



FISCAL AND ECONOMIC OUTLOOK



DEPARTMENT OF FINANCE
GOVERNMENT OF NUNAVUT

MARCH 8, 2010



Table of Contents

1 Fiscal Outlook

1.1	Fiscal Position.....	1
1.1.1	Revenues.....	2
1.1.1.1	Federal-Source Revenues	3
1.1.1.2	Own-Source Revenues	4
1.1.2	Expenditures.....	5
1.1.2.1	Operational Expenditures	6
1.1.2.2	Capital Expenditures.....	7
1.2	Territorial Debt.....	9
1.3	Fiscal Forecast.....	10
1.3.1	Revenues.....	10
1.3.2	Expenditures.....	12
1.4	Fiscal Sustainability.....	13
1.4.1	Social Assistance and Social Housing.....	14
1.4.2	Health Care and Medical Travel	15
1.4.3	Energy Expenditures and Subsidies.....	16

2 Economic Outlook

2.1	National Economic Developments.....	19
2.2	Economic Performance.....	21
2.2.1	The Global Recession in Nunavut	21
2.2.2	Economic Output.....	22
2.3	Employment and Labour.....	23
2.3.1	Employment.....	23
2.3.2	Labour Force.....	24
2.3.3	Productivity.....	26
2.4	Key Economic Sectors.....	26
2.4.1	Public Sector	27
2.4.2	Construction	28
2.4.3	Mining and Petroleum.....	29
2.4.4	Real Estate	30
2.4.5	Retail and Wholesale Trade.....	31
2.4.6	Transportation.....	32
2.4.7	Cultural and Information Industries and Tourism.....	33
2.4.8	Fishing, Sealing and Harvesting.....	34

List of Figures

1-1	Fiscal Position	2
1-2	Summary of Revenues	2
1-3	Revenue Sources by Share, 2010-11	3
1-4	Summary of Federal-Source Revenues	3
1-5	Revenue History	4
1-6	Summary of Own-Source Revenues	5
1-7	Summary of Expenditures	5
1-8	Operational Expenditures by GN Unit	6
1-9	Changes in Operational Expenditures by GN Unit, 2009-10 to 2010-11	6
1-10	Expenditure History, Capital vs. Operational	7
1-11	Selected Major Capital Investments, 2010-11	8
1-12	Selected On-going, Fully-Funded Major Capital Investments	8
1-13	Dedicated Federal Capital Funding Sources with 2010-11 Disbursements	9
1-14	Borrowing History at Fiscal Year-End	9
1-15	Revenue Forecast	10
1-16	Historic and Projected Territorial Formula Financing (TFF)	11
1-17	Expenditure Forecast	13
1-18	Budgeting History, Social Assistance and Social Housing	14
1-19	Budgeting History, Health Care and Medical Travel	15
1-20	Historic Fuel-Resupply Volumes and Costs	16
1-21	Fuel-Resupply Price History	17
1-22	Fuel-Resupply Price Forecast	17
2-1	Employment and Unemployment, Canada	20
2-2	Bank of Canada Target Rate	20
2-3	Historic and Forecast Real GDP Growth, Canada	21
2-4	Historic and Forecast Real GDP Growth at Basic Prices	22
2-5	Historic and Forecast Approximate Employment	24
2-6	Historic and Forecast Population	24
2-7	Population Distribution by Age, 2008	25
2-8	Historic and Forecast Labour-Participation and Unemployment Rates	25
2-9	Historic and Forecast Share of Real GDP	27
2-10	Historic and Forecast Share of Final Domestic Demand	28
2-11	Historic and Forecast Output, Construction Industry	28
2-12	Value of Building Permits, Iqaluit	29
2-13	Mining-Industry Expenditures	30
2-14	Housing by Ownership and Type of Rental	31
2-15	Change in Retail Spending	31
2-16	Canadian Dollar Exchange Rates	33
2-17	Turbot Landings from Nunavut Waters	34
2-18	Fur Pelts Sold at Auction	35

1 Fiscal Outlook

Highlights

- The Government of Nunavut (GN) anticipates total revenues of \$1,256.2 million in 2010-11, up \$70.4 million or 5.9 percent, from 2009-10. Over 90 percent of GN revenues flow from the federal government.
- The GN plans total expenditures of \$1,200.6 million for 2010-11, down \$15.8 million or 1.3 percent, from 2009-10. Setting aside an additional \$55.4 million for contingencies and other supplementary requirements, the GN will balance its budget for 2010-11.
- The GN expects to retire \$4.2 million or 2.9 percent of its consolidated debt load in 2009-10, reducing overall territorial debt to \$146.4 million.
- The GN's future fiscal position appears sound, but the potential effects of federal budgetary constraints on the GN's fiscal arrangements raises some concern.
- The GN's fiscal sustainability requires continued monitoring, especially with respect to entitlement spending, such as on social assistance, social housing, health care and medical travel, as well as forced-growth spending such as on energy.

1.1 Fiscal Position

The GN's fiscal position remains stable. In the upcoming fiscal year, the GN can rely on revenues of at least \$1,129.3 million, thanks to the major federal transfers. In addition, based on January 2010 projections, the GN can expect total revenues to reach \$1,256.2 million, excluding revolving funds and certain dedicated federal funds that do not flow into general revenue. These revenues fully cover the GN's total planned expenditures of \$1,200.6 million, leaving a budgetary surplus of \$55.6 million. The GN will prudently set aside \$55.4 million of this surplus for contingencies and other supplementary requirements, balancing its budget for 2010-11 (Figure 1-1).

Considering \$73.4 million in capital expenditure the GN approved but did not spend in prior years, the GN projects an accounting deficit of \$73.2 million in 2010-11. The GN may not realize this accounting deficit in its entirety, or realize it at all, as the GN may not need its full contingency fund nor make all of its planned expenditures. In particular, because capital projects tend to extend over more than one fiscal year, capital expenditures approved in past or present years may carry forward to future years as projects develop. The GN's planned deficits, even when they have occurred, have not reached a size that requires long-term borrowing to cover. They are a function of cash-flow, and the GN normally operates with enough cash on hand to avoid any long-term gaps in its current accounts.

Figure 1-1: Fiscal Position

Millions of current dollars

	Main Estimates 2010-11	Revised Estimates 2009-10 ¹	Main Estimates 2009-10	Revised Estimates 2008-09
Revenues	1,256.2	1,185.8	1,182.1	1,203.6
Expenditures	1,200.6	1,299.2	1,171.7	1,327.1
Budgetary Surplus (Deficit)	55.6	(113.4)	10.4	(123.5)
Supplementary Requirements ²	(55.4)	(17.8)	(39.5)	-
Adjusted Budgetary Surplus (Deficit)	0.2	(131.2)	(29.1)	(123.5)
Net Carryover of Capital Expenditure	(73.4)	73.4	(82.8)	82.8
Appropriation Lapses (Deficits)	-	4.4	-	22.8
Accounting Surplus (Deficit)	(73.2)	(53.4)	(111.9)	(17.9)

1. Includes capital carryovers and revisions up to 2009-10 Supplementary Appropriation Bill 2 (all tables).

2. Includes contingencies, unappropriated federal trusts and other additional requirements.

Excludes revolving funds and vote-4/5 expenditures and revenues. Totals may not add due to rounding.

Source: GN Finance (2010-11 Main Estimates)

1.1.1 Revenues

Based on January 2010 projections, and excluding revolving funds and certain dedicated federal funds that do not flow into general revenue, the GN projects total revenues of \$1,256.2 million in 2010-11, an increase of \$70.4 million or 5.9 percent on 2009-10. The GN obtains these revenues from two principal sources: major, long-term federal transfers and the GN's own tax receipts. Smaller supplementary federal funds and miscellaneous own-source revenues round out the total (Figure 1-2).

Figure 1-2: Summary of Revenues

Millions of current dollars

	Main Estimates 2010-11	Revised Estimates 2009-10	Main Estimates 2009-10	Revised Estimates 2008-09
Federal-Source Revenues	1,167.2	1,098.0	1,094.2	1,112.4
· Major Federal Transfers	1,129.3	1,060.0	1,060.0	980.3
· Other Federal Funds	37.9	38.0	34.2	132.1
Own-Source Revenues	89.0	87.9	87.9	91.2
· Tax Receipts	54.8	54.5	53.8	53.7
· Other Own-Source Revenues	34.2	33.4	34.1	37.5
Total Revenues	1,256.2	1,185.8	1,182.1	1,203.6

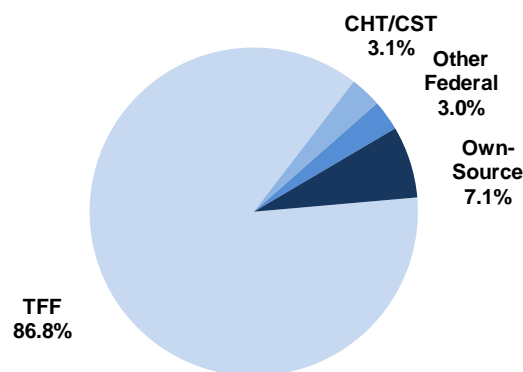
Excludes revolving funds and vote-5 revenues. Totals may not add due to rounding.

Source: GN Finance (2010-11 Main Estimates)

1.1.1.1 Federal-Source Revenues

In 2010-11, transfers and other funds from the federal government will make up over 90 percent of the GN's total revenues. By far the largest federal source of revenue is Territorial Formula Financing (TFF), the territorial counterpart to provincial Equalization. In 2010-11, TFF alone will account for 86.8 percent of the GN's total revenues. The other major federal transfers, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), add another 3.1 percent. These three federal transfers form the core elements of the long-term, legislated fiscal relationship between the GN and the federal government (Figure 1-3). A variety of shorter-term federal programs and one-time grants provide the GN with important but fluctuating sources of additional funds (Figure 1-4). The GN also administers dedicated funds that the federal government allocates to Nunavut for specific purposes, especially capital projects, but which remain segregated from the GN's general revenue. For this reason, these funds do not count as GN revenue for the purposes of this presentation.

Figure 1-3: Revenue Sources by Share, 2010-11



Source: GN Finance (2010-11 Main Estimates)

Figure 1-4: Summary of Federal-Source Revenues

Millions of current dollars

	Main Estimates 2010-11	Revised Estimates 2009-10	Main Estimates 2009-10	Revised Estimates 2008-09
Major Federal Transfers	1,129.3	1,060.0	1,060.0	980.3
• Territorial Formula Financing (TFF)	1,090.6	1,022.1	1,022.1	944.1
• Canada Health Transfer (CHT)	28.0	27.2	27.2	25.5
• Canada Social Transfer (CST)	10.7	10.7	10.7	10.7
Other Federal Funds	37.9	38.0	34.2	132.1
Total Federal-Source Revenues	1,167.2	1,098.0	1,094.2	1,112.4

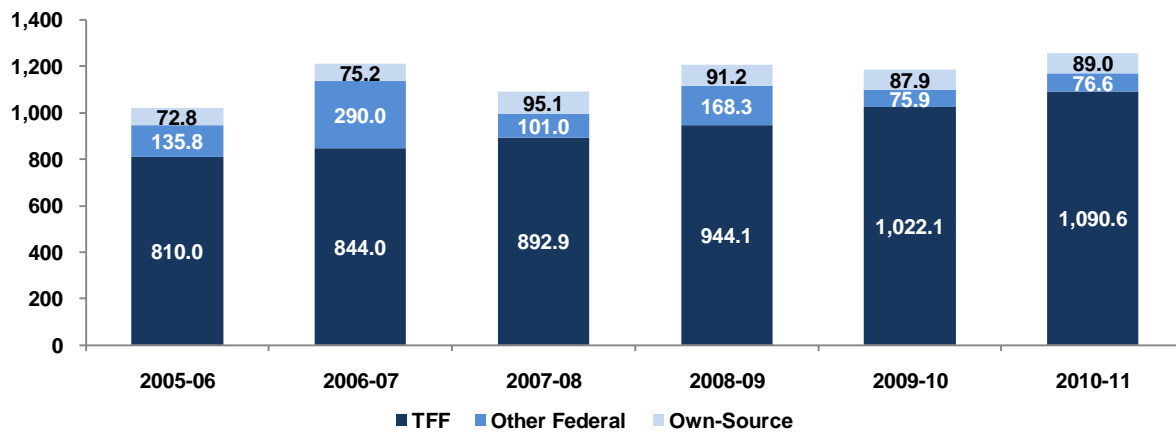
Excludes vote-5 revenues. Totals may not add due to rounding.
Source: GN Finance (2010-11 Main Estimates)

The GN's fiscal reliance on the federal government is nothing new (Figure 1-5), but it is significantly greater than that of other Canadian jurisdictions—including the governments of the Northwest Territories and the Yukon, whose own TFF grants have contributed about 60 to 65 percent of total revenues on average. Predictable and stable TFF growth, based in part on population growth, helps GN decision-makers plan for future years. More impor-

tantly, without external funding the GN would simply be unable to offer the types and quality of programs and services Nunavummiut, as Canadians, deserve. Nunavut's private sector does not provide a sufficiently large or rich economic source from which to collect tax revenue, and the GN has extremely limited power to borrow to fill the gap as other governments do. TFF, and to a lesser extent other federal funding, stands in for taxes and borrowing, allowing the GN to deliver government services at a level comparable to other Canadian jurisdictions, at comparable tax-rates. This philosophy, of comparable services for comparable taxation, undergirds the fiscal framework of the Canadian federation.

