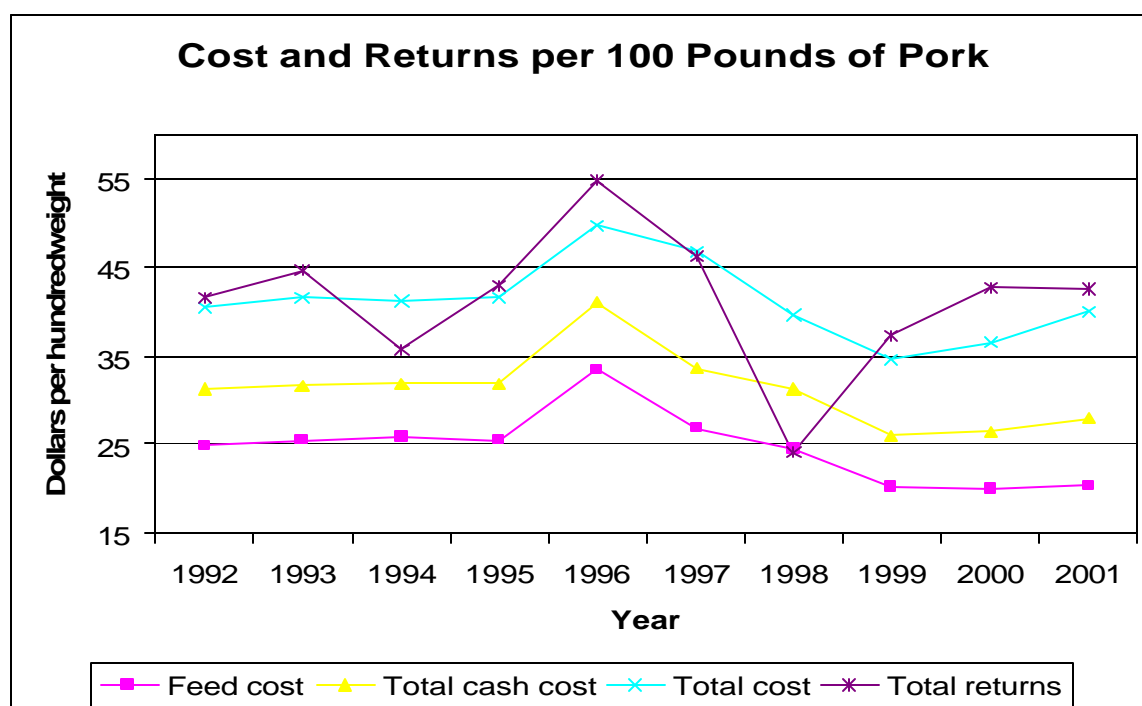


Table 1.

## Returns per hundredweight for farrow-to-finish hog enterprises, 1991 - 2001

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total returns	\$ 41.50	\$ 44.73	\$ 35.70	\$ 42.86	\$ 54.71	\$ 46.29	\$ 24.10	\$ 37.33	\$ 42.65	\$ 42.54
Feed costs	<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>	<u>20.37</u>
Return above feed costs	\$ 16.64	\$ 19.23	\$ 9.77	\$ 17.47	\$ 21.23	\$ 16.54	\$ (0.39)	\$ 17.16	\$ 22.69	\$ 22.17
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.13	\$ 3.13	\$ 3.00	\$ 3.02	\$ 3.72	\$ 3.32	\$ 3.46	\$ 3.26	\$ 3.06	\$ 3.57
Livestock expense	2.15	2.15	2.00	2.31	2.45	2.44	2.16	1.72	2.59	3.03
Ins., taxes & overhead	<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>	<u>1.08</u>
Total operating expenses	\$ 6.51	\$ 6.27	\$ 6.03	\$ 6.48	\$ 7.44	\$ 6.89	\$ 6.72	\$ 5.98	\$ 6.53	\$ 7.68
Other costs										
Depreciation	\$ 2.58	\$ 3.10	\$ 2.79	\$ 2.76	\$ 2.25	\$ 3.15	\$ 2.16	\$ 2.59	\$ 3.41	\$ 3.91
Labor	3.94	4.18	3.94	3.97	3.81	4.04	3.89	3.69	3.73	5.30
Interest charge on capital	<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>	<u>2.72</u>
Total other costs	\$ 9.04	\$ 9.78	\$ 9.31	\$ 9.65	\$ 8.74	\$ 10.16	\$ 8.33	\$ 8.47	\$ 10.03	\$ 11.93
Total nonfeed costs	\$ 15.55	\$ 16.05	\$ 15.34	\$ 16.13	\$ 16.18	\$ 17.05	\$ 15.05	\$ 14.45	\$ 16.56	\$ 19.61
Total all costs	\$ 40.41	\$ 41.55	\$ 41.27	\$ 41.52	\$ 49.66	\$ 46.80	\$ 39.54	\$ 34.62	\$ 36.52	\$ 39.98
Returns above all costs	\$ 1.09	\$ 3.18	\$ (5.57)	\$ 1.34	\$ 5.05	\$ (0.51)	\$ (15.44)	\$ 2.71	\$ 6.13	\$ 2.56