

# FISCAL AND ECONOMIC OUTLOOK

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DEPARTMENT OF FINANCE  
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## Fiscal Outlook

For the fiscal year 2006-07, the Government will have a projected operating deficit of \$7.6 million. This follows from an operating surplus of \$5.9 million for 2005-06.

Revenues are projected to increase to over \$1.0 billion in 2006-07 compared to \$990.3 million in 2005-06. The increase in revenues is due to the growth in territorial formula financing and the fact that the Government of Nunavut will “draw down” \$26.6 million from the Northern Trust Fund.

	<b>2006-07 Forecast (\$ Millions)</b>	<b>2005-06 Revised (\$ Millions)</b>
<b>Revenues</b>	<b>1,014.8</b>	<b>990.3</b>
<b>Expenditures</b>		
O & M	873.3	844.5
Capital	103.5	107.6*
<b>Total Expenditures</b>	<b>976.8</b>	<b>952.1</b>
<b>Unadjusted Surplus (Deficit)</b>	<b>38.0</b>	<b>38.2</b>
<b>Other Supplementary Requirements</b>	51.6	38.3
<b>Estimated Appropriation Lapses</b>		
O & M	5.0	5.0
Capital	1.0	1.0
<b>Operating Surplus (Deficit)</b>	<b>(7.6)</b>	<b>5.9</b>

*\* Does not include capital carryovers of \$54.3 million.*

Territorial Formula Financing (TFF) is by far the largest source of revenues for Nunavut. Established by federal legislation, Nunavut’s 2006-07 formula financing grant which has been set at \$826.5 million, is firmly entrenched. The federal government has already indicated that there will be no upward adjustments for prior years. Coupled with other federal transfers, just over 90 percent of Nunavut’s revenues will not be altered regardless of unforeseen changes in our fiscal circumstances. However, the remaining 9 percent of total revenues are subject to variability.

Projected operating expenditures in 2006-07 are budgeted to be \$873.3 million, an increase of only 3.4 percent when compared to 2005-06 operating expenditures. With TFF being constrained to an increase of 3.5 percent, funding is only available for “forced growth” of existing government programs and new initiatives announced under the Northern Strategy Trust (i.e. trades training school).

While the majority of Nunavut's revenues are relatively certain and there is optimism about the future, there are a number of uncertainties that could significantly impact on Nunavut's revenue and expenditure forecasts.

The first is the uncertainty of the price of oil. Nunavut is 100 percent reliant on its fuel supply. All electrical power generation uses diesel generators, all buildings are heated via fuel oil, and all municipal services rely on operation of heavy trucks burning diesel fuel. Every one of our communities depends on air travel to move passengers and freight, and the planes operate on aviation fuel purchased in Nunavut.

Nunavut's cost to acquire fuel has increased significantly as a result of the sharp increase in world prices for crude oil. Nunavut's purchase costs have essentially 'followed' the trend in world oil prices, since our supply contracts are predicated on world oil pricing.

In the last two years, the cost to procure necessary fuel products for Nunavut has risen by nearly \$70 million; after adjusting for volume increases, the Government's direct share remains in excess of \$23 million. Such increases have put the Nunavut Government under tremendous fiscal strain.

The second uncertainty relates to federal transfers. Currently, federal transfers under Territorial Formula Financing are based on a "fixed envelope" shared by all three territories that will grow annually by only 3.5 percent in 2006-07.

The Government of Nunavut is making its case to the federal government for a fiscal framework that recognizes the needs of Nunavummiut and the unique environment we live in.

Nunavut requires a territorial financing arrangement that ensures our annual grant will grow at a rate that not only allows the territorial government to deliver programs and services comparable to other jurisdictions in Canada, but ensures that the territory can take advantage of future economic development opportunities. (Further information on Territorial Formula Financing is included in a separate budget paper.)

## **Outlook for the Nunavut Economy**

Economic indicators point to a solid economy for Nunavut in 2005. TD Bank forecasts a 2.5 percent increase in real GDP for Nunavut. Based on the September 2005 private sector survey, Finance Canada forecasts an increase of 2.4 percent in real GDP for Nunavut.

For 2006, TD Bank expects the real GDP of Nunavut to increase by 2.7 percent. Finance Canada forecasts economic growth of Nunavut to increase by 2.6 percent.