Figure 1-5: Revenue History

Millions of current dollars



Source: GN Finance (2005-06, 2006-07 and 2007-08 Public Accounts; 2010-11 Main Estimates)

1.1.1.2 Own-Source Revenues

The GN's own-source revenues flow mainly from taxes, but also from a few miscellaneous income streams. Excluding revolving funds, the GN expects to take in \$89.0 million in own-source revenues, or 7.1 percent of total revenues, in 2010-11, \$1.1 million more than in 2009-10. (Figure 1-6).

Payroll tax, personal income tax, and tobacco tax account for most of the GN's tax receipts. Fuel tax, which the GN levies on fuel purchased in Nunavut or imported into the territory, is the only consumption tax for which the GN offers a rebate, applicable to taxes on fuel consumed for certain traditional activities, outfitting services, mineral exploration and mining. This rebate will cost the GN \$2.9 million in 2009-10, about half of total fuel-tax revenue, and the cost may increase in future

Revolving funds are special-purpose funds able to retain monies from one fiscal year to the next to finance a continuous cycle of operations. Normally, leftover monies appropriated for programs or services "lapse" at the end of a fiscal year, requiring reallocation through the budgetary process. This process ensures the GN remains accountable to taxpayers, as every new budget must have the approval of the Legislative Assembly. Only a few revolving funds exist, including the Liquor Revolving Fund and the Petroleum Products Revolving Fund. These funds operate on a cost-recovery basis, and must pay back initial capitalization costs. Monies in revolving funds do not count as GN revenue for the purpose of this presentation.

years, especially if mining activity intensifies. The net value of the fuel tax is less than the value the GN records as revenue because of this rebate program.

Figure 1-6: Summary of Own-Source Revenues

Millions of current dollars

	Main Estimates 2010-11	Revised Estimates 2009-10	Main Estimates 2009-10	Revised Estimates 2008-09
Tax Receipts	54.8	54.5	53.8	53.7
• Personal Income Tax ¹	12.2	13.2	13.4	13.4
• Corporate Income Tax	6.4	5.2	7.1	7.1
• Fuel Tax (gross)	5.4	5.3	5.3	5.3
• Insurance Taxes and Fees	0.3	0.3	0.3	0.3
• Payroll Tax	17.0	17.0	14.4	14.4
• Property Tax	1.6	1.6	1.5	1.5
• Tobacco Tax	11.9	11.8	11.8	11.7
Other Own-Source Revenues	34.2	33.4	34.1	37.5
Total Own-Source Revenues	89.0	87.9	87.9	91.2

1. Net of credits, rebates and Nunavut Child Benefit payments.

Excludes revolving funds. Totals may not add due to rounding.
Source: GN Finance (2010-11 Main Estimates)

1.1.2 Expenditures

The GN has planned expenditures of \$1,200.6 million in 2010-11, down \$15.8 million or 1.3 percent from 2009-10. At this level of expenditure, the GN is on track to run a surplus of \$55.4 million, excluding contingencies, unappropriated federal trusts and other supplementary requirements, as well as capital expenditures previously approved. The GN's expenditures divide into two main types: operational expenditures, including spending on all programs and services, and capital expenditures, representing investment in Nunavut's infrastructure (Figure 1-7).

Figure 1-7: Summary of Expenditures

Millions of current dollars

	Main Estimates 2010-11	Revised Estimates 2009-10	Main Estimates 2009-10	Revised Estimates 2008-09
Operational Expenditures	1,089.4	1,068.7	1,050.9	1,054.6
Capital Expenditures	111.2	230.5	120.8	272.5
Total Expenditures	1,200.6	1,299.2	1,171.7	1,327.1

Excludes vote-4 expenditures. Totals may not add due to rounding.
Source: GN Finance (2010-11 Main Estimates)

1.1.2.1 Operational Expenditures

In 2010-11, operational expenditures, which include spending for all GN programs and services, will rise by \$20.7 million or 1.9 percent to \$1,089.4 million, representing 90.7 percent of the GN's planned expenditures (Figure 1-8). At \$12.2 million, new spending on education accounts for more than half of this increase, mostly in support of K-12 schools, particularly through community-based educational programming as well as leadership training for Inuit educators. The GN is also spending considerable new money to maintain its social-housing stock, to improve government service by staffing a public liaison office in every community, and to expand the capacity of the Social Advocacy Office, which assists disadvantaged or vulnerable groups. In conjunction with this new spending, the GN expects health expenditures to return to trend after an active 2009-10, which saw extraordinary spending on H1N1 prevention and other health and social-service priorities (Figure 1-9).

Figure 1-8: Operational Expenditures by GN Unit

Millions of current dollars

	Main Estimates 2010-11	Revised Estimates 2009-10	Main Estimates 2009-10	Revised Estimates 2008-09
Legislative Assembly (LEG)	15.5	15.7	15.0	14.6
Executive and Intergovernmental Affairs (EIA)	17.6	14.0	13.8	18.0
Finance (FIN)	57.5	54.4	54.9	63.9
Human Resources (HR)	22.8	22.4	22.4	18.9
Justice (JUS)	78.1	76.5	76.0	74.4
Culture, Languages, Elders and Youth (CLEY)	23.8	21.2	21.2	18.7
Education (EDU)	206.8	194.6	194.6	204.0
Health and Social Services (HSS)	264.5	274.8	258.2	281.7
Environment (ENV)	20.1	20.0	20.0	19.4
Community and Government Services (CGS)	172.6	169.6	170.7	165.2
Economic Development and Transportation (EDT)	53.3	55.4	54.0	56.7
Nunavut Housing Corporation (NHC)	132.6	128.2	128.2	119.0
Nunavut Arctic College (NAC)	24.2	21.9	21.9	- ¹
Total Operational Expenditures	1,089.4	1,068.7	1,050.9	1,054.6

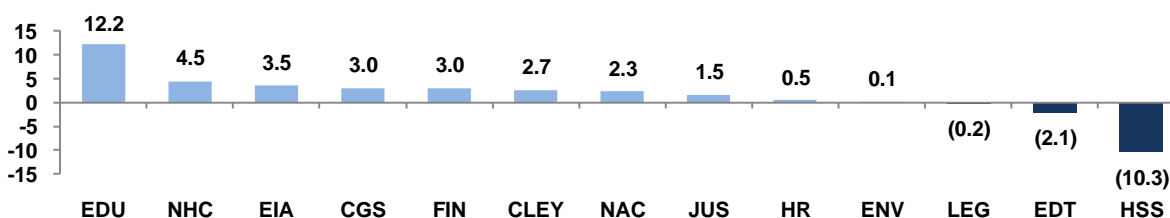
1. Included with Department of Education.

Totals may not add due to rounding.

Source: GN Finance (2010-11 Main Estimates)

Figure 1-9: Changes in Operational Expenditures by GN Unit, 2009-10 to 2010-11

Millions of current dollars



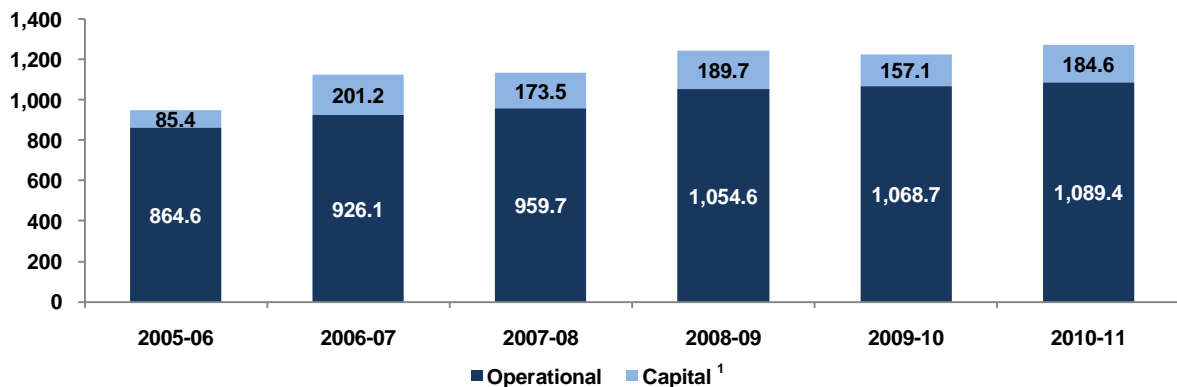
Source: GN Finance (2010-11 Main Estimates)

1.1.2.2 Capital Expenditures

In 2010-11, the GN plans to make new capital investments of \$111.2 million, as well as to disburse just over \$73.4 million of on-going, previously-approved capital investments, for a total of \$184.6 million. This level of investment is consistent with recent spending, and comprises 14.5 percent of total operational and capital expenditures (Figure 1-10).

Figure 1-10: Expenditure History, Capital vs. Operational

Millions of current dollars



1. Net of carryover of capital expenditures.

Source: GN Finance (2005-06, 2006-07 and 2007-08 Public Accounts; 2010-11 Main Estimates)

In 2010-11, the GN will invest in a wide variety of projects throughout Nunavut, and will continue or complete twenty major projects representing just over half of the value of this fiscal year's new capital investment (Figure 1-11). The GN will also continue with twelve major capital projects for which it and the federal government have already allocated the full investment in previous years (Figure 1-12).

In addition to this capital investment, the GN expects another \$72.8 million the federal government has dedicated to capital projects in Nunavut in 2010-11 (Figure 1-13), a figure that could rise to \$98.9 million pending approvals. This level of extra federal funding is a return to normal after the heightened federal stimulus spending of 2009-10, when the GN received over \$200 million for capital projects, including \$100 million for social housing. These federal funds come from a variety of sources, mostly special-purpose funds and one-time grants, and do not flow into the GN's general revenue (see box in this section). The federal government often requires

Vote-4/5 monies are revenues (vote-5) and associated expenditures (vote-4) that originate externally, usually with the federal government, and which remain segregated from the GN's Consolidated Revenue Fund—that is, the GN's general revenue. Unlike the major federal transfers, for example, the federal government dedicates these funds to very specific purposes, particularly capital projects. In 2010-11, the GN will administer \$72.8 million of these vote-4/5 funds for capital projects, which do not count as GN revenue or expenditure for the purposes of this presentation.

the GN to share a portion of the cost of projects it funds in this manner. Cost-sharing naturally limits the size of projects on which the GN can partner together with the federal government.

Figure 1-11: Selected Major Capital Investments, 2010-11

Millions of current dollars

Project	Community	Total Project Investment to 2015				
		Prior	GN		Federal	Total
			2010-11	2011-15	All	All
Correctional Centre	Rankin Inlet	20.3	16.2	3.6	-	40.1
Airport Redevelopment	Arctic Bay	24.9	0.6	-	-	25.8
School	Sanikiluaq	17.9	5.1	0.1	-	23.1
Inuksuk High-School Renovations	Iqaluit	12.4	3.5	6.0	-	21.8
Arctic College Student Accommodation	Iqaluit	20.7	0.1	-	-	20.7
Peter Pitseolak School Addition	Cape Dorset	15.8	1.0	-	-	16.8
Trade School – Phase One	Rankin Inlet	16.0	0.1	-	-	16.1
Fuel Storage Expansion and Code Upgrade	Rankin Inlet	4.4	6.5	1.5	-	12.4
Water System Upgrade	Kugluktuk	9.1	1.8	-	-	11.0
Staff Housing – Correctional Centre	Rankin Inlet	-	6.1	4.1	-	10.2
Nunavut Heritage Centre	Iqaluit	3.1	7.0	-	-	10.1
Arena	Resolute Bay	0.5	7.8	0.2	1.5	10.0
Community Hall	Igloolik	0.4	5.4	0.1	2.6	8.4
Sewage Lagoon and Solid Waste Facility	Kugluktuk	4.4	0.0	-	3.5	8.1
Equipment – Qikiqtani General Hospital	Iqaluit	7.0	0.1	-	-	7.1
Sewer and Water Works	Resolute Bay	2.7	0.3	-	3.6	6.7
Fuel Storage Expansion and Relocation	Kugaaruk	6.2	0.1	-	-	6.3
Community Learning Centre Replacement	Pond Inlet	6.0	0.1	-	-	6.1
Community Hall	Gjoa Haven	2.5	0.7	-	2.5	5.7
Community Hall Expansion	Hall Beach	4.0	0.1	-	1.0	5.2
Total Investment		178.1	62.6	15.4	14.7	271.9

Totals may not add due to rounding.

