2009-2010

Government of Nunavut

Budget

BUDGET 2009-2010

BUDGET 2009-2010

BUDGET ADDRESS

AND

FISCAL AND ECONOMIC OUTLOOK

DEPARTMENT OF FINANCE
GOVERNMENT OF NUNAVUT
SECOND SESSION OF THE
THIRD LEGISLATIVE ASSEMBLY

JUNE 4, 2009

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BUDGET ADDRESS 2009-2010

DELIVERED IN THE LEGISLATIVE ASSEMBLY
BY THE HONOURABLE KEITH PETERSON, MLA
MINISTER OF FINANCE

JUNE 4, 2009

Budget Address, 2009-2010

Mr. Speaker, I rise today to present our government's budget for the current fiscal year, and to discuss how we are working now to bring about the better future that we all desire.

As we have described in *Tamapta*, we are looking forward to the year 2030. Guided by *Tamapta*, we are looking ahead to a time when we will all enjoy a higher quality of life. Our people, our families, will be active, healthy and happy. Our communities will depend not on government but on ourselves. And our fellow Canadians and neighbours abroad will recognize the contributions that we make.

In this fiscal year, our government is taking steps to develop the economy, so that we can afford the future we want to build. And we are taking steps to protect our environment, so that future generations can enjoy our land, as we enjoy it today.

Mr. Speaker, let me describe what we are doing to reach our goals.

This year the Government of Nunavut will spend $1.25 billion. We expect to receive total revenue of $1.22 billion. That is an increase of about five per cent from last year. This budget forecasts a deficit of $29.1 million.

Mr. Speaker, the deficit is unfortunate, but also unavoidable. With a global recession underway, this is not the time to raise taxes and slow the economy of Nunavut.

That said, Mr. Speaker, we will not allow the deficit to continue forever. When a government spends more than it receives, it borrows from the future. But deficits and debt are not sustainable. And so, we must turn to the challenges of growing our economy. We must earn the money that we need to pay for the future that we want to build.

Let us talk about our economy, about how we manage our wealth and our resources.

Overall, the Nunavut economy is in reasonably good shape. It is relatively stable, and preparing for growth. The stability comes from Territorial Formula Financing. We will receive $1.02 billion this year. That amount is secure, and provides the backbone of our services to the public.

Our capital plan of $120.8 million will allow us to build the structures that we need for growth and future prosperity. In fact, by topping up our capital plan with money carried forward from last year's plan, we expect to fund construction projects this year worth $200 million. That is a solid contribution to our economic growth.

Mr. Speaker, there is a very serious global recession. When financial markets collapsed, so did jobs and investment. We see those effects here in Nunavut, where mining companies face challenges in financing their exploration.

Despite the downturn, I am encouraged by what I hear from the mining industry about how they view tomorrow.

I attended the recent Prospectors and Developers Association of Canada meeting in Toronto. I heard the reality, industry leaders agree that these aren't the best of times, but they also say that things will improve. The key point for us is that they still consider Nunavut's resources to be solid investments, and will step up activity when their financing allows. We heard much the same from the recent mining symposium here in Iqaluit. So I am encouraged by these positive elements of the mining outlook.

The recession may have slowed the pace of exploration and development activity, but the work of building the mining industry in Nunavut continues. Next year, we will see the Meadowbank mine open, which creates the prospect of hundreds of new jobs.

Mr. Speaker, we are not simply relying on the mining sector for our economic growth.

Our government has set out to expand and diversify Nunavut's economic base, and to continue our strategic investments in infrastructure. We are taking measures that mean jobs and growth today, especially in construction.

We are completing the Nunavut Housing Trust. We will spend $62 million this year on social housing units. This will mean more jobs and better shelter in our smaller communities. And we will see even more jobs and more shelter thanks to the new federal investment in our social housing. We have received $100 million, and we will invest half of that amount this year.

In addition to these projects, Mr. Speaker, we are taking steps to protect Nunavummiut from the turbulence of the global energy market. To offset rising heating bills, we have provided a one-time Homeowner Energy Rebate worth $400 per household. And to help Nunavummiut get out on the land, we have reduced the price of gasoline by ten cents a litre. These measures are helping every community.

Mr. Speaker, these are but a few of the steps that we are taking to grow a diversified economy. We aim for growth in a range of sectors, but also to pursue this growth in a way that reaffirms the traditional way of life. Sectors like mining, oil and gas, the fisheries, and tourism are certainly important to the creation of wealth. But, Mr. Speaker, on-the-land activities and cultural industries are also important to us and deserve our support.

We recognize the value of integrating Inuit societal values into our economic activities and planning. We see the benefit of Inuit knowledge and culture, and of consulting communities and interest groups about their needs and views.

We also see the value of investing in our communities, our small businesses, and our cultural industries.

I am particularly pleased that the federal government has renewed the Strategic Investments in Northern Economic Development Program. Through our dialogue with the federal government the program has been extended for five more years. For our part, the government will continue to match this federal program with the $4 million Strategic Investments Program, creating a substantial source of funds that can contribute to business and economic development in the territory.

Also this year we will begin to develop a new tourism strategy, as recommended by our review of the industry.

And, we will further advance our cultural industries. We began this budget year with the Tenth Anniversary Song Competition. We will continue through the year with the Arts and Crafts Development Program. The world will come to know the Nunavut Brand for Arts and Crafts, Mr. Speaker. They will see it next winter at the Olympic Games, where we will promote Nunavut as an excellent place to live, work and play.

In fact, the Olympic Games represent an excellent opportunity for us to attract world attention. That is why our government has invested $2 million in promoting Nunavut at the Olympics. The world will see Nunavut Day, Inuit traditional games, and cultural performances. And I am looking forward to the Youth Ambassadors program, through which we will provide young Nunavummiut with opportunities to become leaders of tomorrow.

Our people will also need the skills of a 21st century workforce. Education is our greatest challenge and opportunity. We are determined to raise our graduation rate. Our government will invest almost $195 million this year in education, a rise of six percent from last year.

We are also making an investment of $8.6 million to assist the implementation of the *Education*, *Official Languages,* and *Inuit Language Protection Acts*.

Mr. Speaker, we are putting young Nunavummiut on the path to a healthy, happy future. We are building the workforce that will lead Nunavut ahead.

Our task will not end on graduation day. Nunavummiut will require training throughout their careers. Their skills and knowledge are the keys to success. We must offer lifelong learning, and provide income support, so that our people can participate fully in our communities and our economy.

That is why I am looking forward to the opening of the Nunavut Trade School in Rankin Inlet. This is a key step in preparing Nunavummiut for good jobs and good paycheques.

I am also looking forward to continued progress this year in the other operations of the Nunavut Arctic College. Building on last year's reorganization, we have increased our investment in the college this year by five percent.

We are also directing $2 million into a training and development fund for the civil service, so that Government of Nunavut employees can improve their skills. And we will ensure that all employers can do the same, Mr. Speaker. Thanks to the input we received through extensive consultations with businesses, we will implement the Business Training Tax Credit this year. This credit will help businesses to encourage their employees to get training.

In addition to better education, we need to keep improving our health care. I look forward to the day when Nunavummiut can expect to live as long as the average Canadian.

According to federal health statistics, a baby born here today can expect to live for ten years less than the Canadian average. Ten years, Mr. Speaker. Not only that, but we lag the Canadian average on many other indicators as well. For example, our infant mortality rate is almost four times the Canadian average. We cannot allow these gaps to continue.

This means that we must improve health through prevention, and fix our social problems at their roots. We are addressing that challenge. Health and social services accounts for almost one-quarter of our entire budget. In fact our budget for the Department of Health and Social Services will rise this year by 4 per cent from last year's levels. We are determined to ensure that our people can lead healthy lives.

Under our five-year Public Health Strategy, the government is developing new ways to improve care for mothers and newborn children. Preventing chronic disease and injury prevention are important priorities. And the government is creating programs to teach our youth about the benefits of physical activity, healthy eating, and wellness.

We are delivering these initiatives in our communities through community health representatives and in partnership with our community health committees. By engaging our communities, we can deliver the programs and services Nunavummiut need to lead healthier lives.

We will continue to help women and children to escape violence in their homes. The Department of Health and Social Services will develop a policy on Family Violence Shelters, and has allocated an additional $1.3 million to support the existing family violence shelters across the territory. And the government will be making amendments to the *Child and Family Services Act* as we target further support to children and youth.

Mr. Speaker, in making these investments, we must also recognize that people who need help often cannot find it. Our government will set up a social advocacy office to identify vulnerable people who need help, such as our children, and it will explore ways to address social issues.

In addition to improving education, health and social services, our priorities include housing. Through more and better housing, we enable our territory to realize its potential. With good homes, Nunavummiut will be able to participate fully in growing our economy. We will be healthier, and we will enjoy a better quality of life.

This is why we must make housing more accessible, more affordable, and more suitable to the way we live.

We have a long way to go before we can meet these goals, Mr. Speaker, but we are moving in the right direction.

This year we will complete the three-year Nunavut Housing Trust program, which will have given us 725 units across the territory.

As well, we will build another 285 homes over two years. These are made possible by the additional funding that we have secured from the federal government. It is a $100 million investment that will help us to reduce overcrowding and meet the needs of our families.

Mr. Speaker, we are talking about building more homes for families, better health care and social services, and better opportunities to learn. We are working to make sure that our government's actions reflect Inuit values.

This year we will strengthen the presence of these values in the government, and prepare the Inuit Uqausinginnik Taiguusiliuqtit to assume its responsibilities under the *Inuit Language Protection Act*. We are establishing office space, hiring staff, and appointing board members. By September, we anticipate Inuit Uqausinginnik Taiguusiliuqtit to be in full operation. The intent is to ensure that Inuit Language is widely used in modern government and business.

Mr. Speaker, we will ensure that Inuit societal values are better reflected in our approach toward law enforcement. The Department of Justice has agreed with the R.C.M.P. and the federal government to find new ways to settle criminal matters. We will draw on the strengths of our traditional communities. We are strengthening our spousal abuse and family mediation programs, and promoting anti-crime awareness.

As the Minister of Justice, I am looking forward to progress under our Inuit Special Constables project. We want to recruit five beneficiaries this year. Through this pilot program, and through our consultations, we are adapting our law enforcement system to serve Nunavut's unique needs.

Mr. Speaker, all that we have talked about must occur so that our society can advance, and we can achieve the future that we want to build. But none of this should occur at the expense of our environment. We live in a territory that is extraordinarily beautiful.

Our wildlife, our fish, and our natural resources are part of our environmental heritage. They require our continued attention and protection.

Among our priorities this year, we will enhance the Natural Resources Conservation Trust Fund. This will be a permanent fund for education, research and conservation. As well, the Department of Environment will develop and put in place an education and outreach plan to help foreign audiences see that we manage our environment with care and respect.

I am also looking forward, Mr. Speaker, to the steps our government will take this year toward another important environmental goal. That is to establish a blueprint for a Nunavut-wide recycling program. We will start with the city of Iqaluit and the municipality of Rankin Inlet. Those communities will work with our departments of Community and Government Services, Education, Economic Development and Transportation, and the Liquor Commission. Working together, they will find a workable way to protect the environment from the byproducts of our modern lives.

Mr. Speaker, we have talked at length about how we are creating a stronger economy, a stronger society, and a healthy environment. We are also taking a close look at the ways in which our government works toward these goals. Under the leadership of our Premier, we are preparing a report card. It will highlight our strengths and our weaknesses. It will help us to improve our structures, our programs, and our spending. A central idea in *Tamapta* is to understand what is working well now, and what must be improved. We will publish an interim report this fall, Mr. Speaker. And we will include the lessons learned as we plan for our next fiscal year.