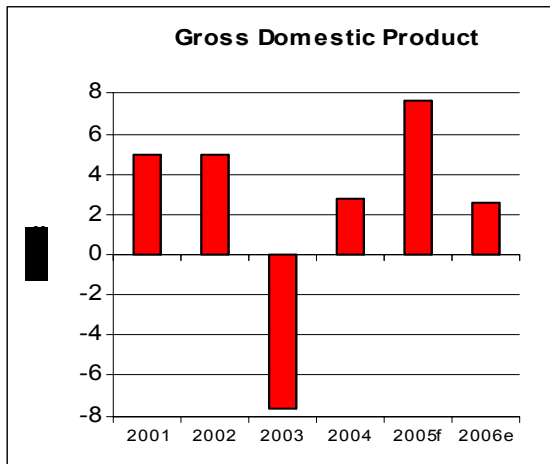
Retail sales posted an increase of 8.3 percent in the first nine months of 2005 compared to the first nine months in 2004. Wholesale trade posted a modest one percent increase within the same time period. Residential building construction dropped 27 when compared with the first nine months of 2004 and 2005. Non-residential building construction also dropped 51 percent for the same period. In 2006 Nunavut should see an increase in residential building construction with the change in the

Government of Nunavut staff housing policy and the potential of federal dollars for social housing, promised during the Aboriginal Summit in 2005. With the completion of the major capital projects (health centres, justice centre) the non-residential construction will remain relatively flat in 2006.

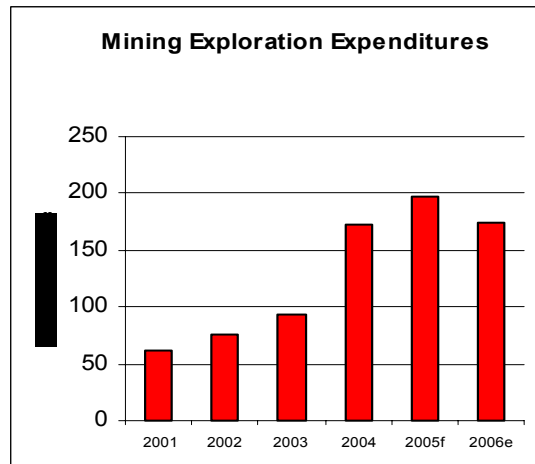
As for production, after a difficult year in 2004, manufacturing shipments posted an increase of 31.3 percent in the first nine months of 2005 year, along with a sharp increase in exports of goods.

Unemployment for Nunavut is in the 25 percent range and is as high as 50-60 percent in some communities.

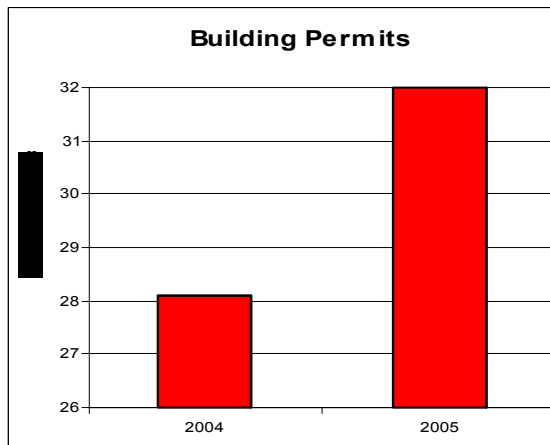
**Figure 1 - Selected Economic Indicators for Nunavut**



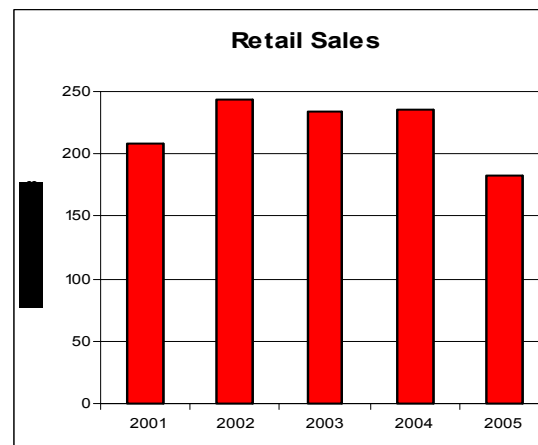
Source: Stats Canada 2001-2004  
2005 Forecast  
2006 Estimated