Source: GN Finance (2010-11 Capital Estimates)

Figure 1-12: Selected On-Going, Fully-Funded Major Capital Investments

Millions of current dollars

Project	Community	Total Project Investment		
		GN	Federal	Total
Northern Housing	Various	-	100.00	100.00
Piqqusilirivvik	Clyde River	8.1	24.2	32.2
Hamlet Office and Community Hall	Grise Fiord	2.9	8.7	11.6
Nunavut Research Institute	Iqaluit	-	11.0	11.0
Paving	Iqaluit	3.0	6.4	9.4
Community Hall	Arctic Bay	3.4	2.6	5.9
Airport Improvements	Taloyoak	1.4	4.3	5.7
Hamlet Office	Kugluktuk	1.4	4.2	5.7
Hamlet Office	Cambridge Bay	1.4	4.1	5.5
Hamlet Office	Taloyoak	2.9	2.5	5.4
Community Hall	Repulse Bay	2.7	2.5	5.2
Airfield Lighting Replacement	Arviat	1.3	3.8	5.0
Total Investment		28.4	174.2	202.5

Totals may not add due to rounding.

Source: GN Finance (2010-11 Capital Estimates)

Figure 1-13: Dedicated Federal Capital Funding Sources with 2010-11 Disbursements

Millions of current dollars

Project	Expiry	Total Investment, 2010-11		
		Federal	GN Share	Total
Canada Mortgage and Housing Corporation	n/a	54.3	6.3	60.6
Municipal Rural Infrastructure Fund	2013	3.7	14.5	18.2
Indian and Northern Affairs Canada	n/a	7.8	-	7.8
Gas Tax Fund	2014	6.2	-	6.2
Canada Strategic Infrastructure Fund	2013	0.9	0.3	1.2
Total Investment		72.8	21.2	94.0

Totals may not add due to rounding.

Source: GN Finance (2010-11 Capital Estimates)

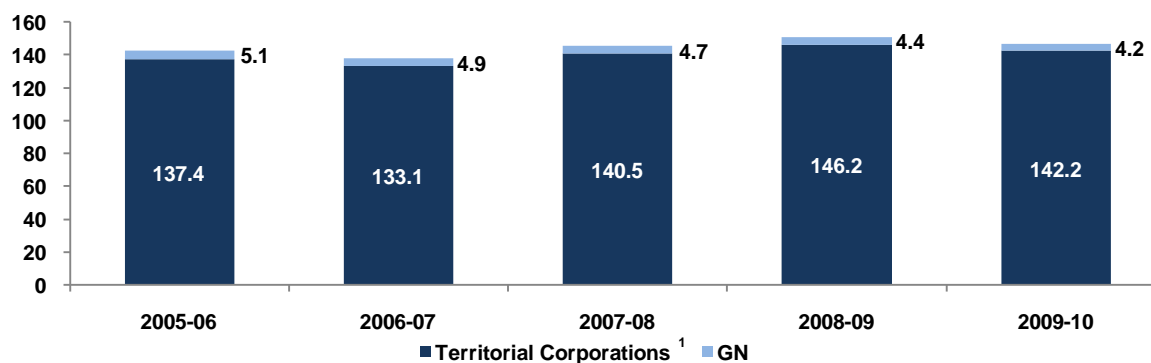
1.2 Territorial Debt

Pursuant to the *Nunavut Act*, the GN may borrow a maximum of \$200 million. The GN's overall debt totalled \$150.6 million as of March 31, 2009, of which \$4.4 million was directly attributable to the GN itself. The remaining \$146.2 million represents the outstanding debt of the Territorial Corporations, in particular the Qulliq Energy Corporation (QEC), the Nunavut Housing Corporation and the Nunavut Development Corporation. It also includes a GN-guaranteed credit facility of \$48.0 million for the QEC, of which the QEC has drawn down only \$27.7 million as of January 31, 2010.

The GN is currently able to service its debt obligations, and projects it will have retired \$4.2 million or 2.9 percent of its debt by March 31, 2010, reducing its consolidated debt load to \$146.4 million. The GN has not materially added to its overall debt in recent years (Figure 1-14).

Figure 1-14: Borrowing History as at Fiscal Year-End

Millions of current dollars



1. Includes full value of GN-guarantee for QEC credit facility.

Source: GN Finance

1.3 Fiscal Forecast

The GN's future fiscal position appears sound, with steady growth in revenues and plans for conservative growth in expenditures. Nevertheless, the GN's reliance on the federal government for the vast majority of its revenue carries risks. The federal response to the recent financial crisis has stressed the federal budget, and this stress may extend to the fiscal relationship with the GN. Potential internal pressures may also impact the GN's long-term fiscal sustainability, for example future spending on entitlements and on energy.

1.3.1 Revenues

Based on January 2010 projections, the GN expects its revenues to grow steadily over the next few years, in line with growth in the major federal transfers. Of these transfers, expected growth in TFF is by far the most important for the GN's future fiscal path, because TFF makes up between 85 and 90 percent of total revenues in a given year, though the GN also anticipates slightly higher own-source revenues as tax receipts increase. In forecasting a decline in other federal funds, which consist of short-term programs and one-time grants, the GN conservatively assumes that the federal government will neither renew any funding that expires nor introduce any new funding programs (Figure 1-15).

Figure 1-15: Revenue Forecast

Millions of current dollars

	Revised Estimates 2009-10	Main Estimates 2010-11	Forecast 2011-12	Forecast 2012-13
Federal-Source Revenues	1,098	1,167	1,229	1,304
· Major Federal Transfers	1,060	1,129	1,205	1,280
· Territorial Formula Financing (TFF)	1,022	1,091	1,165	1,239
· Other Major Federal Transfers	38	39	40	41
· Other Federal Funds	38	38	24	24
Own-Source Revenues	88	89	90	91
· Tax Receipts	55	55	55	57
· Other Own-Source Revenues	33	34	35	35
Total Revenues	1,186	1,256	1,319	1,396

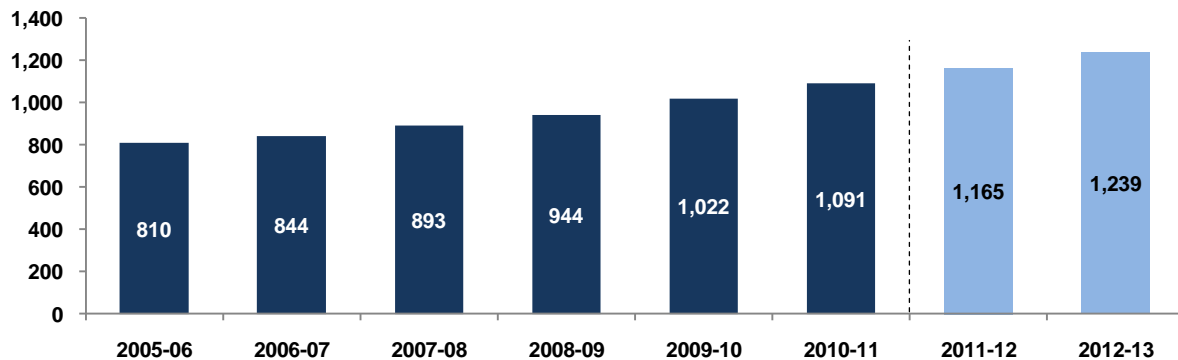
Excludes revolving funds and vote-5 revenues. Totals may not add due to rounding.

Source: GN Finance

The GN has based its forecasts on the assumption that its fiscal arrangements with the federal government will remain materially unchanged, at least until 2014 when the territorial and federal governments will have renegotiated the TFF arrangement. The GN's revenues could change significantly if the federal government, which legislates the fiscal relationship with the GN, modifies the TFF arrangement in any way. Based on the current arrangement, the GN expects TFF to grow steadily, close to its longer-term annual rate of 6.1 percent (Fig. 1-16).

Figure 1-16: Historic and Projected Territorial Formula Financing (TFF)

Millions of current dollars



Source: GN Finance

There are negative aspects of relying so heavily on a single revenue source such as TFF. Over the past year, both as a result of and a response to the economic crisis, the federal government has sunk deeply into deficit. Some economists, notably the Parliamentary Budget Officer, believe that the federal government is now in a state of structural—that is, permanent—deficit. If so, it will need to raise taxes or significantly reduce expenditures, or both, to balance its books.

The federal government has been a stable partner for Nunavut over the years, and it has committed to leaving transfers to territories intact, at least in the short-term. Still, the federal government may yet decide to slow, freeze, or even reduce the TFF or other federal transfers as it did when it faced its last structural deficit in the mid-1990s. Between 1995 and 1998, with a severe debt-load exacerbating its fiscal problems, the federal government reduced transfers to provinces and territories by almost 25 percent, or \$6.5 billion, in an effort to cut costs. The Northwest Territories, of which Nunavut was then a part, did not escape the cuts. As Canada's economy recovered in the late 1990s, federal transfers began to grow again, but it was not until 2003 that transfers returned to 1994 levels.

Territorial Formula Financing (TFF) is an annual fiscal transfer from the federal government to the GN. The amount of the transfer derives from the estimated difference between the GN's expenditure needs (based on historic expenditures of the Government of the Northwest Territories) and the ability of the GN to generate its own revenues. The TFF calculation considers population growth in Nunavut relative to other Canadian jurisdictions, growth in provincial and local spending across Canada, and Nunavut's tax-rates as compared to the average tax-rates across Canada. Forecasting TFF requires projecting population growth for Nunavut and Canada, as well as provincial and local expenditures and tax-rates, which depend on the actions of other governments. Statistics Canada periodically updates its data, which also alters the basis of TFF projections. Finally, given the sheer size of the TFF transfer (over \$1 billion and growing), even very small changes in forecast assumptions result in a difference of millions of dollars in the expected amount. Given these variables, predicting exact future TFF transfers is nearly impossible, though the GN is able to come close.

For these reasons, and in keeping with the GN's emphasis on self-reliance, it is important that the GN does what it can to reduce fiscal dependence on the federal government. In order for the GN to become more fiscally self-reliant, it must expand its own-source revenues, namely tax receipts.

A tax system should be competitive to encourage economic growth across the economy. It should also be efficient, distorting market incentives as little as possible, and equitable, so that the taxpayers share the tax burden in a way that is not unjust to certain groups. With these principles in mind, the best way for the GN to increase its fiscal self-sufficiency is to help Nunavut's private-sector economy to grow and diversify, rather than to rely on higher tax-rates or on taxing specific sectors. As the private sector grows, personal and corporate income tax, payroll tax and property tax will likely have the most potential as significant own-source revenue streams, even without any rise in tax-rates.

Corporate income tax (CIT) receipts in particular, running at about \$6 million to \$7 million per year, are currently quite low in comparison with other jurisdictions. In the Northwest Territories, for example, CIT has provided the government about \$60 million or 7 percent of total annual revenues on average in recent years. The potential for greater fiscal self-reliance that CIT offers the GN depends in part, however, on improving the rules by which national corporations must allocate their profits among Canadian provinces and territories. These rules have not materially changed in decades and do not reflect Nunavut's best interests, but all Canadian governments agree they require reform, and the GN is currently working with its federal, provincial and territorial counterparts to address them.

Following a devolution agreement with the federal government, the GN would receive the mining taxes—that is, royalties—on Crown resources to which the federal government is currently entitled. Even if the GN and the federal government agree on devolution, however, this revenue is likely to be very modest for the foreseeable future and would fluctuate based on extraction activity. The GN should not expect royalties, or devolution more generally, to offer the solution to our shortage of own-source revenue in the short or medium term. Devolution is a means to political self-reliance now, and a building block to fiscal self-reliance in the longer term.

1.3.2 Expenditures

Based on current operational and capital plans, which encompass the business plans of each governmental unit down to the divisional level, the GN does not currently plan for total expenditures to increase over the next few years. As with the revenue forecasts above, however, these expenditure plans reflect budgetary conservatism, affording the GN fiscal room to manoeuvre in the event that future revenues do not meet expectations. The GN does not count on the future surpluses these levels of expenditures imply relative to the revenues the GN forecasts. Rather, taking into account population, economic and other growth as much as possible, the GN plans expenditures to fall comfortably within its revenue capacity so that it can meet unanticipated future expenditure needs, and so that unforeseen fiscal constraints do not impair its ability to deliver programs and services to Nunavummiut, and to invest in territorial capital stock (Figure 1-17).

Figure 1-17: Expenditure Forecast

Millions of current dollars

	Revised Estimates 2009-10	Main Estimates 2010-11	Forecast 2011-12	Forecast 2012-13
Operational Expenditures	1,069	1,089	1,107	1,105
Capital Expenditures	231	111	93	61
Total Expenditures	1,299	1,201	1,200	1,166

Excludes vote-4 expenditures. Totals may not add due to rounding.
Source: GN Finance

1.4 Fiscal Sustainability

While the GN takes a prudent approach to budgetary planning, it must also ensure that its fiscal position remains sustainable in the long-term, beyond the planning horizon. Monitoring fiscal sustainability requires identifying potential fiscal imbalances within the GN, which include programs and policies that could act to shrink the GN's fiscal room over time, for example by lowering revenues or increasing expenditures. Fiscal sustainability is an especially important issue for the GN because of its fiscal reliance on the federal government, rather than solely on its own powers of taxation and borrowing.

