Budget 2016-2017

Fiscal and Economic Indicators

Department of Finance

Government of Nunavut

February 2016

About this document

The GN Department of Finance prepares this document using the latest data available at the time of writing, a few weeks ahead of the official release of the GN's Budget. Please note that some information may change during the intervening period. If you have any questions regarding the data we use, please contact us at info@gov.nu.ca.

Key Fiscal Indicators

The following indicators describe the GN's fiscal situation. We express figures in millions ($M) or billions ($B) of dollars, and include calculations of year-over-year change measured in percent (%) or percentage points (p.p.). Change is measured relative to the most recent estimate of the indicator for the previous fiscal year, not relative to last year's estimate. Each of the GN's main fiscal documents—the Main Estimates (MEs) and the Public Accounts (PAs)—plays a different role, and presents information differently. This document helps readers understand how the two documents relate.

Revenues

Revenues (ME) $1,738.0

2016-17 Main Estimates *+0.9%*

The GN is budgeting to receive $1,738.0 M in 2016-17, through federal transfers ($1,547.5 M), taxes ($108.5 M), and other own-source revenues ($42.8 M). Additional revenues include amounts earned by the Liquor Commission and Petroleum Products Division (the 'revolving funds'), which we anticipate will reach $39.2 M. Total revenues in the MEs are just +0.9% higher than in 2015-16 ($15.1 M), largely because Statistics Canada has changed how it calculates provincial and territorial expenditures, which in turn negatively affected the Territorial Formula Financing grant by -$33.8 M. Last week, however, the Federal Finance Minister announced $26.1 M of this would be restored. We record this in a separate line below.

Third Party Revenues $91.0

2016-17 Main Estimates *-14.4%*

The GN anticipates funding from outside, third-party organizations will be $91.0 M in 2016-17. This 'vote 4/5 funding' is provided to the GN by others with strings attached (specific requirements about how we must spend it) and is therefore treated separately from revenues over which we have full control and can spend freely (e.g. taxes, transfers, etc.). The legislature does not vote on third party funding in the same way—we effectively spend it on behalf of others. For this reason, we budget both the revenues and associated spending separately, and keep them out of our wider "Summary of Revenues" and "Summary of Expenditures" in the Main Estimates (though they do appear in the "Summary of Operations"). Third-party spending is, however, included in Schedule A of the Public Accounts. Appendix IV of the Main Estimates details the current list of projects. Given the steady emergence of new projects throughout the year, Third-Party Revenues are difficult to predict. We expect the final total will be higher when we report end-of-year figures in the PAs.

Prior-Year Recoveries $12.0

2016-17; GN Finance -

When the GN spends money but recovers some or all of it (e.g. if we purchase something and then return it for a refund), we report it in our financial statements as revenue. According to Nunavut's *Financial Administration Act*, we may not use these recovered amounts to increase the amount appropriated for government operations, and so do not estimate this sum in the Main Estimates. This creates a difference between the revenues we appropriate and what we eventually record in the Public Accounts. Recoveries over the last five years have averaged just under $12 million. We expect to report roughly that figure for 2016-17.

Revenues, Public Accounts basis $1,867.1

2016-17; GN Finance *+1.4%*

Each fall, the GN reports revenues it receives from federal transfers, taxes, revolving funds, other own-source revenues and third-party agreements in its non-consolidated financial statements. Revenues reported in the Public Accounts are more comprehensive than those presented in the Main Estimates because they include revenues from third-party agreements and prior-year recoveries. This year we also include the $26.1 M TFF partial restoration announced February 16. On this basis, we expect to receive $1,867.0 M in 2016-17, up over 1%.

Revenues

	Main Estimates 2016-17	Revised Estimates 2015-16	Main Estimates 2015-16	Actual 2014-15
Federal Transfers	1,547.5	1,538.7	1,535.3	1,491.4
Own-Source Revenues	190.5	184.2	186.8	164.3
Taxes	108.5	102.6	107.3	96.4
Revolving Funds (net cost of goods sold)	39.2	39.6	39.6	26.3
Other Own-source	42.8	42.0	39.9	41.5
Revenues	**1,738.0**	**1,722.9**	**1,722.1**	**1,655.7**
Revenues from Third-party Agreements	91.0	106.3	89.6	126.8
Prior-Year Recoveries	12.0	12.0	12.0	12.8
TFF (Partial) Restoration	26.1	-	-	-
Revenues (Public Accounts basis)	**1,867.1**	**1,841.2**	**1,823.7**	**1,795.3***

*Presented in 2016-17 ME as $1,668.5 due to an included $12.8 M for recoveries, but not the $126.8 M in Third-party funding.

Share of Federal Transfers 84.3%

2016-17; % of Revenues (Public Accounts basis) +0.7 p.p.

Federal transfers ($1,547.5 M pre-TFF partial restoration, $1,573.6 M post) will make up almost 85% of total GN revenues in 2016-17, roughly the same figure as in 2015-16. The largest of these transfers, the Territorial Formula Financing (TFF) arrangement, will provide $1,488.6 M. Note that this figure includes the $26.1 M partial restoration announced by Finance Canada on February 16. Other important federal transfers include the Canada Health Transfer ($37.4 M), the Canada Social Transfer ($13.8 M), and the Physicians' and Hospital Services Fund ($23.8 M). The $3.4 M Medical Travel Fund will be drawn down to zero by 2017-18. Nunavut also receives funding through the Access to Justice ($1.8 M), Youth Justice Strategy ($1.3 M), Job Fund Agreement ($1.0 M), Children's Special Allowance ($0.8 M), and Canada Student Loans Payment ($1.7 M) transfers.

The TFF: *Territorial Formula Financing (TFF) is an annual unconditional transfer payment from the federal government to the three territories. It aims to enable territorial governments to provide their residents with a range of public services comparable to those offered by provincial governments, at comparable rates of taxation. It is based on the difference between a proxy of the territory's expenditure needs (known as the 'Gross Expenditure Base') and its capacity to generate revenues (a territory's fiscal capacity or 'eligible revenues'). This figure is adjusted each year, to ensure that territorial spending grows in line with relative population growth and changes in provincial-local spending across Canada. As demonstrated this year with an unintended and unanticipated $34 M reduction to Nunavut's TFF entitlement, the transfer is sensitive to changes in Statistics Canada's accounting methodology. In addition to partially restoring this reduction in funding, Finance Canada is removing the requirement that TFF payment calculations incorporate data revisions to prior years. This should somewhat offset the impact of future revisions.*

Tax Revenues $108.5

2016-17 Main Estimates +5.8%

The GN estimates it will raise $108.5 M in taxes in 2016-17, up almost 6% from what we currently expect in 2015-16. Personal income tax ($31.8 M) and payroll tax ($26.8 M) will be the largest contributors. Both have grown steadily in recent years, thanks in part to a mineral sector that has so far managed to avoid the worst of the global commodity slowdown. Tobacco tax ($17.1 M) is expected to grow slightly in comparison to last year. Property Tax ($6.3 M) should continue to grow alongside the housing and mining sectors. Corporate income tax ($17.9 M) varies more widely, but is expected to grow modestly in the years ahead—the extent to which will largely depend on how quickly prices for gold, diamonds, and other important resources rebound to levels where new production becomes profitable. It is important to note that mining firms themselves do not pay much income tax in the short term, as Canadian law provides significant flexibility in terms of when and where mining companies pay taxes. However, if the sector continues to develop, we expect that the Nunavut-based firms catering to the mining sector (construction, logistics, transportation, etc.) will generate profit and thus raise tax revenues.