Source: Stats Canada 2001-2004  
2005 Forecasted by ED&T, Government of Nunavut  
2006 Estimated by ED&T, Government of Nunavut



Source: Stats Canada  
2005 = first 11 months of 2005



Source: Stats Canada  
2005 = first 9 months of 2005

### Selected Economic Indicators for Nunavut

	1999	2000	2001	2002	2003	2004
Population (thousands)	27	28	28	29	29	30
Personal income (millions of dollars)	701	758	800	843	886	925
Personal income per person (dollars)	26,135	27,564	28,448	29,333	30,379	31,173
Personal disposable income (millions of dollars)	616	656	687	735	765	800
Personal disposable income per person (dollars)	22,966	23,855	24,430	25,575	26,230	26,961
Personal saving rate (percent)	44.6	44.4	44.0	43.4	42.5	41.9
Gross Domestic Product, implicit price index (1997=100)	101.1	104.3	104.3	106.8	116.7	122.1
Gross Domestic Product (millions of dollars)	747	834	876	942	951	1,023
Gross Domestic Product per person (dollars)	27,850	30,327	31,151	32,778	32,608	34,476
Gross Domestic Product (millions of chained 1997 dollars)	739	800	840	882	815	838
Gross Domestic Product per person (chained 1997 dollars)	27,552	29,091	29,871	30,690	27,944	28,241
Retail sales (millions of dollars)	191	202	209	227	233	233
Manufacturing shipments (millions of dollars)	5	4	4	2	3	3
Mineral production (millions of dollars)	349	385	321	269	30	N/A

Source: *Statistic Canada*

## Sectoral Outlook

A strong rebound has occurred in the mining and exploration sectors since the creation of Nunavut and all signs point to continued growth in 2006. A survey by Natural Resources Canada indicates that \$256 million was invested in mineral exploration and development in 2005. This included \$50 million for the construction of the Jericho diamond mine located 350 kilometers southwest of Cambridge Bay. Construction of the mine is substantially complete and the initial tuning of the processing facility has produced Nunavut's first diamonds.

It is projected that there will be approximately 65 exploration projects underway in Nunavut this year. Three advanced exploration projects are expected to become operating mines in Nunavut over the next three to five years, and six other projects have prospects of becoming mines over the next ten years. The now closed Lupin, Polaris and Nanisivik mines are in their reclamation phase which will proceed for the next few years. The four most advanced projects are summarized below.

**Figure 2 - Potential Mining Projects**

<b>Project</b>	<b>Operations Stage</b>	<b>~ Production Duration</b>
Jericho diamond	Mine construction	2006 – 2014
Hope Bay (Doris N) gold	Deposit appraisal; EIS	2007 – 2009+
Meadowbank gold	Deposit appraisal; EIS	2007 – 2015+
High Lake base metals/ Ulu gold	Deposit appraisal; Feasibility (pre-EIS)	2008 – 2023

The number of employees will vary from 150 to 400 at each of the projected mine sites in Nunavut, where workers fly to the mine site from their home communities on a work rotation typically consisting of a two or three weeks in and two or three weeks out shift. These numbers translate to over 1,500 projected, mine-related jobs that will be created by the ten projects over the next ten years in Nunavut, representing 12 percent of the territory's labour force.

In support of this increased mining activity, the Department of Economic Development and Transportation is in the process of completing a Nunavut Mineral and Mining Strategy to build a strong and sustainable industry while protecting the environment.

## Fishing and Sealing

Over the past few years the fishing sector of Nunavut's economy has grown tremendously with significant expansion of the offshore shrimp and turbot fisheries in particular.

The Nunavut Fisheries Strategy addresses the main challenges in building a sustainable fishery and obtaining maximum benefits for Nunavummiut. It focuses on providing economic development opportunities in the offshore and inshore fisheries as well as in the traditional arctic char fishery.

The six core objectives outlined in the strategy include: Science and Conservation; Organization Capacity and Governance; Access and Allocation; Labour and Market Development and Training; Infrastructure; and Funding and Revenue Generation.

