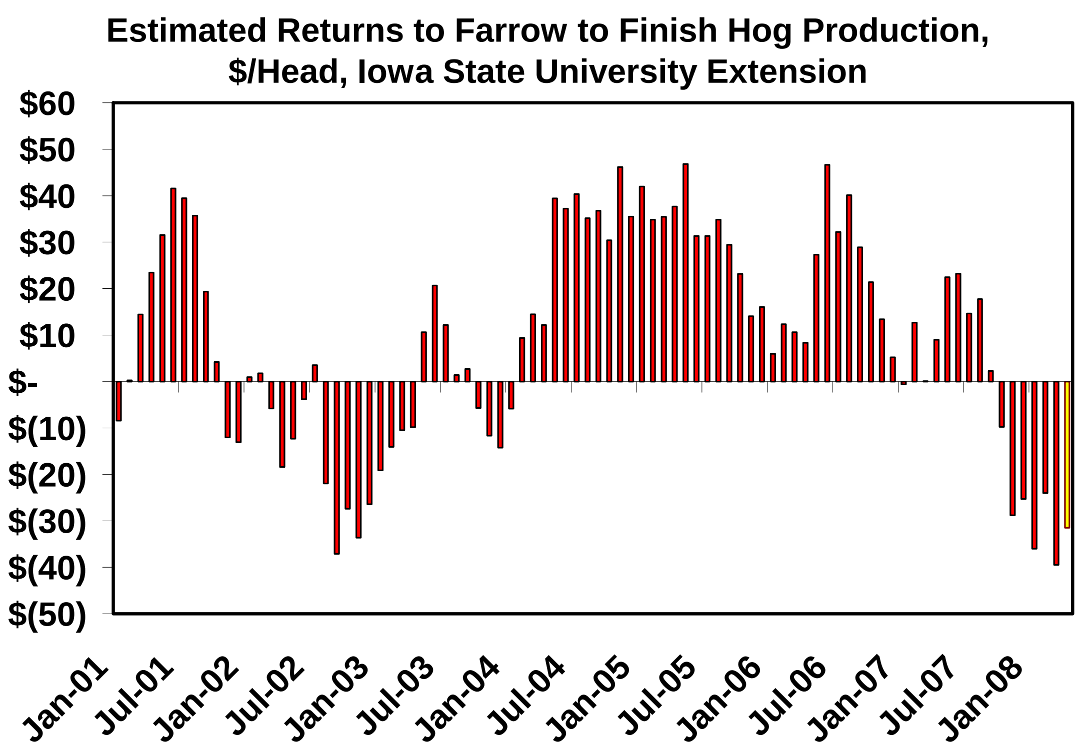
Short No. 805

Changing Hog Production Profitability

Shane Ellis and John D. Lawrence,
Extension Livestock Economists

Iowa State University Extension produces the Iowa Estimated Returns series as a monthly barometer of profitability in the state's swine and cattle feeding enterprises. This series has continued for nearly four decades, providing a reference to compare profitability in hog production in recent decades. Refer to the following website. http://www.econ.iastate.edu/faculty/lawrence/lawrence_website/livestockreturns.htm

Increased feed costs have tightened margins for all livestock producers and hog production which is highly dependant on corn has experience a dramatic change in profitability from the past three years. The figure below graphs the Estimated Returns to farrow to finish hog production in Iowa.



Hog producers lost over $39/hd on hogs marketed in March, the largest loss in nearly a decade. At the end of 1998 production losses reached -$68/hd, and profitability hit another low point in June 2002 at -$36/hd.

In June of 2006, profits reached nearly $47/hd, but 21 months later the industry was looking at nearly equal losses, a reversal of almost $87. Since last fall, a combination of rising feed costs and record high market hog volumes has pushed margins deep into the negative. The combined monthly losses sustained from Oct'07-Mar'08 total a negative $163.34, and nearly offset the profitability of the period Sept'06- Sept'07 [$170.39]. At least part of the profits in 2006 and early 2007 were due to smaller pork supplies related to disease problems. The Estimated Returns assume consistent production and do not capture disease related impacts.

April projections suggest a slight reduction in losses as the hog market enters the seasonally stronger summer market. However, feed inputs continue to become more expensive, suggesting more significant losses after the summer months when hog prices turn seasonally lower.