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Building Nunavut Together
Nunavuliuqatigiingniq
Bâtir le Nunavut ensemble

Budget 2013-2014

Fiscal and Economic Indicators

Department of Finance
Government of Nunavut

February 2013

Key Fiscal Indicators

There are different ways to describe a government's fiscal situation. Fiscal indicators help us understand what is happening in certain areas of government finances, and allow us to measure changes in these areas over time. Each indicator tells a specific story, and has its own strengths and weaknesses. Together, the following indicators help paint a picture of the GN's fiscal situation. Indicators are usually in millions of dollars ($ M), or show year-over-year change measured in percent (%) or percentage points (p.p.).

Revenues

Revenues, Main Estimates basis **$1,564.3**
2013-14 Main Estimates *+4.8%*

The GN expects to receive about $1,564.3 M in 2013-14 through federal transfers ($1,430.3 M), taxes ($84.1 M) and other types of own-source revenues ($31.1 M). We also anticipate net revenues earned by the Liquor Commission and Petroleum Products Division (the 'revolving funds') of $18.8 M. Overall, we expect to receive $71.4 M more (+4.8%) than in 2012-13, mostly due to growth of the Territorial Formula Financing (TFF) agreement.

Third-party Revenues **$115.2**
2013-14 Main Estimates *-21%*

The GN is budgeting to receive $78.2 M from outside, third-party organizations to spend on targeted program initiatives (O&M) in 2013-14, and another $37 M to spend on capital projects. We list these programs and projects in Appendix IV of our Main and Capital Estimates. As there are often specific requirements with third-party funding (also called 'Vote 4/5' funding) these dollars are not generally available to support other GN programs. This revenue tends to be difficult to forecast, as new sources of third-party funding often arise during the year. To be prudent, we only budget for revenue we are confident will flow to the GN. As a result, we tend to underestimate third-party revenues relative to what we will actually receive, which explains the large projected decrease (-21%) from 2012-13.

Revenues, Public Accounts basis **$1,679.5**
2013-14; GN Finance *+2.5%*

The GN reports all revenues it receives from federal transfers, taxes, revolving funds, other own-source revenues and third-party agreements in Schedule A of the non-consolidated financial statements (NCFS) in our Public Accounts. This equals the total of revenues presented in the Main Estimates' Summary of Revenues plus revenues from third-party agreements. On this basis, we expect to receive just under $1,680 M in 2013-14, which is about $40 M (+2.5%) more than we project for 2012-13.

We report figures here on a non-consolidated basis. We include information for GN departments and revolving funds, but not for public agencies, including territorial corporations and others like the Human Rights Tribunal. The consolidated basis provides a more complete picture of the GN's financial sitiuation.

Share of Federal Transfers **85.2%**
2013-14; % of Revenues (Public Accounts basis) *+2.5%*

The GN expects to receive $1,430.3 M through federal transfers in 2013-14, which is about 85% of our total revenues. The largest of these transfers, the Territorial Formula Financing arrangement, will provide $1,350 M. Other important transfers include the Canada Health Transfer ($32 M) and the Canada Social Transfer ($12 M). Together, these make up the core of the GN's long-term, legislated fiscal relationship with

Revenues	**Main Estimates 2013-14**	**Revised Estimates 2012-13**	**Main Estimates 2012-13**	**Actual 2011-12**
Federal Transfers	1,430.3	1,355.7	1,356.1	1,251.6
Own-Source Revenues	134.0	137.2	120.2	150.0
Taxes	84.1	80.6	71.3	77.8
Revolving Funds (net CoGS)	18.8	25.5	18.5	27.0
Other own-source	31.1	31.1	30.4	45.2
Revenues (Main Estimates basis)	**1,564.3**	**1,492.9**	**1,476.3**	**1,401.6**
Revenues from third-party agreements	115.2	146.4	130.6	111.5
Revenues (Public Accounts basis)	**1,679.5**	**1,639.3**	**1,606.9**	**1,513.1**

Note: We report revenues from revolving funds net cost of goods sold (CoGS) the federal government, and are critical to the GN. Transfers provide the GN with important fiscal stability, though our dependence on federal funding means our financial future is bound to decisions made in Ottawa. When revenues come from sources the GN does not control there is a greater chance that they will not be available for our use as we expect.

Tax Revenues **$84.1**
2013-14 Main Estimates *+4.3%*

The GN expects to generate $84.1 M in taxes in 2013-14. Personal income tax ($25.2 M) and payroll tax ($24.3 M)--driven by changes in individuals' incomes--contribute more than half of GN tax revenues. Tobacco tax ($17.6 M) is the third major source (see info box). Corporate income tax ($9.5 M) is a moderate contributor, but one that fluctuates with profits. Construction firms have placed among the top corporate taxpayers to the GN in recent years. Financial institutions and transportation firms are also large corporate contributors.

