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HIGHLIGHTS

- The combined income of Aboriginal households, business and government sectors will reach \$24 billion in 2011 and could eclipse \$32 billion by 2016. If achieved, this income would exceed the level of nominal GDP in N. & L. and PEI combined.
- Our estimates show that Aboriginal people are increasingly leaving their economic footprint on the national picture.
- Aboriginal population has been beneficiaries of the booms in the resource sector, since the past decade. They also contributed to the surge by filling what would have been labour shortages. Further income gains appear in store if commodity prices remain buoyant.
- Businesses in particular have been increasingly leaving their mark on total purchasing power. The Aboriginal segment of the economy represents a rapidly-growing consumer market and a potentially lucrative one for all Canadian businesses.
- Significant challenges remain on tap. Living standards for Aboriginal people continue to move away from the national average. In turn, boosting education attainment levels of Aboriginal people should remain a national priority.

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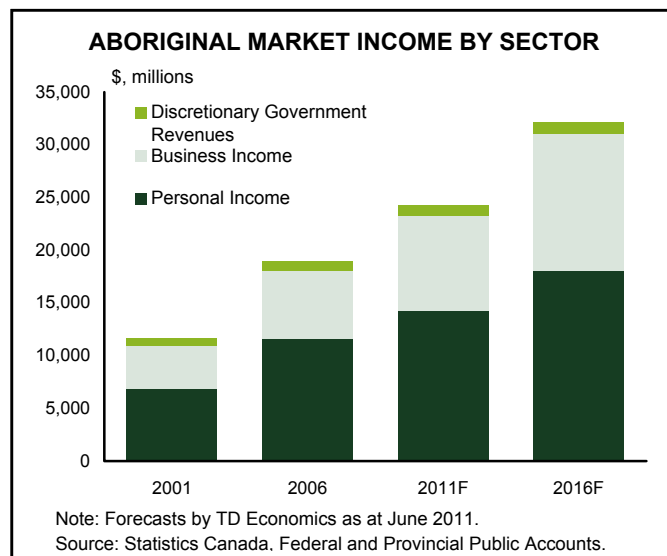
ESTIMATING THE SIZE OF THE ABORIGINAL MARKET IN CANADA

\$32 billion in combined income across households, businesses and governments by 2016

We thank the Canadian Council for Aboriginal Business (CCAB), whose research and insights were instrumental in the preparation of this report.

Over the past decade, Aboriginal people in Canada – both on- and off-reserve – have been increasingly flexing their economic muscle. TD Economics estimates that the combined total income of Aboriginal households, business and government sectors will reach \$24 billion in 2011, double the \$12 billion tally recorded in 2001. By 2016, we estimate that this overall income pie could eclipse \$32 billion, or roughly 50% above this year’s estimated level. If achieved, total Aboriginal income would be greater than the level of nominal GDP of Newfoundland and Labrador and Prince Edward Island combined. While households and community governments have been participating in this growth, the most significant expansion of the overall Aboriginal market is being recorded within the business sector.

Through an increased participation in the market economy, Aboriginal people have been making their mark across a number of goods and service areas. That said, they have been particular beneficiaries of the booms in the resource and construction sectors, particularly in Western Canada, since the early part of the past decade. The global recession of 2008-09, which hit these two areas of the economy especially hard, represented a significant setback for Aboriginal households and businesses. Nonetheless, the upward trajectory recorded prior to 2008 appears to have resumed over the past year in tandem with the recovery in commodity prices. And, there is widespread expectation that resource markets will remain buoyant over the medium term, helping to underpin further gains in Aboriginal incomes over the next five years.



