

ECONOMIC REVIEW

Overview

The Northwest Territories (NWT) economy has shaken off the effects of the COVID-19 pandemic. Economic activity, output, and employment expanded throughout 2021 and 2022, recovering much of the economic loss that occurred in 2020. Labour markets have performed particularly well, with resident employment and the employment rate rising to record highs. This has helped support wages and incomes, which in turn has boosted consumer spending and retail sales. Diamond production also returned to pre-pandemic levels and exploration spending intentions are up.

However, the recovery from the pandemic returns the economy to its pre-pandemic path of slow decline. Maturing diamond mines, labour shortages, and a lack of economic diversification will continue to dampen economic growth. These challenges are heightened by high inflation and higher interest rates. Most pressing is the lack of workers that is putting a brake on private sector activity, as well as the impending closure of the Diavik diamond mine. There are currently no other projects on the horizon large enough to fill the economic gap that will be left by the closing diamond mines.

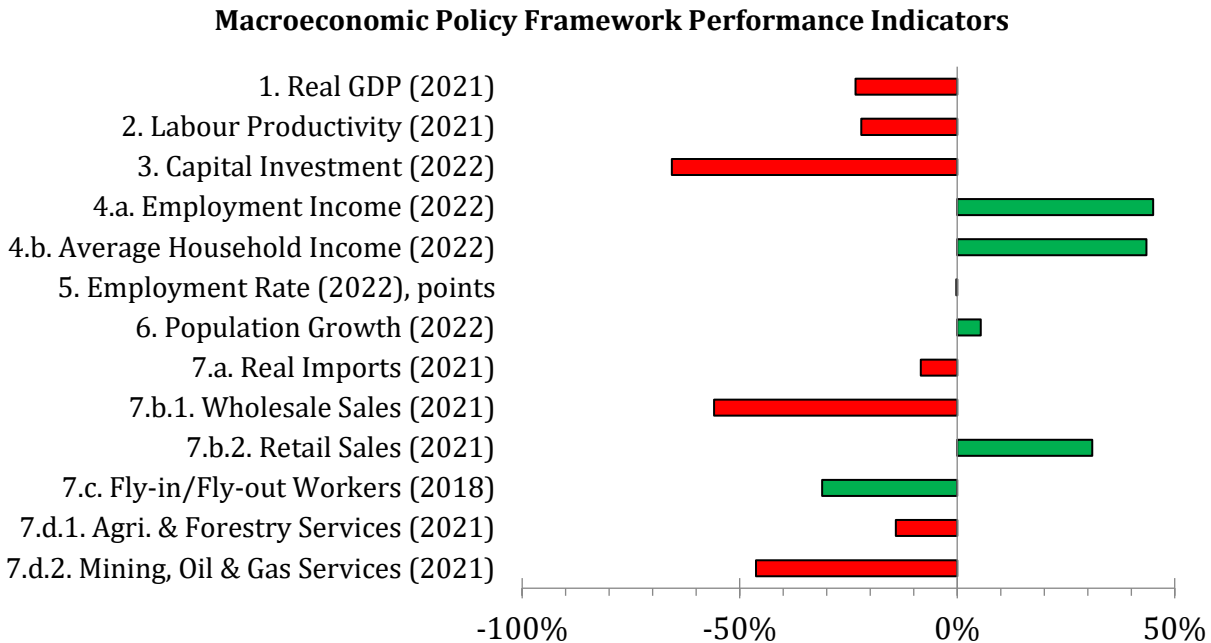
Current State of the Economy

The recent performance of the NWT economy is evaluated using the 13 *Macroeconomic Policy Framework*¹ performance indicators. The *Macroeconomic Policy Framework* was developed in 2007 following a consultation with NWT residents that resulted in a consensus that the future economic growth should be balanced, diversified, and sustainable. The *Macroeconomic Policy Framework* provides a comprehensive policy and planning framework to guide government spending and investment decisions that support economic development, and the *Framework's* 13 performance indicators evaluate the economic wellbeing of the territory and provide an indication of the effectiveness of the GNWT's investments in developing the economy. The performance indicators compare current indicator values to their 2007 baseline levels. The year 2007 was chosen as the baseline because it is the year the *Macroeconomic Policy Framework* was developed but also marks a period of great expansion and optimism in the NWT when the Snap Lake diamond mine was being

¹ <https://www.fin.gov.nt.ca/en/resources/macroeconomic-policy-framework>

built. For such a small economy returning to this abnormally high level of economic output and activity may not be possible.

In the following figure, the performance indicators with red bars show a worsening change in their values and the indicators with green bars show an improvement in their values since the 2007 benchmark year. All performance indicators reflect the most current data available.



Source: Statistics Canada, NWT Bureau of Statistics, and NWT Finance

Five of the 13 indicators have improved. These include incomes, population growth, retail sales, and non-resident workers. Earnings, population, and retail trade are all higher now (and the number of fly-in/fly-out workers is lower) than in 2007, which all point to favourable labour market conditions and a high quality of life.

Seven of the 13 indicators have worsened. These include real GDP, productivity, new investment, imports, wholesale trade, and resource sector services. The indicators are all smaller now than in 2007, signalling economic decline.

The employment rate is unchanged. Today, and in 2007, close to three quarters of the working-age population in the NWT is employed. However, the composition of employment between industries has changed.

Economic Outlook

The NWT economy has shaken off the effects of the global COVID-19 pandemic: economic output has recovered from the lows of 2020 and employment has surpassed pre-pandemic highs. Over the near term, the NWT labour market is expected to remain robust while real economic output is forecast to persist at lower levels compared to pre-pandemic conditions.

Northwest Territories' Economic Outlook

Chained (2012) millions of dollars unless otherwise stated

	2018	2019	2020	2021	2022e	2023f
Gross Domestic Product	4,941	4,750	4,265	4,475	4,457	4,328
<i>Percent Change</i>	1.4	(3.9)	(10.2)	4.9	(0.4)	(2.9)
Total Investment	1,021	846	626	689	754	816
<i>Percent Change</i>	(4.4)	(17.1)	(26.0)	10.1	9.4	8.2
Household Expenditure	1,659	1,665	1,650	1,719	1,755	1,771
<i>Percent Change</i>	1.7	0.4	(0.9)	4.2	2.1	0.9
Government Expenditure	2,182	2,243	2,344	2,454	2,392	2,298
<i>Percent Change</i>	3.2	2.8	4.5	4.7	(2.5)	(3.9)
Exports	3,553	3,250	2,443	2,730	2,706	2,656
<i>Percent Change</i>	0.9	(8.5)	(24.8)	11.7	(0.9)	(1.9)
Imports	3,459	3,240	3,017	3,176	3,209	3,269
<i>Percent Change</i>	(0.2)	(6.3)	(6.9)	5.3	1.0	1.9
Employment (Number of Residents)	22,800	22,500	21,700	23,600	24,900	25,200
<i>Percent Change</i>	0.9	(1.3)	(3.6)	8.8	5.5	1.2
Average Weekly Earnings	1,419	1,453	1,512	1,528	1,560	1,603
<i>Percent Change</i>	1.4	2.4	4.0	1.1	2.1	2.8
CPI (All-Items), Yellowknife	136.6	138.8	138.9	142.0	151.6	156.6
<i>Percent Change</i>	2.3	1.6	0.1	2.2	6.8	3.3

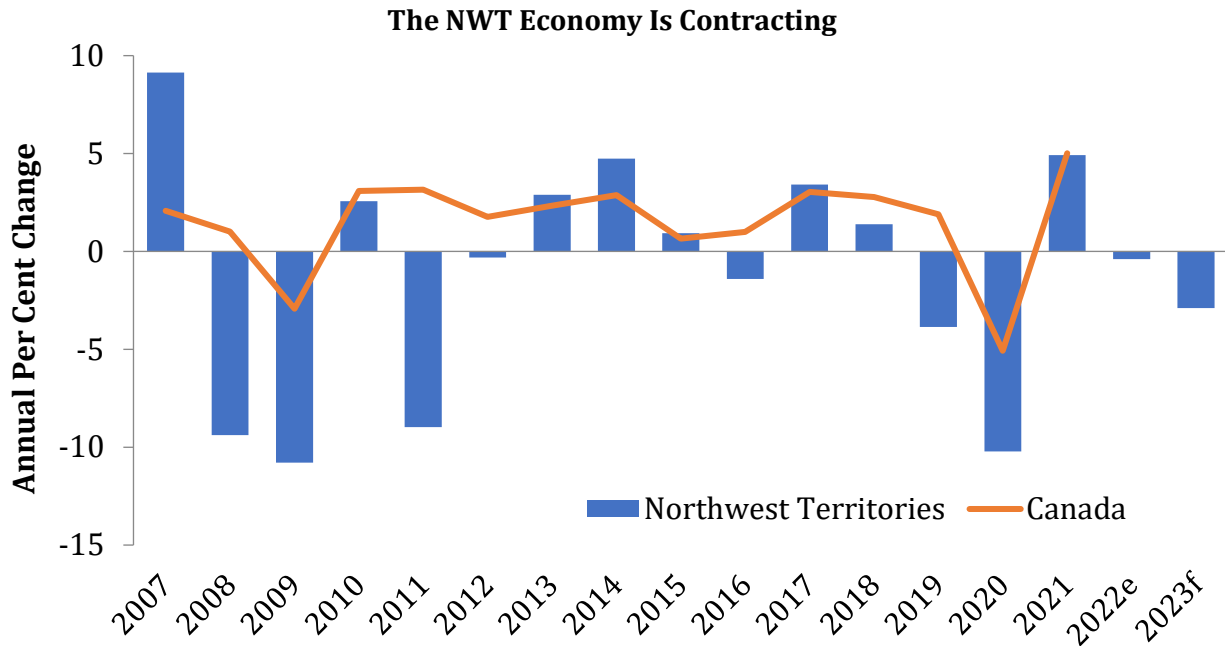
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Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – *real GDP*

