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PROFITS SHOULD CONTINUE FOR HOG PRODUCERS IN 2005 AFTER PROFITABLE 2004

Higher total returns due to higher market hog prices in 2004 resulted in Illinois hog producer profits to increase by \$14.36 per hundredweight produced compared to 2003. Total returns in 2004 averaged \$54.50 per hundredweight produced compared to \$38.15 in 2003. Total returns were the highest since 1996. Feed costs increased in 2004 resulting in higher total costs compared to the year before. Continued strong market hog prices for most of 2005 and lower feed costs will result in another profitable year for hog producers in 2005.

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.

2004 RETURNS

Higher total returns resulted in Illinois hog producer profits to increase by \$14.36 per hundredweight produced compared to 2003 (Table 1). Total returns in 2004 averaged \$54.50 per hundredweight produced compared to \$38.15 in 2003 and the 2000 through 2004 five-year average of \$42.02. Total returns for the farrow-to-finish hog enterprises exceeded total economic costs by \$13.58 per hundredweight produced in 2004. Feed costs increased by \$1.53 per hundredweight produced while nonfeed costs increased by 46 cents per hundredweight. The 2003 return was a negative 78 cents. For the five-year period, 2000 through 2004, total returns exceeded production costs by \$3.18 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 2004 averaged \$40.92 per hundredweight of pork produced, compared with \$38.93 in 2003 and the 2000 through 2004 five-year average of \$38.83 (Table 1). Feed costs made up 61 percent of total costs, or \$25.05 in 2004, as compared to \$23.52 in 2003. Feed costs were at their highest level since 1997 (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 \$15.87 in 2004, an increase of 46 cents from 2003. Nonfeed costs included \$8.46 per hundredweight of operating costs and \$7.41 per hundredweight of other costs. Maintenance and power expense and labor expense are the most significant nonfeed 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.

2005 PROJECTIONS

Hog prices are expected to average about \$50.00 per hundredweight in 2005. Relatively large corn and soybean crops in 2005 will result in lower feed costs. Feed costs are expected to average about \$20.65 per hundredweight and nonfeed costs at \$16.25 in 2005. Total costs of production would be \$36.90 per hundredweight, or about \$13.00 per hundredweight below the average price received. If these projections materialize, 2005 will be another profitable year for hog producers with profit levels at one of the higher levels in recent years.

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 60 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.

Issued by: Dale Lattz, Department of Agricultural and Consumer Economics



Figure 1.

