



FISCAL AND ECONOMIC OUTLOOK



DEPARTMENT OF FINANCE
GOVERNMENT OF NUNAVUT

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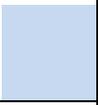


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1 Fiscal Outlook

Highlights

- The Government of Nunavut (GN) is investing widely to support the priorities set out in *Tamapta*, the Government's long-term vision for Nunavut. Investments in education, social assistance and health emphasize the Government's focus on Nunavummiut.
- The GN expects revenues of \$1,355.9 million in 2011-12, up \$89.2 million or 7.0%, from 2010-11. The GN anticipates total expenditures of \$1,316.9 million for 2011-12, down \$33.7 million or 2.5% from the previous year. Setting aside \$89 million for contingencies and other supplementary requirements, the GN will run a deficit of \$50 million in 2011-12.
- The GN will need to make careful spending decisions in the years to come, as deficits are not sustainable over time. The GN's fiscal sustainability will require continued monitoring, difficult trade-offs among competing priorities, and creative solutions.

Fiscal Position

The GN's fiscal position remains stable, though continues to depend heavily on federal funding. The GN expects to receive \$1,258 million through federal transfers in 2011-12, over ten times the \$97.9 million we plan to collect from own-source revenues. With expected total revenues of \$1,355.9 million, the GN can fully cover its planned operations expenses of \$1,316.9 million, leaving almost \$39 million in surplus. The GN has chosen to set aside \$89 million for contingencies and other supplementary requirements, including \$24 million to complete the Affordable Housing Initiative, leaving an adjusted budgetary deficit of \$50 million for 2011-12 (Figure 1-1).

The GN may not realize this deficit in its entirety, as it may not use its full contingency fund nor make all of its planned expenditures. As capital projects tend to extend over one fiscal year, capital spending approved in past or present years may carry forward to future years as projects develop. The GN's planned deficits, even when they have occurred, have been a function of cash-flow, and the GN normally operates with enough cash on hand to avoid any long-term gaps in its current accounts.

*The Department of Finance intends the **Fiscal Outlook** to summarize the GN's overall fiscal situation at a high (non-technical) level. While the information here is based on the 2011-12 Main Estimates, the two documents occasionally present information differently. For example, the Fiscal Outlook calculates revenues and expenditures exclusive of vote 4-5 transactions and revolving funds, while the Main Estimates include these transactions to be consistent with reporting in the Public Accounts. Although the two documents do not mirror each other exactly, they are consistent.*

Figure 1-1: Fiscal Position

Millions of current dollars

	Main Estimates 2011-12	Revised Estimates 2010-11 ¹	Main Estimates 2010-11	Revised Estimates 2009-10
Revenues	1,355.9	1,266.7	1,256.2	1,202.9
Expenditures	1,316.9	1,350.6	1,201.2	1,211.4
Budgetary Surplus (Deficit)	39.0	(83.9)	55.0	(8.4)
Supplementary Requirements ²	(89.0)	(48.3)	(55.4)	
Adjusted Budgetary Surplus (Deficit)	(50.0)	(132.2)	(0.4)	(8.4)
Net Carryover of Capital Expenditure	(38.4)	38.4	(73.4)	96.6
Appropriation Lapses (Deficits)	-	3.0	-	12.4
Accounting Surplus (Deficit)	(88.4)	(90.8)	(73.8)	(100.6)

1. Includes capital carryovers and revisions up to 2010-11 Supplementary Appropriations #3 (all tables).

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

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

Source: GN Finance (2011-12 Main Estimates)

Revenues

Based on December 2010 projections, and excluding revolving funds and certain dedicated federal funds that do not flow into general revenue, the GN anticipates total revenues of \$1,355.9 million in 2011-12, up \$89.2 million or 7.0%, from 2010-11. The GN obtains the majority of these revenues from major, long-term federal transfers. The GN's own tax receipts, other own-source revenue streams, and supplementary federal funds provide the balance of the GN's revenues (Figure 1-2).

Figure 1-2: Summary of Revenues

Millions of current dollars

	Main Estimates 2011-12	Revised Estimates 2010-11 ¹	Main Estimates 2010-11	Revised Estimates 2009-10
Federal-Source Revenues	1,258.0	1,171.3	1,167.2	1,096.3
• Territorial Formula Financing	1,175.3	1,090.6	1,090.6	1,022.1
• Other Federal Funds	82.7	80.7	76.6	74.2
Own-Source Revenues	97.9	95.4	89.0	106.6
• Tax Receipts	63.0	58.8	54.8	63.2
• Other Own-Source Revenues	34.9	36.6	34.2	43.4
Total Revenues	1,355.9	1,266.7	1,256.2	1,202.9

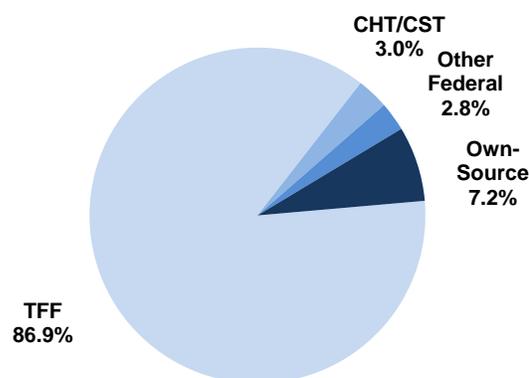
Excludes revolving funds and vote-5 revenues. Totals may not add due to rounding.

Source: GN Finance (2011-12 Main Estimates)

Federal-Source Revenues

In 2011-12, transfers and other funds from the federal government will make up over 90% of the GN's total revenues. By far the largest federal source of revenue is Territorial Formula Financing (TFF), the territorial counterpart to provincial Equalization. In 2011-12, TFF alone will account for 86.9% of the GN's total revenues. The other major federal transfers, the Canada Health Transfer (CHT) and the Canada Social Transfer (CST), add another 3.0%. These three federal transfers form the core elements of the long-term, legislated fiscal relationship between the GN and the federal government (Figures 1-3 and 1-4).

Figure 1-3: Revenue Sources, 2011-12



Source: GN Finance (2011-12 Main Estimates)

Shorter-term federal programs and one-time grants provide the GN with important but fluctuating sources of additional funds. The GN also administers dedicated funds that the federal government allocates to Nunavut for specific purposes but which remain segregated from the GN's general revenue.

Figure 1-4: Summary of Federal-Source Revenues

Millions of current dollars

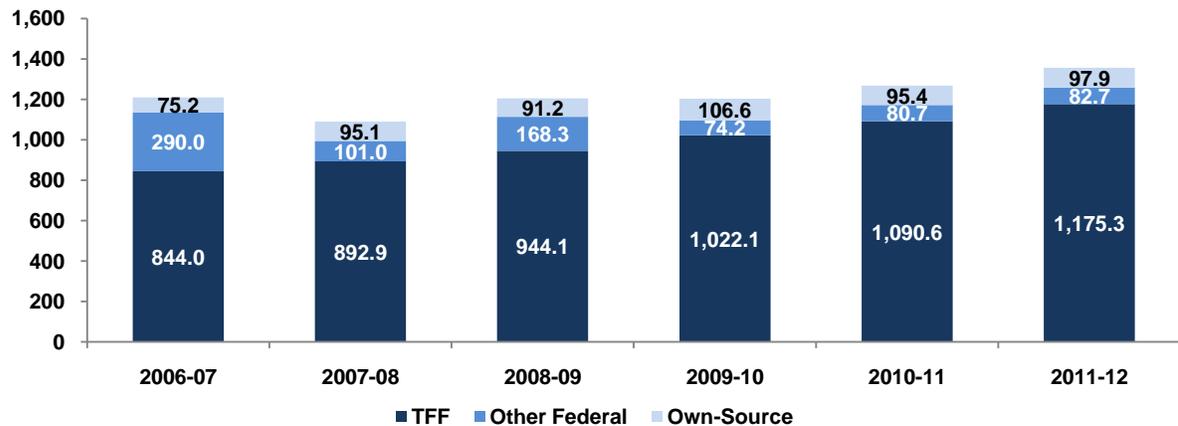
	Main Estimates 2011-12	Revised Estimates 2010-11	Main Estimates 2010-11	Revised Estimates 2009-10
Major Federal Transfers				
• Territorial Formula Financing (TFF)	1,175.3	1,090.6	1,090.6	1,022.1
• Canada Health Transfer (CHT)	30.0	28.0	28.0	27.2
• Canada Social Transfer (CST)	11.2	10.7	10.7	10.6
Other Federal Funds	41.5	42.0	37.9	36.4
Total Federal-Source Revenues	1,258.0	1,171.3	1,167.2	1,096.3

Excludes vote-5 revenues. Totals may not add due to rounding.
Source: GN Finance (2011-12 Main Estimates)

The GN's fiscal reliance on the federal government is nothing new (Figure 1-5), but it is significantly greater than that of other Canadian jurisdictions—including the governments of the Northwest Territories and the Yukon, whose own TFF grants have contributed about 60 to 70% of total revenues on average.

Figure 1-5: Revenue History

Millions of current dollars



Source: GN Finance

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

Own-Source Revenues

The GN's own-source revenues flow mainly from taxes, but also from some miscellaneous income streams. Excluding revolving funds, the GN expects to take in \$97.9 million in own-source revenues, or 7.2% of total revenues, in 2011-12. This is \$2.5 million more than in 2010-11. (Figure 1-6).

Payroll tax, personal income tax, and tobacco tax account for most of the GN's tax receipts. Fuel tax, which the GN levies on fuel purchased in Nunavut or imported into the territory, is the only consumption tax for which the GN offers a rebate, applicable to taxes on fuel consumed for certain traditional activities, outfitting services, mineral exploration and mining. This rebate cost Nunavut taxpayers about \$4.7 million in 2009-10, and could

Revolving funds retain monies from one fiscal year to the next to finance a continuous cycle of operations. Normally, leftover funds appropriated for programs or services "lapse" at the end of a fiscal year, requiring reallocation through the budgetary process. This ensures the GN remains accountable to taxpayers, as every budget must be approved by the Legislative Assembly. Only a few revolving funds exist, including the Liquor Revolving Fund and the Petroleum Products Revolving Fund. These operate on a cost-recovery basis, and must pay back initial capitalization costs.

cost the same or more this year. This means the GN is rebating over half the total fuel-tax revenue collected, and the cost may increase in future years, especially if mining activity intensifies. The net value of the fuel tax is less than the value the GN records as revenue because of this rebate program.

Figure 1-6: Summary of Own-Source Revenues

Millions of current dollars

	Main Estimates 2011-12	Revised Estimates 2010-11	Main Estimates 2010-11	Revised Estimates 2009-10
Tax Receipts	63.0	58.8	54.8	63.2
• Personal Income Tax ¹	17.0	15.3	12.2	17.9
• Corporate Income Tax	7.5	6.5	6.4	5.2
• Fuel Tax (net of Fuel Tax Rebate)	3.1	3.1	5.4	7.7
• Property Tax	1.7	1.6	1.6	1.5
• Tobacco Tax	12.7	12.4	11.9	12.3
• Payroll Tax	20.3	19.2	17.0	17.6
• Insurance Taxes and Fees	0.7	0.7	0.3	0.9
Other Own-Source Revenues ²	34.9	36.6	34.2	43.4
Total Own-Source Revenues	97.9	95.4	89.0	106.6

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

2. Includes recovery of \$14.8 million of prior years' expenditures in 2009-10

Excludes revolving funds. Totals may not add due to rounding.

Source: GN Finance (2011-12 Main Estimates)

Expenditures

The GN has planned expenditures of \$1,316.9 million in 2011-12, down \$33.7 million from the revised spending figures for 2010-11 (Figure 1-7). The GN's expenditures divide into two main types: operational expenditures, including spending on all programs and services, and capital expenditures, representing investment in Nunavut's infrastructure.

Figure 1-7: Summary of Expenditures

Millions of current dollars

	Main Estimates 2011-12	Revised Estimates 2010-11	Main Estimates 2010-11	Actual Expenditures 2009-10
Operational Expenditures	1,194.4	1,111.9	1,089.9	1,079.7
Capital Expenditures	122.5	238.7	111.3	131.6
Total Expenditures	1,316.9	1,350.6	1,201.2	1,211.3

Excludes vote-4 expenditures. Totals may not add due to rounding.

Source: GN Finance (2011-12 Main Estimates)

Operational Expenditures

The GN has increased operational spending across departments, investing widely to support the priorities set out in *Tamapta*, the Government's long-term vision for Nunavut (Figures 1-8 and 1-9). The GN's 2011-12 operational expenditures, which include spending for all the GN's programs and services, will rise to \$1,194.4 million. This is \$82.5 million or 7.4% higher than last year's revised operations spending, and \$104.5 million or 9.6% higher than last year's spending as anticipated in the GN's 2010-11 main estimates. Operational spending includes funding for regular maintenance, and represents 90.7% of the GN's planned total expenditures in 2011-12, the same proportion the GN anticipated last year.

