



HOG-UPDATE

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US Cost of Production

By Dr. Chad Hastad

Some livestock economists in the United States have estimated that the cost of raising hogs to market weight has increased 25% in recent months. Several factors such as higher ingredient cost, increased mortality, and fuel cost can be linked to this increase in cost of swine production. At today's current price levels, even the best swine producers are operating on small profit margins.

The dramatic increase in ingredient prices has put a large strain on feed cost in the US because it represents approximately 40% of the cost of production. While corn certainly represents the largest single ingredient cost increase. This is simply expanded by the exponential growth of the fuel ethanol industry in the US. Corn (or maize) is typically the preferred feed stock used in the fermentation process to produce ethanol. With the large number of ethanol facilities and livestock in the mid-west United States, we have seen an increase in competition for corn and an increase in corn price. Other ingredients have also risen over the past year. Whey, lactose, plasma, fish meal, phosphorous, DDGS, and synthetic amino acids have all increased more than 15% from the previous year. These higher feed costs have many nutritionists, feed mills, and production systems searching for alternative feed sources and better buying strategies.

About a year ago the US was focused on keeping circovirus (porcine circo-virus associated disease, or PCVAD) from creeping into and across

the US. Currently most producers have experienced first hand the impact of this costly disease. Like many health related challenges it comes with a cost. Cost of prevention, treatment, and loss. However unlike many other diseases PCVAD results in a large number of deaths and unmarketable pigs at later stages of production. This occurs after many dollars are spent in production costs that can not be recovered. Several producers have reported mortality jumping from around 4% to as much as 40%. This reduction in the number of marketable hogs over fixed cost has raised the cost of production in most operations.

In the earlier parts of 2006 many parts of the US experienced fuel prices near \$4/gallon for unleaded gasoline. Many companies again did not anticipate a 26% increase in fuel price over such a short period of time. This increase in energy cost resulted in higher transportation cost for raw materials, complete feed, and pig transportation. When summed together this increase in energy prices results in a significant increase in production cost.

Some estimate the average US swine production cost in the US was \$34 to \$42 per cwt before the run-up in ingredient prices. For 2007 that estimate has risen to \$46 to \$52 per cwt. While US hog producers experienced a profitable year in 2006, they saw profit margins in the fourth quarter become small primarily due to higher feed costs. The economic outlook for US swine production will rely on the availability of reasonably priced corn and protein supplements, health challenges, and consumer demand for pork.

Dr. Chad Hastad grew up on a farm in rural Minnesota where he was involved in many leadership activities. He received his B.S. in Animal Science and a Minor in Agriculture Economics from South Dakota State University in 1998. He took a job with Harvest States Feeds where he was the assistant plant manager/plant superintendent. He return to college at Kansas State University and received his Ph. D in Swine Nutrition in 2005. While attending KSU he conducted several studies in nursery and grow-finish diets with specific interest in DDGS and commercial production. Chad joined Swine Nutrition Services in July of 2006 and works with producers, feed and management companies to provide long term profit maximization solutions within each customer's individual constraints. He has a wife Kim, one son Keegan and is expecting his second child in late March.

Swine Nutrition Services, Inc. was established in 2003 to provide independent nutrition consulting to pork producers. Currently there are two nutritionists on staff that work with approximately 70 clients, representing over 120,000 sows worth of production. Consultation involves creating feeding protocols, developing feed budgets programs, providing least-cost ration formulation, as well as the evaluation of other ingredients that may be available on a farm-specific basis. In addition to developing farm-specific feeding programs to help producers maximize profits, Swine Nutrition Services, Inc. also operates nursery and wean-to-finish research facilities. These sites are used to evaluate starter ration ingredients, the economics of using by-products, and different genetic combinations as well as other factors that influence the profitability of swine production. SNS offers consultation and research on a fee for service basis.

HOG UPDATE is published in the interest of helping hog producers become more profitable. We welcome your comments.

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Production Management Update

February 14th, 2007
 Lucan Community Memorial Centre
 263 Main Street

- 10:00 – 10:45** John Bancroft – Canadian Cost of Production
 OMAFRA Swine Grower-Finisher Specialist
- 10:45 – 11:30** Dr. Chad Hastad – US Cost of Production
 Swine Nutrition Services Inc., Truman, MN
 Ph.D. from Kansas State University
- 11:30 – 11:45** Ben Dekker – BSC Feed Costs
 BSC Swine Sales Rep
- 11:45 – 12:15** discussion/question period
- 12:15 – 1:00** Lunch
- 1:00 – 1:30** Dr. Chad Hastad – Feeding DDGS to swine, real practical experience and advice
- 1:30 – 1:50** Phil Williams – Merial Circo Vaccine
 Western Ontario Territory Manager
- 1:50 – 2:10** Paul McGill – Intervet Circo Vaccine
 Technical Sales Representative
- 2:10 – 2:30** Dr. Carol Jakel – Wyeth Circo Vaccine
 Swine Product Manager
- 2:30 – 2:50** Dr. Ernest Sanford – Boehringer Ingelheim
 Circo Vaccine Swine Specialist
- 2:50 – 3:15** discussion/question period
- 3:15 – 3:30** Douglas Richards – National Animal Care
 Assessment Program
 Ontario Pork Senior Field Representative

Please RSVP by Wednesday, February 7th, if you will be joining us for lunch

bsc@cyg.net
 1-800-268-7769

Every year we calculate feed costs for customers who are interested, using premix as an indicator of total feed used. If we have not done your feed cost yet and you are interested please contact either the office or your salesperson. Thank-you to those producers who have participated to date. Here is a summary of these results.

2006 Averages

	Weaner	Finisher	Sow
\$/Pig	\$12.00	\$44.63	\$11.43
Feed Conversion	1.62	2.74	

These numbers were calculated using \$130/MT Corn (\$3.30/bu), \$265/MT SBM and \$285/MT Roasted Soy.

The total feed cost to get a hog to market averages \$68.06. As corn is currently around \$4/bu and SBM is \$302/MT we can project an increase in this years feed costs to be approximately \$30/MT more which will drive up the total cost on a farrow to finish farm from \$68.00 to \$79.40. We may see these costs escalate through the year. Individual farms affected by circo (PCVAD) definitely show higher feed costs.