Territorial Tax / GDP 3.9%

2016-17; GN Finance -

One way to measure both the sophistication of an economy and the relative burden of a tax regime is the government's tax take as a share of total gross domestic product (GDP). In Nunavut the share is just under 4%, a low figure (Ontario's ratio, by comparison, is a little under 10%, while PEI is roughly 12% and Alberta 5%; nationally the ratio is 10%) that reflects the territory's small tax base and the high level of federal transfers that sustain government operations.

Tax ($ millions)	Main Estimates 2016-17	Revised Estimates 2015-16	Main Estimates 2015-16	Actual 2014-15
Personal income tax	31.8	29.9	31.2	28.3
Corporate income tax	17.9	15.6	18.0	14.9
Payroll tax	26.8	26.4	26.2	25.2
Tobacco tax	17.1	17.0	16.4	16.4
Fuel tax	6.8	6.5	9.6	5.5
Property tax	6.3	5.4	4.4	4.4
Insurance premiums tax	1.8	1.8	1.5	1.7
Total	**108.5**	**102.6**	**107.3**	**96.4**

Expenditures

Expenditures, Departmental $1,734.6

2016-17 Main Estimates -3.6%

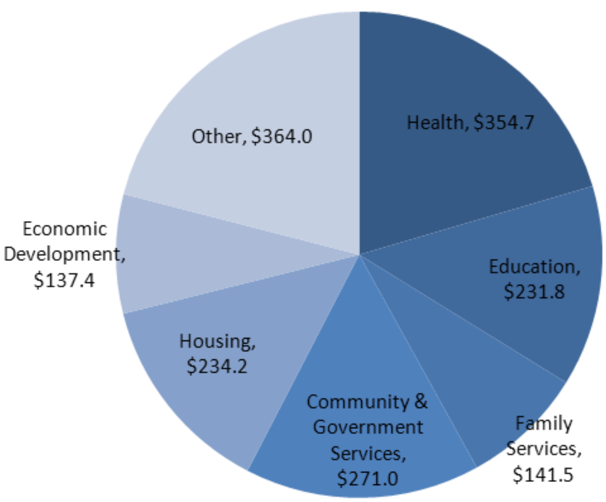
The GN is budgeting to spend $1,734.6 M in 2016-17 through its departments. Most will go towards operations and maintenance ($1,538.0 M) while the rest is for investments in capital infrastructure ($196.6 M)—about the same allocation as last year. The bulk of spending is to go towards Health ($354.7 M), Community and Government services ($271.0 M), Education ($231.8 M), Housing ($234.2 M) and Family Services ($141.5 M). Regionally, about $623.0 M in will go towards central operations, while $453.5 M will support O&M activities in the eastern Qikiqtaaluk, $269.0 M in the central Kivalliq, and $192.5 M in the western Kitikmeot region.

Expenditures

	Main Estimates 2016-17	Revised Estimates 2015-16	Main Estimates 2015-16	Actual 2014-15
O&M Expenditures	1,538.0	1,475.3	1,467.8	1,397.2
Capital Expenditures	196.6	324.5	205.6	231.4
Departmental Expenditures	**1,734.6**	**1,799.8**	**1,673.4**	**1,628.5**
Net change in capital assets	(46.5)	(145.3)	(29.9)	(99.0)
Expenses related to revolving funds	31.0	26.9	25.8	27.1
Operations Expenses	**1,719.1**	**1,681.4**	**1,669.2**	**1,556.6**
Supplementary Requirements	30.0	26.6	30.0	-
Expenses related to third-party agreements	91.0	106.3	89.6	129.8
Total Projected Expenses	**1,840.1**	**1,814.3**	**1,788.8**	**1,686.4**

Notes: Projected values for net change in capital assets and expenses related to revolving funds are based on internal calculations and are not published elsewhere. We publish final figures each year as part of Schedules B.1 and B.3 of the GN's non-consolidated financial statements.

Appropriated Spending by Main Policy Area
2016-17 Main Estimates



Revolving Funds Expenses $31.0

2016-17; GN Finance *+15.3%*

Revolving funds use revenues they raise during normal operations to fund future activities. For example, the Liquor Commission uses the money it raises by selling alcohol to purchase inventory for future alcohol sales (hence the term 'revolving'). The GN expects expenses related to revolving funds will be $31 M in 2016-17. Of this, about $5.5 M will support compensation and benefits. The remaining expenses are related to the operations of the Petroleum Products Division within the Department of Community and Government Services ($22.5 M), the Liquor Commission ($1.8 M), Public Stores ($1.1 M), and the Student Loan Fund ($0.2 M).

Total Projected Expenses $1,840.1

2016-17 Main Estimates *+1.4%*

The Main Estimates' Summary of Total Expenditures includes spending by departments. We make three adjustments to present spending on the same basis as we do in Schedule B of our non-consolidated financial statements in the 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 this adjustment will equal ($45.2 M) in 2016-17. Second, we add $29.7 M for expenses related to revolving funds. Third, we add spending related to the revenues we receive from third-party organizations (another $91.0 M). Added to the $1,734.6 M appropriated to departments through the Main Estimates, and assuming all $30.0 M set aside for contingencies is spent, total expenses in 2016-17 on a non-consolidated Public Accounts basis will be an estimated $1,840.1 M.

Financial Performance and Debt

Projected Deficit, Summary of Operations ($11.1)

2016-17; GN Finance (Main Estimates Basis)

Excluding third-party funding and prior year recoveries, the GN expects revenues of $1,738.0 M. We are budgeting to spend $1,734.6 M on departments' programs and capital in 2016-17. After incorporating revolving funds expenses of $29.7 M, adjusting for transfers to capital assets, and setting aside $30.0 M for contingencies ('supplementary requirements'), the GN projects a Main Estimates "Summary of Operations" basis deficit of ($11.1 M) for 2016-17. The final deficit 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 by the end of March, and how much money departments have left to lapse or carry over at the end of the year. Note that this figure does not include our estimate of Prior year recoveries, which are legislatively excluded from the appropriations process.

Surplus/Deficit

Summary of Operations	Main Estimates 2016-17	Revised Estimates 2015-16	Actual 2014-15
Revenues (Summary of Revenues)	1,738.0	1,722.9	1,668.6*
less: Operations Expenses	(1,719.1)	(1,681.4)	(1,556.6)
less: Supplementary Requirements	(30.0)	(26.6)	-
less: Vote 4 Expenses	(91.0)	(106.3)	(129.8)
add: Vote 5 Revenues	91.0	106.3	126.8
Operating Surplus (as reported in ME Summary of Operations)	**(11.1)**	**14.9**	**108.9**
*add***:** Adjustment for Prior-Year Recoveries	12.0	12.0	*
add: TFF (Partial) Restoration	26.1	-	-
Surplus/(deficit), Public Accounts basis	**27.0**	**26.9**	**108.9**

*Note: Surplus/deficit figures assume we spend all supplementary requirements. As noted elsewhere, we report recoveries as revenues in our Public Accounts but do not include them in Main Estimates appropriations (the Actual column, however, does include these revenues—denoted by *). To link the surplus we publish in the ME Summary of Operations with the one we eventually record in the Public Accounts, we add our estimates of prior-year recoveries ($12 M in 2015-16 and 2016-17). Also note that the Operating Surplus figure is not published in the Public Accounts, and that in 2015 third-party revenues and expenses did not perfectly correspond.*

Projected Surplus, Public Accounts basis $27.0
2016-17; GN Finance -

The Public Accounts report final tallies for all GN revenues and spending, including the prior-year recoveries excluded from the appropriation process under the *Financial Administration Act*. We expect to report in the Public Accounts total revenues of $1,867.1 M (including the partial TFF restoration of $26.1 M) and total expenses of $1,840.1 M. Assuming the GN fully spends the $30.0 M we have set aside for supplementary appropriations, we can expect a surplus of $27.0 M in 2016-17.

