

January 16, 2008

FEFO 08-02

AFTER PROFITABLE 2006, HOG PRODUCERS OPERATE AT NEAR BREAKEVEN LEVELS FOR 2007, RED INK PREDICTED FOR 2008

Lower total returns due to lower market hog prices in 2006 and higher costs resulted in Illinois hog producer profits to decrease by \$6.62 per hundredweight produced compared to 2005. Although lower, the 2006 profit margins were the third highest for any one year during the last five years. Total returns in 2006 averaged \$43.32 per hundredweight produced compared to \$46.25 in 2005. Feed and nonfeed costs increased in 2006 resulting in higher total costs compared to the year before. Hog producers are projected to have operated at near breakeven levels in 2007 due to lower market hog prices and higher feed costs. Negative profit margins are expected for 2008.

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.

2006 RETURNS

Lower total returns due to lower market hog prices in 2006 and higher costs resulted in Illinois hog producer profits to decrease by \$6.62 per hundredweight produced compared to 2005. Although lower, the 2006 profit margins were the third highest for any year during the last five years. Total returns in 2006 averaged \$43.32 per hundredweight produced compared to \$46.25 in 2005. Total production returns for the farrow-to-finish hog enterprises exceeded total production costs by \$1.21 per hundredweight produced in 2006. The 2004 margin of returns above production costs was the largest in at least the last fifteen years. Feed costs increased by \$2.37 per hundredweight produced while nonfeed costs increased by \$1.32 per hundredweight. The 2005 return was \$7.83. For the five-year period, 2002 through 2006, total returns exceeded production costs by \$3.26 per hundredweight. Three of the past five years show a positive return for farrow-to-finish enterprises. The 2004 and 2005 net returns were some of the highest on record for a back to back two-year period.

COST OF PRODUCTION

The total cost of production in 2006 averaged \$42.11 per hundredweight of pork produced, compared with \$38.42 in 2005 (Table 1). Feed costs made up 57 percent of total costs, or \$23.98 in 2006, as compared to \$21.61 in 2005. Nonfeed costs accounted for \$18.13 in 2006, an increase of \$1.32 from 2005. With total returns (on an accrual basis) averaging \$43.32 per 100 pounds of pork, the average producers in this group covered total costs by \$1.21 per 100 pounds produced (Figure 1). The 2005 return above all costs was \$7.83.



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 \$18.13 in 2006, an increase of \$1.32 from 2005. Nonfeed costs included \$9.17 per hundredweight of operating costs and \$8.96 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.

2007 PROJECTIONS

Hog prices are expected to average about \$47.00 per hundredweight in 2007. Even with relatively large corn and soybean crops in 2007, feed costs have increased significantly throughout the year. Feed costs are expected to average about \$29.00 per hundredweight and nonfeed costs at \$18.40 in 2007. Total costs of production would be \$47.40 per hundredweight, or slightly above the average price received. If these projections materialize, 2007 will result in a breakeven situation 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 5,500 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.

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Figure 1.

