Budget 2019-2020

Fiscal and Economic Indicators

Department of Finance

Government of Nunavut

Feb 2019

About This Document

The GN Department of Finance prepares the Fiscal and Economic Indicators using the latest data available at the time of writing, a few weeks ahead of the official release of the GN's Budget. Some information may change during the intervening period. If you have questions about the data we use, please contact us at info@gov.nu.ca.

Key Fiscal Indicators

The following indicators describe the fiscal situation of the Government of Nunavut (GN). Unless otherwise specified, figures are expressed in millions ($ M) and billions ($ B) of dollars, and include calculations of year-over-year change measured in percent (%) or percentage points (p.p.). Unless otherwise noted, we measure change against the Revised Estimates for last year rather than last year's Main Estimates. Note that totals are subject to rounding.

Revenues

Total Revenues $2,162.1

2019-20; Non-consolidated *-1.7%*

Total revenues are the sum of all financial resources the GN raises and receives to fund its operations, investments, and other expenses. The GN expects to generate $2.16 B in 2019-20 through federal transfers, revenues from third-party agreements, taxes, and other own-source revenues, including revolving funds and prior-year recoveries. This marks a –2% or $36.4 M decrease from the $2.20 B we currently forecast for 2018-19. The decline is largely due to lower year-over-year Third-Party funding—though the 2019-20 figure is still well above recent trends and additional agreements may be signed.

Federal Transfers $1,737.5

2019-20; GN Finance *+3.9%*

The GN receives fiscal transfers from the Government of Canada through various funding agreements and legislated arrangements. The largest of these, Territorial Formula Financing (TFF), will provide $1,641.7 M in 2019-20, or 4% more than last year. The TFF is an annual unconditional ('no strings attached') payment that recognizes territories, with our small economies and tax bases, are not able to raise enough revenue on our own to provide public services comparable to elsewhere in Canada. Other federal transfers include the Canada Health Transfer ($41.7 M), Canada Social Transfer ($15.1M), and a number of other arrangements through Health, Justice, and Family Services. Together, TFF and other federal transfers make up 80% of total GN revenues.

***TFF**: Territorial Formula Financing is calculated through a formula that includes population, provincial spending, and national tax rates. Payment amounts are announced by Finance Canada in December each year.*

Revenues From Third-Party Agreements $200.6

2019-20; GN Finance *-32.8%*

The GN receives revenues from the federal government and other organizations through agreements that set out specific requirements about how the GN must spend the money. These 'strings attached' revenues are different from revenues over which we have full control and can spend freely (e.g. transfers, taxes, etc.). The GN is budgeting to receive roughly $200 M from third-party sources in 2019-20. The Main Estimates and Capital Estimates include appendices that list the latest agreements. Third-party revenues tend to be difficult to predict, as they are based on the funding choices, budgets, and timelines of external funding organizations.

Taxes $135.9

2019-20; GN Finance *+2.9%*

The GN expects to raise almost $135.9 M in existing taxes in 2019-20, or $3.8 M higher than what we currently expect in 2018-19. Personal income ($34.7 M) and payroll ($31.8 M) taxes will be the largest contributors, both of which depend on the quantity and quality of jobs and wages in the territory. We expect tobacco tax revenue to grow only slightly in 2019-20 ($25.3 M), thanks in part to decreased consumption driven by higher tobacco tax rates. Taxes on property ($7.0 M) and fuel ($14.9 M) should remain near their 2018-19 values. So too should corporate income taxes ($20.0 M), which depend on the profits of locally-based firms. Together, taxes are expected to make up 6.3% of the GN's total revenues, essentially the same figure as last year's share (6.0%).

	2019-20	2018-19(r)	2018-19	2017-18
Personal Income Tax	34.7	33.6	33.4	23.5
Corporate Income Tax	20.0	19.7	17.9	18.4
Payroll Tax	31.8	30.4	29.8	29.4
Tobacco Tax	25.3	25.1	21.0	21.4
Fuel Tax	14.9	14.4	8.6	14.0
Property Tax	7.0	6.8	6.9	6.6
Insurance Tax	2.2	2.1	2.1	1.9
Total	**135.9**	**132.1**	**119.7**	**115.2**

Revenues	Main Estimates 2019-20	Revised Estimates 2018-19	Main Estimates 2018-19	Actual 2017-18
TFF and Other Federal Transfers	1,737.5	1,671.5	1,670.9	1,698.4
Revenues From Third-Party Agreements	200.6	298.4	275.8	148.5
Taxes	135.9	132.1	119.7	115.2
Revolving Funds	30.5	35.0	35.0	39.2
Other Own-Source Revenues	44.6	48.6	60.1	87.7
Prior-Year Recoveries	13.0	13.0	15.0	10.6
Total Revenues	**2,162.1**	**2,198.5**	**2,176.5**	**2,099.6**

Territorial Tax-to-GDP Ratio **4.0%**

2019-20; GN Finance *-0.2 p.p.*

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 we forecast the 2019-20 share will remain at 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.

***Cannabis**: Cannabis was legalized by the Federal government on October 17th, 2018. While we expect the shift of cannabis consumption from illegal sellers to licensed businesses will bring positive social effects, sales data from the first few months of legalization suggests government revenues will be modest. We hope to have a better sense of future revenues when more data on the consumption and sale of legal cannabis becomes available.*

***Carbon Pricing**: The Federal government will impose its national carbon price 'Backstop' on Nunavut on July 1, 2019. A charge of $20 per tonne of CO_2e will be levied, though the GN has negotiated exemptions for aviation and public electricity generation. Large emitters will also be able to participate in the Output-Based Pricing System (OBPS), a mechanism designed to significantly reduce the carbon tax paid by emissions-intensive, trade-exposed industries such as mining. The GN is currently evaluating how best to return carbon pricing revenues to Nunavummiut.*

Note that because of the uncertainty around these future revenues, they are not yet included in the Main Estimates.

Revolving & Other Own-Source Revenues **$75.1**

2019-20; GN Finance *-10.1%*

The GN generates revenue in a number of ways aside from taxes. In 2019-20, for example, we expect to collect $19.6 M in rent from GN employees in staff housing, and expect to collect another $25.0 M from a wide variety of miscellaneous revenues. Examples of revenues in this 'other' category include money collected from licensing and service fees, penalties and fines, insurance proceeds, and interest revenues.

The GN also raises revenue through its revolving funds, in particular the Petroleum Products Division ($22.6 M, net cost of goods sold) and Liquor Commission ($7.9 M net cost of goods sold). Revolving funds operate outside the GN's core operations and–within certain limits set in law—keep the revenues they earn in one year to fund their own operations in the next year. The GN includes these revenues in the Main Estimates and reports them annually in our year-end financial statements. However, because of their unique nature, the GN generally excludes revolving fund revenues for planning purposes. At $75 M, total own-source revenues are expected to fall by $8 M in 2019-20, a 10% decrease from the year before. This is primarily driven by a decline in PPD profits and accounting changes regarding insurance proceeds. Net revenues at the Liquor Commission are expected to rise by $1.0 M.

Prior-Year Recoveries **$13.0**

2019-20; GN Finance —

The GN expects to report roughly $13 M in prior-year recoveries in 2019-20. These revenues are earned when the GN recovers money after spending it; for example, when the GN is provided a refund for the purchase of goods subsequently returned. All recoveries are recorded in the Public Accounts.