Figure 1-8: Operational Expenditures by GN Unit

Millions of current dollars

	Main Estimates 2011-12	Revised Estimates 2010-11	Main Estimates 2010-11	Actual Expenditures 2009-10
Legislative Assembly (LEG)	16.9	16.0	15.5	17.0
Executive and Intergovernmental Affairs (EIA)	20.0	17.6	18.1	14.4
Finance (FIN)	61.3	58.0	57.0	52.3
Human Resources (HR)	24.1	22.1	22.8	21.0
Justice (JUS)	88.4	78.2	78.1	74.1
Culture, Language, Elders and Youth (CLEY)	27.9	23.1	23.8	19.5
Education (EDU)	224.8	206.6	206.8	194.3
Health and Social Services (HSS)	297.0	292.9	264.4	290.0
Environment (ENV)	22.3	20.3	20.6	20.7
Community and Government Services (CGS)	184.7	167.7	172.6	169.5
Economic Development and Transportation (EDT)	58.4	52.7	53.3	56.5
Nunavut Housing Corporation (NHC)	143.8	133.1	132.6	128.5
Nunavut Arctic College (NAC)	24.9	23.5	24.2	21.9
Total Operational Expenditures	1,194.4	1,111.9	1,089.9	1,079.7

Totals may not add due to rounding.

Source: GN Finance (2011-12 Main Estimates)

Relative to last year's main estimates, the GN has allocated an additional \$18 million to the Department of Education, which accounts for about 19% of the GN's total new operations funding in 2011-12. Consistent with *Tamapta's* goal of providing Nunavummiut with improved learning opportunities, and recognizing the importance of providing Nunavut's children with a strong education foundation, the GN is focusing most of the new funding to support K-12 school operations. The GN is also supporting post-secondary education in Nunavut by making permanent the additional \$2.5 million provided to the Financial Assistance for Nunavut Students (FANS) program in 2010-11. Through the FANS program, the GN anticipates it will provide \$8 million in direct financial assistance to Nunavut's students for post-secondary education in 2011-12.

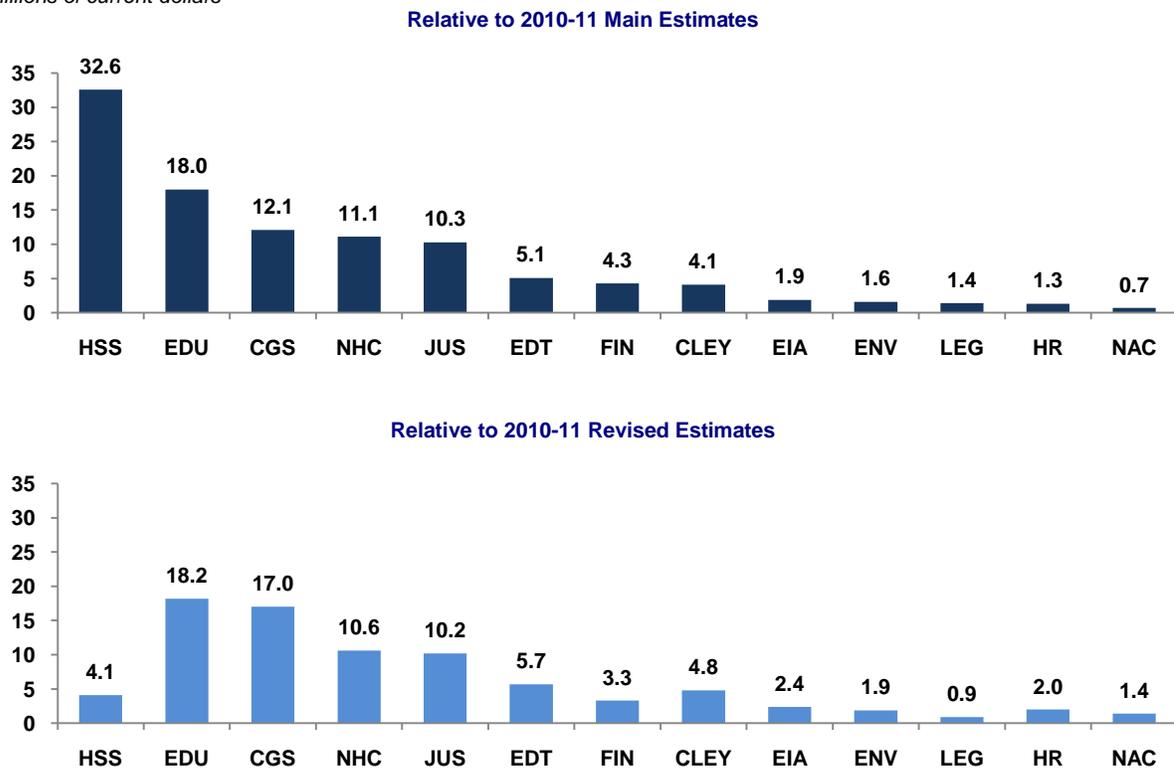
The GN is also working to help address poverty in the territory by providing an additional \$3 million in ongoing funding to the Department of Education so that it may increase the support it provides to Nunavummiut through social assistance. Increasing social assistance payments is an important way to help some of Nunavut's most disadvantaged citizens, but

it is not a solution to poverty—nor will it ever be. Poverty is a complex and multi-faceted issue, and requires much more than the GN simply increasing social assistance payments. While there is no single solution, fostering a healthy and productive economy in which Nunavummiut can actively participate is key to reducing poverty in the territory. In the mean time, the GN will continue to work with partners to find effective and creative ways to help Nunavummiut in need.

To this end, the GN is investing heavily in the health of Nunavummiut by providing the Department of Health and Social Services (HSS) with an additional \$32.6 million in 2011-12, about 12.3% more than allocated to the department through the 2010-11 Main Estimates. The GN is providing much of this increase—almost one-third of all new operations funding in 2011-12—in recognition that HSS regularly seeks significant supplementary appropriations to cover budget shortfalls. By providing the department with such a large funding increase through this year’s estimates process, the GN is significantly reducing the need for supplemental appropriations to the department in coming years.

Figure 1-9: Changes in Operational Spending by GN Unit

Millions of current dollars



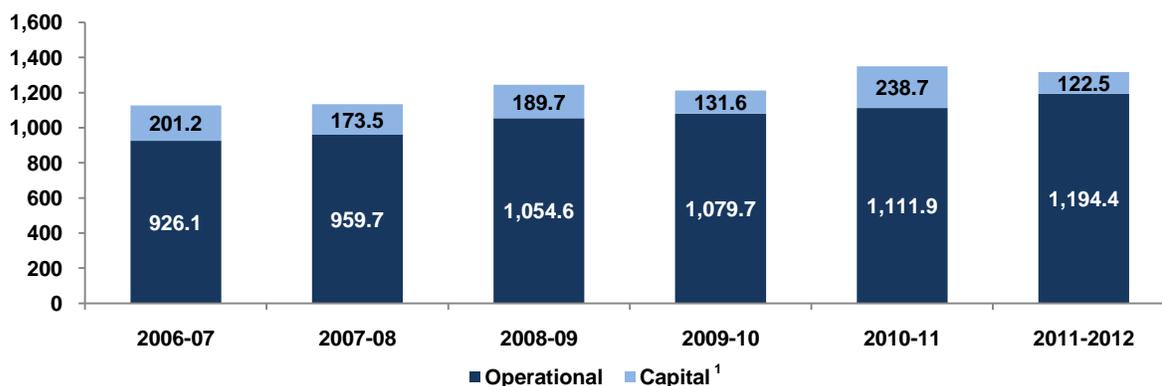
Source: GN Finance (2011-12 Main Estimates)

Capital Expenditures

The GN plans to invest \$160.9 million in capital in 2011-12. This includes \$122.5 million in new capital spending appropriated through the 2010-11 Capital Estimates and \$38.4 million of on-going, previously-approved capital investments. This level of investment is consistent with, but slightly less-than, recent spending, and makes up about 9.3% of total new operational and capital spending in 2011-12 (Figure 1-10).

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

Millions of current dollars



1. Net of carryover of capital expenditures.

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

The GN will invest in capital throughout Nunavut in 2011-12, including 12 major (total cost greater than \$5 million) projects representing almost half the value of this fiscal year's new capital investments (Figure 1-11). The GN's two largest capital projects in 2011-12 will each receive more than \$15 million this year, and include investments in Repulse Bay's health centre and improvements to Qikiqtani General Hospital in Iqaluit. Other notable capital activities this year include the completion of the school in Sanikiluaq and the wind down of funding for Rankin Inlet's \$40 million Correctional Centre.

Vote-4/5 monies are revenues (vote-5) and their associated expenditures (vote-4) that originate externally, usually with the federal government, and which remain segregated from the GN's general revenue. Unlike the major federal transfers, the federal government dedicates these funds to very specific purposes, particularly capital projects.

In addition to the GN's own investments in capital, the federal government will provide \$41.2 million in capital investments in 2011-12 through various infrastructure funding programs, such as the Building Canada Fund, the Infrastructure Base Fund, and the Gas Tax Fund. The GN should expect federal infrastructure funding to slow relative to recent years, as the Government of Canada has committed to withdraw its fiscal stimulus measures across the country. Federal funds come from a variety of sources, mostly special-purpose funds and one-time grants, and do not flow into the GN's general revenue.

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

Figure 1-11: Selected Major Capital Investments, 2011-12

Millions of current dollars

Project	Community	Total Project Investment to 2016				
		Prior	GN 2011-12	2012-16	Federal All	Total All
Correctional Centre	Rankin Inlet	36.5	3.1	0.5	-	40.1
Health Centre	Repulse Bay	1.9	15.6	9.0	-	26.6
School	Sanikiluaq	21.3	0.1	-	-	21.4
Renovations – Qikiqtani General Hospital	Iqaluit	3.0	15.4	-	-	18.4
Inuksuk High-School Renovations	Iqaluit	11.4	3.5	0.1	-	17.5
Peter Pitseolak School Addition	Cape Dorset	16.7	0.1	-	-	16.7
Fuel Storage Expansion and Code Upgrade	Rankin Inlet	10.9	3.0	-	-	14.0
Water System Upgrade	Kugluktuk	3.9	7.0	-	-	11.0
Nunavut Heritage Centre	Iqaluit	3.0	7.0	-	-	10.0
Arena	Resolute Bay	8.3	0.2	-	1.5	10.0
Community Hall	Igloolik	5.8	0.1	-	2.6	8.4
Equipment – Qikiqtani General Hospital	Iqaluit	4.6	2.5	-	-	7.1
Total Investment		127.3	57.6	9.6	4.1	201.2

Totals may not add due to rounding.

Source: GN Finance (2011-12 Capital Estimates)

Territorial Debt

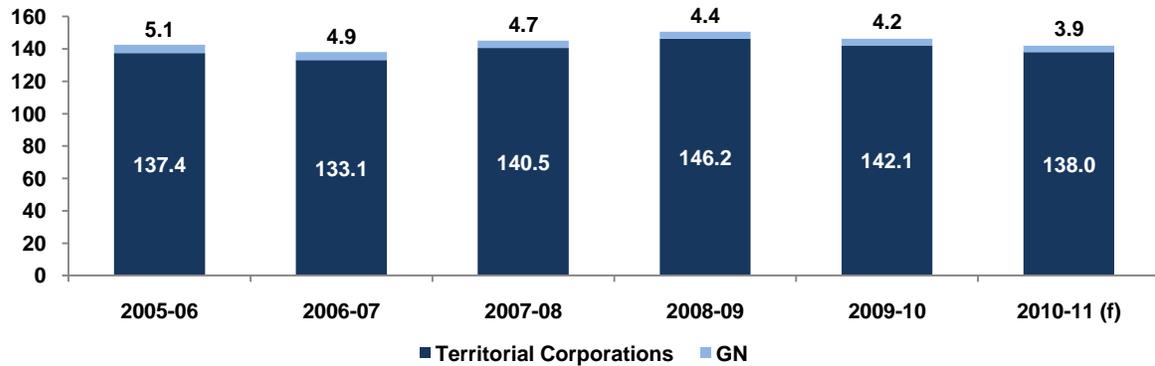
Pursuant to the *Nunavut Act*, the GN may borrow a maximum of \$200 million. The GN's overall debt totalled \$145.0 million as of December 31, 2010, of which \$4.0 million was directly attributable to the GN itself.

The remaining \$141.0 million represents the outstanding debt of the Territorial Corporations, in particular the Qulliq Energy Corporation (QEC), the Nunavut Housing Corporation and, to a smaller degree, the Nunavut Development Corporation. It also includes a GN-guaranteed credit facility of \$48.0 million for the QEC, of which the QEC has drawn down only \$35.9 million as of December 31, 2010.