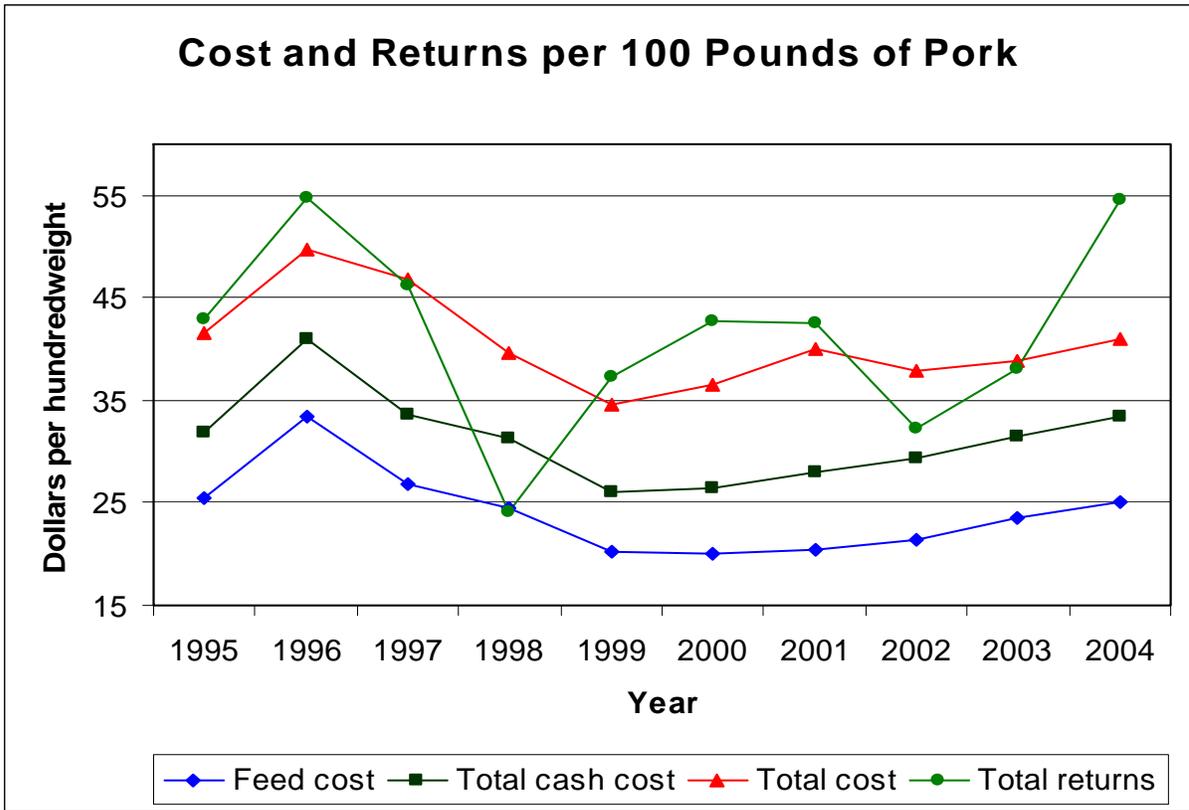


Table 1.

Returns per hundredweight for farrow-to-finish hog enterprises, 1995 - 2004

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total returns	\$ 42.86	\$ 54.71	\$ 46.29	\$ 24.10	\$ 37.33	\$ 42.65	\$ 42.54	\$ 32.25	\$ 38.15	\$ 54.50
Feed costs	<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>	<u>25.05</u>
Return above feed costs	\$ 17.47	\$ 21.23	\$ 16.54	\$ (0.39)	\$ 17.16	\$ 22.69	\$ 22.17	\$ 10.84	\$ 14.63	\$ 29.45
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.02	\$ 3.72	\$ 3.32	\$ 3.46	\$ 3.26	\$ 3.06	\$ 3.57	\$ 4.24	\$ 4.54	\$ 4.56
Livestock expense	2.31	2.45	2.44	2.16	1.72	2.59	3.03	2.79	2.38	2.66
Ins., taxes & overhead	<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>	<u>1.24</u>
Total operating expenses	\$ 6.48	\$ 7.44	\$ 6.89	\$ 6.72	\$ 5.98	\$ 6.53	\$ 7.68	\$ 7.94	\$ 8.01	\$ 8.46
Other costs										
Depreciation	\$ 2.76	\$ 2.25	\$ 3.15	\$ 2.16	\$ 2.59	\$ 3.41	\$ 3.91	\$ 2.50	\$ 1.25	\$ 1.10
Labor	3.97	3.81	4.04	3.89	3.69	3.73	5.30	4.15	4.39	4.43
Interest charge on capital	<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>	<u>1.88</u>
Total other costs	\$ 9.65	\$ 8.74	\$ 10.16	\$ 8.33	\$ 8.47	\$ 10.03	\$ 11.93	\$ 8.47	\$ 7.40	\$ 7.41
Total nonfeed costs	\$ 16.13	\$ 16.18	\$ 17.05	\$ 15.05	\$ 14.45	\$ 16.56	\$ 19.61	\$ 16.41	\$ 15.41	\$ 15.87
Total all costs	\$ 41.52	\$ 49.66	\$ 46.80	\$ 39.54	\$ 34.62	\$ 36.52	\$ 39.98	\$ 37.82	\$ 38.93	\$ 40.92
Returns above all costs	\$ 1.34	\$ 5.05	\$ (0.51)	\$ (15.44)	\$ 2.71	\$ 6.13	\$ 2.56	\$ (5.57)	\$ (0.78)	\$ 13.58