Expenditures

Departmental Expenditures **$1,913.0**

2019-20; GN Finance *-3.9%*

The GN is budgeting $1.91 B worth of departmental spending in 2019-20. This is the total amount the GN seeks to appropriate through its Capital Estimates and Main Estimates. Of this, $1,735.5 M will go to operations and maintenance (O&M) and $177.5 M to new capital projects.

Operations wise, the GN is appropriating $68.8 M more for O&M than the $1,666.7 M included in the 2018-19 Revised Estimates (+4.1%). Over half of this year's increase will go to the Department of Health, which will see its funding rise by $38.3 M to a total of $431.0 M, year-over-year growth of almost 10%. Although of a smaller dollar value, the largest increase in percentage terms is the $4.1 M in new money destined for the new Department of Human Resources (+18%). The Nunavut Housing Corporation (NHC) will receive a similar increase ($10.2 M), though in percentage terms this will be a more modest 5%. For the remaining departments planned spending growth is set for a restrained 1.5%.

In terms of capital, we forecast $177.5 M in new spending in 2019-20. While this figure appears to be a sharp decline from the $323.0 M appropriated in 2018-19, capital carryovers—capital spending that is pushed to future years, largely due to construction delays associated with the difficulty of building in the Arctic—mean these two numbers are not perfectly comparable. One-time charges for capital leases may also add to the turbulent nature of capital appropriations. The 2018-19 figure, for example, includes not only the $197.1 M appropriated for new capital in the 2018-19 Main Estimates, but also $121.5 M carried over from uncompleted 2017-18 projects. The remaining $4.3 M went to supplementary capital projects. We expect a similar amount for capital carryovers in 2019-20, which will ultimately push this year's total capital appropriations higher. Carryovers are authorized through supplementary appropriations, generally early in the new fiscal year.

Expenditures

	Main Estimates 2019-20	Revised Estimates 2018-19	Main Estimates 2018-19	Actual 2017-18
O&M Expenditures	1,735.5	1,666.7	1,666.7	1,621.3
Capital Expenditures	177.5	323.0	197.1	301.4
Departmental Expenditures	**1,913.0**	**1,989.6**	**1,863.8**	**1,922.7**
Net Change in Capital Assets*	12.3	(49.7)	26.0	(123.0)
Expenses Related To Revolving Funds*	40.2	35.2	35.3	45.5
Expenses Under Third-Party Agreements	200.6	298.4	275.8	131.9
Operations Expenses	**2,166.1**	**2,273.6**	**2,200.8**	**1,977.0**
Supplementary Requirements	30.0	30.0	30.0	0.0
Total Projected Expenses	**2,196.1**	**2,303.6**	**2,230.8**	**1,977.0**

**Projected values for net change in capital assets and expenses related to revolving funds 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. Net Change in Capital Assets is equal to capital spending minus current-year carryovers minus net transfers to capital assets plus amortization.*

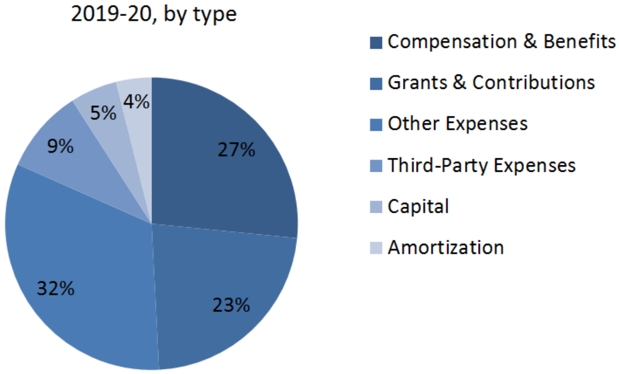
Operations Expenses — $2,166.1
2019-20; Non-consolidated — *-4.7%*

Operations expenses build on the core departmental expenditures for O&M and capital by adding other expenses not part of the GN's appropriations to departments. These include expenses related to operating the liquor, petroleum, student, and public stores revolving funds ($40.2 M), as well as spending incurred under third-party agreements ($200.6 M). As we spend this money on behalf of external organizations, we do not appropriate it in precisely the same way as departmental spending.

Operations expenses also include the net change in capital assets, an adjustment related to how the GN accounts for the acquisition and consumption of capital assets, repayments on capital leases, and amortization. This adjustment fluctuates depending on capital appropriation plans and how quickly projects are completed. As the GN often 'carries over' capital appropriations from one fiscal year to the next (recognizing that approval for multi-year capital projects extends until the project is complete, even if we do not spend money in a year as planned), this adjustment is finalized only when we prepare year-end financial statements.

On this basis, the GN expects operations expenses to total $2.17 B in 2019-20.

Operations Expenses
2019-20, by type



Supplementary Requirements — $30.0
2019-20; GN Finance — —

The GN has set aside $30 M for contingencies in 2019-20. The GN uses these contingencies to help cover spending overruns by departments, and to add some fiscal cushion in case of revenue shortfalls, unforeseen events, and emergencies. Negative numbers indicate funding was lapsed by departments and therefore went unspent. Assuming the GN spends all $30 M in contingencies, we are projecting total expenses will come to $2,196.1 M in 2019-20, down almost 5% from the revised figure of $2,303.6 M in 2018-19.

Financial Performance and Debt

Core Planning Deficit — -$12.0
2019-20; GN Finance — *+$22.9*

The GN currently projects a $12.0 M deficit in 2019-20. This deficit figure considers the core aspects of GN fiscal planning by setting aside revenues and expenses related to revolving funds, which operate separately from the GN's consolidated revenue fund. Similarly, this figure does not consider the expected adjustments related to changing net capital assets, mostly as these happen according to Canadian accounting rules rather than because of specific GN planning.

	2019-20	2018-19(r)
Total Revenues	$2,238.5	$2,208.9
subtract: Revolving fund revenues	($30.5)	($35.0)
subtract: O&M appropriations	($1,735.5)	($1,713.3)
subtract: Capital appropriations	($177.5)	($323.4)
subtract: Third-party agreement spending	($277.0)	($308.8)
subtract: Supplementary Requirements	($30.0)	—
add: O&M Lapses	—	14.4
add: Projected Capital Carryover to Next Yr	—	$122.4
Core Planning Deficit	**-$12.0**	**-$34.9**

Operating Surplus (Deficit)

Summary of Operations

	Main Estimates 2019-20	Revised Estimates 2018-19	Actual 2017-18
Total Revenues	2,162.1	2,198.5	2,099.6
subtract: Operations Expenses	(2,166.1)	(2,273.6)	(1,977.0)
subtract: Supplementary Requirements	(30.0)	(30.0)	-
Projected Operating Surplus/(Deficit)	**(34.0)**	**(105.1)**	**122.6**

Operating Surplus/(Deficit) ($34.0)

2019-20; Non-consolidated *+$71.1*

As noted, the core planning deficit of $12.0 M excludes revolving funds and certain accounting adjustments. When we include these, the GN currently projects an operating deficit of $34 M in 2019-20. This is the total amount the GN expects to spend over its projected revenues. The final figure will depend on how much of the contingency funding remains unused at the end of March 2020, how much money departments have left to lapse or carry over at the end of the year, and the final accounting charge related to capital assets. This number will be made available in the 2020 Public Accounts.