In 2005, the Department of Environment invested in both fisheries infrastructure and training. The Nunavut Fisheries Training Consortium (NFTC) began last year in an effort to provide long term fisheries training to Inuit.

The Department of Environment has also helped fund the purchase of vessels by the Baffin Fisheries Coalition (BFC) and Qikiqtaaluk Corporation (QC). In 2004 the BFC's vessel employed a crew of 25% Inuit and harvested 3,600 tonnes of quota. These numbers will increase over time. The factory freezer trawler purchased by QC in 2005 will be used to harvest shrimp off Nunavut as well as in Atlantic Canada. While these investments in fisheries infrastructure pose financial risks, they stand to return greater control, revenues and employment to Nunavummiut in the long term.

While the current value of direct income from fisheries is estimated at \$7.5 to \$9.5 million annually, the potential value is more if the catch is caught by Inuit on Nunavut-owned ships and landed in Nunavut for processing. It is recognized, however, that there will be logistic and economic challenges in achieving the upper end of these potential values.

Total turbot quota available to Nunavut is 5,900 metric tones (mt) (60 percent of total quota shared with other Canadian quota-holders). Shrimp available to Nunavut is 10,680 mt (31 percent of the total available). An increase of 2,500 mt of turbot quota is expected in 2006 for division 0A, and Nunavut is hopeful that it will receive 100 percent of this quota increase.

In 2005, the landed value of turbot was \$23.6 million and \$2.9 million for shrimp, and 20-25 percent of this was "captured" by Nunavut in revenue and employment creation. Approximately 180 mt of fish were offloaded in Pangnirtung, creating work in the community.

Sealing in Nunavut, a good example of the contemporary mixed economy, continues to support the cultural and social fabric of Nunavut while helping to sustain first-hand knowledge of the land and ecosystems: Inuit Qaujimagajatuqangit. The food value of ringed seals (\$5 million) is much more than the cash value of skins and value-added products (\$1.5 million), but cash proceeds help to sustain the subsistence hunt.

## **Oil and Gas**

Significant petroleum opportunities also exist in Nunavut. There are, for instance, seven sedimentary basins in Nunavut with the potential to host reserves of oil and natural gas, four of which are within the Territory's internal waters or located partially on land.

The Sverdrup Basin and Franklin Platform - the geological formations that make up the Arctic Islands - host the vast majority of Nunavut's known petroleum resources. The other two significant areas with petroleum potential in Nunavut's internal waters are the Fox Basin and extension of Baffin Bay into Lancaster Sound. Nearly all the petroleum exploration activity to date has occurred

within the Sverdrup Basin and Franklin Platform, with 18 of the 19 significant discovery licenses located in that area.

Areas with offshore petroleum potential include the Polar Continental Margin, Baffin Bay and Davis Strait, Ungava Bay and Hudson Strait, and Hudson Bay. To date, only limited exploration has occurred in these areas with a small natural gas discovery in Davis Strait off Frobisher Bay.

The Geological Survey of Canada estimates the petroleum resources in the Arctic Islands (Sverdrup and Franklin Basins) are valued at more than \$1 trillion. Discovered resources in the Sverdrup Basin include 14 trillion cubic feet of natural gas and 409 million barrels of oil. The other basins have the potential to host petroleum resources, but are not thought to be as promising as the Sverdrup.

However, Northern petroleum exploration and development, which comes under federal management, has historically languished while provincial regimes in the past have, by contrast, met national interest requirements vis-à-vis secure domestic oil and gas supplies and export capacity. While the North has roughly one quarter of Canada's known oil and gas resources, only 117 gas wells and 211 oil wells were completed there between 1955 and 2000, compared to 80,000 gas wells and 72,000 oil wells drilled in Alberta over that same period.

A pre-feasibility study conducted by the Canadian Energy Research Institute, which applied the royalty rates contained in the *Canadian Petroleum Resources Act* on the development of natural gas from Melville Island, indicated gas could be profitably developed with annual royalties to government starting at \$6 million in year one, increasing to \$276 million in year seven, and \$564 million by year 20. However profitability is very sensitive to natural gas prices and would require a price of between \$7 and \$8 per thousand cubic feet. This is within most price projections, although industry is using a forecast that ranges between \$3 and \$4 for the Mackenzie Valley gas pipeline project.