Update: *As part of its anti-smoking campaign,* Tobacco Has No Place Here, *the GN increased tobacco tax rates in February 2012. The GN has raised $12.5 million in tobacco taxes since the increase. About $2.3 million is due to the higher tax rates. Nunavummiut continue to consume tobacco at rates higher than elsewhere in Canada. Still, early numbers show that overall reported tobacco use in Nunavut has gone down slightly (about 2.9%) since we increased the tobacco tax. We cannot say the higher tax directly caused lower tobacco use. A number of factors likely worked together to encourage the shift, like changes in how people understand and think about smoking. We hope this is the beginning of a long-term trend, and not just a short-term phenomenon.*

Tax *($ millions)*	Main 2013-14	Revised 2012-13	Actual 2011-12
Personal income tax	25.2	24.1	25.2
Corporate income tax	9.5	8.9	7.5
Payroll tax	24.3	23.1	22.0
Tobacco tax	17.6	17.1	13.9
Fuel tax	4.0	4.0	5.0
Property tax	2.8	2.7	2.7
Insurance premiums	0.7	0.7	1.4
Total	**84.1**	**80.6**	**77.8**

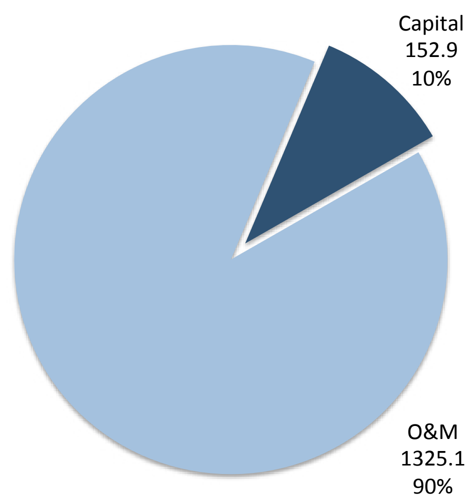
Territorial Tax / GDP **3.8%**
2013-14; GN Finance *-0.1 p.p.*

This common indicator compares a region's taxes to the size of its economy. The $84.1 M we expect to raise through territorial taxes in 2013-14 is about 3.8% of Nunavut's projected nominal GDP for that year. Economists use this figure to understand how much of an economy's wealth supports public services in the region. When the share is low, as it is in Nunavut, it means the local economy does not contribute much in tax revenues to local government operations. This could be because the government is unwilling or unable to tax its constituents, or because there is something about the economy that makes it difficult to raise taxes. A bit of both happens in Nunavut. First, the GN keeps tax rates lower than the rest of Canada, in part to attract skilled labour but mostly because our small and relatively poor private sector is unable to support a high level of taxation. Second, mining activity heavily influences current estimates of territorial GDP, but does not directly generate much tax revenue. Also, a relatively large portion of Nunavut's GDP is based on public sector activity, which we do not tax. These factors combine to keep this indicator relatively low.

Expenditures

Expenditures, Main Estimates basis **$1,477.9**
2013-14 Main Estimates *-0.5%*

The GN is budgeting to spend $1,477.9 M in 2013-14 through its departments. Most of this will go towards operations and maintenance ($1,325.1 M) while the rest is for investments in capital infrastructure ($152.9 M).



Departmental Expenditures by Type
2013-14 Main Estimates

Capital expenditures as a share of total expenditures shows how much of the GN's overall spending goes towards fixed capital, such as schools, hospitals, and information technology. Nunavut faces a considerable infrastructure deficit that requires focused support to address.

Expenditures / person **$43,465**

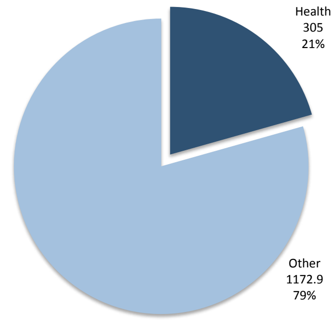
2013-14; GN Finance *-1.4%*

This indicator gives a sense of how much the GN spends to deliver its programs and services. The GN is currently budgeting to spend $43,465 per person in 2013-14, which is about the same as in 2012-13. This is fairly high compared to other Canadian jurisdictions. We need to be careful about drawing conclusions from this indicator. First, it does not say anything about what the money is going towards. Second, and more relevant to Nunavut, it does not say anything about the cost of delivering services. Costs in Nunavut are quite high compared to other parts of Canada, which means we need to spend far more per person than other provinces or territories. Even with our current level of spending, we are often not able to provide the same quality and range of public services as do other Canadian jurisdictions.

Expenditures / GDP **67.6%**

2013-14; GN Finance *-4.3 p.p.*

By comparing the GN's total expenditures to nominal GDP, we get an idea of the GN's size compared to Nunavut's economy. When this indicator is high, like it is in Nunavut, it shows the GN spends quite a bit compared to the economy. This is not a surprise, as we know that Nunavut's private sector (made up of businesses and consumers) is fairly small. Over time, we would hope that our private sector economy grows so that this indicator decreases. We saw some of this decline over the past year, when this number dropped from 71.9%. While this is a step in the right direction, it is due mostly to a surge in GDP from mining rather than steady growth and diversification, which is preferable.



Health Spending as Share of Total Spending

2013-14 Main Estimates; $ millions

Like other Canadian governments, spending on health takes up a large share of the GN's overall budget.

Expenses, Public Accounts basis **$1,648.1**

2013-14; GN Finance *+6.6%.*

The Main Estimates' Summary of Total Expenditures includes spending by departments. We need to make three adjustments to express spending on the same basis as we do in Schedule B of the non-consolidated financial statements in our Public Accounts. First, we adjust for expenses related to amortization and transfers to capital assets, accounting measures that help match the GN's spending on capital to the period in which we use the capital. We estimate that in 2013-14 this adjustment will add another $26.7 M to the GN's expenses. Second, we need to add about $28.3 M for expenses related to revolving funds. Third, we need to add spending related to the revenues we receive from third-party organizations, which we estimate will total about $115.2 M in 2013-14. Added to the Main Estimates total of $1,477.9 M, total expenses on the Public Accounts basis will be $1,648.1 M.

