

NUNAVUT ECONOMIC REVIEW

April, 2006

REVIEW OF NUNAVUT'S ECONOMY

Nunavut's economic growth has stalled in recent years due to closures at Nanisivik, Polaris and Lupin. However, the domestic impact of these events has been limited due to the low number of Nunavummiut involved in the operations and the absence of any resource royalties flowing to the territorial government.

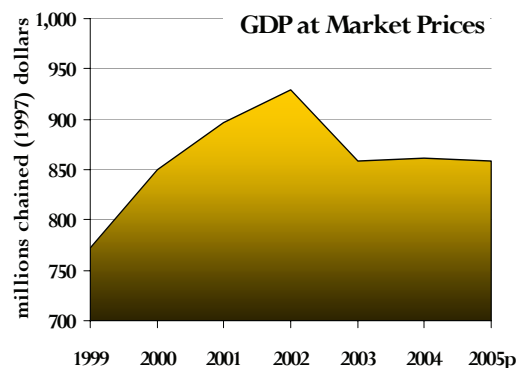
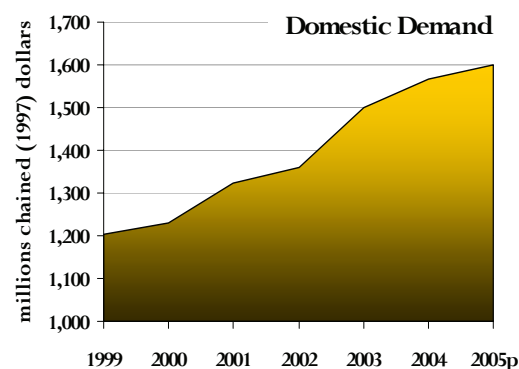
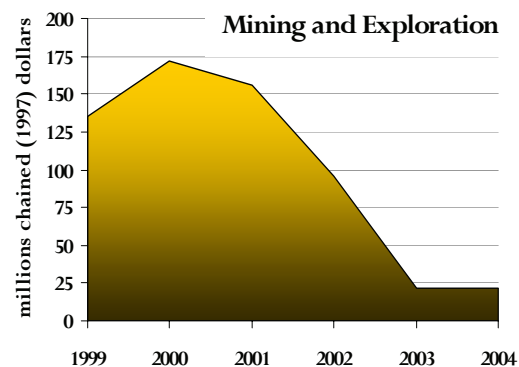
In the most recent year (2005), the economy has received a mixed bag of ups and downs. And while activity in mineral exploration, construction and government continued, little growth was reported. Preliminary data from Statistics Canada released just prior to the completion of this Review suggests that 2005 ended with virtually no change in the overall size of the economy when compared to 2004. An investigation of these numbers reveals continued growth in the domestic economy, but a deterioration of the trade balance. The reduction in exports is likely the result of final gold shipments from Lupin in 2004, while the rise in imports can be attributed to greater inflows of construction materials.

With the lacklustre performance in 2005 being largely a result of a widening trade deficit, confidence remains high for Nunavut's economy over the medium-term (2006 to 2010). Advances in mining and government will dominate Nunavut's growth profile over this time period. Construction, transportation, and numerous other service industries will benefit from the spending in these two areas. If this rise in output can be met by a similar rise in local participation, then we can be assured that its impact on Nunavut society will be more noticeable than in the past.

Looking forward at these prospects for growth, a number of challenges are easily identified. First, the economic expansion will easily outpace advances in Nunavut's social performance that has been slow to improve. The 2002 Nunavut Economic Outlook warned that this would likely occur and that it could bring with it serious ramifications—a sentiment that was echoed in the most recent Outlook (2005). The root of this warning lies with a belief that Nunavut society will not be happy with a rise in material well being, if social performance and community welfare continues to languish. One result could be a so-called "brain-drain" of educated Nunavummiut, with those not yet ready to participate in the new economy remaining behind. Nunavut's leaders will be challenged to find ways to share newly-formed wealth amongst the entire population, whether directly through participation agreements or indirectly through social spending.

A second challenge relates to infrastructure. Ageing and inadequate infrastructure is interfering with human development in Nunavut, and is also limiting the extent of economic success. Gaps exist in housing, municipal works, roads, marine facilities, and elsewhere. A lot has been made of the idea that economic projects can be used to reduce these gaps, but this strategy has its limitations and leaves the GN with the challenge of finding the necessary revenues to pay for those things which remain.