The GN is currently able to service its debt obligations, and projects it will have retired an additional \$3.1 million of its debt by March 31, 2011, reducing its consolidated debt load to \$141.9 million, about 3.0% lower than at March 31, 2010. The GN has not materially added to its overall debt in recent years (Figure 1-12).

Figure 1-12: Borrowing History at Fiscal Year-End

Millions of current dollars



Includes full value of GN-guarantee for QEC credit facility. Forecast values for 2010-11 (fiscal year ending March 31, 2011).

Source: GN Finance

Fiscal Forecast

The GN will continue to rely on the federal government for the vast majority of its revenue in the coming years. While federal transfers have provided the GN with important and appreciated fiscal stability and flexibility, our continued dependence on federal funding means that the GN’s financial future is ultimately bound to decisions made in Ottawa. This understanding is particularly relevant as the GN and federal government begin to discuss the renewal of the major federal transfers, which are set to expire in 2014.

In *Tamapta*, the Government affirms the importance of fostering self-reliance among Nunavut’s communities through active, sustainable and productive economies. This affirmation is important and applicable to the territory as a whole: only by fostering private-sector growth and increasing own-source revenues can the GN begin to financially rely more on Nunavummiut and less on the federal government.

Revenue Forecast

Based on December 2010 projections the GN expects its revenues to grow steadily over the next few years, in line with the growth of the major federal transfers (Figure 1-13). Of these transfers, expected growth in TFF is by far the most important for the GN’s future fiscal path, given that it makes up such a significant proportion of total annual revenues. The GN also anticipates slightly higher own-source revenues as tax receipts increase. In forecasting a decline in other federal funds, which consist of short-term “boutique” programs and one-time grants, the GN conservatively assumes that the federal government will neither renew any funding that expires nor introduce any new funding programs. This assumption is particularly relevant given the federal government’s recent deficits and stretched fiscal position.

Figure 1-13: Revenue Forecast

Millions of current dollars

	Revised Estimates 2010-11	Main Estimates 2011-12	Forecast 2012-13	Forecast 2013-14
Federal-Source Revenues	1,171.3	1,258.0	1,312.5	1,388.8
· Territorial Formula Financing (TFF)	1,090.6	1,175.3	1,242.7	1,316.1
· Other Major Federal Transfers	80.7	82.7	69.8	72.7
Own-Source Revenues	95.4	97.9	101.7	106.3
· Tax Receipts	58.8	63.0	66.8	71.4
· Other Own-Source Revenues	36.6	34.9	34.9	34.9
Total Revenues	1,266.7	1,355.9	1,414.2	1,495.1

*Excludes revolving funds and vote-5 revenues. Totals may not add due to rounding.
Source: GN Finance (December 2010)*

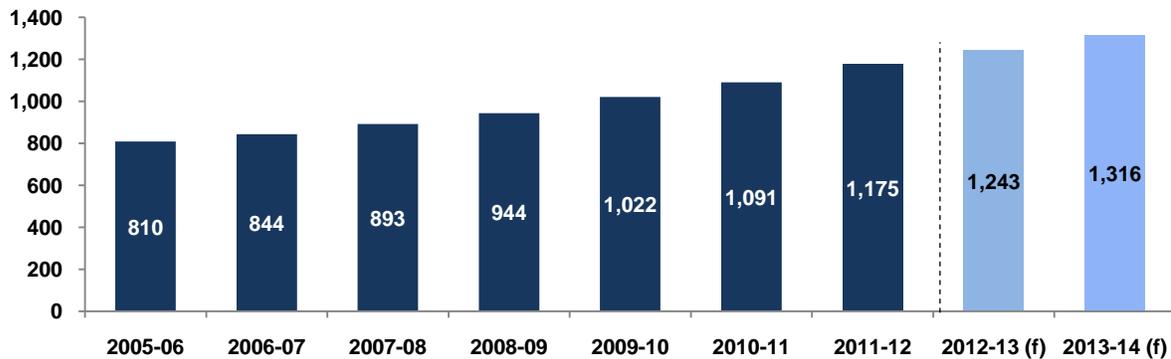
When preparing its forecasts, the GN assumes its fiscal arrangements with the federal government will remain materially unchanged. This assumption is reasonable for the current forecast period to 2013-14, but may not be appropriate for years beyond 2014, when the current arrangements expire. The GN's revenues could change significantly if the federal government, which legislates the fiscal relationship with the GN, modifies these arrangements—particularly the TFF—in any way. The GN Department of Finance periodically updates its forecasts throughout the year to reflect new data, modified assumptions and occasional changes to forecasting methods. As a result, the current forecasts of TFF payment amounts for 2012-13 and 2013-14—which were made in December 2010—will change somewhat over the year (Figure 1-14).

As noted in last year's Fiscal Outlook, there are negative aspects of relying so heavily on a single revenue source. In recent years, both as a result of and a response to the economic crisis, the federal government has taken on a significant deficit. If it is structural, as some speculated last year, the federal government will need to raise taxes or significantly reduce expenditures, or both, to balance its books. Based on the national experience in the mid-1990s, when the federal government significantly reduced transfers to the provinces and territories to help reduce its deficit, the GN should not assume that growth in federal transfers to Nunavut is guaranteed.

Fortunately, there are positive signs that the federal coffers can recover from their current position. As the national economy improves, tax revenues will rise and major expenses related to stabilizing programs such as employment insurance will fall. Canada has also committed to withdraw or wind down the fiscal stimulus programs it introduced during the aftermath of the 2008 financial crisis, which will also reduce overall spending. Despite these improvements, the federal government faces some challenging fiscal decisions in the years ahead if it intends to eliminate its deficit and, equally important, pay back the billions in debt it accumulated over recent years.

Figure 1-14: Historic and Projected Territorial Formula Financing (TFF)

Millions of current dollars



Source: GN Finance (December 2010 projections)

The federal government has been a stable partner for Nunavut, and committed last year to leaving transfers to territories intact. Still, the current TFF arrangement expires in 2014, and territorial governments are preparing to negotiate the renewal of the agreement over the coming years. Our provincial counterparts are preparing to do the same with respect to the provincial Equalization program.

Early discussions with our federal, provincial and territorial counterparts have been collegial, and the GN looks forward to engaging with them further as we move towards the next understanding of what it means to be part of the Canadian federation. While we anticipate discussions to be productive, we recognize the Government of Canada is facing its own fiscal challenges. Renewing the TFF and other major transfers in the current fiscal context faces more financial constraints than did the last round of discussions in the mid 2000s.

This is why renewal discussions should focus not on a dollar figure, but on understanding how to achieve what the TFF is intended to accomplish: providing the GN with enough funding to deliver the same type, scope and quality of public services that Nunavummiut deserve, at tax rates comparable to those facing other Canadians. As there is already a well-developed approach to defining and calculating comparable tax rates, we should now focus on understanding the other side of

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

the equation—how to consider and define what it means to deliver public services in Nunavut that are comparable in type, scope, and quality to those that other Canadians expect from their own provincial and territorial governments. This is an important but complex question, and there is no reason to expect the territorial and federal governments to arrive at a shared understanding quickly.

For this reason, and in keeping with the GN's emphasis on self-reliance, it is important the GN does what it can to reduce fiscal dependence on the federal government. For the GN to become more fiscally self-reliant, it must expand its own-source revenues, namely tax receipts. A tax system should be competitive to encourage economic growth across the economy. It should also be efficient, distorting market incentives as little as possible, and equitable, so that the taxpayers share the tax burden in a way that is not unjust to certain groups. With these principles in mind, the best way for the GN to increase its fiscal self-sufficiency is to help Nunavut's private-sector economy grow and diversify, rather than resorting to high tax-rates or taxing specific sectors. As the private sector grows, personal and corporate income tax, payroll tax and property tax will likely have the most potential as significant own-source revenue streams, even without any rise in tax-rates.

Corporate income tax (CIT) receipts in particular, running at about \$6 million to \$7 million per year, are currently quite low in comparison with other jurisdictions. In the Northwest Territories, for example, CIT has provided the government about \$55 million or 4.2% of total annual revenues on average in recent years. The potential for greater fiscal self-reliance that CIT offers the GN depends in part, however, on improving the rules by which national corporations must allocate their profits among Canadian provinces and territories. These rules have not materially changed in decades and do not reflect Nunavut's best interests, but Canadian governments agree they require reform. The GN is currently working with its federal, provincial and territorial counterparts to address these changes.

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

Expenditure Forecast

Based on the GN's current allocation of funds, total spending is set to decrease over the next few years. The decline results primarily from decreased spending on known capital projects between 2011-12 and 2012-13 (Figure 1-15).

Figure 1-15: Expenditure Forecast

Millions of current dollars

	Revised Estimates 2010-11	Main Estimates 2011-12	Forecast 2012-13	Forecast 2013-14
Operational Expenditures	1,111.9	1,194.4	1,202.7	1,210.9
Capital Expenditures	238.7	122.5	68.5	64.2
Total Expenditures	1,350.6	1,316.9	1,271.2	1,275.1

Excludes vote-4 expenditures, contingencies and pending appropriations.

Totals may not add due to rounding.

Source: GN Finance

The GN will continue to face large spending pressures, particularly for new capital projects across the territory. Although the GN has not yet allocated funds to these new (currently unknown) capital projects, there is still an acute and obvious need to continue to invest in Nunavut's infrastructure. Recognizing this need, the GN has prudently set aside financial resources to address new capital spending priorities as they arise in the years ahead. Although the GN will not likely plan any significant spikes in near-term capital spending, the GN has budgeted for overall capital investment to remain in the vicinity of \$100-120 million per year, which is consistent with the spending initially planned for 2010-11 and 2011-12.

At these planned levels of capital investment, the GN will not have much fiscal room in the years ahead. Unless the GN is able to notably decrease its program spending, or increase its own-source revenues, continued deficits are possible. However, deficits are not sustainable in the long-run. The GN should not rely on Ottawa to provide us with short-term "emergency" funding to cover these gaps. Although the current TFF arrangement does not adequately reflect the GN's true expenditure needs, the GN needs to discuss this important issue with the federal government in the context of the upcoming renewal of the fiscal transfers. Until this occurs, the GN will need to carefully consider the fiscal sustainability of its current spending patterns.

Fiscal Sustainability

The GN must also ensure its fiscal position remains sustainable in the long-run, beyond the planning horizon. To do so, the GN must carefully and continually monitor its spending, and needs to properly identify the programs and policies that act to shrink the GN's fiscal room over time, either by lowering revenues or increasing expenditures.

Fiscal sustainability emerges first and foremost as an issue in the context of entitlement policy. The GN manages a number of large entitlement programs, including social assistance, social housing, health care and medical travel.

The issue of fiscal sustainability also emerges when considering forced-growth spending unrelated to entitlements. Energy expenditures, and in particular energy subsidy programs, are a good example of forced-growth spending. As an example, the GN purchased 37% of the heating fuel sold in the territory in 2009-10, which is about the same share as it purchased between 2000 and 2006, according to *Ikummatiit*, the GN's 2007 energy strategy. Since 2000, however, the total volume of heating fuel sold in the territory has increased by about 3.5% each year, which means that—even without considering the substantial increases in fuel prices over this time—the cost to the GN is steadily rising.

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

These costs are not insignificant; in 2009-10, the GN spent about \$24.4 million on heating fuel alone. When other fuel types are considered, such as diesel, gasoline, and electricity generation, the GN's overall energy bill rises even higher. According to *Ikummatiit*, the GN spent approximately 20% of its annual budget on energy in 2005-06, the latest year for which full data is available.

Social Assistance and Social Housing

According to the 2010 Nunavut Housing Needs Survey, just over one half of Nunavummiut live in the territory's approximately 4,400 public housing units. According to the GN's 2011-14 Business Plans, the Nunavut Housing Corporation has budgeted \$87 million to support public housing in 2011-12. These costs have been increasing steadily, especially with the construction of additional social-housing stock (Figure 1-16). The average annual growth rate in the housing budget between 2005-06 and 2011-12 has been 11.9%, exceeding both the growth in TFF and the growth in total GN revenues during the same period.

Notably, these costs do not include the capital costs of the social-housing stock itself, merely the cost of administering the social-housing program. As the GN, with the help of the federal government, has moved to address Nunavut's acute housing problems by building stock, it may have begun to outstrip its capacity to carry its own social-housing program. These costs are also net of sizeable federal payments from the Canada Mortgage and Housing Corporation that offset the direct cost of the social-housing program—in other words, the actual cost of delivering public housing is even higher than what the GN pays for. Funding from CMHC is declining, and will eventually phase out completely.

