



AUSTRALIAN BANKERS'  
ASSOCIATION INC.

Strong banks – strong Australia

# Agriculture in Australia: activity and financing

Economic Report

September 2016





Strong banks – strong Australia

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## 1. Introduction

This economic report highlights the importance of the agriculture industry to the Australian economy and the community, and the role of banks in providing financial support to this critical sector.

Agriculture remains an iconic part of the Australian landscape. It provides much of our food with a substantial surplus for export. It is the primary economic activity and source of jobs in many rural and regional areas. Australia's banks have a long history of supporting a competitive and profitable agriculture industry in good times and bad.

The key findings of this report are:

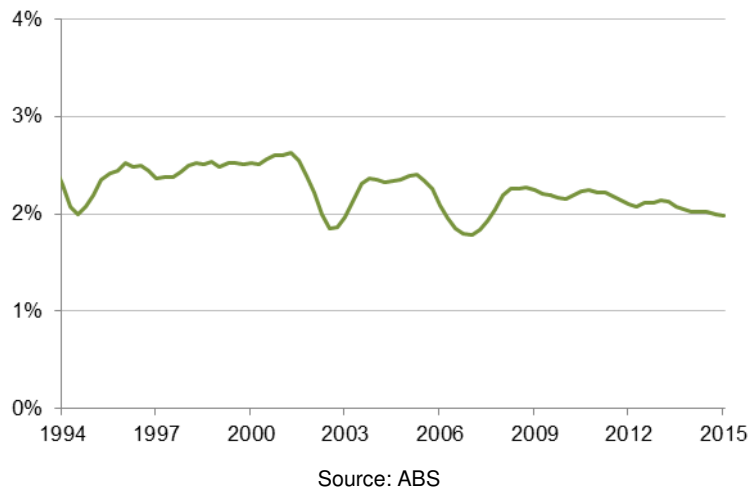
- Agricultural activities occupy about half the land area of Australia.
- Agriculture comprises around 2 per cent of national economic activity, with output of \$78 billion in 2015. This contribution is in line with other medium to large developed economies.
- The largest agricultural activities are grazing livestock followed by broadacre cropping.
- Agricultural profits have been rising steadily since 2007, and have doubled over the past five years.
- There were 179,549 businesses operating in the broader agriculture, forestry and fishing industry as at June 2015. This was 8.5 per cent of all businesses in Australia.
- Australian farms are predominantly Australian owned. Around 99.4 per cent of businesses in the agriculture, forestry and fishing industry were wholly Australian owned as at 2013-14. This is the highest of any industry sector. Around 86 per cent of agricultural land is Australian owned.
- There are 287,500 people employed in the agriculture industry with 70 per cent of these jobs full-time. Agriculture accounts for 2.4 per cent of all jobs in Australia.
- Productivity outcomes for the agriculture, forestry and fishing industry have generally been well above that for the overall market sector over the past two decades.
- Rural exports, including agriculture, forestry and fishing, account for just under 15 per cent of all goods and services exported from Australia. Australia is a major global exporter of some key rural commodities, being one of the top three exporters for wheat, cattle, sheep and dairy.
- Rural businesses have a relatively high demand for finance, and banks have a long history of providing this financial support. About two-thirds of small businesses in agriculture, forestry and fishing have a credit facility other than a credit card. This is a higher recourse to debt funding than in most other small business sectors.
- Lending by banks to the agriculture, forestry and fishing industry increased by 4 per cent over the year to June 2015 to a record high of \$65 billion.
- Around 93 per cent of agriculture, forestry and fishing businesses which seek debt finance are successful in obtaining the required funding. This is a higher success rate than any other business sector, other than health.
- Only 15.5 per cent of businesses in the agriculture, forestry and fishing industry cite a lack of access to funds as a barrier to their business activity and performance. This is lower than the average for industries overall.
- Banks understand that cash flows for farms are much more variable and uncertain than for most other businesses. For this reason banks have a range of measures to support farmers in financial stress and to mediate any disputes.

## 2. Contribution to the economy

### 2.1 Contribution to GDP

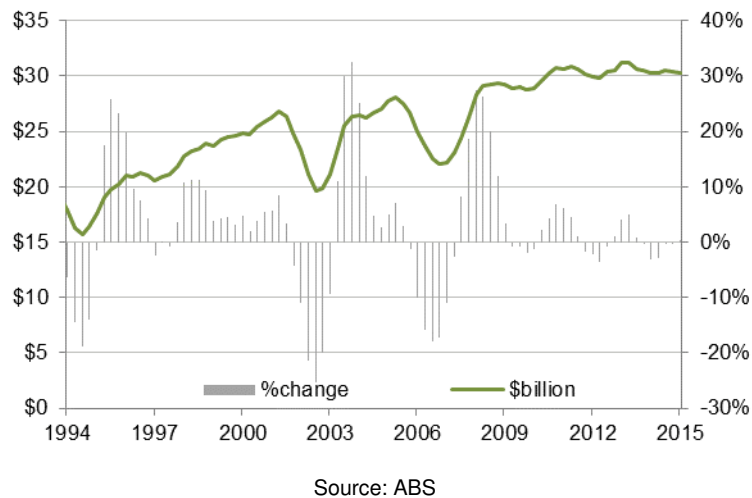
Agriculture contributed \$30 billion or 2 per cent of Australia's gross domestic product (GDP) in 2015. For the past 20 years the contribution has cycled between 2.5 per cent and just under 2 per cent. These cycles have largely reflected climate events such as droughts and the return of rains.

**Figure 1: Agriculture as % of GDP**



Since 2009, the economic contribution of agriculture, as measured by gross value added, has been reasonably stable at between \$29 billion and \$31 billion.

**Figure 2: Agriculture gross value added**



## 2.2 International comparisons

Agriculture as a share of GDP for Australia is consistent with that of other developed countries, between 1 per cent and 2 per cent.

**Figure 3: Agriculture share of GDP (%) (2015)**

|                | %share of GDP |
|----------------|---------------|
| Sweden         | 1             |
| Germany        | 1             |
| United States  | 1             |
| United Kingdom | 1             |
| Australia      | 2             |
| Canada         | 2             |
| France         | 2             |
| Norway         | 2             |
| South Africa   | 2             |
| Spain          | 3             |
| <b>World</b>   | <b>4</b>      |
| Russia         | 5             |
| Brazil         | 5             |
| New Zealand    | 6             |
| Argentina      | 8             |
| China          | 9             |
| Turkey         | 9             |
| Indonesia      | 14            |
| India          | 17            |
| Pakistan       | 25            |

Source: World Bank

Australia ranks in the top 15 global producers for a number of farming outputs:

- 1st - wool production
- 3<sup>rd</sup> - meat sheep production
- 6<sup>th</sup> - wheat production
- 6<sup>th</sup> - meat cattle production
- 8<sup>th</sup> - dairy production
- 10<sup>th</sup> - sugar production

**Figure 4: Production of selected agricultural commodities – top 15 countries**

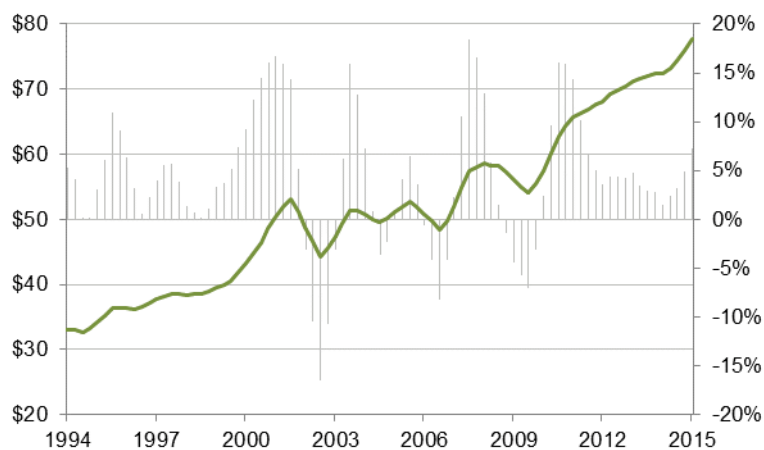
| Wheat            | Sugar            | Wool             | Meat cattle      | Meat sheep       | Dairy            |
|------------------|------------------|------------------|------------------|------------------|------------------|
| China            | Brazil           | <b>Australia</b> | United States    | China            | United States    |
| India            | India            | China            | Brazil           | India            | India            |
| United States    | China            | Jordan           | China            | <b>Australia</b> | New Zealand      |
| Russia           | Thailand         | New Zealand      | India            | Sudan            | China            |
| Canada           | Pakistan         | United Kingdom   | Argentina        | New Zealand      | Brazil           |
| <b>Australia</b> | Mexico           | Russian          | <b>Australia</b> | Nigeria          | Argentina        |
| Pakistan         | Colombia         | Iran             | Mexico           | Pakistan         | Russia           |
| Turkey           | Indonesia        | Pakistan         | Pakistan         | Turkey           | <b>Australia</b> |
| Ukraine          | Philippines      | Sudan            | Russia           | Iran             | Egypt            |
| Iran             | <b>Australia</b> | Morocco          | Canada           | Algeria          | Pakistan         |
| Kazakhstan       | United States    | Turkmenistan     | Colombia         | Bangladesh       | Canada           |
| Argentina        | Argentina        | Turkey           | Egypt            | Russia           | Mexico           |
| Egypt            | Viet Nam         | Argentina        | South Africa     | South Africa     | Iran             |
| Brazil           | South Africa     | India            | Turkey           | Ethiopia         | Ukraine          |
| Mexico           | Egypt            | Kazakhstan       | New Zealand      | Kazakhstan       | Turkey           |

Source: FAOSTAT

## 2.3 Value of agricultural production

The gross value of Australia’s agricultural production in 2015 was \$77.7 billion, an increase of 7.3 per cent over the previous year.