Many non-Aboriginal businesses already recognize the contribution that Aboriginal people can make to fill growing labour shortages, especially as the Canadian population ages. However, there is less recognition of the fact that the Aboriginal segment of the overall population represents a rapidly growing consumer market

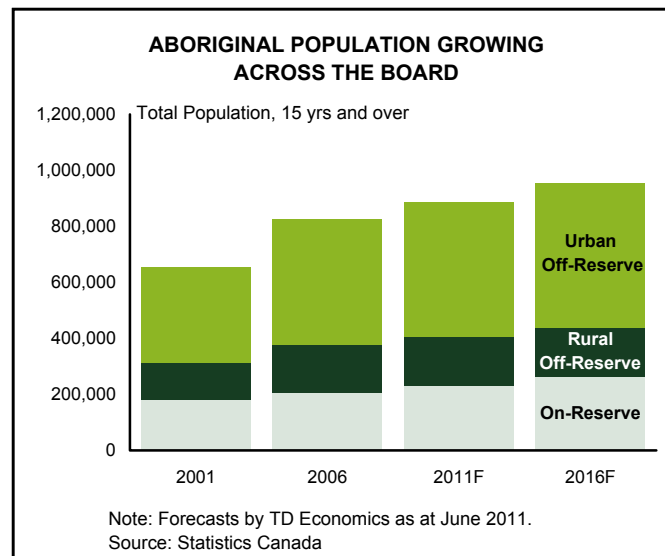
and a potentially lucrative one for Canadian businesses.

Still, one cannot overlook the significant challenges that remain. When income gains are adjusted for the rapid population growth among Aboriginal people, little progress is being made in reducing the disparity in living standards relative to the Canadian average. In fact, the Canadian Centre for Policy Alternatives noted that the median income for Aboriginal people was 30% lower than the median income for all other Canadians in 2006¹. For Aboriginal people to truly put a dent in this divergence over the long run, the gap in education attainment needs to be closed. This past week's conference on Aboriginal education at Queen's University represents a good step forward in exploring potential practices to attract and retain more Aboriginal people to post-secondary education. It is important to recognize however, that good ideas and discussion must be followed up with action.

Estimating the size of the Aboriginal market not easy

Data limitations mean that many assumptions and inferences have been required to arrive at a prudent and conservative estimate for total Aboriginal income – or market size – and the household, business and government sub-components. For our forecasts, we have measured the total market, including First Nations, Métis and Inuit. In some cases, data were available for both on-reserve and off-reserve and where possible, we have preserved this disaggregation.

The primary data source for our analysis is the 2001 and 2006 Census. Due to the fact that it has been almost five years since the last Census survey was conducted, we have had to decipher how economic and social performances have



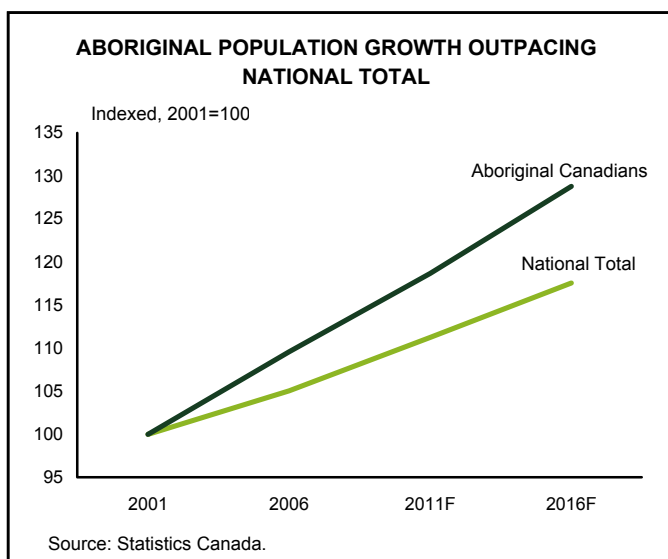
since unfolded. In addition, the global financial crisis lies in between Census estimates, making this forecast particularly difficult. Even with the Census, the size of the Aboriginal population is likely underestimated. Furthermore, some communities also refused to participate in the survey due to underlying privacy concerns.

Given the spotty nature of data since 2006, we have supplemented our database with information from other sources. For example, we have accessed federal and provincial documents to estimate aggregate government spending per annum. On the personal side, we have used the Aboriginal Labour Market Estimates to get a better sense of job trends since the 2006 Census. The Canadian Council for Aboriginal Business also provided us with survey data on the count, size, industry specifications, and revenue estimates of some large community economic development corporations.