Projected Deficit-to-GDP Ratio -1.0%

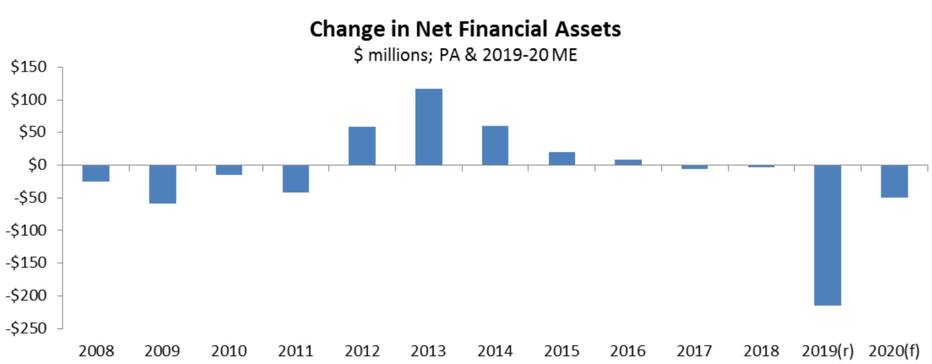
2019-20; Non-consolidated *+2.4 p.p.*

We compare the size of the GN's projected operating surplus to the size of the economy (measured by nominal GDP) to help understand the government's fiscal health. A positive number indicates the government is in surplus, while a negative number indicates the government is in a net deficit position. Assuming the GN spends its $30 M contingency and economic growth occurs as forecast, we expect the GN's non-consolidated deficit-to-GDP ratio will be –1% in 2019-20, roughly two percentage points better than the results expected for 2018-19. This number suggests a modest-but-economically sustainable deficit (federally the projection is for a deficit equal to –0.8% of GDP).

Net Financial Assets $29.8

2019-20; Non-consolidated *-62.4%*

Net financial assets (or debt, when negative) measures the difference between how much the GN owes (our liabilities) and how much in liquid assets 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'.



On top of the GN's operating deficit of $34.0 M, we expect to report a downward change to tangible capital assets worth $15.5 M, based on accounting adjustments for capital acquisition (-$112.4 M), write-downs ($12.4 M) and amortization ($84.6 M). As a result of these and a few other smaller adjustments, the GN expects to reduce our net financial asset position by $49.5 M.

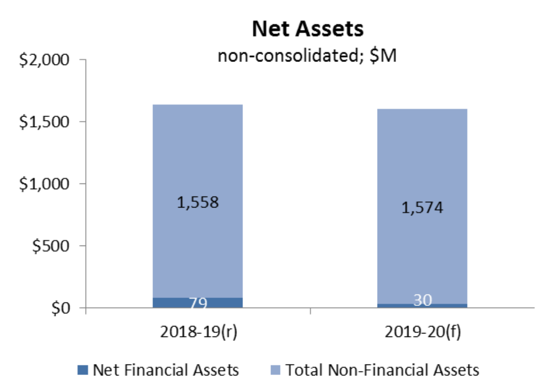
Even though net financial assets are declining, we still expect to end 2019-20 with a net financial asset surplus: $29.8 M on a non-consolidated basis. This is equal to 0.9% of GDP.

Net Assets ('Accumulated Surplus') $1,603.7

2019-20; Non-consolidated *-2.1%*

Net assets is the total value of the GN's recognized economic resources. This figure considers the value of all GN assets, both financial (like cash) and tangible non-financial (like buildings, equipment, and vehicles), then subtracts the GN's total liabilities. This figure changes over time, and reflects all past operating surpluses and deficits—as well as all adjustments due to re-measurement. We expect the GN's net assets to decrease by $34.0 M in 2019-20 because of our operating deficit. We currently expect to end 2018-19 with net assets of $1,637.7 M, and so are projecting a fall to almost $1,604 M by the end of 2019-20. Most of this net value is from the GN's tangible non-financial assets (such as hospitals and health centres, schools and tank farms), which means that while they make the GN's delivery of services possible, it would be difficult to realize this value through sale on an open market.

***Canadian Fiscal Conditions**: Several provinces saw their fiscal conditions improve in 2018-19, largely on the back of strong national economic growth and healthy revenue gains. Quebec and Ontario saw strong manufacturing investment in 2018...*



...while BC's announcement of a $40 B LNG project is expected to assist provincial coffers there as well. Even in the Atlantic provinces, labour markets are tightening. Nevertheless, with a soft oil sector and considerable uncertainty regarding Canada's US and international trading partners, growth is likely to moderate in 2019. This will dampen government revenue prospects—though the arrival of the national $20/tonne of CO2e price on carbon will make additional revenues available to provincial and territorial governments. For the Federal government, it recently announced accelerated capital depreciation for businesses. With an election scheduled for Fall 2019, additional spending measures may follow.

Interest-to-Revenue Ratio (%) — 0.7%

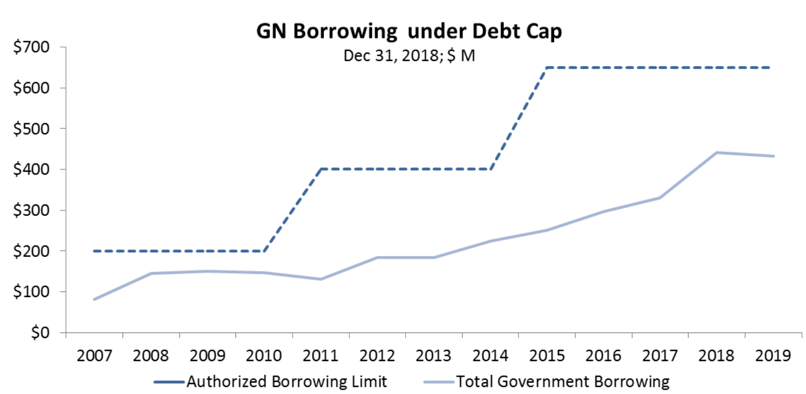
2019-20, Non-consolidated; GN Finance — *+0.2 p.p.*

The interest-to-revenue ratio, also known as 'interest bite', measures how much of GN revenues are taken up by servicing the government's non-consolidated (that is, not including QEC or the Iqaluit airport project) debt. The combination of legislated debt restrictions, a history of low borrowing levels, a relatively high level of tied or third-party funding, and still-low interest rates will keep Nunavut's ratio just under 1% (based on $14.7 M in spending on capital lease and mortgage interest), a 0.2 p.p. improvement from 2018-19. Federally, the latest figure is 8.5%.

Total Government Borrowing — $432.2

Dec 31, 2018; GN Finance — *-2.0%*

The Government of Canada limits how much debt the three territories can take on, including both actual borrowing and contingent liabilities. The GN's current borrowing limit is legislated at $650 M. As of December 31, 2018, total government borrowing was $432 M (equal to 13.9% of GDP), leaving $217.8 M in available borrowing room. The GN uses most of its borrowing room to guarantee loans and credit facilities extended to the Qulliq Energy Corporation (QEC, $185.4 M), the Iqaluit airport project ($155.7 M), and the Nunavut Housing Corporation ($9.1 M). The rest is made up of GN obligations related to capital leases ($77.4 M) and mortgages ($0.9 M), and the Nunavut Energy Management Program (NEMP, $3.7 M). Total borrowing is down slightly from March 31, 2018 (-2%).



The slight decrease in debt was driven by a $15.5 M decline in capital lease obligations—though most of this was offset by an additional $9.6 M in additional QEC borrowing. Going forward, the GN expects to spend $13.8 M on principal and interest repayments for capital leases and $0.9 M for mortgages in 2019-20. Another $1.7 M will be made in payments for the Iqaluit airport and $1.2 M for the NEMP. For comparison, federal debt is equal to roughly 30% of national GDP.