Fiscal sustainability emerges first and foremost as an issue in the context of entitlement policy. The GN manages a number of entitlements, some of the largest of which include social assistance, social housing, and health care and medical travel. In 2010-11, the GN has budgeted a combined total of \$292.7 million, or 26.9 percent of total operational expenditures, for these entitlements. This budgeted amount excludes dedicated funds the federal government will provide to offset some of the cost of the public housing program. Without these funds, the cost to the GN of these entitlements would be much higher, on the order of \$340 million.

Entitlements are government programs that require the government to provide payments to anyone who meets certain specific qualifications—in other words, those who qualify for the program are “entitled” to the payment. Entitlements normally depend on legislation to provide them with their legal force. A good example is the GN's social-assistance program, which flows from the Social Assistance Act. The GN cannot deny social-assistance payments to anyone who qualifies for them according to the criteria set out in this legislation and its associated regulations. Social housing, health care and medical travel are other examples of the GN's entitlement programs.

The issue of fiscal sustainability also emerges when considering forced-growth government expenditure unrelated to entitlements. Energy expenditures, and in particular energy subsidy programs, are a good example of forced-growth expenditures. According to *Ikummatiit*, the GN's 2007 energy strategy, the GN spent approximately 20 percent of its annual budget on energy in 2005-06, the latest year for which full data is available. In 2007-08, again the last year for which full data is available, the GN spent \$40.4 million on direct energy

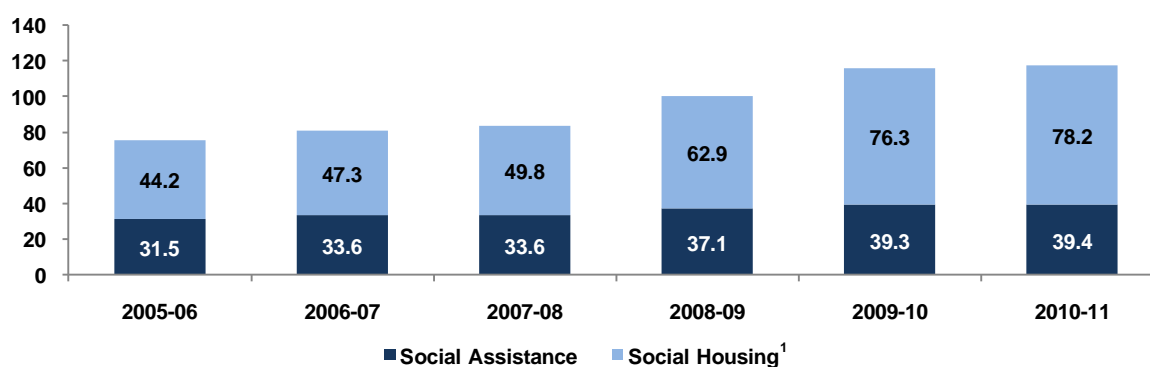
subsidies, three-quarters of which were actually entitlements under the social-assistance and social-housing programs.

1.4.1 Social Assistance and Social Housing

About half of the population of Nunavut is entitled to social assistance, either for its full benefits or to augment wage earnings. About half of the population of Nunavut—not necessarily the same half—qualifies for social housing. In 2010-11, the GN has budgeted \$117.6 million, or 10.8 percent of total operational expenditure, for the combined costs of these two support programs, not including sizeable federal funding from the Canada Mortgage and Housing Corporation that offsets the direct cost of the social-housing program. These costs have been increasing, especially in recent years with the construction of additional social-housing stock (Figure 1-18).

Figure 1-18: Budgeting History, Social Assistance and Social Housing

Millions of current dollars



1. Net of funding from the Canada Mortgage and Housing Corporation.

Source: GN Finance (2005-06 to 2010-11 Business Plans)

The annual growth rate in the combined budgeted costs of social assistance and social housing between 2005-06 and 2010-11 is 9.2 percent, exceeding both the 6.1 percent growth in TFF and the 4.3 percent growth in total GN revenues during the same period. It is important to note that these costs do not include the capital costs of the social-housing stock itself, merely the cost of administering the social-housing program. As the GN, with the help of the federal government, has moved to address Nunavut's acute housing problems by building stock, it may have begun to outstrip its capacity to carry its own social-housing program.

Whether this growth in costs will continue after the recent burst of social-housing construction is unclear, but Nunavummiut generally accept that the GN's social-housing stock is still inadequate to meet needs. In addition, the federal funding offsetting the cost of the social-housing program is declining and will phase out by 2037. Similar concerns of adequacy apply to social-assistance payments as well, whose regulated levels are not indexed to

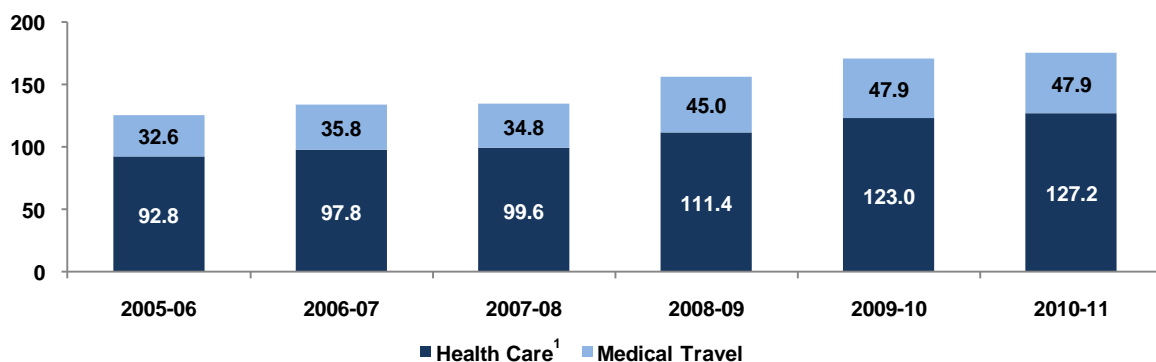
inflation or the cost of living, and have not risen since April 2005. It is an open question whether or not the GN can afford to help ameliorate Nunavut's challenging social conditions further without significantly higher revenues and, if possible, more cost-effective programming.

1.4.2 Health Care and Medical Travel

In 2010-11, the GN plans to spend \$127.2 million, or 11.7 percent of total operational expenditures, on health care for Nunavummiut, both for treatment within the territory and in other jurisdictions. It also plans to spend \$47.9 million, or 4.4 percent of total operational expenditures, transporting Nunavummiut to medical facilities offering treatments unavailable in their home communities. Like social-housing costs, these budgeted costs have been rising in recent years, especially medical-travel costs (Figure 1-19).

Figure 1-19: Budgeting History, Health Care and Medical Travel

Millions of current dollars



1. Includes the cost of treatment within and outside Nunavut, at both hospitals and community health centres.

Source: GN Finance (2005-06 to 2010-11 Business Plans)

The annual growth in the combined cost of health-care and medical travel between 2005-06 and 2010-11 is 6.9 percent, again outstripping the growth in TFF and GN revenues in the same period. It has also far exceeded the growth in Nunavut's population, which runs between 1 and 2 percent per year.

Many factors have contributed to the outsized growth in health-care and medical-travel costs, not least of which is much-improved quality of care. This improvement, while very positive for Nunavummiut, is expensive, and has often involved treatment in southern jurisdictions where the latest equipment and techniques are available, increasing medical-travel costs as well. At the same time, there is evidence that the primary-care skills of many of Nunavut's own community-health nurses have failed to keep up with advances in medical practice, resulting in greater numbers of referrals to physicians in Iqaluit and contributing to the rise in medical-travel costs.

Another negative factor driving health-care costs is the long-standing shortage of health professionals in Nunavut's medical system, which has forced the GN to hire more-expensive, shorter-term staff, especially agency-based nurses. In addition, the shorter-term family physicians on which the GN also relies may tend to refer patients to specialists more often, either out of concern for appropriate follow-up care, or because they are unfamiliar with the patients or with Nunavut. Referrals often lead to medical travel, as much specialized care is unavailable in Nunavut.

The GN has undertaken a number of internal reviews to address these issues. New health centres have opened or are slated to open in the regional centres of Rankin Inlet and Cambridge Bay. Tele-health and electronic health record systems are beginning to improve service efficiency. Nevertheless, the delivery of proper health care in Nunavut will never be inexpensive, and the GN will require further efficiencies, especially in respect of medical travel, or higher revenues to continue to maintain and improve the quality of medical care available to Nunavummiut, in Nunavut.

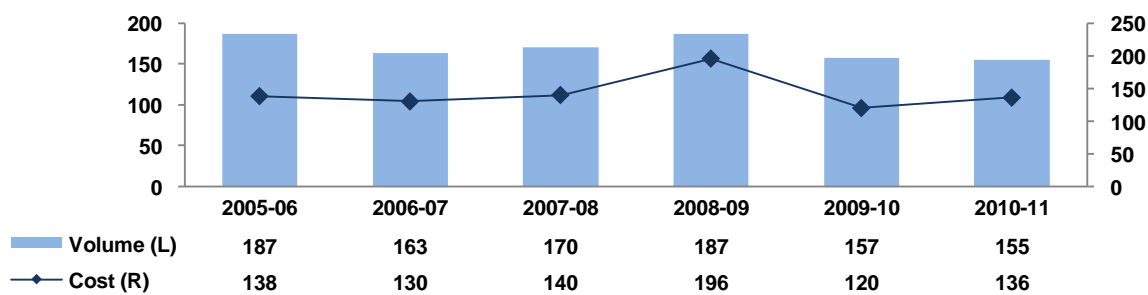
1.4.3 Energy Expenditures and Subsidies

Energy expenditures are a significant component of the GN's annual operational expenditures. Firstly, the GN consumes energy in the course of its own operations. Secondly, the GN purchases fuel for subsequent distribution and sale to businesses and consumers across the territory. As Nunavut currently has few local energy resources and lacks regional electricity-transmission infrastructure, the territory is dependent on imported fossil-fuels to meet its energy needs. The GN transports these fuels to communities across Nunavut during the summer shipping season, where it stores them for re-sale.

The GN operates the distribution and sale of fuel on a cost-recovery basis, but the initial outlay is considerable. Total fuel-resupply costs have ranged between \$130 million and \$200 million in recent years. Lower global oil prices have mitigated costs somewhat, and projections for fuel-resupply costs in 2010-11 are at the lower end of the range. The GN expects to purchase about 155 million litres of fuel for \$136 million in 2010-11, at a cost of \$0.88 per litre, which includes the cost of transportation (Figures 1-20 and 1-21).

Figure 1-20: Historic Fuel-Resupply Volumes and Costs

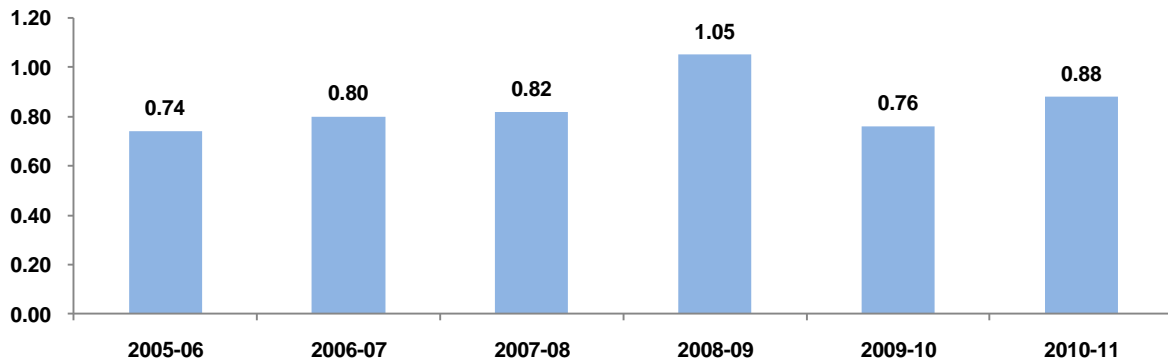
Millions of litres; millions of current dollars



Source: GN Community and Government Services

Figure 1-21: Fuel-Resupply Price History

Blended price per litre in current dollars

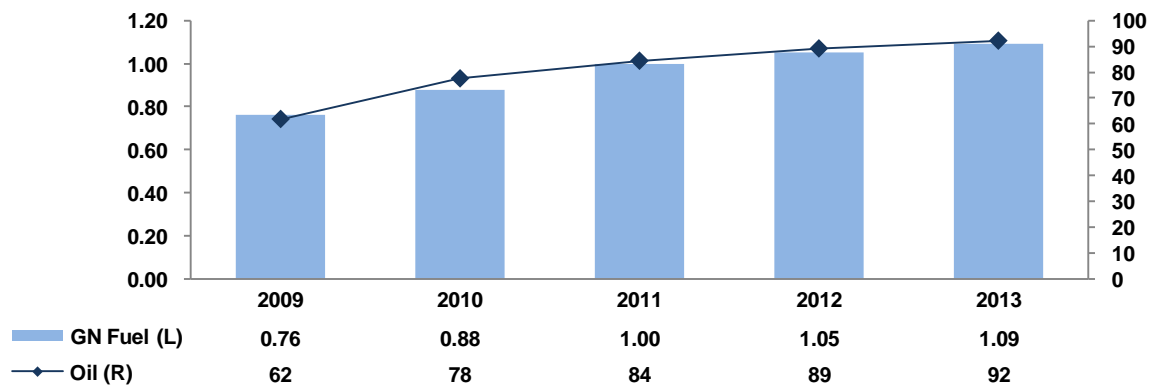


Source: GN Community and Government Services

Nevertheless, energy analysts expect global oil prices, which the prices of derivative fuels such as diesel, gasoline and heating oil follow closely, to climb as the world economy emerges from recession. In this fiscal year the GN will already pay 16 percent more per blended litre than in the crisis year of 2009-10, and only 19 percent less than the peak price it paid in 2008-09. If oil prices rise at the rate private-sector forecasters have recently projected, the GN may pay 2008 prices again by 2012 (Figure 1-22).

