

November 21, 2006

FEFO 06-20

PROFITABLE 2006 WILL RESULT IN THREE CONSECUTIVE YEARS OF PROFITS FOR HOG PRODUCERS

Lower total returns due to lower market hog prices in 2005 and lower ending inventory values resulted in Illinois hog producer profits to decrease by \$5.75 per hundredweight produced compared to 2004. However, profit margins were still the second highest since 1990. Total returns in 2005 averaged \$46.25 per hundredweight produced compared to \$54.50 in 2004. Feed costs decreased in 2005 resulting in lower total costs compared to the year before. Profits should continue for hog producers in 2006 although profit margins are expected to shrink due to lower market hog prices and higher feed costs.

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.

2005 RETURNS

Lower total returns resulted in Illinois hog producer profits to decrease by \$5.75 per hundredweight produced compared to 2004 (Table 1). Total returns in 2005 averaged \$46.25 per hundredweight produced compared to \$54.50 in 2004 and the 2001 through 2005 five-year average of \$42.74. Total returns for the farrow-to-finish hog enterprises exceeded total economic costs by \$7.83 per hundredweight produced in 2005. This was the second highest level of profit during the last ten years. Feed costs decreased by \$3.44 per hundredweight produced while nonfeed costs increased by 94 cents per hundredweight. The 2004 return was \$13.58. For the five-year period, 2001 through 2005, total returns exceeded production costs by \$3.52 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 2005 averaged \$38.42 per hundredweight of pork produced, compared with \$40.92 in 2004 and the 2001 through 2005 five-year average of \$39.21 (Table 1). Feed costs made up 56 percent of total costs, or \$21.61 in 2005, as compared to \$25.05 in 2004. The 2004 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 \$16.81 in 2005, an increase of 94 cents from 2004. Nonfeed costs included \$8.70 per hundredweight of operating costs and \$8.11 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.

2006 PROJECTIONS

Hog prices are expected to average about \$47.50 per hundredweight in 2006. Even with relatively large corn and soybean crops in 2006, feed costs have begun to increase. Feed costs are expected to average about \$22.25 per hundredweight and nonfeed costs at \$17.00 in 2006. Total costs of production would be \$39.25 per hundredweight, or about \$8.25 per hundredweight below the average price received. If these projections materialize, 2006 will be another profitable year 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 58 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.

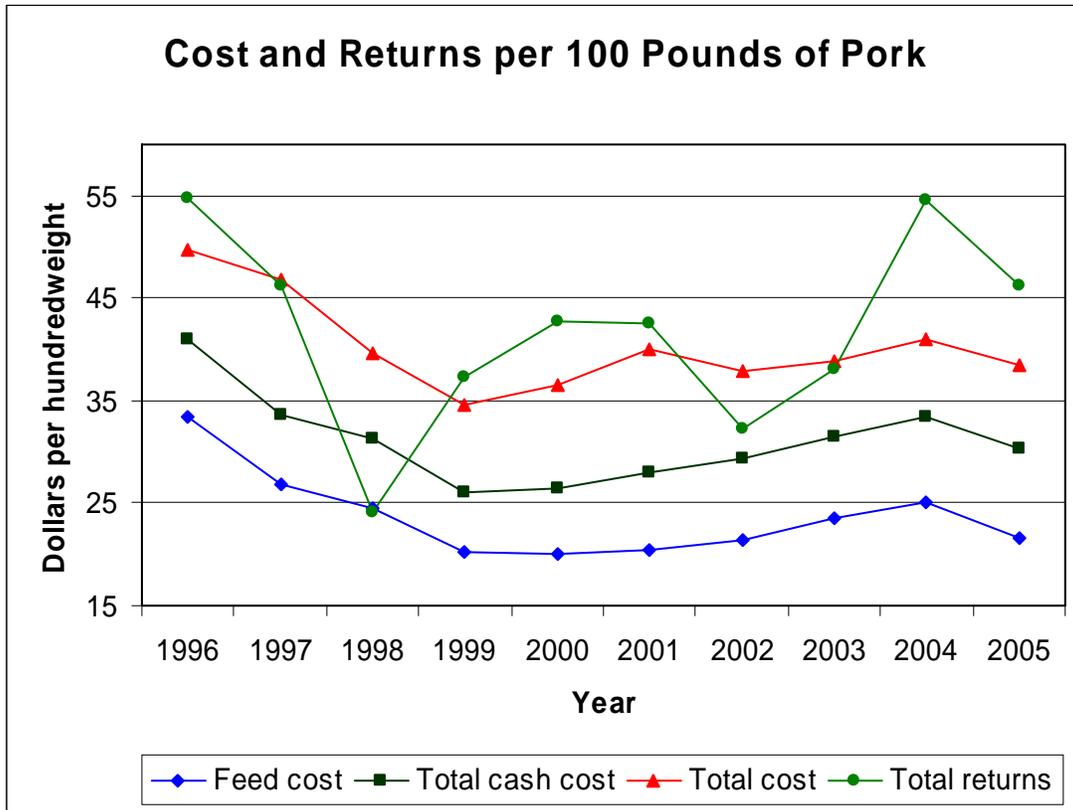


Table 1.

Returns per hundredweight for farrow-to-finish hog enterprises, 1996 - 2005

	<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>	<u>2005</u>
Total returns	\$ 54.71	\$ 46.29	\$ 24.10	\$ 37.33	\$ 42.65	\$ 42.54	\$ 32.25	\$ 38.15	\$ 54.50	\$ 46.25
Feed costs	<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>	<u>21.61</u>
Return above feed costs	\$ 21.23	\$ 16.54	\$ (0.39)	\$ 17.16	\$ 22.69	\$ 22.17	\$ 10.84	\$ 14.63	\$ 29.45	\$ 24.64
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.72	\$ 3.32	\$ 3.46	\$ 3.26	\$ 3.06	\$ 3.57	\$ 4.24	\$ 4.54	\$ 4.56	\$ 4.19
Livestock expense	2.45	2.44	2.16	1.72	2.59	3.03	2.79	2.38	2.66	2.95
Ins., taxes & overhead	<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>	<u>1.56</u>
Total operating expenses	\$ 7.44	\$ 6.89	\$ 6.72	\$ 5.98	\$ 6.53	\$ 7.68	\$ 7.94	\$ 8.01	\$ 8.46	\$ 8.70
Other costs										
Depreciation	\$ 2.25	\$ 3.15	\$ 2.16	\$ 2.59	\$ 3.41	\$ 3.91	\$ 2.50	\$ 1.25	\$ 1.10	\$ 0.87
Labor	3.81	4.04	3.89	3.69	3.73	5.30	4.15	4.39	4.43	5.02
Interest charge on capital	<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>	<u>2.22</u>
Total other costs	\$ 8.74	\$ 10.16	\$ 8.33	\$ 8.47	\$ 10.03	\$ 11.93	\$ 8.47	\$ 7.40	\$ 7.41	\$ 8.11
Total nonfeed costs	\$ 16.18	\$ 17.05	\$ 15.05	\$ 14.45	\$ 16.56	\$ 19.61	\$ 16.41	\$ 15.41	\$ 15.87	\$ 16.81
Total all costs	\$ 49.66	\$ 46.80	\$ 39.54	\$ 34.62	\$ 36.52	\$ 39.98	\$ 37.82	\$ 38.93	\$ 40.92	\$ 38.42
Returns above all costs	\$ 5.05	\$ (0.51)	\$ (15.44)	\$ 2.71	\$ 6.13	\$ 2.56	\$ (5.57)	\$ (0.78)	\$ 13.58	\$ 7.83