**Figure 5: Gross value of agricultural production**



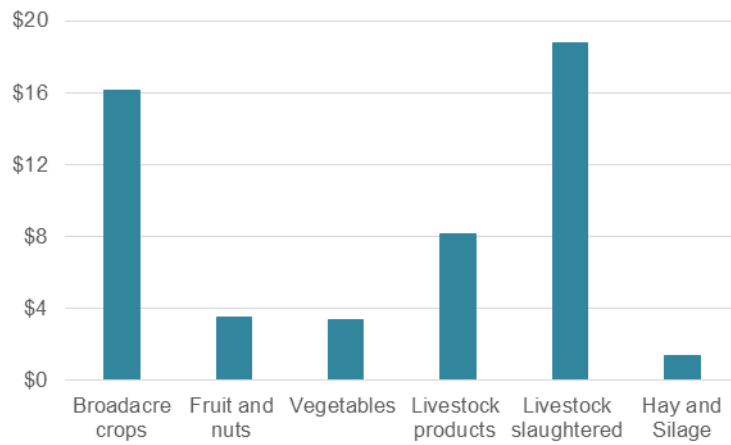
Source: ABS

The major agricultural activity in 2014-15 was slaughtered livestock, comprising 35 per cent or \$18.7 billion of all agricultural output. Cattle and calves accounted for just over one-fifth (21 per cent) of all agricultural production.

Broadacre crops made up 30 per cent or \$16.1 billion of agricultural production. Within this, wheat farming was the largest category of broadacre farming and was second only to cattle and calves in terms of the value of farm commodities produced.

Dairy was the third most important commodity in terms of agricultural production.

**Figure 6: Principal agriculture commodities produced (\$bn)**



Source: ABS



**Figure 7: Value of agricultural commodities produced 2014-15**

| Commodity produced                               | Total                   | %contribution |
|--|-------------------------|---------------|
| <b>Broadacre crops</b>                           | <b>\$16,133,547,013</b> | <b>30.1%</b>  |
| . Wheat  | \$7,124,099,984         | 13.3%         |
| . Barley   | \$2,416,708,799         | 4.5%          |
| . Canola   | \$1,782,360,118         | 3.3%          |
| . Sugar cane                                     | \$1,304,648,311         | 2.4%          |
| . Cotton lint                                    | \$958,411,047           | 1.8%          |
| . Non-cereal crops - Other pulses                | \$906,159,019           | 1.7%          |
| . Other  | \$1,641,159,735         | 3.1%          |
| <b>Fruit and nuts</b>                            | <b>\$3,512,059,787</b>  | <b>6.5%</b>   |
| . Grapes for Wine production                     | \$1,108,082,145         | 2.1%          |
| . Apples   | \$555,899,631           | 1.0%          |
| . Almonds  | \$515,127,776           | 1.0%          |
| . Bananas  | \$455,027,974           | 0.8%          |
| . Oranges  | \$288,460,792           | 0.5%          |
| . Other  | \$589,461,470           | 1.1%          |
| <b>Vegetables</b>                                | <b>\$3,350,341,526</b>  | <b>6.2%</b>   |
| . Potatoes                                       | \$617,953,141           | 1.2%          |
| . Tomatoes                                       | \$285,400,104           | 0.5%          |
| . Mushrooms                                      | \$273,594,381           | 0.5%          |
| . Other  | \$2,173,393,900         | 4.1%          |
| <b>Livestock products</b>                        | <b>\$8,126,844,478</b>  | <b>15.2%</b>  |
| . Milk   | \$4,722,069,696         | 8.8%          |
| . Wool   | \$2,675,927,117         | 5.0%          |
| . Eggs   | \$728,847,665           | 1.4%          |
| <b>Livestock slaughtered and other</b>           | <b>\$18,739,739,832</b> | <b>34.9%</b>  |
| . Cattle and calves                              | \$11,530,488,665        | 21.5%         |
| . Sheep and lambs                                | \$3,296,367,639         | 6.1%          |
| . Poultry  | \$2,609,575,931         | 4.9%          |
| . Pigs   | \$1,149,038,215         | 2.1%          |
| . Other  | \$154,269,381           | 0.3%          |
| <b>Hay and Silage</b>                            | <b>\$1,402,588,922</b>  | <b>2.6%</b>   |
| <b>Nurseries, cut flowers or cultivated turf</b> | <b>\$1,251,567,864</b>  | <b>2.3%</b>   |
| <b>Total</b>                                     | <b>\$53,624,771,566</b> | <b>100.0%</b> |

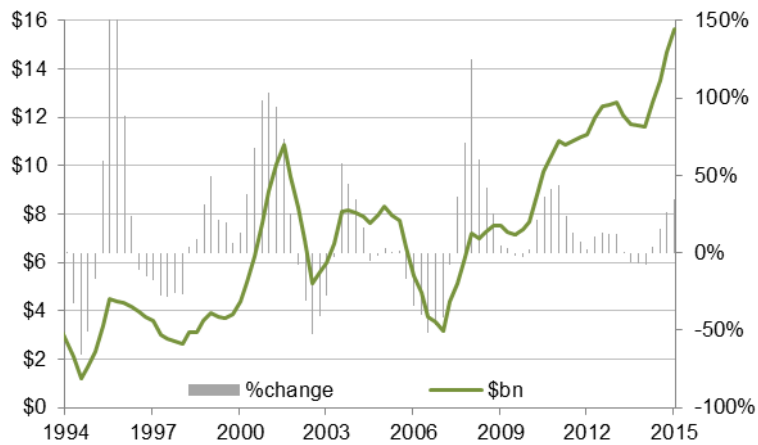
## 2.4 Income, costs and profit

Profits from the agriculture industry have been rising solidly since 2007.

Gross operating surplus (GOS) for the industry was \$15.6 billion in 2015, an increase of 34 per cent over the previous year.

GOS has doubled over the past five years.

**Figure 8: Agriculture income (GOS)**



Source: ABS

Just on 70 per cent of agricultural businesses reported a profit over the three years ending June 2014. That was slightly lower than for all industries (77.6 per cent).

However, the average profitability was solid, with an average profit margin of 16.0 per cent, considerably higher than the 11.9 per cent result across all industries.

**Figure 9: Profit indicators (average 3 years to June 2014)**

|   | Profit margin | Made a profit | Broke even  | Made a loss  |
|---|---------------|---------------|-------------|--------------|
| Agriculture, forestry and fishing               | 16.0%         | 69.8%         | 0.9%        | 29.3%        |
| Mining  | 29.4%         | 38.4%         | 1.6%        | 58.8%        |
| Manufacturing                                   | 4.9%          | 77.4%         | 1.4%        | 21.2%        |
| Construction                                    | 8.6%          | 80.6%         | 1.5%        | 17.8%        |
| Transport, postal and warehousing               | 10.3%         | 85.2%         | 1.2%        | 13.6%        |
| Information media and telecommunications        | 10.6%         | 74.7%         | 1.9%        | 23.4%        |
| Rental, hiring and real estate services         | 39.8%         | 81.6%         | 1.6%        | 16.8%        |
| Professional, scientific and technical services | 24.7%         | 80.5%         | 1.8%        | 17.8%        |
| Arts and recreation                             | 14.7%         | 75.8%         | 2.8%        | 21.4%        |
| <b>Total selected industries</b>                | <b>11.9%</b>  | <b>77.6%</b>  | <b>1.6%</b> | <b>20.7%</b> |

Source: ABS

Not all farm income is derived from activities on the farm. About three-quarters of income was derived from on-farm production in 2014-15 while 19 per cent came from off-farm income and other activities.

**Figure 10: Source of farm income 2014-15 (%)**

|                                | NSW          | Vic          | Qld          | SA           | WA           | Tas          | NT           | ACT          | Total        |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agricultural production        | 70.4         | 77.1         | 71.5         | 77.3         | 81.5         | 72.0         | 74.7         | 63.2         | 74.0         |
| Grants, govt transfers, relief | 0.5          | 0.2          | 0.5          | 0.3          | 0.3          | 0.5          | np           | np           | 0.4          |
| Off-farm employment/activities | 21.9         | 16.3         | 21.4         | 16.0         | 13.1         | 20.6         | 17.4         | 26.3         | 18.9         |
| Other funding sources          | 6.1          | 5.1          | 5.4          | 4.8          | 4.4          | 4.8          | 5.0          | 7.3          | 5.4          |
| Not stated                     | 1.1          | 1.4          | 1.2          | 1.5          | 0.7          | 2.1          | np           | np           | 1.2          |
| <b>Total</b>                   | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> | <b>100.0</b> |

Source: ABS

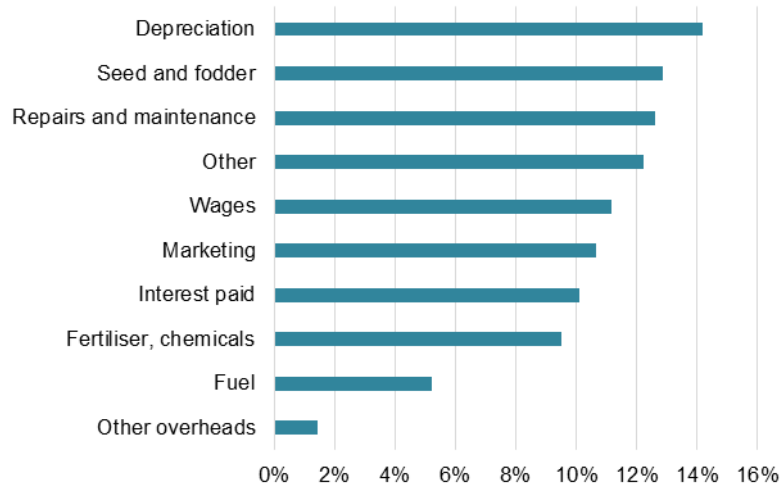
There are many costs incurred in farming. In 2014-15 the biggest costs were depreciation, seeds and fodder, and repairs and maintenance. The cost of fertiliser, chemicals and fuel were less significant.