Of course, Mr. Speaker, we need not wait for that report card to begin improving what we are doing now.

In my department, our most important job is to manage money better, and we are meeting this challenge in many ways.

First, we are working to improve financial management training across the government. This will help our managers and employees to make better decisions about spending public money. We will also improve how we report to Nunavummiut, so that we can produce financial statements on time.

Second, we will improve our planning methods so that we can use our funds more effectively to support government priorities. We have been using a system of annual plans, but we need to think forward further than one year. Starting with our next business planning cycle, our strategies will look ahead by three years. By looking beyond the current year, we will anticipate developments earlier and improve our ability to deal with them. Through better planning, we can deliver better programs and services to Nunavummiut.

Third, our improved financial management will ultimately help us take control over the royalties that flow from our natural resources. The better we can manage our government, the better we can negotiate a devolution agreement with the federal government. Devolution means that we will manage our natural resources for the benefit of Nunavummiut, just like all the provinces. Prudent financial management helps us to unlock a better future for us all.

Mr. Speaker, we have covered a great deal of ground today. I think you will see from our budget documents that this government is moving forward prudently in building a sustainable territory.

We are on the right path. In fact we have already come a long way, and we should take a moment to acknowledge our progress.

Today, ten years old, we are meeting our challenges, taking appropriate actions, and building for the next decade, and again the decade after that.

And we are doing it in the spirit of *Tamapta*. We are doing it together. With the support of this legislature, we are creating the better future that we want to build for all Nunavummiut.

Appendix: Tamapta/CLᶜC

On April 1, 2009, the Government of Nunavut (GN) tabled *Tamapta/CLᶜC: Building Our Future Together* in the Legislative Assembly. With this document, the GN declares that its primary objective is to improve the quality of life for all Nunavummiut. The GN envisions that by 2030:

- Nunavummiut will continue to have a highly valued quality of life and a much better standard of living for those most in need;
- Individuals and families will all be active, healthy and happy;
- Communities will be self-reliant, based on Inuit societal values, with reduced dependence on government; and
- Nunavut will be recognized for our unique culture, our ability help one another, and for our useful contributions to Canadian and global issues.

The GN also asserts with *Tamapta/CLᶜC* that Nunavummiut should be able to meet basic needs, including affordable and healthy food, safe water and a home. We should feel safe in our communities and have a sense of belonging and purpose. We should be able to rely on family support, friendship and our own sense of personal responsibility. And we should enjoy education and opportunities to learn, communication in our preferred language, pride in our culture, stewardship of our environment and wildlife, access to the land for personal growth, and opportunities for fun, recreation and cultural activities.

In order to make this vision a reality, and to address the most important priorities of the people and communities of Nunavut, the GN commits with *Tamapta/CLᶜC* to:

- Improve education and training outcomes;
- Reduce poverty;
- Connect our community;
- Increase housing options;
- Increase support for culture and the arts;
- Help those at risk in our communities;
- Support community-based sustainable economies;
- Address social concerns at their roots;
- Improve health through prevention; and
- Enhance our recognition in Canada and the world.

As the GN works toward this vision, it reaffirms the principles, based on Inuit societal values, that guided Nunavut's first two governments: *inuuqatigiitsiarniq*, *tunnganarniq*, *pijitsirniq*, *aajiiqatigiinniq, pilimmaksarniq*, *piliriqatigiinniq*, *qanuqtuurniq*, and *avatittinik kamatsiarniq*.

The GN will begin to implement this mandate immediately, developing a detailed Action Plan by the fall of 2009 based on active input from Nunavummiut through the *Qanukkanniq* Report Card on government programs and services.

With *Tamapta/CLᶜC: Building Our Future Together*, the GN declares confidence in Nunavut and hope for its vibrant future, built by our people pursuing their dreams. For more, please see the full document at http://www.gov.nu.ca/english/tamapta/.

Appendix: Infrastructure Funding

On January 27, 2009, in response to the economic downturn, the federal government announced a package of stimulus measures as part of its annual budget for 2009-10. These measures include new funding initiatives, as well as the extension and acceleration of existing funding initiatives, for infrastructure projects across the country. Like other provinces and territories, Nunavut will receive supplementary federal funding for a variety of projects under these initiatives.

Major new funding that the federal government has allocated for infrastructure projects in Nunavut includes:

- *Northern Housing*. The federal government has allocated $100 million in new funding to Nunavut for social housing. The GN will use this funding to construct 285 new social-housing units across Nunavut by 2012. This funding augments the $200 million the federal government previously allocated to Nunavut for social housing through the Northern Housing Trust, which is enabling the GN to construct 725 social-housing units.

- *Gas Tax Fund (GTF)*. The federal government has allocated $60 million in new funding to Nunavut under the existing GTF, for a total of $97.5 million. It has also extended the fund for an additional four years to 2014. In turn, the GN will allocate this funding exclusively to municipalities for a variety of critical municipal infrastructure projects. The federal government does not require the GN to share the cost of projects under this initiative.

- *Arctic Research Infrastructure*. The federal government has allocated $27 million for upgrades to key Arctic research facilities in Nunavut, including up to $11 million for renovations and upgrades to the Nunavut Research Institute.

- *Pangnirtung Small-Craft Harbour*. The federal government has allocated $17 million in additional funding for the construction of a small-craft harbour in Pangnirtung, bringing the total federal funding for this project to $25 million.

- *Social-Housing Renovation*. The federal government has allocated $9 million in new funding for the renovation of existing social housing, including retrofits to accommodate seniors and the disabled. The GN will add $8 million of its own funds to this amount.

- *Infrastructure Stimulus Fund*. The federal government has allocated $3.6 million in new funding to Nunavut for infrastructure rehabilitation projects that can be completed within two years. The federal government requires the GN to share the cost of these projects equally, for a total investment of $7.2 million.

- *Recreational Infrastructure Canada*. The federal government has allocated $189,000 in new funding to Nunavut for recreational infrastructure projects that can be completed within two years. The federal government requires the GN to share the cost of these projects equally, for a total investment of $378,000.

Major extended or accelerated funding that the federal government has allocated for infrastructure projects in Nunavut includes:

- *Building Canada Fund (BCF)*. The federal government has accelerated the disbursement of $183 million in existing BCF funding for Nunavut. The GN uses BCF funding for a wide variety of infrastructure projects, including the *Piqqusilirivvik* cultural school in Clyde River. The federal government requires the GN to share a quarter of the cost of these projects, for a total investment of $244 million.

- *Canadian Strategic Infrastructure Fund (CSIF)*. The federal government has extended the existing CSIF for an additional four years to 2013, though it has not allocated any new funding beyond the original $20 million. The GN uses CSIF funding for water and wastewater projects. The federal government requires the GN to share the cost of these projects equally, for a total investment of $40 million.

- *Municipal Rural Infrastructure Fund (MRIF)*. The federal government has extended the existing MRIF for an additional year to 2013, though it has not allocated any new funding beyond the original $19 million. The GN uses MRIF funding for community and recreational facilities, as well as for municipal energy-efficiency projects. The federal government requires the GN to share the cost of these projects equally, for a total investment of $38 million.

FISCAL AND ECONOMIC OUTLOOK

DEPARTMENT OF FINANCE
GOVERNMENT OF NUNAVUT

JUNE 4, 2009

Table of Contents

List of Figures

1 Fiscal Outlook

1.1 Fiscal Position

The Government of Nunavut (GN) does not anticipate any significant deterioration in its fiscal position in 2009-10, with an estimated deficit of $29.1 million in this fiscal year barely exceeding a projected deficit of $28.4 million in 2008-09. Many other Canadian governments, including the Government of Canada, also anticipate deficits for 2009-10.

Figure 1-1: Fiscal Forecast

Millions of current dollars

	2008-09 Main Estimates	2008-09 Revised Estimates	2008-09 Final Projections	2009-10 Main Estimates
Revenues	1,143.6	1,154.0	1,154.0	1,218.5
- Federal Transfers	1,062.3	1,063.6	1,063.6	1,130.6
- Own-Source Revenues[1]	81.3	90.4	90.4	87.9
Expenditures	1,140.1	1,329.1	1,232.1	1,247.6
- Operations and Maintenance	952.7	1,021.2	1,007.7	1,050.9
- Capital	98.3	272.5	189.0	120.8
- Contingencies	89.1	35.4	35.4	75.9
Accounting Surplus (Deficit)	**3.5**	**(175.1)**	**(78.1)**	**(29.1)**
Add: Federal Trusts	-	69.8	69.8	-
Add: Prior-Year Capital Carryover	-	62.7	62.7	-
Deduct: Current-Year Capital Carryover	-	-	82.8	-
Cash Surplus (Deficit)	**3.5**	**(42.6)**	**(28.4)**	**(29.1)**

[1]*Excludes revolving funds.*

Source: Department of Finance (numbers may not add due to rounding)

High energy costs and the new collective agreement with the Nunavut Employees Union were primary factors contributing to the 2008-09 deficit, in addition to a number of expenses associated with unanticipated events, such as the power-outage in Rankin Inlet and the damage to infrastructure from erosion in Pangnirtung.

Although energy prices have now fallen, planned forced growth, as well as anticipated expenses associated with supporting the GN's *Tamapta/CLᶜC* mandate—including implementing the *Education Act*, *Official Languages Act*, and *Inuit Language Protection Act*—will impact the GN's finances over the coming years. Renegotiation of the collective agreement with the Nunavut Teachers' Association, which expires on June 30, 2009, will also affect expenses.

For these reasons, the GN estimates its operation and maintenance expenditures to increase by $29.7 million to $1,050.9 million in 2009-10. Capital expenditures approved in March 2009 total an additional $120.8 million. The GN will also focus on completing $82.8-million worth of capital projects previously approved, including projects partly funded through federal initiatives such as the Building Canada Fund. At the same time, the GN estimates its revenues, excluding those from revolving funds, to increase by $64.5 million to $1,218.5 million in 2009-10, due to an increase in federal transfers. This uptick in revenues offsets the incremental increase in expenditures.

For more detailed information on the GN's fiscal position, as well as an analysis of the budget for this fiscal year, see the *2009-2010 Government of Nunavut Main Estimates*.

