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HOG PRODUCERS ARE HOPEFUL FOR PROFITABLE 2003 AFTER INCURRING LOSSES IN 2002

After three profitable years, total economic costs exceeded total returns for hog producers in 2002. Lower market hog prices, especially during the last three quarters of the year, were the main factor for the negative profit margin. Feed costs did increase some in 2002 but were still at relatively low levels. Projections for decreased pork production resulting in higher hog prices along with lower feed costs during the second half of the year could result in a narrow but positive profit margin for producers in 2003.

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.

2002 RETURNS

Lower total returns resulted in Illinois hog producer profits to decrease by \$8.13 per hundredweight produced compared to 2001 (Table 1). Total returns in 2002 averaged \$32.25 per hundredweight produced compared to \$42.54 in 2001. Total production costs for the farrow-to-finish hog enterprises exceeded total returns by \$5.57 per hundredweight produced in 2002. Lower total nonfeed costs helped cushion the drop in hog prices. The 2001 return was \$2.56. For the five-year period, 1998 through 2002, production costs exceeded returns by \$1.92 per hundredweight. The negative returns for the most part 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 2002 averaged \$37.82 per hundredweight of pork produced, compared with \$39.98 in 2001 (Table 1). Feed costs made up 57 percent of total costs, or \$21.41 in 2002, as compared to \$20.37 in 2001. Feed costs have remained at relatively low levels the last four 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 \$16.41 in 2002, a decrease of \$3.20 from 2001. Nonfeed costs included \$7.94 per hundredweight of operating costs and \$8.47 per hundredweight of other costs. Depreciation, labor and interest costs decreased a total of \$3.46 per hundredweight.

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.

2003 PROJECTIONS

Hog prices are expected to average about \$40 per hundredweight in 2003. The size of the corn and soybean crop will have a significant effect on feed costs. As of the middle of July, most of the soybean and corn crop is rated in good to excellent condition. Current crop prospects would indicate that feed costs should decrease during the second half of 2003. Feed costs are expected to average about \$22.00 per hundredweight and nonfeed costs \$16.50 in 2003. Total costs of production would be \$38.50 per hundredweight, or about \$1.50 per hundredweight below the average price received. If these projections materialize, 2003 will result in a slight profit for hog producers.

The author would like to acknowledge that data used in this study comes from the local Farm Business Farm Management (FBFM) Associations across the State of Illinois. Without their cooperation, information as comprehensive and accurate as this would not be available for educational purposes. FBFM, which consists of 6,000 plus farmers and 62 professional field staff, is a not-for-profit organization available to all farm operators in Illinois. FBFM field staff provide on-farm counsel with computerized recordkeeping, farm financial management, business entity planning and income tax management. For more information, please contact the State FBFM Office located at the University of Illinois Department of Agricultural and Consumer Economics at 217-333-5511 or visit the FBFM website at www.fbfm.org.

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Figure 1.

