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HOG PRODUCERS SHOULD EXPERIENCE A PROFITABLE YEAR IN 2004 AFTER BREAKEVEN SITUATION IN 2003

While showing improvement in the bottom line, total economic costs were still slightly higher than total returns for hog producers in 2003. Higher market hog prices during the last three quarters of the year were the main reason for the improved profit margins. Feed costs increased in 2003 resulting in higher total costs compared to the year before. Higher market hog prices during the first half of 2004 along with projections for good prices during the second half of the year and lower feed costs should result in a profitable year for hog producers in 2004.

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.

2003 RETURNS

Higher total returns resulted in Illinois hog producer profits to increase by \$4.79 per hundredweight produced compared to 2002 (Table 1). Total returns in 2003 averaged \$38.15 per hundredweight produced compared to \$32.25 in 2002. Total production costs for the farrow-to-finish hog enterprises exceeded total returns by 78 cents per hundredweight produced in 2003. Feed costs increased by \$2.11 per hundredweight produced while nonfeed costs decreased by \$1.00 per hundredweight. The 2002 return was a negative \$5.57. For the five-year period, 1999 through 2003, total returns exceeded production costs by \$1.01 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 2003 averaged \$38.93 per hundredweight of pork produced, compared with \$37.82 in 2002 (Table 1). Feed costs made up 60 percent of total costs, or \$23.52 in 2003, as compared to \$21.41 in 2002. Feed costs were at their highest level since 1998 (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 \$15.41 in 2003, a decrease of \$1.00 from 2002. Nonfeed costs included \$8.01 per hundredweight of operating costs and \$7.40 per hundredweight of other costs. Depreciation cost decreased by \$1.00 per hundredweight, in part due to a change in method of calculating the depreciation deduction.

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.

2004 PROJECTIONS

Hog prices are expected to average about \$49 per hundredweight in 2004. Corn and soybean prices have fallen significantly during the last couple of months from their highs early in the year as the outlook is for a large corn and soybean crop. Feed costs will decrease during the second half of 2004. Feed costs are expected to average about \$25.75 per hundredweight and nonfeed costs \$15.75 in 2004. Total costs of production would be \$41.50 per hundredweight, or about \$7.50 per hundredweight below the average price received. If these projections materialize, 2004 will be one of the more profitable years in recent times 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 61 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.