Figure 1-22: Fuel-Resupply Price Forecast

Blended price per litre in current dollars; annual average current US dollars per barrel



Source: Alberta Finance (average of December 2009/January 2010 private-sector forecasts for 2010-13); GN Finance

The GN manages the serious issue of fuel costs through various purchasing arrangements, including pre-purchasing. While pre-purchasing is effective when fuel prices rise over time, it can be costly if fuel prices drop, and it carries the additional opportunity cost of committing funds up-front that the GN might use for other purposes. Pre-purchasing is also li-

mitted by available storage, transport, and the natural degradation of chemicals such the octane in gasoline.

Hedging is another strategy at the GN's disposal to manage fuel costs. For a fee, or premium, the GN can buy the right to purchase fuel at an agreed-upon price in the future, without actually having to pre-purchase the fuel. The amount of the premium depends on how much lower the agreed price for fuel is than the future price the market expects. If the future price turns out higher than the agreed price, the GN can exercise its right to purchase fuel at the agreed price and save money. If the future price turns out lower than the agreed price, the GN only loses the premium it paid. As the premium can sometimes be higher than the expected savings, hedging does not always pay as a strategy to control costs.

In fact, the price of fuel is only one component of the overall cost of energy in Nunavut. High transportation and storage costs particular to Nunavut's non-integrated or "gridless" energy system, as well as older and less efficient generating plant, make energy more expensive in Nunavut than elsewhere in Canada. The GN provides a number of energy subsidies to help Nunavummiut who would be otherwise unable to heat and light their homes, to shield other residents from overly burdensome energy expenses, and to encourage business development in the territory. In 2010-11, the GN expects its territorial electricity subsidy to cost \$7.4 million, while energy subsidies flowing through entitlement programs such as social assistance and social housing may run close to \$40 million more.

With higher fuel prices on the horizon, the rising cost of energy will become more burdensome to the GN, and may even produce fiscal stress. Energy subsidies, though they effectively direct assistance to vulnerable groups, promote energy consumption rather than conservation, potentially exacerbating the problem. There are many important environmental concerns with respect to energy conservation, but fiscal concerns may be equally urgent.

2 Economic Outlook

Highlights

- In late 2008, many of the world's countries entered a deep recession, which is only now abating. Canada was not immune, but strong fiscal and monetary responses to the crisis have helped the Canadian economy recover.
- The Conference Board of Canada (CBoC) estimates that Nunavut's real gross domestic product (GDP) contracted 9.6 percent in 2009, and that it will rebound 9.9 percent in 2010. Much of this fluctuation is attributable to the end of construction at Meadowbank, and not to the recession.
- Nunavut's unemployment rate was 12.4 percent in 2009, down from 12.5 percent in 2008. Of 18,800 working-age Nunavummiut, roughly 9,800 were employed in 2009, while 1,400 were unemployed, but seeking jobs. The CBoC expects employment to grow moderately in the near term.
- Nunavut's economic output will shift from construction to mining as the Meadowbank gold mine begins production this year. The public sector continues to play a large, stabilizing role in Nunavut's economy.

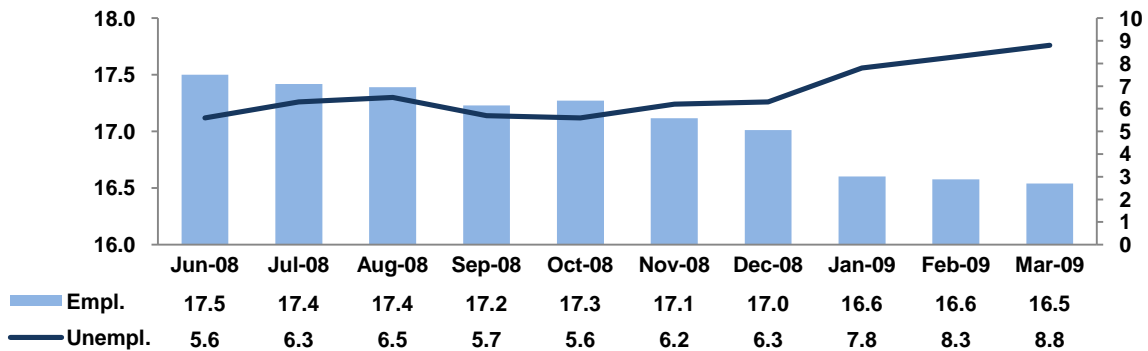
2.1 National Economic Developments

As a result of a financial crisis in the United States, the global economy entered a deep and synchronous recession in late 2008. Despite Canada's healthy household and corporate finances, strong financial institutions and stable financial system, the country was not immune to the global economic turbulence. Between June 2008 and March 2009 the national economy shed almost 1 million jobs, pushing the unemployment rate up by 3.2 percentage points to 8.8 percent, its highest level in a decade (Figure 2-1). Canada's open economy and strong ties to the United States eventually dragged the country into a brief but painful recession between the third quarter of 2008 and the second quarter of 2009, when Canada's real GDP contracted by 3.5 percent.

Canada weathered the global recession better than many countries, however, particularly other developed nations. Canada was the last G7 country to enter recession and has experienced one of the smallest declines in output among major economies. As in peer countries, the federal government partially offset the short-term impacts of the downturn by injecting unprecedented levels of fiscal stimulus into the economy in 2009-10. Some of this spending came in the form of \$9.5 billion for infrastructure projects across Canada, which the federal government intended to boost local employment and domestic demand.

Figure 2-1: Employment and Unemployment, Canada

Millions of jobs; percent

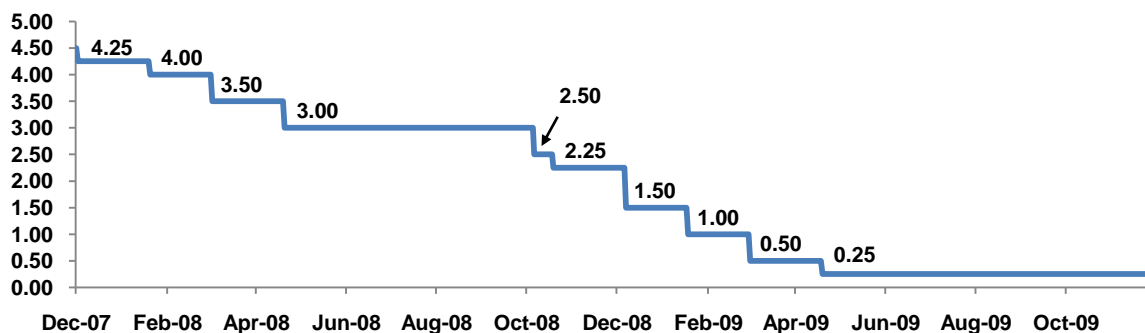


Source: Statistics Canada (Labour Force Survey)

Accommodative monetary policies also spurred the Canadian economy. Between December 2007 and April 2009, the Bank of Canada aggressively cut its target for the overnight rate—the interest rate at which financial institutions lend money among themselves—from 4.50 percent to 0.25 percent, where it has remained (Figure 2-2). The Bank has signaled it will keep the target at 0.25 percent until the summer of 2010, assuming inflation remains manageable, to encourage financial lending and business and consumer spending.

Figure 2-2: Bank of Canada Target Rate

Percent

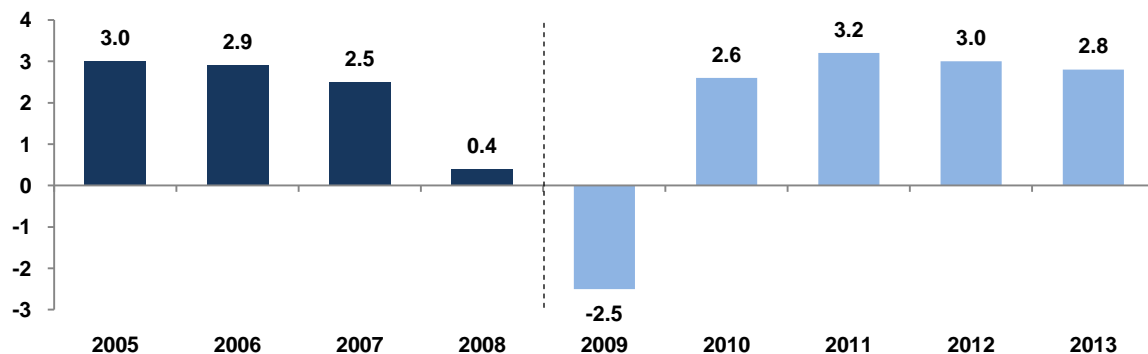


Source: Bank of Canada

Though risks remain, Canada’s fiscal and monetary actions, which the Bank of Canada expects to take full effect this year, appear to have helped the Canadian economy stave off the worst of the recession. Economists now point to signs of recovery in capital investment, industrial output and consumer spending, and predict moderate growth in the years to come. In December 2009, private-sector forecasters predicted economic expansion of 2.6 percent in 2010, and an average of 2.9 percent annually out to 2013 (Figure 2-3).

Figure 2-3: Historic and Forecast Real GDP Growth, Canada

Percent change year-on-year



Source: Statistics Canada, 2005-08; Finance Canada (based on December 2009 private-sector predictions), 2009-13

2.2 Economic Performance

According to the CBoC, Nunavut's economic output likely declined in 2009. The contraction is due primarily to the deceleration of construction activity at the Meadowbank gold mine rather than the global recession. Nunavut's output should rebound sharply in 2010 as Meadowbank begins production. The shift from construction to production at Meadowbank will change the overall composition of Nunavut's economy as the massive expansion of the construction industry associated with Meadowbank, as well as the business investment that fueled it, subsides. Major development projects will continue to drive large swings in Nunavut's economic performance as long as the territory's private sector remains small and undiversified.

2.2.1 The Global Recession in Nunavut

The global recession, while challenging for certain segments of Nunavut's private sector such as mining, has not had a large impact overall. The territory's economy is relatively stable because Nunavut's large public sector partially insulates it against external shocks. With spending on public administration, education, health and social services contributing over 40 percent of Nunavut's GDP and employing more than 4,800 people, it is the Government of Nunavut's (GN's) fiscal position that underpins much of Nunavut's economy, not volatile market forces. According to the CBoC, Nunavut's economy would not have contracted significantly in 2009 if construction activity at Meadowbank had not wound down that year.

Despite Nunavut's economic shelter, the global recession may yet have long-term negative impacts on the territory. As discussed in Section 1.3 above, the GN relies on the federal government for the preponderance of its revenue. A halt or cut in federal support to the GN would impact Nunavut's wider economy by limiting the GN's capacity to employ Nuna-

vummiut, to create business through local spending on goods and services, and to provide territorial transfer programs, such as social assistance and social housing.

For this reason, and in keeping with the GN's emphasis on self-reliance, it is important that Nunavut's private-sector economy expand and diversify so that it can untie itself from the public sector. The best drivers of this expansion are Nunavummiut themselves. The GN can help by fostering conditions that will enable and encourage Nunavummiut to take advantage of private-sector opportunities that exist in the territory, and create new ones.