Figure 1-2: Summary of Revenues

Millions of current dollars

	2008-09 Main Estimates	2008-09 Revised Estimates	2008-09 Final Projections	2009-10 Main Estimates
Federal Transfers	1,062.3	1,063.6	1,063.6	1,130.6
- Territorial Formula Financing	944.1	944.1	944.1	1,022.1
- Other Federal Transfers	118.2	119.5	119.5	108.5
Own-Source Revenues	81.3	90.4	90.4	87.9
- Taxes	46.6	53.9	53.9	53.9
- Other[1]	34.7	36.5	36.5	34.0
Total Revenues	**1,143.6**	**1,154.0**	**1,154.0**	**1,218.5**

[1]*Excludes revolving funds.*

Source: Department of Finance (numbers may not add due to rounding)

Figure 1-3: Summary of Expenditures

Millions of current dollars

	2008-09 Main Estimates	2008-09 Revised Estimates	2008-09 Final Projections	2009-10 Main Estimates
Departments	884.2	1,056.6	960.4	986.6
- Community and Government Services	178.4	208.0	191.0	206.9
- Culture, Language, Elders and Youth	19.0	29.7	19.3	21.2
- Economic Development and Transportation	62.3	82.7	73.5	59.9
- Education	192.7	232.3	201.7	209.9
- Environment	20.1	22.9	21.0	21.7
- Executive and Intergovernmental Affairs	12.0	18.8	17.1	14.0
- Finance	64.4	85.8	75.1	74.7
- Health and Social Services	247.6	275.6	268.6	262.9
- Human Resources	18.1	19.0	18.9	22.4
- Justice	69.6	81.8	74.4	93.0
Contributions to Territorial Corporations	151.4	221.4	221.4	168.6
- Nunavut Arctic College	19.3	20.9	20.9	21.9
- Nunavut Housing Corporation	132.1	200.5	200.5	146.7
Legislative Assembly	15.3	15.7	14.9	16.4
Total Expenditures[1]	**1,051.0**	**1,293.7**	**1,196.7**	**1,171.6**

[1]*Excludes contingencies.*

Source: Department of Finance (numbers may not add due to rounding)

1.2 Debt Limit

In 1999, the Governor-in-Council, pursuant to Subsection 27(2) of the *Nunavut Act*, approved GN borrowing up to $200 million. On March 31, 2009, the GN's full debt totalled $150.6 million, or 12% of revenues. The GN is currently able to service its debt obligations.

Figure 1-4: Long-Term Debt at Fiscal Year-End

Millions of current dollars

	Full Credit[1] 2007-08	Full Credit[1] 2008-09	Actual Credit[2] 2008-09
Government of Nunavut			
- Bank Overdraft Liability	-	-	-
- Mortgage Payable	4.7	4.4	4.4
Nunavut Development Corporation			
- Credit Facilities	1.1	0.7	0.2
Nunavut Housing Corporation			
- Long-Term Debt	45.4	43.5	43.5
Qulliq Energy Corporation			
- Credit Facilities	38.0	48.0	23.9
- Long Term Debt	56.0	54.0	54.0
Total Debt	**145.2**	**150.6**	**126.0**
Authorized Borrowing Limit	200.0	200.0	200.0
Available Borrowing Capacity	**54.8**	**49.4**	**74.0**

[1]Includes total credit guaranteed by the GN for use by the various Territorial Corporations.
[2]Includes actual credit in use by the various Territorial Corporations.

Source: Department of Finance (numbers may not add due to rounding)

1.3 Potential Effects of the Economic Crisis

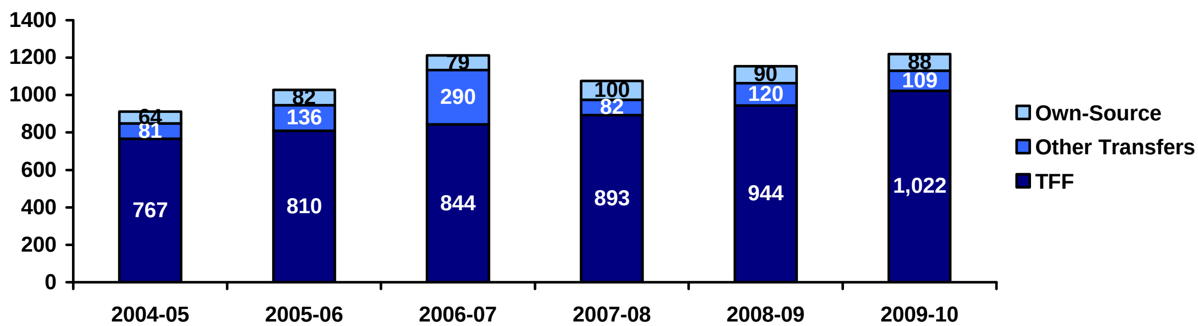
While the current economic crisis may present a concern for Nunavut's private sector (see Section 2.2 below), the GN's finances, which do not depend on debt, are generally secure. The Territorial Formula Financing (TFF) arrangement with the federal government, which has historically provided about 80 percent of territorial revenues, is valid until 2014. The other major federal transfer programs, the Canada Health Transfer and the Canada Social Transfer, are also not at risk, and the federal government has committed generally to an active fiscal policy.

All else being equal, the TFF grant will continue to increase with Nunavut's population, reflecting greater expenses to serve a growing public. While the GN's own revenues, especially income and consumption taxes, may fall as the economic crisis negatively impacts profits, wages and consumption levels, the TFF grant should make up any shortfall.

The economic crisis may nevertheless cause an increase in unemployment among Nunavummiut, as well as personal and corporate debt-default and bankruptcy. The employment rate in Nunavut did in fact fall 4.3 percentage points over the course of 2008, accelerating a longer-term trend (see Section 2.3 below). More straitened circumstances among Nunavummiut may necessitate increased public spending on social programs such as income support, job training and public subsidies. The GN's operational expenditure may therefore rise, requiring a larger share of the GN's budget than usual.

Figure 1-5: Historical Revenues

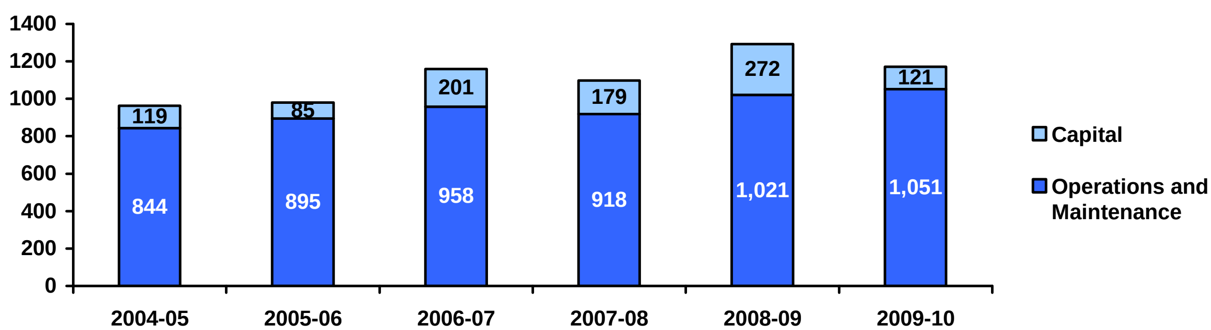
Millions of current dollars



Source: Department of Finance (2004-07 public accounts; 2007-08 actual; 2008-09 revised estimate; 2009-10 estimate)

Figure 1-6: Historical Expenditures

Millions of current dollars



Source: Department of Finance (2004-07 public accounts; 2007-08 actual; 2008-09 revised estimate; 2009-10 estimate)

At the same time, Nunavut has benefited from new capital investment and program spending by the federal government, which has sought to dampen the effects of the economic crisis by ramping up expenditure.

Important federal capital investments include $100 million to address Nunavut's social-housing needs, up to $24 million to build a cultural school in Clyde River, an additional $17 million to accelerate construction of a small-craft harbour in Pangnirtung, and up to $11 million to renovate and upgrade the Nunavut Research Institute. Federal program spending for the three territories as a whole includes a renewed $90 million over five years for economic development projects, and $50 million over five years for a new northern economic development agency.

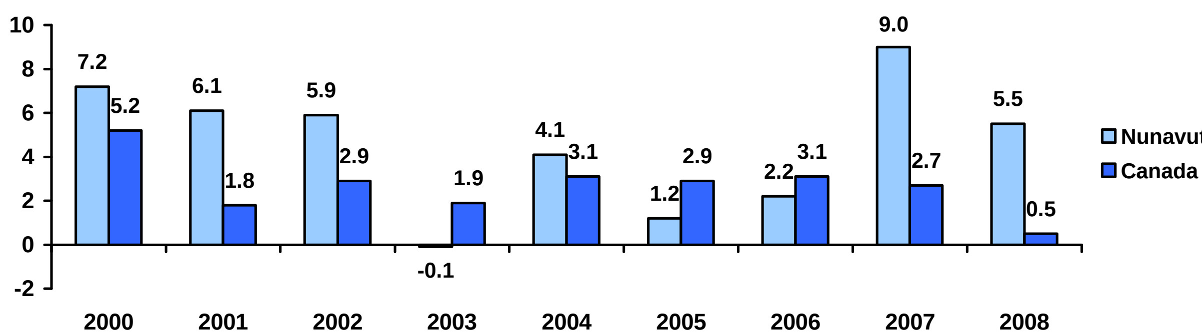
2 Economic Outlook

2.1 Economic Performance

Nunavut's economy advanced 5.5 percent in inflation-adjusted terms in 2008, more strongly than that of any other province or territory and—with the exception of 2007's 9.0-percent jump—faster than it has in any year since 2002. In comparison with the Canadian economy as a whole, Nunavut's economy performed well this past year.

Figure 2-1: Growth in Gross Domestic Product, Expenditure-Based

Percent change year-on-year, chained 2002 dollars



Source: Statistics Canada (2008 preliminary)

Ongoing construction of the Meadowbank gold project helped spur growth considerably, contributing to a 52-percent increase in business-related capital investment. Nunavut's construction industry continued to benefit from this activity, growing 25 percent on the previous year. A 17-percent increase in imports, however, reflects some of the economic leakage associated with this type of investment.

With the termination of the Jericho diamond project, this increase in imports also combined with a 15-percent decrease in exports to weaken both the territory's output and its terms of trade. Termination of this project—Nunavut's only producing mine—caused the territory's mining industry to contract by almost half. This impact, together with the offsetting benefits of investment at Meadowbank, underline the extreme dependence of Nunavut's private sector on a single industry.

Nunavut's economy nevertheless performed better than Canada's, as the impact of the current global downturn was much more pronounced elsewhere in the country. Nunavut's consumers in particular continued to spend in 2008, with personal expenditure up 5 percent, in line with the territorial average over the previous five years. Wholesale and retail trade were up a robust 30 percent and 5 percent respectively. By contrast, personal expenditure grew only 3 percent in Canada as a whole, significantly below the previous five-year average of nearly 5 percent, while wholesale trade was flat and retail trade grew by only 3 percent.

Government spending in Nunavut, which accounts for approximately half of all spending in the territory, also played a stabilizing economic role. The slight 2-percent dip in government expenditure, as well as the 5-percent decrease in government investment, reflect more the expiration of certain special federal funding than a pullback in spending or a fall in revenues more generally.

For 2009, Nunavut can expect a further economic boost from continued construction at Meadowbank, as well as from increased federal spending to stimulate the national economy. Mining activity as a whole, however, has decreased considerably in the global downturn, pushing back expectations for other major developments and creating a risk for the construction industry. It also remains to be seen whether Nunavummiut will cut personal spending, as other Canadians already have done (see Section 2.4.4 below). Government expenditure, however, based as it is on steady federal transfers, should remain around historical levels.