With these multiple sources, we have pieced together the numbers needed to quantify the size of the market. However, we continue to call for improved data collection methods, better survey participation rates among communities, and less fragmented results across agencies and departments. If anything else, the \$32 billion income potential we have calculated using limited data show how important Aboriginal people are to the overall national landscape. Furthermore, the collection and availability of high quality data would certainly help policymakers and other stakeholders better understand and analyze the complex issues at hand.

Household income doubles to \$14 billion

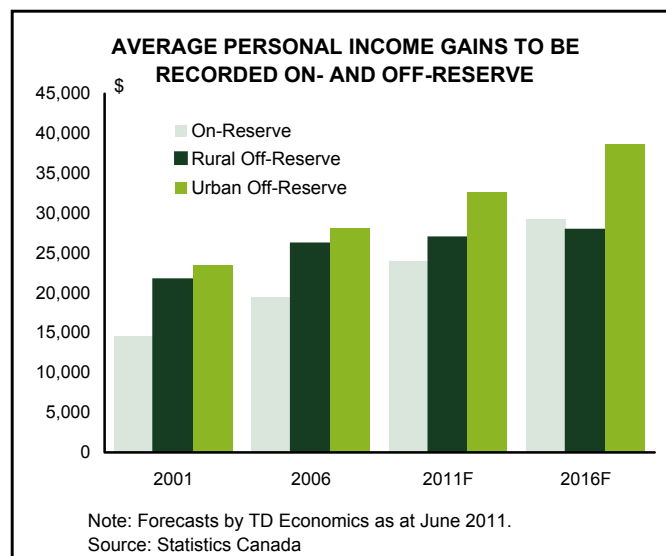
Over the past decade, the personal income of Aboriginal people has grown from \$6.9 billion in 2001 to an estimated



\$14.2 billion in 2011. This translates into an average gain of roughly 7.5% per year. Behind the impressive income showing is higher employment and labour force participation rates. With jobs in hand, Aboriginal people have been rising in the ranks, driving up their personal and community income growth. Both the employment and income increases are noted both on-reserve and off-reserve and in roughly equal proportions within rural and urban centres.

The labour market data from Statistics Canada give us an idea of the industrial composition of the working population. The numbers suggest that the trends presented in the 2001 and 2006 Census have for the most part prevailed. More specifically, over the past decade, there has been a major shift in the Aboriginal labour force towards the natural resource sector (oil and gas and mining) and the construction and development that often comes along with this type of activity. As such, elevated personal income growth is not surprising given the higher-than-average wages paid in these sectors. Leading up to the recession, about 36% of employed Aboriginal people were housed in the goods-producing and construction sectors.

The shift to resource-based economies has been more pronounced within those individuals living off-reserve rather than on-reserve, where traditional trades such as hunting, agriculture and fishing remain important. At the



same time, income performance for the average First Nation household on-reserve has likely been steadier over the past decade. This is because the off-reserve Aboriginal community reaped the benefits of the resource boom during the 2001-07 period. However, some of the gains were given back during the recent economic downturn. Nonetheless, off-reserve individuals, on average, continue to post higher incomes than those individuals living on-reserve.

ABORIGINAL PRE-TAX (MARKET) INCOME, BY INCOME COMPONENT						
	2001	2006	2011F	2016F	2001-2011	2011-2016
	(\$ millions unless otherwise noted)				(avg. annual % chg.)	
Personal Total Pre-Tax Income						
On-Reserve	1,001	1,562	2,233	3,205	8.4	7.5
Off-Reserve	5,873	9,999	11,972	14,828	7.4	4.4
Rural	1,493	2,472	2,590	2,756	5.7	1.3
Urban	4,379	7,527	9,382	12,072	7.9	5.2
Total Personal Income, all sources	6,874	11,561	14,204	18,034	7.5	4.9
Business						
Small Business Earnings	443	590	974	1,255	8.2	5.2
Economic Development Corporation Revenues Realized	3,679	5,836	8,122	11,767	8.2	7.7
Total Business Income	4,122	6,426	9,096	13,022	8.2	7.4
Government						
Federal	6,728	8,947	9,373	10,098	3.4	1.5
Provincial/Territorial	115	546	876	944	22.5	1.5
Total	6,843	9,492	10,250	11,042	4.1	1.5
Discretionary Government Revenues	684	949	1,025	1,104	4.1	1.5
Total Aboriginal Income*	11,680	18,936	24,325	32,160	7.6	5.7
Total Aboriginal Income Per Capita	10,950	16,204	19,217	23,412	5.8	4.0
Total Nominal GDP Per Capita	35,722	44,524	50,224	58,691	3.5	3.2