Real GDP is projected to shrink by 2.9 per cent in 2023 after dipping by an estimated 0.4 per cent in 2022. Declines in economic output are due to the unwinding of pandemic related government spending that supported residents, businesses, and industry, as well as lower export values because of decreased diamond production. Household spending, while still growing, is slowing down as pent-up demand from the pandemic dissipates and consumer price inflation erodes purchasing power, forcing many households to draw down savings and cut back on purchases. Investment, however, is forecast to rise by 8.2 per cent in 2023 after increasing by an estimated 9.4 per cent in 2022.



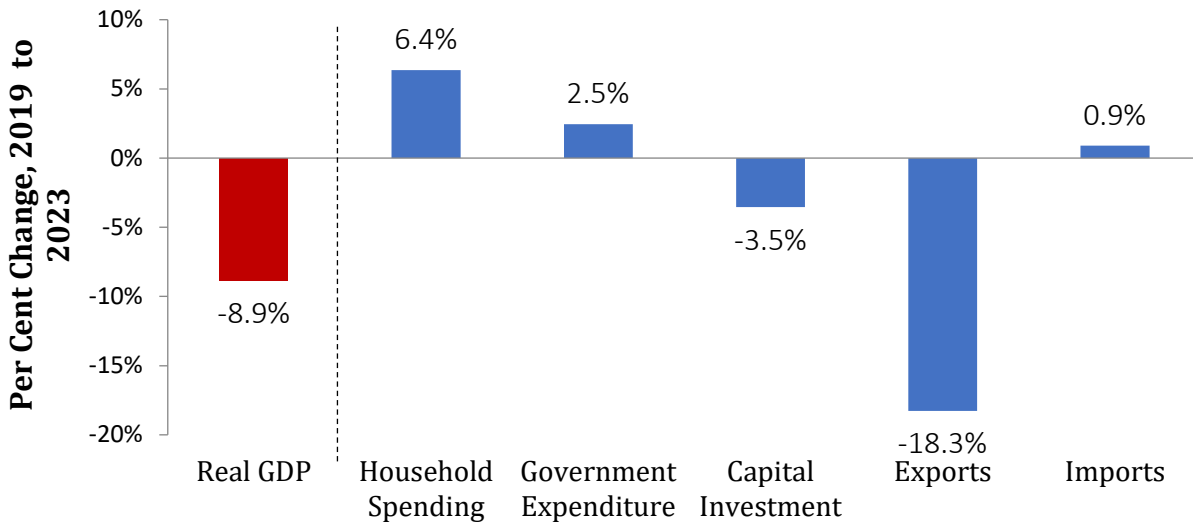
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Source: Statistics Canada and NWT Bureau of Statistics

The NWT economy had been contracting prior to the pandemic. Despite a strong rebound in 2021, several years of decline will leave the NWT economy nearly nine per cent smaller in 2023 than in 2019 before the COVID-19 pandemic began. This is largely because of low investment and a significant drop in exports. Household and government spending are expected to be higher than before the pandemic.

The NWT Economy Will Remain Smaller than Before the Pandemic

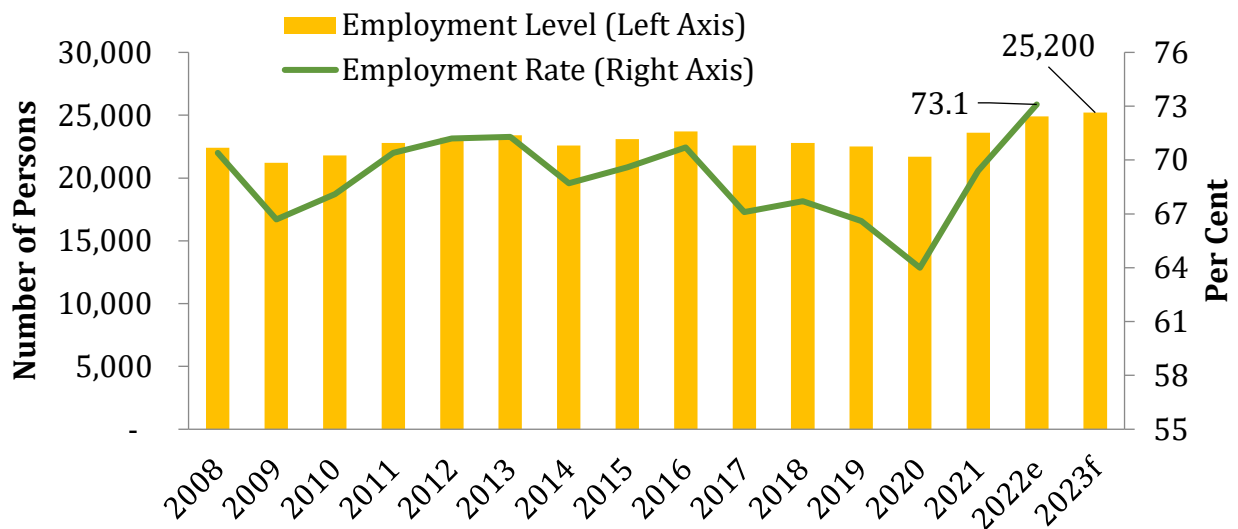


Source: NWT Bureau of Statistics and Statistics Canada

Economic Outlook -- Employment

Resident employment is projected to increase by 1.2 per cent in 2023 after rising by 5.5 per cent (or 1,300 people) in 2022. Strong employment gains lifted the territorial employment rate to 73.1 per cent in 2022, indicating that the NWT is nearing full employment. A robust labour market is expected to continue in the near term as job vacancies and labour shortages of skilled and unskilled workers remain high. Resident employment is projected to reach a record high of 25,200 people in 2023.

NWT Resident Employment Labour at Record Levels

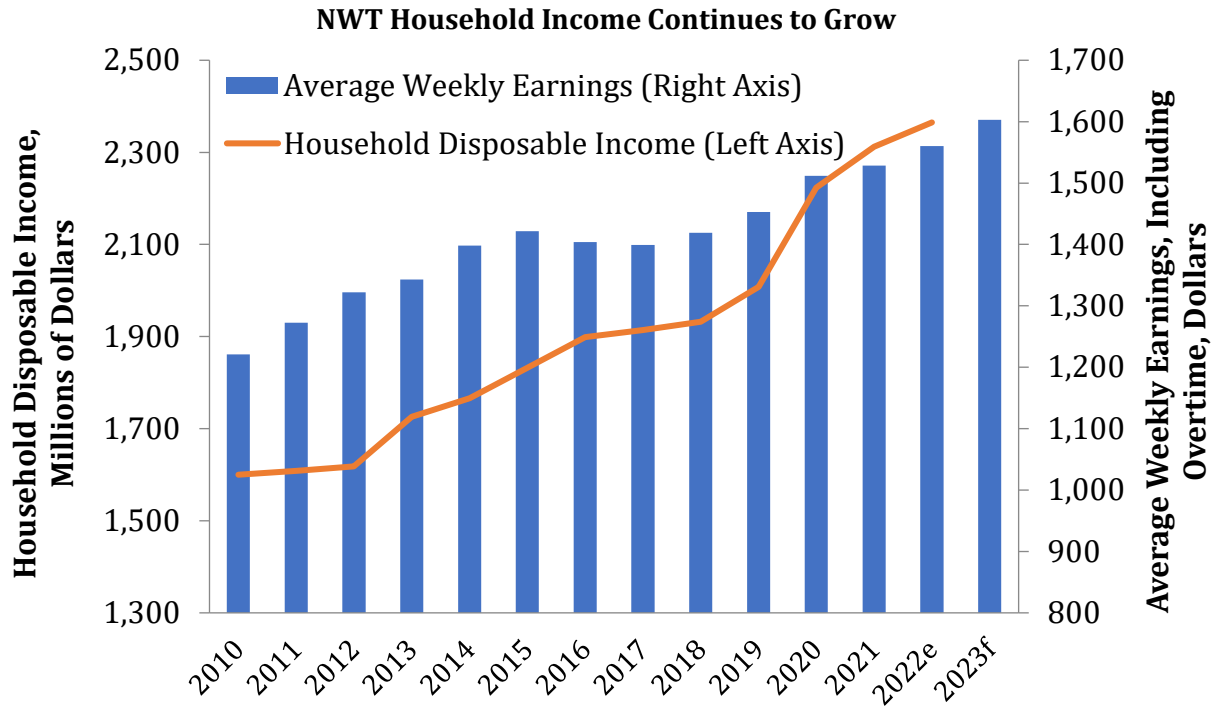


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Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – Average Weekly Earnings

Tight labour markets will help push wages higher over the near term. Average weekly earnings are projected to increase 2.8 per cent in 2023 after rising an estimated 2.1 per cent in 2022. There is variation of average weekly earnings across communities, which will affect wage growth. As well, wage growth is being outpaced by consumer price growth.