Figure 2-2: Gross Domestic Product, Expenditure-Based

Millions of chained 2002 dollars; percent change year-on-year

	Nunavut									Canada
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2008**
Expenditures										
- Personal	372	396	418	443	460	447	499	526	552	
	+5.1	*+6.5*	*+5.6*	*+6.0*	*+3.8*	*+3.7*	*+4.6*	*+5.4*	*+4.9*	*+3.0*
- Government	738	795	817	824	819	873	904	895	878	
	+3.9	*+7.7*	*+2.8*	*+0.9*	*-0.6*	*+6.6*	*+3.6*	*-1.0*	*-1.9*	*+3.4*
Investment										
- Government Capital	100	115	104	146	123	77	97	151	143	
	-3.8	*+15.0*	*-9.6*	*+40.2*	*-15.8*	*-37.4*	*+26.0*	*+55.7*	*-5.2*	*+5.7*
- Business Capital	152	163	173	236	297	353	321	547	829	
	-11.6	*-7.2*	*+6.1*	*+36.4*	*+25.8*	*+18.9*	*-9.0*	*+70.4*	*+51.6*	*0.0*
- Business Inventory	15	16	-27	15	18	5	2	1	1	
Exports	294	288	283	167	176	156	189	213	182	
	+23.0	*-2.0*	*-1.7*	*-41.0*	*+5.4*	*-11.4*	*+21.2*	*+12.7*	*-14.6*	*-4.7*
Deduct: Imports	825	875	817	887	908	936	976	1,216	1,425	
	+3.8	*+6.1*	*-6.6*	*+8.6*	*+2.4*	*+3.1*	*+4.3*	*+24.6*	*+17.2*	*+0.8*
Gross Domestic Product	848	898	951	950	989	1,001	1,023	1,115	1,176	
	+7.2	*+6.1*	*+5.9*	*-0.1*	*+4.1*	*+1.2*	*+2.2*	*+9.0*	*+5.5*	*+0.5*

Source: Statistics Canada (2008 preliminary)

Figure 2-3: Gross Domestic Product at Basic Prices by Industry

Millions of chained 2002 dollars; percent change year-on-year

	Nunavut 2000	2001	2002	2003	2004	2005	2006	2007	2008	Canada 2008
Agriculture, Forestry, Fishing and Hunting	0.5 *+66.7*	0.5 *0.0*	0.8 *+60.0*	0.6 *-25.0*	0.6 *0.0*	0.5 *-16.7*	2.0 *+300.0*	2.7 *+35.0*	2.5 *-7.4*	*-1.9*
Mining and Oil and Gas Extraction	113.3 *+26.5*	102.7 *-9.4*	65.3 *-36.4*	12.1 *-81.5*	17.5 *+44.6*	6.8 *-61.1*	18.6 *+173.5*	23.8 *+28.0*	13.6 *-42.9*	*-3.4*
Utilities	25.6 *+5.3*	28.3 *+10.5*	25.5 *-9.9*	18.7 *-26.7*	19.0 *+1.6*	18.5 *-2.6*	19.0 *+2.7*	19.7 *+3.7*	20.2 *+2.5*	*-0.6*
Construction	58.6 *-6.7*	62.1 *+6.0*	97.0 *+56.2*	124.6 *+28.5*	135.1 *+8.4*	140.0 *+3.6*	139.7 *-0.2*	197.8 *+41.6*	249.6 *+26.2*	*+2.3*
Manufacturing	2.0 *+66.7*	2.1 *+5.0*	1.9 *-9.5*	1.3 *-31.6*	1.0 *-23.1*	1.2 *+20.0*	1.7 *+41.7*	2.0 *+17.6*	1.7 *-15.0*	*-5.2*
Wholesale trade	8.0 *+9.6*	8.5 *+6.3*	9.2 *+8.2*	10.8 *+17.4*	11.1 *+2.8*	12.5 *+12.6*	11.6 *-7.2*	13.2 *+13.8*	17.1 *+29.5*	*+0.3*
Retail Trade	38.2 *+7.3*	38.1 *-0.3*	40.4 *+6.0*	42.0 *+4.0*	42.8 *+1.9*	46.6 *+8.9*	47.9 *+2.9*	49.9 *+4.2*	52.5 *+5.2*	*+3.0*
Transportation and Warehousing	29.7 *+5.7*	28.2 *-5.1*	24.8 *-12.1*	22.0 *-11.3*	19.8 *-10.0*	18.5 *-6.6*	19.0 *+2.7*	20.2 *+6.3*	20.6 *+2.0*	*+0.3*
Information and Cultural Industries	22.0 *na*	na *na*	32.4 *na*	40.0 *+23.5*	37.7 *-5.8*	36.4 *-3.4*	36.9 *+1.4*	37.8 *+2.4*	38.3 *+1.3*	*+1.7*
Finance, Insurance and Real-Estate	110.0 *+5.5*	124.6 *+13.3*	144.8 *+16.2*	149.6 *+3.3*	155.8 *+4.1*	157.4 *+1.0*	164.8 *+4.7*	171.3 *+3.9*	179.5 *+4.8*	*+2.7*
Professional, Scientific and Technical Services	7.7 *-4.9*	10.5 *+36.4*	10.8 *+2.9*	8.3 *-23.1*	10.1 *+21.7*	10.4 *+3.0*	10.5 *+1.0*	10.7 *+1.9*	10.6 *-0.9*	*+1.1*
Administrative, Support, Waste and Remediation	7.8 *+2.6*	8.8 *+12.8*	10.1 *+14.8*	11.4 *+12.9*	13.2 *+15.8*	11.7 *-11.4*	12.3 *+5.1*	12.5 *+1.6*	12.7 *+1.6*	*+0.5*
Educational Services	88.7 *na*	na *na*	99.1 *na*	103.2 *+4.1*	104.9 *+1.6*	106.7 *+1.7*	109.5 *+2.6*	112.1 *+2.4*	114.7 *+2.3*	*+2.8*
Health Care and Social Assistance	58.6 *-15.4*	67.7 *+15.5*	69.1 *+2.1*	71.0 *+2.7*	78.4 *+10.4*	86.8 *+10.7*	86.9 *+0.1*	87.1 *+0.2*	87.4 *+0.3*	*+2.9*
Arts, Entertainment and Recreation	1.9 *na*	na *na*	1.8 *na*	1.7 *-5.6*	1.5 *-11.8*	1.3 *-13.3*	1.2 *-7.7*	1.3 *+8.3*	1.3 *0.0*	*+0.1*
Accommodation and Food Services	16.8 *+1.2*	16.7 *-0.6*	17.4 *+4.2*	20.6 *+18.4*	22.2 *+7.8*	19.9 *-10.4*	19.5 *-2.0*	20.1 *+3.1*	20.4 *+1.5*	*+2.2*
Other Services	8.5 *-15.8*	16.6 *+95.3*	20.1 *+21.1*	21.8 *+8.5*	18.7 *-14.2*	16.6 *-11.2*	16.7 *+0.6*	17.5 *+4.8*	17.9 *+2.3*	*+3.1*
Public Administration	219.7 *+22.3*	230.6 *+5.0*	245.3 *+6.4*	251.9 *+2.3*	263.5 *+4.6*	273.9 *+3.9*	275.7 *+0.7*	276.5 *+0.3*	271.7 *-1.7*	*+2.9*
All Industries	824	871	916	908	947	956	981	1,067	1,128	

Source: Statistics Canada (2008 preliminary)

2.2 Potential Effects of the Economic Crisis

The current economic crisis does nevertheless represent a potential concern for Nunavut's economy. The concern is not so much for the GN's own finances, which are relatively well insulated from the crisis and will provide a cushion against its impact in the territory (see Section 1.3 above). More vulnerable is the private sector, which in Nunavut is very credit- and capital-intensive. The current crisis, with its associated credit crunch, may therefore hold back Nunavut's growing self-reliance by decreasing the contribution of the private sector to the economy, and increasing that of the public sector.

Since 2000, nearly two-thirds of Nunavut's private-sector output has come from a small set of closely-related industries: mining, construction and real-estate. All these industries require large amounts of up-front capital. They may therefore suffer more than others from the credit crunch.

Figure 2-4: Gross Domestic Product at Basic Prices by Selected Industries

Millions of chained 2002 dollars; percent share of total

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Average
Total Private Sector[1]	431.1	na	477.0	462.8	481.1	469.9	489.4	571.3	633.7	502.0
Mining and Oil and Gas Extraction	113.3	102.7	65.3	12.1	17.5	6.8	18.6	23.8	13.6	41.5
	26.3	*na*	*13.7*	*2.6*	*3.6*	*1.4*	*3.8*	*4.2*	*2.1*	*8.3*
Construction	58.6	62.1	97.0	124.6	135.1	140.0	139.7	197.8	249.6	133.8
	13.6	*na*	*20.3*	*26.9*	*28.1*	*29.8*	*28.5*	*34.6*	*39.4*	*26.7*
Finance, Insurance and Real-Estate[2]	110.0	124.6	144.8	149.6	155.8	157.4	164.8	171.3	179.5	150.9
	25.5	*na*	*30.4*	*32.3*	*32.4*	*33.5*	*33.7*	*30.0*	*28.3*	*30.1*
Total Selected Industries	281.9	289.4	307.1	286.3	308.2	304.2	323.1	392.9	442.7	326.2
	65.4	*na*	*64.4*	*61.9*	*64.1*	*64.7*	*66.0*	*68.8*	*69.9*	*65.0*

[1]*Total of all industries excluding public administration, educational services, health care and social assistance, and utilities.*
[2]*Not disaggregated due to data limitations; the finance and insurance industry makes up likely no more than 10% of the total.*

Sources: Statistics Canada (2008 preliminary); Department of Finance

For further discussion of the potential effects of the economic crisis on these industries, see Sections 2.4.2, 2.4.3 and 2.4.7 below.

2.3 Population and Labour Force

Statistics Canada estimated Nunavut's population in July 2008 at 31,448, a net gain of nearly 200 persons or 0.6 percent over the estimate of July 2007. Data from the 2006 census indicates that 85 percent of Nunavut's population identified themselves as Aboriginal, 99 percent of whom identified themselves as Inuit.

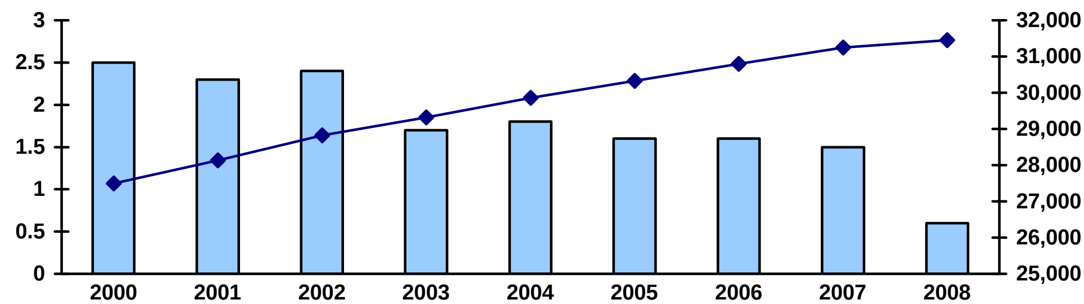
In the first quarter of 2009, the labour force of Nunavut's ten largest communities—the only communities for which Statistics Canada currently collects data—stood at approximately 9,000. This figure includes all individuals age 15 or older who were either working or looking for a job. Of these individuals, about 8,300 were employed and 700 unemployed. This ratio of employed to unemployed has not increased over the past two years, but it has remained steady.

The labour force as a whole has been in decline over the same period, however, dropping from almost 10,000 in the first quarters of 2007 and 2008. At the same time, the number of individuals age 15 or older who are not in the labour force—that is, who are neither working nor looking for a job—has risen from about 4,300 in the first quarter of 2007 to about 5,200 in the first quarter of 2009.

A steady employed share of a falling labour force means that the overall employment rate in Nunavut—that is, the share of individuals age 15 or older who have a job—has been falling. In the first quarter of 2007, the employment rate stood at 64 percent. In the first quarter of 2009, it had declined to 58 percent. The decline has been proportionately more pronounced among Inuit, whose employment rate has fallen from 54 percent to 49 percent, than among non-Inuit, whose rate has fallen from 90 percent to 87 percent.