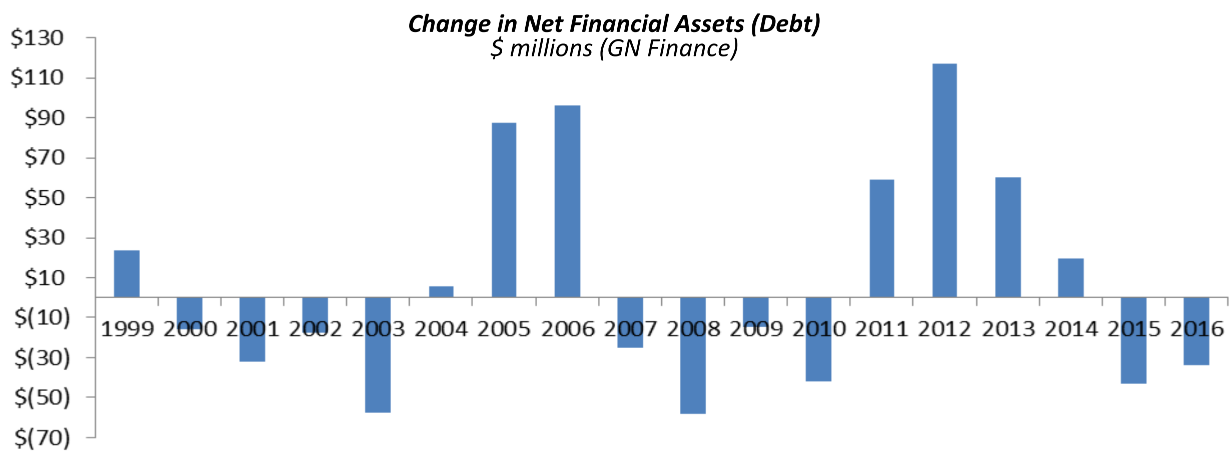
Public Accounts Surplus/(deficit) to GDP 1.0%
2016-17; GN Finance -

We compare the size of the GN's surplus (measured on a public accounts basis) 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. Given the small nature of the Public Accounts surplus currently projected (less than $1 M), we expect the GN's non-consolidated surplus-to-GDP ratio will be 1% in 2016-17, unchanged from our latest assessment of last year's results.

Net financial assets (debt)/GDP (%) 7.9%
2016-17; GN Finance *-1.7 p.p.*

Net financial assets or 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). This is why this measure is often called a government's 'future revenue requirements.' Our financial assets increase in a year when the GN runs surpluses (as measured on a Public Accounts basis), and decrease when we run deficits. It is also affected by adjustments to the value of the GN's non-financial assets, like buildings and machinery.

As published in our Main Estimates' Summary of Changes in Net Financial Assets/(Debt), we expect these adjustments will together reduce the GN's net financial assets by $59.9 M in 2016-17. When we include estimated recoveries and the partial TFF restoration, we expect net financial assets will fall by $33.8 M. As we will start the fiscal year in a net financial asset position (we estimate that at the end of 2016-17 the GN will own $252.4 M in assets more than it owes), we expect to end 2016-17 with net assets of $218.6 M on a non-consolidated basis, which is the equivalent of almost 8.0% of nominal GDP.



Economic Uncertainty and Fiscal Concerns: *Provinces and territories across Canada face continued economic uncertainty, which poses a serious risk to their fiscal situation. Most provinces are expected to remain in deficit in 2016, with growth prospects in natural resource-producing provinces to be particularly hard hit. Only Quebec and BC are expected to post a surplus. The federal government is also expected to face adverse revenue effects from the sharp decline in oil prices. The federal deficit may consequentially end up being much higher than initially forecast. Nunavut is fortunate that, unlike many jurisdictions, it has not run persistent deficits and has kept debt levels relatively low.*

Interest Costs / Total Revenues (%) — 0.2%

2014-15; GN Finance -

Measuring interest costs as a share of total revenues, known as ’interest bite’, is an effective way to gauge how much pressure debt service places on a government’s budget. The combination of legislated debt restrictions, a history of keeping borrowing levels low, a relatively high level of tied or third-party funding, and historically low interest rates keep Nunavut’s latest final figure at just 0.2%, unchanged from the year previous. Federally, the figure is 10%.

Borrowing under the Debt Cap — $323.7

At Dec 31 2015 (% change from latest fiscal year end) *+9.9%*

In its 2015-16 Budget the federal government raised the limit on how much the GN is able to borrow to $650 M. As of December 31, 2015, the GN had used up almost $324 M under this debt cap (comprising both actual borrowing and contingent liabilities), leaving $326.3 M in available borrowing room. The GN uses most of its borrowing room to guarantee loans by the Qulliq Energy Corporation ($167.8 M) and the Nunavut Housing Corporation ($12.8 M). Much of the rest is to account for the GN’s obligations related to capital leases ($44.1 M) and the Iqaluit airport expansion ($95.9). While this represents the full amount counted against the debt cap, the QEC has only used about $129.0 M of their available room (and the NDC another $0.8 M), which means actual GN debt is $284.1 M. Looking ahead, we expect the airport project will continue to push total borrowing upwards.

Credit Rating — Aa1 (stable)

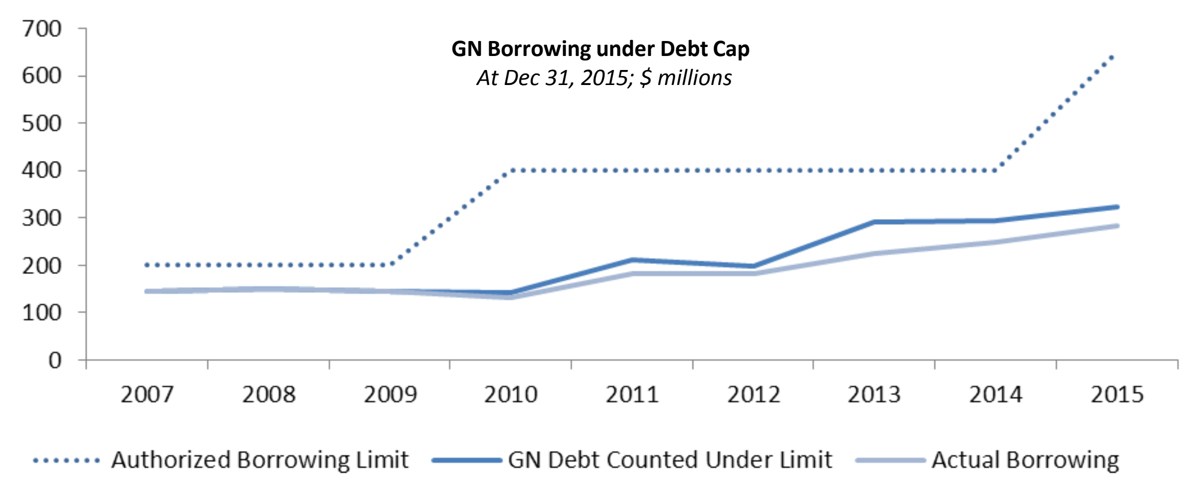
Moody’s Investor Services — *July 2015*

In July 2015 Moody’s reissued its Aa1 Stable credit rating for Nunavut. This 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. Nunavut’s first credit rating was issued in August 2012. We expect another credit update in the next few weeks.