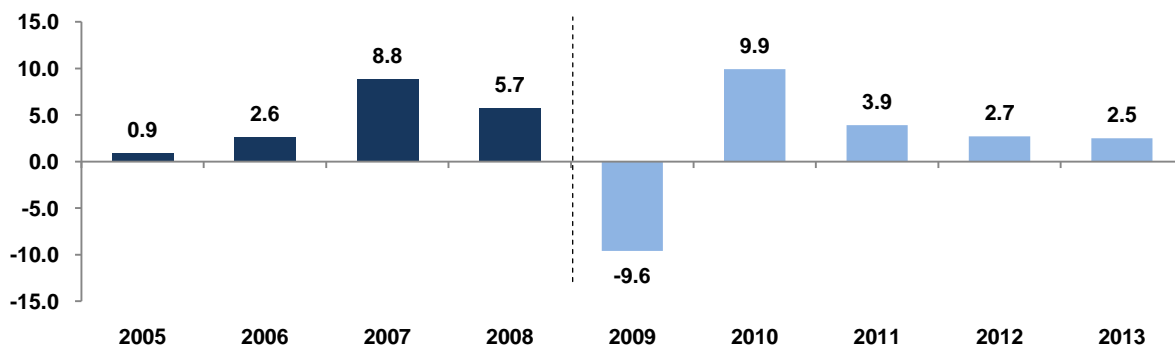
2.2.2 Economic Output

The CBoC estimates Nunavut's real GDP was \$1,020 million in 2009, down 9.6 percent from \$1,128 million in 2008. The global recession may have influenced this contraction, but it appears almost wholly due to the 47-percent reduction in the output of the construction industry, which scaled back as Meadowbank neared completion. Construction had been spearheading Nunavut's economic growth since development began at Meadowbank in 2007, so in some sense its contraction in 2009 represents a return to trend. With gold production slated to begin at Meadowbank in 2010, it is also only a pause.

Once Meadowbank begins operations, the CBoC expects mining output to leap to \$97 million in 2010 from \$7 million in 2009, and territorial output as a whole to increase by 9.9 percent to \$1,121 million, effectively bringing Nunavut's economy back to its peak level of 2008. The CBoC goes on to project that Nunavut's real GDP will continue to expand in the near term, thanks mostly to steady growth in both the mining and public sectors. Apart from the 2010 rebound, which has yet to occur, it is unlikely that Nunavut will experience real GDP growth at the level it enjoyed in 2007 until the next major development project gets underway in the territory. At the same time, the production at Meadowbank will provide a more stable level of output from the private sector than Nunavut has experienced in recent years (Figure 2-4).

Figure 2-4: Historic and Forecast Real GDP Growth at Basic Prices

Percent change year-on-year



Source: Statistics Canada, 2005-08; CBoC, 2009-13

2.3 Employment and Labour

Nunavut's population of working-age adults currently stands at about 18,800. It is also growing quickly each year, as Nunavut's large numbers of youth reach working age. With proper skills and enough available jobs, it represents the most important resource Nunavut's economy has to grow its productive capacity and create wealth. Nunavut's high unemployment rate and, even more crucially, its low labour-force participation rate, indicate the challenges Nunavut's working-age population faces, however, as well as the potential productive capacity lost to the territory's economy.

2.3.1 Employment

Overall employment in Nunavut is highly seasonal, so average annual figures provide the best guide to the territory's job market. According to Statistics Canada's Labour Force Survey (LFS—see box in this section), roughly 9,800 Nunavummiut on average were employed in 2009, almost 300 fewer than in 2008. The CBoC projects that the construction sector alone shed 350 jobs last year even as other sectors in the economy added jobs, probably due in large part to the shift from construction to production at Meadowbank. As with economic output, changes at Meadowbank shaped territorial employment in 2009.

Roughly 1,400 Nunavummiut on average were unemployed, but actively seeking work. Estimates of the annual unemployment rate range slightly, but are close to 12.4 percent, down from 12.5 percent in 2008. Nunavut's unemployment rate decreased despite the decline in employment because an even greater number of people—an estimated 300 or more—left Nunavut's labour force altogether. So, although fewer people were employed in 2009, fewer still were looking for a job, nudging the unemployment rate down.

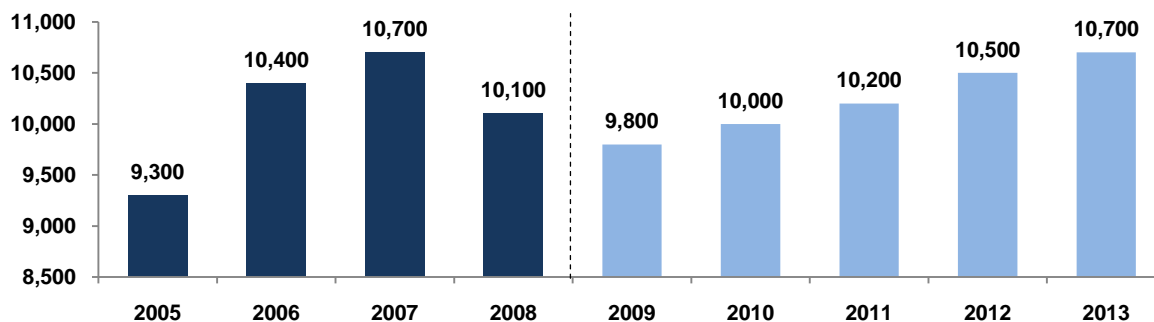
The CBoC expects about 10,000 Nunavummiut to be employed in 2010, largely offsetting last year's loss. Hiring in the mining sector will drive the increase, as the industry takes on more than 100 employees. The CBoC expects Nunavut's labour force to grow more quickly than the number of available jobs, however, pushing Nunavut's 2010 unemployment rate higher even as more Nunavummiut find employment. In the medium term, employment will likely rise, bringing the unemployment rate back down to current levels. All the same, despite steady employment gains, the num-

*Statistics Canada collects labour data in various ways, each painting a different picture of the economy. The **Labour Force Survey (LFS)** is based on a sample of Canadian households, which means its estimates are less accurate for small populations, and more appropriate for broader descriptions of Nunavut's economy. By contrast, the **Survey of Employment, Payroll and Hours (SEPH)** is based on information Statistics Canada collects directly from employers, and offers detailed, industry-level data on number of jobs, earnings, and hours worked. Many detailed SEPH data are not available for the Nunavut, however, as Statistics Canada is prohibited from releasing information that might identify a business or organization—more likely in Nunavut's small economy. The **System of National Accounts** combines data from the LFS, SEPH and other sources to provide an integrated view of the economy, including official data on productivity. Data from all of these sources feature in this presentation.*

ber of employed Nunavummiut may not return to the peak levels of 2007 until as late as 2013 (Figure 2-5).

Figure 2-5: Historic and Forecast Approximate Employment

Number of individuals



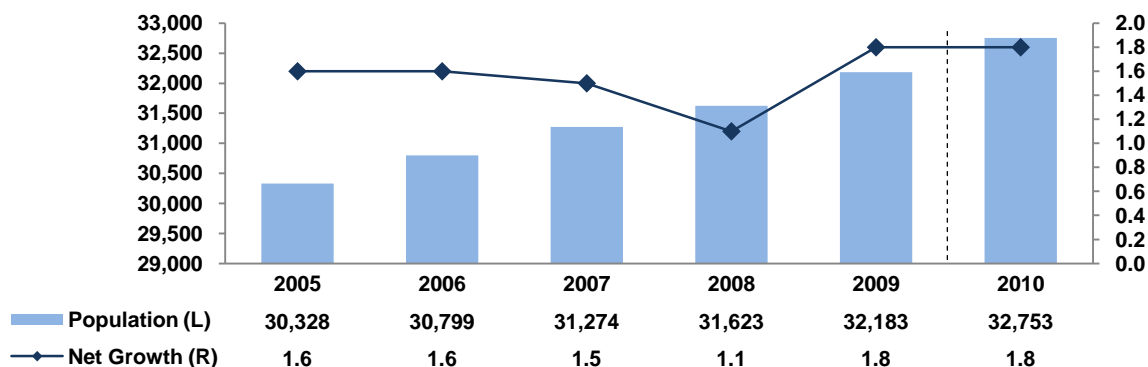
Source: Statistics Canada (Labour Force Survey), 2005-08; CBoC, 2009-13

2.3.2 Labour Force

The productive capacity of Nunavut's labour-force—how much economic value it can contribute—depends its quantity as well as its quality. As of July 1, 2009, Nunavut's population stood at almost 32,200, up 1.8 percent from just over 31,600 in 2008. Nunavut's population should continue to grow at roughly the same rate into 2010 (Figure 2-6). Only Alberta expanded more quickly last year.

Figure 2-6: Historic and Forecast Population

Number of individuals as at July 1; percent change year-on-year



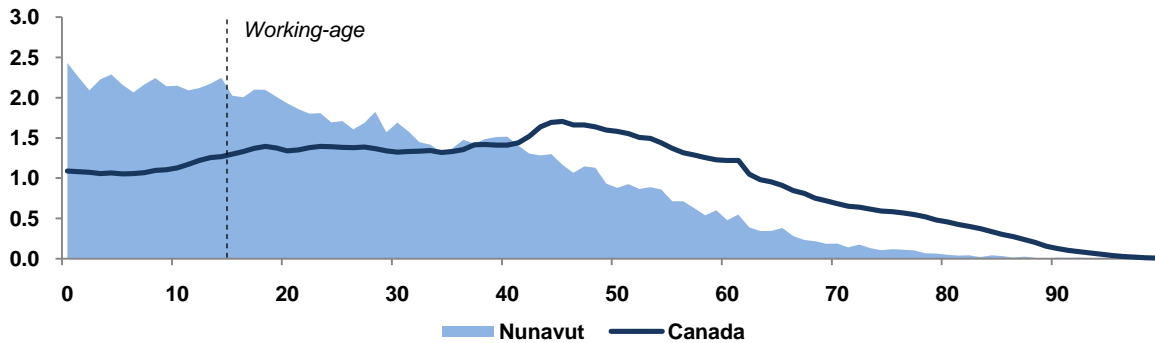
Source: Statistics Canada (estimates of September 2009)

Nunavut's population is characteristically young, with one-third of Nunavummiut under the age of 15. There are almost twice as many children in Nunavut as a share of the population than in the rest of Canada. Nunavut's large number of youth means that the territo-

ry's employers draw from a relatively small pool of working-age adults—about 18,800 in 2009 (Figure 2-7).

Figure 2-7: Population Distribution by Age, 2008

Percent share of population

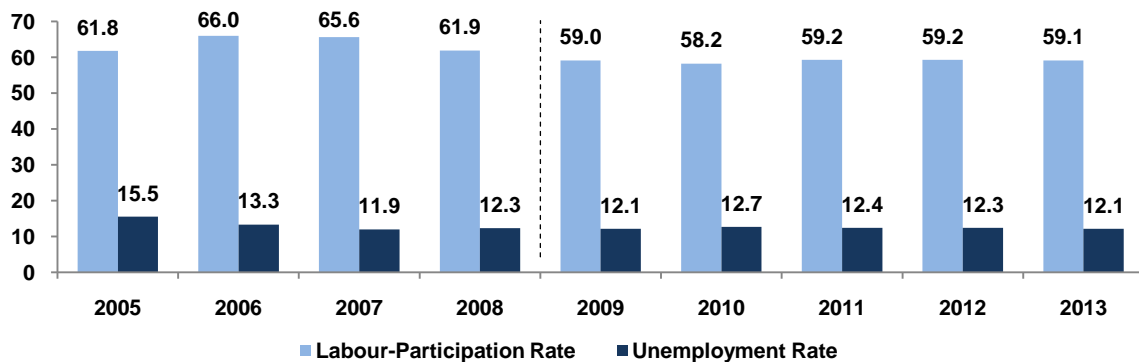


Source: Statistics Canada

The quantity of labour also depends on how many Nunavummiut actively participate in the labour force. According to the CBoC, nearly 7,800 working-age Nunavummiut did not participate in the labour force in 2009—that is, they neither had a job nor were seeking one. They may have been full-time students, elders, retirees, people who were too sick to work, or people who did not want to work. They may also have been willing to work, but were too discouraged to look for jobs. Based on these estimates, Nunavut's labour-force participation rate fell below 60 percent that year, for the first time in recent years (Figure 2-8).

Figure 2-8: Historic and Forecast Labour-Participation and Unemployment Rates

Percent



Source: Statistics Canada (Labour Force Survey), 2005-08; CBoC, 2009-13

Nunavut's participation rate is less than that of other Canadian jurisdictions, and reflects low labour-force participation by Inuit. In general, based on data from the Nunavut Bureau of Statistics and Statistics Canada, roughly 50 percent of Inuit participate in Nunavut's labour force. By contrast, labour-force participation among non-Inuit averages around 90 percent. By definition, participation rates measure involvement in the wage economy, and likely fail to capture participation in traditional activities such as hunting or artisanal crafts, despite the fact that these activities having economic value and, for Inuit especially, take the place of a wage-earning job. Nevertheless, there are likely deeper reasons behind the gap in participation rates between Inuit and non-Inuit; and increasing the involvement of Inuit in the wage economy remains key to Nunavut's economic development.

2.3.2 Productivity

The quality of labour—its productivity—also impacts Nunavut's growth. Nunavut's productivity—a measure of the efficiency with which workers create value in the territorial economy using a set amount of resources—appears to compare well with other Canadian jurisdictions. According to Statistics Canada's National Economic Accounts for 2008, Nunavut workers generated about \$43,000 of real GDP per hour worked, higher than the Canadian average of \$40,900 per hour worked.