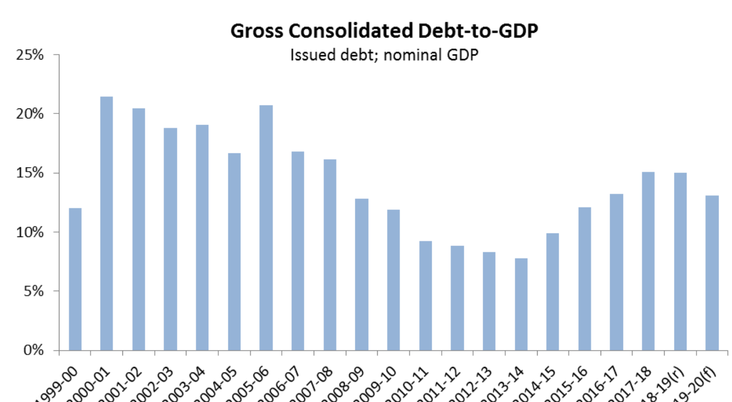
Credit Rating — AA low

Dec 2018; DBRS — *new rating*

A government's credit rating is an evaluation of its credit risk, or how likely it will be able to pay back its debt in the future. DBRS Canada now provides a yearly credit rating for the GN (and other governments within and outside of Canada). In December 2018 the GN was issued a AA low credit rating by DBRS. This high score reflects the GN's low risk of default. Assuming credit conditions do not change, the GN should expect to keep this rating as long as we maintain fiscal discipline. Nunavut's first credit rating was issued in August 2012 by Moody's; the rating they issued was Aa1.

Province/Territory	DBRS Credit Rating
BC	AA high
Saskatchewan	AA
Alberta	AA
Nunavut	AA low
NWT*	AA low
Ontario	AA low
Manitoba	A high
Quebec	A high
New Brunswick	A high
Nova Scotia	A high
PEI	A low
Newfoundland	A low
Yukon*	A low

*Issued by other rating agencies, but converted to DBRS-type scoring. $^{+}$ or $^{-}$ indicate change (including outlook) since previous *FEI*.



Key Economic Indicators

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

Nunavut's Economy

Nominal GDP — $3,431

2019 estimate; $ M (CBoC) — +10.2%

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 October, the Conference Board of Canada (CBoC) projected Nunavut's nominal GDP will reach $3.43 B in 2019, $319 M (+10%) higher than their forecast value for 2018. This growth—the highest rate among all provinces and territories—is being driven primarily by the mining sector. Gold production in particular will play a key part, as Agnico Eagle prepares to bring its Meliadine mine and its Amaruq satellite deposit into production. Sabina is also expected to continue work on its Back River project, though construction will not likely ramp up until 2020. Overall, the CBoC expects Nunavut gold production will more than double over the next two years. Iron ore production at Mary River also constitutes an upside risk, as the Federal government recently approved an increase in its annual allowable shipment volumes from 4.2 M to 6.0 M tonnes per year.

Real GDP — $2,571

2019 estimate; $ 2007 (CBoC) — +8.2%

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. The CBoC estimates that Nunavut's real GDP will grow by 8% (or $194 M) in 2019, coming in at roughly $2.6 B. Nunavut's long-term economic prospects are tied closely to the territory's vast mineral potential—and global commodity prices.

Real GDP Per Capita — $65,500

2019 estimate; $ 2007 (CBoC, GN) — +5.8%

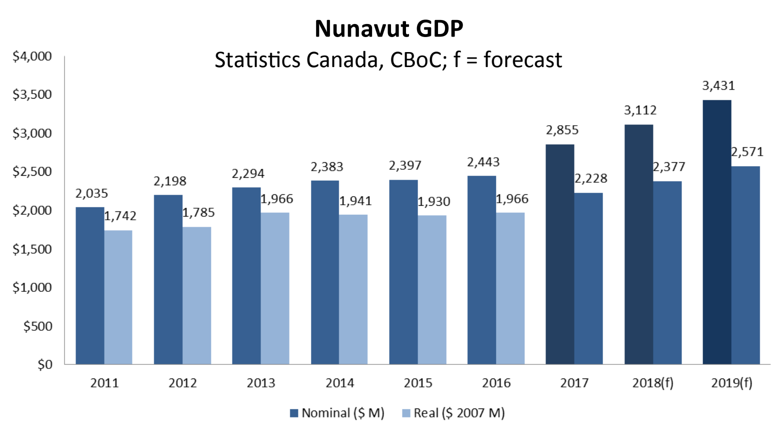
Real GDP per capita is calculated by dividing price-adjusted output by total population. We track output per person because average wealth is a useful guide to overall living standards (though it does not speak to how wealth is distributed amongst the population). It is also a good indication of whether economic growth is keeping pace with Nunavut's rapid population growth. Under current population and GDP forecasts, we expect real GDP per capita to rise by a healthy 6% in 2019.

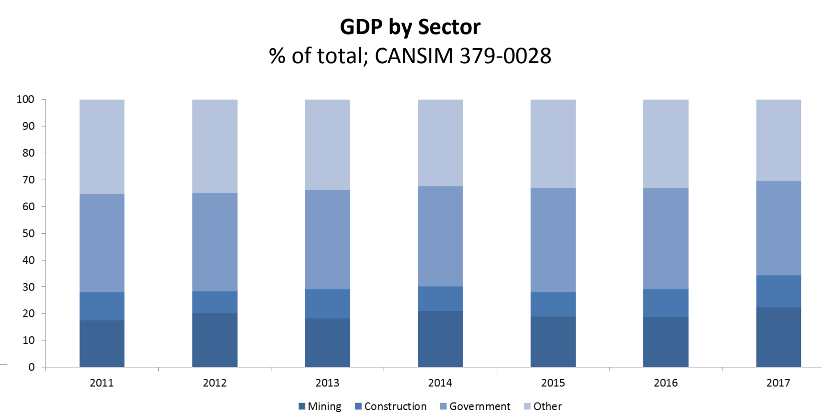
Government Share of GDP — 27.7%

2019 estimate; % share (CBoC) — -1.6 p.p.

Government share of GDP is the total economic activity of a government (incorporating the public administration, education, health care, and social assistance GDP sub-sectors) divided by the real GDP of the area it governs. The public sector plays a large role in Nunavut's economy: the CBoC expects it to account for just under 28% of all goods and services produced in 2019. Although this figure is about 2 p.p. lower than 2018's figure, Nunavut remains well above the national trend. The economic activity of the federal government, for example, generally constitutes less than 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.

***The Canadian Economy in 2019**: The International Monetary Fund (IMF) forecasts Canadian real GDP growth of 1.9% in 2019. This figure is 0.1 p.p. lower than their previous estimate—the second such revision in a row—suggesting a modest downgrade of the country's economic prospects. In general, commodity prices have remained unsteady (though gold is an important exception to this). Oil, for example, now trades at roughly $55, down from $61 in...*





...December 2017. This—alongside pipeline concerns—has soured investment prospects in the Canadian oil patch. Even so, both manufactured and commodity exports are expected to grow in 2019—provided international trade conflicts remain muted.

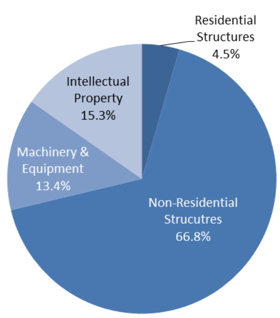
Business Investment in Capital $1,071.0

2017 ($ 2012); Statistics Canada CANSIM 384-0038 *+52.1%*

Business investment in capital refers to the total amount of private-sector capital investment in a given year. Firms invested $1.1 B in Nunavut in 2017 (the latest year with available data). Most of this went to large investments in non-residential structures (up 110%, to $711 M), machinery and equipment (up 54%, to $143 M), and intellectual property (down 19%, to $163 M), all driven in large part by the natural resources sector. TMAC, for example, invested heavily in its Hope Bay North gold mine, bringing it into production in 2017. Investment in residential structures declined slightly (down another 8% from 2016, to $48 M), worsening the territory's already tight housing supply. On top of this business investment, several large public projects were completed in 2017—including the $300 M Iqaluit Airport and $142 M Canadian High Arctic Research Station (CHARS) in Cambridge Bay.