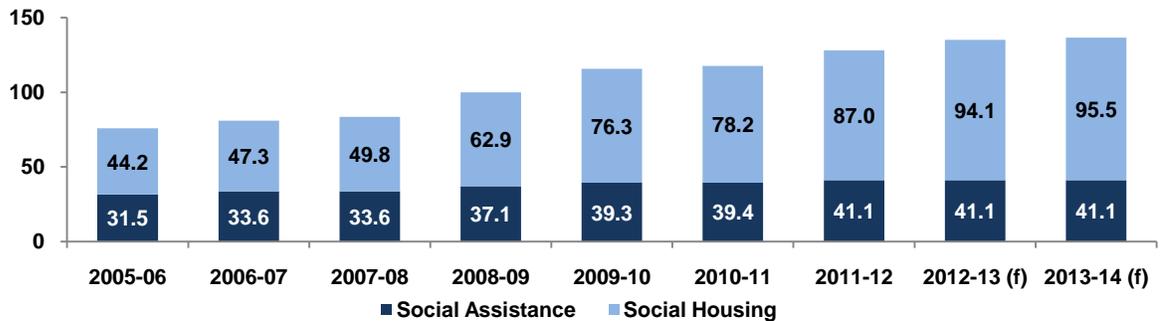
Despite the GN's substantial investments, Nunavummiut generally accept that the GN's social-housing stock is still inadequate. Based on the initial findings of the Nunavut Housing Needs Survey, almost two-thirds of the territory's public housing units are below

housing standards, which means the costs for deferred maintenance and repairs are substantial. More housing units are also required, as just over a third of all Nunavut homes—public housing or otherwise—are deemed overcrowded. Similarly, about 1,200 individuals are “homeless” – living temporarily in another person’s dwelling. With Nunavut’s quickly growing population, demographics alone will continue to pressure the GN to address the housing shortage.

Social assistance is also creating fiscal pressures for the GN. Roughly half of Nunavummiut qualify for social assistance (not necessarily the same half that qualify for social housing), either for its full benefits or to augment wage earnings. The government has allocated \$41.1 million in 2011-12 for the delivery of its various social assistance programs, though only a portion of this funding actually flows to the recipients, as some is used to administer the programs themselves. This represents a small jump from last year, as the Government has increased both the food and clothing allowances under the social assistance program, with changes effective in April 2011.

Figure 1-16: Budgeting History, Social Assistance and Social Housing

Millions of current dollars



1. Social Assistance total includes spending for related programs, such as day care subsidies and seniors’ supplements.
 2. Net of funding from the Canada Mortgage and Housing Corporation.

Source: GN Business Plans

Despite this recent increase, many argue that current social-assistance payments are not adequate to meet the needs of Nunavummiut, as the program’s regulated levels are not indexed to inflation or the cost of living. It is an open question whether or not the GN can afford to help improve Nunavut’s challenging social conditions further without significantly higher revenues and, if possible, more cost-effective programming.

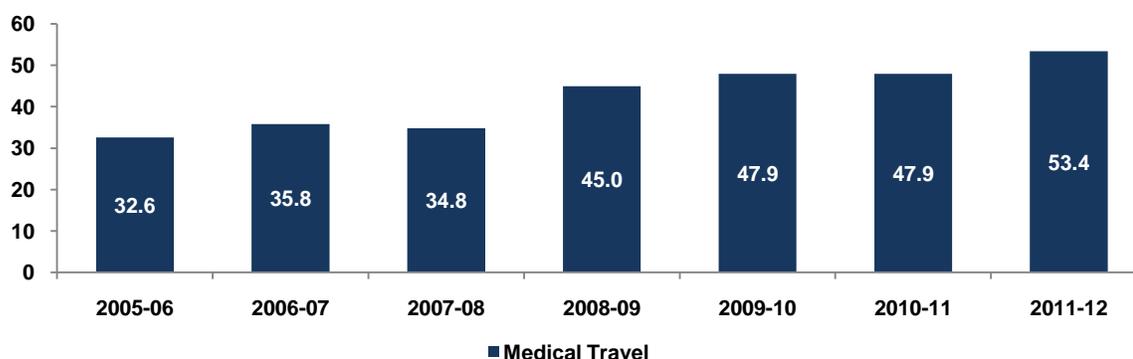
Nunavut as a territory will need to find solutions to address the pressures on social housing and social assistance that do not revolve around increasing spending. This will be challenging, particularly as the Government is committed to addressing poverty in the territory. This is a complex issue, and will rely to a large extent on solutions outside the GN. For example, there may be as yet untapped opportunities for the private sector to provide affordable housing to Nunavummiut in need.

Health Care and Medical Travel

In 2011-12, the GN plans to provide the Department of Health and Social Services with \$297 million, which is about one quarter of the GN's total operational spending. This amount is intended to cover health treatment within the territory and in other jurisdictions, social services, public health programs, and health insurance. It also includes \$53.4 million for medical travel services to transport Nunavummiut to medical facilities offering treatments unavailable in their home communities. As with social-housing costs, these costs have been rising in recent years, especially medical-travel costs (Figure 1-17).

Figure 1-17: Budgeting History, Medical Travel

Millions of current dollars



Source: GN Finance (2005-06 to 2011-14 Business Plans)

The annual growth in the cost of medical travel between 2005-06 and 2011-12 is 8.6%, again outstripping the growth in TFF and GN revenues in the same period. It has also far exceeded the growth in Nunavut's population.

Many factors have contributed to the outsized growth in health-care and medical-travel costs, not least of which is much-improved quality of care. This improvement, while very positive for Nunavummiut, is expensive, and has often involved treatment in southern jurisdictions where the latest equipment and techniques are available.

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

The GN has undertaken a number of internal reviews to address these issues. New health centres have opened or are slated to open in the regional centres of Rankin Inlet and

Cambridge Bay. As mentioned above, the GN’s two largest capital expenses this year—each more than \$15 million in 2011-12—are for the health centre in Repulse Bay and renovations to the Qikiqtani General Hospital in Iqaluit. Tele-health and electronic health record systems are beginning to improve service efficiency. Nevertheless, the delivery of proper health care in Nunavut will require further efficiencies, especially in respect of medical travel, or higher revenues to continue to maintain and improve the quality of medical care available to Nunavummiut, in Nunavut.

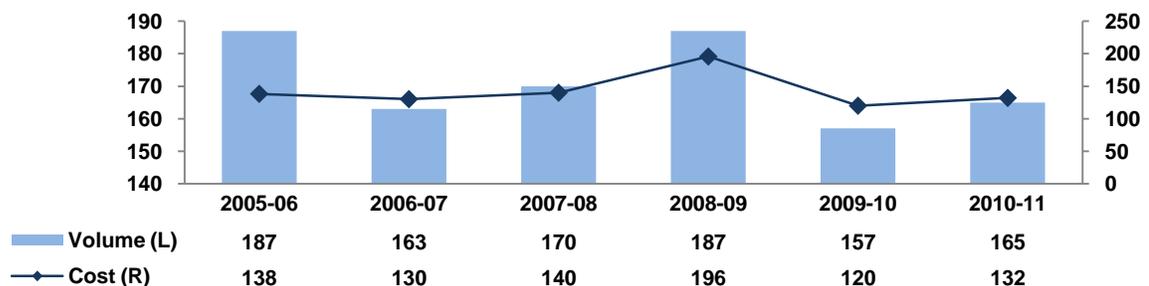
Energy Expenditures and Subsidies

Energy expenditures are a significant component of the GN’s annual operational spending. Not only does the GN consume energy in the course of its own operations, but it also purchases fuel for subsequent distribution and sale to businesses and consumers across the territory. Although Nunavut has potential for local energy generation, these local energy resources remain untapped. Nunavut also lacks regional electricity-transmission infrastructure. For these reasons, the territory depends on imported fossil-fuels to meet its energy needs. The GN transports these fuels to communities across Nunavut during the summer shipping season, where it stores them for re-sale.

The GN operates the distribution and sale of fuel on a cost-recovery basis, but the initial outlay is considerable. Total fuel-resupply costs have ranged between \$130 million and \$200 million in recent years. Lower global oil prices have mitigated costs somewhat. In 2010-11, the GN purchased about 166 million litres of fuel for \$132 million, at a cost of about \$0.80 per litre, which includes the cost of transportation (Figures 1-18 and 1-19).

Figure 1-18: Historic Fuel-Resupply Volumes and Costs

Millions of litres; millions of current dollars

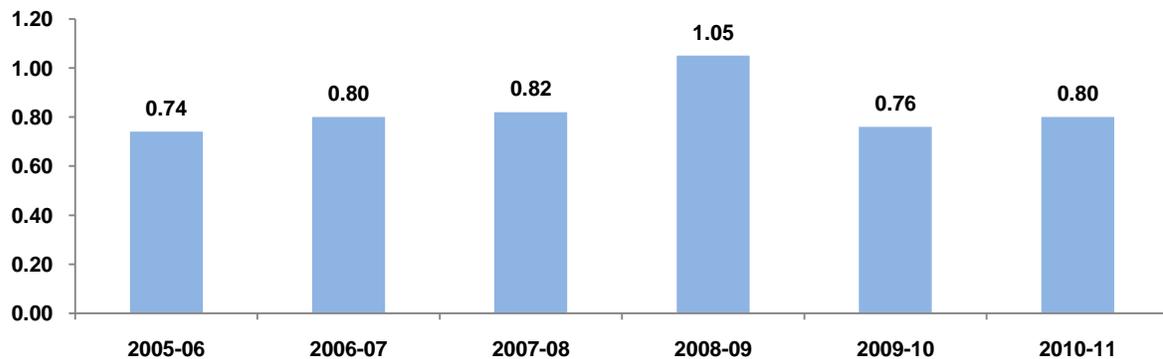


Source: GN Finance; GN Community and Government Services

Nevertheless, global oil prices, which the prices of derivative fuels such as diesel, gasoline and heating oil follow closely, could climb as the world economy ramps up following the recession. Such a rise in world prices could fiscally impact the GN, particularly a sharp increase like in 2008.

Figure 1-19: Fuel-Resupply Price History

Blended price per litre in current dollars



Source: GN Finance; GN Community and Government Services

The GN manages fuel costs through various purchasing arrangements, including pre-purchasing. While pre-purchasing is effective when fuel prices rise over time, it can be costly if fuel prices drop, and it carries the additional opportunity cost of committing funds up-front that the GN might use for other purposes. Pre-purchasing is also limited by available storage, transport, and the natural degradation or evaporation of the fuel.

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

In fact, the price of fuel is only one component of the overall cost of energy in Nunavut. High transportation and storage costs particular to Nunavut's non-integrated or "gridless" energy system, as well as older and less efficient generating plant, make energy more expensive in Nunavut than elsewhere in Canada. The GN provides a number of energy subsidies to help Nunavummiut who would be otherwise unable to heat and light their homes, to shield other residents from overly burdensome energy expenses, and to encourage business development in the territory.

Energy Subsidies

In 2011-12, the GN expects its territorial electricity subsidy to cost \$7.3 million, while energy subsidies flowing through entitlement programs such as social assistance and social housing may run close to \$40 million more.

Generally, governments offer subsidies for two reasons. The first is to encourage individuals or companies to behave in a certain way by artificially making that particular behavior cheaper. For example, governments might subsidize the cost of renewable energy so that consumers are more likely to use renewable energy in their homes. Governments also use subsidies to achieve socially-beneficial objectives, such as providing direct assistance to vulnerable groups. For example, the GN expects to provide almost \$500,000 through its Seniors' Fuel Subsidy to help elderly Nunavummiut on social assistance to help offset the costs of home heating.

While subsidies can achieve useful goals, they do so by masking the true cost of a good or activity, which has its drawbacks. When consumers do not understand the true cost of energy—and when they do not pay for it themselves—they are significantly more likely to consume more of it than needed. Put simply, energy subsidies promote energy consumption rather than conservation, which can exacerbate the problem. There are many important environmental concerns with respect to energy conservation, but fiscal concerns may be equally urgent.

Strengthening Nunavut's Fiscal Health

Many factors external to the GN influence its long-term fiscal health. Federal decisions regarding the TFF could impact revenues, world oil prices impact fuel resupply costs, and Nunavut's own demographics pressure the government to deliver increasingly costly services. Although the GN can (and should) attempt to predict, manage, and mitigate these fiscal pressures, they are outside of our full control. Fortunately, there are many internal factors that the GN can influence to maintain and improve its fiscal health. These include:

- Ensuring employees with financial responsibilities have the knowledge, skills and tools they require to do their jobs;
- Ensuring GN management and employees understand and respect their individual roles in helping focus and control spending;
- Helping everyone—including Nunavummiut generally—recognize that fiscal constraints are a reality, and that operating within them will require difficult trade-offs among competing priorities;
- Carefully monitoring program spending to ensure that taxpayer dollars are being used effectively; and,
- Ensuring that GN policy-makers fully identify and consider the fiscal implications of various policy options, and that they fairly present these fiscal implications to decision-makers.