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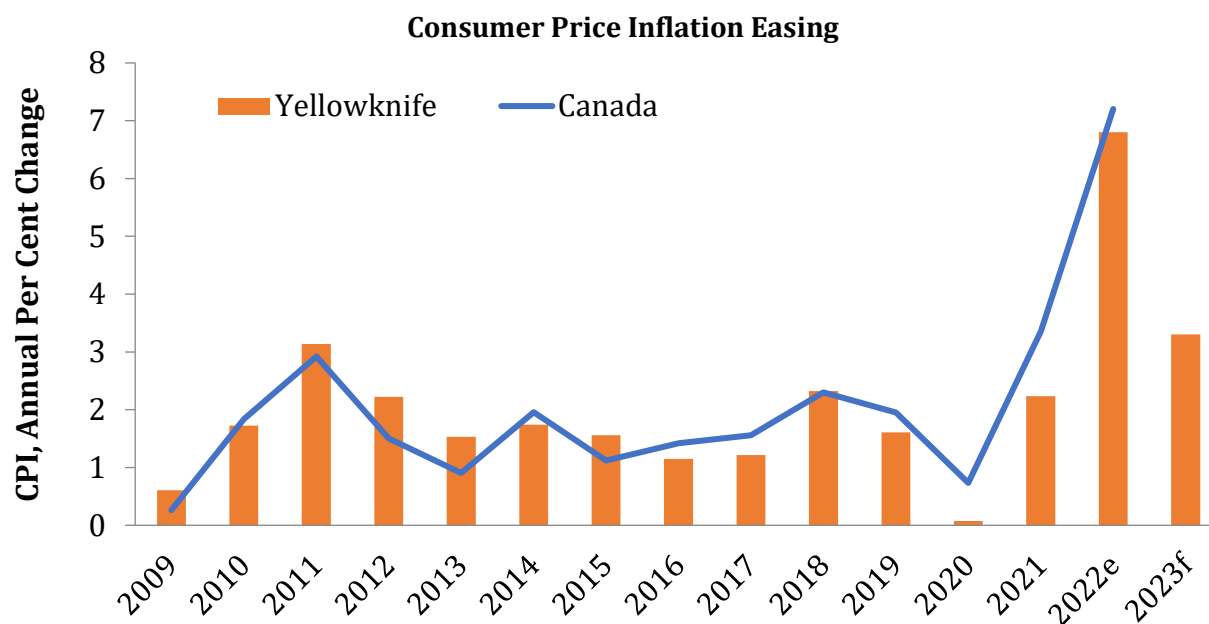
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Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – Consumer Prices

Consumer price inflation is projected to slow this year as many of the geopolitical events that caused global supply chain disruptions and commodity price fluctuations are resolved. High inflation is eroding the purchasing power of NWT residents and exacerbating the already elevated cost of living and doing business in the North. After a decade of low and stable prices, inflation, as measured by the Yellowknife Consumer Price Index (CPI), increased 6.8 per cent in 2022 and is forecast to rise a further 3.3 per cent in 2023.

Consumer price growth is projected to outpace wage growth in 2023, thereby muting real wage growth for workers. Should CPI stay elevated for an extended period, and depending on reactions to inflation in other jurisdictions, the NWT's comparative advantage of offering high wages and salaries may be diminished. Eventually, consumer price inflation may push up wages and create further labour cost pressures on business.



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Source: Statistics Canada and NWT Bureau of Statistics

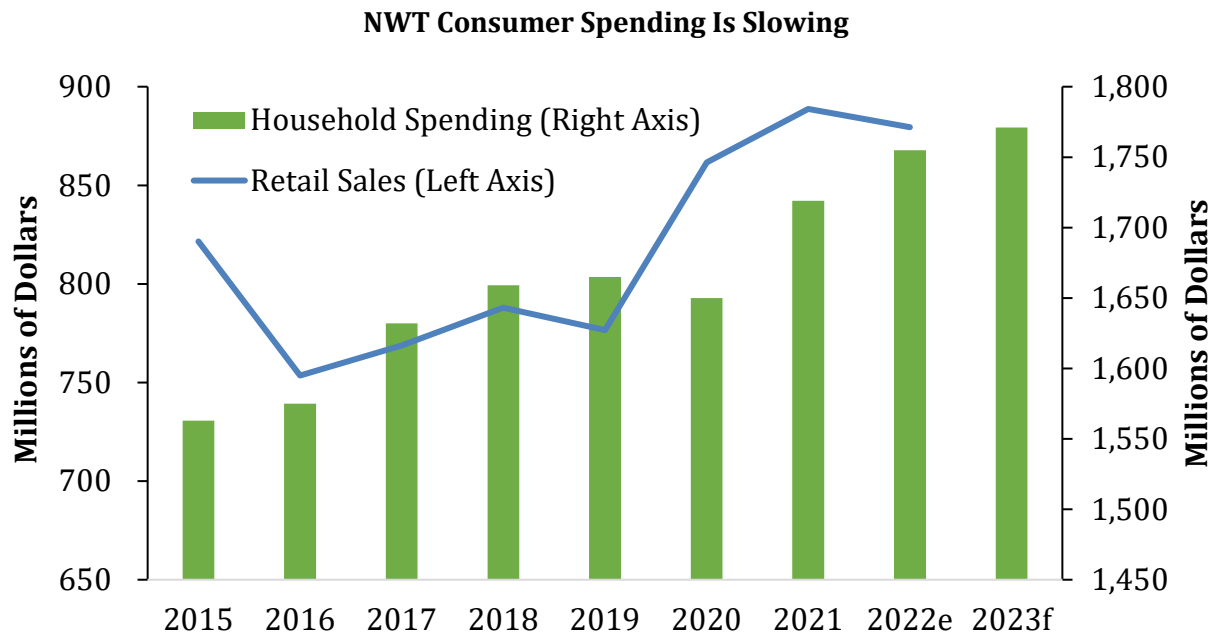
Risks to the Outlook

Near-term risks facing the NWT economic outlook are the continued disruptions to global supply chains, persistently high inflation, and decreased demand for NWT exports such as diamonds and aurora tourism. These risks, which are driven by international factors including China's pandemic policies, and the Russian invasion of Ukraine, are expected to persist throughout 2023. This could lead to increased costs of living and doing business, lower consumer spending and investment, and reduced export values. Taken together, these could cause economic growth to decline further than currently projected. However severe these short-term risks may be, failure to prepare for inevitable structural shifts to the NWT economy, such as the closure of the remaining diamond mines within the next decade, poses a more significant threat than the short-term economic disruptions.

Structural challenges specific to the NWT include ongoing labour shortages, a lack of economic diversification, and maturing diamond mines. These challenges pose both immediate and long-term risks to the NWT economy. Most pressing of these challenges is labour shortages in key NWT industries, such as health care, construction, and education, as well as the impending end of diamond mining in the NWT, which have been the engine of private sector for the past two decades. A persistent lack of skilled and unskilled workers will further hamper private sector activity and reduce the quality of living and working in the NWT, while the expected closure of all operating diamond mines by 2030 will lead to a severely diminished NWT mining sector. Several mineral resource projects, including the Nechalacho rare earths project, are currently underway in the NWT. However, at this time there are no mining projects on the horizon large enough to fill the gap in economic output and well-paid jobs that will be left by the diamond mine closures.

Risks to the Outlook – Inflation

Persistently high inflation poses a downside risk to the economic outlook because households and businesses are likely to reduce or delay purchases while prices rise. This will lead to less economic activity. Consumer spending, which supported the NWT economy throughout the pandemic, slowed in 2022 as pent-up demand dissipated and consumer prices rose by 6.8 per cent. Although inflation is moderating, prolonged or rising inflation risks accelerating this slowdown in consumer spending.