Share of Business Investment in Nunavut, 2017

(Statistics Canada)



Labour and Income

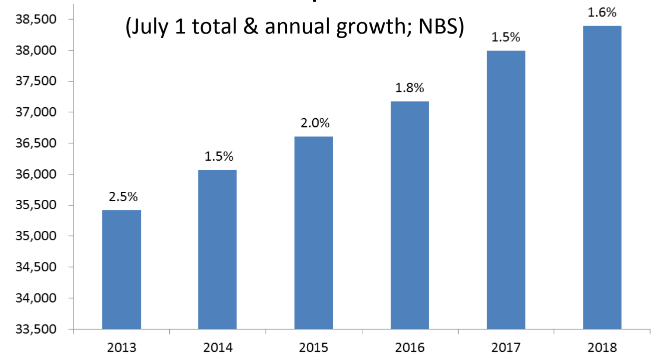
Population (July 1) 38,396

2018; Statistics Canada CANSIM 051-0001 *+2.2%*

We measure total population as of July 1 in a given year. Nunavut's population grew by an estimated 844 people between 2017 and 2018, due largely to high birth rates (Nunavummiut women have on average three children over their lifetime, the highest rate in Canada and almost double the national average) and healthy inter-provincial migration (+113 in preliminary 2018 data). Nunavut remains Canada's youngest region, with about half of residents under 26 (the national median age is 41) and almost a third—or 12,214 Nunavummiut—under 15. Looking ahead, we expect total population to reach 39,259 by July 2019, and for most of this growth to take place in Iqaluit, Arviat, and Rankin Inlet.

Nunavut Population

(July 1 total & annual growth; NBS)



Employment 13,500

2018; Statistics Canada CANSIM 282-0123 (LFS) *+0.7%*

Employment refers to the annual average of people holding a steady job. In 2018 there was an average of 13,500 people employed in Nunavut, 100 more than last year (+0.7%). This growth was slightly weaker than the national trend (+1.3%). Similarly disappointing is that Nunavut's employment rate (the share of population aged 15 and over who found at least some employment during the year) declined from 54.9% to 54.0% (nationally the rate is 61.6%). Looking at the latest figures from the Nunavut Bureau of Statistics (NBS), we find the net increase in employment went entirely to non-Inuit workers. NBS shows that while non-Inuit employment increased by 400 workers, Inuit employment actually declined—offsetting the majority of these gains. This has only worsened the gap between Inuit (44.8%) and non-Inuit (90.7%) employment rates. It also shows that while strong economic growth brings important benefits, it is only a partial solution to Nunavut's labour market participation problems.

Unemployment Rate 14.1%

2018; Statistics Canada CANSIM 282-0123 (LFS) *-0.5 p.p.*

The unemployment rate is the percentage of the labour force that is unemployed but still actively seeking employment. In 2018 Nunavut's unemployment rate was 14.1%, down 0.5 p.p. from 2017. While good news, Nunavut's labour force participation rate (the share of Nunavummiut aged 15 and over actively seeking employment) also fell by 1.4 p.p. in 2018 to 62.9%. This suggests the lower unemployment rate came not from new jobs but from jobless Nunavummiut giving up on the search for work.

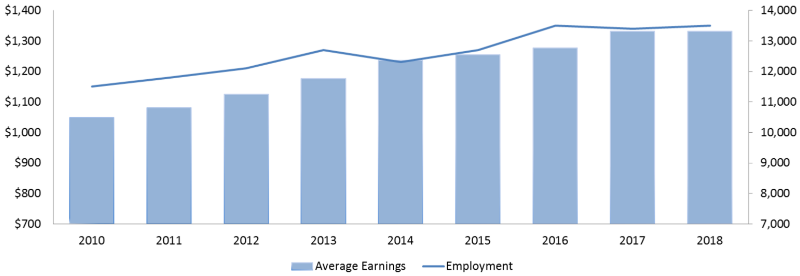
Average Weekly Earnings $1,381

2018 (Jan-Nov) Industrial Agg; CANSIM 281-0026 *+3.7%*

According to the latest figures, average weekly earnings in Nunavut increased by roughly $49 (+4%) in 2018. Average wages in goods-producing industries like construction grew strongly ($1,904/week, up 10.7% since 2017), widening the gap with workers in the services sector ($1,290/week, up just 1.3%). This fast wage growth was partially offset by higher inflation, meaning real earnings typically increased by only 0.7%. Wages in Nunavut remain well above the Canadian average of $1,000 per week. This +38.1% differential (up 1.5 p.p. from 2017) is the result of a growing economy, a shortage of skilled labour, and the high cost of living in the north.

Nunavut's Labour Market

Weekly $, annual avg; Statistics Canada & NBS



Total Income (tax filers) $1,095.4 M

2017 T1 Preliminary; GN Finance *+4.8%*

Total income comprises all income that tax filers in Nunavut report, including employment, social assistance, pensions, investments, and the profits of sole proprietorships and business partnerships. Tracking total income gives us a sense of how much money is flowing to Nunavummiut. After slow growth in 2016, total income rebounded with growth reaching almost 5% in 2017, according to the latest preliminary figures. As of December 2018, the CRA had processed 21,850 tax returns (+3.5% from 2016 tax year total) from Nunavummiut, who together report total income of about $1,095 M for 2017. We expect that this represents roughly 95% of all tax returns for 2017 and that once all late returns are filed total income will exceed $1.15 B.

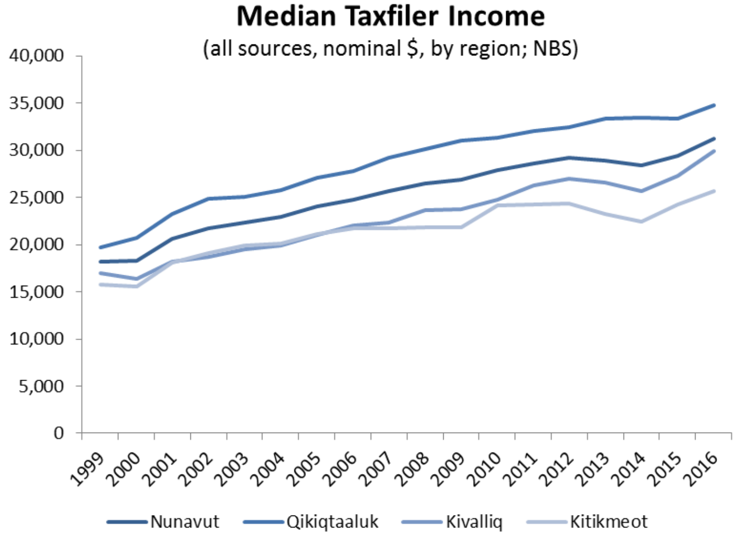
Median Income (tax filers) $31,270

2016 T1 Final; NBS, GN Finance *+6.2%*

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 strongly in 2016 to roughly $31,300 (+6% from the same period in 2015). With total income growing at a slower rate than the median, we can infer that income gains in 2016 went primarily to lower -income earners.