## Tourism

In 1999 tourism was estimated to have contributed \$35.7 million to the economy in the territory. This represented 4.8 percent of the total market GDP. An estimated 18,000 people visited Nunavut in 1999; of those numbers almost three-quarters were business visitors. Almost 40 percent of tourists visit either national or territorial parks while in Nunavut.

The range of tourism activities includes eco-tourism, sport hunting and fishing, cultural, adventure, educational activities, park visits and business travel.

The cruise ship industry is an area of potential growth in the tourism sector. Cruise ships currently visit communities such as Iqaluit, Pond Inlet, Kimmirut and Pangnirtung. These visits result in substantial influx of money in a very short period of time.



The potential for deep water ports within Nunavut would have an exponential effect on the tourism sector, arts and crafts, and the economy in whole. It would increase the amount of cruise ship activity and the ability to accommodate larger vessels.

With the increased focus on Global warming, ice shelves melting and wild life it is believed that many more tourists will choose Nunavut as a destination when it comes to planning their vacations and eco tours. Nunavut has some of the Canada's most exquisite and undisturbed parks.

The Department of Economic Development and Transportation will implement the Memorandum of Understanding with Nunavut Tourism, including the research components and the initiation of a review of the *Travel and Tourism Act* and the *Tourist Exit Survey* in 2006-2007. Such a survey will provide information and statistics which are vital to growth of this sector.

## Arts and Crafts

Support for the arts sector and Nunavut's artists comes from many sources - the Government of Nunavut, Canada's federal government, Inuit organizations, the Nunavut Arts and Crafts Association, wholesalers, galleries and gift shops all contribute.

The key players are the artists themselves. The handmade art they create includes carving, printmaking, painting, drawing, fibre arts, basketry, fashion, clothing, wall hangings, ceramics, doll making, jewelry, beading and other handmade crafts.

While accurate numbers are difficult to track for the arts and crafts sector, it is an integral part of a thriving economy for Nunavut. Estimates are that this sector generated more than \$30 million in sales in 2003 and that is expected to grow to \$50 million by the year 2013. The 1999 *Nunavut Community Labor Force Survey* showed that 27 percent (4,200 people or 1 in 7) of the population is involved in producing arts and crafts. The Conference Board of Canada estimates that 10 percent of Canadian art sold internationally is Inuit art.

There has been an explosion of activity in film making and television production in Nunavut. Nunavut Film has recently announced the 2005-2006 Film Contribution Agreement. Within this announcement \$458,368 has been committed to 17 successful applicants across the five Industry Programs available in 2005. The 17 projects have a total combined budget of over \$2 million.

In the coming fiscal year, the Department of Economic Development and Transportation will proceed with the implementation of the *Nunavut Arts and Crafts Strategy*, which focuses on increasing artists' economic success through improved access to materials and markets, education and training, communication about copyright, and development of a Nunavut brand.

## SUMMARY FISCAL TABLES



<b>Summary of Fiscal Position</b>			
Government of Nunavut (\$ Millions)			
	<b>2006-2007 Main Estimates</b>	<b>2005-2006 Revised Estimates</b>	<b>2005-2006 Main Estimates</b>
<b>Revenues</b>	<b>1,014.8</b>	<b>990.3</b>	<b>970.1</b>
<b>Expenditures</b>			
Operations and Maintenance	873.3	844.5	833.2
Capital *	103.5	107.6	101.9
<b>Total Expenditures</b>	<b>976.8</b>	<b>952.1</b>	<b>935.1</b>
<b>Unadjusted Surplus (Deficit)</b>	<b>38.0</b>	<b>38.2</b>	<b>35.0</b>
<b>Other Supplementary Requirements</b>	<b>51.6</b>	<b>38.3</b>	<b>35.0</b>
<b>Estimated Appropriation Lapses</b>			
Operations and Maintenance	5.0	5.0	2.0
Capital	1.0	1.0	0.0
<b>Operating Surplus (Deficit) For The Year</b>	<b>(7.6)</b>	<b>5.9</b>	<b>2.0</b>
Totals may not add due to rounding.			

\* Does not include capital carryovers.