Province/Territory	Moody's Credit Rating
BC	Aaa
Alberta	Aaa$^-$
Saskatchewan	Aaa
Manitoba	Aa2$^-$
Ontario	Aa2$^-$
Quebec	Aa2
New Brunswick	Aa2
Nova Scotia	Aa2
PEI	Aa2
Newfoundland	Aa2
Yukon*	Aa2
NWT	Aa1
Nunavut	Aa1

*Issued by Standard & Poor’s, but converted to the Moody’s methodology.

$^+$ or $^-$ indicate change (including outlook) since previous *FEI*.



Key Economic Indicators

The following indicators provide both insight into the current state of Nunavut's economy, as well as illustrate how it has evolved over time. We look to these trends in order to evaluate policy and to forecast future economic developments. Careful interpretation of the figures is required, however, for each indicator is accompanied by both strengths and weaknesses. All figures are also subject to frequent revision by Statistics Canada and other agencies.

Nunavut's Economy

Nominal GDP $2,750

2016 estimate; $ millions (CBoC) +4.6%

Nominal gross domestic product (GDP) measures the total market value of all goods and services produced in a region. It is the broadest measure of economic activity. In November 2015, the Conference Board of Canada (CBoC) projected that Nunavut's nominal GDP could reach $2,750 M in 2016, about $122 M (+4.6%) higher than their forecast for 2015. This forecast assumes Baffinland's Mary River mine, whose first load of iron ore shipped in the summer of 2015, continues production in a depressed global commodity market. Progress is also expected to continue at the $300 M Iqaluit airport, $40 M Iqaluit aquatic centre, and $142 million Canadian High Arctic Research Station (CHARS) in Cambridge Bay—all three projects of which are to be completed by 2017—as well as the $116 M Nanisivik summer-use naval facility which broke ground in July 2015 and is slated to open in 2018.

Real GDP $2,093

2016 estimate; $ 2007 (CBoC) +1.2%

The CBoC expects Nunavut's real GDP to grow by roughly 1% (+$25 M) in 2016, coming in just under $2,100 M. Real GDP adjusts for inflation by reducing nominal GDP growth by the rate at which prices for goods and services grow from one year to the next, leaving prices 'constant'. Taking price changes out of GDP estimates provides a more accurate picture of how a territory's actual production or 'real income' evolves over time.

Real GDP / person $56,089

2016 estimate; $ 2007 (CBoC, GN) +0.1%

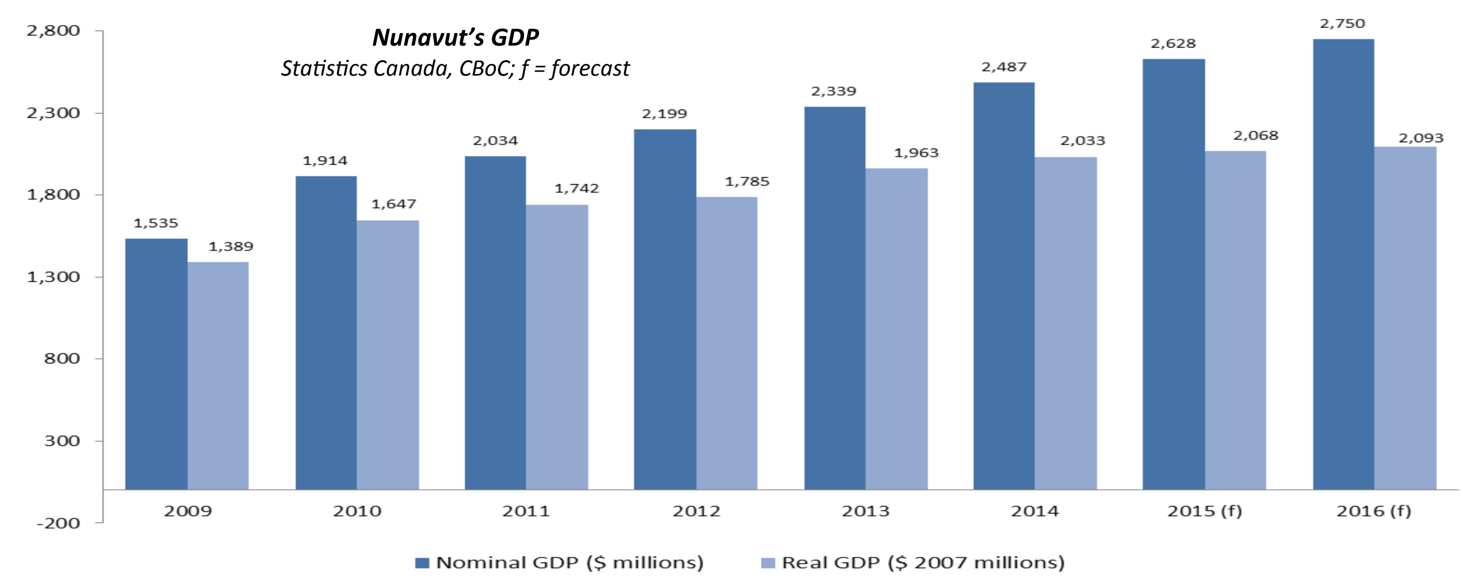
Under current population and economic forecasts, we expect real income in Nunavut to rise by just 0.1% per person in 2016, holding steady with previous years at around $56,000. As anticipated, the combination of low commodity prices and a Canada-leading birth rate has strained per capita wealth. We track output per person because average wealth is a good guide to living standards. This makes it a useful indicator of overall economic welfare. Still, we must remember that the measure provides no indication of how wealth is distributed amongst the population.

Government Share of GDP 32.3%

2016 estimate; % share (CBoC) -

The public sector (which incorporates the public administration, education, health care, and social assistance sub-sectors) plays a large role in the Nunavut economy. The CBoC expects it to account for just over 32% of all goods and services produced in 2016, down less than 0.1 percentage points from 2015. By comparison, operations of the federal government generally constitute just under 20% of the national economy. Nunavut's share is high not only because of the high cost of providing public services in the far north, but also because the territory's private sector is so small. We therefore look forward to this number continuing to fall in upcoming years.