Last, the economic growth predicted will bring with it many success stories. However, this should not overshadow the challenges that remain. Nunavummiut still suffer from high unemployment, low skill levels and a growing population for which the Territory is not yet equipped to deal with. How Nunavut chooses to spend the proceeds from its economic growth will dictate whether Nunavummiut can achieve a high and sustainable quality of life.



GDP at Market Prices, Expenditure Based

	(millions of chained (1997) dollars)	
	2004	2005
Personal expenditure on consumer goods and services	425	441
Government current expenditure on goods and services	754	771
Gross fixed capital formation	388	388
Net Exports	-727	-757
Gross Domestic Product	862	858
<i>Economic Growth</i>	<i>0.5%</i>	<i>-0.5%</i>

SMALL BUSINESS IN NUNAVUT

Succeeding in the private sector remains a major challenge in Nunavut, especially for small businesses and first-time entrepreneurs. Local markets are often too small to generate enough revenues to cover costs, the best educated Nunavummiut are attracted to the high wages and benefits offered by government or NTI, and the export market is too competitive for Nunavut's high input cost environment.

Thus, products must cater to niche markets either in Nunavut or abroad, bringing with it its own set of challenges. One such challenge, especially relevant to the global marketplace, is to prevent exposing the business beyond its production capacity that is constrained by limits in the labour market and in accessing materials year round.

The mining companies set to begin operations in Nunavut offers entrepreneurs a new local market. A full list of services required is too lengthy to list, but includes logistical support, food services, security, transportation, environmental monitoring, community liaisons, safety personnel, carpenters, surveyors, interpreters, and more.

Anyone interested in starting a small business in any one of these areas must be able to generate a business plan, deal with Revenue Canada reporting requirements, collect GST, and

follow the rules established by WCB. These requirements can be intimidating, especially for first-time entrepreneurs, let alone for whom English is a second language.

Helping Nunavummiut establish and maintain businesses is important in ensuring local participation in future opportunities. Currently, no one in Nunavut provides a full compliment of business services, including an active after-care program. It might be that more Nunavummiut would be interested in business if they could get help with the paper work.

Still, the biggest challenge for business start-ups is acquiring financial capital. Few Nunavummiut have assets to offer in exchange for business loans, and even fewer own land that could be used for this purpose. Without assets, accessing capital through traditional financial institutions is impossible. The various levels of government offer grants to business (e.g. Strategic Investment Program by GN, Strategic Investments in Northern Economic Development by INAC), but funding is limited, grants are typically awarded on a schedule unrelated to the timeframe required by the entrepreneurs, and the rules for each program may or may not fit one's business plan. Recent studies into alternatives to traditional financing were unable to find a workable solution. Nevertheless, its importance demands that these investigations continue.

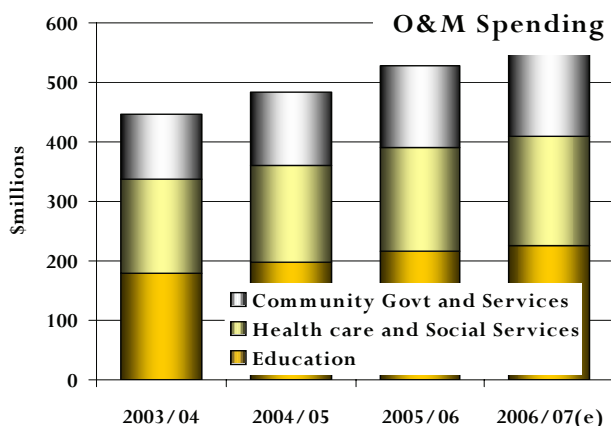
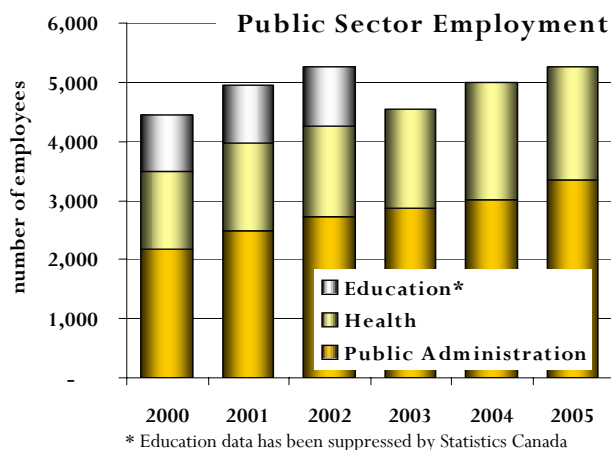
GOVERNMENT ACTIVITY

A report on Nunavut's economy would be remiss if it did not give consideration to public sector activities that represent more than half of Nunavut's domestic economy.