Figure 2-5: Population Estimate

Percent change year-on-year; number of individuals

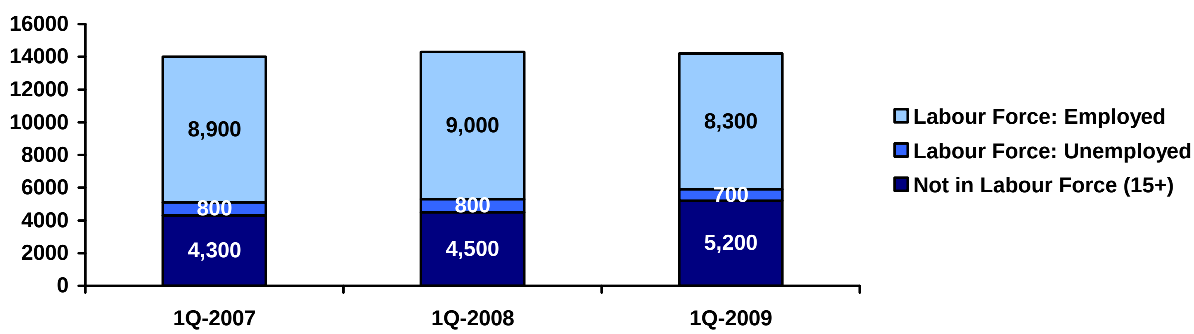


	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Growth	2.5	2.3	2.4	1.7	1.8	1.6	1.6	1.5	0.6
Population	27,498	28,134	28,819	29,320	29,854	30,328	30,799	31,251	31,448

Sources: Statistics Canada; Department of Finance

Figure 2-6: Labour Force and Population Age 15 or Older (Ten Largest Communities)

Number of individuals



Source: Statistics Canada

It is too early to tell whether or not the economic crisis has caused this drop in employment in Nunavut, since the trend began earlier. The accelerated drop in 2008 compared to 2007, however, suggests that the crisis may be partly to blame.

Indeed, even in Nunavut's active economy, income-support caseloads remain high. Approximately 6,300 households, which comprise just under half the population of Nunavut, currently seek social assistance either for its full benefits or to augment wage-earnings. The GN administers a range of programs to help increase participation in the labour force, especially in the areas of educational attainment, literacy and skills-training. The GN is also working with the federal government to implement new training initiatives announced in response to the economic crisis.

2.4 Key Economic Sectors

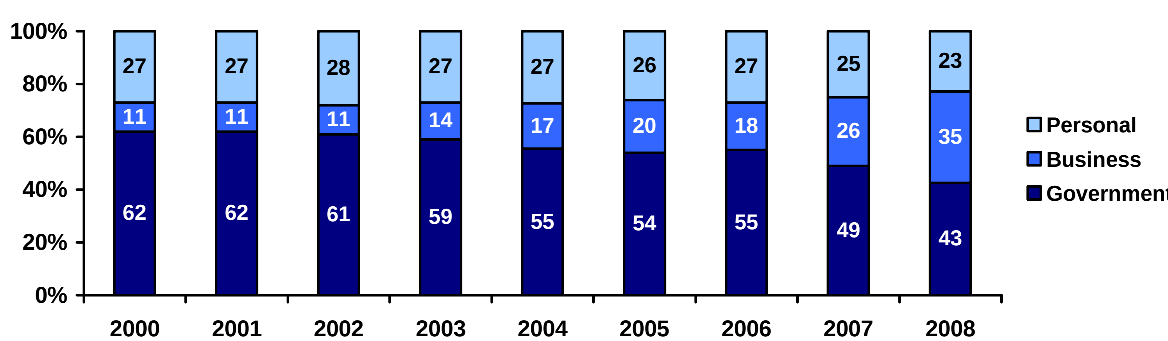
The following summaries provide brief overviews of each of Nunavut's major economic sectors. They follow to some extent the national classification of industries in Figure 2-3 above, and include not only sectors that account for much of Nunavut's gross domestic product (GDP), but also those that have the potential to do so in future. Culturally important industries, which in Nunavut may provide more economic benefit than standard measures of economic output can capture, also feature below.

2.4.1 Public Sector

Nunavut's public sector accounts for a large part of domestic economic activity, and includes not only public administration, but also the provision of educational, health and social services, as well as much of the energy industry. In 2008, government expenditure and investment amounted to nearly half of all expenditure and investment in the territory. By contrast, in Canada as a whole, government expenditure and investment made up just under a quarter of national expenditure and investment. Because the GN obtains the majority of its revenue from the federal government, and will continue to do so for the foreseeable future, Nunavut's economic self-reliance depends on a decline in the GN's share of total expenditure and investment in the territory.

Figure 2-7: Final Domestic Demand, Expenditure-Based

Percent share of total



Source: Statistics Canada (2008 preliminary)

This share has in fact been declining since 2003 in favour of business investment, reflecting especially the growth of the construction industry in response to demand from major project development. The economic crisis may slow this trend somewhat, and the public sector will continue to account for a comparatively large part of Nunavut's economy in future, but the private sector, with further diversification, has the potential to capture a greater and more stable share of economic activity in the territory.

2.4.2 Construction

The construction industry has grown in recent years to become Nunavut's largest private-sector industry by contribution to GDP. Engineering construction, such as for mines and other major projects, accounts for much of this growth, though residential construction also received a boost in the past two years from federal spending through the Northern Housing Trust.

Figure 2-8: Gross Domestic Product at Basic Prices, Construction Industry

Millions of chained 2002 dollars; percent change year-on-year

	2000	2001	2002	2003	2004	2005	2006	2007	2008	CAGR[1]
Total Construction	58.6	62.1	97.0	124.6	135.1	140.0	139.7	197.8	249.6	
	-6.7	*+6.0*	*+56.2*	*+28.5*	*+8.4*	*+3.6*	*-0.2*	*+41.6*	*+26.2*	*+19.9*
Residential Construction	12.3	7.7	13.4	10.9	11.4	7.6	9.6	17.4	15.8	
	+5.1	*-37.4*	*+74.0*	*-18.7*	*+4.6*	*-33.3*	*+26.3*	*+81.3*	*-9.2*	*+3.2*
Non-Residential	11.6	21.9	17.5	28.4	23.2	22.4	9.7	13.9	22.6	
Construction	*-32.6*	*+88.8*	*-20.1*	*+62.3*	*-18.3*	*-3.4*	*-56.7*	*+43.3*	*+62.6*	*+8.7*
Engineering Construction	23.0	21.8	40.9	59.5	74.5	84.4	93.3	134.9	176.1	
	+4.5	*-5.2*	*+87.6*	*+45.5*	*+25.2*	*+13.3*	*+10.5*	*+44.6*	*+30.5*	*+29.0*
Repair and Other	11.7	10.7	25.2	25.8	26.0	25.6	27.1	31.6	35.1	
Construction	*-1.7*	*-8.5*	*+135.5*	*+2.4*	*+0.8*	*-1.5*	*+5.9*	*+16.6*	*+11.1*	*+14.7*

[1]*Compound annual growth rate.*

Sources: Statistics Canada (2008 preliminary); Department of Finance

Rapid growth in the construction industry may moderate to some extent in the coming years, however, as industries that demand construction services, such as the mining industry, face possible headwinds from the economic crisis. Upcoming expected completion of current projects, such as Meadowbank in 2010, will also dampen construction-industry growth. At the same time, increased federal investment in infrastructure, including for example $100 million in additional funds for social housing in Nunavut, will offset these factors.

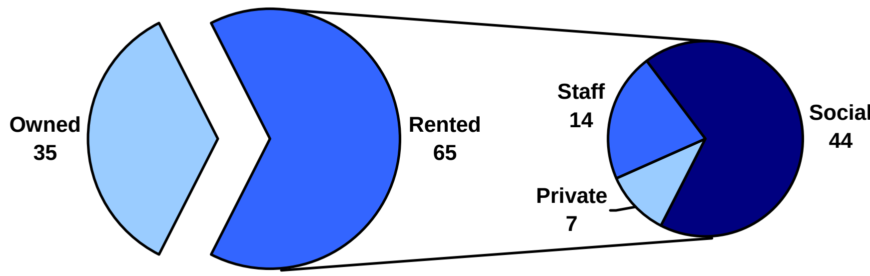
2.4.3 Real-Estate

The real-estate industry is consistently one of Nunavut's largest private-sector industries by contribution to GDP, and it has been the largest in certain years. The major focus of this industry is the leasing of commercial and residential property, which the GN especially underpins though its demand for office space, and staff and social housing.

This government demand, as well as the private demand associated with a growing territory, is likely to hold up for the foreseeable future. Indeed, the premium on available commercial and residential space in Nunavut has helped the real-estate industry grow at a rate considerably faster than that of the population, especially in the early years of the territory when the GN significantly expanded its complement of office space and staff housing.

Figure 2-9: Housing by Ownership and Type of Rental

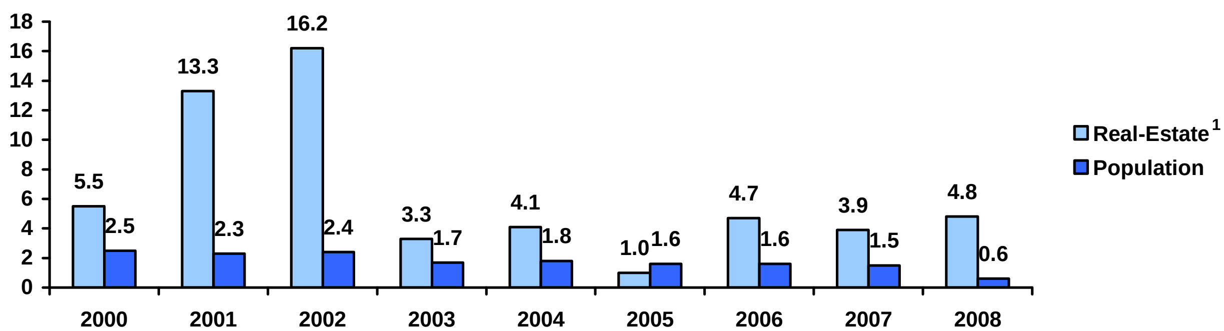
Percent share of total



Source: Nunavut Housing Corporation

Figure 2-10: Growth in Real-Estate Industry and Population

Percent change year-on-year, chained 2002 dollars; percent change year-on-year



[1] *Includes finance and insurance, which are not disaggregated due to data limitations but make up no more than 10% of total*

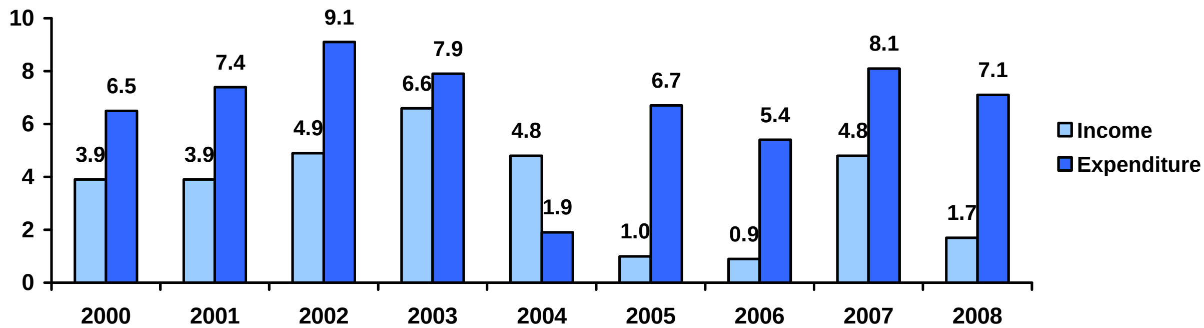
Source: Statistics Canada (2008 GDP preliminary)

2.4.4 Retail and Wholesale Trade

The retail and wholesale trade industries have experienced steady growth since Nunavut's early years, even as other industries have swung between expansion and contraction. The output of the retail trade industry is about four times that of the wholesale trade industry, and in many years it has proven to be Nunavut's third-largest industry overall. In fact, growth of personal expenditure on goods has generally outpaced that of personal income, suggesting that Nunavummiut have been gradually reducing savings or accessing credit to spend on retail merchandise.