Expenditures

	Main Estimates 2013-14	Revised Estimates 2012-13	Main Estimates 2012-13	Actual 2011-12
O&M Expenditures	1,325.1	1,266.1	1,247.1	1,202.0
Capital Expenditures	152.9	219.3	94.5	128.4
Expenditures (Main Estimates basis)	**1,477.9**	**1,485.4**	**1,341.6**	**1,330.4**
Net change in capital assets	26.7	(114.2)	14.9	(3.4)
Expenses related to revolving funds	28.3	28.0	26.6	25.5
Expenses related to third-party agreements	115.2	146.4	130.1	111.5
Other adjustments	-	-	-	(5.8)
Expenses (Public Accounts basis)	**1,648.1**	**1,545.5**	**1,513.6**	**1,458.2**

Notes: Please see notes in the 2011-12 Public Accounts for information on 'other adjustments'. Projected values for net change in capital assets and expenses related to revolving funds are based on internal calculations, and not published elsewhere. We publish final figures each year as part of Schedules B.1, B.2 and B.3 of the GN's non-consolidated financial statements.

Financial Performance and Debt

Projected Surplus, Main Estimates basis $21.9

2013-14; GN Finance

The GN expects revenues of $1,564.3 M and is budgeting to spend $1,477.9 M on departments' programs and capital in 2013-14. After subtracting $18.8 M in net revenues related to revolving funds (which are included in the above revenues but not expenditures, so need to be taken out), and prudently setting aside $45.6 M for contingencies and supplementary appropriations, the GN projects a modest surplus of $21.9 M for 2013-14. Last year, we estimated the GN would generate a surplus of about $37.7 M in 2012-13, assuming we spent all $78.5 M we set aside then for contingencies and supplementary appropriations. We continue to expect a surplus, though as the GN is still in 2012-13 we do not yet have a final figure for the year. The surplus will depend on three related factors: how much money departments seek through supplementary appropriations before the end of the year, how much of the contingency funding remains unused at the end of March, and how much money departments have left to lapse or carry over at the end of the year.

The Main Estimates present information in a way that helps elected officials understand the cash costs of running GN departments. The Public Accounts report information on an accrual basis, in accordance with Canadian accounting principles. The accrual basis includes adjustments to spread costs over many periods. The GN is working to make it easier to understand how the Main Estimates link with the Public Accounts.

Projected Surplus, Public Accounts basis $(14.2)

2013-14 Main Estimates (non-consolidated)

The GN expects revenues of $1,679.5 M and projects total expenses (which include adjustments for amortization and changes in capital assets, as well as expenses related to revolving funds and third-party spending) will be about $1,648.1 M. If the GN spends the $45.6 M we have set aside for contingencies and supplementary appropriations, we could run a deficit of $14.2 M in 2013-14. We publish this information as part of the Main Estimates' Summary of Operations. It is equivalent to the surplus/(deficit) figures we report in the non-consolidated financial statements' Statement of Operations. On this basis, the GN currently projects running a surplus of almost $74 M in 2012-13. This could

Surplus/(deficit) for the Year

Non-consolidated Public Accounts basis ($ millions)

Surplus/(deficit)

Main Estimates basis	**Main Estimates 2013-14**	**Main Estimates 2012-13**
Revenues	1,564.3	1,476.3
less: Expenditures	(1,477.9)	(1,341.6)
less: Revenues from revolving funds	(18.8)	(18.5)
less: Supplementary Requirements	(45.6)	(78.5)
Surplus/(deficit), Main Estimates basis	**21.9**	**37.7**

Public Accounts basis (non-consolidated)	**Main Estimates 2013-14**	**Revised Estimates 2012-13**	**Actual 2011-12**
Revenues	1,679.5	1,639.3	1,513.1
less: Expenses	(1,648.1)	(1,545.5)	(1,458.2)
less: Supplementary Requirements	(45.6)	(20.1)	-
Surplus/(deficit), Public Accounts basis	**(14.2)**	**73.7**	**54.9**

Note: Surplus/deficit figures assume we spend all supplementary requirements.

change depending on the same factors we mention above, and on any changes to amortization, transfers to capital assets, or revolving funds.

Public Accounts surplus/(deficit) to GDP -0.6%

2013-14; GN Finance *-4.2 p.p.*

Economists compare the size of a government's surplus / (deficit) to the size of the economy (measured by nominal GDP) to help understand the government's fiscal performance. Generally, the larger the ratio, the better the government's fiscal position. Based on current projections, the GN's non-consolidated deficit-to-GDP ratio will be about -0.6% in 2013-14, down from an estimated 3.6% in 2012-13. Although we project an accounting deficit in 2013-14 the amount is relatively small. This means we are still in good shape, particularly as the GN has been running surpluses on this basis since 2008-09. Still, we will need to maintain fiscal discipline to ensure that our projected deficit does not go much higher over the year, and to ensure we do not run successive deficits over many years.

Net financial debt / GDP (%) 0.3%

2013-14; GN Finance *-4.3 p.p*

Net debt measures the difference between how much the GN owes (our liabilities) and how much we have on hand to pay off these debts (our financial assets). Net debt increases when the GN runs deficits, and decreases when we run surpluses. It is also affected by adjustments to the value of the GN's non-financial assets, like buildings and machinery. These adjustments are an important part of public accounting in Canada.

We currently project that in 2013-14 this adjustment will be fairly large, and will increase our net debt by $75.3 M. When added to the $14.2 M deficit we project, we expect our net debt will increase by $89.5 M in 2013-14. As we expect to start the year in a net asset position (we own more than we owe), we currently expect to end 2013-14 with a net debt of just $6.1 M on non-consolidated basis.