**Figure 11: Major components of farm costs (\$m)**

|                         | 1999-00         | 2002-03         | 2005-06         | 2008-09         | 2011-12         | 2014-15         |
|-------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Fuel                    | \$1,450         | \$1,520         | \$2,223         | \$2,235         | \$2,407         | \$2,005         |
| Fertiliser              | \$1,840         | \$1,820         | \$1,843         | \$3,367         | \$2,344         | \$2,163         |
| Chemicals               | \$1,604         | \$1,550         | \$1,749         | \$1,781         | \$1,471         | \$1,495         |
| Seed and fodder         | \$2,847         | \$4,874         | \$3,827         | \$5,259         | \$4,133         | \$4,957         |
| Marketing               | \$3,144         | \$2,433         | \$3,675         | \$3,730         | \$4,007         | \$4,100         |
| Repairs and maintenance | \$2,150         | \$2,392         | \$2,602         | \$3,070         | \$3,876         | \$4,846         |
| Other                   | \$3,017         | \$3,329         | \$3,692         | \$3,820         | \$4,411         | \$4,705         |
| <b>Total</b>            | <b>\$16,052</b> | <b>\$17,918</b> | <b>\$19,611</b> | <b>\$23,262</b> | <b>\$22,648</b> | <b>\$24,271</b> |
| <b>Other costs</b>      |                 |                 |                 |                 |                 |                 |
| Wages                   | \$3,250         | \$3,226         | \$3,778         | \$3,828         | \$4,170         | \$4,296         |
| Interest paid           | \$2,023         | \$2,295         | \$3,249         | \$4,331         | \$4,836         | \$3,883         |
| Other overheads         | \$372           | \$412           | \$446           | \$477           | \$525           | \$561           |
| <b>Total</b>            | <b>\$5,645</b>  | <b>\$5,933</b>  | <b>\$7,473</b>  | <b>\$8,636</b>  | <b>\$9,531</b>  | <b>\$8,740</b>  |
| <b>Total cash costs</b> | <b>\$21,697</b> | <b>\$23,851</b> | <b>\$27,084</b> | <b>\$31,898</b> | <b>\$32,179</b> | <b>\$33,011</b> |
| <b>Depreciation</b>     | <b>\$3,526</b>  | <b>\$3,915</b>  | <b>\$4,255</b>  | <b>\$4,674</b>  | <b>\$5,070</b>  | <b>\$5,455</b>  |
| <b>Total farm costs</b> | <b>\$25,223</b> | <b>\$27,766</b> | <b>\$31,339</b> | <b>\$36,573</b> | <b>\$37,249</b> | <b>\$38,465</b> |

Source: ABARE

**Figure 12: Major components of farm costs (2014-15)**



Source: ABARE

## 2.5 Land use and land values

Farming activities occupy about half the land area of Australia.

Land use for farming varies from around three-quarters of the land in Queensland (79 per cent) and NSW (72 per cent), to about half the land in Victoria (53 per cent) and SA (47 per cent), with a third in WA (32 per cent).

Looking across the states and territories, Queensland accounts for 35 per cent of all farming land in Australia, followed by WA at 21 per cent, and NSW at 15 per cent.

**Figure 13: Land use 2014-15**

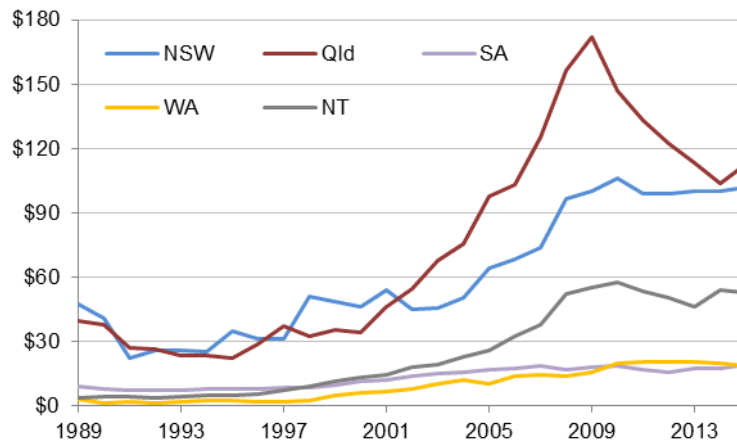
|                                  | NSW           | Vic           | Qld            | SA            | WA             | Tas          | NT             | ACT        | Aust           |
|----------------------------------|---------------|---------------|----------------|---------------|----------------|--------------|----------------|------------|----------------|
| Area of farms ('000 Ha)          | 57,399        | 12,009        | 135,918        | 45,837        | 81,399         | 1,569        | 50,392         | 35         | 384,558        |
| . Area of farms (%)              | 72%           | 53%           | 79%            | 47%           | 32%            | 23%          | 37%            | 15%        | 50%            |
| . Area of crops ('000 Ha)        | 6,488         | 4,504         | 2,407          | 3,986         | 8,657          | 130          | 19             | 0          | 26,192         |
| Area non-agric land ('000 Ha)    | 22,665        | 10,733        | 37,147         | 52,511        | 171,589        | 5,271        | 84,521         | 201        | 384,644        |
| <b>Total land area ('000 Ha)</b> | <b>80,064</b> | <b>22,742</b> | <b>173,065</b> | <b>98,348</b> | <b>252,988</b> | <b>6,840</b> | <b>134,913</b> | <b>236</b> | <b>769,202</b> |

Source: ABS

The value of farming land increased solidly throughout the first decade of the 21<sup>st</sup> century (2001 to 2010).

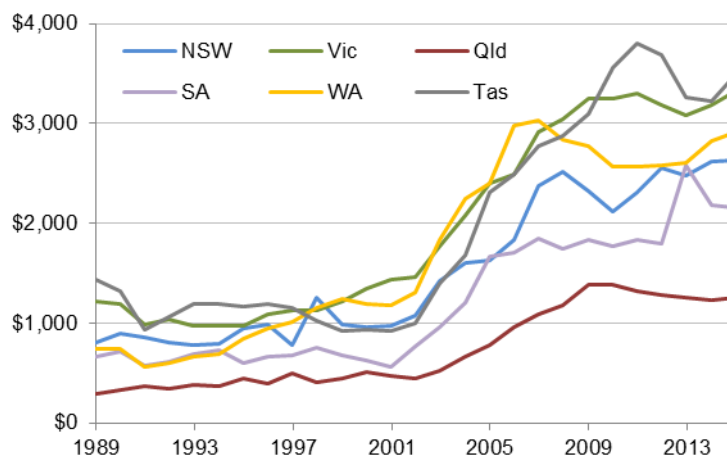
More recently the value of grazing land has declined in Queensland and has been relatively flat in other states and territories, while the performance of other farming land has been mixed.

Figure 14: Values for grazing land (per hectare)



Source: ABARE

Figure 15: Values for other farming land (per hectare)



Source: ABARE

## 2.6 Number and ownership of businesses

There were 179,549 businesses operating in the agriculture, forestry and fishing industry at June 2015. This was 8.5 per cent of all businesses in Australia.

The agriculture, forestry and fishing industry has the fifth highest number of businesses of the 19 industry divisions for which ABS release data.

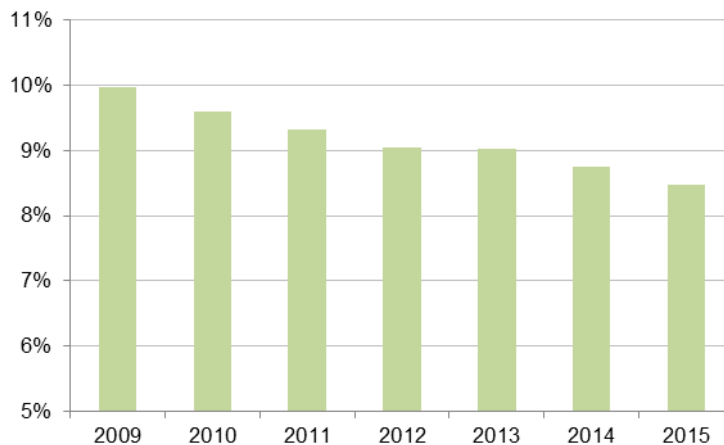
Nevertheless, the number of businesses is shrinking, with the number of businesses declining by 12 per cent over the past six years compared with a decline of 9 per cent in the number of manufacturing businesses.

**Figure 16: Number of businesses by industry division**

|   | 2009             | 2011             | 2013             | 2015             |
|---|------------------|------------------|------------------|------------------|
| Construction                                    | 344,419          | 353,920          | 335,767          | 345,479          |
| Professional, Scientific and Technical Services | 234,347          | 252,829          | 247,621          | 255,064          |
| Rental, Hiring and Real Estate Services         | 218,592          | 227,820          | 225,539          | 234,228          |
| Financial and Insurance Services                | 149,575          | 164,778          | 168,955          | 184,183          |
| <b>Agriculture, Forestry and Fishing</b>        | <b>204,503</b>   | <b>198,952</b>   | <b>187,600</b>   | <b>179,549</b>   |
| Retail Trade                                    | 139,808          | 144,297          | 135,643          | 132,382          |
| Transport, Postal and Warehousing               | 134,205          | 132,839          | 125,857          | 127,069          |
| Health Care and Social Assistance               | 92,733           | 101,716          | 107,628          | 117,915          |
| Other Services                                  | 86,242           | 89,919           | 87,108           | 89,341           |
| Accommodation and Food Services                 | 77,695           | 82,226           | 81,859           | 87,555           |
| Manufacturing                                   | 91,949           | 90,579           | 85,071           | 83,489           |
| Administrative and Support Services             | 77,332           | 82,375           | 78,474           | 79,751           |
| Wholesale Trade                                 | 77,202           | 79,832           | 76,379           | 76,659           |
| Education and Training                          | 24,575           | 26,376           | 25,835           | 27,275           |
| Arts and Recreation Services                    | 27,057           | 27,735           | 26,100           | 26,127           |
| Information Media and Telecommunications        | 17,995           | 19,010           | 18,582           | 19,481           |
| Mining  | 7,803            | 8,249            | 8,301            | 8,067            |
| Public Administration and Safety                | 7,815            | 7,781            | 7,351            | 7,274            |
| Electricity, Gas, Water and Waste Services      | 5,661            | 5,917            | 5,769            | 6,063            |
| Currently Unknown                               | 31,134           | 35,262           | 44,227           | 34,284           |
| <b>All Industries</b>                           | <b>2,050,642</b> | <b>2,132,412</b> | <b>2,079,666</b> | <b>2,121,235</b> |
| % Agriculture, Forestry and Fishing             | 10.0%            | 9.3%             | 9.0%             | 8.5%             |

Source: ABS

**Figure 17: Agriculture, forestry and fishing as a % of all businesses**



Source: ABS

Australian farms are predominantly Australian owned. Around 99.4 per cent of businesses in agriculture, forestry and fishing were wholly Australian owned as at 2013-14. This is the highest of any industry sector.