Figure 2-11: Growth in Per-Capita Disposable Income and Personal Expenditure on Goods

Percent change year-on-year, current dollars

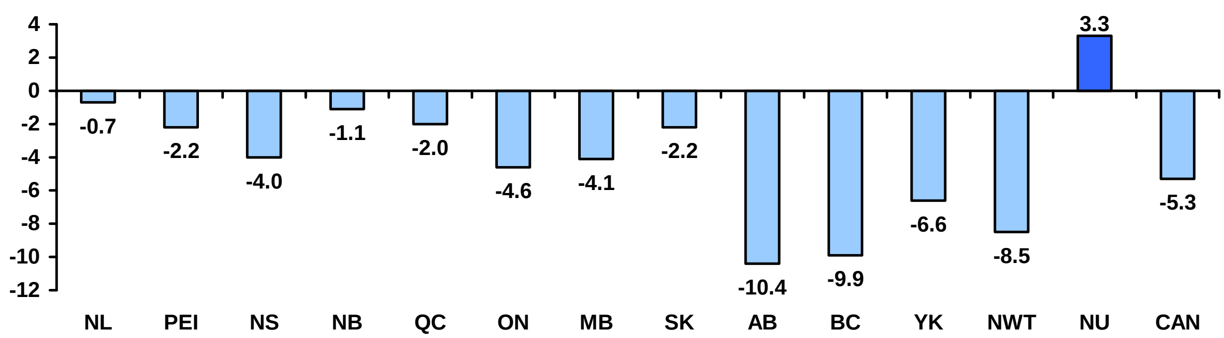


Source: Statistics Canada

Even in the face of the current economic crisis, Nunavummiut have continued to outspend other Canadians on retail merchandise. It remains to be seen whether or not they will rein in their spending over the course of the year—if so, the retail and wholesale trade industries may experience a slower pace of growth ahead.

Figure 2-12: Seasonally-Adjusted Retail Sales, First Quarter 2009

Percent change year-on-year; current dollars



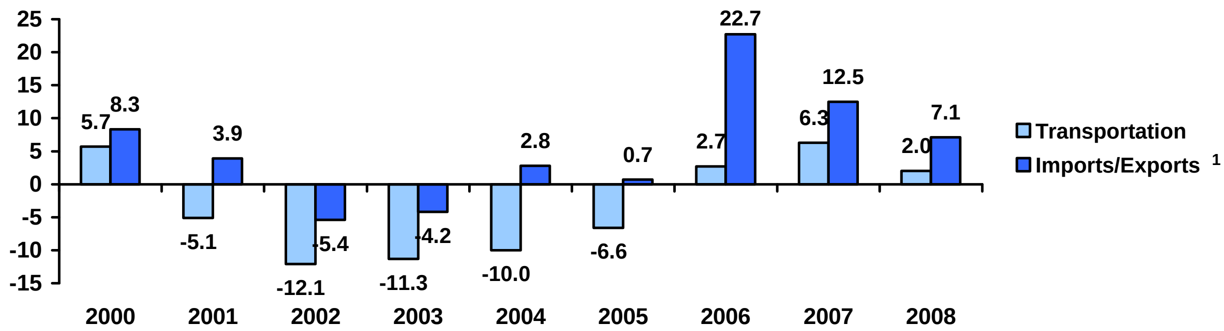
Source: Statistics Canada

2.4.5 Transportation and Tourism

Nunavut's transportation industry, which focuses primarily on year-round air transport of passengers and cargo, as well as summertime marine transport of cargo, is one of the only industries in the territory to have contracted over the years, at a compounded annual rate of approximately 4.5 percent since 2000. The contraction seems to have coincided with a period of falling exports associated with mine closures. The trend has begun to reverse slowly in the past few years, most likely due in large part to the surge in imports for the burgeoning construction industry, as well as for personal consumption. Both airlines and shipping companies have been experimenting with new routes. If the economic crisis causes a slowdown in the construction and retail trade industries, however, the transportation industry may feel the effects as well.

Figure 2-13: Growth in Transportation Industry and Imports/Exports

Percent change year-on-year, chained 2002 dollars



[1]*Combined value in expenditure-based terms.*

Sources: Statistics Canada; Department of Finance

Another potential concern for the transportation industry is the effect the economic crisis may have on tourism in Nunavut. Results from the 2008 GN tourist exit-survey suggest that tourist numbers and total spending have increased since the previous survey in 2006, by 26 percent and 14 percent respectively. The number of cruise-ship tourists increased even faster, by 35 percent. The GN obtained its survey data in the summer, however, before the economic crisis began. It seems probable that tourism in Nunavut may decline as a result of the crisis—according to Statistics Canada, national tourism expenditures eked out only 0.6-percent year-on-year growth in the last quarter of 2008.

The accommodation and food-service industry, which also depends on tourism and the business-travel associated with mining and construction, may face similar possible challenges as the transportation industry. Steady public-sector and other non-commercial duty travel, however, should play a mitigating role. There is also room for growth in the tourism industry more generally, as the exit-survey numbers suggest. Recognizing this potential, the GN is working together with the other territories and the federal government to increase northern tourism, especially in conjunction with the 2010 Winter Olympics in Vancouver.

2.4.6 Information and Cultural Industries

The information industry has contributed nearly $40 million annually to GDP over the past six years. Focusing mainly on telecommunications and broadcasting, the industry has growth potential in the areas of Internet and mobile-phone service especially, but faces technological challenges in providing enough bandwidth to meet demand. The GN considers this industry important for the territory's future and has offered funding and other programming to support growth.

Related to the information industry are the various cultural industries, which create content for consumption through the media the information industry makes available. While standard indicators such as GDP may capture much of the economic activity associated with film-making, publishing and the like, they almost certainly understate the true value of cultural industries in the territory. Much of Nunavut's art, for example, apart from that of the most well-known artists who sell to galleries through artist co-operatives, trades between artist and buyer in underground transactions. The GN estimates that some 20 percent to 40 percent of Nunavummiut make and sell arts and crafts at least on a part-time basis, and that the art industry as a whole generates about $30 million in sales. Much of this revenue goes directly into the pockets of lower-income Nunavummiut, suggesting that cultural industries play a more valuable economic role in the territory than standard GDP figures indicate.

Nunavut's cultural industries are also related to the tourism industry, as tourists likely make up a substantial number of the direct buyers of arts and crafts. The probable negative effects of the economic crisis on tourism—and on art as a luxury-item generally—may transfer into the underground cultural industries as well.

2.4.7 Minerals and Petroleum

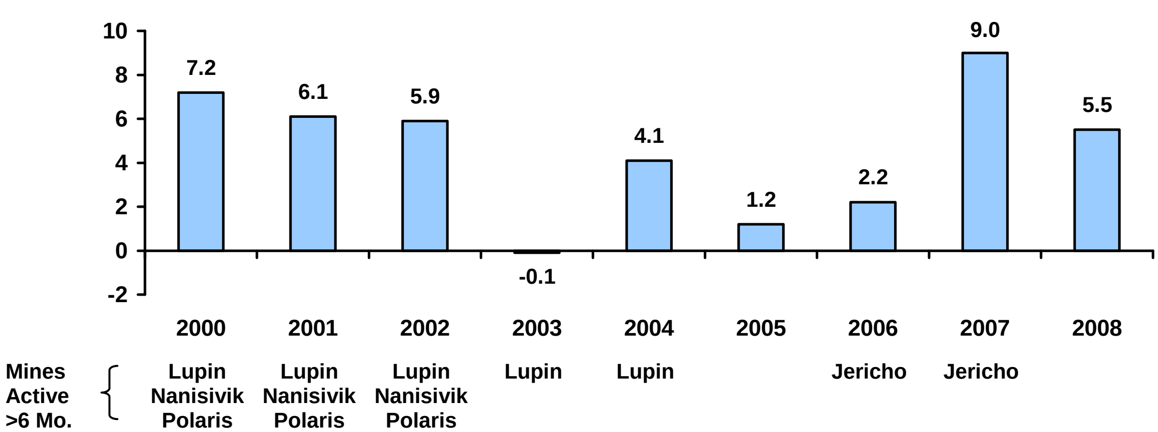
Early in the life of the territory, when the Lupin, Nanisivik and Polaris mines were in production, the mining industry was the largest contributor to Nunavut's GDP. Since then, the industry's direct contribution to GDP has declined dramatically—taking exports to some extent with it—and it now is one of the smallest when considered alone.

These figures hide the overall impact mining has on other industries in the territory, however, as the massive growth in mine-related construction shows. This boost to the construction industry originates principally from one project—the Meadowbank gold project—and has brought with it a rise in imports as the industry sources building materials outside Nunavut. Once this project begins producing—and so long as other projects come on stream in the years to follow—the direct contribution to Nunavut's GDP from the mining industry will accelerate rapidly, as will Nunavut's exports.

The health of the mining industry has in fact had a very noticeable effect on Nunavut's GDP in the past. For example, on a year-on-year basis, GDP has tended to fall when mines close in the territory.

Figure 2-14: Gross Domestic Product, Expenditure-Based, and Producing Mines

Percent change year-on-year, chained 2002 dollars

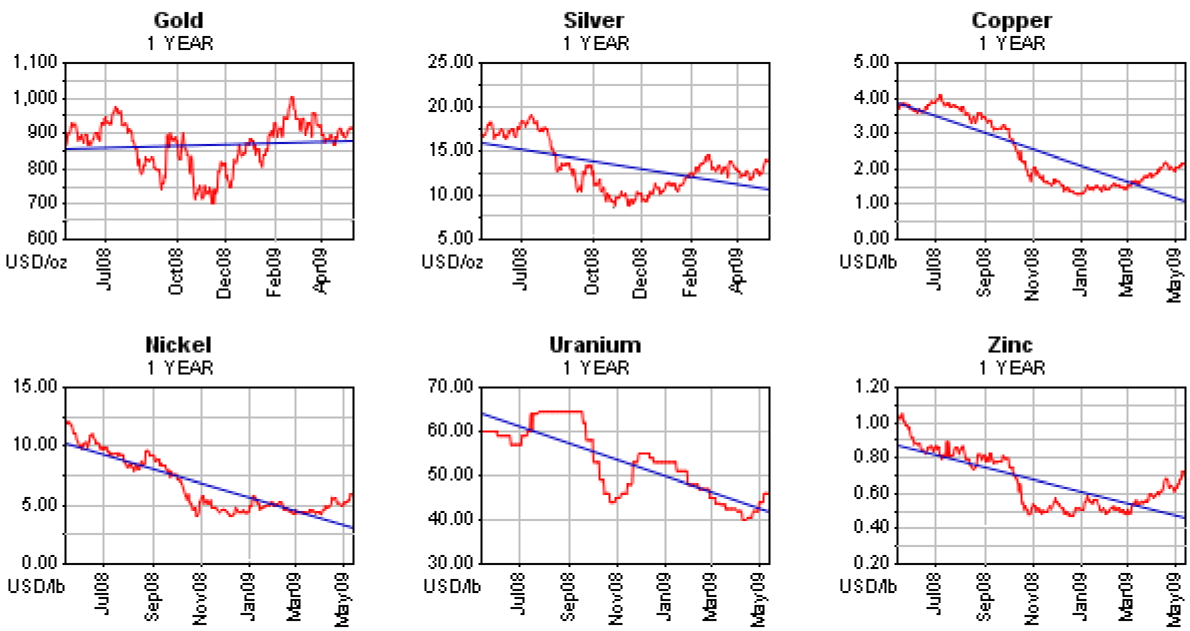


Sources: Statistics Canada (2008 preliminary); Department of Finance

While further mine closures are not now a concern, the economic crisis may have pushed the opening dates of many potential projects further into the future. With the exception of gold, which has held up as a store of value during the crisis, commodity prices have fallen and—more importantly for a risky and capital-intensive industry—credit has tightened. The effects of the crisis are already visible in sharp drops in the industry's intentions to invest in capital and spend on exploration.