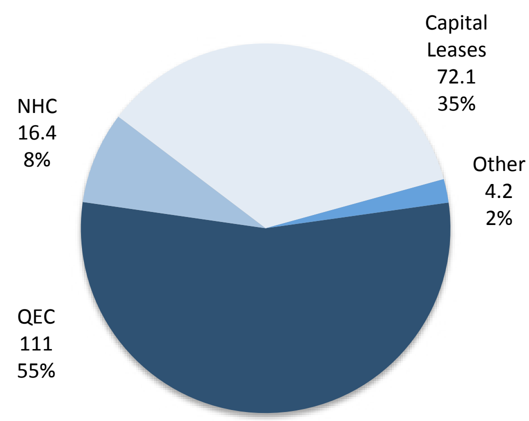
It can become an issue if governments continue to increase net debt. However, as the GN started with a moderate surplus (in large part because we generated ~$60 M surpluses for each of the past two years), we remain in good shape. One common way to understand the size of government debt is to compare it to the size of the economy. Nunavut's projected net debt of $6.1 M is only 0.3% of our projected nominal GDP, which is quite small.

Borrowing under the Debt Cap $203.7

At December 31, 2012 (% change since March 31) *-4.1%*

The federal government limits the amount of money the GN is able to borrow to $400 M. As of December 31, 2012, the GN had used up $203.7 M under this debt cap, leaving about $196.3 M in available room. The GN uses most of the borrowing room to guarantee loans by the Qulliq Energy Corporation ($111 M) and the Nunavut Housing Corporation ($16.4 M). Much of the rest is to account for the GN's obligations related to capital leases ($72.1 M). Looking ahead, the GN expects to use up most of the available borrowing room under the debt cap to support the expansion of the Iqaluit Airport, a long-term infrastructure project.

GN Borrowing under Debt Cap by Type
December 31, 2012; $ millions



Credit Rating Aa1 (stable)

Moody's Investors Services *first rating*

An issuer credit rating is an outside opinion about whether an organization is able and willing to meet its financial obligations. The GN's strong rating--at the upper end of investment grade and in line with other Canadian provinces--means our financial obligations are of high quality and subject to very low credit risk. The stable outlook means the GN should expect to keep this rating as long as we maintain fiscal discipline, and assuming other factors do not change. Identified credit strengths include good fiscal management, stable revenue streams from the federal government, and low levels of debt. Weaknesses include a small economy, which limits our ability to raise own-source revenues. Also, as the Government of Canada retains control over Crown lands in Nunavut, the GN does not collect natural resource royalties. This limits our ability to benefit directly from the development of the natural resource sector.

Key Economic Indicators

There are different ways to describe an economy. Economic indicators help us understand what is happening in certain areas of the economy, and allow us to measure changes in these areas over time. Each indicator tells a specific story, and has its own strength and weaknesses. Together, the following indicators help paint a picture of Nunavut's economy.

Nunavut's Economy

Nominal GDP **$2,185**
2013 estimate; $ millions *+5.7%*

Nominal gross domestic product (GDP) measures the total market value of all goods and services produced in a region, and is the broadest measure of economic activity. In December 2012, the Conference Board of Canada (CBoC) projected that Nunavut's nominal GDP could reach $2,250 M in 2013, up $180 M (+8.7%) from 2012. This forecast assumes steel giant ArcelorMittal will begin construction of the Mary River Iron Mine in 2013. This is not certain, particularly after the firm's January 2013 announcement to scale back the project. Looking forward, we prudently assume slower nominal growth (+5.7%) than the CBoC predicted. It is likely that Nunavut's nominal GDP will be closer to 2,185 M in 2013, and about $2,315 M in 2014.

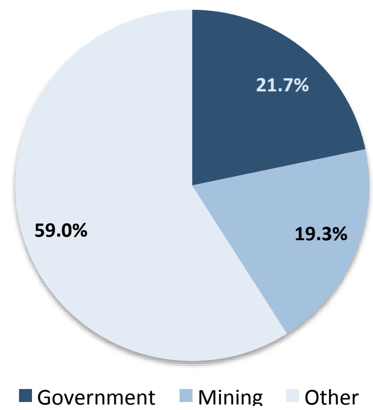
Change in Real GDP **+3.5%**
2013 estimate; % change *~$1,830 M*

Real GDP measures the value of goods and services an economy produces, but controls for changes in price (inflation) by fixing dollars to a specific year. Real GDP is generally a better measure of how an economy's core production changes over time. The CBoC initially predicted that early construction at Mary River would cause Nunavut's real GDP to jump by 5.9% in 2013, and then by over 15% in 2014 as site construction ramped up. Assuming Mary River does not move ahead this year as they initially planned, we expect more modest real growth rates of 3.5% in 2013 and about 3.9% in 2014.

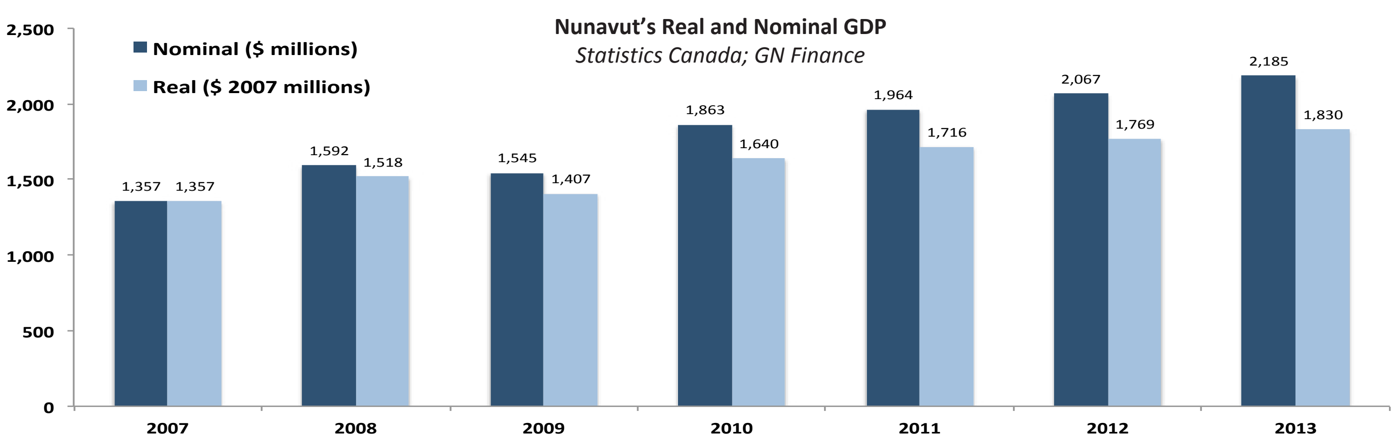
Real GDP / person **$53,819**
2013 estimate ($ 2007) *+2.6%*