Statistics Canada Data Revisions. *Statistics Canada periodically updates its accounting methods to better align with new international standards. This often results in revision of previously-published data series, including those published in this document. On...*



...November 10, 2015 the agency released a major update to its industry and provincial/territorial economic accounts, dating back to 1981. This was followed on December 1 by a major revision to its main historical GDP series. The information contained in this year's FEI fully incorporate these updates. However, the Conference Board of Canada forecast of future Nunavut output used by the GN relies on data produced prior to these changes. We should expect the CBoC's spring forecast to change in line with these revisions.

Business Investment in Capital — $831 M

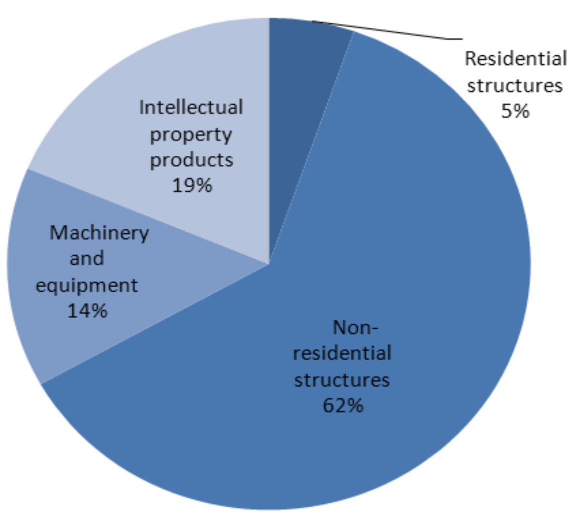
2014 ($ 2007) — *-6.0%*

Statistics Canada CANSIM 384-0038

Businesses invested just over $830 M in Nunavut in 2014 (the latest year with available data), down roughly $50 M (-6%) from 2013. Most of this went to large investments in non-residential structures (up 20%, to $502M), machinery and equipment (down 39%, to $118 M), and intellectual property (down 34%, to $152 M). Much of this was driven by exploration and construction in the natural resources sector, even as prices retreated. Residential construction (no change from 2013, at $43 M) held steady, constrained in many communities by a shortage of lot space and civil infrastructure. On top of this business investment, several large public projects got underway in 2014—including the Iqaluit Airport and CHARS. Total public capital spending reached $253 M, up 49% from 2013.

Share of Business Investment in Nunavut, 2014

(Statistics Canada)



Labour and Income

Population (July 1) — 36,919

2015; Statistics Canada CANSIM 051-0001 — *+2.3%*

Nunavut's population grew by roughly 800 people between 2014 and 2015, due largely to high birth rates (Nunavummiut women have on average three children over their lifetime, the highest rate in the country and almost double the national average) and positive inter-provincial migration (Nunavut gained a net 133 people in 2015). Nunavut remains Canada's youngest region, with about half its residents under 26 (the national median age is 41) and almost a third—roughly 11,500—under 15. Looking ahead, we expect total population will exceed 37,000 by July 2016.

Employment — 12,700

2015; Statistics Canada CANSIM 282-0123 (LFS) — *+3.3%*

The number of employed Nunavummiut grew by 400 in 2015, to 12,700. At over 3%, this growth was significantly stronger than the national trend (up 0.8%, or 2.5 p.p. slower than Nunavut). However, Nunavut's employment rate (the share of population aged 15 and over who found at least some employment during the year) remained stuck at the same level as last year, at 53.2% (nationally the rate is 61.2%). Looking at the latest year-over-year monthly figures, we find Inuit workers were particularly successful in entering the workforce, accounting for almost the entirety of the net 400 worker gain between December 2014 and December 2015. Despite these gains, the gap between Inuit (44.4%) and Non-Inuit (87.8%) employment remains wide. Continued employment growth will be crucial, particularly as Nunavut's relatively large school-age population enters the workforce.

Unemployment Rate — 15.9%

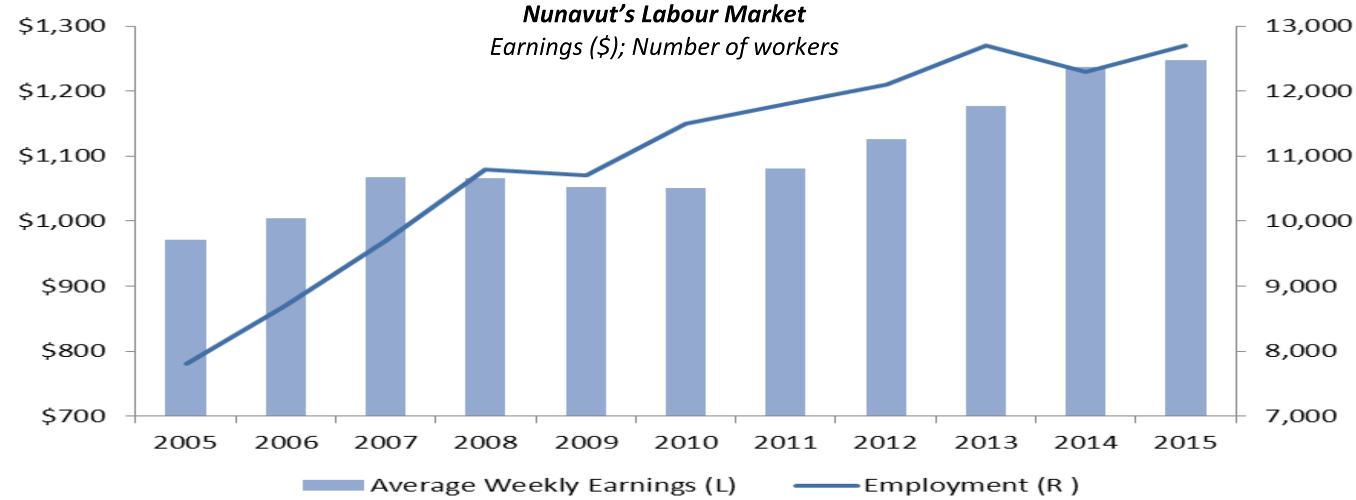
2015; Statistics Canada CANSIM 282-0123 (LFS) — *+2.1 p.p.*

Strong employment growth in 2015 appears to have encouraged more Nunavummiut to enter the workforce. Nunavut's participation rate (the share of Nunavummiut aged 15 and over who actively sought employment in 2015) grew by 1.7 p.p. in 2015, to 63.2%. Unfortunately, many of these newcomers were unable to find jobs and the territory's employment rate grew sharply (up over 2 p.p., to just under 16%). Taken together, this remains a partially positive development, suggesting that while employment growth still lags where it should be, the economy is growing fast and broadly enough to induce Nunavummiut to enter the wage economy.

Average Weekly Earnings — $1,247.36

2015 Industrial Aggregate (Jan-Oct); Statistics Canada — *+0.9%*

According to the latest figures, average weekly earnings in Nunavut increased by roughly $10 per week (+0.9%) in 2015, which is slower growth than seen in previous years. Average wages in goods-producing industries like construction ($1,573/week) still outstrip wages in services ($1,211/week), though the gap has narrowed. The combination of slower wage growth and higher inflation meant that real earnings actually declined by 1.1%. In other words, the same paycheque brought home slightly fewer goods in 2015. Nunavut wages remain above the Canadian average of $951.20 (+1.7% from 2014) per week. This +31% differential is the result of a shortage of skilled labour and the high cost of living in the north.



