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MORE RED INK EXPECTED FOR HOG PRODUCERS IN 2008 AFTER EXPERIENCING LOSSES IN 2007

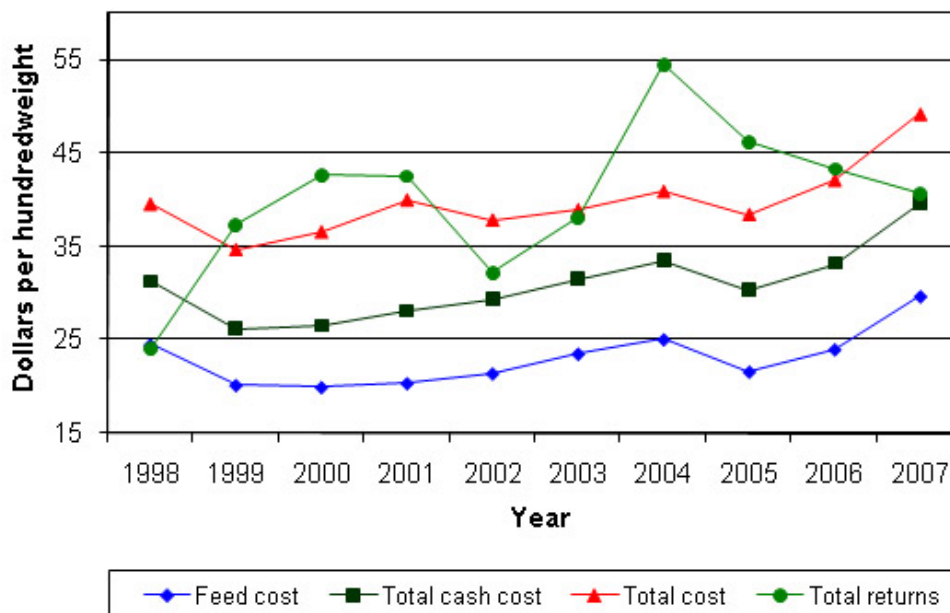
Higher total costs mainly due to higher feed costs in 2007 resulted in Illinois hog producer profits to decrease by \$9.72 per hundredweight produced compared to 2006. The 2007 profit margins were the lowest since 1998. Total returns in 2007 averaged \$40.73 per hundredweight produced compared to \$43.32 in 2006. Nonfeed costs also increased in 2007 compared to the year before. Hog producers are projected to operate in the red in 2008 due to continued high feed costs. Hog prices are projected to increase in 2009 due to a decrease in pork production. Hog producers might experience near breakeven levels in 2009 depending on corn and soybean price levels.

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.

2007 Returns

Higher total costs mainly due to higher feed costs and lower total returns in 2007 resulted in Illinois hog producer profits to decrease by \$9.72 per hundredweight produced compared to 2006. The 2007 profit margins were the lowest since 1998. They were the first time profit margins have been negative since 2003. Total returns in 2007 averaged \$40.73 per hundredweight produced compared to \$43.32 in 2006. Total production costs for the farrow-to-finish hog enterprises exceeded total production returns by \$8.51 per hundredweight produced in 2007. Feed costs increased by \$5.66 per hundredweight produced margins have been negative since 2003. Total returns in 2007

Figure 1: Cost and Returns per 100 Pounds of Pork



averaged \$40.73 per hundredweight produced compared to \$43.32 in 2006. Total production costs for the farrow-to-finish hog enterprises exceeded total production returns by \$8.51 per hundredweight produced in 2007. Feed costs increased by \$5.66 per hundredweight produced while nonfeed costs increased by \$1.47 per hundredweight. Feed costs were the highest since 1997. The 2006 return was \$1.21. For the five-year period, 2003 through 2007, total returns exceeded production costs by \$2.67 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 2007 averaged \$49.24 per hundredweight of pork produced, compared with \$42.11 in 2006 (Table 1). Feed costs made up 60 percent of total costs, or \$29.64 in 2007, as compared to \$23.98 in 2006. Nonfeed costs accounted for \$19.60 in 2007, an increase of \$1.47 from 2006. With total returns (on an accrual basis) averaging \$40.73 per 100 pounds of pork, the average producers in this group was short of covering total costs by \$8.51 per 100 pounds produced. The 2006 return above all costs was \$1.21.