Although GDP per hour worked is a common measure of productivity, its casual application to Nunavut is inappropriate because it masks the territorial economy's heavy reliance on the public sector, which accounts for a large share of GDP and employment. Moreover, Nunavut's public sector obtains the vast majority of its funding from the federal government, meaning that a significant proportion of the value that Nunavut's GDP figures express actually originates with taxpayers outside the territory.

It is very difficult to strip out the effects of government spending on Nunavut's economy to arrive at a labour-productivity rate that reflects the private sector only, not least because the private sector would not be nearly as large without government spending on goods and services. Assuming, however, that the private sector's share of the economy remains unchanged, preliminary analysis suggests that its 2008 productivity was between \$20,000 and \$25,000 of real GDP per hour.

This range may seem low, but public-sector expenditure as a share of GDP does not depend on the number of government workers or the hours they work as much as it does on the absolute value of transfers from the federal government. While such a figure must be taken with extreme caution, it does tend to indicate that productivity in Nunavut is much less than the headline data from Statistics Canada imply.

2.4 Key Economic Sectors

The following summaries provide brief overviews of each of Nunavut's major economic sectors, including not only sectors that account for much of Nunavut's real 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.

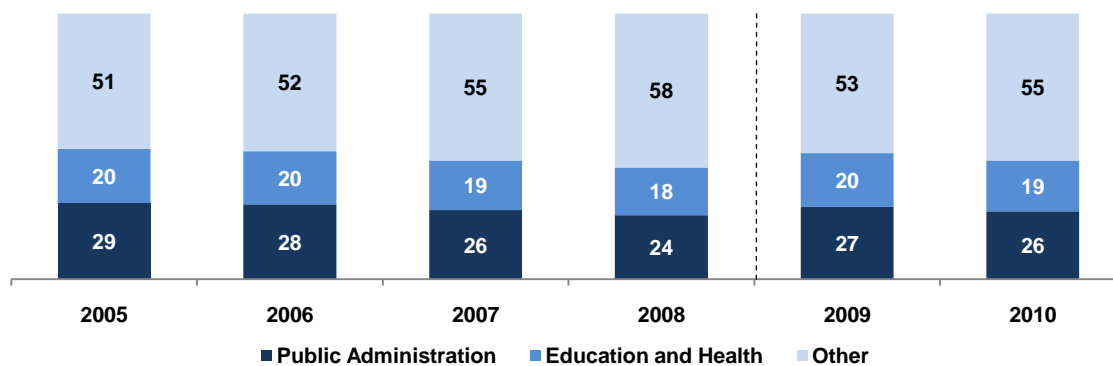
2.4.1 Public Sector

Governments play an enormous role in Nunavut's economy. Public administration, which includes municipal, territorial and federal government activity, directly accounted for \$271 million or 24 percent of the territory's GDP in 2008. The education and health sectors, which governments fund almost exclusively, accounted for another \$202 million or 18 percent. In all, more than 4,800 people were employed in 2008 in public administration, education and health—comfortably more than in any other sectors. In 2008, these employees earned \$450 million in compensation, about half of all earnings in the territory.

Due to the expected contraction in the construction industry, the CBoC forecasts the combined contribution to the economy of public administration, education and health to have risen to about 47 percent of GDP in 2009. It should fall back to about 45 percent of GDP in 2010, as mining output at Meadowbank helps the private-sector share of the economy to grow slightly (Figure 2-9).

Figure 2-9: Historic and Forecast Share of Real GDP

Percent

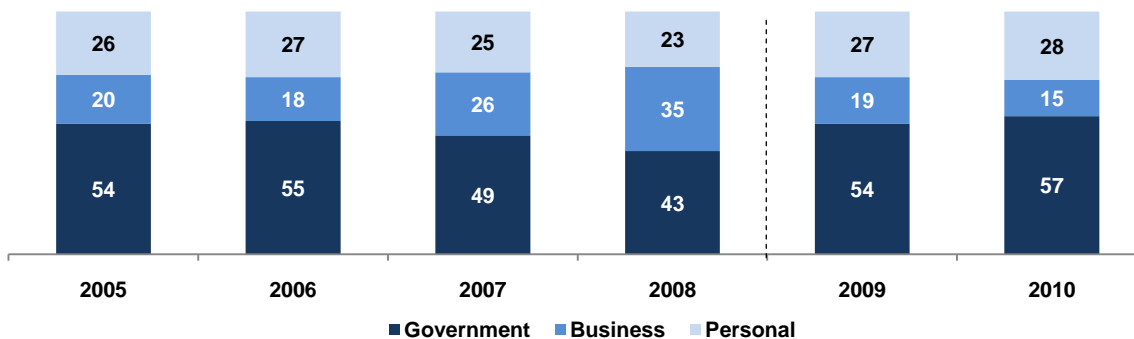


Source: Statistics Canada, 2005-08; CBoC, 2009-10

Public spending also supports many sectors of Nunavut's private-sector economy. Utilities, real estate, construction, transportation and trade all benefit from the large value of goods and services they provide to governments. In fact, government spending and investment amounted to nearly half of all expenditure and investment in the territory in 2008, in terms of final domestic demand. By contrast, government spending and investment made up just under a quarter of Canada's final domestic demand that year. Public sector spending will likely account for an even larger part of Nunavut's economy now that the temporary surge in business investment related to Meadowbank has subsided (Figure 2-10).

Figure 2-10: Historic and Forecast Share of Final Domestic Demand

Percent



Source: Statistics Canada, 2005-08; CBoC, 2009-10

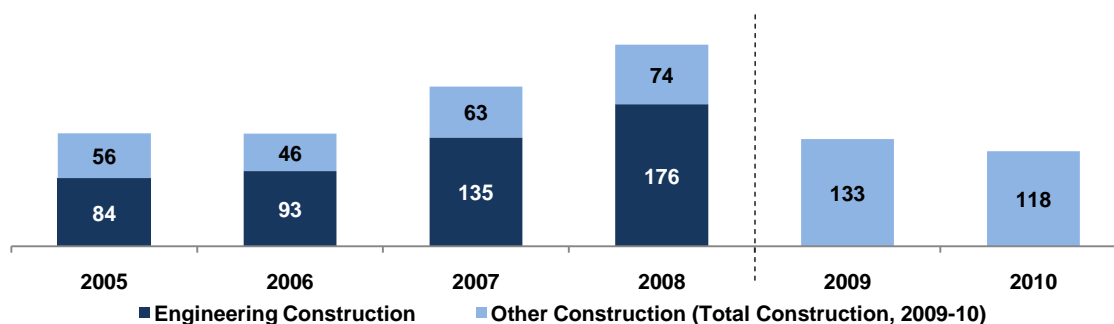
2.4.2 Construction

Construction is Nunavut's largest industry after public administration. The sector peaked in 2008 with work on the Meadowbank project, when it contributed \$250 million or 22 percent of territorial GDP, and employed about 850 people. According to the CBoC, the construction industry will shrink by almost half with the end of this project, contributing \$133 million or 13 percent of GDP in 2009, and employing 500 people.

Without doubt, the sector's real driver in recent years has been engineering construction related to Meadowbank. In 2006, the value of engineering construction to the economy began to rise, reflecting early construction activities at the project site. As construction wound down in 2009, spending dropped substantially. Preliminary data from Statistics Canada indicate private-sector spending on construction fell from \$950 million in 2008 to \$400 million in 2009, consistent with the CBoC's GDP forecast (Figure 2-11).

Figure 2-11: Historic and Forecast Output, Construction Industry

Millions of chained 2002 dollars

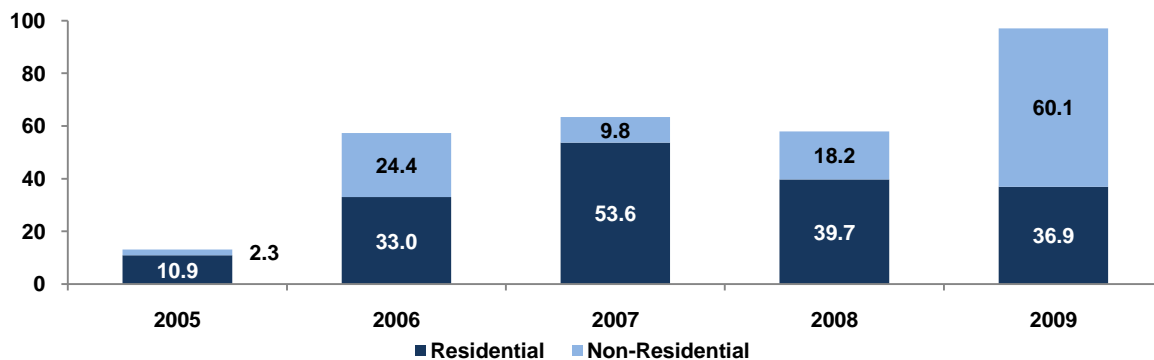


Source: Statistics Canada, 2005-08; CBoC, 2009-10

Even apart from Meadowbank, however, construction has been an important industry in recent years, as Nunavut catches up on historically low investment in housing and non-residential infrastructure. The preliminary value of building permits issued in Iqaluit in 2009 was \$97 million, up \$40 million or almost two-thirds from the previous year. The value of building permits issued in Iqaluit does tend to swing from year to year, but the recent trend has been upward (Figure 2-12). By contrast, the preliminary value of building permits issued across Canada decreased by over 13 percent from 2008 to 2009 as builders re-trenched and waited out the economic storm.

Figure 2-12: Value of Building Permits, Iqaluit

Millions of current dollars



Source: Statistics Canada

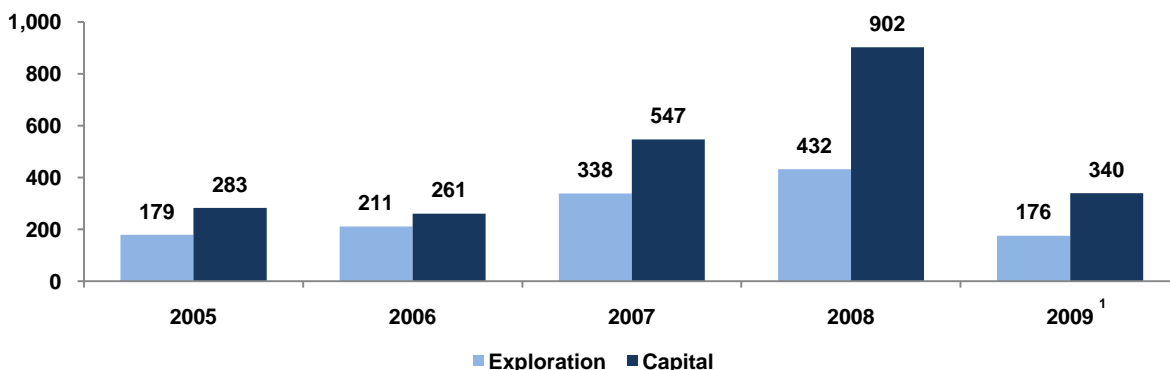
2.4.3 Mining and Petroleum

Once a large sector in the economy, the direct contribution of the mining industry to territorial GDP has declined substantially in recent years. Mining activity accounted for 1 percent of Nunavut's economy in 2008 and, according to the CBoC, even less in 2009. This decline does not signal a collapse in the industry, but instead reflects its project-based nature. Individual mining projects can have significant impacts on Nunavut's economy, but none are currently operating. As Meadowbank begins production, expected in the second quarter of 2010, mining's contribution to Nunavut's economy will surge. The CBoC predicts its value will reach \$97 million, or 9 percent of GDP, in 2010.

All the same, the recession has been challenging for early-stage mining companies. Junior firms concentrating on mineral exploration and lacking steady cash-flow operate many of the mining projects in the territory. In 2009, shaken investors pulled back from such potentially risky ventures, leaving junior firms with little recourse but to suspend operations. This pullback translated into a large drop in spending on exploration, which may have slowed progress on future major projects. Capital expenditure in the mining industry also dropped precipitously in 2009, but this drop reflects the end of construction at Meadowbank and not the effects of the recession (Figure 2-13)

Figure 2-13: Mining-Industry Expenditures

Millions of current dollars



1. Spending intentions.

Source: Natural Resources Canada (exploration); Statistics Canada (capital)

Like the mining industry, Nunavut's petroleum industry has great potential, based on large proven and potential resources within the territory's borders. Still, the undeveloped state of the industry and the isolation of Nunavut's petroleum resources make development economically unfeasible in current markets. It will likely take decades before the economic benefits of oil and gas development are fully realized. In time, however, once the industry gets underway, its contribution to territorial GDP will be far greater than any other industry, including mining.