2 Economic Outlook

Highlights

- The Conference Board of Canada (CBoC) estimates Nunavut's real gross domestic product (GDP) was \$1,193 million in 2010, up 11.8% from \$1,067 million in 2009. This sharp annual growth is somewhat exaggerated as GDP in 2009 was relatively low. On average, Nunavut has grown at about 4.5% each year between 2005 and 2010.
- The CBoC estimates employment in Nunavut reached 10,400 in 2010, from 9,800 the previous year. While the mining sector contributed almost 200 new jobs in 2010, employment increased in sectors across the economy.
- Nunavut's unemployment rate rose to 15.1% in 2010, from 12.5% in 2009. The higher unemployment rate reflects the fact that many people joined (or returned to) the labour force—a sign that more Nunavummiut wished to participate in the wage economy.
- A healthy economy is one in which people and businesses actively participate and create value. Value creation occurs both inside and outside of the wage economy. The GN has a role in fostering a healthy economy because it can lead to a higher quality of life for Nunavummiut.

Building Our Future Through A Healthy Economy

In *Tamapta*, the Government emphasizes the importance of helping Nunavummiut achieve a higher standard of living and quality of life. Better health, stronger communities, stewardship of our natural resources and pride of culture all feature prominently in this vision. The GN alone cannot decide to achieve this vision. Doing so will rely in large part on the countless everyday decisions Nunavummiut will make over the coming years.

Economics provides one way of considering how and why Nunavummiut make many of the decisions we do. Economics is not the only way to describe our actions, but it does offer a helpful approach to better understand the choices we make. It can also help us identify the choices we need to make to achieve the goals in *Tamapta*.

When the economy is healthy, Nunavummiut have more choices available to them, and more opportunities to achieve the goals set out in *Tamapta*. A healthy economy is one in which people and businesses actively participate and create value, both inside and outside the wage economy. Although a healthy economy grows over time, and can generate wealth (monetary and otherwise) for those participating in it, growth and wealth are not explicit goals in *Tamapta*; for many Nunavummiut, they are not ends in themselves. Still, a growing economy and increasing wealth can do much to help achieve these ends. Recognizing this, the GN encourages economic growth in ways that contribute to achieving

the goals in *Tamapta*. The private sector is the best driver of the economy, as it has the most potential to create new value. The private sector is not only made up of large international corporations, but also—just as importantly—small- and medium-sized local firms. Nunavut needs businesses of all sizes and types to succeed.

The GN can encourage private-sector growth by fostering the conditions that will enable and encourage Nunavummiut to contribute in ways that are consistent with their abilities and principles. These conditions are varied, but include having a skilled and mobile workforce, a competitive business sector, healthy and engaged communities, and a fair tax system.

To a degree, the GN can help Nunavummiut acquire the skills employers seek, work to improve individual and community health, and ensure its own programs and services create the right mix of incentives and disincentives to encourage economic participation. Ultimately, it will be up to Nunavummiut—as individuals, as businesses and as communities—to drive Nunavut’s economy forward and achieve the goals set out in *Tamapta*.

The Nunavut Economic Forum represents organizations in Nunavut interested in promoting economic development and, through it, a high and sustainable quality of life. The Forum recently published its 2010 Economic Outlook, the fifth in a series of reports since 2001. The Forum considers Nunavut’s wealth-generating capital (physical, organizational, natural and human) as the building blocks of development and presents a range of related socio-economic data. The Outlook raises a number of interesting issues, and is a useful read for those looking to learn more about Nunavut.

National Economic Developments

Triggered by the severe global financial crisis of 2008, Canada’s economy entered a brief but painful recession late that year. National output fell, exports dropped, and Canada’s unemployment rate jumped from 5.6% to about 9% in less than a year (Figure 2-1). Fortunately, Canada’s sound economic and fiscal fundamentals—which include healthy financial institutions, strong corporate and household balance sheets and manageable public debt—helped moderate the recession’s impacts. Generally, Canada was well-positioned to face the global economic storm, and did so better than many other developed nations.

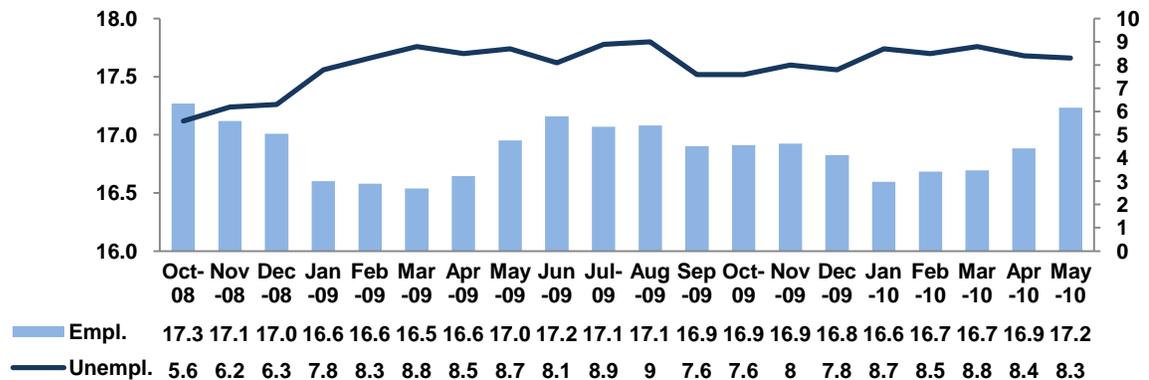
Still, the severe and synchronized nature of the global downturn required Canadian governments—like those of many other countries—to actively prop up the lagging private sector. To this end, the Government of Canada injected \$46 billion into the national economy through various stimulus programs in fiscal years 2009-10 and 2010-11. Although effective at providing a short-term boost to jobs and investment, government spending cannot sustain an economy’s long-run growth.

As noted in the Fiscal Outlook, the federal government borrowed heavily to provide this support, and will eventually need to pay it back. For this reason alone, high levels of public spending cannot persist indefinitely. Significant and ongoing government spending can also send the wrong signals to companies, which may begin to rely on taxpayer dollars rather than their own skills and creativity to compete and succeed. High levels of

government spending can actually smother private sector growth over time. Recognizing that long-term, sustainable growth is best achieved through a vibrant and competitive private sector, Canada—in conjunction with the other major economies of the Group of 20—committed to reduce its stimulus measures in order to halve its deficit by 2013.

Figure 2-1: Employment and Unemployment, Canada

Millions of jobs; percent

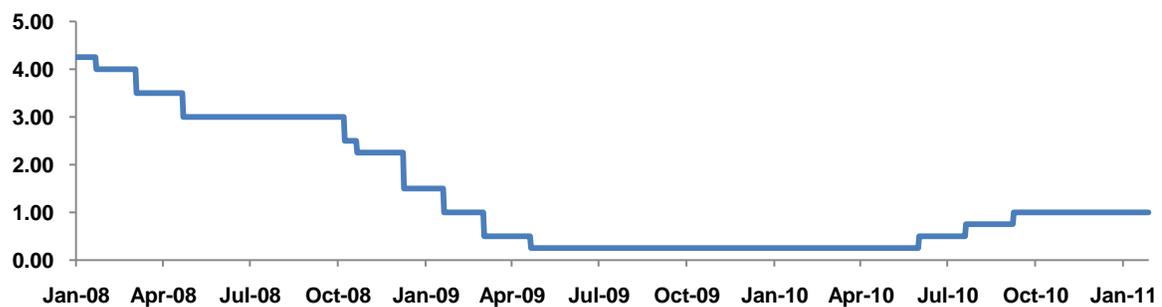


Source: Statistics Canada (Labour Force Survey)

The Bank of Canada has also played an important role through its accommodative monetary policy. Between December 2007 and April 2009, the Bank cut its target for the overnight rate from 4.50 percent to 0.25 percent, where it remained until June 2010 (Figure 2-2). The Bank has since raised the target overnight rate gradually to 1.0%, reflecting its view of Canada’s improving economic health.

Figure 2-2: Bank of Canada Target Rate

Percent



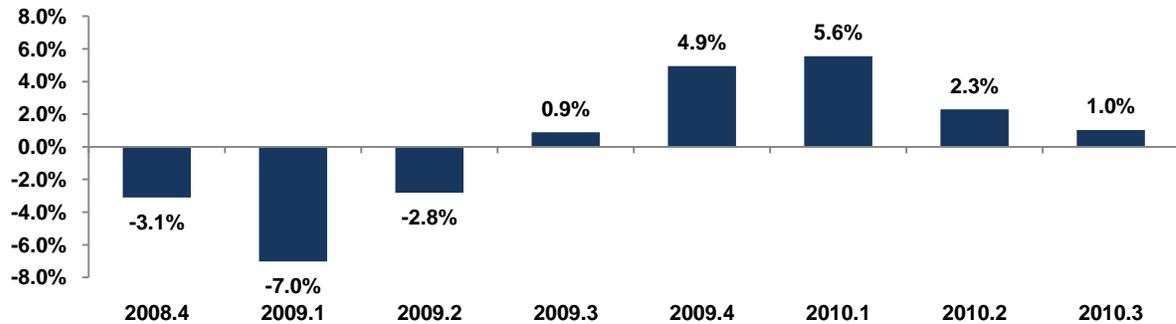
Source: Bank of Canada

Canada emerged from the recession in mid-2009 and rebounded relatively quickly in the following months. Government stimulus measures took hold in Canada and the U.S. and consumers and businesses made the purchases and investments they had put off during

the recession. However, as many expected, Canada's growth, as measured by gross domestic product (GDP), slowed substantially in late 2010 once the economy finished playing "catch-up" (Figure 2-3). The diminishing impact of government spending measures, a slower-than-expected U.S. recovery, a high Canadian dollar, and other factors have all contributed to the recent slower growth of Canada's GDP.

Figure 2-3: Recent Real GDP Growth, expenditure-based, Canada

Quarterly percent change at annualized rates

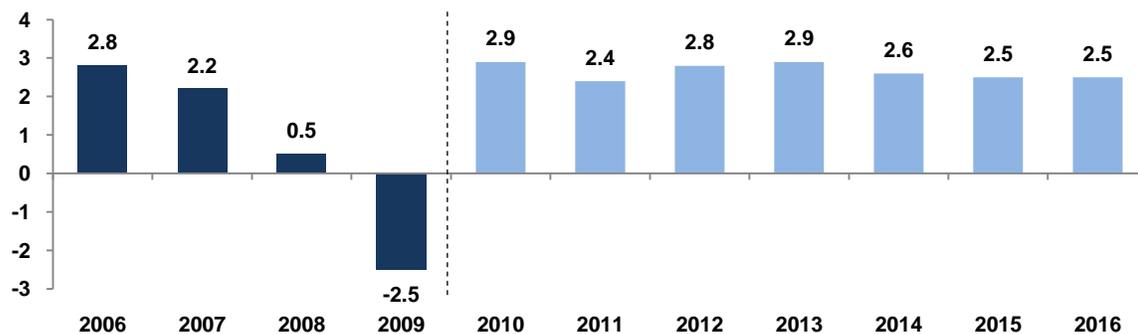


Source: Statistics Canada.

According to a December 2010 survey of private sector forecasters, Canada's economy grew by 2.9% in 2010. Looking forward, private sector forecasters expect Canada's economy to grow by 2.4% in 2011 and 2.8% in 2012 (Figure 2-4).

Figure 2-4: Historic and Forecast Real GDP Growth, Annual, Canada

Percent change year-on-year



Source: Statistics Canada, 2006-09; Finance Canada (average of December 2010 private-sector predictions), 2010-14; GDP at market prices.

Nunavut's Economic Output

In its most recent Territorial Outlook, which it released in January 2011, the Conference Board of Canada (CBoC) estimates that Nunavut's real GDP was \$1,193 million in 2010, up 11.8% from \$1,067 million in 2009. This sharp growth captures the beginning of production at Agnico-Eagle's Meadowbank mine, which poured its first gold in 2010. In fact, the CBoC estimates that mining alone contributed almost 85% of the territory's total economic growth, as measured by GDP, that year. Real estate, transportation and warehousing, and trade sectors contributed much of the remaining increase in real GDP.