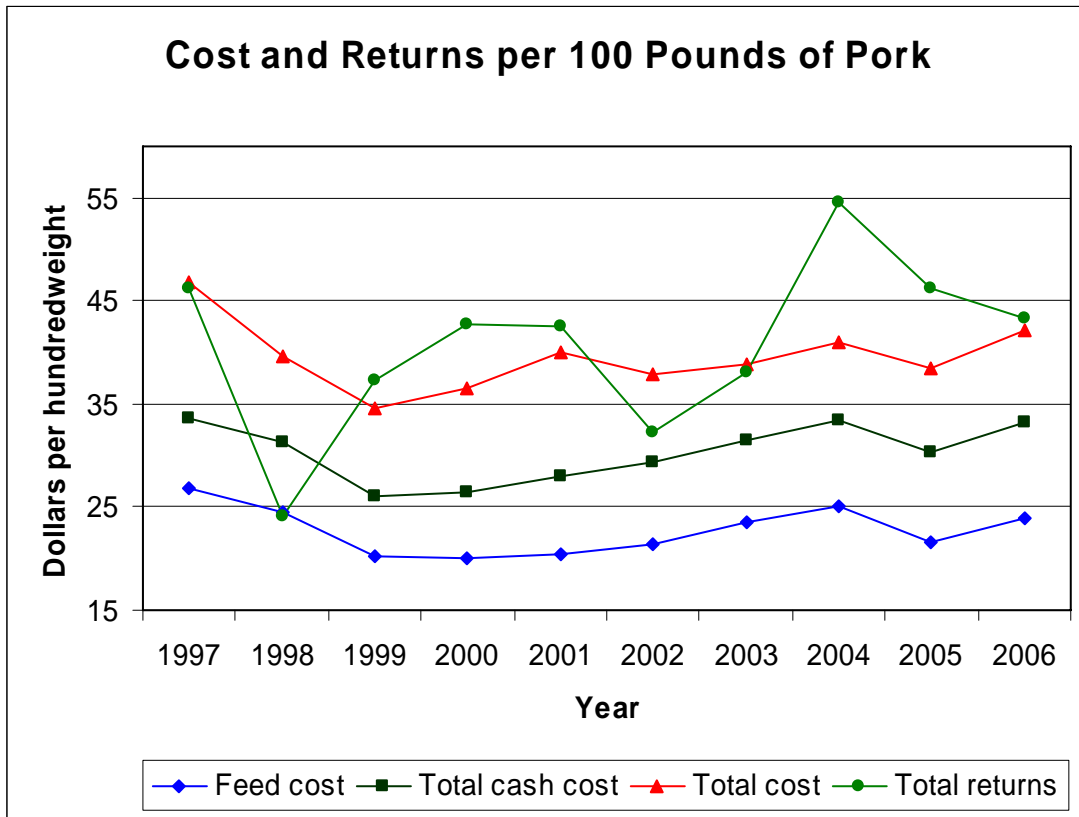


Table 1.

Returns per hundredweight for farrow-to-finish hog enterprises, 1997 - 2006

	<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>	<u>2006</u>
Total returns	\$ 46.29	\$ 24.10	\$ 37.33	\$ 42.65	\$ 42.54	\$ 32.25	\$ 38.15	\$ 54.50	\$ 46.25	\$ 43.32
Feed costs	<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>	<u>23.98</u>
Return above feed costs	\$ 16.54	\$ (0.39)	\$ 17.16	\$ 22.69	\$ 22.17	\$ 10.84	\$ 14.63	\$ 29.45	\$ 24.64	\$ 19.34
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.32	\$ 3.46	\$ 3.26	\$ 3.06	\$ 3.57	\$ 4.24	\$ 4.54	\$ 4.56	\$ 4.19	\$ 5.19
Livestock expense	2.44	2.16	1.72	2.59	3.03	2.79	2.38	2.66	2.95	2.83
Ins., taxes & overhead	<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>	<u>1.15</u>
Total operating expenses	\$ 6.89	\$ 6.72	\$ 5.98	\$ 6.53	\$ 7.68	\$ 7.94	\$ 8.01	\$ 8.46	\$ 8.70	\$ 9.17
Other costs										
Depreciation	\$ 3.15	\$ 2.16	\$ 2.59	\$ 3.41	\$ 3.91	\$ 2.50	\$ 1.25	\$ 1.10	\$ 0.87	\$ 1.42
Labor	4.04	3.89	3.69	3.73	5.30	4.15	4.39	4.43	5.02	4.48
Interest charge on capital	<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>	<u>3.06</u>
Total other costs	\$ 10.16	\$ 8.33	\$ 8.47	\$ 10.03	\$ 11.93	\$ 8.47	\$ 7.40	\$ 7.41	\$ 8.11	\$ 8.96
Total nonfeed costs	\$ 17.05	\$ 15.05	\$ 14.45	\$ 16.56	\$ 19.61	\$ 16.41	\$ 15.41	\$ 15.87	\$ 16.81	\$ 18.13
Total all costs	\$ 46.80	\$ 39.54	\$ 34.62	\$ 36.52	\$ 39.98	\$ 37.82	\$ 38.93	\$ 40.92	\$ 38.42	\$ 42.11
Returns above all costs	\$ (0.51)	\$ (15.44)	\$ 2.71	\$ 6.13	\$ 2.56	\$ (5.57)	\$ (0.78)	\$ 13.58	\$ 7.83	\$ 1.21