About 86 per cent of agricultural land is Australian owned. The biggest foreign owners are the UK, USA and the Netherlands.

**Figure 18: Proportion of businesses that are wholly Australian owned (%)**

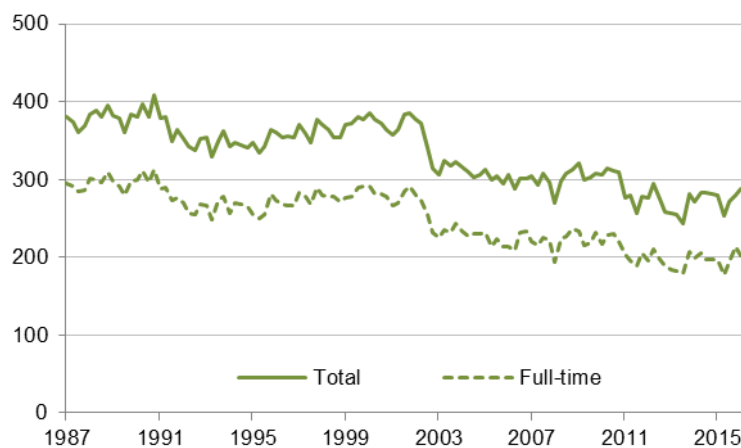
|   | Wholly Australian owned |
|---|-------------------------|
| Agriculture, Forestry and Fishing               | 99.4                    |
| Financial and Insurance Services                | 99.2                    |
| Health Care and Social Assistance               | 98.3                    |
| Rental, Hiring and Real Estate Services         | 97.5                    |
| Administrative and Support Services             | 97.3                    |
| Other Services                                  | 96.9                    |
| Construction                                    | 96.2                    |
| Arts and Recreation Services                    | 96.1                    |
| Transport, Postal and Warehousing               | 94.9                    |
| Accommodation and Food Services                 | 94.2                    |
| Retail Trade                                    | 93.2                    |
| Electricity, Gas, Water and Waste Services      | 91.8                    |
| Professional, Scientific and Technical Services | 91.7                    |
| Manufacturing                                   | 91.1                    |
| Wholesale Trade                                 | 85.6                    |
| Information Media and Telecommunications        | 85.6                    |
| Mining  | 62.6                    |
| <b>Total</b>                                    | <b>94.1</b>             |

Source: ABS

## 2.7 Employment

There were 287,500 people employed in agricultural activities as of February 2016 and 70 per cent of these jobs were full-time.

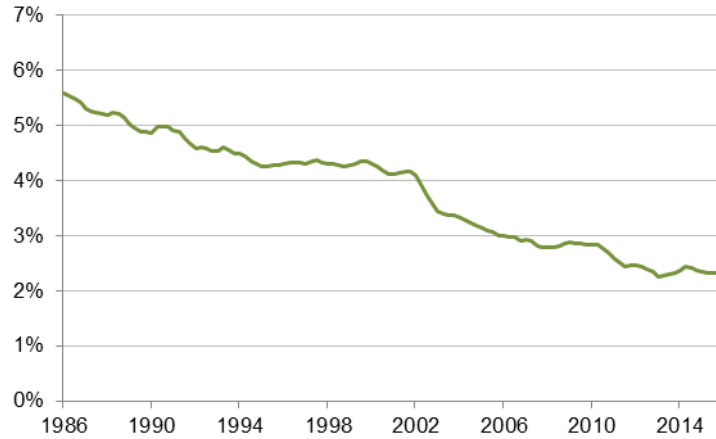
**Figure 19: Agriculture – employment ('000)**



Source: ABS

Agriculture accounts for 2.4 per cent of all jobs in Australia. This proportion has been in trend decline for some decades but seems to have stabilised over the past four years.

**Figure 20: Agriculture as % of total employment**



Source: ABS

The distribution of employment across agricultural activities has seen significant change over time. Since the turn of this century alone, the number of persons employed in grains, sheep and beef farming has almost halved from 211,700 to 115,700. Similarly, horticulture and fruit has seen employment fall from 100,400 to 51,000 over the period from 2000 to 2015.

The category 'other', however, has seen a substantial rise and now (2014-15) is the second highest employer at 59,000.

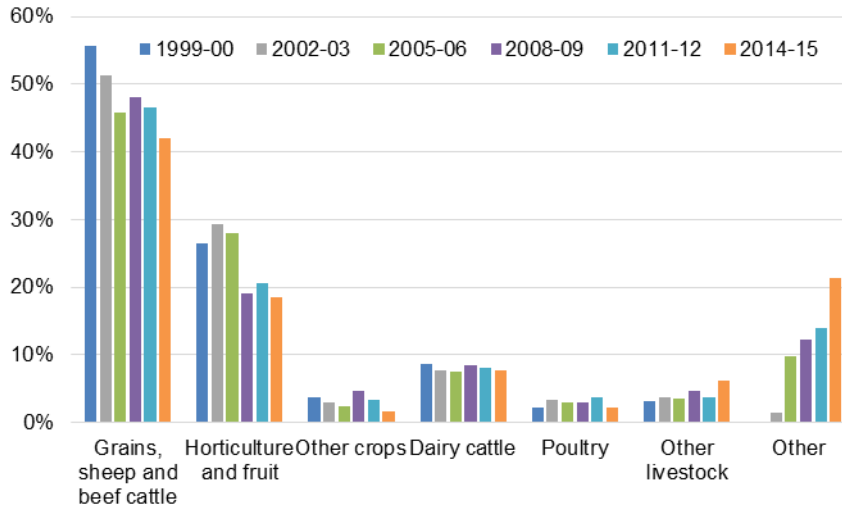
**Figure 21: Agriculture – distribution of employment ('000)**

|                            | 1999–00      | 2002–03      | 2005–06      | 2008–09      | 2011–12      | 2014–15      |
|----------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Grains, sheep, beef cattle | 211.7        | 165.0        | 136.4        | 149.7        | 129.1        | 115.7        |
| Horticulture and fruit     | 100.4        | 94.2         | 83.4         | 59.1         | 57.2         | 51.1         |
| Other crops                | 14.2         | 9.7          | 7.3          | 14.3         | 9.5          | 4.7          |
| Dairy cattle               | 33.1         | 25.0         | 22.4         | 26.6         | 22.3         | 21.1         |
| Poultry                    | 8.6          | 11.1         | 8.9          | 9.1          | 10.1         | 6.3          |
| Other livestock            | 12.1         | 12.0         | 10.7         | 14.8         | 10.1         | 16.9         |
| Other                      | na           | 4.4          | 29.1         | 37.8         | 38.8         | 59.0         |
| <b>Total</b>               | <b>380.1</b> | <b>321.5</b> | <b>298.1</b> | <b>310.7</b> | <b>277.0</b> | <b>274.9</b> |

Source: ABARE



**Figure 22: Agriculture – distribution of employment**



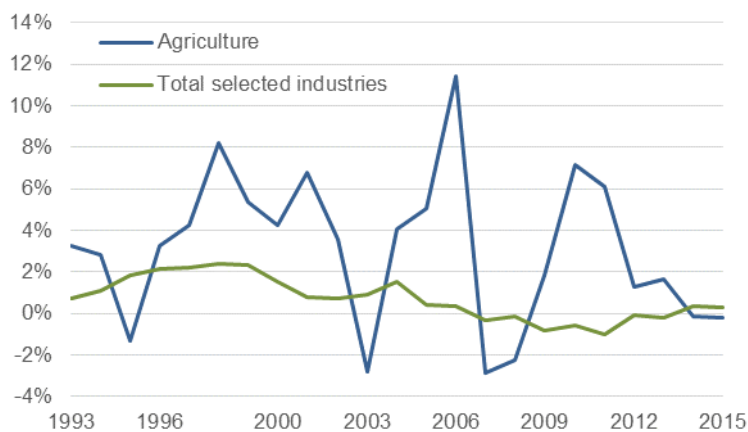
Source: ABARE

## 2.8 Productivity

Productivity outcomes for the agriculture, forestry and fishing industry has generally been well above that for the overall market sector over the past two decades.

Over the past five years, average productivity growth for this industry has been 0.8 per cent per year compared to no growth (a flat outcome) for productivity across the overall market sector. However, that outperformance has not been apparent over the past two years.

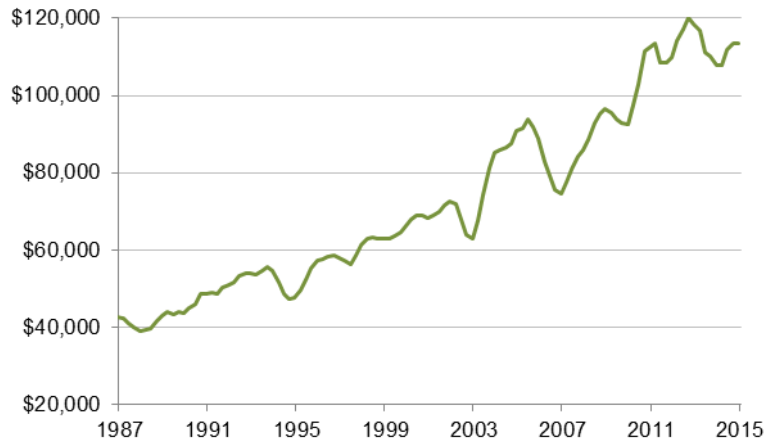
**Figure 23: Productivity (average change over 3 years)**



Source: ABS

Another way to look at productivity is through gross value added per employee. This has been broadly trending higher over the past three decades, although there has been some cyclic easing over the past two years or so.

**Figure 24: Agriculture value added per employee**



Source: ABS

## 2.9 Innovation

The proportion of businesses in the agriculture, forestry and fishing industry which are involved in innovation is generally lower than the average across all industries. Even so, almost one in eight agriculture, forestry and fishing businesses undertook innovation in goods and services, one in six undertook innovation in their operational process, and one in eleven innovated their organisational or managerial processes.