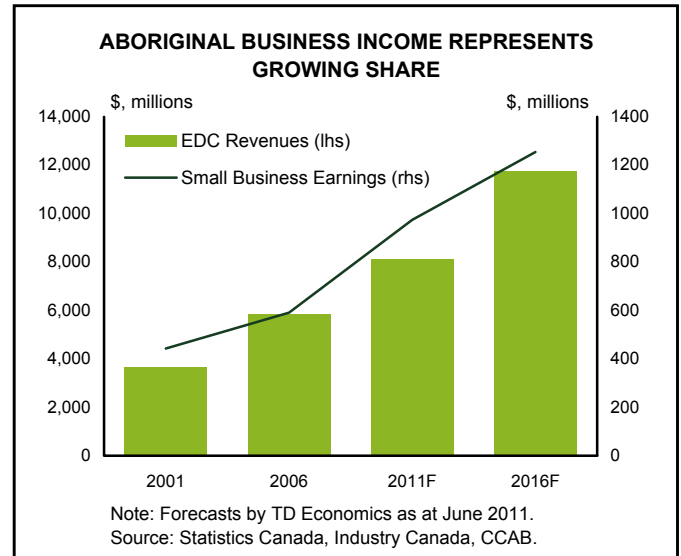
*Total of Personal, Business and Discretionary Government Revenues
See appendix for further calculation methodology.

Total business income hits \$9 billion

A decade ago, the business share of the total Aboriginal market represented was 35% and small businesses accounted for the dominant share. Fast forward to today, and the number of economic development corporations (EDCs) has increased and so too have annual earnings. Small businesses and EDCs combined now contribute about 37% to aggregate annual income. However, it is important to stress that data limitations are particularly challenging for quantifying this category, although we believe our forecasts to be on the prudent end of the spectrum.

Let us start with the income of small businesses. Anecdotal evidence suggests that most Aboriginal-owned entities have less than a hundred employees. In arriving at our figure, we use Census estimates of the number of Aboriginal small businesses and calculate the corresponding share of total Canadian businesses in those years. Projected shares are then applied to subsequent data on the number of Canadian small-business enterprises as well as average revenues. In carrying out this crude estimate, we make the simplifying assumption that Aboriginal small businesses are similar and comparable to other small businesses across the country. This might not be the case given the resource-based nature of many First Nation, Inuit and Métis businesses. What's more, if the small business is still quite young in its operating cycle, profit generation may still be in the exponential growth phase. According to our estimates, there are nearly 25,000 Aboriginal-owned entities across the country and collectively, they will bring in about \$974 million in earnings in 2011.

EDCs are now the other key player in this income category. These entities are the economic and business