Total Income (tax filers) **$989.3 M**
2014 T1 Preliminary; GN Finance *+3.9%*

Total income is made up of all income that tax filers in Nunavut report, 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, and is up over $300 M from 2006. As of October 2015, the CRA had received 20,466 tax returns (+3.1% from 2013) from Nunavummiut, who together report total income of about $989 M for 2014. We expect this represents roughly 95% of all tax returns for 2014. If so, we expect total income for 2014 will be in excess of $1 B once all late returns are filed.

Median Income (tax filers) **$26,098**
2014 T1 Preliminary; GN Finance *+0.8%*

Median total income is the dollar amount that divides Nunavut taxpayers in two; half of all Nunavummiut reported earning less than this amount, and half reported earning more. It shows how much a typical resident makes in a year, and—unlike the average calculation—is not influenced by extremely high or low salaries. According to early tax data, median total income in Nunavut grew slightly in 2014 to roughly $26,100 (+1%). With total income growing at a faster rate than the median, we can infer that income gains are going disproportionately to higher-income earners.

Share of Total Income By Highest 10% **34.0%**
2014 T1 Preliminary; GN Finance *-0.8 p.p.*

In 2014, the top 10% of income earners in Nunavut reported earning close to $121,341 each (+2.0% from 2013). Together, these individuals reported earning roughly $336 million, which is about one third (34.0%, down -0.8 p.p. from 2013) of all income reported in the territory. In comparison, the lowest-earning 10% of tax filers reported total incomes of less than $2,435 each (-7.5% from 2013). Together, these individuals reported earning $2.0 million, which is less than 1% of all income earned in the territory that year. This data shows income In Nunavut is distributed unequally—a fact not uncommon in Canada. However, there are some important equalizers. First, Nunavut's progressive tax system means higher income earners pay more taxes: the top 10% of income earners comprised 49% of Nunavut's total assessed personal income taxes in 2013 (-3 p.p. from 2013). Also, these figures do not include substantial non-income benefits for low earners, like subsidized social housing.

The Canadian Economy in 2016. *The International Monetary Fund (IMF) has recently warned that falling commodity prices will slow growth in 2016, both in Canada and the world as a whole. The IMF cut its Canadian GDP forecast for this year from 2.1% to 1.7%. Provinces and territories reliant on the minerals and energy sector are particularly susceptible to the consequent reduced disposable income and resource-related investment. The mining industry alone employs 380,000 Canadians and contributes $54 billion to GDP. That said, lower energy costs help Canadian consumers and manufacturers, and the sharp decline in the Canadian dollar due to reduced capital flows to the commodity sector make Canadian exports (whose products are priced in terms of US dollars) more competitive internationally. Globally, growth is expected to reach 3.6% (down slightly from the IMF's earlier forecast of 3.8%).*

Other

Bank of Canada Overnight Rate **0.50%**
2015; Bank of Canada *-0.25 p.p.*

The Bank of Canada uses its overnight rate to influence interest rates for mortgages, lines of credit and business loans. The Bank's head, Stephen Poloz, has repeatedly expressed concerns over the country's high housing prices and personal debt levels, as well as the continued impact of falling oil prices on fiscal and economic performance. The Bank has therefore cut rates aggressively, hoping to boost household and corporate spending and hold off a prolonged economic slump. In July 2015 the Bank cut its target rate from 0.75 to 0.50, extremely close to what...

...economists call the 'zero lower bound.' We should expect interest rates to remain low until the recent oil shock has been fully digested by the economy, and growth rebounds to healthier levels.

Consumer Price Index, Iqaluit — 120.4

2015; Statistics Canada (2002 = 100) — +1.9%

CPI measures inflation, the change in price of a standard 'basket' of consumer goods and services over time. Inflation in Iqaluit quickened in 2015, increasing by just under 2%. This is the first time since 2013 that Iqaluit prices have grown at a faster pace than the national average (1.1%). Government social programs help insulate Nunavummiut from the shock of price increases. In 2015, however, it appears southern consumers were better able to take advantage of falling energy and commodity prices. We also note that CPI data exists only for Iqaluit, so we do not know how quickly prices are rising in other communities. Also note that CPI does not measure price levels, just how quickly they change. Prices for many goods are already extremely high in Nunavut relative to the rest of the country, given the territory's steep energy and transportation costs, as well as limited market competition.

Nunavut Food Price Basket — 165.31

2015; NBS, Statistics Canada CANSIM 326-0012 — +5.1%

While CPI is a useful measure of how prices change over time, it does not measure the cost difference between goods sold in Nunavut and those in southern Canada. The Nunavut Bureau of Statistics (NBS) has sought to help close this data gap by implementing a price survey for 24 select food items across the territory. These results are then compared with national Statistics Canada data. Nunavummiut, for example, pay roughly twice as much for apples and oranges than the Canadian average, and three times as much for flour and carrots.

CAD-USD Exchange Rate — $0.78

2015; Bank of Canada (annual average) — -15.8%

Exchange rates are determined mainly by supply and demand, which reflect trade and other international payments and, more importantly, volatile capital flows that seek out the best return from one country to the next. With the steep drop in oil and other commodities the Canadian dollar fell sharply again in 2015, down on average 13 cents from the year before—and closing out the year even lower, at $0.72. This makes goods imported from overseas much more expensive—everything from California-grown vegetable and European-built luxury automobiles to Chinese-made appliances. At the same time, a lower exchange rate makes Nunavut's exports more attractive to foreign buyers, who can now buy more Canadian product with the same amount of US dollars. Given the relatively fixed nature of most contracts, domestic prices take some time to adjust to new exchange rate conditions.

Average Monthly Rent, Iqaluit — $2,462

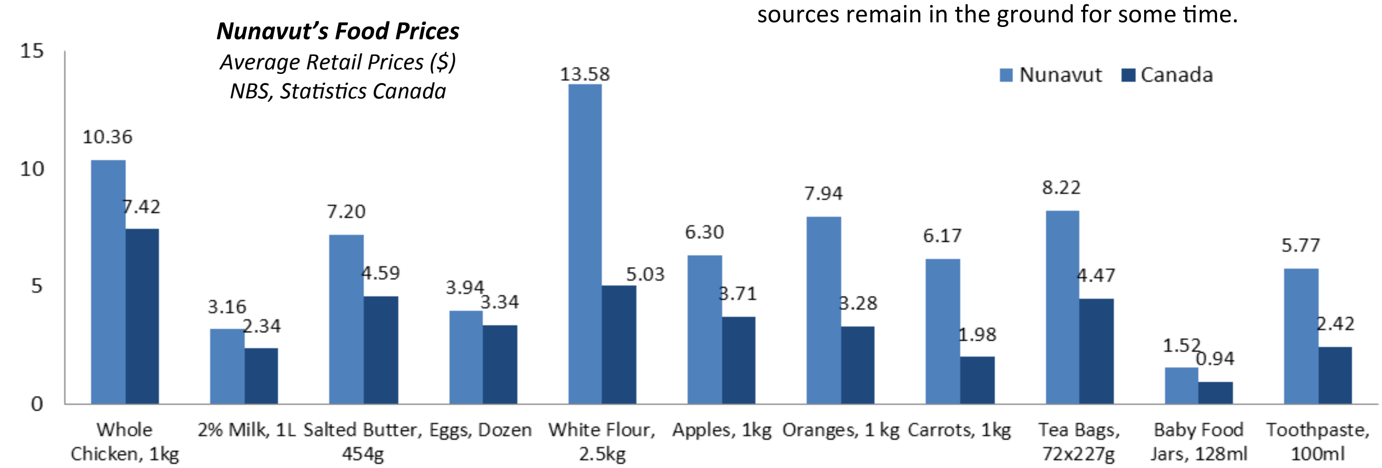
2014, Social housing excluded; CMHC — +1.9%