**Figure 25: Innovation (2013-14)**

|   | Goods or services | Operational processes | Organisational or managerial processes | Marketing methods |
|---|-------------------|-----------------------|--|-------------------|
|   | %                 | %                     | %                                      | %                 |
| Agriculture, Forestry and Fishing             | 12.2              | 15.4                  | 9.2                                    | 4.7               |
| Mining  | 12.2              | 21.2                  | 21.9                                   | 6.5               |
| Manufacturing                                 | 28.1              | 27.4                  | 23.8                                   | 25.0              |
| Electricity, Gas, Water & Waste               | 21.0              | 22.7                  | 24.4                                   | 21.9              |
| Construction                                  | 16.0              | 12.1                  | 17.2                                   | 14.6              |
| Wholesale Trade                               | 36.6              | 28.0                  | 27.3                                   | 28.9              |
| Retail Trade                                  | 36.6              | 16.3                  | 23.2                                   | 27.5              |
| Accommodation and Food Services               | 40.6              | 19.7                  | 25.5                                   | 28.7              |
| Transport, Postal and Warehousing             | 14.2              | 20.4                  | 16.0                                   | 7.7               |
| Information Media and Telecommunications      | 29.9              | 23.4                  | 26.1                                   | 27.9              |
| Financial and Insurance Services              | 21.9              | 18.2                  | 28.4                                   | 21.2              |
| Rental, Hiring and Real Estate Services       | 16.4              | 18.6                  | 20.3                                   | 18.6              |
| Professional, Scientific & Technical Services | 28.7              | 20.5                  | 25.2                                   | 21.4              |
| Administrative and Support Services           | 19.3              | 20.0                  | 25.0                                   | 21.9              |
| Health Care and Social Assistance             | 18.4              | 16.4                  | 26.2                                   | 18.1              |
| Arts and Recreation Services                  | 19.6              | 16.8                  | 23.9                                   | 30.2              |
| Other Services                                | 20.8              | 9.8                   | 19.1                                   | 26.7              |
| <b>Total</b>                                  | <b>24.1</b>       | <b>17.9</b>           | <b>21.7</b>                            | <b>20.3</b>       |

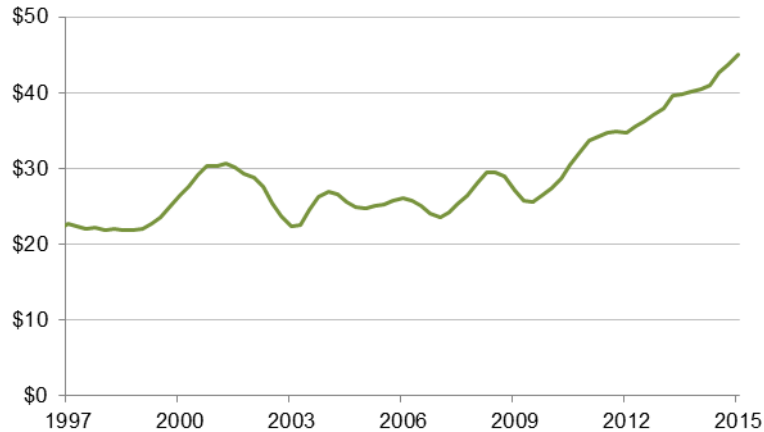
Source: ABS

## 2.10 Exports

The value of rural exports was \$45 billion in 2015.

Rural exports have been growing strongly over the past five years, and are now 64 per cent higher than five years ago.

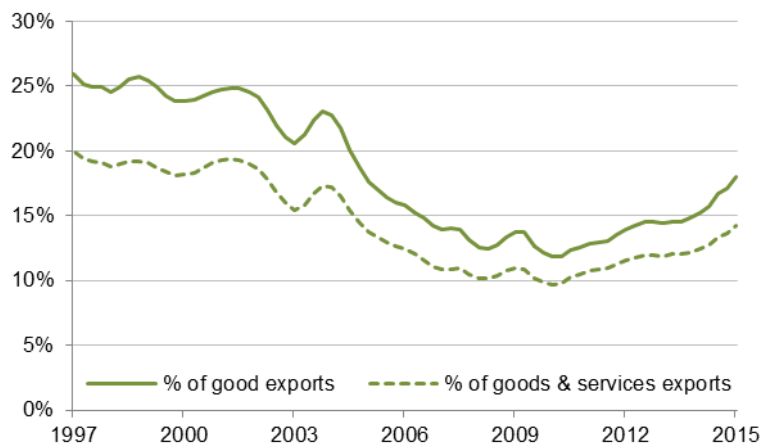
**Figure 26: Rural exports (\$bn)**



Source: ABS

Rural exports now account for just under 15 per cent of all Australian exports of goods and services. Only five years ago this was at a record low of 10 per cent. This low, however, was a result of strong growth in mining exports rather than a fall in rural exports.

**Figure 27: Rural exports as % of exports**



Source: ABS

The composition of rural exports has changed significantly over the past 40 years. In the 1970s and 1980s, over half of rural exports were cereal grains and wool, compared to 25 per cent today. Export of meat has been consistently near 20 per cent.

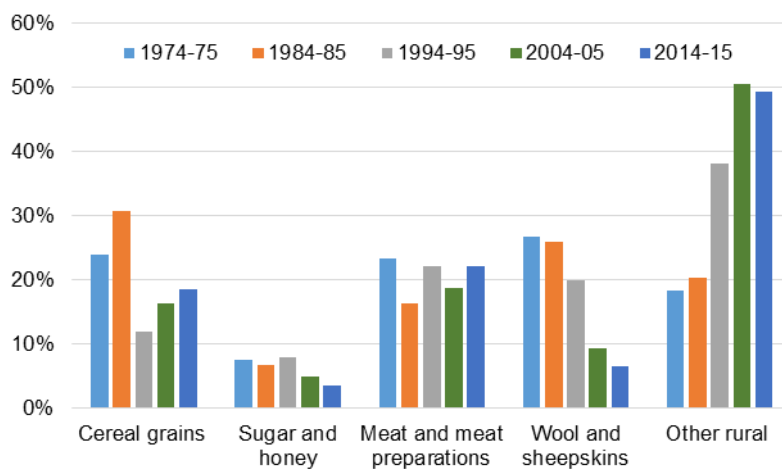
The category 'other' has risen strongly over the past 40 years from 18 per cent to almost half of all rural exports - this includes fruit and vegetables, dairy products, oil-seeds and oleaginous fruits and edible products and preparations.

Figure 28: Composition of rural exports (\$m)

|         | Cereal grains | Sugar and honey | Meat and meat preparations | Wool and sheepskins | Other rural | Total    |
|---------|---------------|-----------------|----------------------------|---------------------|-------------|----------|
| 1974-75 | \$2,590       | \$826           | \$2,539                    | \$2,909             | \$1,979     | \$10,843 |
| 1984-85 | \$5,027       | \$1,098         | \$2,658                    | \$4,237             | \$3,312     | \$16,332 |
| 1994-95 | \$2,888       | \$1,904         | \$5,388                    | \$4,829             | \$9,258     | \$24,267 |
| 2004-05 | \$6,531       | \$2,015         | \$7,520                    | \$3,738             | \$20,285    | \$40,089 |
| 2014-15 | \$8,762       | \$1,652         | \$10,454                   | \$3,099             | \$23,407    | \$47,374 |

Source: ABARE

Figure 29: Composition of rural exports



Source: ABARE

Australia is a major global exporter of some key rural commodities, being in the top three for wheat, cattle, sheep and dairy.

Figure 30: Exports of selected agricultural commodities – top 15 countries

| Wheat            | Meat cattle      | Meat sheep       | Dairy            |
|------------------|------------------|------------------|------------------|
| United States    | Brazil           | <b>Australia</b> | New Zealand      |
| Canada           | <b>Australia</b> | China            | United States    |
| <b>Australia</b> | India            | Turkey           | <b>Australia</b> |
| Russia           | United States    | Nigeria          | Argentina        |
| Ukraine          | Canada           | India            | India            |
| Kazakhstan       | New Zealand      | Iran             | Egypt            |
| India            | Mexico           | Ethiopia         | Ukraine          |
| Argentina        | Argentina        | South Africa     | Iran             |
| Turkey           | Colombia         | Sudan            | China            |
| Mexico           | China            | Kazakhstan       | Turkey           |
| Brazil           | Pakistan         | Bangladesh       | Canada           |
| Pakistan         | South Africa     | Pakistan         | Russia           |
| China            | Turkey           | Algeria          | Pakistan         |
| Iran             | Egypt            | Russia           | Mexico           |
| Egypt            | Russia           | New Zealand      | Brazil           |

Source: FAOSTAT

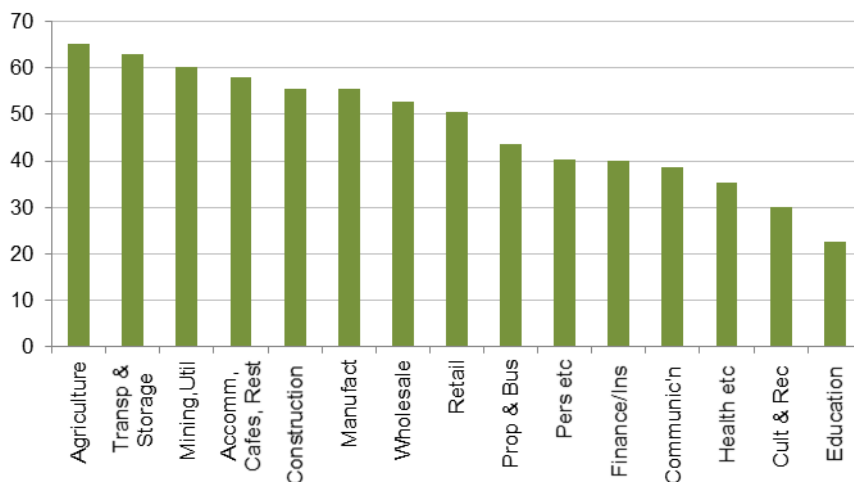
### 3. Finance

The agriculture industry has a relatively high demand for finance and banks have a long history of providing this financial support.

#### 3.1 Loans outstanding

About two-thirds of small businesses (less than 20 employees) in agriculture, forestry and fishing have a credit facility other than a credit card. This is a higher recourse to debt funding than in other small business sectors.