By dividing a region's production (GDP) by the number of people living in it (population), we get a sense of the average output per person. We estimate Nunavut's real GDP/capita will increase by $1,350 per person in 2013 (+2.6%), to $53,800. In comparison, real GDP/capita in Nunavut grew at about 4.2% per year between 2007 ($43,405) and 2011 ($51,146). We track this indicator because it is often used to describe standard of living. We need to be careful using it in Nunavut for two reasons. First, it suggests the benefits of production flow to all Nunavummiut in roughly the same way. Second, it does not deal with price levels. Although our GDP/capita is higher compared to the rest of the country (Canada's GDP/capita was $47,220 in 2011), living costs are higher too. This makes it difficult to accurately compare standards of living in regions with different price levels. Still, it is useful to gauge changes within Nunavut from year to year.

Government Share of GDP **21.7%**
2013 estimate; % share *-1.3 p.p.*



Nunavut's public sector provides important employment and stability, but is not likely to drive significant growth or job creation. We want Nunavut's private sector to develop so public administration contributes a smaller share of GDP over time. We have seen this trend in recent years, with government's share of GDP declining from 27.3% in 2007 to 21.7% in 2011. This is mostly due to a significant expansion of mining, driven by the start of production at Agnico Eagle's Meadowbank gold mine in 2010. Mining contributed about 19.3% of GDP in 2011, up from just 2.6% in 2007.



Business Investment in Capital **$662 million**
2011 ($ 2007) *+14.7% YoY*
Statistics Canada CANSIM 384-0038

Businesses invested $662 M in Nunavut in 2011 (the latest year with data), about $85 M (+14.7%) more than in 2010. Investments went mostly towards non-residential structures ($239 M), machinery and equipment ($73 M) and intellectual property ($329 M). In Nunavut, business investments in intellectual property are largely related to mining exploration, which generates useful information that can lead to future production. Tracking business investments (also called 'gross fixed capital formation') is important because it helps show how the private sector spends in Nunavut in ways that will lead to future production.

Labour and Income

Population (July 1) **33,697**
2012; Statistics Canada CANSIM 051-0001 *+0.8%*

Nunavut's population grew by 146 between 2011 and 2012, mostly through natural growth (more births than deaths). Growth would have been higher, but almost 500 Nunavummiut left for other provinces according to early data. Nunavut remains young, with about half its residents under 25 (Canada's median age is 40), and almost a third—roughly 10,700—under 15. Roughly 22,000 Nunavummiut are of working age (between 15 and 65). Population impacts GN finances as it influences federal fiscal transfers. Looking ahead, GN Finance estimates total population will reach about 34,000 in July 2013.

Employment **11,800**
2012; Nunavut Bureau of Statistics *no change*

The number of Nunavummiut who worked in the wage economy grew slightly in 2012. Most jobs in Nunavut are in government (18%), retail (12%), or services (31%). Mining employment has grown fastest, expanding from 100 workers in 2009 to over 500 in 2012. Nunavut's employment rate is 55.9%, which means about 14 out of 25 people aged 15 and older work in the wage economy.

Unemployment Rate **15%**
2012; Nunavut Bureau of Statistics *-1.5p.p.*

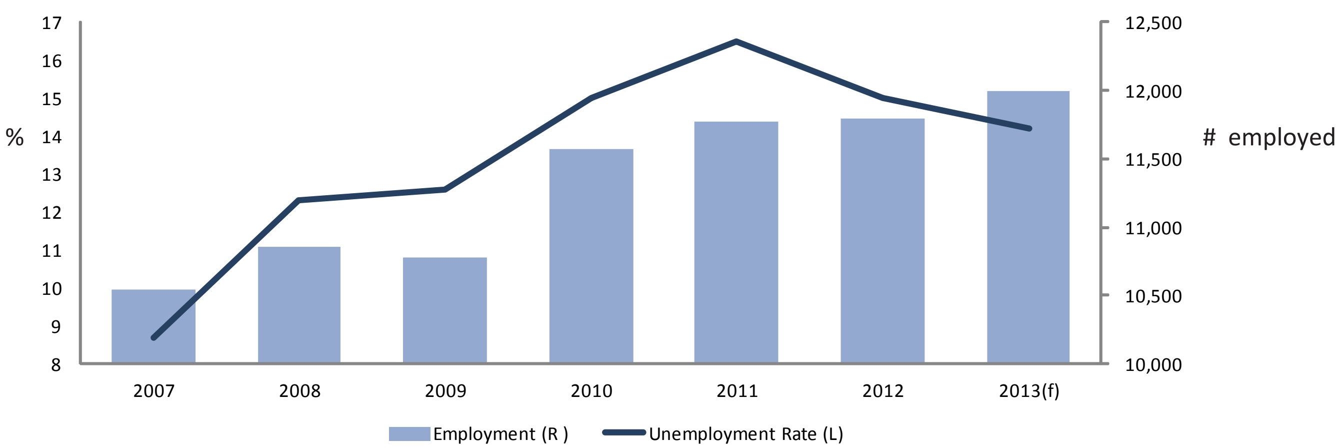
Nunavut's unemployment rate remains high at 15%. For every 20 people who say they actively look for work in the wage economy, 3 cannot find jobs. This is more than double the national rate of 7.2%, and reflects the often difficult employment situation many Nunavummiut face. Unemployment also depends on the number of people who want to enter the wage economy. At 65.9%, Nunavut's participation rate is just under the national average of 66.7%: on the whole, working-age Nunavummiut are as interested at finding a job in the wage economy as other Canadians.