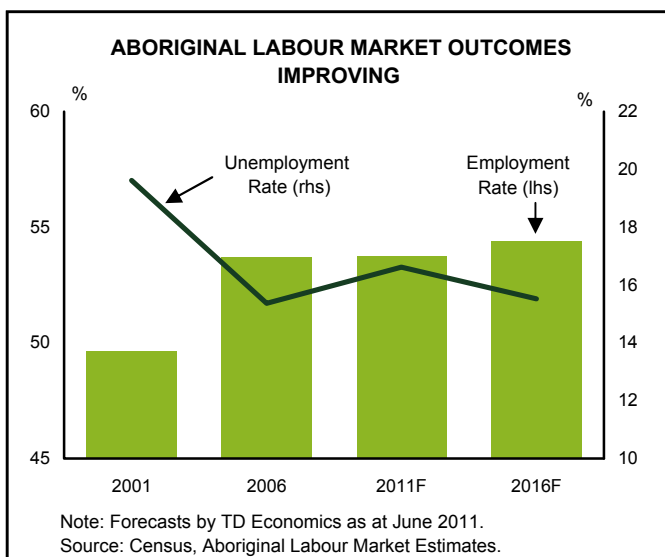
development arm of an Aboriginal government that pursues economic activity. In almost all cases, the firm is located in the community the corporation represents. In fact, the enterprise is often owned by the Aboriginal government.

In recent years, these community businesses have taken on greater economic importance. In response, and to better understand the nature of this type of commerce, the Canadian Council for Aboriginal Business (CCAB) commissioned a survey in 2010. From an estimated 262 active economic development corporations, CCAB, in partnership with Environics Research Group, randomly selected fifty businesses for a telephone or in-person survey. The results find that EDCs are based in all provinces and territories. In terms of industry, EDCs cover both goods and services-producing sectors in roughly equal proportion.

At the time the CCAB survey was commissioned, each community-based business had on average 185 employees and had been in business for 17 years. The average annual gross sales in 2010 were roughly \$28 million per firm. The point in time estimate and the maturity of each business suggests that a moderate expansion in the number of organizations has probably taken effect over the last several years. We have estimated that roughly ten new EDCs have been set up each year since 2001, consistent with the historical trend. Still, the small number of corporations has led revenues to more than double over the past decade. In 2011, annual earnings (before expenses) should reach \$8.1 billion. Going forward, we expect to see outsized revenue gains as well as more communities adopting this type of business.

Government income has also grown

Federal and provincial government spending on Aboriginal people and communities has long been an important



income source. As such, we have reviewed planning and financial documents to ascertain how many public sector dollars are transferred to these communities each year. While smaller than the federal contribution, provincial funding is certainly not negligible and as such, we have factored in all government dollars into our estimates. In addition to the aggregate figure, we are interested in the breakdown between discretionary and non-discretionary government transfers. This distinction is important because in the latter case, the funds delivered are earmarked for specific purposes only. Examples include health care and education transfers. By contrast, discretionary spending has few such stipulations attached and can be thought of as disposable income.

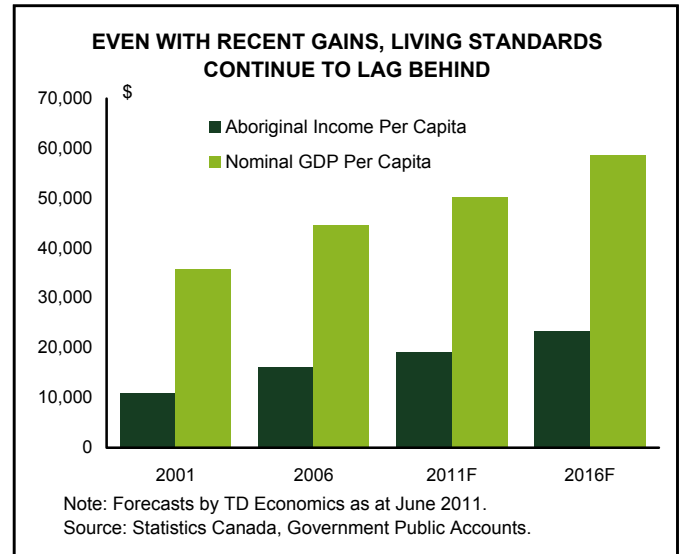
Data limitations make arriving at an aggregate dollar figure complex, and when feasible, the portion of discretionary funding is extremely difficult to determine. Total federal funding spent on Aboriginal people ranges from \$6.8 billion in 2001 to \$10.3 billion in 2011. On average, this represents an annual income growth of 4.1% per year over this period. Fiscal austerity and departmental funding envelopes in place since 2010 have marginally lowered the decade-long average growth. Public sector dollars have grown the weakest relative to the other income categories. As such, the government share of total income has decreased from 38% in 2001 to just under 31% in 2011.