In 2005, the public sector added over 300 jobs to a total that now exceeds 6,000. In fact, government was the only sector to take on new staff (on net) last year, meaning that overall employment would have been down for the year had it not been for these additions.

Spending on education, health and community programming remain the most expensive responsibilities for the Government of Nunavut, requiring well over 50 per cent of the annual budget and having received the lion's share of budgetary increases, growing by almost \$100 million in the past four years.

With the Government of Nunavut's budget soon to exceed \$1 billion—almost double its spending in the 1999-2000 fiscal year—and federal transfers approaching \$30,000 per person—it is time for reflection and a serious investigation into areas for improvement. The Auditor General of Canada recently released a report on the government's fiscal management, stating significant improvements are required, while Thomas Berger's recent report recommends a significant increase in funding to deal with issues of Inuit education and employment in the public service. While seemingly contradictory, both reports are accurate. The Government of Nunavut must do better with the money it has, but at the end of the day, the challenges it faces far exceed its fiscal capacity.

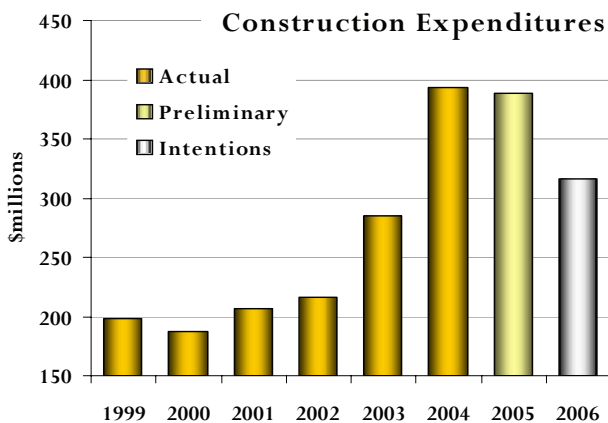
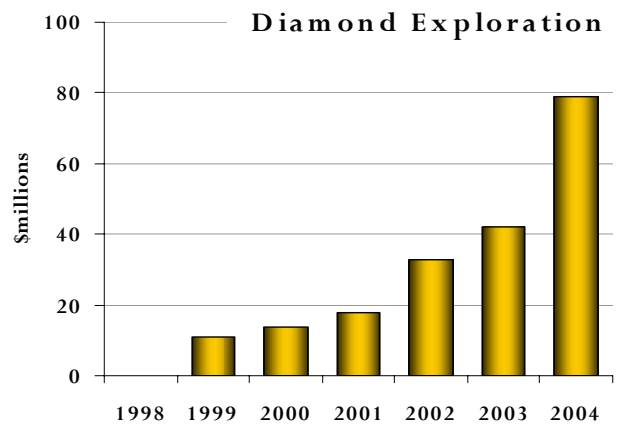
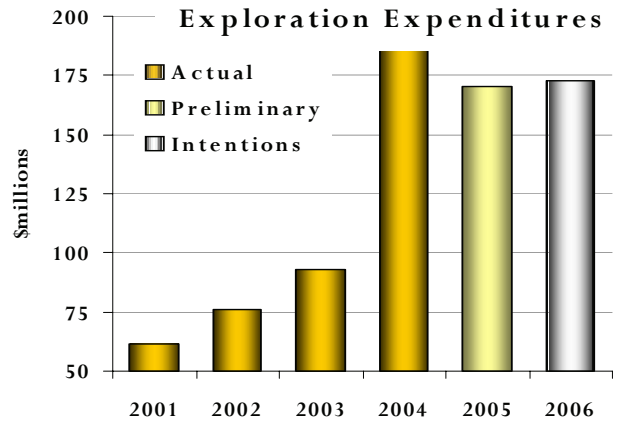


MINING AND EXPLORATION

Earlier in 2006, the Jericho Diamond Project began producing rough diamonds, bringing an end to Nunavut's brief hiatus from mineral production. This landmark opening brings with it a new era of mining in Nunavut that will see Nunavummiut more involved than ever before, providing opportunities to participate at every stage of development. Cumberland Resources, owners of the Meadowbank gold deposit, have recently signed an agreement with the Kivalliq Inuit Association that guarantees this local participation.