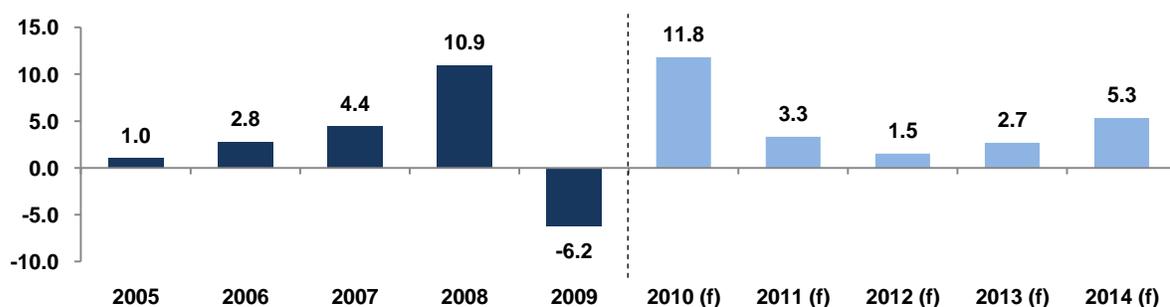
From a year-over-year perspective, the 11.8% jump is impressive but somewhat exaggerated, as territorial GDP in 2009—the year in which construction at Meadowbank wound down but production had not yet started—was relatively low. Similarly, comparing GDP in 2009 to that of 2008 shows an overstated drop, as 2008 was the year in which construction at Meadowbank was in full swing. As noted in last year's Fiscal and Economic Outlook, major development projects like Meadowbank will continue to drive large swings in territorial GDP as long as Nunavut's private sector remains small and undiversified.

Because of the large project-driven swings in GDP, the average annual growth rate over several years can provide a better picture of Nunavut's long-term growth. Between 2005 and 2010 Nunavut's real GDP expanded on average 4.5% each year. This relatively brisk pace reflects Nunavut's potential for growth as a young economy.

The CBoC projects Nunavut's real GDP will continue to expand in the near term, at about 3% per year until 2015, due largely to steady growth in both the mining and public sectors. Like last year, the CBoC expects mining to contribute to most of the territory's growth in real GDP in 2011 as production at Meadowbank ramps up. It is unlikely that Nunavut will experience another surge in real GDP growth until the next major development project gets underway in the territory. At the same time, Meadowbank's operations will provide a more stable level of output from the private sector than Nunavut has experienced in recent years (Figure 2-5).

Figure 2-5: Historic and Forecast Real GDP Growth at Basic Prices, Nunavut

Percent change year-on-year



Source: CBoC

Employment and Labour

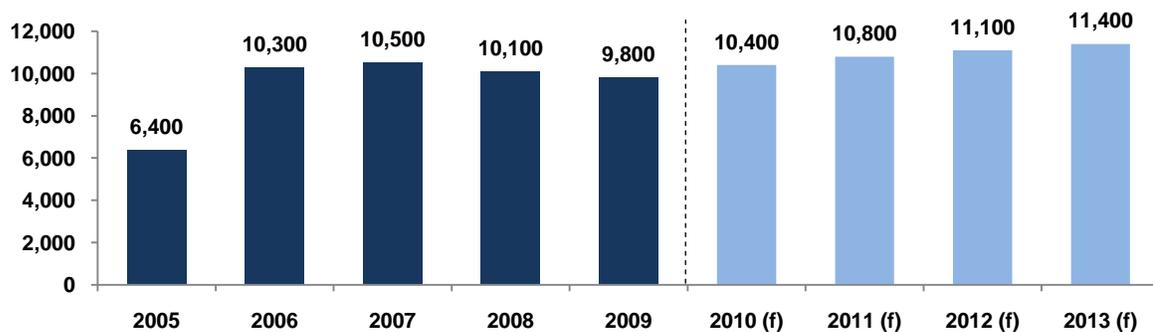
According to the CBoC, which bases its forecasts on data from Statistics Canada’s Labour Force Survey, territorial employment reached just over 10,400 in 2010. This is higher than last year, when only 9,800 Nunavummiut reported they had jobs (Figure 2-6). Despite increased employment, Nunavut’s unemployment rate rose to 15.1% in 2010, from about 12.5% in 2009. As described below, an increase in Nunavut’s labour force participation rate caused the unemployment rate to increase alongside employment in 2010.

As with economic output, changes at Meadowbank shaped territorial employment in 2010. The CBoC projects that the mining sector alone added almost 200 jobs that year. The remaining new jobs were spread out among Nunavut’s other sectors. This is a good sign; although mining is an important driver of growth and jobs in the territory, Nunavut’s other sectors play important, and expanding, roles. Notably, the number of jobs within public administration—the territory’s largest employer—grew only slightly last year, continuing the trend of slow employment growth in the sector. While governments will continue to be major employers in Nunavut, Nunavummiut will need to rely on the private sector to generate the majority of new jobs in the territory.

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

Figure 2-6: Historic and Forecast Approximate Employment

Number of individuals



Source: CBoC

Looking ahead, the CBoC expects about 10,800 Nunavummiut will be employed in 2011, a moderate increase over 2010. As in 2010, hiring in the mining sector will contribute to the increase as the industry brings on another 150 employees. Other sectors of the economy will also expand. Although the CBoC forecasts steady employment growth in coming years, this will only occur if Nunavummiut have the skills needed to contribute to the workforce.

Labour Force Participation

As noted above, a healthy economy is one in which people actively participate. This means having both the desire to contribute, and the opportunity or ability to do so. Nunavut's unemployment rate, which rose to 15.1% in 2010, hints at both of these important factors.

A high unemployment rate—Nunavut's is highest in the country—is considered a negative indicator because it shows how many people in the labour force are actively looking for a job but cannot find one. These individuals have the desire to contribute, but there are no opportunities for them to do so. There may simply be too few jobs in the economy, or perhaps individuals are not willing to move to the communities with employment opportunities. Often, there are many jobs available, but individuals do not have the skills needed to work in them.

As these individuals wish to work but cannot, a high unemployment rate signals wasted potential. More important, it suggests that many individuals and families face hardship. For these reasons, the GN is helping Nunavummiut gain the skills employers seek, and will work to enable the private sector to increase the number of jobs available in the territory. It is also important that Nunavummiut look beyond their own communities and regions to find work.

Strange as it may seem, there can be a positive side to a jump in the unemployment rate, which depends not only on the number of jobs in an economy but also on the number of people looking for jobs. The proportion of people who are either employed or looking for work is known as the participation rate. According to the CBoC, Nunavut's participation rate was only 60% in 2009. Three out of five working-age Nunavummiut—about 7,400 individuals older than 15—did not have jobs and were not looking for work in 2009. This was the lowest participation level in Nunavut in recent years (Figure 2-7).

Individuals who are not actively seeking employment are not counted in the unemployment rate because Statistics Canada does not consider them to be part of the labour force. This is reasonable, as there are many good reasons why someone without a job might not be looking for employment. For example, they may be full-time students or elders who have retired from the workforce. However, there are also other less-constructive reasons why people may not seek employment. Perhaps they are too sick to work, or need to stay home to care for a sick or young family member, despite wanting a job. Others may simply be too discouraged to seek employment, so have given up trying.

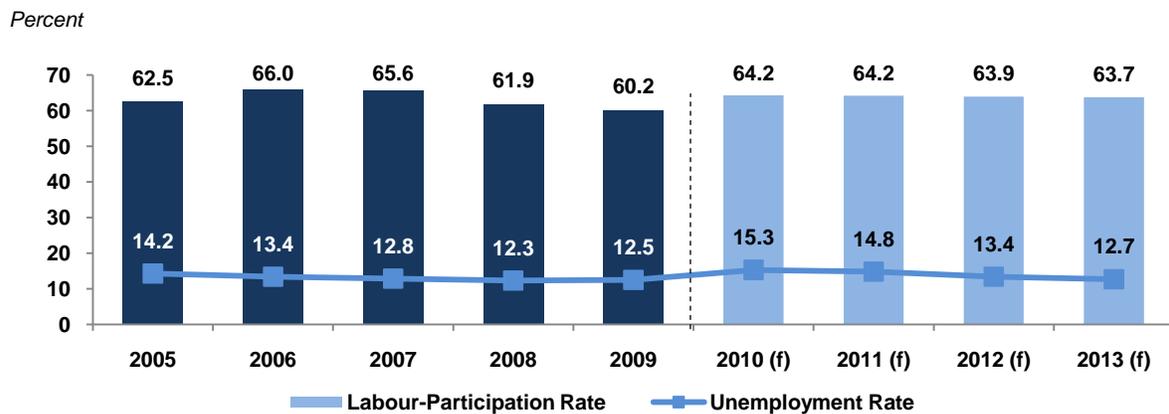
Nunavut's participation rate is regularly less than that of other Canadian jurisdictions, reflecting primarily the low labour-force participation by Inuit. Based on data from the

Nunavut Bureau of Statistics and Statistics Canada, under 60% of Inuit participate in Nunavut's labour force. In contrast, participation among non-Inuit averages around 90%.

By definition, participation rates measure involvement in the wage economy, and likely fail to capture participation in traditional activities such as hunting or artisanal crafts, despite the fact that these activities contribute to a healthy economy and, for Inuit especially, take the place of a wage-earning job. Nevertheless, there are likely deeper reasons behind the gap in participation rates between Inuit and non-Inuit. Increasing the involvement of Inuit in the wage economy remains key to Nunavut's economic development.

Although Nunavut's 2009 participation rate was particularly low, recent estimates show a positive change. According to the CBoC, over 1,000 Nunavummiut entered the labour force in 2010, increasing Nunavut's participation rate to about 64.2%. Although only 600 of the 1,000 new entrants found employment (which is why the overall unemployment rate went up), the fact that so many people joined the labour force suggests more Nunavummiut may have wanted to participate in the wage economy that year. For many, this is a good step towards a healthier economy.

Figure 2-7: Historic and Forecast Labour-Participation and Unemployment Rates



Source: CBoC Territorial Outlook

Demographics

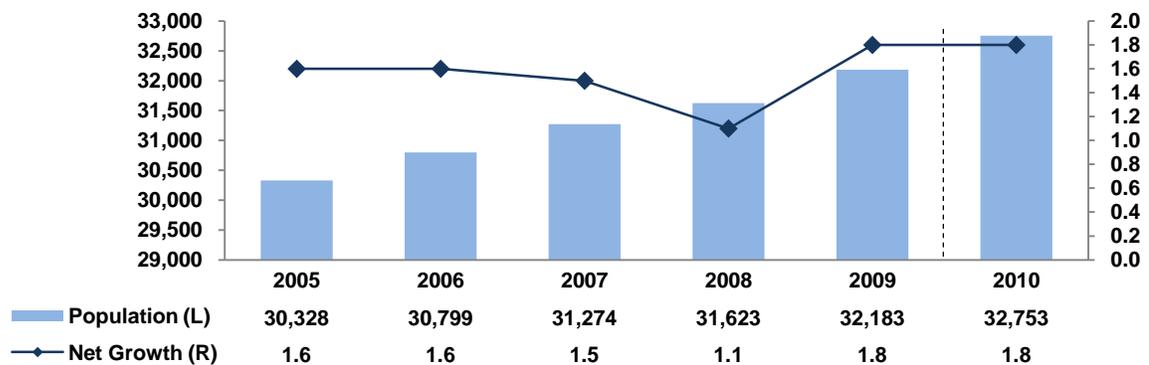
Understanding the characteristics of Nunavut's population provides insights into Nunavut's current and future work force. As with previous years, two demographic traits stand out when describing Nunavummiut: we are young, and our population is growing quickly.

According to Statistics Canada, Nunavut's population on July 1, 2010 was just over 33,200, up about 1,000 people, or 3.2%, from 2009. Aside from south-central Manitoba, Nunavut was Canada's fastest growing region. About two-thirds of the territory's growth occurred through natural increase—there were about 670 more people born in Nunavut last year than the number of people who passed away.

Immigration also played a role in population growth. Although a small number of people moved from the Baffin region to other countries, about 400 more people moved to Nunavut from other provinces than moved out of Nunavut to the rest of Canada. Of these, approximately 200 newly-immigrated Nunavummiut (on a net basis) settled in the Baffin region. Interprovincial immigration had a particularly important impact on the relatively small Kitikmeot region, where a net 111 people—over half of the region’s new inhabitants in 2009—arrived from another Canadian province or territory last year. Data do not show why Canadians chose to immigrate to Nunavut, or to which municipalities within the three regions they moved.

Figure 2-8: Historic and Forecast Population

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

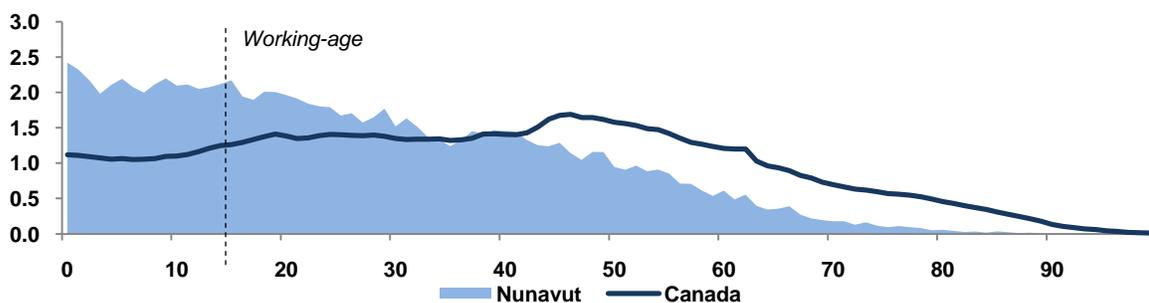


Source: Statistics Canada (estimates of 2010)

Nunavummiut are also characteristically young, with just over half the population younger than 25. There are almost twice as many children in Nunavut as a share of the population than in the rest of Canada. Nunavut’s large number of youth means that the territory’s employers draw from a relatively small pool of working-age adults—about 21,700 in 2010 (Figure 2-9).