Median Taxfiler Income

(all sources, nominal $, by region; NBS)



Share of Total Income By Highest 10% 33.2%

2017 T1 Preliminary; GN Finance *- 0.2p.p.*

In 2017, the top 10% of income earners in Nunavut reported earning in excess of $124,999 each (up $672 from 2016). Together, these individuals reported earning roughly $363.8 M, which is one third of all income reported in the territory. This data shows that income in Nunavut is distributed highly unequally—a situation not entirely uncommon elsewhere 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 paid an estimated 50% of Nunavut's total assessed personal income taxes in 2017. Also, these figures do not include substantial non-income benefits for low earners, like subsidized public housing.

Low Income Families 3,600

2016, all types; NBS *-7.0%*

The Low Income Measure (LIM) is a relative measure of low income, set at 50% of adjusted median household income. The measure is categorized according to the number of persons present in the household: couple families, lone-parent families, and non-family persons. NBS publishes this measure at the community level. The most recent data is from 2016, which shows a 7% improvement in the number of families living below the low-income threshold. The total number of households in the territory is roughly 12,000.

Income Assistance Recipients 14,952

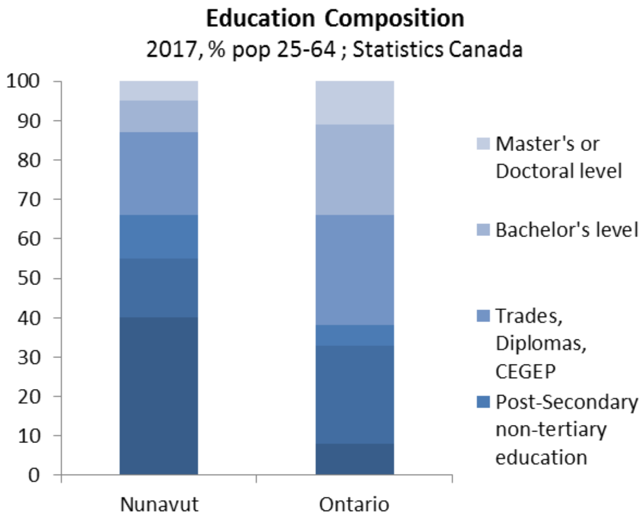
2017; GN Family Services *+4.3%*

Income assistance consists of a variety of benefit programs (including social assistance, the senior citizens supplementary benefit and fuel subsidy, daycare subsidy, and the Nunavut Child Benefit) that provide various levels of financial assistance to people aged 18 or over and their dependents. In 2017, the latest year available, almost 15,000 Nunavummiut in 6,438 households (roughly 40% of the territory's population, up 1.0 p.p. from 2016) received a payment through this program. Total payments equaled $42.3 M, with an average payment per family of $6,575 (up 21% from 2016).

High School Graduation Rate 48.5%

2017, Gross figure; NBS *+5.5 p.p.*

The high school graduation rate is calculated by dividing the number of high school graduates in a given year by the number of all students eligible to graduate. Low high school retention is one of the biggest challenges faced by the Nunavut economy. In the latest data available (2017), the share of 17-18 year-old Nunavummiut graduating from high school increased by 6 p.p. This improvement reflects a roughly equal cohort of graduation-aged students, but a large jump from 260 to 297 total graduates. Despite this progress, much work remains to be done. For comparison, the national high school completion rate is 88%.



Bank of Canada's Overnight Rate — 1.75%

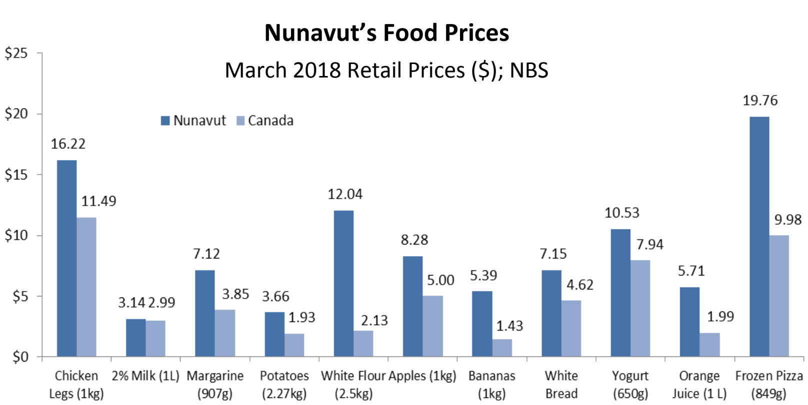
Jan 2019; Bank of Canada — *+0.5 p.p.*

The Bank of Canada's overnight rate is the rate at which it lends to large banks and other key financial institutions. It affects the interest rates for mortgages, lines of credit, and business loans. As the Canadian economy has picked up pace, so too has the Bank's willingness to raise interest rates in an effort to head off inflation. Already the overnight rate has increased from its very low level of 0.5% in early 2017 to 1.75% in October 2018. Provided trade relations with China and the US remain in good standing and exports stay healthy, we expect the Bank to consider further rate increases in the months ahead.

Consumer Price Index, Iqaluit — 129.2

2018 (2002 = 100), annual avg; CANSIM 326-0020 — *+3.0%*

The consumer price index (CPI) measures inflation, the change in price of a standard 'basket' of consumer goods and services over time. Prices grew at a faster pace in 2018, increasing by 3%—which was higher than the Canadian average of 2.3%. Since 2003, annual all-item CPI growth in Iqaluit has averaged 1.6% (against 1.8% nationally). As CPI data exists only for Iqaluit, we do not know how quickly prices are changing 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 — 174.1

2018; NBS, Statistics Canada CANSIM 326-0012 — *+1.8%*

The Nunavut food price basket, developed by the Nunavut Bureau of Statistics (NBS), measures the price of 24 select food items across the territory. 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. With the Nunavut food price basket, the prices of key goods in the territory can be compared with other jurisdictions. Despite lower fuel prices—making the transport of goods to the high arctic more affordable—and federal subsidies, the cost of basic necessities in Nunavut rose in 2018 by almost 2%. While this growth is comparable with in the rest of Canada, the price gap remains high: as an example, Nunavummiut pay roughly twice the Canadian average for apples and oranges, and three times the Canadian average for carrots and flour.

Average Monthly Rent, Iqaluit — $2,604

2017, Social housing excluded; CMHC — *+2.4%*

The Canada Mortgage Housing Corporation (CMHC) found that monthly average rent in Iqaluit—the only community in Nunavut with available data—rose 2.4% in 2017 to $2,604 (social housing excluded). Broken down by unit size, average rent was $2,272 for a one-bedroom, $2,648 for a two-bedroom, $3,062 for a three-bedroom, and $3,575 for a four-plus bedroom apartment. The total universe of rented units grew slightly, to 2,168 (up 1.5%). On the ownership side, Iqaluit's median residential sale price fell to $503,335 (down 9.3%), likely due in part to an increase in the number of condos sold: from 7 of 39 total residential sales in 2016 to 15 of 33 in 2017. Construction of new public units also drove an increase in the number of building permits for the first time since 2013 (61 permits granted in 2017 against 54 in 2016). Even so, a shortage of developed lots remains as a significant challenge to the Iqaluit housing market—though plans to extend the Road to Nowhere community should bring some relief to developers and home buyers in the medium term.