In the absence of data, we are unable to accurately quantify the proportion of federal funding that is discretionary. To provide a rough sense, we have simply estimated that 10 cents out of every public sector dollar dispersed can be used at the community's discretion. With this inherent flexibility, we have included only this figure in our aggregate income total.

Income pie to grow to \$32 billion by 2016

With decade-long trends in hand, and given our view on the national and regional economic outlook, we have projected what market income (including discretionary government funding) might be five years from now. For the most part, we anticipate that the income and industrial trends that have been shaped over the last ten years will only become more fully entrenched going forward.

Many of the arguments behind our view were detailed in a June 2009 report by TD Economics, *Aboriginal People in Canada*. We argued that the positive winds of change were in place, including: (1) bright long-term prospects for the resource sector; (2) growing skills shortages; and (3) 2004 Supreme Court decisions that established that governments have a legal obligation to consult Aboriginal communities about potential resource development projects. And while



off-reserve Aboriginal people enjoy the brightest income prospects, impact benefit agreements and corporate investments into communities are increasingly bringing in more financial benefits to communities. Going forward, we expect these types of relationships and financial arrangements to continue to blossom.

At the sub-regional level, we anticipate that the economic outlook will favour those resource-based economies like Alberta, Saskatchewan and Newfoundland and Labrador. In the case of Alberta, labour shortages are already being reported, just two years shy of the anniversary of the global financial crisis. Labour shortages in resource sectors should benefit Aboriginal people by increasing annual wage inflation and helping nudge up employment and labour force participation rates.

In some respects, the aggregate numbers we have derived are built on conservative assumptions and do not encompass all income sources of Aboriginal individuals and communities. For example, we have not included the interest income of previously settled specific land claims that were at one time delivered to the community as a lump sum. In our 2009 report we cited that yet-to-be-settled comprehensive and specific land claims could yield as much as \$9-\$13 billion. While we recognize land claims to be an important income source, the specific amounts and the timing of settlement payments are highly uncertain. Data limitations have also led us to exclude corporate donations and the dollar value of impact benefit and signatory agreements from our aggregate total.

Closing the education gap key to long-term growth

Over the past decade, the size of the Aboriginal income

market (+8% per year) has grown at a faster pace than overall Canadian nominal GDP (+4% per year). Our near-term outlook suggests that this trend will continue over the next five years. By 2016, the \$32 billion tally will be a lucrative market to non-Aboriginal and Aboriginal companies alike.

A close look at the underlying picture allows us to highlight the challenges that remain. Despite the growing pie, the level of total income on a per-capita basis is not only unlikely to narrow the gap with that of non-Aboriginal people (as measured by nominal GDP) but it could widen further. Over the long haul, the most important impediment to closing the gap in living standards is the sub-par education attainment levels recorded by Aboriginal people. The recent outperformance and sizeable gains can be connected to the recent resource and construction booms that offered Aboriginal people well-paying jobs without necessarily having high school certification. As we saw during the recent downturn, these individuals often have little certification or training to fall back on when the boom sours.

Recent developments in e-learning programs and adult education programs are important steps in the right direction. Still, to ensure that individuals and communities take

advantage of all the income potential ahead of them, policy makers in connection with businesses and academics will need to think of inventive ways to educate individuals and communities. While reviewing such policy options and plausible solutions is out of scope for this paper, boosting education levels should be an important national priority. A conference on Aboriginal education at Queen's School of Public Policy, co-chaired by former TD Bank Chief Economist Don Drummond and former CEO of the Assembly of First Nations Bob Watts, held this past week featured innovative thinking on the subject.² Furthermore, the national Aboriginal organizations are putting a significant emphasis on education. On June 16th, the Inuit-Tapiriit Kanatami announced the National Strategy on Inuit Education, and the recent Canada-First Nations Joint Action Plan highlights education as a key priority.