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 \$19.60 in 2007, an increase of \$1.47 from 2006. Nonfeed costs included \$9.98 per hundredweight of operating costs and \$9.62 per hundredweight of other costs. Maintenance and power expense and labor expense are the most significant nonfeed costs.

Table 1: Returns per hundredweight for farrow-to-finish hog enterprises, 1998 - 2007

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Total returns	\$ 24.10	\$ 37.33	\$ 42.65	\$ 42.54	\$ 32.25	\$ 38.15	\$ 54.50	\$ 46.25	\$ 43.32	\$ 40.73
Feed costs	24.49	20.17	19.96	20.37	21.41	23.52	25.05	21.61	23.98	29.64
Return above feed costs	\$ (0.39)	\$ 17.16	\$ 22.69	\$ 22.17	\$ 10.84	\$ 14.63	\$ 29.45	\$ 24.64	\$ 19.34	\$ 11.09
Nonfeed costs										
Operating costs										
Maintenance & power	\$ 3.46	\$ 3.26	\$ 3.06	\$ 3.57	\$ 4.24	\$ 4.54	\$ 4.56	\$ 4.19	\$ 5.19	\$ 5.32
Livestock expense	2.16	1.72	2.59	3.03	2.79	2.38	2.66	2.95	2.83	3.34
Ins., taxes & overhead	1.10	1.00	0.88	1.08	0.91	1.09	1.24	1.56	1.15	1.32
Total operating expenses	\$ 6.72	\$ 5.98	\$ 6.53	\$ 7.68	\$ 7.94	\$ 8.01	\$ 8.46	\$ 8.70	\$ 9.17	\$ 9.98
Other costs										
Depreciation	\$ 2.16	\$ 2.59	\$ 3.41	\$ 3.91	\$ 2.50	\$ 1.25	\$ 1.10	\$ 0.87	\$ 1.42	\$ 1.27
Labor	3.89	3.69	3.73	5.30	4.15	4.39	4.43	5.02	4.48	5.13
Interest charge on capital	2.28	2.19	2.89	2.72	1.82	1.76	1.88	2.22	3.06	3.22
Total other costs	\$ 8.33	\$ 8.47	\$ 10.03	\$ 11.93	\$ 8.47	\$ 7.40	\$ 7.41	\$ 8.11	\$ 8.96	\$ 9.62
Total nonfeed costs	\$ 15.05	\$ 14.45	\$ 16.56	\$ 19.61	\$ 16.41	\$ 15.41	\$ 15.87	\$ 16.81	\$ 18.13	\$ 19.60
Total all costs	\$ 39.54	\$ 34.62	\$ 36.52	\$ 39.98	\$ 37.82	\$ 38.93	\$ 40.92	\$ 38.42	\$ 42.11	\$ 49.24
Returns above all costs	\$ (15.44)	\$ 2.71	\$ 6.13	\$ 2.56	\$ (5.57)	\$ (0.78)	\$ 13.58	\$ 7.83	\$ 1.21	\$ (8.51)

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.

2008 Projections

Hog prices are expected to average about \$49.50 per hundredweight in 2008. The sharp increase in corn and soybean prices earlier this year will result in significantly higher feed costs for 2008. Feed costs are expected to average about \$38.75 per hundredweight and nonfeed costs at \$19.70 in 2008. Total costs of production would be

\$58.45 per hundredweight, or significantly above the average price received. If these projections materialize, 2008 will result in substantial red ink 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.

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