CAD-USD Exchange Rate — $0.77

2018; Bank of Canada (annual average) — —

The CAD-USD exchange rate is the amount in American dollars (USD) that a person can buy with one Canadian dollar (CAD). Exchange rates reflect trade and, just as importantly, volatile capital flows that seek out the best return from one country to the next. The CAD has in recent years closely tracked the price of oil, and as crude prices have stabilized, so too has the Canadian dollar. Higher interest rates should also prop up the dollar's value. Overall, the CAD averaged $0.77 USD in 2018, the same level as in 2017. A stronger Canadian dollar makes imports less expensive—adding to the international buying power of Nunavut consumers and producers—though it does make exports more expensive to foreign buyers.

__Commodity Prices__: 2018 was a year of modest recovery in the commodity sector. Oil was a particularly poor performer, as American supply growth surprised analysts and fully overcame OPEC production cuts. Alberta crude suffered from insufficient pipeline and railcar capacity, leading to a historic divergence between West Texas and Western Canadian oil prices. More broadly, modest prices mean exploration budgets for both senior and junior resource firms continue to shrink. Preliminary 2018 figures for Nunavut have mineral exploration spending falling by 35%, to $110.7 M. Data for 2017 tells the same story: while mineral claims and leases both climbed (to 3,699 and 487, respectively), the number of prospecting permits issued fell from 124 to 78 (-37%). Looking ahead, the World Bank forecasts a slight tightening of the global oil supply in 2019 ($74/barrel) and for metals to decline (gold -1% and iron -6%). Agricultural prices are expected to rise 2%, but to face higher energy costs.

Commodity Price Index: Metals & Minerals 592.7

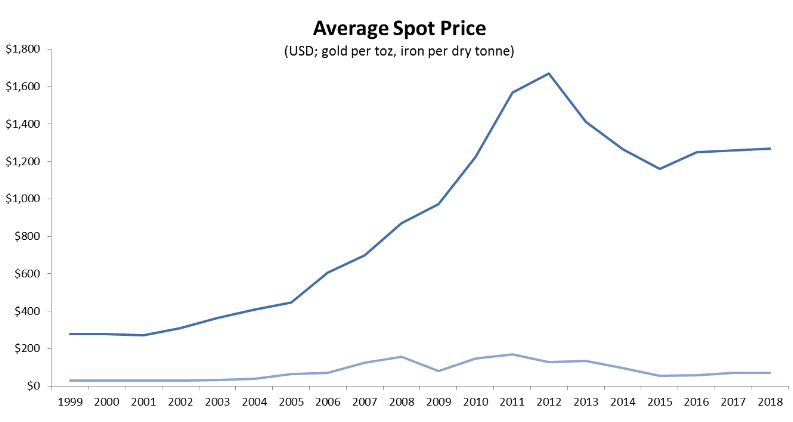
2018; Bank of Canada *+4.4%*

The Bank of Canada tracks the USD spot or transaction prices of 26 commodities produced in Canada and sold on world markets. The value of the Bank's Metals and Minerals Index increased 4% in 2018, continuing the upward trend started last year. The energy sector also grew in 2018, albeit at a more modest year-over-year pace (+11%). This is good news for Canada's commodity sector, but caution is warranted. The commodity recovery is likely to continue in the medium term—provided geopolitical instability does not upset the still-fragile global economy.

Total Mineral Production $844.4

2017 preliminary ($ M); Natural Resources Canada *+20.6%*

Total mineral production is the total value generated by mineral extraction in Nunavut in a given year. The 2017 preliminary value was $844.4 M, up 21% from 2016. Of this, $594 M came from gold production (11,232 kilograms produced, up 18%) and $249.8 M from iron (2,647 tonnes produced). Across Canada total mineral production grew significantly as well, up 11.4% in value to $43.9 B (giving Nunavut a 1.9% national share). The growth in Nunavut reflects the new production from TMAC's Hope Bay gold mine, as well as strong results from AEM's Meadowbank gold and Baffinland's Mary River iron mines.



Gold Price $1,269.2 USD

2018; USD/troy oz (IndexMundi) *+0.9%*

The price of gold averaged $1,269 US per troy ounce in 2018, roughly level with 2017. Recent months have seen gold trade even higher, at $1,331. The precious metal is currently mined in Nunavut at AEM's Meadowbank and TMAC's Hope Bay, with further potential near-term projects at AEM's Meliadine and Sabina's Back River. Over the last five years the price of gold has remained remarkably stable, a key reason for the strong growth from Nunavut's gold producers.

Iron Ore Price $69.8 USD

2018; USD/dry ton (IndexMundi) *-2.8%*

The price of iron ore averaged $69.8 per dry ton in 2018, a 3% decrease from 2017—but higher than many analysts predicted. China's slowing economy signals iron demand may slacken in 2019, as the country requires less steel for its export factories and domestic construction demands. On the supply side, producers have begun to cut back their ambitious expansion plans. Even more disruptive was a catastrophic dam failure at a key Brazilian mine that caused significant loss of life and a massive fall in production. Where prices stabilize will help determine how aggressively Baffinland expands production at its Mary River mine. The company has already made application to increase production to 12 M tonnes per year and to construct a railway to Milne Inlet, though final decisions will ultimately depend on both federal approval and market forces.

Uranium Price $24.6 USD

2018; USD/pound (Cameco) *+12.5%*

After several years of low prices, uranium finally staged a rebound in 2018. This was driven partly by demand—some fifty five new nuclear generators are currently under construction, with China alone accounting for 17—but primarily from shrinking supply. Low prices led to the Kazakh firm Kazatomprom announced it would reduce output by 20%. The Canadian firm Cameco has similarly announced slowing production. Despite these more favourable price conditions, uranium development in Nunavut remains at the exploratory stage. In 2015 the mining firm Areva (now known as Orano) stated that prices for the commodity were so low that it could be up to two decades before its Kiggavik property in the Kivalliq region becomes viable.

Diamond Price 101.5

2018; FRED Export Price (Dec 2013 = 100) *+0.5%*

Diamond prices gained slightly in 2018, up a half percent according to the US Federal Reserve's index of export prices. Looking ahead, the expected closure of Australia's biggest diamond mine, Argyle, could cut global supply by 10%. Slower production at NWT's Ekati and Diavik mines may also place upward pressure on prices. In September 2018, De Beers Group bought Peregrine Diamonds for $107 M, suggesting interest in developing the junior firm's high quality Chidliak project near Iqaluit.