<b>Summary of Revenues</b>			
Government of Nunavut (\$ Millions)			
	<b>2006-2007 Main Estimates</b>	<b>2005-2006 Revised Estimates</b>	<b>2005-2006 Main Estimates</b>
<b>Federal Transfers</b>			
Formula Financing Arrangement	826.50	805.61	805.61
Other Federal Transfers	117.30	115.01	85.26
<b>Total Federal Transfers</b>	<b>943.80</b>	<b>920.62</b>	<b>890.87</b>
<b>Own Source Revenues*</b>			
Personal Income Tax	13.00	13.00	23.99
Corporate Income Tax	6.00	6.00	7.27
Fuel Tax	2.50	3.50	3.42
Property Tax and School Levies	1.50	1.50	2.40
Tobacco Tax	8.40	8.40	8.50
Payroll Tax	6.70	6.50	6.02
Insurance Taxes	.60	.60	.33
Rental Recovery - Staff Housing	14.30	12.70	10.82
Other Revenues	18.00	17.50	16.49
<b>Total Own Source Revenues</b>	<b>71.00</b>	<b>69.70</b>	<b>79.24</b>
<b>Total Revenues</b>	<b>1,014.8</b>	<b>990.32</b>	<b>970.11</b>
Totals may not add due to rounding.			

\* *Revolving funds net of cost of goods sold are not included.*

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### Summary of Operations and Maintenance Expenditures

Government of Nunavut (\$ Thousands)

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	<b>2006-2007 Main Estimates</b>	<b>2005-2006 Revised Estimates</b>	<b>2005-2006 Main Estimates</b>
Office of the Legislative Assembly	13,809	13,342	13,142
Executive and Intergovernmental Affairs	11,306	10,730	10,069
Finance	50,186	49,174	48,338
Human Resources	18,019	17,901	17,896
Justice	56,368	55,043	54,598
Culture, Language, Elders and Youth	16,219	15,636	15,636
Education	184,268	175,652	173,796
Health and Social Services	224,709	215,561	215,651
Environment	16,642	16,278	16,128
Community and Government Services	140,542	137,810	133,651
Economic Development and Transportation	46,080	44,857	44,664
Nunavut Housing Corporation	95,121	92,521	89,640
<b>Total Operations and Maintenance</b>	<b>873,269</b>	<b>844,505</b>	<b>833,209</b>

Totals may not add due to rounding.

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**Summary of Capital Expenditures**

Government of Nunavut (\$ Thousands)

	<b>2006-2007 Main Estimates</b>	<b>2005-2006 Revised Estimates</b>	<b>2005-2006 Main Estimates</b>
Office of the Legislative Assembly	315	120	120
Executive and Intergovernmental Affairs	-	-	-
Finance	-	-	-
Human Resources	-	32	-
Justice	5,107	12,517	8,842
Culture, Language, Elders and Youth	3,183	1,782	1,360
Education	19,737	20,651	19,093
Health and Social Services	22,732	54,898	25,392
Environment	2,230	3,811	1,856
Community and Government Services	21,697	39,811	21,173
Economic Development and Transportation	7,951	6,116	2,874
Nunavut Housing Corporation	20,588	22,193	21,193
<b>Total Capital</b>	<b>103,540</b>	<b>161,931*</b>	<b>101,903</b>

Totals may not add due to rounding.

\* Including capital carryovers of \$54.3 million.

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**Summary of Total Expenditures**

Government of Nunavut (\$ Thousands)

	<b>2006-2007 Main Estimates</b>	<b>2005-2006 Revised Estimates</b>	<b>2005-2006 Main Estimates</b>
Office of the Legislative Assembly	14,124	13,462	13,262
Executive and Intergovernmental Affairs	11,306	10,730	10,069
Finance	50,186	49,174	48,338
Human Resources	18,019	17,933	17,896
Justice	61,475	67,560	63,440
Culture, Language, Elders and Youth	19,402	17,418	16,996
Education	204,005	196,303	192,889
Health and Social Services	247,441	270,459	241,043
Environment	18,872	20,089	17,984
Community and Government Services	162,239	177,621	154,824
Economic Development and Transportation	54,031	50,973	47,538
Nunavut Housing Corporation	115,709	114,714	110,833
<b>Total Expenditures</b>	<b>976,809</b>	<b>1,006,436*</b>	<b>935,112</b>

Totals may not add due to rounding.

\* Including capital carryovers of \$54.3 million.