What is a percentage point?

When we measure change for indicators that are expressed in dollars (like GDP) or number of people (like employment) we usually measure change in percent (%). So, if employment goes from 10,000 to 11,000, we say it increased by 10%. When we measure change for indicators that are already expressed in percent (like unemployment rate), we measure change in percentage points (p.p.). Percentage points simply measure the difference between two percentages. So, if unemployment goes from 16.5% to 15%, we say it decreased by 1.5 percentage points (-1.5 p.p.).

Average Weekly Earnings **$961.33**
2012 (Jan-Nov); Industrial Aggregate *+6.7%*
Statistics Canada CANSIM 281-0029

Average weekly earnings in Nunavut increased by about $60 per week (+6.7%) over 2012, reaching $961.33 for the Jan-Nov 2012 period. Steady growth in the government, construction, and mining sectors appears to be driving this increase. Average wages fell sharply in 2009, coinciding with the completion of construction at Meadowbank. As construction resumed across the economy, weekly earnings began to trend upward. Nunavut wages remain above the Canadian average of $896. This difference reflects the shortage of skilled labour and the high cost of living in the north.

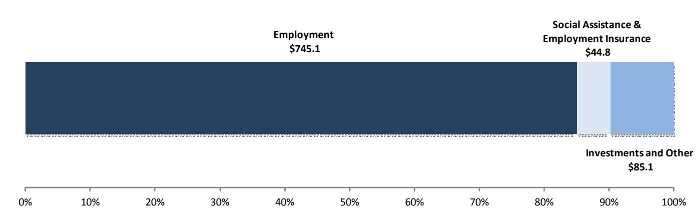


> **Where do we get our data?** *Almost all data for our fiscal indicators come from the GN's latest Main Estimates and Public Accounts. For economic indicators, we use data from Statistics Canada and the Nunavut Bureau of Statistics. We also use forecasts by the Conference Board of Canada. We are starting to explore data from the Canada Revenue Agency, based on the tax returns that Nunavummiut file each year. These returns calculate how much each tax filer owes in income taxes for the year, and provides detailed information that can help us describe Nunavut's economy. We protect this information carefully.*

Total Income — $875 million

2011 T1 Preliminary; GN Finance — *-0.3% YoY*

Total income counts all income that all taxfilers in Nunavut report from all sources, including employment, social assistance, pensions, investments and small business profits. Tracking total income gives us a sense of how much money is flowing to Nunavummiut. Total income has increased steadily in recent years, growing from $674 million in 2006 to $878 million in 2010. As of October 2012, the CRA had received 19,081 tax returns from Nunavummiut, who together report total income of about $875 million for 2011. Based on data from 2010, we expect this represents roughly 95% of all tax returns we will receive for 2011. If this holds true, we expect total income for 2011 will be closer to $930 million once we receive returns from late filers.

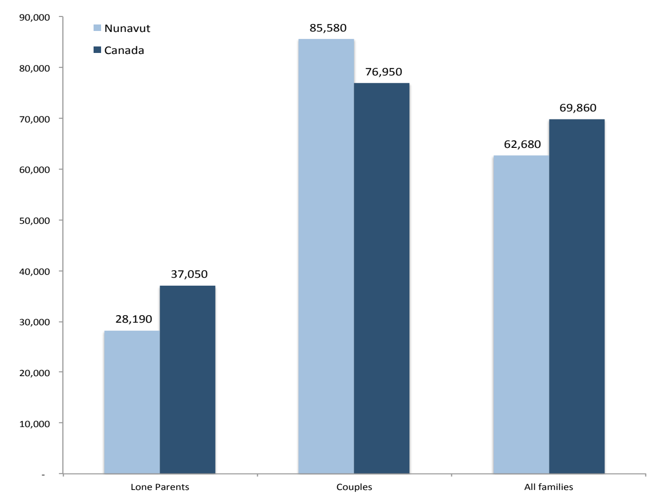


Total Taxfiler Income by Source
2011 T1 Preliminary tax data; GN calculations

Median Total Income — $26,005

2011 T1 Preliminary; GN Finance — *-0.6%*

According to early tax data, median total income in Nunavut was $26,005 in 2011. This means that half of Nunavut's tax filers reported total income less than $26,005. Median income in Nunavut has risen steadily in recent years, growing from $22,800 in 2006. Still, it is quite low compared to what it costs to live in the north. Statistics Canada measures median income using some of the same tax data, but combines them with other data and makes adjustments. For example, StatsCan has chosen to not count people who report no income (about 40 Nunavut taxfilers in 2011). They are also able to group people by family types, and calculate median household incomes across the country. Their calculations of median income tell a useful story, but are generally higher than ours. In their terms, Nunavut's median family income was $62,680 in 2010, compared to $69,860 for all Canadians. The difference in incomes between couples and lone parents is greater in Nunavut than in the rest of Canada.