Key Fiscal Indicators

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	*2018-19(r)*	*2019-20(f)*
Revenues				*($ M unless otherwise noted)*					
Federal Transfers	**1,363.1**	**1,465.2**	**1,576.6**	**1,618.2**	**1,659.7**	**1,694.3**	**1,846.9**	***1,969.9***	***1,938.1***
Territorial Formula Financing	1,175.3	1,273.5	1,350.4	1,409.1	1,454.2	1,488.6	1,529.9	*1,578.8*	*1,641.7*
Transfers Under Third-Party Funding Arrangements*	111.5	112.1	138.7	126.8	122.2	125.8	148.5	*298.4*	*200.6*
Other Federal Transfers	76.3	79.6	87.5	82.3	83.3	79.9	168.5	*92.7*	*95.8*
Own-Source Revenues	**150.0**	**154.8**	**177.7**	**177.1**	**202.2**	**218.6**	**252.7**	***228.6***	***224.0***
Taxes	77.8	84.2	92.4	96.4	107.8	107.5	115.2	*132.1*	*135.9*
Revolving Funds (Net CoGS)	27.0	20.1	25.3	26.3	33.1	52.8	39.2	*35.0*	*30.5*
Other Own-Source	34.2	37.2	50.6	41.5	45.4	43.5	87.7	*48.5*	*44.6*
Recovery of Prior Years' Expenditures	11.1	13.3	9.3	12.8	15.9	14.8	10.6	*13.0*	*13.0*
Total Revenues	**1,513.1**	**1,620.1**	**1,754.2**	**1,795.3**	**1,862.0**	**1,912.9**	**2,099.6**	***2,198.5***	***2,162.1***
Share of Federal Transfers (%)	82.7	83.5	82.0	83.1	82.6	82.0	80.9	*76.0*	*80.4*
Tax-to-GDP Ratio (%)	3.8	3.8	4.0	4.0	4.5	4.4	4.0	*4.2*	*4.0*
Expenditures									
O&M	1,202.0	1,273.2	1,349.5	1,397.2	1,481.6	1,547.9	1,632.6	*1,666.7*	*1,735.5*
Capital	128.4	90.9	183.6	231.4	223.9	221.5	301.4	*323.0*	*177.5*
Departmental Expenditures	**1,330.4**	**1,364.1**	**1,533.1**	**1,628.5**	**1,705.5**	**1,769.4**	**1,922.7**	***1,989.6***	***1,913.0***
Net Transfer to Capital Assets	-9.2	-8.9	-79.6	-99.0	-88.4	-66.1	-123.0	*-49.7*	*12.3*
Expenses for Revolving Funds & Other	25.5	33.5	28.0	27.1	30.4	31.8	45.5	*35.2*	*40.2*
Expenses Related to Third-Party Agreements	111.5	109.3	124.0	129.8	115.4	120.0	131.9	*298.3*	*200.6*
Supplementary Requirements & Contingencies	0	0	0	0	0	0	0	*30.0*	*30*
Total Projected Expenses	**1,458.2**	**1,498.0**	**1,605.5**	**1,686.4**	**1,763.0**	**1,855.1**	**1,977.0**	***2,303.6***	***2,196.1***
Yearly Surplus (Deficit), Public Accounts Basis	**54.9**	**122.1**	**148.7**	**108.9**	**99.0**	**57.8**	**122.6**	***-105.1***	***-34.0***
Expenditures / person ($)	42,642	43,161	45,335	46,757	48,158	49,900	52,032	*59,996*	*55,939*
Expenditures / GDP (%)	71.7	68.2	70.0	70.8	73.5	75.9	69.3	*74.0*	*64.0*
Capital spending as share of total (%)	8.8	6.1	11.4	13.7	12.7	11.9	15.2	*14.0*	*8.1*
Health spending as share of total (%)**	22.8	24.2	20.6	21.0	20.7	20.6	21.3	*18.3*	*21.2*
Education spending as share of total (%)	15.8	16.2	12.9	12.7	12.9	12.9	13.0	*11.5*	*10.7*
Projected Surplus / GDP (%)	2.7	5.6	6.5	4.6	4.1	2.4	4.3	*-3.4*	*-1.0*
Net Financial Assets (end of year)	21.9	215.3	275.8	295.4	303.5	297.4	294.2	*79.3*	*29.8*
Net Financial Assets (end of year) / GDP (%)	1.1	9.8	12.0	12.4	12.7	12.2	10.3	*2.5*	*0.9*
Interest Costs / Total Revenues (%)***	0.3	0.3	0.2	0.2	0.2	0.2	0.2	-	-
Government Borrowing	182.2	187.1	225.0	250.8	301.1	331.2	440.9	432.2	-
Credit Rating	-	-	Aa1	Aa1	Aa1	Aa1	Aa1	Aa low	-

Notes: *The GN receives a small share of third-party revenues (1.2% in 2017-18) from parties other than the Government of Canada. While we report these non-federal amounts separately in the year-end financial statements, we combine them here for budgeting presentation purposes. **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 with 2012-13 and earlier. Numbers in italics indicate forecast; empty cells indicate no data or forecast for that year. **Note that the interest figure in the main text includes principal repayments. Interest-only figures are not broken out in the Main Estimates, though they are reported in the Public Accounts at year end.

Key Economic Indicators

	2011	2012	2013	2014	2015	2016	2017	2018	*2019(f)*
Gross Domestic Product									
Nominal GDP (expenditure-based, $ M)	2,035	2,198	2,294	2,383	2,397	2,443	2,855	3,112	*3,431*
Real GDP (basic prices, $ 2007 M)	1,742	1,785	1,966	1,941	1,930	1,966	2,228	2,377	*2,571*
Real GDP per person (basic prices, $ 2007)	51,029	51,402	57,215	53,816	52,721	52,882	56,831	61,910	*65,500*
Government Share of GDP (actual, %)	35.7	35.3	32.5	33.8	34.9	34.9	31.5	29.3	*27.7*
Business Investment in Capital ($ 2012)	857	738	1,013	668	687	704	1,071	-	-
Population & Labour									
Population, July 1 (# of people)	34,196	34,707	35,414	36,067	36,608	37,177	37,996	38,396	*39,259*
Employment (# of people employed)	11,800	12,100	12,700	12,300	12,700	13,500	13,400	13,500	-
Unemployment Rate (%)	17.1	15.6	14.0	13.8	15.9	14.9	14.6	14.1	-
Employment rate (% of people aged 15+)	54.8	54.8	56.5	53.1	53.2	55.9	54.9	54.0	-
Participation Rate (%)	66.1	65.0	65.8	61.5	63.2	65.6	64.3	62.9	-
Average Weekly Earnings ($)	1,081	1,125	1,177	1,237	1,256	1,277	1,332	1,381	-
Total Income (taxfiler, $ M)	934.7	974.4	1,020.6	989.3	1,040.1	1,045.5	1,095.4	-	-
Median Total Income (taxfiler, $)	28,580	29,220	28,910	28,410	29,450	31,270	-	-	-
Share of Total Income by Top 10% (%)	33.5	33.7	34.7	34.0	34.0	33.4	33.2	-	-
Income Assistance Recipients	13,197	13,797	14,578	-	14,428	14,337	14,952	-	-
High School Gross Graduation Rate (%)	33.9	36.6	32.1	35.3	32.8	43.0	48.5	-	-
Monetary Trends									
Bank of Canada Overnight Interest Rate (%)	0.9	0.9	0.9	0.9	0.6	0.5	0.7	1.75	-
Consumer Price Index, Iqaluit (2002=100)	113.4	115.3	116.6	118.1	120.4	123.4	125.4	129.2	-
Nunavut Food Price Basket (24 items)	-	-	155.7	157.4	165.3	172.9	171.0	174.1	-
Average Monthly Rent, Iqaluit (Excl. Social)	2,324	2,335	2,417	2,462	2,511	2,542	2,604	-	-
CAD-USD Exchange Rate	1.01	1.00	0.97	0.91	0.78	0.75	0.77	0.77	-
Commodities								-	-
Bank of Canada Metals & Minerals Index	787.3	756.6	633.2	600.6	535.1	503.9	560.6	592.7	-
Total Mineral Production ($'000s)	427,322	614,441	629,041	636,424	644,165	700,094	844,426	-	-
Gold Price (*USD/troy oz; annual avg)*	1,569	1,669	1,411	1,266	1,160	1,249	1,258	1,269	-
Iron Price (*CFR Tianjin port; USD/dry ton; annual avg)*	168	129	135	97	56	59	72	70	-
Uranium Price (*USD/pound; annual avg)*	56	49	39	33	37	26	22	25	-
FRED Diamond Export Price Index (*Dec 2013 = 100)*	-	-	100.0	108.4	106.1	105.0	100.1	101.5	-