Figure 2-15: Selected Commodity Prices

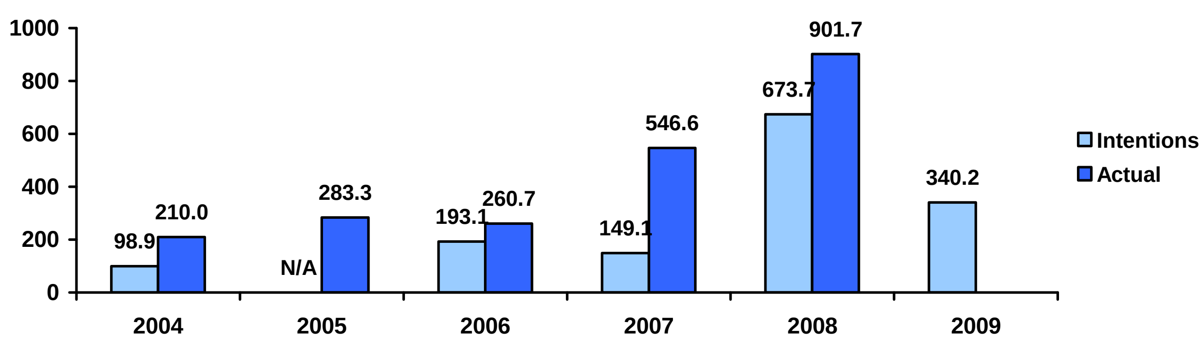
Current US dollars per unit of sale



Source: InfoMine.com

Figure 2-16: Capital Expenditure, Mining Industry

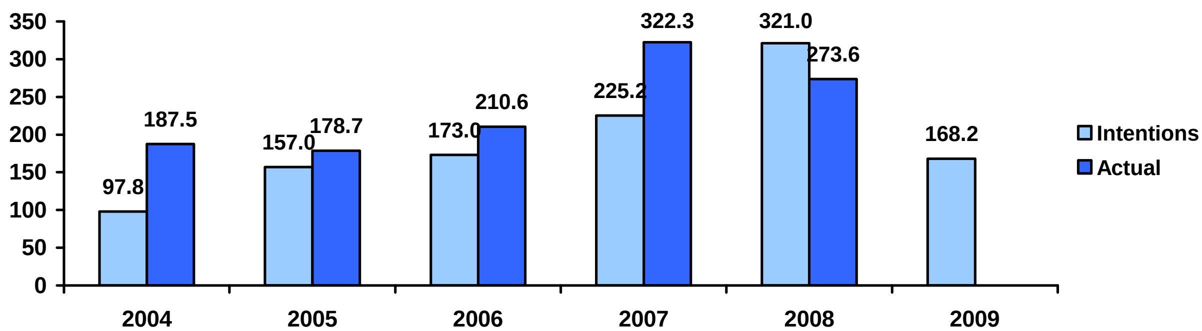
Millions of current dollars



Source: Statistics Canada (2008 actual preliminary)

Figure 2-17: Mineral Exploration and Deposit Appraisal Expenditures

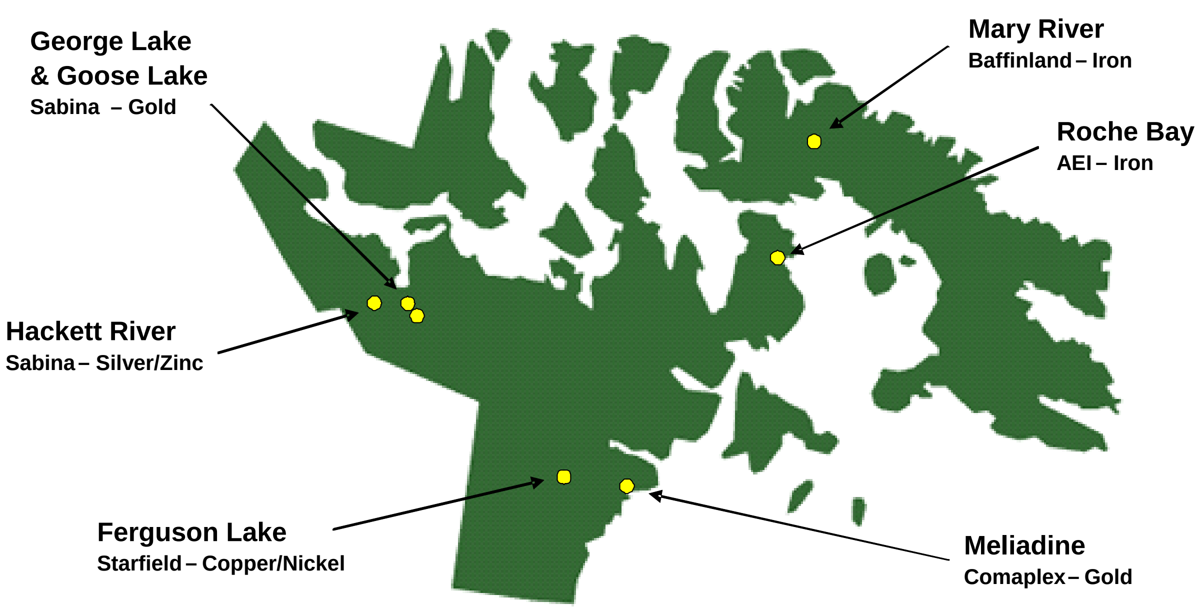
Millions of current dollars



Source: Natural Resources Canada (2008 actual preliminary)

A further cause for concern about the overall health of the mining industry in Nunavut is the fact that junior mining companies operate a number of the promising mining projects in the territory. Junior mining companies are spenders, not money-makers, and they must therefore accumulate large amounts of up-front capital to finance their explorations. Raising such capital has proven extremely difficult since the economic crisis began, with investors switching to less risky investments or simply conserving cash.

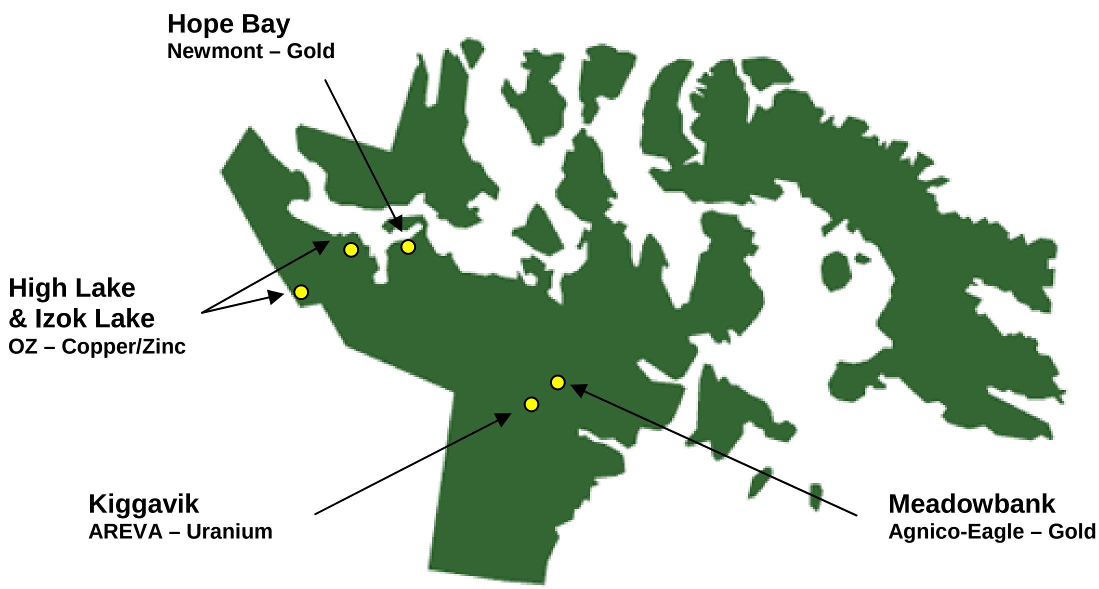
Figure 2-18: Selected Projects Controlled by Junior Mining Companies



Source: Department of Finance

With the exception of OZ Minerals, however, which has announced its intention to sell its assets at High Lake and Izok Lake, the major mining companies operating in Nunavut likely have the financial depth to continue their projects—especially gold projects such as Meadowbank and Hope Bay. Other mitigating factors include the fall in the price of project inputs such as fuel and construction materials, and the weakening of the Canadian dollar relative to the US dollar, in which most commodities are sold.

Figure 2-19: Selected Projects Controlled by Major Mining Companies



Source: Department of Finance

Nunavut's petroleum industry, in contrast with its mining industry, is almost totally undeveloped, though its potential is thought to be extremely great. Once more fully developed, the petroleum industry's contribution to Nunavut's GDP will be far greater than the mining industry's, and future oil and gas development in frontier areas such as Nunavut seems certain. For now, however, the tremendous drop in oil and gas prices since the onset of the economic crisis makes accessing Nunavut's stranded resources less economically feasible, and slows the depletion of known reserves elsewhere in the world. All the same, Nunavut's clear potential continues to attract exploration, and the GN is actively encouraging the petroleum industry to invest in the territory.