Previous surveys of investment intentions suggested a downturn in mineral exploration was forthcoming. This does look to be the case anymore, however. Rising world demand has pushed mineral prices to near record highs. Gold now exceeds US\$600 per ounce, and some predict it will reach US\$1,000 per ounce by year's end. Prices this high could mean big things for Nunavut's mining industry, bringing numerous deposits into play that would otherwise be considered uneconomic. Spurred on by the higher prices, mining and exploration companies plan to increase their exploration activities in 2006, with diamonds continuing to attract the most attention.

Many employment and business opportunities exist as a result of this exploration work. In addition to direct jobs, exploration companies require expediting and logistical services, road building and maintenance, environmental testing and monitoring, and hospitality and food services, just to name a few. It is just as important that Nunavummiut are involved in these activities, as it is working directly for the mines, themselves.



CONSTRUCTION

The construction industry was on a steady climb until 2005 when expenditures levelled off at just under \$400 million a year. Some of the projects that contributed to this total include the hospital in Iqaluit, health centres in Rankin and Cambridge Bay, Jericho Diamond Project, reclamation work at Nanisivik and Polaris, DEW Line clean up, new schools in Baker Lake and Iqaluit, and additional public housing units throughout Nunavut.

Most of these projects will reach their completion in 2005/06, bringing an end to the upward trend. Statistics Canada's latest prediction for construction expenditures in 2006 is \$316 million.

According to Statistics Canada's *Survey of Employment, Payroll, and Hours*, contractors began laying people off a year prior to the drop in activity. In all, 110 people lost their construction jobs in 2005, down from a peak employment level of 635. This drop should be temporary. More projects are scheduled to come on line in 2007, beginning with the mine development at Meadowbank.

The longer run forecast is even better with expectations riding high for more housing money from the federal government, more municipal infrastructure projects as a result of MRIF and Gas Tax money, a new mine at Hope Bay, a trade school in Rankin, a heritage centre in Iqaluit, and potentially a deep sea port in the capital.

NUNAVUT'S DEMOGRAPHIC PROFILE

Nunavut's population remains the youngest in Canada with over 50 per cent of its population under the age of 25.

The young population demands more public expenditures on education and early childhood learning. As these youth graduate, they will require opportunities to earn a living and will need homes for their families. Meanwhile, the number of seniors will grow quickly, stretching the limits of the health-care system.

The young population represents Nunavut's greatest economic asset. They will come to shape the Territory in a manner similar to what Baby Boomers did in the south through their economic, social and political decisions.

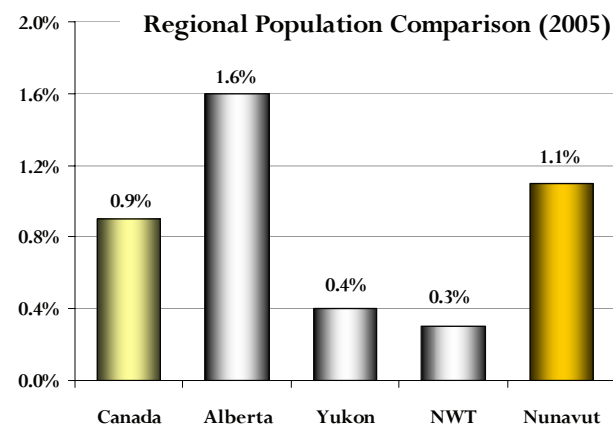
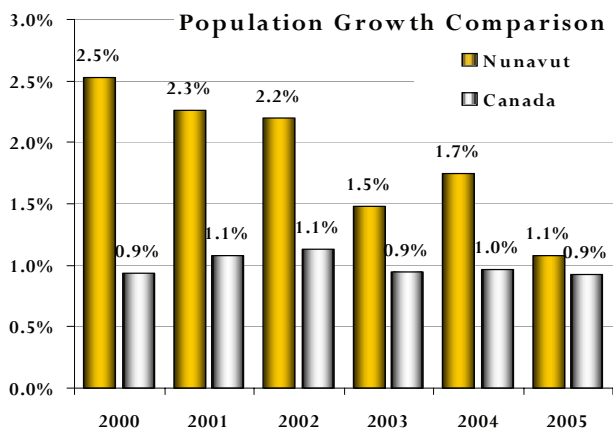
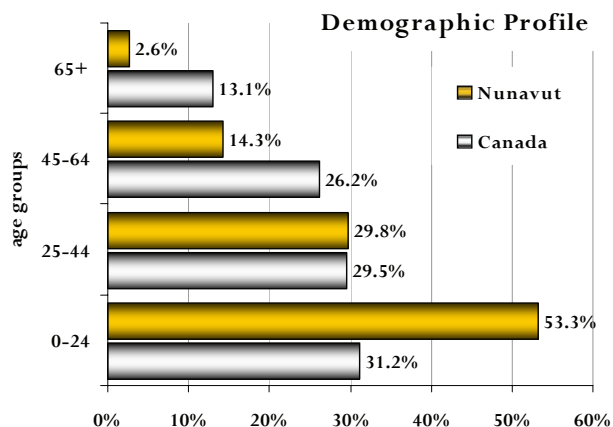
With strong educations, good health, and real self-confidence, their influence will be positive—failing in these regards could result in social collapse.