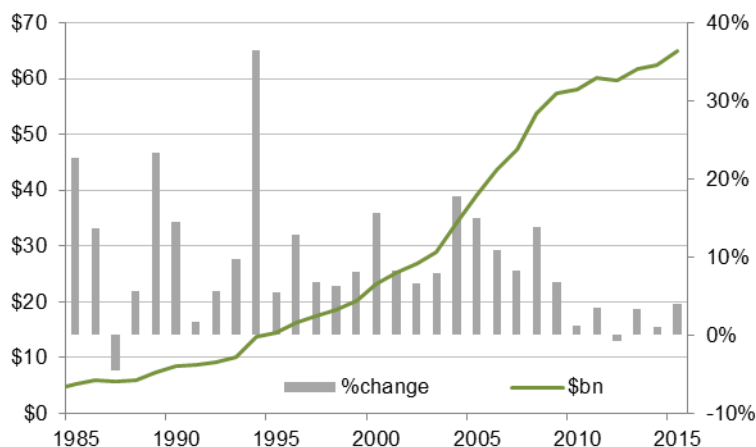
**Figure 31: Proportion of businesses with debt facility (%)**



Source: DBM

Rural lending by banks increased by 4 per cent over the year to June 2015 to a record high of \$65 billion.

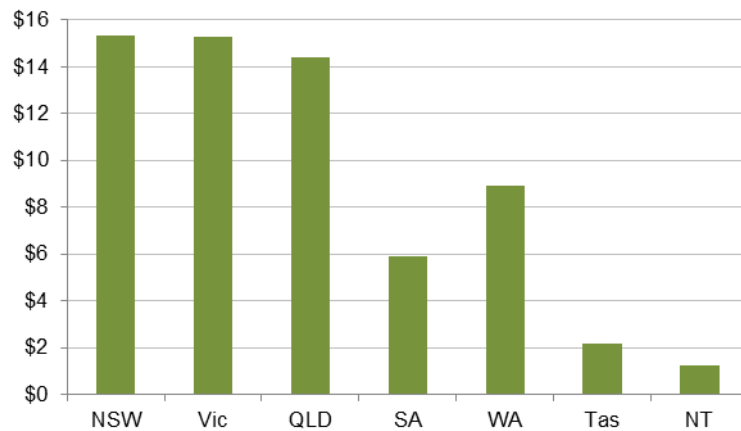
**Figure 32: Rural lending with banks**



Source: RBA

The bulk of the lending (71 per cent) is in three states – NSW, Victoria and Queensland – primarily reflecting the relative share of rural activities.

**Figure 33: Rural lending by state, 2015 (\$bn)**



Source: Neil Clark Associates

By type of activity, almost 90 per cent of lending is to businesses involved in agriculture, with the other 10 per cent for other rural activities such as forestry and fishing, and rural services.

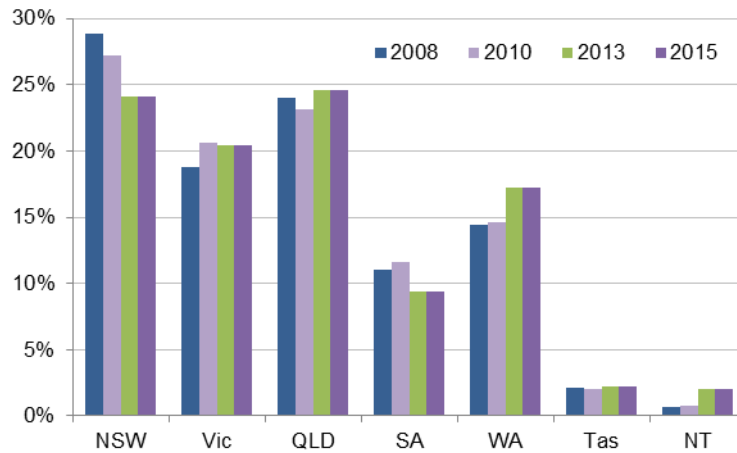
**Figure 34: Rural lending by activity (2015)**

| Activity                     | Lending (\$bn) | % of Agriculture | % of all rural |
|------------------------------|----------------|------------------|----------------|
| Beef                         | \$11.0         | 19.6%            | 17.3%          |
| Grain                        | \$10.6         | 19.0%            | 16.8%          |
| Dairy                        | \$7.0          | 12.4%            | 11.0%          |
| Mixed Cropping               | \$6.3          | 11.3%            | 10.0%          |
| Farm Other                   | \$3.5          | 6.3%             | 5.6%           |
| Fruit                        | \$3.3          | 6.0%             | 5.3%           |
| Cotton                       | \$3.3          | 5.9%             | 5.2%           |
| Vegetable                    | \$2.5          | 4.4%             | 3.9%           |
| Intensive                    | \$2.3          | 4.1%             | 3.6%           |
| Sheep                        | \$2.1          | 3.7%             | 3.3%           |
| Mixed Livestock              | \$1.6          | 2.8%             | 2.5%           |
| Grapes                       | \$1.5          | 2.7%             | 2.4%           |
| Sugar                        | \$1.0          | 1.8%             | 1.6%           |
| <b>Subtotal: Agriculture</b> | <b>\$56.0</b>  | <b>100.0%</b>    | <b>88.5%</b>   |
| <b>Other rural</b>           |                |                  |                |
| Services                     | \$2.7          |                  | 4.3%           |
| Forestry                     | \$2.5          |                  | 4.0%           |
| Fishing                      | \$1.7          |                  | 2.6%           |
| Aquaculture                  | \$0.4          |                  | 0.6%           |
| <b>Total</b>                 | <b>\$63.3</b>  |                  | <b>100.0%</b>  |

Source: Neil Clark Associates

Looking just at lending to farms, Queensland ranks first with around \$14 billion or one quarter of the loans outstanding, just ahead of NSW.

**Figure 35: Agriculture – loan outstandings (% distbn)**



Source: Neil Clark Associates

Beef farming and grains are the two agricultural activities with the highest levels of debt across the agriculture industry. These two activities combined have consistently accounted for around 40 per cent of agriculture debt. Dairy and mixed cropping account for another 20 per cent.

### 3.2 Interest rate on farm loans

At 5.97 per cent the average interest rate on farm loans is now (2014-15) at the lowest level since the data series commenced. It averaged 10.72 per cent throughout the 1990s, 7.74 per cent over the decade 2000 to 2009 and over the past three years the average has been 6.52 per cent.

**Figure 36: Indicative interest rate for farm loans (%)**

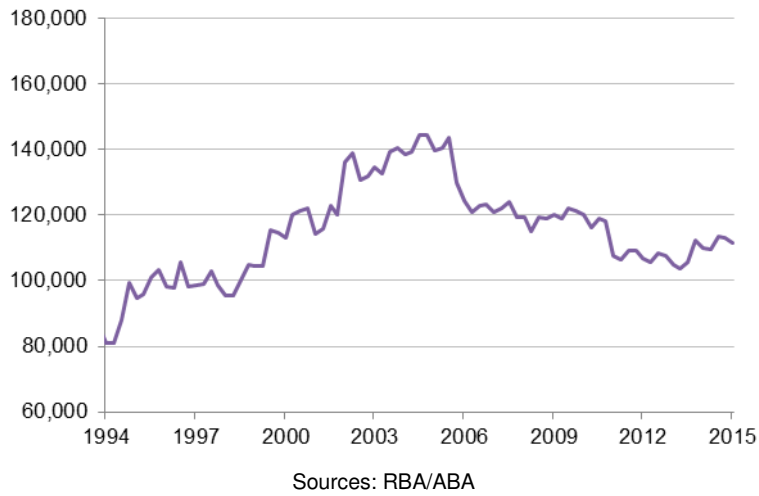


Source: ABARE

### 3.3 Number and size of loans

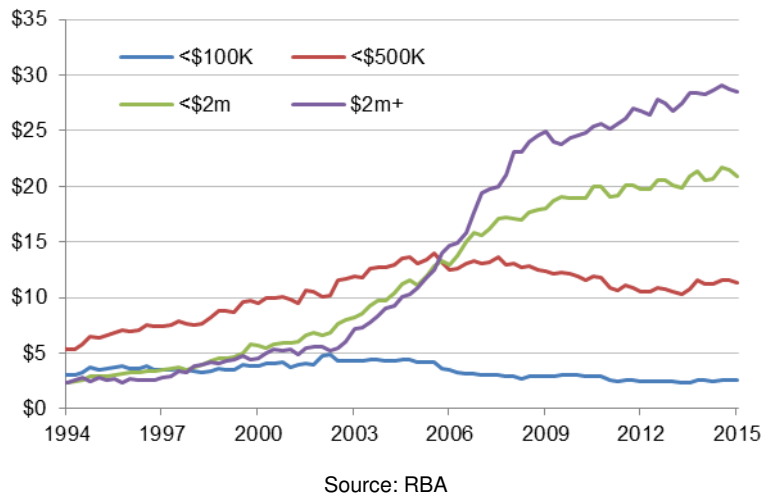
There were an estimated 111,690 farm loans outstanding at end 2015. The number of loans has declined over the past decade in response to a decline in the number of businesses in the agriculture industry and an increase in the average size of loan.

**Figure 37: Agriculture – estimated number of loans**



The proportion of loans that are for a value of \$2 million or over has been rising over time and now accounts for 45 per cent of agricultural loans outstanding. Across all industries the proportion of loans with a value of \$2 million or over is much higher at around 70 per cent.

