

Farrow to Finish Cost of Production

Ken McEwan

University of Guelph Ridgetown Campus

Ph: (519) 674-1531 Fax: (519) 674-1530

kmcewan@ridgetownc.uoguelph.ca

Background

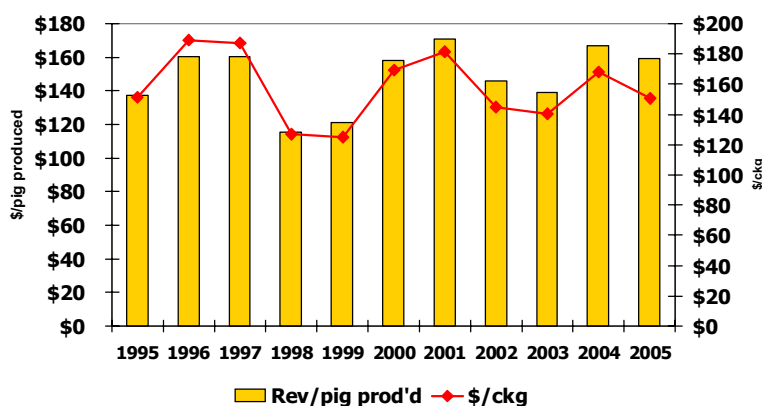
Cost of production is often touted as the most important factor in a region's competitiveness within the global pork market. The Ontario Data Analysis Project (ODAP) can be used to investigate Ontario's cost of production for raising market hogs¹. This data set contains farm level financial and production information from a group of Ontario farrow-to-finish farms. The participants consider themselves to be full-time farmers and they report little, if any, off-farm income. Most of the farms rely on family labour to fill additional labour needs.

Results for the Swine Enterprise

This discussion focuses on the swine enterprise and does not take into account other farm activities (i.e. cash cropping). Family labour has not been included in the expenses. ODAP provides analysis on a per pig produced basis². Some of these farms had SEW or weaner pig sales as well as market hog sales. The average number of pigs produced per farm in 2005 was 3,785. The average number of sows on these farms was 229.

Figure 1 shows average revenue per pig produced over time³. Also plotted on the graph is the average yearly market price (\$/ckg). Revenue/pig has fluctuated with events such as the price crash in late 1998. The average revenue for this time period was \$148.53.

Figure 1. Average Revenue Per Pig Produced



Expenses per pig produced as shown in Figure 2 have been fairly consistent averaging \$132.94 over the 11 years. Feed makes up approximately 62% of total expenses each year. Depreciation expense has grown steadily from \$9.61 to \$19.20 during the years depicted. This is due to increased building and equipment investment that has

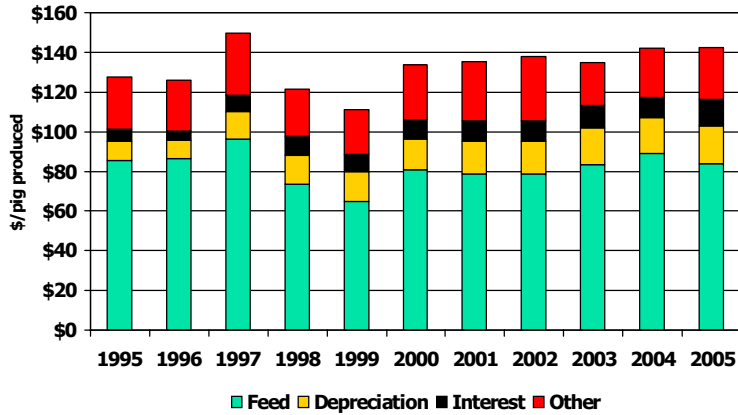
¹ Participation in ODAP varies each year. Results are for discussion purposes and are not assumed to represent an Ontario average. 2005 results are preliminary.

² This is a calculated number that converts all pigs produced and sold to market hog equivalents taking into account all production and inventory changes. Weaner pigs are converted to market hog equivalents using a factor of forty percent and SEW pigs are given a factor of twenty-five percent.

³ Revenue accounts for premiums/discounts, cull pig sales, and changes in accounts receivable and inventory

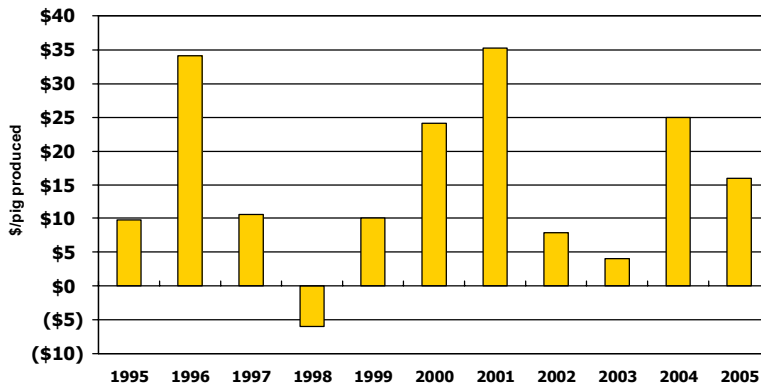
occurred with expansion and/or renovation of these farms over time. Average interest costs were \$9.33/pig during the 11 years and “other” expenses were generally in the \$26/pig range each year. “Other” expenses reflect health costs, building and equipment repairs, hired labour and any other expenses associated with the swine enterprise.

Figure 2. Expenses Per Pig Produced



The resulting profit per year is shown in Figure 3 below and the average over this time period is \$15.52 per pig produced. This graph shows a trend of 3 years of increasing profits followed by a year of small to negative profits. Year to year profits are very volatile due to fluctuating market prices and rising input costs.

Figure 3. Average Profit Per Pig Produced



The Balance Sheet

Table 1 shows the balance sheet for the group of participants between 1995 and 2005 and takes into account all aspects of the farm operation. The average assets has grown to \$2.5 million in 2005 indicating that these farms have invested significantly in their farm businesses. Some of the growth in farm assets is due to increases in livestock and building values but much of it is due to rising land prices. In 2005, the average total assets per sow per farm were \$11,117 and the average amount of debt per sow was \$4,258.

Table 1. Average Ending Balance Sheet

		1995	2000	2005
Assets	Market Livestock	\$81,734	\$129,868	\$169,246
	Breeding Livestock	43,204	75,550	71,215
	Buildings	218,799	514,684	595,833
	Land	297,956	695,642	969,042
	Total Assets	\$1,032,498	\$1,999,019	\$2,545,745
Liabilities	Operating Loan	56,138	88,253	101,584
	Mortgage	200,760	417,651	732,272
	Total Liabilities	\$379,609	\$661,139	\$975,155
	Equity	\$652,889	\$1,337,880	\$1,570,591

Conclusions

In summary, the average cost of production for the 11 years examined was \$132.94 per hog produced not including family labour. Feed makes up about 62% of total expenses and depreciation has doubled reflecting investments in facilities and equipment. Average profits are highly volatile and will be even more so at the individual farm level.

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