Nunavut's population is always described as the youngest in Canada, and until recently, the fastest growing. However, the latter statement is no longer true. Despite a record number of births last year (785), Nunavut also recorded a record number of deaths at 138 and more importantly lost 296 people through immigration to other parts of Canada. With these results, the Territory's population grew by 1.1 per cent in 2005, marginally higher than the national rate of 0.9 per cent.

This slower population growth is not what was expected. Projections made back in 2000 predicted Nunavut's population would reach 44,000 by 2020. But with a falling fertility rate amongst Nunavummiut women and net outflows of people to the rest of Canada, Nunavut's population will grow much slower.

Whether this is a good or bad result depends on your perspective. Government revenues are tied directly to population through the Territorial Financing Formula, so more people means more revenues. More people also represent a larger consumer base for local business and the opportunity for greater economies of scale for public and private services. At the same time, the shortage of housing and the current pressures on municipal infrastructure suggest the population has exceeded the limits of Nunavut's current capacity.

As time passes, it will be the performance of the economy that will dictate how many people can live successfully in Nunavut. Without economic growth and the jobs that a growing economy provides, younger generations will be forced into decisions regarding their own residency in Nunavut—choosing between their home community and low standards of living, or moving elsewhere for greater opportunities for economic success. If this increased mobility results in sizeable out-migration, its impact on Nunavut will be profound.



LIST OF TABLES AND CHARTS

- Mining and Exploration*, millions of chained (1997) dollars, Statistics Canada, 2004 Revised Provincial and Territorial Economic Accounts.
- Domestic Demand*, millions of chained (1997) dollars, Statistics Canada, Provincial and Territorial Economic Accounts Review, 2005 preliminary estimates.
- GDP at Market Prices* (chart), Expenditure-based, millions of chained (1997) dollars, Statistics Canada, Provincial and Territorial Economic Accounts Review, 2005 preliminary estimates
- GDP at Market Prices* (table), Expenditure-based, millions of chained (1997) dollars, Statistics Canada, Provincial and Territorial Economic Accounts Review, 2005 preliminary estimates
- Public Sector Employment*, number of wage and salary earners, Statistics Canada, Survey of Employment, Payroll, and Hours, January 2006. (* Education data for 2003, 2004 and 2005 has been suppressed by Statistics Canada)
- O&M Spending*, millions of dollars, Government of Nunavut, Department of Finance, various budget documents.
- Exploration Expenditures*, millions of dollars, Canadian Intergovernmental Working Group on the Mineral Industry, Overview of Trends in Canadian Mineral Exploration, 2005.
- Diamond Exploration*, millions of dollars, Canadian Intergovernmental Working Group on the Mineral Industry, Overview of Trends in Canadian Mineral Exploration, 2005.
- Construction Expenditures*, millions of dollars, Statistics Canada, Capital and Repair Expenditures, Actual, Preliminary, and Intentions, February, 2006.
- Construction Employment*, number of wage and salary earners, Statistics Canada, Survey of Employment, Payroll, and Hours, January 2006.
- Demographic Profile*, comparison by age groups, Statistics Canada, Estimates of Population, 2001 Census, October, 2005.
- Population Growth Comparison*, population growth, Statistics Canada, Estimates of Population, 2001 Census, October, 2005.
- Regional Population Comparison (2005)*, population growth, Statistics Canada, Estimates of Population, 2001 Census, October, 2005.



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Located Rankin Inlet within the Kivalliq Region of Nunavut, Sakku Investments Corp. is a for-profit organization owned by the Kivalliq Inuit Association (KIA). Sakku serves as KIA's 'economic arm' and is deemed an Inuit Birthright Corporation.

Sakku's mission is to build a viable and healthy economy for the Inuit of the Kivalliq. Since its incorporation in 1989, Sakku has met its Mission primarily through partnership and technology transfers with other corporations.

Sakku owns outright two companies and has equity positions in seven other companies ranging from insurance services to boarding homes to marine transportation to the retail trade.

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