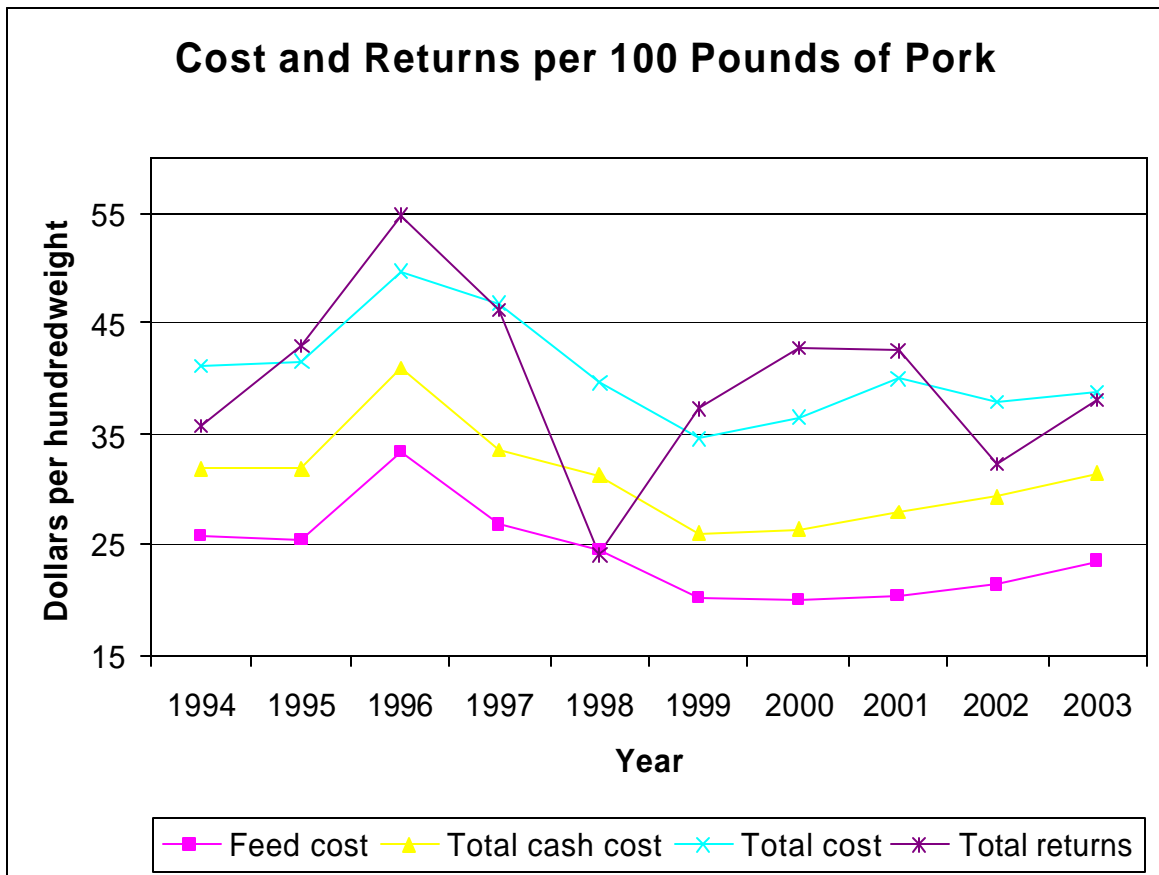


Table 1.

Returns per hundredweight for farrow-to-finish hog enterprises, 1994 - 2003

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Total returns | \$ 35.70 | \$ 42.86 | \$ 54.71 | \$ 46.29 | \$ 24.10 | \$ 37.33 | \$ 42.65 | \$ 42.54 | \$ 32.25 | \$ 38.15 |
| Feed costs | <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> | <u>23.52</u> |
| Return above feed costs | \$ 9.77 | \$ 17.47 | \$ 21.23 | \$ 16.54 | \$ (0.39) | \$ 17.16 | \$ 22.69 | \$ 22.17 | \$ 10.84 | \$ 14.63 |
| Nonfeed costs | | | | | | | | | | |
| Operating costs | | | | | | | | | | |
| Maintenance & power | \$ 3.00 | \$ 3.02 | \$ 3.72 | \$ 3.32 | \$ 3.46 | \$ 3.26 | \$ 3.06 | \$ 3.57 | \$ 4.24 | \$ 4.54 |
| Livestock expense | 2.00 | 2.31 | 2.45 | 2.44 | 2.16 | 1.72 | 2.59 | 3.03 | 2.79 | 2.38 |
| Ins., taxes & overhead | <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> | <u>1.09</u> |
| Total operating expenses | \$ 6.03 | \$ 6.48 | \$ 7.44 | \$ 6.89 | \$ 6.72 | \$ 5.98 | \$ 6.53 | \$ 7.68 | \$ 7.94 | \$ 8.01 |
| Other costs | | | | | | | | | | |
| Depreciation | \$ 2.79 | \$ 2.76 | \$ 2.25 | \$ 3.15 | \$ 2.16 | \$ 2.59 | \$ 3.41 | \$ 3.91 | \$ 2.50 | \$ 1.25 |
| Labor | 3.94 | 3.97 | 3.81 | 4.04 | 3.89 | 3.69 | 3.73 | 5.30 | 4.15 | 4.39 |
| Interest charge on capital | <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> | <u>1.76</u> |
| Total other costs | \$ 9.31 | \$ 9.65 | \$ 8.74 | \$ 10.16 | \$ 8.33 | \$ 8.47 | \$ 10.03 | \$ 11.93 | \$ 8.47 | \$ 7.40 |
| Total nonfeed costs | \$ 15.34 | \$ 16.13 | \$ 16.18 | \$ 17.05 | \$ 15.05 | \$ 14.45 | \$ 16.56 | \$ 19.61 | \$ 16.41 | \$ 15.41 |
| Total all costs | \$ 41.27 | \$ 41.52 | \$ 49.66 | \$ 46.80 | \$ 39.54 | \$ 34.62 | \$ 36.52 | \$ 39.98 | \$ 37.82 | \$ 38.93 |
| Returns above all costs | \$ (5.57) | \$ 1.34 | \$ 5.05 | \$ (0.51) | \$ (15.44) | \$ 2.71 | \$ 6.13 | \$ 2.56 | \$ (5.57) | \$ (0.78) |