Figure 2-9: Population Distribution by Age, 2009

Percent share of population



Source: Statistics Canada CANSIM 051-0001

Human Capital and Productivity

Nunavummiut are the territory's most important asset. To achieve the goals set out in *Tamapta*, Nunavummiut will need to develop the private-sector economy in ways that are consistent with their principles and culture. To do so, they need to have the opportunities and inclination to contribute value. In a healthy economy, value is created both within the wage economy and outside it.

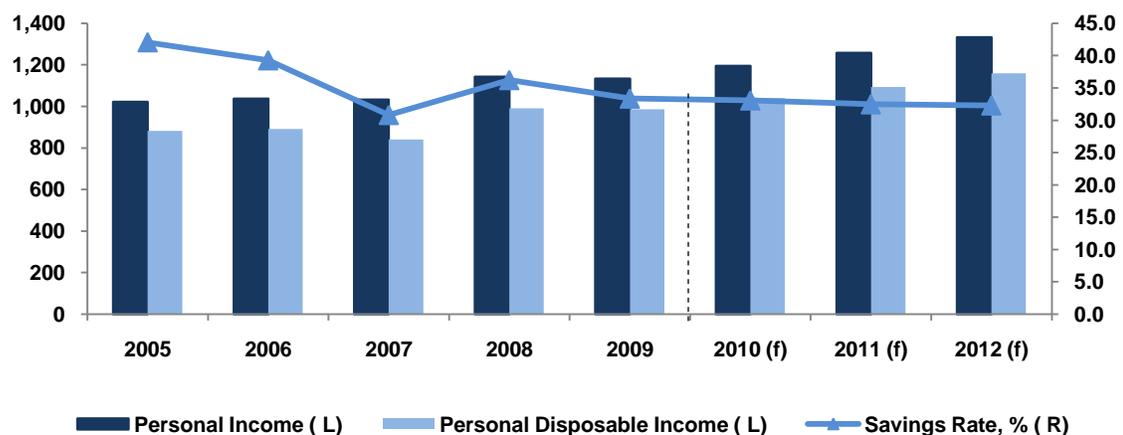
Economists often use the term “human capital” when describing the capacity of individuals to contribute value. Human capital is a broad concept, and depends on the number of workers, the skills they have, their health, their entrepreneurial spirit, and many other factors. Combined, these contribute to the productive capacity of Nunavut's labour-force. A productive economy can create more value using available resources, which generates more wealth for Nunavummiut.

Productivity is easily understood by considering two carvers, a skilled artist and his young apprentice. Given the same tools, the same stone, and the same time period, the artist is able to produce a beautiful carving while the apprentice barely finishes a rough statue. Collectors value the artist's work and pay significantly more for it than they do for the apprentice's piece. Because of the artist's skills, knowledge, and experiences—his human capital—he created more value and generated more wealth.

Although this is a simple analogy, the concept applies to Nunavut's economy as a whole. By increasing our human capital we can improve our productivity and generate more wealth in the territory. Although wealth accumulation is not an end in itself, it can help lead to the goals set out in *Tamapta* if it is generated in a way that is consistent with the values of Nunavummiut.

Figure 2-10: Income, Disposable Income and Savings Rate, Nunavut

Millions of dollars; per cent



Source: Conference Board of Canada

Key Economic Sectors

The following summaries provide brief overviews of Nunavut’s major sectors, including not only sectors that account for much of Nunavut’s real GDP, but also those that have the potential to do so. Culturally important industries, which in Nunavut may provide more economic benefit than standard economic measures capture, also feature below.

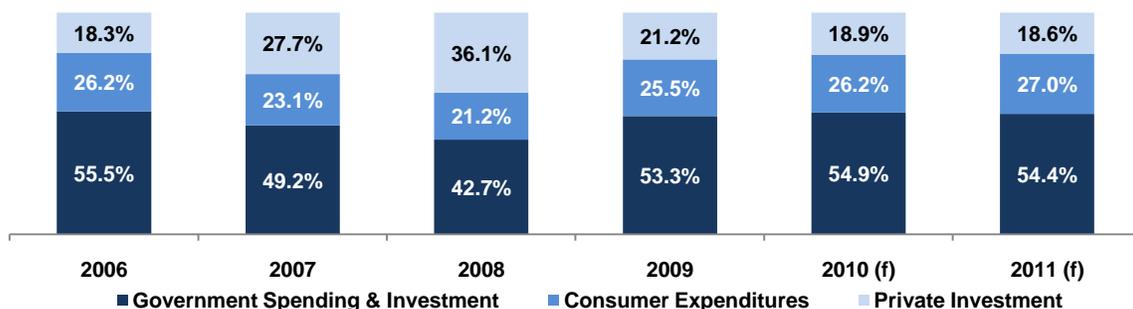
Public Sector

Government activity heavily influences economic growth, employment and investment in Nunavut. According to Statistics Canada’s latest data, public administration—which includes municipal, territorial and federal government activities—contributed about \$275 million, or 26%, to territorial GDP in 2009. Governments are also Nunavut’s most important employer, together employing 2531 and paying about \$243 million in wages in 2009, roughly 30% of all wages earned in the territory that year. This level of government activity is significantly higher than in other Canadian jurisdictions, where the private sector plays a larger role. Across Canada, public administration contributed 6.1% to national GDP last year.

Such a high economic contribution by governments impacts Nunavut’s economy in many positive ways. Well-paying jobs and relatively stable spending on goods and services injects considerable income into Nunavut’s communities, particularly Iqaluit and other government hubs. Other economic sectors, including utilities, real estate, construction, transportation and trade also benefit from the large value of goods and services governments purchase. In 2009 alone, government spending and investment reached nearly \$1,354 million in Nunavut, about 53% of all spending in the territory that year in terms of final domestic demand (Figure 2-11).

Figure 2-11: Historic and Forecast Share of Final Domestic Demand

Percent



Source: Statistics Canada, 2005-09; CBoC, 2010, 2011

Unfortunately, there are negative aspects to high government involvement in the economy. Too high an involvement can actually stifle private sector growth, which is where Nunavut’s true economic potential lies. Private sector growth is important because of its potential to

generate new wealth in the territory, instead of simply shifting tax dollars from one person to another. As an example, if an individual chooses to work for government instead of starting her own business, Nunavut's economy may lose out in the long run because her new company, if successful, could have created new jobs and generated new wealth. Similarly, if a government provides a good or service that the private sector could otherwise provide, it may be "crowding out" valuable business opportunities.

Although governments will continue to play a major role in Nunavut's economy for the foreseeable future, it will be important to ensure that government actions stimulate private sector growth, and not crowd it out. This means governments at all levels should carefully consider whether their actions could be delivered by Nunavummiut in the private sector and, if so, encourage the private sector to take these activities on.

Of course, there are many essential activities in which governments do have a primary role, such as education and health care. These sectors fall within the broader public sphere, as they are funded almost exclusively by governments (and therefore taxpayers). Education and health are important contributors to Nunavut's economy on their own, accounting for another \$206.3 million or 19.6% of territorial GDP in 2009. The CBoC expects public administration and non-commercial services like education and health to contribute about 42% of GDP in 2010.

Construction

Construction is an important industry in the territory, which the CBoC estimates contributed about \$170 million, or 14%, to GDP in 2010 according to the CBoC. While this is comparable to 2009, it is significantly less than the almost \$260 million it contributed to GDP in 2008, when construction of the Meadowbank gold mine peaked.

The sharp year-over-year drop from 2008 to 2009 underscores the construction sector's volatility, driven as it is by large capital projects such as mines. The impact of Meadowbank on construction is obvious. In 2006, the value of engineering construction to the economy began to rise, reflecting early construction activities at the project site. As construction wound down in 2009, spending dropped substantially. According to Statistics Canada, spending on non-residential engineering construction in Nunavut fell from \$1,158 million in 2008 to \$666 million in 2009. Spending in 2010 is up markedly from 2009, though does not approach the peak levels of 2008 (Figure 2-12).

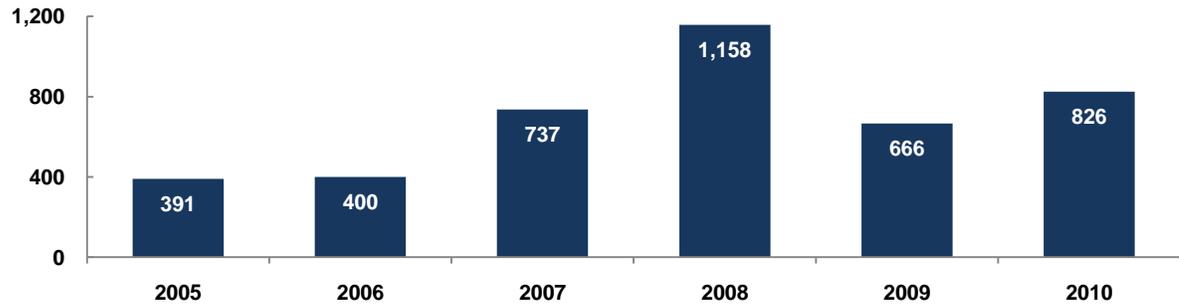
According to Statistics Canada's Survey of Employment, Payroll and Hours, Nunavut's construction sector employed about 650 people in 2009, over 6% of the total employment in the territory. Comparatively, employment in the construction sector accounts for 5% of employment across Canada.

Although there are no Meadowbank-sized mines on the immediate horizon, construction will remain an important industry in Nunavut as private-sector firms invest in the territory, and as the GN continues to invest in housing stock and non-residential infrastructure. While

stable, the GN's current fiscal position may require a reduction in capital spending in the years to come, which would lower its impact on construction in Nunavut.

Figure 2-12: Engineering Construction Expenditures, Nunavut

Millions of dollars



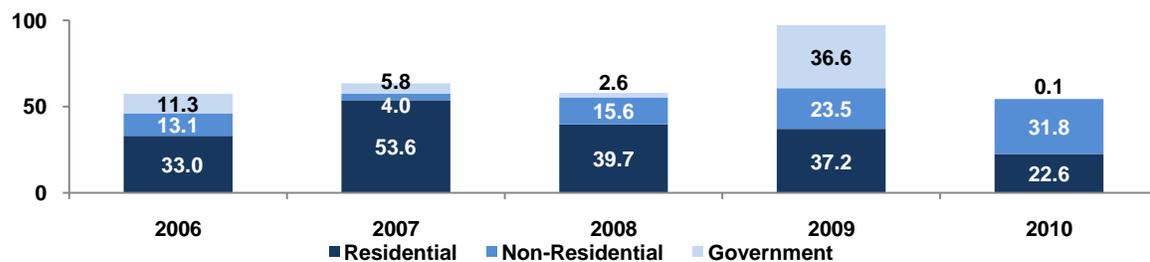
Source: Statistics Canada CANSIM Table 029-0024

One way to gauge construction activity is to consider building permits. The value of building permits in Iqaluit declined last year, dropping to \$52.4 million in 2010 from \$97.2 million in 2009. Much of this drop is attributable to a significant decrease in government construction, both of institutional buildings and of residential buildings. In contrast, the value of non-residential building (primarily reflecting private-sector investments in commercial and industrial buildings) increased to almost \$32 million from \$23.5 million in 2009.

This is the third year in a row in which the value of building permits for the private sector has grown, and the first time that investment in non-residential buildings is larger than in residential or government sectors. The value of building permits issued in Iqaluit does tend to swing from year to year, but the recent trend has generally been positive (Figure 2-13).

Figure 2-13: Value of Building Permits, Iqaluit

Millions of current dollars



Source: Statistics Canada

Mining and Petroleum

After a few years with no operating mines in the territory and little direct contribution to territorial GDP, the mining sector returned in strength in 2010 with the start of production at Agnico-Eagle's Meadowbank gold mine. The CBoC estimates that mining's contribution to GDP jumped to \$125 million that year, about 10% of Nunavut's total GDP. These swings in activity are common in extraction industries because of the phased approach to individual projects as well as their links to the commodity markets more generally.

Meadowbank will be an important driver of Nunavut's economy for the next several years, particularly for Baker Lake and surrounding communities in the Kivalliq region that can take advantage of the associated employment opportunities. Some of these jobs are at the mine site itself, working for Agnico-Eagle. However, many other opportunities will be available to those Nunavummiut who are able to provide mining-related goods and services to Agnico-Eagle and other mining firms.