Median Income by Family
Statistics Canada

Share of Total Income By Highest 10% — 33.7%

2011 T1 Preliminary; GN Finance — *+0.7% p.p.*

It is important for governments to understand how income is spread across a population. To help tell this story, we look at how much income Nunavut's highest earners report in a year, and compare this to total income in the territory. In 2011, the highest 10% of income earners in Nunavut reported earning total income of more than $113,400 each during the year. Together, these top income earners reported earning $295 million, which is about one third (33.7%) of all income reported in the territory that year. In contrast, the lowest 10% of income earners reported total income of less than $3,000 each in 2011. Together, these lower income earners reported earning $2.5 million, which is less than 1% of all income reported in the territory that year.

We need to be careful drawing conclusions from these statistics. For example, this does not include non-income benefits, like subsidized social housing. Also, we have used total income before taxes. Taxes in Nunavut are progressive, which means higher income earners pay more in taxes than lower income earners. As a result, the after-tax distribution of income is more evenly distributed than what we measure here. This would be a better measure of income distribution in the territory. GN Finance will work to include other analyses of income distribution in the future.

Other

Bank of Canada Target Rate **1.0%**
January 2013; Bank of Canada *no change*

The Bank of Canada uses its overnight rate to influence interest rates for mortgages, lines of credit and business loans. The low rate of 1% helps Canadians borrow cheaply so they continue to spend and invest. The Bank is concerned, however, that Canadians are taking on too much debt. If interest rates rise, families may have trouble paying higher service costs or making regular mortgage and credit card payments. Rates will eventually rise, but as inflation remains low, and because Canada's economy is still relatively sluggish, rates are not likely to change any time soon. We expect if changes do happen within the year, they will be later this fall, or early in 2014. The Bank of Canada's next rate announcements will be on March 6, April 17, May 29, July 17, Sept. 4, Oct. 23 and Dec. 4.

Consumer Price Index, Iqaluit **115.3**
Statistics Canada; 2012 (2002=100) *+1.9 p.p.*

CPI measures inflation, the change in price of a standard 'basket' of goods and services over time. On average, prices in Iqaluit increased 1.7% between 2011 and 2012, and are up over 15% since 2002. This is low relative to the rest of Canada, where prices have increased almost 22% since 2002. CPI data are only available for Iqaluit, which means this indicator does not reflect price changes in the communities. Also, it is important to realize that CPI does not measure price levels, just how quickly they change. Prices in Nunavut are high relative to the rest of the country, due to high energy and transportation costs, as well as limited market competition.

Commodity Price Index: Metals & Minerals **782.39**
2012; Bank of Canada *-3.8%*

Global metal and mineral prices declined almost 4% in 2012, according to the Bank of Canada's Metals & Minerals index. This ended the partial recovery that followed the drop in commodity prices after the 2008 global recession. In particular, uncertainty over the direction of the US and European economies weighed on commodity prices. Lower prices for metals and minerals is generally not good for Nunavut, as the strength of the territorial mining sector depends on strong global prices. We see impacts already, as Baffinland scaled back plans for its Mary River project on the basis of lower iron prices.

Gold Price **$1,688.53 USD**
December 2012 (USD/troy oz) *+2.2%*
UNCTADstat

Gold closed out 2012 at roughly $1,700 per troy ounce, 2.2% higher than December 2011. Uncertainty in global financial markets has driven much of the price growth in recent years, with investors preferring safer financial instruments like gold over riskier investments in debt, equity and currency markets. The global price of gold impacts profits at Agnico-Eagle's Meadowbank mine, as well as to the economic viability of other important potential gold projects in Nunavut, such as Agnico-Eagle's Meliadine project near Rankin Inlet, and the site at Hope Bay, in the Kitikmeot.

Iron Ore Price **$129.29 USD**
December 2012; USD/dry ton *-5.4%*
UNCTADstat

The United Nations tracks the monthly price of iron ore, measured in US dollars per dry ton as paid in the Chinese port of Tianjin. The price of iron was roughly $130 per dry ton in December 2012, 5.4% lower than in December 2011. According to some economists, prices declined largely due to the significant slowdown in China's economy. As countries are demanding fewer Chinese goods, China did not buy as many commodities, so world prices declined. An aggressive Chinese economic stimulus policy and encouraging signs of recovery in the US suggest iron prices may rebound slightly in 2013. The price of iron is a crucial aspect to the potential economic viability of deposits at Mary River and elsewhere.

Uranium Price **$48.90 USD**
2012; USD/pound (annual average) *-13.1%*
IndexMundi.com

Uranium closed 2012 with an average price of $48.90 USD per pound. This represents a 13% decline from 2011 and marks a return to the price levels of the years that followed the collapse in global commodities in 2008. This decline is largely the result of lingering concern of nuclear power brought on by the Fukushima nuclear disaster in Japan, though the medium-to-long term forecast suggests prices will rebound as China's ambitious nuclear reactor building program continues to pick up steam. Future uranium prices will influence investment decisions related to Nunavut's uranium deposits in the Kivalliq region.

The GN Department of Finance's Fiscal Policy team prepares this document. We prepare this document based on the latest data available to us at the time of writing, which is often a few weeks ahead of the official release of the GN's Budget. Some information may change during this period. If you have any questions regarding the data we use, please contact us.