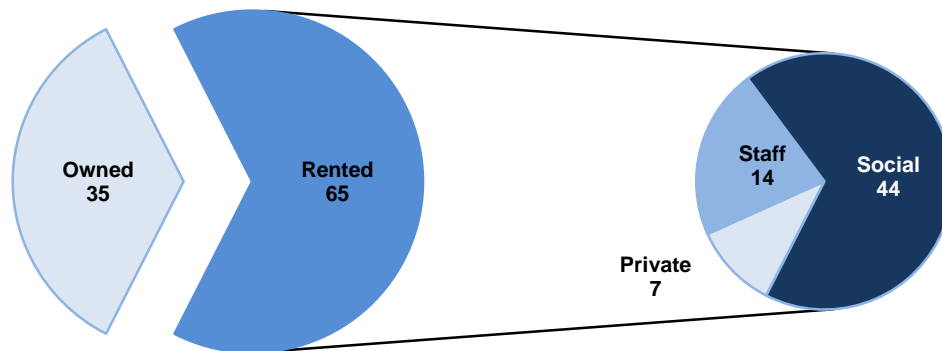
2.4.4 Real Estate

Nunavut's real-estate industry is based on the development and leasing of commercial and residential properties. It contributed \$180 million or 16 percent of GDP in 2008, and the CBoC estimates about the same amount for 2009. These figures also include finance and insurance activities, which privacy restrictions on Statistics Canada data make impossible to disaggregate. In Nunavut, however, the contributions of the finance and insurance industries are likely to be small relative to the real-estate industry itself, probably under 20 percent of the total.

The real-estate industry enjoys large and steady demand from the public sector, in particular the GN, not only for office space but also for residential space associated with staff and social housing. GN demand for residential space alone accounts for about 58 percent of the entire housing market, and almost 90 percent of the rental market (Figure 2-14). Given Nunavut's historical shortage of commercial and residential space, government demand, as well as the private demand associated with a growing territory, is likely to hold up for the foreseeable future.

Figure 2-14: Housing by Ownership and Type of Rental

Percent share of total



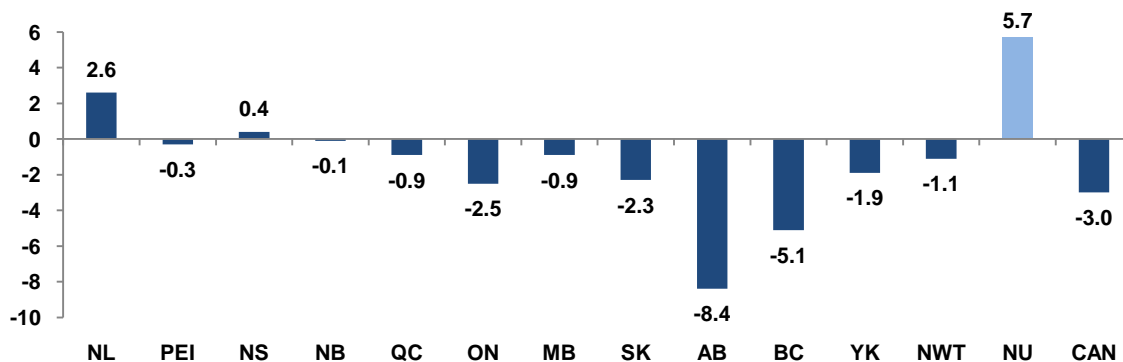
Source: Nunavut Housing Corporation

2.4.5 Retail and Wholesale Trade

Retail and wholesale trade contributed \$70 million to Nunavut’s economy in 2008, up 10 percent from the previous year. Retail trade accounts for about three quarters of this value. Although the CBoC expects Nunavut’s trade sector may have contracted slightly in 2009, recently-released data indicate the sector may have actually held up over the year, buoyed by strong retail sales. While Canadian consumers cut back on retail spending in 2009 by 3 percent, Nunavummiut increased spending by almost 6 percent, to \$324 million (Figure 2-15). Wholesalers did not fare as well last year, as sales declined 8 percent from 2008 to \$66 million by the end of 2009.

Figure 2-15: Change in Retail Spending

Percent change, December 2008 to December 2009



Source: Statistics Canada

Trade is a large employer in Nunavut. About 1,000 Nunavummiut work in retail, and another 250 work in wholesale. Retail employment tends to be part-time work and, on average, pays less than employment in other sectors. In 2008, a retail employee could expect to earn \$440 per week, less than half the \$910 per week the average worker in Nunavut earned. Wholesale trade tends to be more lucrative for employees, with average weekly earnings above \$1,000. While all private-sector jobs have economic and social value, it is important that labour analyses and policies consider the characteristics of employment, and not simply the quantity of jobs.

The trade industry is likely to continue growing, particularly as incomes continue to rise. Personal disposable income was \$991 in 2008, up from \$964 in 2007. The CBoC predicts that disposable income grew again in 2009 to \$1,010, and anticipates continued growth at almost 5 percent per year in the near term. As this growth rate is higher than expected inflation, Nunavummiut will enjoy improving real incomes and purchasing power. Prospects for wholesalers are also favourable. The sector stands to gain considerably if Nunavut's economy expands and, more importantly, diversifies. Greater diversification requires a larger variety of goods, which creates new business opportunities for wholesale firms, particularly those that can specialize and compete in specific markets.

2.4.6 Transportation

The transportation and warehousing sector, which employs roughly 700 Nunavummiut, contributed \$21 million to territorial GDP in 2008, up from \$20 million in 2007. Warehousing contributes less than 10 percent of this amount.

Nunavummiut imported \$900 million worth of goods in 2008. As Nunavut lacks road or rail networks, Nunavummiut relies on marine and air connections to bring these goods into the territory. Air transportation is particularly important because of its ability to operate year-round. Flights in and out of Iqaluit and Rankin Inlet, the territory's two major hubs, reached 33,300 in 2008, up 2,000 from 2007. Iqaluit's airport in particular is becoming busier. In 2008, it ranked 19th in Canada in terms of flights, up from 25th in 2007.

Household expenditures also indicate the importance of air transportation to Nunavummiut. In 2007, roughly \$5,500 or 7 percent of total average household expenditures went to transportation, including \$2,000 for transportation by air. In comparison, the average Canadian household spent almost \$9,400 or 13 percent of total household expenditures on transportation in 2007, but only \$540 on flights.

The difference in total household spending on transportation between Nunavummiut and Canadians is likely slightly exaggerated, however. Statistics Canada classifies snowmobiles, all-terrain vehicles and associated expenses under recreation, even though these vehicles provide non-recreational transportation for many Nunavummiut. Spending on this type of transportation can be substantial—in 2007, the average Nunavummiut spent more than fifteen times as much on fuel for “recreational vehicles” than did the average Canadian, at \$877 and \$57, respectively.

2.4.7 Cultural and Information Industries and Tourism

Nunavut's information industry generally contributes about \$40 million annually to Nunavut's GDP. Telecommunications and broadcasting have room to grow, particularly as the demand for improved internet and mobile-phone services increases across the territory. Nunavut's production industry is small, but hopeful. According to the Nunavut Film Development Corporation, Nunavut-based producers spent almost \$7 million in the territory on about 50 film projects in 2008-09.

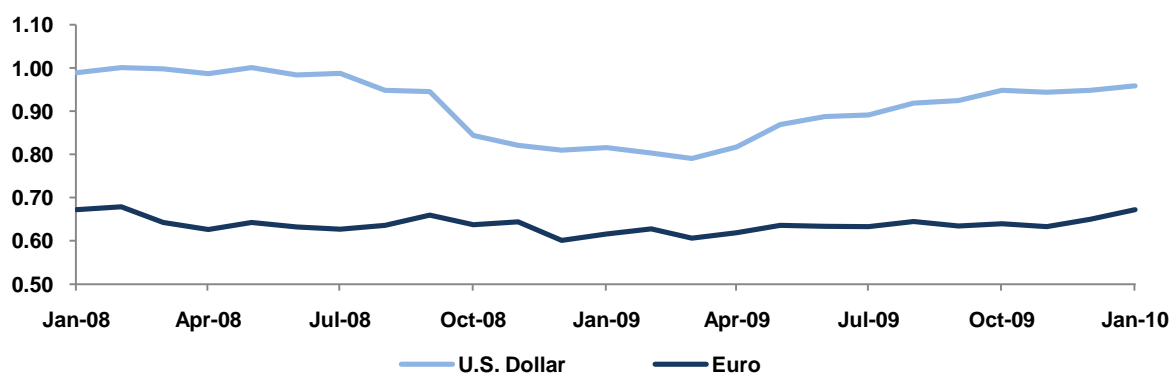
Tourism has sizeable potential to add value to Nunavut's economy. Visitors to the territory—of which there were about 14,000 in 2008—support the economy in a number of ways, including spending at hotels and restaurants, hiring outfitters and purchasing arts and crafts from artisans, often directly. Estimates indicate tourists spent almost \$5 million between June and October 2008, and generated significantly more economic activity in associated industries. Nunavut's exposure at the Vancouver 2010 Olympic and Paralympic Games has also created tremendous opportunity for the tourism and cultural sectors.

Tourism is particularly important because it is essentially an export industry, bringing income into the territory from outside. Unlike federal fiscal transfers or direct investment by southern firms, tourism income is self-generated, using Nunavut's own natural and cultural resources, and flows more directly to lower-income Nunavummiut with traditional skills, such as hunters and artisans. In this way, it helps play a more valuable economic role than standard GDP figures indicate.

Travel to Nunavut is still quite expensive, however, though recent increased competition in the airline sector should help open the territory further. The strong Canadian dollar, which has risen considerably relative to the U.S. dollar over the past year, also makes travelling in Canada relatively costly in comparison to other countries (Figure 2-16).

Figure 2-16: Canadian Dollar Exchange Rates

Value of one Canadian dollar (noon rates)



Source: Bank of Canada

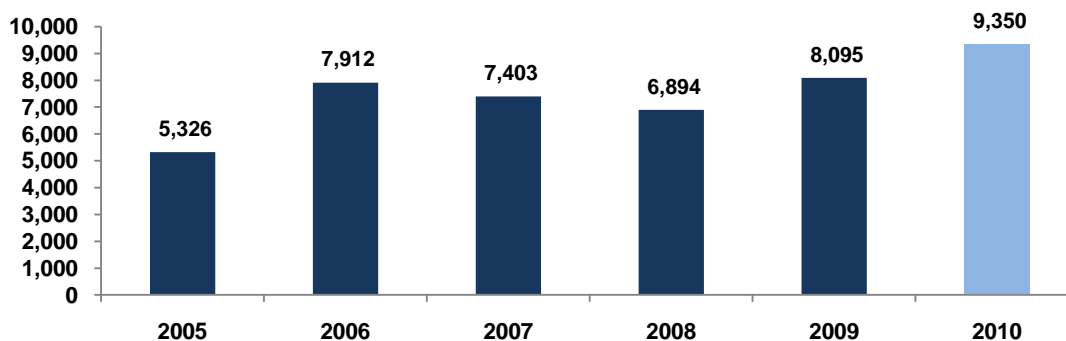
2.4.8 Fishing, Sealing and Harvesting

Nunavut's commercial fishery depends mainly on turbot stocks off the east coast of Baffin Island, though shrimp and arctic char contribute some value. The federal government manages turbot stocks like other fish stocks in Canada, using a quota system that limits the available catch in a particular area and allocates shares of this limit among different parties. As fishing is a potential source of growth for communities with fewer mining opportunities, the GN has made increased access to turbot in Nunavut's waters by Nunavut's own industry a priority, and has assisted Nunavut companies in acquiring additional quota.

In 2009, the federal government raised Nunavut's 2010 turbot quota to 9,350 tons, up from 8,000 tons for 2009 (Figure 2-17). With this increase, the federal government has allocated almost 70 percent of turbot quota in Nunavut's adjacent waters to Nunavut's fishing industry. The remaining turbot quota goes to external interests. In comparison, Canadian provinces normally see 80 percent to 90 percent of quota in their adjacent waters allocated to interests in their respective jurisdictions. Additional increase in Nunavut's share of adjacent-water resources would be a significant, but manageable and straightforward, step towards helping grow Nunavut's economy. To prepare, the GN is working with industry and Inuit organizations to expand fisheries capacity through training.

Figure 2-17: Turbot Landings from Nunavut Waters

Metric tonnes



Source: Department of Fisheries and Oceans (2010 quota level)

Harvesting industries also play an important role in Nunavut's economy, particularly as a valuable source of food and traditional clothing. Standard economic measures such as GDP do not capture much of this value, however significant it is to households, because Nunavummiut create it for the most part outside the commercial context. As a result, official measurements are likely to understate the true economic value of these industries.

The commercial harvesting of animals in Nunavut, which focuses mainly on fur-bearing species, has declined in recent years (Figure 2-18). Sealing in particular has declined in value due to the European Union's pending ban on the import of seal products.

Figure 2-18: Fur Pelts Sold at Auction

Number of pelts; current dollars

	2007-08	2008-09	2009-10 YTD
Bear	79 218,650	114 311,796	56 127,905
Fox	2,419 39,186	2,656 49,330	63 1,326
Seal	1,101 61,551	4,059 155,485	2,013 39,542
Wolf	164 44,315	232 59,371	42 9,051
Wolverine	29 9,945	44 12,282	7 1,025
Total	3,792 373,647	7,105 588,264	2,181 178,849

Source: Statistics Canada, 2005-06, GN Environment, 2007-09