Nunavut's vast amounts of natural resources are extremely valuable, and have the potential to generate real wealth for Nunavut. However, Nunavummiut will only benefit to the extent that we are able to capture some of this value for ourselves. There is little benefit in supplying the world with gold and iron unless doing so helps us improve our quality of life.

There are a few tools to keep a portion of the value of the resources being extracted in Nunavut. For example, a small amount flows to the GN through corporate income, payroll, fuel and property taxes, which the GN uses to support the programs and services it offers. Mining firms also pay royalties, based on extraction activity, to either the Regional Inuit Associations or the federal government as land-owners. The GN would receive the royalties currently paid to the federal government following a devolution agreement. The Inuit organizations also negotiate and administer Inuit Impact and Benefits Agreements (IIBAs), which set out certain requirements for mining firms, and are responsible for ensuring these requirements are advantageous to beneficiaries of the Nunavut Land Claims Agreement.

Most important to individuals and families, value from mining flows to Nunavummiut through the wages they earn working in the sector. Currently, mining firms hire Nunavummiut primarily for positions that require fewer skills, and therefore receive lower pay. Firms often bring in workers from other provinces for many of the jobs requiring a specific skill-

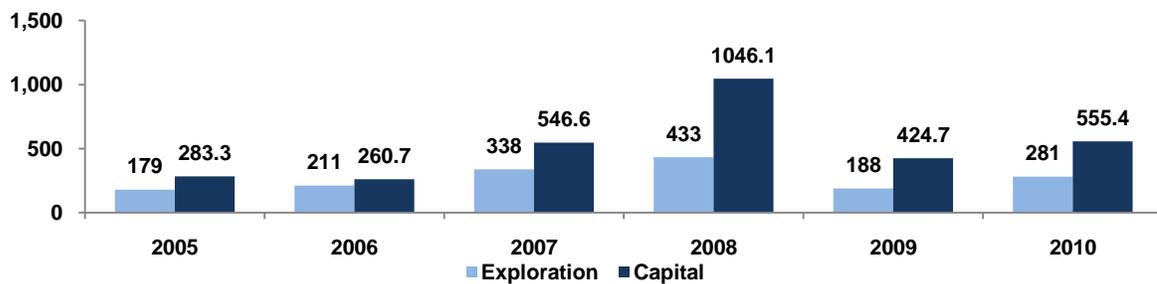
Commodity update: *Gold* set price records over the past year, surpassing \$1,400/ounce. The Bank of Canada does not expect its price to fall soon, which is encouraging for further gold development in the territory. Global demand for **uranium** increasingly surpasses its supply on a yearly basis, keeping prices high. According to Scotiabank's Commodity Price Index, China's two nuclear buyers will purchase a large portion of world supply through 2020. Development of nuclear reactors in other countries, such as India, will further tighten world supply. Areva's planned Kiggavik uranium mine will have a seemingly long line of potential customers. Low interest rates are likely to keep the prices of other commodities high as consumers are more inclined to hold larger inventories due to low carrying costs.

set or high level of expertise. Unfortunately, the firms often have little choice, as there is a recognized shortage of skilled workers in the territory.

For Nunavummiut to take advantage of the full range of employment opportunities in the mining sector—from low-skilled labour to technical trades and upper management—we need to acquire the skills and credentials the sector demands. While the GN plays an important role in providing education and skills to Nunavummiut, the firms themselves are important partners in identifying and offering the technical training and credentials they require of their employees.

Figure 2-14: Mining-Industry Expenditures

Millions of current dollars



1. *Spending intentions.*

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

Like the mining industry, Nunavut’s petroleum industry has great potential, based on large proven and potential resources within the territory’s borders. Still, the undeveloped state of the industry and the isolation of Nunavut’s petroleum resources make development economically unfeasible in current markets. It will likely take decades before the economic benefits of oil and gas development are fully realized.

Real Estate

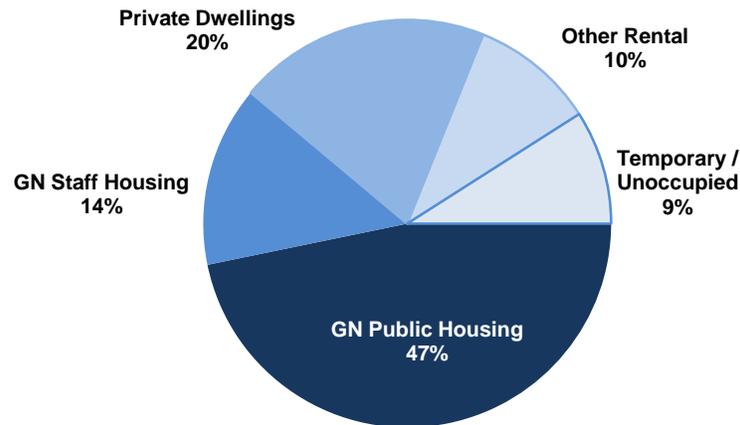
Nunavut’s real-estate industry is based on the development and leasing of commercial and residential properties. It contributed \$172 million or 16% of GDP in 2009, and the CBoC estimates slightly more for 2010. These figures include finance and insurance activities, which privacy restrictions on Statistics Canada data make impossible to disaggregate. In Nunavut, however, the contributions of the finance and insurance industries are likely to be small relative to the real-estate industry itself.

Real-estate industry enjoys large and steady demand from the public sector, in particular the GN, not only for office space but also for residential space associated with staff and social housing. GN demand for residential space alone accounts for about 61% of all dwellings in the territory, according to the initial findings of the Nunavut Housing Needs Survey, released in 2010 (Figure 2-15). Given Nunavut’s historical shortage of commercial

and residential space, government demand, as well as the private demand associated with a growing territory, is likely to hold up for the foreseeable future.

Figure 2-15: Residential Dwellings by Ownership, Nunavut

Percent share of total



Source: GN Business Plan (2011-2014), from 2010 Nunavut Housing Needs Survey

Retail and Wholesale Trade

Retail and wholesale trade contributed \$60 million to Nunavut's economy in 2009, a level that is consistent with previous years. Retail trade makes up approximately 70% of the larger trade sector.

About one in seven working Nunavummiut are employed by the trade industry, with over 1,000 Nunavummiut working in retail and another 250 in wholesale. Retail employment tends to be part-time work and, on average, pays less than employment in other sectors. In 2009, a retail employee could expect to earn about \$425 per week, about half the \$867 per week the average worker in Nunavut earned. Wholesale trade tends to be better paying, with average weekly earnings above \$1800.

Consumer and household purchasing drive retail trade. According to Statistics Canada, total retail spending in the territory increased by 4.2% from November 2009 to November 2010, less than many of the increases in other Canadian jurisdictions (Figure 2-16). This may be because Canadians are playing "catch-up" with their spending, making the purchases in 2010 they had put off during the economic downturn the previous year. Nunavummiut consumers, however, were not as affected by the recession: because such a large portion of our territorial income flows from the relatively stable public sector, our families were less impacted by large-scale layoffs that many Canadians experienced. Accordingly, Nunavummiut did not hold back on their spending.

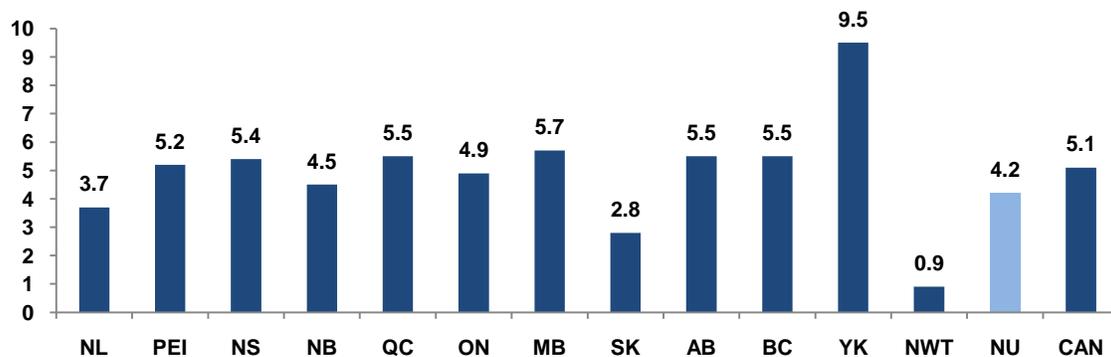
The trade industry is likely to continue growing, particularly as incomes continue to rise. The CBoC predicts personal disposable income in Nunavut was \$1,040 million in 2010, up

from \$986 million in 2009, and anticipates continued growth at roughly 5% per year. As this growth rate is higher than expected inflation, Nunavummiut will enjoy improving real incomes and purchasing power. However beneficial these increasing overall incomes are, wealth will not flow equally to all Nunavummiut, which will bring its own set of challenges for Nunavut's society to address.

Prospects for wholesalers are also favourable. The sector stands to gain considerably if Nunavut's economy expands and, more importantly, diversifies. Greater diversification requires a larger variety of goods, which creates new business opportunities for wholesale firms, particularly those that can specialize and compete in specific markets.

Figure 2-16: Change in Retail Spending

Percent change, November 2009 to November 2010



Source: Statistics Canada

Transportation and Warehousing

The combined industries of transportation, warehousing and information made up 6.6% of Nunavut's GDP totaling just under \$71 million in 2009. There was no significant change in the total since 2008, possibly because of an offsetting between diminished development at the Meadowbank mine and the return to a stronger economy.

Nunavummiut imported \$1,236 million worth of goods in 2009. As Nunavut lacks road or rail networks, Nunavummiut relies on marine and air connections to bring these goods into the territory. Air transportation is particularly important because of its ability to operate year-round. Flights in and out of Iqaluit and Rankin Inlet, the territory's two major hubs, reached 33,300 in 2008, up 2,000 from 2007. Iqaluit's airport in particular is becoming busier. In 2008, it ranked 19th in Canada in terms of flights, up from 25th in 2007.

Cultural and Tourism

Tourism has sizeable potential to add value to Nunavut's economy. Visitors to the territory support the economy in a number of ways, including spending at hotels and restaurants, hiring outfitters and purchasing arts and crafts from artisans, often directly.

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

*In May 2010 the GN released the first phase of the **Nunavut Tourism Sector Development Strategy**. The strategy outlines plans to, among other things, financially support the industry association, help develop and market Nunavut's parks, and market Nunavut tourism globally.*

Fishing, Sealing and Harvesting

Nunavut's fisheries are an important territorial resource, and one with significant growth potential. Nunavut's commercial fishery depends mainly on turbot stocks off the east coast of Baffin Island, though shrimp and arctic char also contribute value, particularly for communities in the Kivalliq and Kitikmeot regions.

The federal government manages fisheries stocks in Canada using a quota system that limits the available catch in a particular area and allocates shares of this limit among different parties. Currently, the federal government allocates a larger share of the quotas in Nunavut waters to external interests than it does in the waters off other Canadian jurisdictions. The GN has encouraged the federal government to increase access to turbot in Nunavut's waters by Nunavut's own industry, and has met with some success over the years, including a boost to Nunavut's turbot quotas in 2010. The GN will continue to press the federal government to allow Nunavut's industry the same level of access as other jurisdictions in Canada enjoy.

Better understanding Nunavut's marine and coastal environments will help the territorial fishing industry grow over time, and in a way that properly manages and conserves these natural resources. With support from the federal government, the GN has recently purchased an advanced research vessel—the *Nuliqjuk*—that will allow scientists to collect information on marine species, habitat, and population in coastal Arctic waters. The vessel is scheduled to arrive in Nunavut this summer.

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

Increasing the commercial value of harvesting in the territory will require Nunavummiut to increase exports, which requires competing in a global market. The GN is actively promoting Nunavut's harvesting sector abroad, including during a recent trip to China, and is working with the federal government and other partners to challenge the European Union's ban on the import of seal products. The GN also supports harvesting in Nunavut by providing financial advances to harvesters and helping to sell their pelts to auction houses. Based on year-to-date figures available for 2010-11, the number and value of pelts at auction will be notably higher than last year, though not as high as in 2008-09 (Figure 2-17).

Figure 2-17: Fur Pelts Sold at Auction

Number of pelts; current dollars

	2008-09	2009-10	2010-11 YTD
Bear	123 \$121,193	126 \$141,296	89 \$157,427
Fox	2,419 \$56,153	1,012 \$23,792	1,145 \$28,051
Seal	5,619 \$293,029	3,368 \$169,794	3,577 \$177,028
Wolf	218 \$30,995	176 \$21,937	229 \$13,815
Wolverine	46 \$7,553	42 \$4,325	234 \$5,114
Total	8,425 \$508,922	4,724 \$361,145	5,274 \$381,434

Source: GN Environment