Key Fiscal Indicators	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13(r)	2013-14(f)
Revenues			*($ millions unless otherwise noted)*				
Federal transfers	**993.9**	**1,048.00**	**1,102.30**	**1,165.20**	**1,251.60**	***1,355.70***	***1,430.30***
Territorial Formula Financing	892.9	944.1	1,022.10	1,090.60	1,175.30	*1,273.50*	*1,350.40*
Other federal transfers	101	103.9	80.3	74.6	76.3	*82.2*	*79.9*
Own-source revenues	**120.9**	**140.2**	**141.9**	**162.7**	**150**	***137.2***	***134***
Taxes	53.2	65.9	61.3	70.7	77.8	*80.6*	*84.1*
Revolving Funds (net CoGS)	20.6	26.2	38.4	49.3	27	*25.5*	*18.8*
Other own-source	47.2	48.1	42.2	42.7	45.2	*31.1*	*31.1*
Revenues, Main Estimates Basis	**1,114.80**	**1,188.20**	**1,244.30**	**1,327.90**	**1,401.60**	***1,492.90***	***1,564.30***
Revenues from third-party agreements	61.9	71.7	102.1	116.2	111.5	*146.4*	*115.2*
Revenues, Public Accounts Basis	**1,176.70**	**1,259.90**	**1,346.40**	**1,444.00**	**1,513.10**	***1,639.30***	***1,679.50***
Share of Federal Transfers (%)	84.50%	83.20%	81.90%	80.70%	82.70%	*82.70%*	*85.20%*
Territorial Tax / GDP (%)	3.90%	4.10%	4.00%	3.80%	4.00%	*3.90%*	*3.80%*
Expenditures							
O&M	959.7	1,058.00	1,079.10	1,133.70	1,202.00	*1,266.10*	*1,325.10*
Capital	173.5	182.2	123.3	181.7	128.4	*219.3*	*152.9*
Expenditures, Main Estimates Basis	**1,133.20**	**1,240.20**	**1,202.40**	**1,309.90**	**1,324.60**	***1,485.40***	***1,477.90***
Net transfer to capital assets	-52.9	-33.3	-44.7	-23.9	-3.4	*-114.2*	*26.7*
Expenses for revolving funds and other	13.1	4	23.5	21.8	25.5	*28*	*28.3*
Expenses related to third-party agreements	61.9	71.7	102.1	116.2	111.5	*146.4*	*115.2*
Expenses, Public Accounts Basis	**1,155.20**	**1,282.50**	**1,283.30**	**1,424.80**	**1,458.20**	***1,545.50***	***1,648.10***
Supplementary Requirements & Contingencies	0	0	0	0	0	20.1	45.6
Surplus (deficit) for the year, Main Estimates basis						***37.7***	***21.9***
Surplus (deficit) for the year, Public Accounts basis	**21.5**	**-22.6**	**63.1**	**19.2**	**54.9**	***73.7***	***-14.2***
Expenditures / person ($)	36,246	39,229	37,349	39,909	39,481	*44,081*	*43,465*
Expenditures / GDP (%)	83.5	77.9	77.8	70.3	67.4	*71.9*	*67.6*
Capital spending as share of total (%)	15.3	14.7	10.3	13.9	9.7	*14.8*	*10.3*
Health spending as share of total (%) *	24	22.7	24.2	23.4	21.6	*22*	*20.6*
Surplus/(deficit) / GDP	1.6	-1.4	-4.1	1	2.8	*3.6*	*-0.6*
Net Debt (end of year)	75.1	16.7	1.8	-36.9	21.9	*83.4*	*-6.1*
Net Debt (end of year) / GDP	5.5	1	0.1	-2	1.1	*4*	*-0.3*
Borrowing under the Debt Cap	145.2	150.6	146.3	141.3	212.5	203.7	
Credit Rating						Aa1 stable	

Notes: Changes to GN departments in 2013-14, notably the creation of the Dept. of Family Services, mean that health spending as share of total spending not strictly comparable between 2012-13 & later, and 2011-12 & prior; numbers in italics *indicate forecast; empty cells indicate no data or forecast for that year.*

Key Economic Indicators	2007	2008	2009	2010	2011	2012	2013
Gross Domestic Product							
Nominal GDP ($ millions)	1,357	1,592	1,545	1,863	1,964	*2,067*	*2,185*
Real GDP ($ 2007 millions)	1,357	1,518	1,407	1,640	1,716	*1,769*	*1,830*
Real GDP per person ($ 2007)	43,405	48,017	43,705	49,965	51,146	*52,482*	*53,819*
Government Share of GDP (%)	27.3	24.5	26.3	23	21.7		
Business Investment in Capital ($ 2007)	659	1,070	513	577	662		
Population & Labour							
Population, July 1 (# of people)	31,264	31,614	32,193	32,823	33,551	33,697	*34,003*
Unemployment Rate (%)	8.7	12.3	12.6	15	16.5	15	*14.2*
Employment (# of people employed)	10,538	10,860	10,775	11,575	11,767	11,792	*12,000*
Average Weekly Earnings ($)	919.93	908.15	867.85	864.22	900.72	961.33	
Total Income ($ millions)	717.1	774.8	822.8	878.2	875		
Median Total Income ($)	23,774	24,728	25,070	26,162	26,005		
Share of Total Income by Top 10% (%)				33	33.7		
Monetary Trends							
Consumer Price Index, Iqaluit (2002=100)	107.9	110.4	112.6	111.8	113.4	115.3	
Bank of Canada Target Rate (%)	4.25	4.25	1.5	0.25	1	1	*1*
Commodities							
Bank of Canada Metals & Minerals Commodity Index	637.2	664.6	590.6	700.1	813.5	782.4	
Gold Price (*USD/troy oz; annual avg)*	696.66	871.71	973	1227.34	1568.58	1688.53	
Iron Price (*CFR Tianjin port; USD/dry ton; December)*		71.65	104.9	168.31	136.4	129.2	
Uranium Price (*USD/pound; annual avg)*		64.18	46.67	45.96	56.24	48.9	