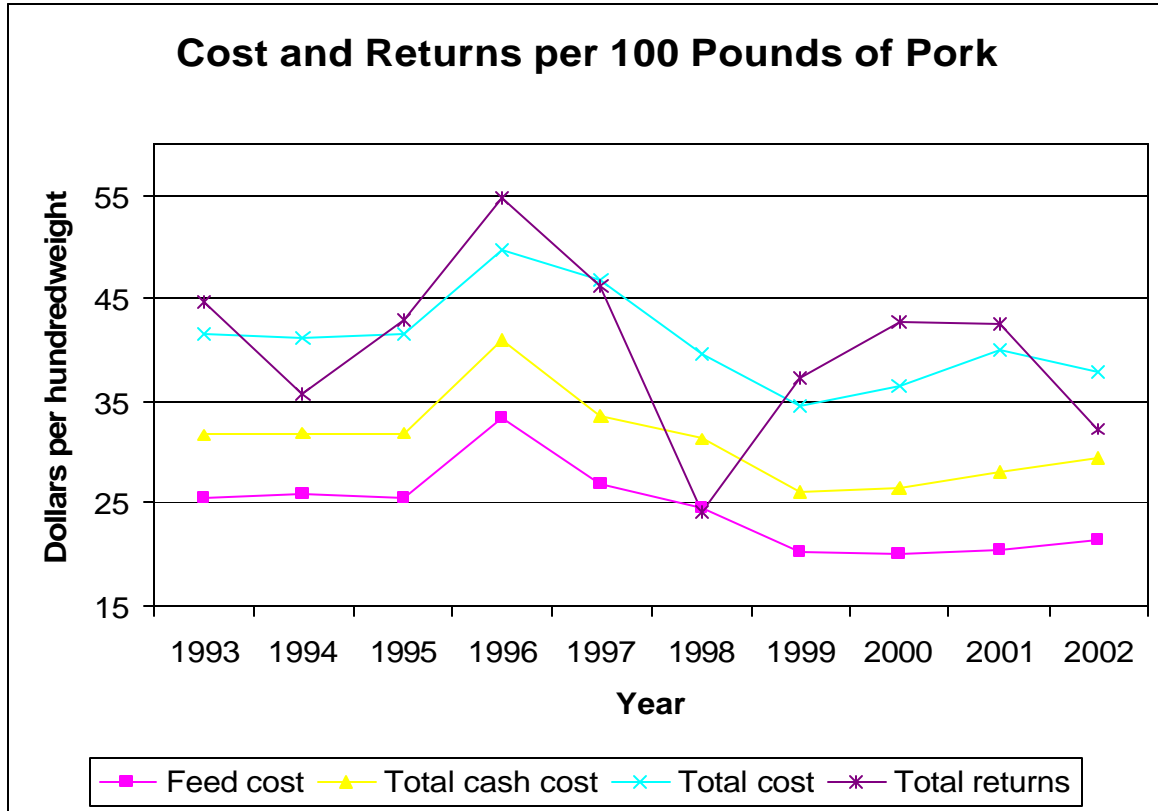


Table 1.

Returns per hundredweight for farrow-to-finish hog enterprises, 1993 - 2002

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Total returns	\$ 44.73	\$ 35.70	\$ 42.86	\$ 54.71	\$ 46.29	\$ 24.10	\$ 37.33	\$ 42.65	\$ 42.54	\$ 32.25
Feed costs	<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>	<u>21.41</u>
Return above feed costs	\$ 19.23	\$ 9.77	\$ 17.47	\$ 21.23	\$ 16.54	\$ (0.39)	\$ 17.16	\$ 22.69	\$ 22.17	\$ 10.84
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.13	\$ 3.00	\$ 3.02	\$ 3.72	\$ 3.32	\$ 3.46	\$ 3.26	\$ 3.06	\$ 3.57	\$ 4.24
Livestock expense	2.15	2.00	2.31	2.45	2.44	2.16	1.72	2.59	3.03	2.79
Ins., taxes & overhead	<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>	<u>0.91</u>
Total operating expenses	\$ 6.27	\$ 6.03	\$ 6.48	\$ 7.44	\$ 6.89	\$ 6.72	\$ 5.98	\$ 6.53	\$ 7.68	\$ 7.94
Other costs										
Depreciation	\$ 3.10	\$ 2.79	\$ 2.76	\$ 2.25	\$ 3.15	\$ 2.16	\$ 2.59	\$ 3.41	\$ 3.91	\$ 2.50
Labor	4.18	3.94	3.97	3.81	4.04	3.89	3.69	3.73	5.30	4.15
Interest charge on capital	<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>	<u>1.82</u>
Total other costs	\$ 9.78	\$ 9.31	\$ 9.65	\$ 8.74	\$ 10.16	\$ 8.33	\$ 8.47	\$ 10.03	\$ 11.93	\$ 8.47
Total nonfeed costs	\$ 16.05	\$ 15.34	\$ 16.13	\$ 16.18	\$ 17.05	\$ 15.05	\$ 14.45	\$ 16.56	\$ 19.61	\$ 16.41
Total all costs	\$ 41.55	\$ 41.27	\$ 41.52	\$ 49.66	\$ 46.80	\$ 39.54	\$ 34.62	\$ 36.52	\$ 39.98	\$ 37.82
Returns above all costs	\$ 3.18	\$ (5.57)	\$ 1.34	\$ 5.05	\$ (0.51)	\$ (15.44)	\$ 2.71	\$ 6.13	\$ 2.56	\$ (5.57)