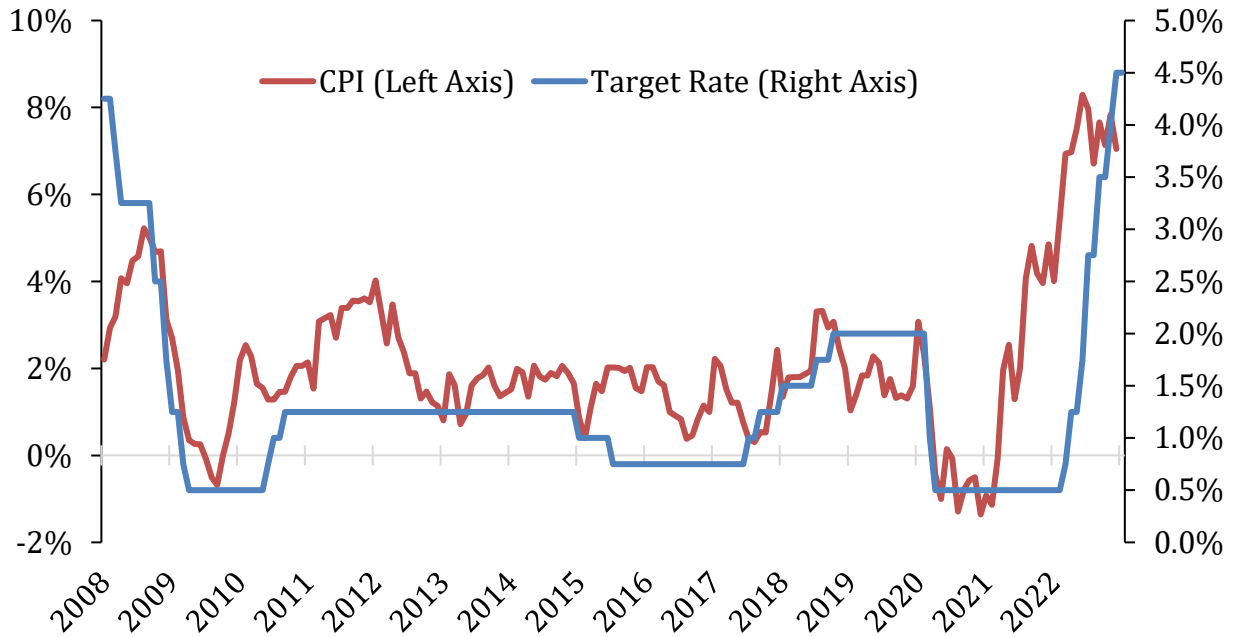
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Source: Statistics Canada and NWT Bureau of Statistics

High inflation has triggered several rounds of interest rate hikes by the Bank of Canada. The Bank's target for the overnight rate increased by 425 basis points last year, rising from 0.25 per cent in January 2022 to 4.5 per cent in January 2023. Higher interest rates make borrowing and investing in the NWT more expensive and increases the risk of loan defaults. This has the potential to stifle spending by households and industry.

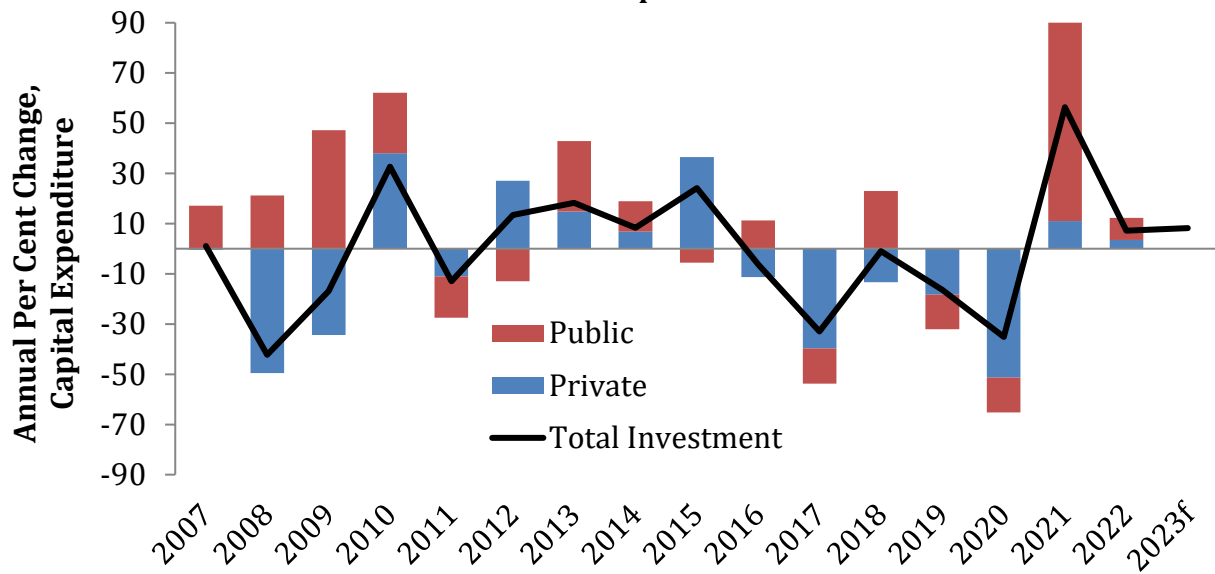
Target for the Overnight Rate and CPI (Yellowknife) Inflation Move Together



Source: Bank of Canada and NWT Finance

Total investments by the private and public sector are forecast to grow by 8.2 per cent in 2023, helping to soften the contraction in real output. However, should the Bank of Canada raise interest rates further, private sector capital investment may be lower than currently forecast.

NWT Private and Public Capital Investments Muted

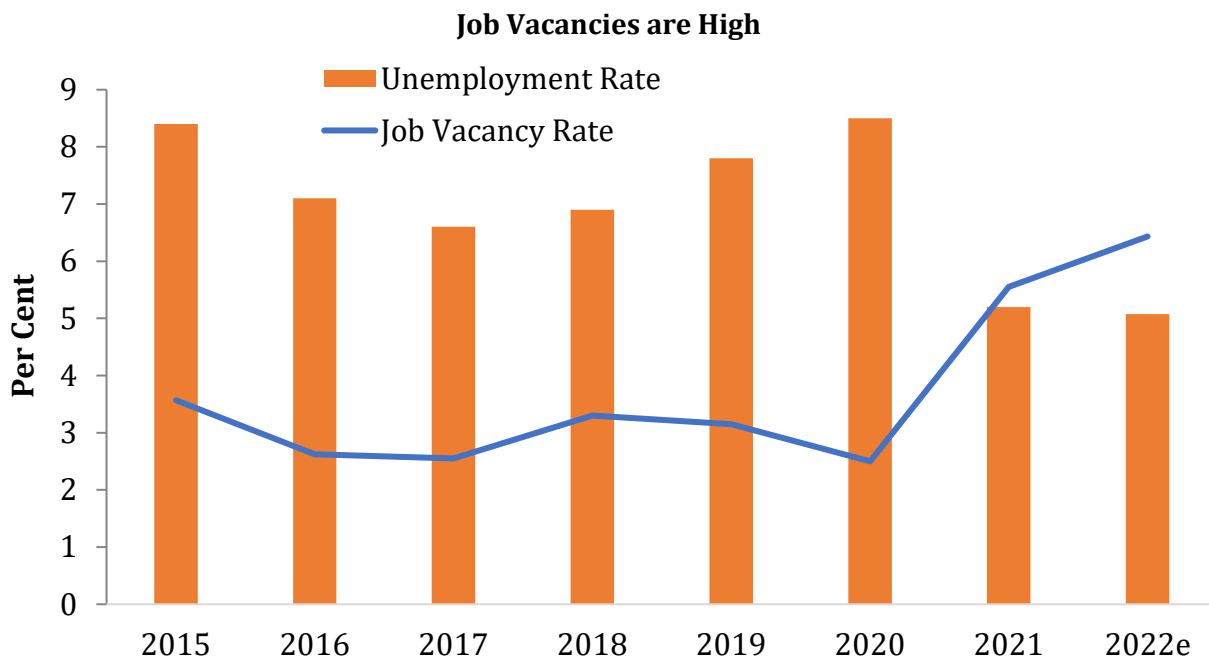


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Source: Statistics Canada and NWT Bureau of Statistics

Risks to the Outlook – Labour Shortages

The unemployment rate dipped to 5.1 per cent in 2022 and the employment rate (the share of working-age residents that are employed) rose to 73.1 per cent, a four-percentage point increase from 2021 and an eight-percentage point increase from 2020. This suggests the NWT is near full employment. Tight labour markets are occurring at a time of rising job vacancies and this has resulted in labour shortages in several industries including health care, construction, food services, and education. Labour shortages pose short-term and long-term risks to the economic outlook because an inability to fill vacant positions may hamper private-sector activity (businesses can not maintain or expand operations) and may reduce the quality of life for NWT residents (previously available services become limited or unavailable).



