

**Estimated Returns to Pork Producers:  
Short-run Survival v. Long-run Returns**

*John D. Lawrence and Shane Ellis,  
Extension Livestock Economists*

Pork producers are suffering significant losses with higher feed costs and lower hog prices than they have experienced in recent years. The ISU Estimated Returns to Farrow to Finish (ERFF) operations shows a loss of \$24/head on hogs sold in February and they have averaged a similar loss per head since October. While these estimated returns have served as a barometer of industry profitability for more than three decades, the industry is more diverse than it once was and a single number may not represent all producers. Also, it is important to separate long-run full economic costs that these numbers represent from the direct cost of production that producers must cover in the short run.

In the short run the producer is concerned with covering variable or direct costs. The ERFF represent a long-run cost of production because they have account for fixed costs like annualized facility costs. If only the repairs and taxes are included as the farrow to finish cost of production declines approximately \$10/head.

The ERFF also assumes that corn is purchased at the price that farmers can buy corn for at a local elevator, (i.e., sell price plus \$0.10/bu). At least some Iowa hog producers produce a large portion of the corn that they feed their hogs. Although elevator prices for corn averaged \$4.25/bu in February and has moved higher in March, the cost of producing corn in Iowa in the 2007 crop year is estimated to have been \$3.10/<sup>1</sup>bu. Remember that land rents for the 2007 crop were negotiated in the fall of 2006 before crop prices increased and land rents escalated.

Table 1 illustrates the impact on estimated breakeven carcass price per cwt for farrow to finish and wean to finish producers that have either: 1) long-run costs and buy corn each month or 2) they focus on short-run direct costs and raise their own corn. The values are in \$/cwt carcass and the difference is significant. However, it is important to note, that Iowa –Southern Minnesota hog prices have been below \$62/cwt carcass since the first of October and averaged \$56/cwt. Thus, hog producers that raised their own corn and have no debt payment on facilities have not covered their short run costs for over five months.

Table 1. Estimated Cost of Production per Cwt Carcass Weight of Iowa Hog Producers.

	Long-Run Buy	Short-run Home-grown	Difference
Corn procurement			
Farrow-to-Finish	\$73.55	\$61.83	\$11.72
Wean-to-Finish	\$73.43	\$64.91	\$8.52

---

<sup>1</sup> Iowa State University Estimated Cost of Producing Corn 2007.