The Canada Mortgage Housing Corporation (CMHC) publishes an annual report on Iqaluit's housing market, providing insight into one of the economy's most important industries. Average monthly rent rose almost 2% in 2014 to roughly $2,500, excluding social housing. Broken down by unit size, average rent was $2,130 for a one-bedroom, $2,478 for two, $2,984 for three, and $3,531 for four-plus bedrooms. The total universe of rented units grew to 2,045 (+2.7%). The median residential sale price reached $486,330 (+2.3%; $515,00 for single-detached and $461,763 for condo/row/semi-detached). Some 110 construction permits were issued in 2014: 7 single-family (no change), 103 multifamily (-19 units; 87 of which were apartments). Residential transactions included 31 single-detached sales (-5 units) and 24 condo/row/semi (no change).

Commodity Price Index: Metals & Minerals — 542.84

2015; Bank of Canada — -10.3%

According to the Bank of Canada's Metals & Minerals Index, global metal and mineral prices declined by over 10% in 2015. This drop continues a steady four-year run of price declines (down 32% since 2011). The energy sector fell even harder in 2015, down 47%. Commodity prices may also stay low for the medium-term, as the modest European and US recoveries are offset by what appears to be a substantial shift in the Chinese economy away from commodity-intensive industries like steel and tire production. This may mean much of Nunavut's resources remain in the ground for some time.



Commodity Prices. *Falling demand and growing supply was a constant theme for a variety of key raw materials in 2015. In fact, each of the 18 major indicator commodities tracked by Thomson Reuters ended the year in negative territory. Despite these rough markets, mineral exploration in Nunavut rebounded slightly in 2015, growing to a preliminary estimate of $203 M (40% of which by junior firms), from $158 M in 2014. More than 550,000 hectares of claims and prospecting permits were issued. Nunavut remains home to several world-class mineral finds that are economically competitive even in difficult market conditions. Lower energy costs and a falling Canadian dollar have also helped cushion the blow of retreating global prices for Nunavut producers. While lower commodity prices are good for Nunavut consumers (a lower world price for oil, for example, slowly translates into lower heating and transportation fuel costs), reduced activity in the industries that rely on healthy commodity prices affects tax revenues, wages, and employment in the territory.*

Gold Price — $1,160.04 USD

2015; USD/troy oz (IndexMundi) — *-8.2%*

The price of gold averaged $1,162 USD per troy ounce in 2015, down over 8% from 2014's average—its lowest value since 2010. This continues a three-year slide in the price of the precious metal. The gold market has been caught in a tug-of-war between an improving US economy (reducing the demand for gold, as investors flock to the US dollar as an alternate investment vehicle to bullion) and worsening economic fears in China, combined with persistent geopolitical instability in Ukraine and the Middle East (increasing the demand for gold as an inflation-proof 'safe haven'). It is estimated a third of global gold production is money-losing when the price is lower than $1,250, so further contractions and write-downs (already valued at $42 B USD in 2015, across all sectors) in the industry can be expected. Gold is currently mined in Nunavut at Meadowbank, with further potential near-term projects at Meliadine and Hope Bay.

Iron Ore Price — $55.21 USD

2015; USD/dry ton (IndexMundi) — *-43.0%*

The price of iron ore averaged $55 per dry ton in 2015, off a steep -43% against an already-difficult year in 2014. Note that this average masks an even worse decline in the fourth quarter, which saw prices close out the year at less than $40—a level unseen since 2009. Alongside a glut of new production in Australia and Brazil (globally, $120 B USD has been spent on new iron mines since 2011), continued weakening of Chinese demand continues to pressure this $160 B market, even as steel markets in Europe and the United States slowly begin to recover. These declines have already begun to affect projects in Nunavut, with Baffinland's mine at Mary River—which shipped its first load of iron ore in August 2015, headed for the European steel market—recently cutting wages at the site across-the-board by an estimated 10%.

Uranium Price — $36.76 USD

2015; USD/pound (IndexMundi) — *+9.8%*

Uranium halted its three-year decline in 2015, closing out the year with an average price of just under $37 USD per pound (+10%). This leaves it well off the 2011 high of $56.24. Prices fell following the Fukushima reactor disaster in Japan, and despite aggressive nuclear building plans in China and India (110 plants by 2030 in the former country alone), they have still yet to fully rebound. In fact the mining firm Areva has recently stated that uranium prices are currently so low that it could be up to two decades before construction at its Kiggavik site in the Kivalliq could begin.

Diamond Prices — 106.1

2015; FRED Export Price (Dec 2013 = 100) — *-2.1%*

Diamond prices have steadily declined from their peak in 2014. This trend is expected to continue as producers try to keep pace with falling demand in China, Japan, and parts of Europe. Due in part to lower prices, December 2015 saw De Beers' Snap Lake diamond mine, located in the Northwest Territories, placed under care and maintenance, laying off 434 employees. Peregrine Diamond's Chidliak project, with an inferred mineral resource of 8.57 million carats, is located 120 kilometers from Iqaluit. We expect exploration there to continue, with a preliminary economic assessment of the site due sometime in 2016.

Total Mineral Production — $642,120

2014 preliminary ($'000s); Natural Resources Canada — *+2.1%*

The latest estimates of Nunavut's mineral production puts a total value for 2014 at roughly $642 M, up more than 2% from 2013. Of this, $639 M came from gold production (14,134 kilograms produced, up 5.4%) and $2.6 M from silver (4 tonnes produced, up 33.3%). Total mineral production across Canada grew in value by 2% as well, to $44.7 B (leaving Nunavut with a 1.4% national share).

High School Graduation Rate — 31.6%

2014, Gross figure; NBS — *-0.9 p.p*

Low high school retention is one of the biggest challenges faced by the Nunavut economy. Students who drop out of school early are ill-equipped to manage the demands of the information-age economy. The share of 17-18 year-old Nunavummiut graduating from high school fell a percentage point in 2014 to 31.6%, the lowest rate since 2008. For rough comparison, the national high school completion rate is 88%.