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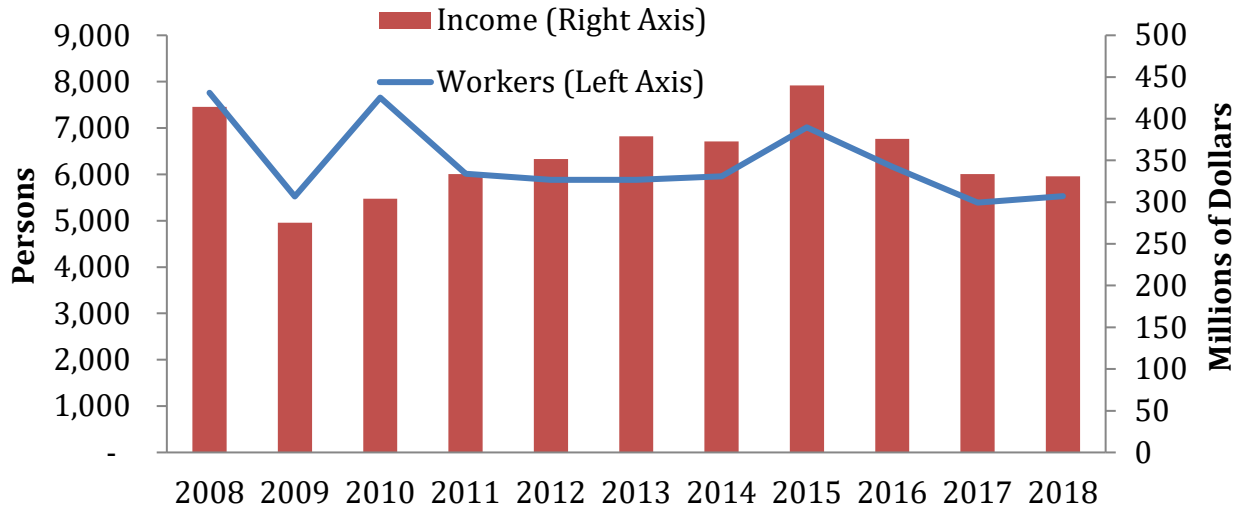
Source: Statistics Canada and NWT Bureau of Statistics

Labour shortages are a chronic issue for the NWT due to the small population and is one reason for a large number of non-resident workers. Between 2008 and 2018 (the most recent year of data), the number of non-resident workers employed in the NWT fluctuated between 5,500 and 8,500, representing between one-quarter and one-third of the NWT workforce. These jobs include seasonal, rotational, temporary and special projects that fill gaps that are not met by the resident workforce. Total aggregate earnings paid to non-resident workers ranged from \$275 million to \$440 million between 2008 and 2018, representing close to one-fifth of all employment income generated in the territory. This employment income earned in the territory non-residents represents lost income that could have been spent in the NWT economy.

One contributing factor to chronic NWT labour shortages is the outsized footprint of government in the economy. Government administration at all levels (federal, territorial, municipal, and Indigenous) is the largest industry in the NWT, generating over a fifth of economic output. It is the largest employer, employing close to 6,500 NWT residents, or a third of all NWT employees. Public

administration includes courts, policing, corrections services, firefighting services, defence, and government administrative work but excludes the health, social assistance and education sectors. The public sector typically offers pay packages that small and medium sized businesses in the NWT cannot compete with and this may be worsening staff shortages in the private sector.

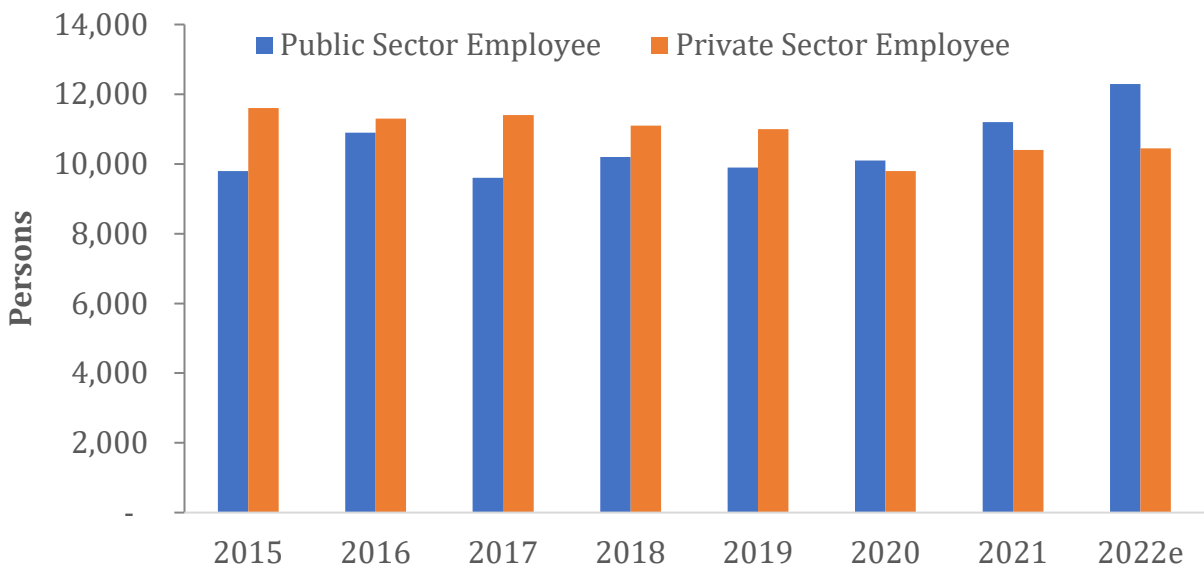
Non-Residents are a Significant Part of the NWT Workforce



Source: Statistics Canada and NWT Finance

For the first time, there are now more residents employed in the public sector than in the private sector. This significant and concerning development occurred during the pandemic and continues to persist. If the composition of employment does not reverse, there is a risk that the NWT economy will become increasingly dependent on government, leading to a hollowing out of the private sector.

More NWT Residents Are Now Employed in the Public Sector Than the Private Sector

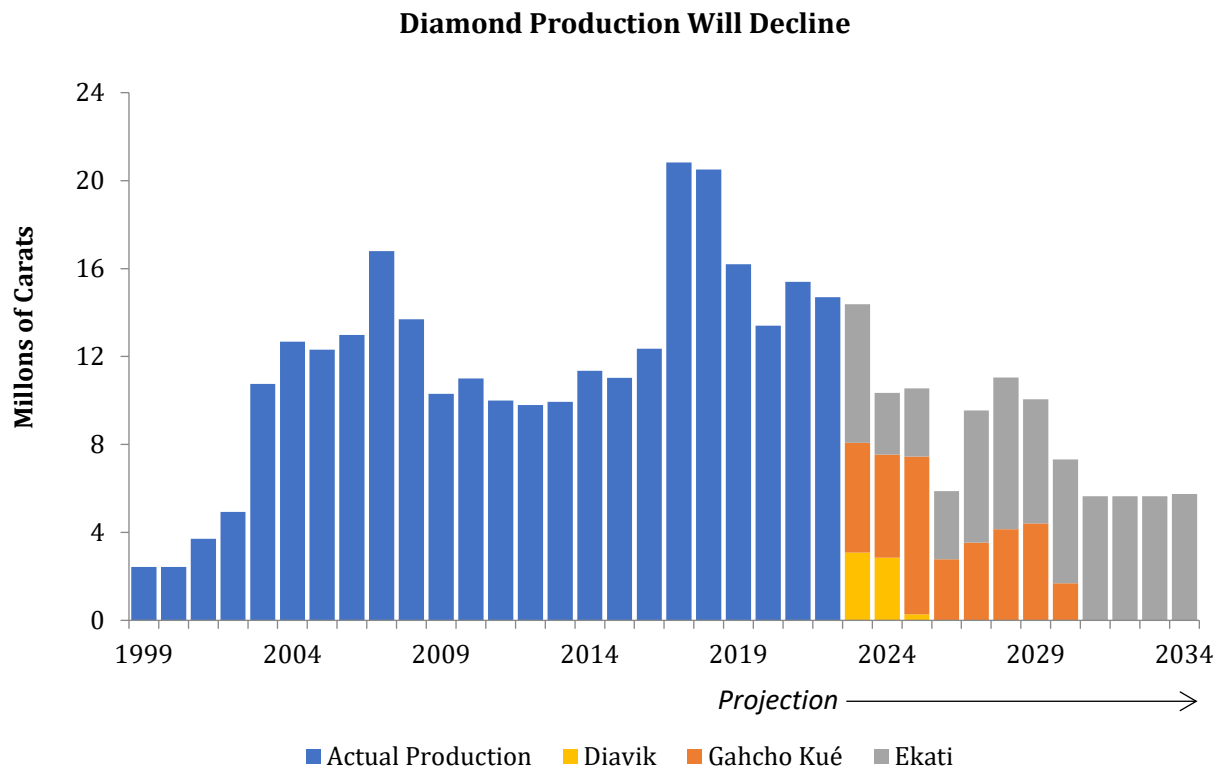


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Source: Statistics Canada and NWT Bureau of Statistics

