

Procedure for Estimating Returns Wean to Feeder

January 2014

Lee L. Schulz, Extension Livestock Economist, Iowa State University

The Iowa State University Estimated Returns model was developed to serve as a barometer of profitability for the industry and is not intended to represent any one operation. It is designed to represent the rank-and-file Iowa producer. To be transparent in how the return series is created, the following is a brief summary of the sources and approaches used.

Production Level

Costs per unit and net returns in wean to feeder production are highly dependent on production levels. The wean to feeder estimated returns includes a production level for feed efficiency. Feed efficiency is based on Iowa State University swine nutrition guidelines.

Feed Costs

Feed costs were calculated using corn, dried distillers grains with soluble (DDGS), and soybean meal-based diets for nursery production phase. Feed rations also include feed components purchased as complete feeds and other ingredients. Feed requirements at each stage of production are based on Iowa State University swine nutrition guidelines. Feed costs are calculated each month based on the feed quantity consumed and monthly market price.

- Corn prices are provided by the monthly North Central Iowa corn price reported in the USDA report NW_GR110.
- Soybean meal prices are provided by the monthly Iowa soybean meal price reported in USDA report NW_GR116.
- DDGS prices are provided by the average of the monthly East Iowa and monthly West Iowa DDGS price reported in the USDA report NW_GR111.
- Complete feed prices are provided by utilizing the U.S., Feed, Complete Feeds – Index for Price Paid, 2011 reported in the USDA report Agricultural Prices.
- Other ingredient prices are provided by utilizing the U.S., Feed, Supplements – Index for Price Paid, 2011 reported in the USDA report Agricultural Prices.
- Feed processing costs are provided by the Iowa State University Iowa Farm Custom Rate Survey.

Capital Requirements

Facility investment of 1,200 nursery pig capacity is assumed. Capital invested in swine facilities assumes a nursery building with total slotted floors will cost about \$125 per pig (3.5 sq. ft. per pig), with the equipment inside the building costing an additional \$12.50 per pig. Office facilities, site preparation, and miscellaneous items are also included in the capital requirements. Building and equipment costs are included as repairs, depreciation, interest, insurance, and taxes.

- Building and equipment repairs: annual repairs calculated as 2.5% of the total investment.
- Depreciation on buildings and equipment: based on the total initial cost less salvage value of buildings and equipment on a per pig basis divided by the estimated life. A salvage value of 10% is used for buildings and 0% for equipment. A useful life of 25 years is used for buildings and 15 years for equipment.
- Interest on buildings and equipment: interest is charged on one-half the average investment $[(\text{initial cost} + \text{salvage value}) \div 2]$ for buildings and equipment at a rate of 4% percent divided by the number of feeder pigs sold per year.
- Insurance and taxes on buildings and equipment: based on initial cost multiplied by 0.25% (insurance) and 1.5% (taxes, buildings only) divided by the number of feeder pigs sold per year.

Operating Costs

Operating Costs

- Labor: Based on a 1/3 full-time employee equivalent. A wage rate is provided by utilizing the Corn Belt, Labor, Hired, Animal Workers – Wage Rate, Measured in \$/Hour reported in the USDA report Agricultural Prices.
- Transportation: Include the expense of hauling weaned pigs and feeder pigs. Trucking costs are calculated from a base per mile livestock hauling cost per loaded mile adjusted for the price of over-the-road diesel fuel.
 - Livestock hauling costs provided by the Iowa State University Iowa Farm Custom Rate Survey.
 - The price of over-the-road diesel fuel is provided by the price of Midwest No. 2 over-the-road diesel reported in the U.S. Energy Information Administration report Weekly Retail Gasoline and Diesel Prices.
- Marketing: Provided by The Center for Farm Financial Management FINBIN Farm Financial Database.
- Utilities, Fuel, and Oil: Utilities, fuel, and oil costs allocated to wean to feeder enterprise are provided by The Center for Farm Financial Management FINBIN Farm Financial Database.
- Veterinary and supply: Provided by The Center for Farm Financial Management FINBIN Farm Financial Database.
- Miscellaneous: Provided by The Center for Farm Financial Management FINBIN Farm Financial Database.
- Interest on Operating Costs: Calculated on one-half of operating costs at the operating loan rate reported by the Chicago Federal Reserve Bank for the number of months on feed.

Returns

Feeder Pig Sales

- Based on a 40 pound feeder pig. Feeder pig per head prices are provided by the calculated average monthly price reported in the National Direct Delivered Feeder Pig Report – Early Weaned Pigs 40 lb Basis, USDA report NW_LS 255. The calculated average monthly price is based on the formula and cash weighted average price.

Less Cost of Weaned Pig

- Based on a 12 pound weaned pig. Weaned pig per head prices are provided by the calculated average monthly price reported in the National Direct Delivered Feeder Pig Report – Early Weaned Pigs 10-12 lb Basis, USDA report NW_LS 255. The calculated average monthly price is based on the formula and cash weighted average price.

Less Death Loss

- Based on death loss in nursery times the value of feeder pig (with feed, transportation, and marketing cost adjustment).

Manure Credit

- A manure credit is included that is based on the amount of nitrogen and phosphate excreted that would be available to crops the following year valued at the price of commercial fertilizer less the cost of applying the liquid manure.
 - Based on nitrogen (N) and phosphate (P_2O_5) excreted per pig sold with manure stored in a deep pit (assumed 85% retained N from excreted amount) that would be available the following year for crop production valued at N and P_2O_5 prices reported in the USDA report Agricultural Prices less an application cost reported by the Iowa State University Iowa Farm Custom Rate Survey.