Key Fiscal Indicators

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16(r)	*2016-17*(f)
Revenues				*($ millions unless otherwise noted)*				
Federal transfers	**1,102.3**	**1,165.2**	**1,251.6**	**1,353.1**	**1,437.9**	**1,491.4**	***1,538.7***	***1,547.5***
Territorial Formula Financing	1,022.1	1,090.6	1,175.3	1,273.5	1,350.4	1,409.1	*1,454.2*	*1,462.5*
Other federal transfers	80.3	74.6	76.3	79.6	87.5	82.2	*84.5*	*85.0*
Own-source revenues	**128.3**	**151.9**	**138.9**	**141.5**	**168.4**	**164.3**	***184.2***	***190.5***
Taxes	61.3	70.7	77.8	84.2	92.4	96.4	*102.6*	*108.5*
Revolving Funds (net CoGS)	38.4	49.3	27.0	20.1	25.3	26.3	*39.6*	*39.2*
Other own-source	28.6	31.9	34.2	37.2	50.6	41.5	*42.0*	*42.8*
Revenues, Main Estimates Basis	**1,230.6**	**1,317.0**	**1,390.5**	**1,494.6**	**1,606.2**	**1,655.7**	***1,722.9***	***1,738.0***
Revenues from third-party agreements	102.1	116.2	111.5	112.1	138.7	126.8	*106.3*	*91.0*
Recovery of Prior Years' Expenditures	13.7	10.8	11.1	13.3	9.3	12.8	*12.0*	*12.0*
TFF (Partial) Restoration	-	-	-	-	-	-	-	*26.1*
Revenues, Public Accounts Basis	**1,346.4**	**1,444.0**	**1,513.1**	**1,620.1**	**1,754.2**	**1,795.3**	***1,841.2***	***1,867.1***
Share of Federal Transfers (%)	81.9%	80.7%	82.7%	83.5%	82.0%	83.1%	*83.6%*	*84.3%*
Territorial Tax / GDP (%)	4.0%	3.7%	3.8%	3.8%	3.8%	3.7%	*3.9%*	*3.9%*
Expenditures								
O&M	1,079.1	1,133.7	1,202.0	1,273.2	1,349.5	1,390.3	*1,475.3*	*1,538.0*
Capital	123.3	181.7	128.4	90.9	183.6	231.4	*324.5*	*196.6*
Expenditures, Main Estimates Basis	**1,202.4**	**1,315.4**	**1,330.4**	**1,364.1**	**1,533.1**	**1,628.5**	***1,799.8***	***1,734.6***
Net transfer to capital assets	-44.7	-29.3	-9.2	-8.9	-79.6	-99.0	*-145.3*	*-46.5*
Expenses for revolving funds and other	23.5	21.8	25.5	33.5	27.9	27.1	*26.9*	*31.0*
Expenses related to third-party agreements	102.1	116.2	111.5	109.3	124.0	129.8	*106.3*	*91.0*
Expenses, Public Accounts Basis	**1,283.3**	**1,424.0**	**1,458.2**	**1,498.0**	**1,605.5**	**1,686.4**	***1,814.3***	***1,840.1***
Supplementary Requirements & Contingencies	0.0	0.0	0.0	0.0	0.0	0.0	*26.6*	*30.0*
Surplus (deficit) for the year, Public Accounts basis	**63.1**	**20.0**	**54.9**	**122.1**	**148.7**	**108.9**	***26.9***	***27.0***
Expenditures / person ($)	39,365	42,694	42,641	43,134	45,308	46,737	*49,143*	*49,301*
Expenditures / GDP (%)	83.6%	74.4%	71.7%	68.1%	65.7%	64.4%	*70.0%*	*68.0%*
Capital spending as share of total (%)	9.6%	12.8%	8.8%	6.1%	11.4%	13.7%	*17.9%*	*10.7%*
Health spending as share of total (%)*	22.8%	21.5%	22.8%	24.2%	20.6%	21.0%	*19.4%*	*19.3%*
Education spending as share of total (%)	18.1%	16.2%	15.8%	16.2%	12.9%	12.7%	*13.6%*	*12.6%*
Surplus/(deficit) / GDP (Public Accounts basis)	4.1%	1.0%	2.7%	5.6%	6.4%	4.2%	*1.0%*	*1.0%*
Net Assets (Debt) (end of year)	1.8	-36.9	21.9	215.3	275.8	295.4	*252.4*	*218.6*
Net Assets (Debt) (end of year) / GDP	0.1%	-1.9%	1.1%	9.8%	11.8%	11.3%	*9.6%*	*7.0%*
Interest Costs / Total Revenues (%)	0.4%	0.4%	0.3%	0.3%	0.2%	0.2%	-	-
Borrowing under the Debt Cap	146.3	141.3	212.5	198.5	291.7	294.6	*316.5*	-
Credit Rating	-	-	-	Aa1 stable	Aa1 stable	Aa1 stable	Aa1 stable	*Aa1 stable*

Notes: Changes to GN departments in 2013-14, notably the creation of the Dept. of Family Services, mean that health spending as a share of total spending is 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	2009	2010	2011	2012	2013	2014	2015	*2016*
Gross Domestic Product								
Nominal GDP (expenditure-based, $ millions)	1,535	1,914	2,034	2,199	2,339	2,487	*2,628*	*2,750*
Real GDP (basic prices, $ 2007 millions)	1,389	1,647	1,742	1,785	1,963	2,033	*2,068*	*2,093*
Real GDP per person (basic prices, $ 2007)	42,595	49,369	50,939	51,407	55,387	56,328	*56,016*	*56,089*
Government Share of GDP (actual, %)	43.2	37.0	36.8	36.6	33.8	33.3	*32.3*	*32.3*
Business Investment in Capital ($ 2007)	505	604	743	640	884	831	-	-
Population & Labour								
Population, July 1 (# of people)	32,600	33,353	34,196	34,729	35,435	36,083	36,919	*37,324*
Employment (# of people employed)	10,700	11,500	11,800	12,100	12,700	12,300	12,700	-
Unemployment Rate (%)	13.0	15.5	17.1	15.6	14.0	13.8	15.9	-
Employment rate (% of people aged 15+)	52.4	54.6	54.8	54.8	56.5	53.1	53.2	-
Participation Rate (%)	60.2	64.6	66.1	65.0	65.8	61.5	63.2	-
Average Weekly Earnings ($)	1,052.02	1,050.15	1,081.60	1,125.37	1,176.99	1,236.44	1,247.40	-
Total Income ($ millions)	822.8	878.2	934.7	974.4	1,020.6	*989.3*	-	-
Median Total Income ($)	25,070	26,162	26,566	26,575.5	26,145	*26,098*	-	-
Share of Total Income by Top 10% (%)	-	33.0	33.5	33.7	34.7	*34.0*	-	-
Monetary Trends								
Bank of Canada Overnight Interest Rate (%)	0.4	0.6	1.0	1.0	1.0	1.0	0.5	-
Consumer Price Index, Iqaluit (2002=100)	112.6	111.8	113.4	115.3	116.6	118.1	120.4	-
Nunavut Food Price Basket (24 items)	-	-	-	-	155.66	157.35	165.31	-
Average Monthly Rent, Iqaluit (Excl. Social)		2,268	2,324	2,335	2,417	2,462	-	-
CAD-USD Exchange Rate	0.88	0.97	1.01	1	0.97	0.91	0.78	-
Commodities								
Bank of Canada Metals & Minerals Index	575.99	662.45	788.09	759.19	636.24	605.21	542.84	-
Gold Price (*USD/troy oz; annual avg)*	973.00	1,227.34	1,568.58	1,688.53	1,411.03	1,265.58	1,160.04	-
Iron Price (*CFR Tianjin port; USD/dry ton; annual avg)*	79.87	146.9	167.79	128.53	135.36	96.84	55.21	-
FRED Diamond Export Price Index (*Dec 2013 = 100*)					100.0	108.4	106.1	-
Uranium Price (*USD/pound; annual avg)*	45.10	45.96	56.24	48.90	38.57	33.49	36.76	-
Total Mineral Production (*$'000s)*	0	317,140	427,322	614,441	629,041	*642,120*	-	-