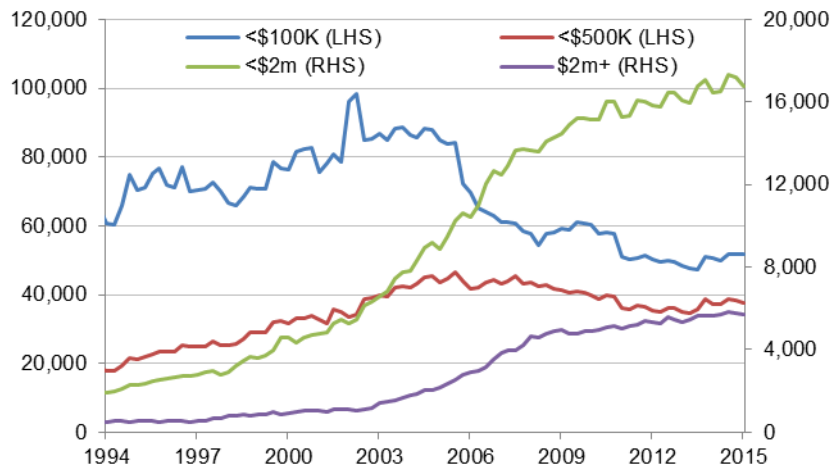
**Figure 38: Agriculture – lending distribution by size of loan (\$bn)**



While 45 per cent of the value of loan outstandings to the agriculture industry are for loans of \$2 million or over, this represents only 5 per cent of the estimated number of loans.



**Figure 39: Agriculture – estimated number of loans by loan size**

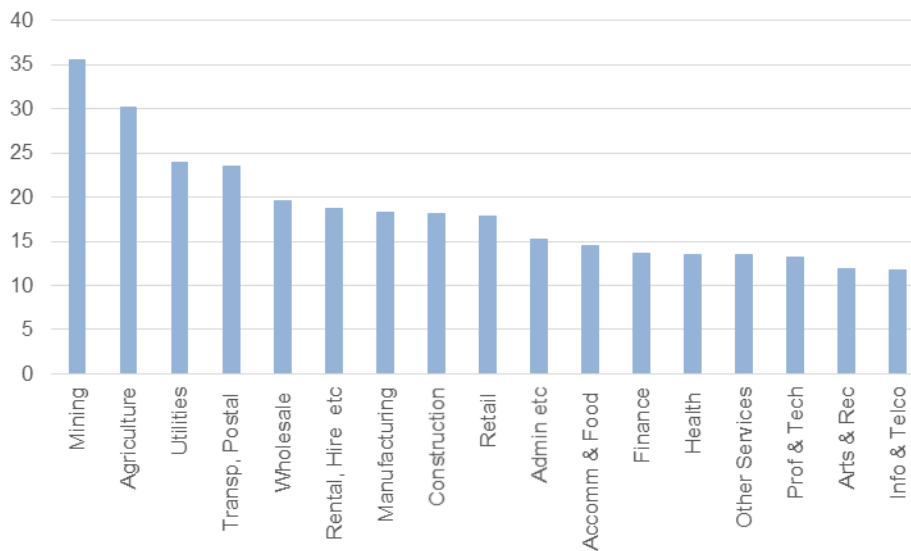


Sources: RBA/ABA

### 3.4 Obtaining new finance

Each year around 30 per cent of businesses in agriculture, forestry and fishing seek debt or equity finance. Only small businesses in the mining sector have had a higher demand for new finance in recent years.

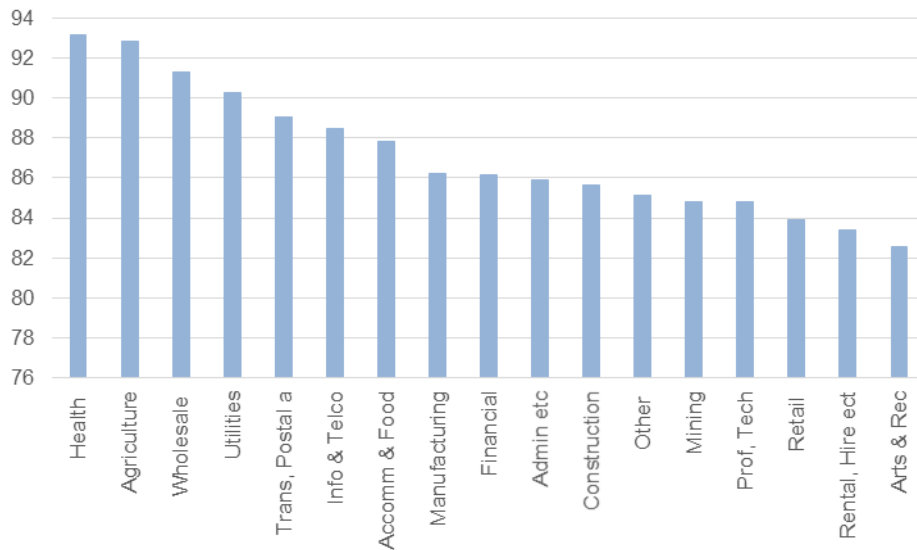
**Figure 40: Businesses that sought debt or equity finance, 5 years ending 2014 (%)**



Source: ABS

Around 93 per cent of agriculture businesses which seek debt finance are successful in obtaining the required funding. This is a higher success rate than any other business sector other than health.

**Figure 41: Businesses that obtained debt finance as a % of those that applied (5 years to 2014)**



Source: ABS

The main reasons for seeking debt or equity finance by businesses in the agriculture, forestry and fishing industry is to ensure survival of the business (44.4 per cent), to maintain short-term cash flow or liquidity (42.3 per cent), to replace equipment or machinery (35.7 per cent) and to expand the business (24.9 per cent).

**Figure 42: Reasons for seeking finance (%)**

|  | 2012-13                           |                | 2013-14                           |                |
|--|-----------------------------------|----------------|-----------------------------------|----------------|
|  | Agriculture, Forestry and Fishing | All industries | Agriculture, Forestry and Fishing | All industries |
| Businesses that sought debt or equity finance          | 29.2                              | 15.7           | 25.7                              | 16.3           |
| Ensure survival of business                            | 31.9                              | 32.0           | 44.4                              | 32.3           |
| Maintain short-term cash flow or liquidity             | 52.5                              | 40.5           | 42.3                              | 42.3           |
| Replacement of:  |                                   |                |                                   |                |
| . IT hardware  | 0.0                               | 6.0            |                                   | 9.4            |
| . Other equipment or machinery                         | 44.1                              | 35.3           | 35.7                              | 29.3           |
| Upgrade of:  |                                   |                |                                   |                |
| . IT hardware  |                                   | 6.1            |                                   | 11.2           |
| . Other equipment or machinery                         | 20.1                              | 19.4           | 13.1                              | 11.9           |
| Purchase of additional:                                |                                   |                |                                   |                |
| . IT hardware  |                                   | 7.8            |                                   | 5.6            |
| . Other equipment or machinery                         | 23.5                              | 26.8           | 22.6                              | 18.4           |
| Assets not related to expansion                        | 10.5                              | 6.1            | 3.0                               | 5.2            |
| Expand business  | 20.9                              | 21.0           | 24.9                              | 18.3           |
| Introduce new or improved goods, services, processes   | 6.1                               | 14.4           | 7.8                               | 9.8            |
| Other reasons businesses sought debt or equity finance | 7.9                               | 9.8            | 11.6                              | 11.5           |

Source: ABS

Supporting the notion that finance is readily available, only 15.5 per cent of businesses in agriculture, forestry and fishing cite a lack of access to funds as a barrier to their business activity and performance. This is lower than the average for industries overall of 16.5 per cent), much lower than mining (26.1 per cent) and accommodation and food (26.0 per cent).

**Figure 43: Barriers to general business activity and performance (%), (2014)**

|  | Lack of access to funds | Cost of inputs | Regulations and compliance | Lack of demand goods/services | Low profit  | Environmental factors |
|--|-------------------------|----------------|----------------------------|-------------------------------|-------------|-----------------------|
| Agriculture, Forestry and Fishing        | 15.5                    | 33.7           | 16.5                       | 6.8                           | 21.4        | 30.5                  |
| Mining                                   | 26.1                    | 19.7           | 23.9                       | 22.1                          | 16.8        | 6.8                   |
| Manufacturing                            | 17.9                    | 17.9           | 9.0                        | 23.6                          | 33.5        | 3.8                   |
| Electricity, Gas, Water & Waste          | 17.1                    | 7.9            | 21.5                       | 14.7                          | 23.4        | 2.9                   |
| Construction                             | 10.7                    | 9.9            | 11.3                       | 15.3                          | 25.8        | 1.7                   |
| Wholesale Trade                          | 16.3                    | 17.6           | 14.0                       | 21.0                          | 35.9        | 3.4                   |
| Retail Trade                             | 23.1                    | 19.2           | 15.1                       | 30.0                          | 42.5        | 3.5                   |
| Accommodation and Food Services          | 26.0                    | 26.4           | 15.8                       | 22.6                          | 36.5        | 6.3                   |
| Transport, Postal and Warehousing        | 14.1                    | 10.9           | 13.5                       | 18.3                          | 25.1        | 3.9                   |
| Information Media & Telecommunications   | 24.1                    | 15.5           | 8.8                        | 18.1                          | 20.9        | 2.1                   |
| Financial and Insurance Services         | 7.6                     | 9.0            | 30.7                       | 6.5                           | 14.8        | 2.2                   |
| Rental, Hiring and Real Estate Services  | 13.6                    | 13.9           | 14.1                       | 13.4                          | 19.0        | 2.9                   |
| Professional, Scientific & Tech Services | 17.2                    | 7.6            | 12.3                       | 16.6                          | 17.4        |                       |
| Administrative and Support Services      | 13.4                    | 10.1           | 13.5                       | 18.6                          | 29.2        | 3.4                   |
| Health Care and Social Assistance        | 14.2                    | 5.5            | 12.3                       | 9.7                           | 14.0        | 2.7                   |
| Arts and Recreation Services             | 17.6                    | 10.9           | 7.4                        | 15.2                          | 15.7        | 5.5                   |
| Other Services                           | 19.6                    | 12.3           | 9.1                        | 14.5                          | 25.1        | 1.8                   |
| <b>Total</b>                             | <b>16.5</b>             | <b>14.4</b>    | <b>13.3</b>                | <b>17.3</b>                   | <b>26.1</b> | <b>4.7</b>            |

Source: ABS

**Figure 44: Businesses who say they have a lack of access to funds (%), (2014)**



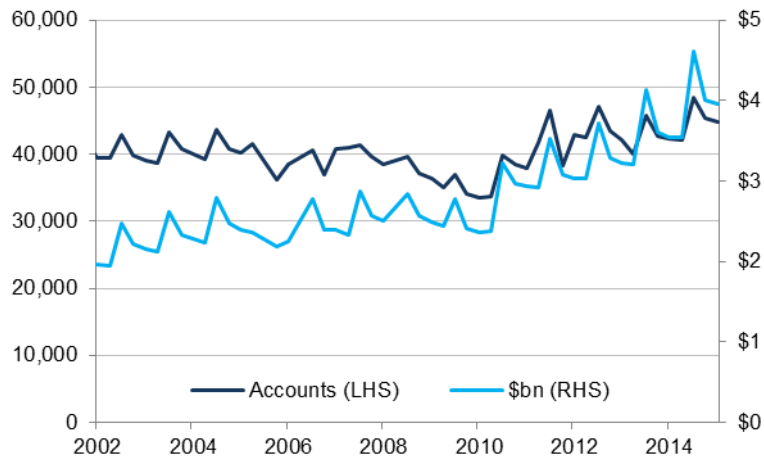
Source: ABS

### 3.5 Farm management deposits

Banks provide dedicated farm management deposits (FMD) to allow cash to be built up in good times and drawn down in times of lower income.

