

Interest rates current key to broiler growout profits

GEORGETOWN, Del. — The profitability of raising broilers today depends heavily on the rate of interest you pay on the broiler house. Any grower contemplating construction of a new house should take a

close look at the economics involved. You may not be able to realize a return on your investment and labor.

This is the conclusion of University of Delaware extension farm management specialist Don Tilmon after a recent study of costs and returns from broiler growout operations on the Peninsula. The study was initiated last fall at the request of farmers who wanted information on the current profitability of broiler production.

The growers were concerned about apparent discrepancies in payments from integrators under "new house contracts" entered into over the last five years.

To answer their questions, a survey was conducted of broiler housing built in each of the five years just prior to 1979. In addition, housing 10 years old and 15 years old was also surveyed. Altogether structures from seven time periods were involved: 1964, 1969, 1974, 1975, 1976, 1977, and 1978.

The results of the study show that while contract payments to growers with newer houses were higher than those to growers with older houses, the lower construction costs of these older units yielded a net return to labor and investment that was comparable to that of the newer ones.

Tilmon based his survey on financial information taken from growers' federal tax returns for 1978 — the most recent year for which complete records were available.

Farmers involved in the study were selected at random from grower lists of integrators representing approximately 70 percent of the broiler market on the Shore. The number selected from each list was proportionate to that company's share of the market. A total of 160 houses were surveyed. All but six were included in the analysis.

The survey was conducted in cooperation with members of the Peninsula Poultry Growers Association and the grower committee of Delmarva Poultry Industry, Inc. Funds to collect the data were provided by DPI.

Data collected included: size, capacity and cost of constructing and equipping houses built during each of the seven time periods; operating costs per thousand birds and per square foot paid by growers in 1978 in houses built during each time period; and contract payments to broiler growers during the survey year (1978).

To adjust for inflation of building and equipment costs over the 15-year con-

struction period, Tilmon translated financial investment data from each of the previous years into 1978 dollars.

Viewed this way, the results were quite surprising. Contrary to many people's expectations, costs and returns were remarkably constant, he says, regardless of when houses were built. For example, during 1978 average fixed costs to produce 1000 birds ranged from \$18.88 in a house built during 1964 (investment costs stated in 1964 dollars) to \$42.42 in a house built in 1978.

But when the 1964 dollars were inflated to 1978 values, the cost of producing birds in the older unit was not that different — \$40.43.

In fact, the overall average fixed cost per thousand birds produced in all ages of housing surveyed came to \$43.53 when viewed in 1978 dollars.

Cash returns per thousand birds produced ranged from \$113.31 in 1964-built houses to \$131.45 in 1978 structures. But when fixed costs were subtracted and the amount available for labor and interest stated in 1978 dollars, the difference again was not that great: \$62.12 in 1964 houses, \$59.99 in 1978 houses.

When the cost of the money invested in housing

and equipment was subtracted from this, the amount remaining for labor was amazingly constant. It ranged from \$33.28 per thousand birds (in 1978 dollars) in units built in 1964 at 5.6 percent interest, to \$35.92 in buildings constructed in 1978 at 8.25 percent interest.

Tilmon's conclusion: "Among growers studied for the 1978 tax year there is little difference in the net cash revenue available for labor and interest. The relative well being of the broiler grower is there for a function of the interest he must pay for his money."

Looking beyond the survey year to 1979, he added, "Broiler housing built with money costing more than 8.75 percent is in a relatively poorer position than housing built during earlier times at lower rates."

The economist says his findings might have been quite different had the study included the 1979 tax year. This was not possible since the survey was conducted before 1979 returns were filed. It was during 1979 that interest rates took their big jump to 12 and 13 percent.

Also, halfway through last year the bottom fell out of the broiler market and production was cut back. So most growers didn't average

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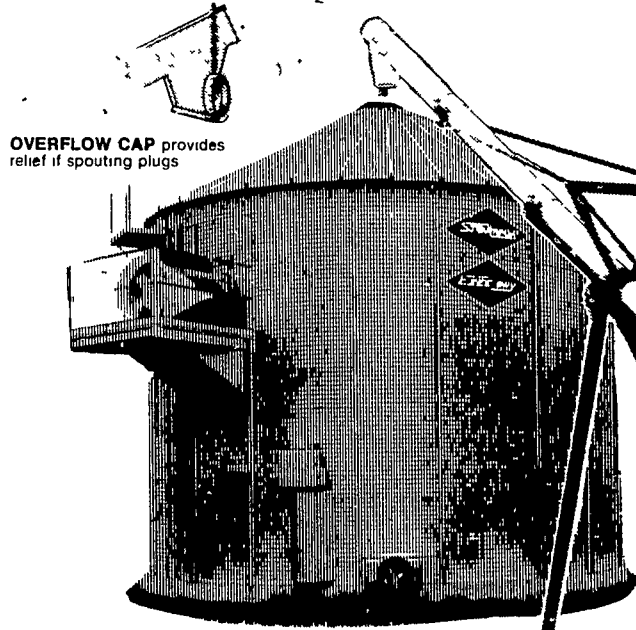
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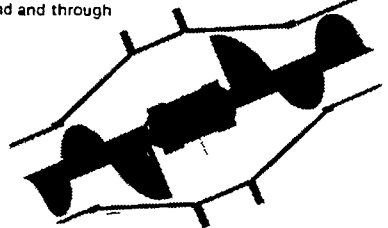
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