Risks to the Outlook – *Diamond Mine Plans*

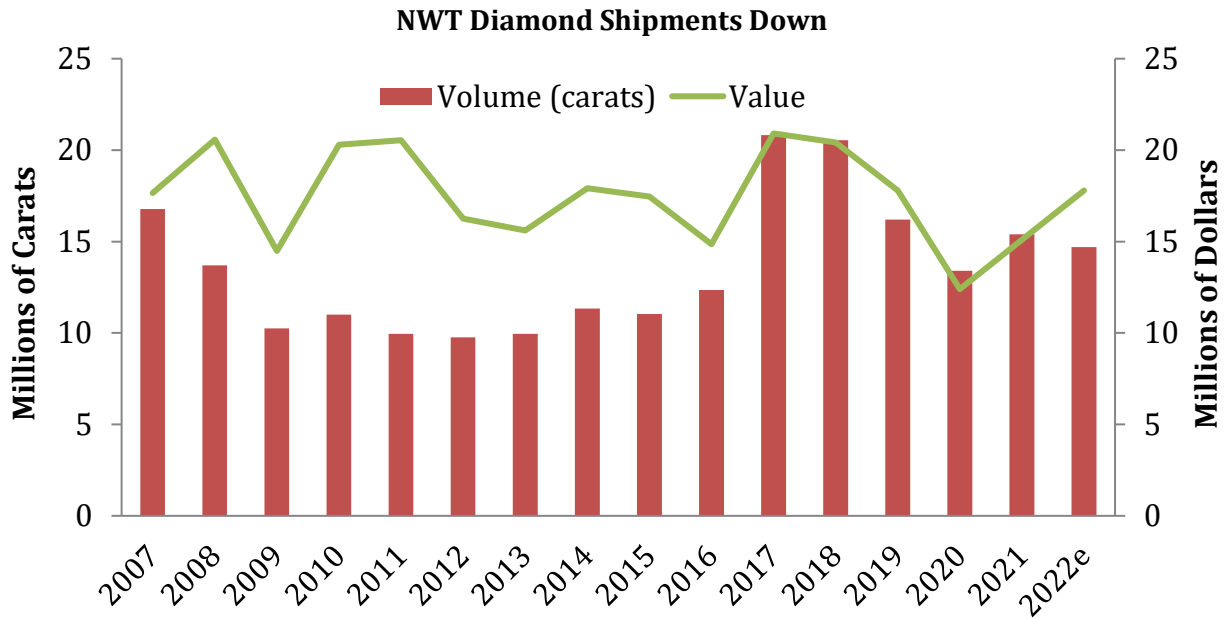
Aging diamond mines are a significant risk to the economic outlook of the NWT. Diamond mining is a primary driver of the NWT economy but currently producing mines are all set to end production by 2030. The Diavik diamond mine is scheduled to close first in 2025, followed by the Ekati mine in 2029 and the Gahcho Kué mine in 2030. Ekati resumed production in January 2021 and could operate for an additional decade if underwater mining is successful and the Sable Deep, Fox Deep, and Point Lake Deep kimberlite expansions go ahead. Decisions to expand existing diamond mines and develop new kimberlite pipes will depend on a range of economic and financial factors, including global capital credit conditions, consumer demand, and rough diamond prices.



Note: Projection numbers are subject to change based on mine plan revisions by the private mining companies.

Source: Natural Resources Canada, mining plans and technical reports, and NWT Finance.

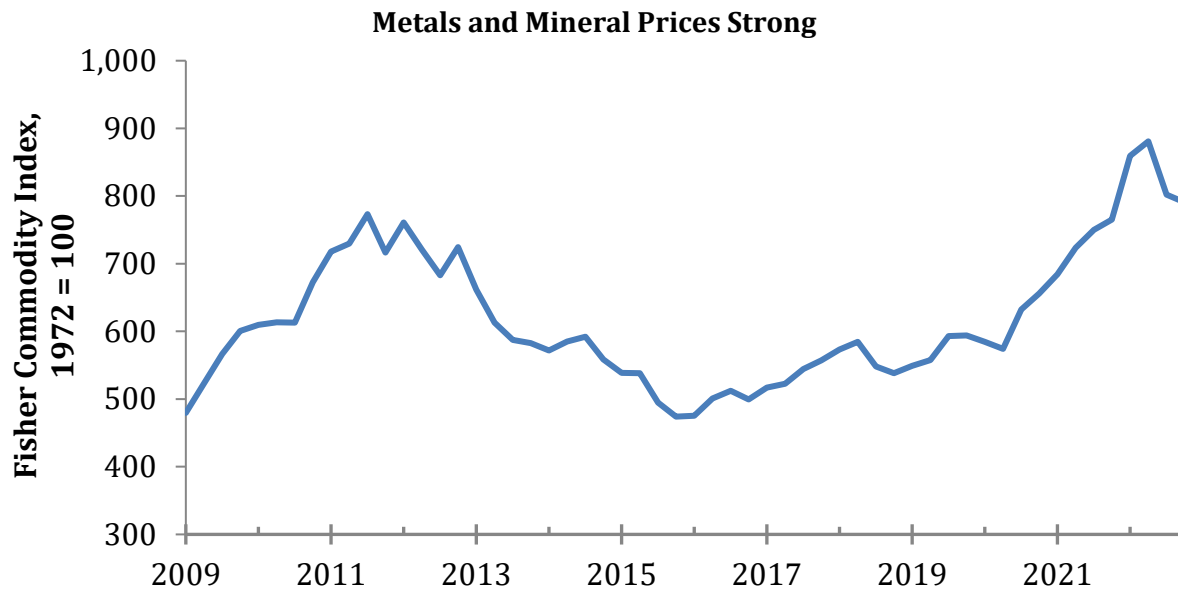
Diamond values and production have recovered from steep declines in 2020 caused by weak consumer demand for luxury goods, pandemic-related disruptions to the global diamond processing pipeline. In 2022, NWT diamond shipments were valued at \$17.8 million, a 17.9 per cent increase from 2021, due to a widening spread between prices for rough and polished diamonds, and a 42 per cent rebound in rough diamond prices between 2020 and 2022.



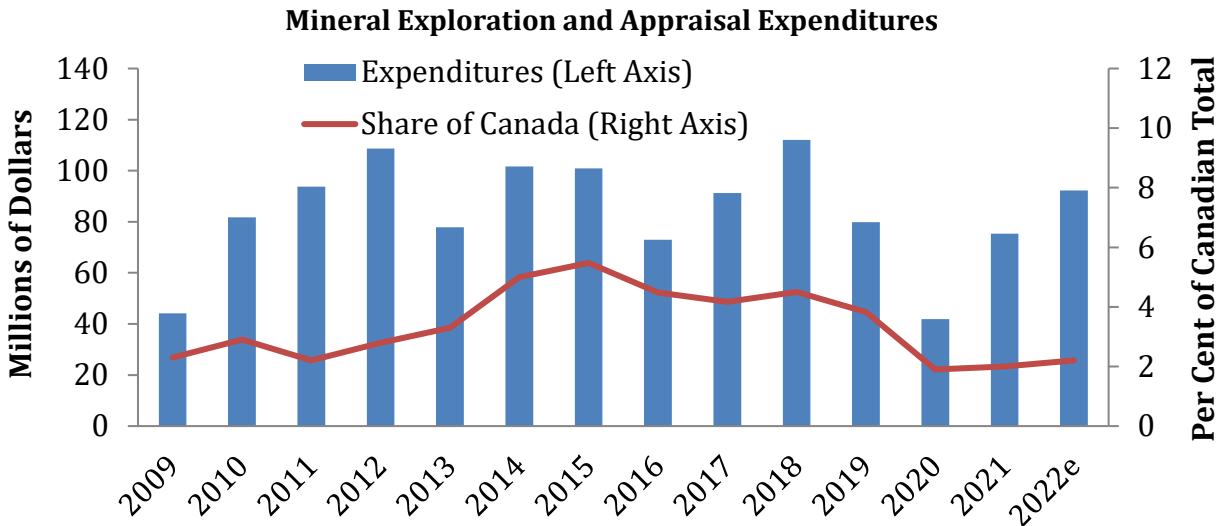
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 Source: NWT Bureau of Statistics and NWT Finance

Risks to the Outlook – Exploration and Future Mines

Global prices for resource commodities, including many metals and minerals found in the NWT, spiked in 2022, before moderating back to 2021 levels. Strong commodity prices for many of the metals and minerals found in the NWT, such as gold and silver, present an upside risk to the economic outlook because they make profits for mining companies more certain, which encourages investment in exploration and helps secure financing for projects already identified.



Source: Bank of Canada and NWT Finance



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Source: Natural Resources Canada

Expansion of the mining industry depends on successful exploration programs to find potential mineral deposits and a deposit appraisal and environmental review process to identify potential new mine projects. NWT mineral exploration and deposit appraisal spending has increased, rising from the low value of \$41.9 million in 2020 to the current intentions of \$92.3 million in 2022. In past years roughly one-half of all NWT exploration and appraisal expenditures were for diamonds but since 2021 diamond exploration has declined to less than one-fifth of spending intentions. NWT exploration and appraisal expenditures as a share of the Canadian total are declining over time: from 5.5 per cent in 2015, 4.5 per cent in 2018, to a projected 2.2 per cent in 2022. However, the expected increase in 2022 spending is a positive risk that may result in new mine developments.