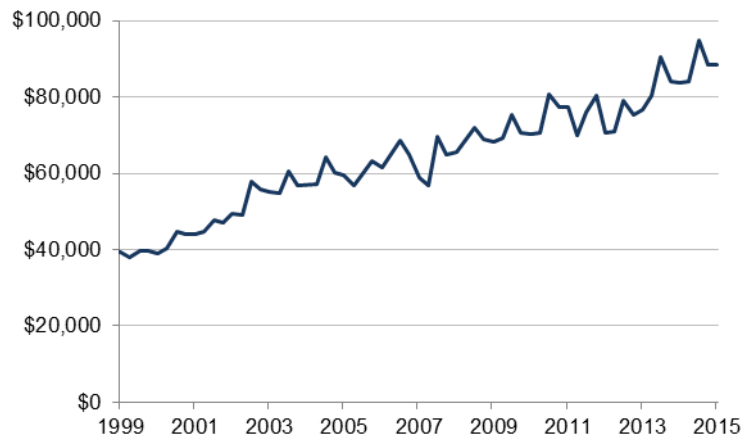
Over the past five years there has been a steady increase in farm management deposits to almost \$4 billion. This has reflected an increase in the number of accounts and in the average balance. In December 2015 there were 44,718 FMD accounts with an average balance of \$88,553.

**Figure 45: Farm management deposits – number of accounts and balance outstanding**



Source: Department of Agriculture, Fisheries and Forestry (DAFF)

**Figure 46: Farm management deposits – average balance**



Source: DAFF



Strong banks – strong Australia

### 3.6 Assistance for farmers in financial difficulty

Banks understand that cash flows for farms are much more variable and uncertain than for most other businesses. This reflects the normal seasonal and year-to-year variations from the weather as well as unforeseen natural disasters, including drought, fire and flood, and variations in commodity prices due to supply and demand fluctuation in other countries.

For this reason banks have a range of measures to support farmers in financial stress and to mediate any disputes.

Farm Debt Mediation (**FDM**) is a mechanism to facilitate a discussion between a farmer and their lender so they can better negotiate their financial position. An independent and neutral mediator assists the farmer and the lender to try to reach agreement about current and future debt arrangements. Banks have found that FDM has generally delivered more positive (i.e. higher equity) outcomes for borrowers.

There is currently no nationally consistent approach to FDM. New South Wales and Victoria have legislated and compulsory FDM schemes. Other states have no formal schemes, or only voluntary schemes in place. The ABA and banks are strong advocates for a national legislated approach to FDM as we believe it will provide greater certainty for customers and streamline operations for banks, especially when customer's properties cross multiple states.

## Appendix 1: Agriculture – summary financials

The following summary data are for the industry subdivision 'agriculture'.

**Figure 47: Agriculture – summary data**

|   |            | 2010–11       | 2011–12       | 2012–13       | 2013–14       | 2014–15       |
|---|------------|---------------|---------------|---------------|---------------|---------------|
| Sales and service income                          | \$m        | 53,658        | 58,938        | 61,641        | 65,313        | 72,835        |
| Funding from government for operational costs     | \$m        | 724           | 788           | 559           | 559           | 716           |
| Interest income                                   | \$m        | 334           | 316           | 350           | 267           | 264           |
| Other income                                      | \$m        | 1,741         | 1,475         | 1,703         | 1,686         | 2,701         |
| <b>Total income</b>                               | <b>\$m</b> | <b>56,456</b> | <b>61,516</b> | <b>64,253</b> | <b>67,825</b> | <b>76,516</b> |
| Selected labour costs                             | \$m        | 4,867         | 5,051         | 5,214         | 5,562         | 6,380         |
| Purchase of goods and materials                   | \$m        | 22,517        | 26,177        | 26,771        | 29,623        | 34,917        |
| Interest expenses                                 | \$m        | 4,802         | 4,176         | 3,788         | 3,619         | 3,464         |
| Depreciation and amortisation                     | \$m        | 2,345         | 2,435         | 2,917         | 2,487         | 2,887         |
| Other selected expenses                           | \$m        | 14,554        | 15,433        | 15,697        | 16,365        | 15,766        |
| Capital work done for own use                     | \$m        | 72            | 72            | 83            | 126           | 204           |
| <b>Total expenses</b>                             | <b>\$m</b> | <b>49,013</b> | <b>53,200</b> | <b>54,305</b> | <b>57,530</b> | <b>63,209</b> |
| Change in inventories                             | \$m        | 974           | 615           | 407           | -198          | 536           |
| Earnings before interest tax deprec, amortisation | \$m        | 13,489        | 13,751        | 15,008        | 14,250        | 17,229        |
| <b>Operating profit before tax</b>                | <b>\$m</b> | <b>8,416</b>  | <b>8,931</b>  | <b>10,355</b> | <b>10,097</b> | <b>13,842</b> |
| Gross fixed capital formation                     | \$m        | 4,194         | 4,379         | 4,013         | 5,247         | 4,995         |
| Capital expenditure                               | \$m        | 7,595         | 7,836         | 5,919         | 8,582         | 11,654        |
| Disposal of assets                                | \$m        | 3,012         | 1,846         | 3,055         | 3,971         | 4,058         |
| Net capital expenditure                           | \$m        | 4,583         | 5,990         | 2,864         | 4,611         | 7,597         |
| Industry value added                              | \$m        | 19,680        | 20,502        | 21,999        | 21,770        | 25,411        |
| <b>Profit margin</b>                              | <b>%</b>   | <b>15.7</b>   | <b>15.2</b>   | <b>16.8</b>   | <b>15.5</b>   | <b>19.0</b>   |
| Wages/salaries to sales and service income        | %          | 8.0           | 7.5           | 7.4           | 7.5           | 7.7           |
| Wages/salaries per employee                       | \$'000     | 22.3          | 23.3          | 22.4          | 24.3          | 28.9          |
| Sales/service income per person employed          | \$'000     | 128.6         | 142.7         | 146.5         | 156.4         | 183.5         |
| Industry value added per person employed          | \$'000     | 47.2          | 49.7          | 52.3          | 52.1          | 64.0          |
| <b>Made a profit</b>                              | <b>%</b>   |               | <b>68.6</b>   | <b>67.1</b>   | <b>72.9</b>   | <b>77.7</b>   |
| Broke even  | %          |               | 1.1           | 0.4           | 1.2           | 0.5           |
| Made a loss                                       | %          | 28.3          | 30.3          | 32.5          | 25.9          | 21.8          |

Source: ABS

## Appendix 2: Agriculture, forestry and fishing classification

Data in the paper are provided at the industry division level – Agriculture, forestry and fishing - as well as the industry sub-division level. The following table will assist readers with understanding what activities are included at each level as per the Australian New Zealand Standard Industry Classification (2006).

**Figure 48: Agriculture, forestry and fishing industry division**

| Industry sub-division                               | Industry group                         | Activities  |                              |
|---|--|---|------------------------------|
| <b>Agriculture</b>                                  | Nursery and Floriculture Production    |   |                              |
|   | Mushroom and Vegetable Growing         |   |                              |
|   | Fruit and Tree Nut Growing             | Grape Growing   |                              |
|   |  | Kiwifruit Growing, Berry Fruit Growing  |                              |
|   |  | Apple and Pear Growing, Stone Fruit Growing   |                              |
|   |  | Citrus Fruit Growing  |                              |
|   |  | Olive Growing   |                              |
|   |  | Other Fruit and Tree Nut Growing  |                              |
|   | Sheep, Beef Cattle, Grain Farming      | Sheep Farming (Specialised)   |                              |
|   |  | Beef Cattle Farming & Feedlots (Specialised)  |                              |
|   |  | Sheep-Beef Cattle Farming   |                              |
|   |  | Grain-Sheep or Grain-Beef Cattle Farming  |                              |
|   |  | Rice Growing  |                              |
|   |  | Other Grain Growing   |                              |
|   |  | Other Crop Growing  | Sugar cane, cotton and other |
|   | Dairy Cattle Farming                   |   |                              |
|   | Poultry Farming                        | Meat and eggs   |                              |
| Deer Farming  |  |   |                              |
| Other Livestock Farming                             | Horse Farming, pig farming             |   |                              |
|   | Beekeeping                             |   |                              |
|   | Other Livestock Farming n.e.c.         |   |                              |
| <b>Aquaculture</b>                                  | Aquaculture                            | Offshore Longline and Rack Aquaculture<br>Offshore Caged Aquaculture<br>Onshore Aquaculture |                              |
| <b>Forestry and Logging</b>                         | Forestry and Logging                   |   |                              |
| <b>Fishing, Hunting and Trapping</b>                | Fishing                                | Rock Lobster and Crab Potting   |                              |
|   |  | Prawn Fishing, line fishing   |                              |
|   |  | Fish Trawling, Seining and Netting  |                              |
|   |  | Other Fishing   |                              |
|   | Hunting and Trapping                   |   |                              |
| <b>Agric, Forestry &amp; Fish. Support Services</b> | Forestry Support Services              |   |                              |
|   | Agric & Fishing Support Services       | Cotton Ginning  |                              |
|   |  | Shearing Services   |                              |
|   | Other Agric & Fishing Support Services |   |                              |

Source: ABS