Our estimates show that Aboriginal people are increasingly leaving their economic footprint on the national picture. However, by objectively acknowledging the challenges ahead, we hope to ensure that progress going forward is prosperous, sustainable and beneficial to Aboriginal individuals, communities, as well as all other Canadians.

APPENDIX AND METHODOLOGICAL DETAILS

Data sources

Publicly available 2001 and 2006 Census information were used to arrive at historical income and market estimates. From this database, demographic information including population counts both on- and off-reserve and in rural and urban centres, household income and labour force status were obtained. To arrive at estimates for 2011 and a forecast for 2016, we have supplemented the Census with a variety of other more recent databases. Examples include Statistics Canada's population projection for Aboriginal people (2005), the national Business Register, and Aboriginal Labour Market Estimates. What's more, we were also given access to high-level information from the Canadian Council for Aboriginal Business survey on economic development corporations.

In order to provide greater transparency and clarity to our estimates, we spell out next the main assumptions and inferences made for each income sub-component.

Personal income

For this sub-component, we have split income trends into off-reserve in both rural and urban centres and on-reserve. The 2001 and 2006 Census give us employment rates, labour force participation rates, and average household income for each of these categories. From there, the Aboriginal Labour Market Estimates provide us with annual employment trends from 2007-2010 for those individuals living off-reserve. This more recent data provide us with a rough sense as to how this segment of the population fared during the recent economic downturn. For those individuals on-reserve, we have assumed that income and employment trends have for the most part prevailed since 2006. Underlying this assumption are historical estimates and the stability often associated with traditional-based economies.

In our forecast out to 2016, we have assumed that household income for Aboriginal people, both on and off-reserve, will grow at a rate similar to all Canadians.

Business income

National small business counts were taken from Industry Canada and Statistics Canada's Business Register. These can be found at the following location: http://www.ic.gc.ca/eic/site/sbrp-rppe.nsf/eng/h_rd01252.html.

From this data source, we have assumed that most Aboriginal-owned small businesses have less than ninety-

nine employees. To arrive at the desired number of small businesses, we have taken the share of individuals who are self-employed and multiplied this with the total national business count. This rough methodology was recommended to us by Industry Canada senior analysts due to the fact that not all self-employed individuals own a small business and more than one self-employed individual (e.g., partnership) could be housed in the same business. Average weekly earnings were also taken from this same Statistics Canada data source. We have assumed a 52-week operating year and for our forecasts, have assumed that decade-long averages prevail.

Information on economic development corporations (EDCs) heavily relied on results from a recent survey commissioned by the Canadian Council on Aboriginal Business. Based on anecdotal evidence, we have assumed that ten new EDCs are set up per year. Earnings for these entities are projected out to 2016 using nominal GDP as a proxy.

Government income

For federal transfers dispersed to Aboriginal communities, we have taken annual spending numbers from Departmental Reports on Plans and Priorities. This aggregate includes Aboriginal Affairs and Northern Development, Health Canada, CMHC, Solicitor General, Heritage Canada, the Department of Fisheries and Oceans, Citizenship and Immigration Canada, the Privy Council Office, and the Department of Justice. We have assumed a 1.5% year-over-year program spending increase in 2011-12, less than the 3.3% decade-long average, due to fiscal restraint in place. For similar reasons, we assume a 1% annual program spending increase until 2016-17.

Provincial and territorial government funding was taken from annual Public Account documents. Funding includes general transfers, subsidies and programs targeted towards Aboriginals where data were available. Annual program spending growth for our forecasts is assumed to be identical to that of the federal government.

To arrive at discretionary spending, we have assumed that roughly 10 per cent of all federal and provincial government spending is not earmarked to a specific purpose (e.g., health, education). This share is assumed constant over our forecast period.



References

- 1 Wilson, Daniel and Macdonald, David “The Income Gap Between Aboriginal Peoples and the Rest of Canada,” Canadian Centre for Policy Alternatives, April 2010.
- 2 For further conference information, please see the following website: http://www.queensu.ca/sps/events/Indigenous_Issues/.

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