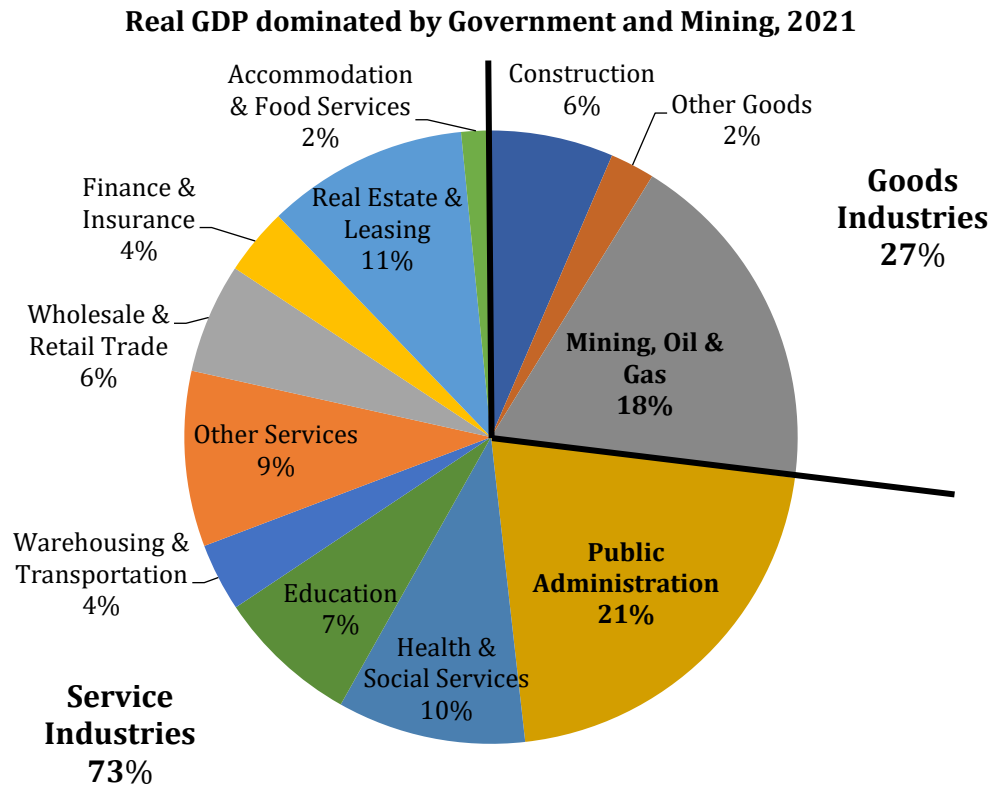
Risks to the Outlook – *Undiversified Economy*

The NWT economy relies on just two industries: government and mining. These two industries are the largest contributors to the territory’s economic output and high-paying employment, collectively generating 40 per cent of both real GDP and jobs. This outsized reliance on two industries creates structural barriers to long-term growth and stability by making the economy inefficient and uncompetitive. This is the primary downside risk to the long-term outlook of the NWT economy.

Despite many attempts over the years to stimulate economic growth in other industries, the NWT economy has failed to diversify. Economic diversity provides for stable and balanced growth by spreading risk more evenly across several sectors; reducing the sensitivity of the economy to the “ups and downs” associated with any single industry, market, or region. More overall variety in economic activity generates employment opportunities and helps spur entrepreneurship and innovation.

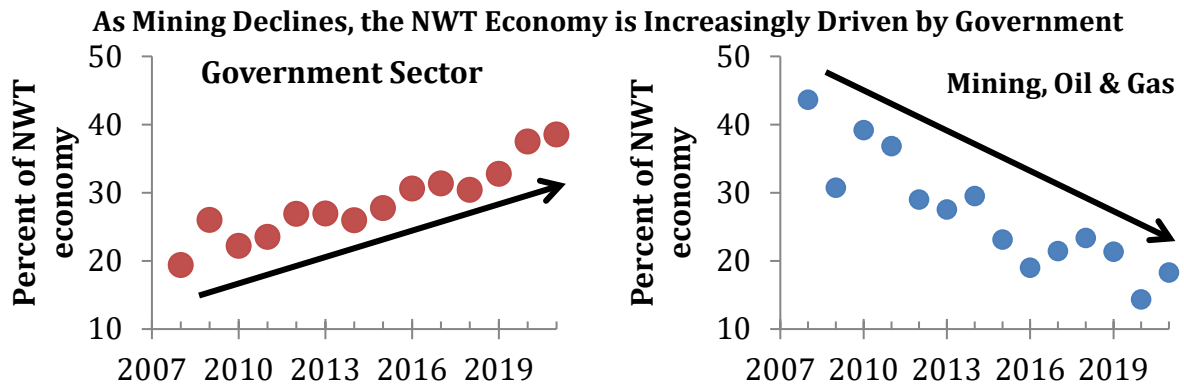
While the NWT economy has not diversified, the structure of the economy has changed because of declining mining, oil and gas sector activity. In 2007, the goods-producing sector, which includes mining, construction, fishing and trapping, accounted for over half of the NWT economy but by 2021 that share had shrunk to less than one-third. The combined services-providing industries now account for nearly three-quarters of NWT GDP compared to 48 per cent a decade ago. Public sector activities dominate the service sector, which includes public administration, education, health and

social services. Restructuring from declines in the NWT mining, oil and gas sector is not a meaningful diversification of economic activity.



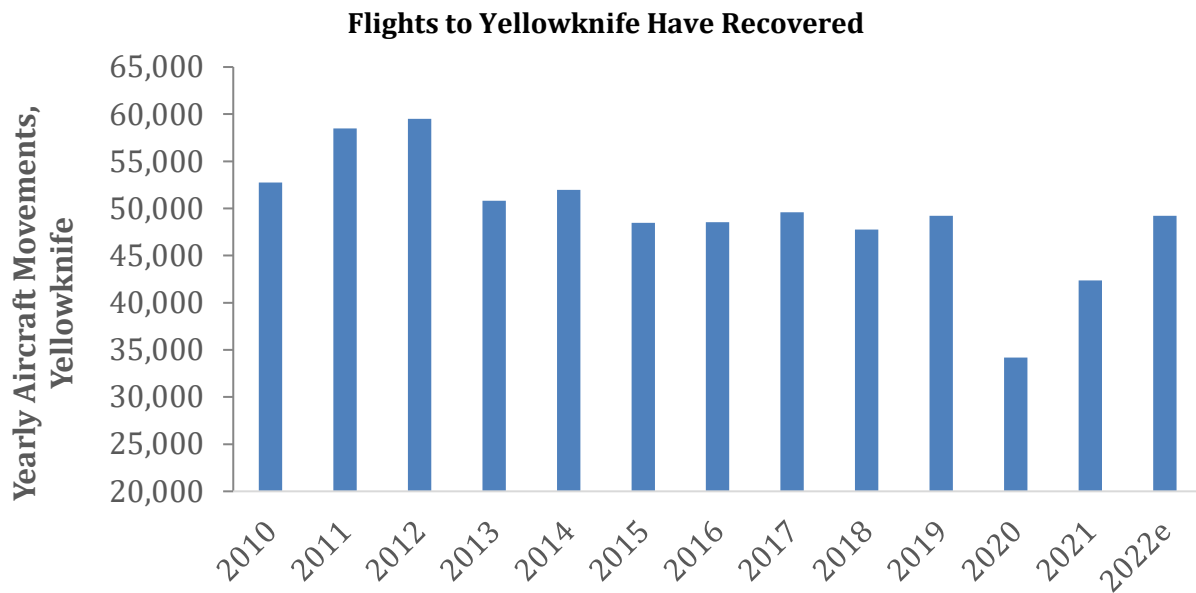
Source: Statistics Canada and NWT Finance

With the maturing diamond mines and oil and gas production significantly diminished from previous levels, the portion of the NWT economy vacated by the resource extraction sector is increasingly filled by government investment. While government provided economic stability during the pandemic through steady employment and financial support programs, increasing dependence on the public sector risks stifling private sector growth and innovation.