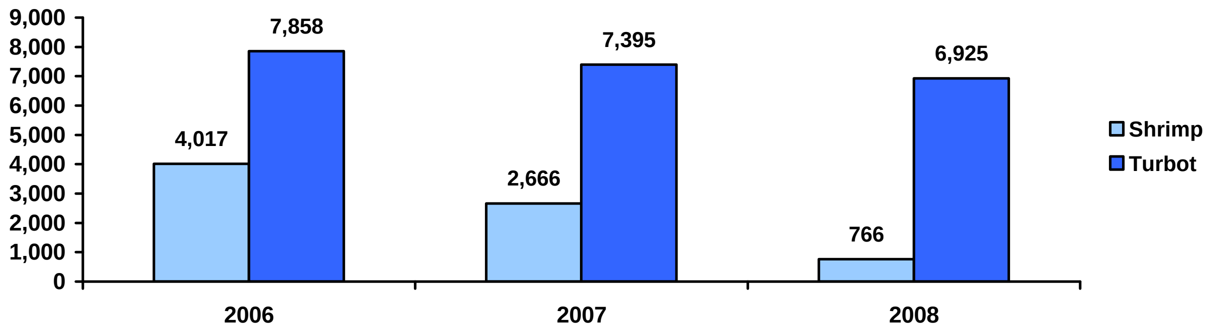
2.4.8 Fishing, Sealing and Harvesting

Nunavut's fishing, sealing and harvesting industries have achieved comparatively huge growth in standard GDP terms over the past few years, particularly through the successful, ongoing development of Nunavut's inshore and offshore fisheries. At the same time, landings have declined due to contracting world markets for turbot and shrimp, as well as to more challenging ice conditions—but also due to the fact that southern fishing interests have preferred for these reasons to concentrate in their home waters. The Nunavut-based winter turbot fishery in Cumberland Sound, however, reported a bumper year in 2008, landing over

200,000 pounds of fish. The GN has made increased access to fish in Nunavut's waters by Nunavut's own industry a priority, and has assisted Nunavut-based companies in acquiring additional quota.

Figure 2-20: Fish Landings from Nunavut Waters

Tonnes



Source: Department of Environment

Commercial harvesting in Nunavut focuses mainly on fur-bearing species. Statistics for fur sales in Nunavut since 2006 are not yet available, but data from 2000-2006 shows the value at risk from, for example, the recent EU ban on trade in seal pelts. This ban had a negative impact on the fur market before even coming into effect: at the most recent Fur Harvesters Auction, the GN did not receive an acceptable bid for the seal pelts it purchased from harvesters through its Fur Purchasing Program.

Figure 2-21: Fur Pelts Harvested for Market

Number of pelts; current dollars

	2000	2001	2002	2003	2004	2005	2006
Bear	76	103	93	99	46	68	60
	80,114	*91,217*	*85,676*	*73,008*	*46,104*	*68,173*	*71,924*
Fox	4,778	5,952	1,875	2,572	2,316	2,116	2,857
	140,111	*3,249*	*45,630*	*69,251*	*56,845*	*38,557*	*66,756*
Seal	4,738	5,077	8,509	9,093	4,022	9,327	8,721
	141,202	*167,286*	*415,528*	*437,653*	*197,405*	*457,219*	*444,180*
Wolf	255	465	449	478	231	393	213
	58,452	*114,298*	*94,730*	*102,399*	*50,004*	*70,933*	*41,165*
Wolverine	19	33	29	41	24	54	30
	4,467	*9,724*	*7,215*	*11,028*	*6,349*	*9,024*	*8,002*
Total	9,866	11,630	10,955	12,283	6,639	11,958	11,881
	424,346	*542,145*	*648,779*	*693,339*	*356,707*	*643,906*	*632,027*

Source: Statistics Canada

The fishing, sealing and harvesting industries in Nunavut have cultural value that far outstrips the very small contribution they make to GDP. Their economic value is likely understated as well, since much fishing, sealing and harvesting satisfies Nunavummiut's personal consumption directly. A recent study by the Beverly-Qamanirjuaq Caribou Management Board concluded that the value to Nunavummiut of the meat and guided-hunting opportunities from these two herds alone is $12 million net of harvesting and outfitting costs.

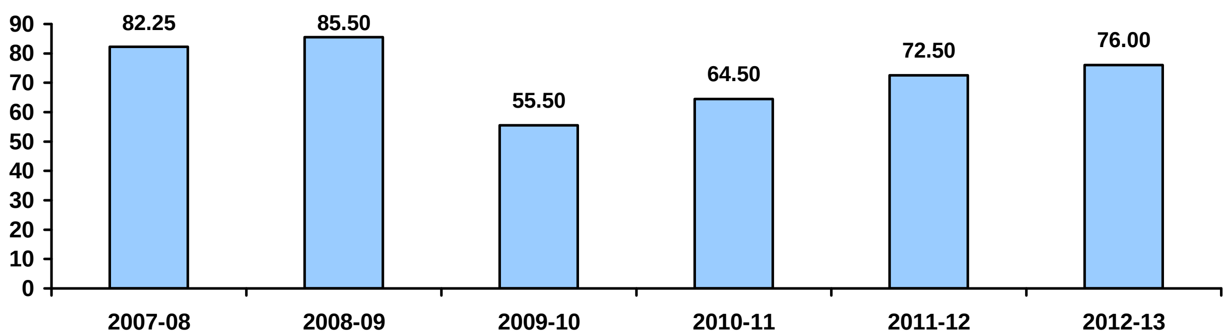
3 Energy Management

3.1 Fuel Prices

Ultimately, all of Nunavut's energy consumption begins with crude oil—including electricity, since electricity generation in Nunavut uses diesel as its fuel. The path of global oil prices, which the prices of derivative fuels such as diesel, gasoline and heating oil follow closely, is therefore of extreme importance to the GN, which is responsible for importing and distributing much of the fuel for the territory.

Figure 3-1: Fiscal-Year Prices, West-Texas Intermediate

US dollars per barrel



Source: Alberta Finance (2007-08 actual, 2008-09 estimate, 2009-13 forecast)

Spot prices for West-Texas intermediate have generally ranged between $50.00 and $65.00 per barrel this fiscal year, in line with Alberta Finance's estimate . According to their forecast, the annualized price of oil will rise over the coming three fiscal years from $55.50 to $76.00 per barrel, but it will not exceed the annualized high of $85.50 per barrel it reached last year.

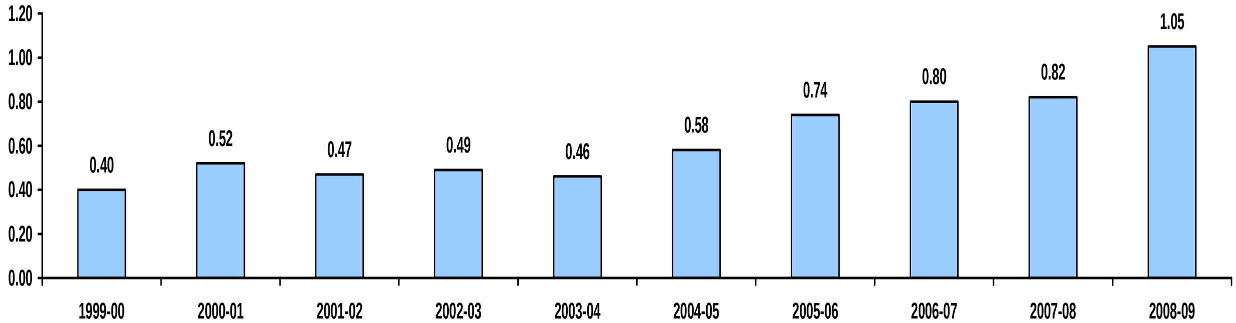
3.2 Fuel Resupply

Over the past ten years, the GN has seen both the volume and price of its fuel resupply grow considerably, as both domestic consumption and global oil prices have increased.

The GN actively seeks to obtain the best price for its fuel resupply through various purchasing arrangements, including pre-purchasing when prices are low. In the present market, with fuel prices quite low and expected to rise only slowly for the balance of the year, pre-purchasing is an appropriate strategy for the GN, and is already underway.

Figure 3-2: Fuel Purchase Price

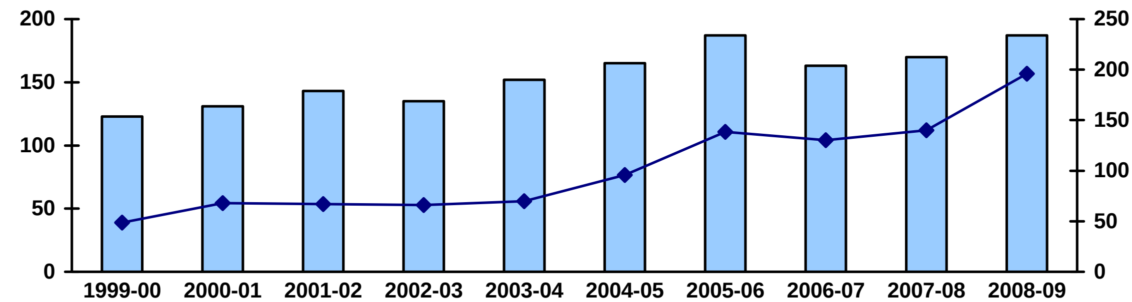
Blended price per litre in current dollars



Source: Department of Community and Government Services

Figure 3-3: Fuel Resupply Volumes and Costs

Millions of current dollars; millions of litres



	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Volume	123	131	143	135	152	165	187	163	170	187
Cost	48.7	67.8	67.0	66.2	69.9	95.7	138.3	130.1	140.0	195.8

Source: Department of Community and Government Services

While pre-purchasing can help the GN avoid additional expenditure if prices rise in future, it carries the risk that prices may drop, as well as the opportunity cost of committing funds up front. Pre-purchasing is also limited by available storage, transport, and the natural degradation of chemicals such the octane in gasoline. When the risks to the GN are too great to overcome through pre-purchasing, the GN can opt to use a risk-management technique called *hedging*.

Hedging is like buying an insurance policy against a rise in the price of fuel. For a fee, or premium, the GN can buy the right to purchase fuel at an agreed upon price some time in the future—without actually having to pre-purchase the fuel. The fee or premium for this right increases depending on how much lower the agreed price for fuel is than the future price the market expects. If the future price does turn out to be higher than the agreed price, the GN can exercise its right to purchase at the agreed price and save money. If the future price turns out lower, the GN only loses the fee it paid.

Because the fee for this right can sometimes be higher than the expected savings, hedging does not always make sense as a strategy to control costs. In the present market, with fuel prices expected to remain low, the GN has determined that hedging does not pay.

3.3 Energy Subsidies

The price of fuel is only one component of the overall cost of energy in Nunavut. The costs of transportation and storage, as well as other operational and capital costs of running the territory's energy system, combine with the cost of fuel to make each unit of energy much more expensive in Nunavut than in southern Canada. The GN therefore administers a number of subsidy programs to protect vulnerable Nunavummiut who could not otherwise afford to heat and light their homes, shield other residents from overly burdensome energy expenses, and encourage business development in the territory.

Figure 3-4: Energy Subsidy Programs

Millions of current dollars

	2005-06	2006-07	2007-08
Nunavut Electricity Subsidy	6.7	5.7	7.2
- Commercial	0.1	0.1	0.1
- Residential	6.6	5.6	7.1
Senior Fuel Subsidy Program	0.1	0.1	0.2
Social Assistance (Income Support)	0.5	0.6	0.7
Social Housing	23.1	26.4	29.2
Subsidized Staff Housing	2.5	2.8	3.1
Total Subsidy	**32.9**	**35.7**	**40.4**

Sources: Departments of Education and Finance; Nunavut Housing Corporation (numbers may not add due to rounding)

3.4 Energy Conservation

Faced in recent years with high fuel prices and increasing consumption, the GN has made energy conservation a priority. Current initiatives include an energy-efficiency retrofit for GN buildings in Iqaluit, a hybrid-car pilot-program for the GN fleet, and a rebate program for home energy-efficiency projects. Special alternative energy projects to lessen Nunavut's dependence on fossil fuels include pilot projects in Iqaluit and Rankin Inlet that harness residual heat from electricity generation to replace the use of heating fuel in nearby buildings, and a wind-electricity pilot-project in Rankin Inlet.

2009-2010

Government of Nunavut
Budget