Source: Statistics Canada and NWT Finance

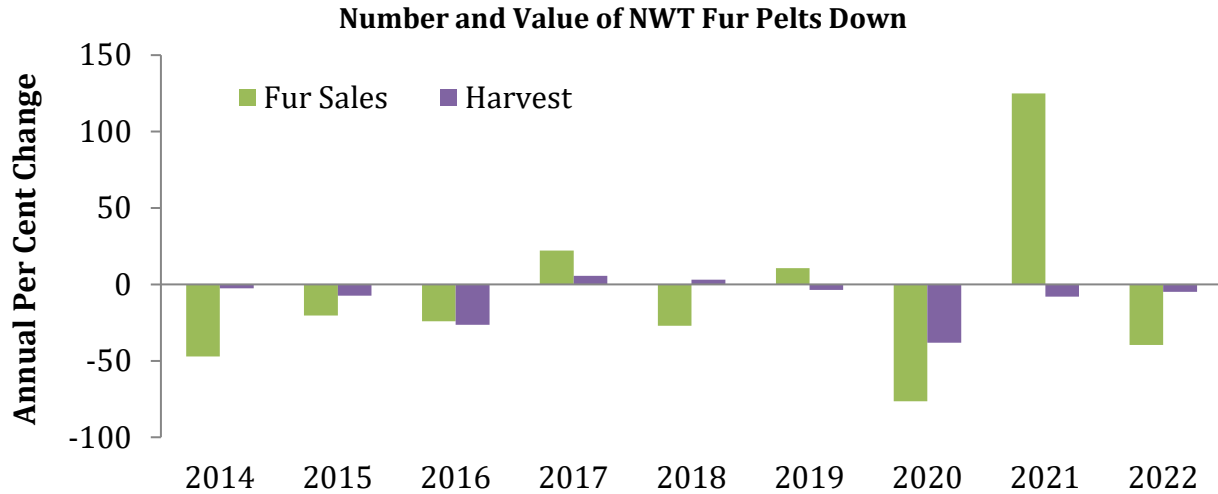
Tourism is a growth sector with potential to diversify the economy and to also inject private sector employment opportunities into smaller communities. However, three years of pandemic related policy responses have had a damaging effect on NWT tourism. At the height of the pandemic, 77 per cent of operators had closed temporarily and over 40 per cent indicated bookings had decreased more than 80 per cent compared to previous years. Due to diminished international travel, the Department of Industry, Trade and Investment did not record the annual Airport Exit Survey, which is one of the primary sources of NWT tourism information. Data are unavailable to clearly measure the tourism industry recovery now that most global pandemic restrictions have lifted; however, aircraft movement data suggest a good recovery. In 2022, just over 49,000 separate aircraft movements occurred in the Yellowknife, comparable to 2015 to 2019 levels. Details on the types of travellers, however, is unknown.



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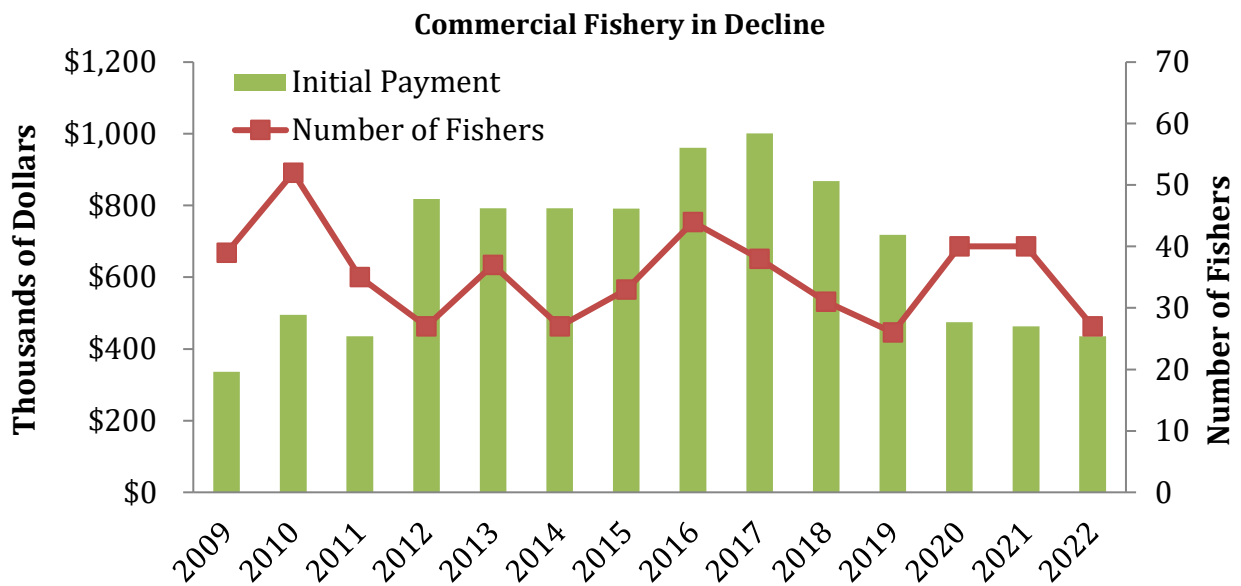
Source: Statistics Canada

Trapping is another growth sector that, while a small contributor to the overall NWT economy, is traditionally important to many NWT residents for food and clothing as well as incomes, especially in smaller communities. The global coronavirus pandemic had a significant negative impact on the fur trade. In the year ended June 30, 2022, roughly 9,800 pelts were harvested, a 4.8 per cent decrease from 2021. One-third of these pelts were sold at auction for a value of \$235,000, a 39.5 per cent decline from 2021. There were only 434 commercial trappers in the NWT in 2022, the lowest number on record.



Source: NWT Industry, Trade and Investment, NWT Environment and Natural Resources, and NWT Finance

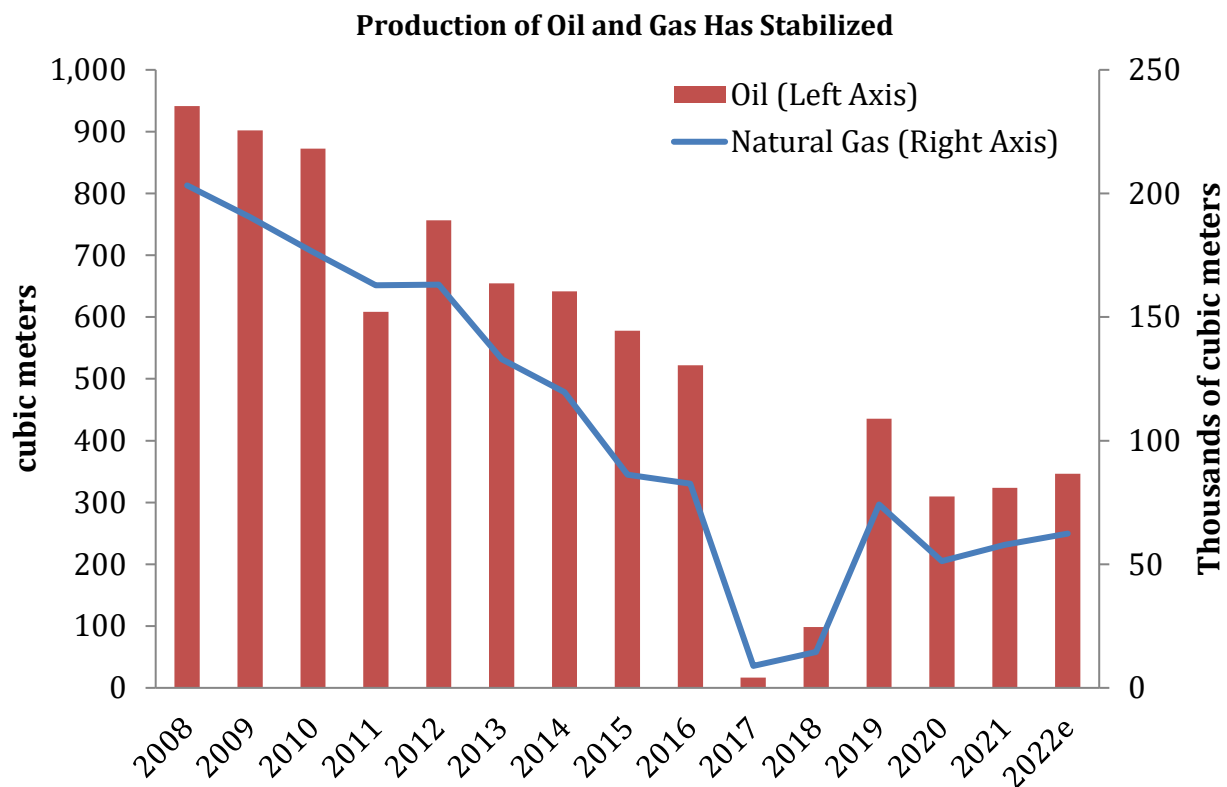
The commercial fishery in the NWT is small and shrinking. Initial payments – an on-delivery point, net-of-freight basis – to NWT fishers exporting through the Freshwater Fish Marketing Corporation (FFMC) fell six per cent in 2022, declining to \$435,000. Similarly, the number of active commercial fishers exporting fish through the FFMC dropped to just 27 in 2022. This decrease was partly due to the coronavirus pandemic which disrupted trade and depressed demand. Despite five consecutive years of decline, commercial fishing presents an opportunity for NWT economic diversification and regional employment because fish are an abundant, renewable resource. The GNWT has made several commercial fishing investments as identified in the *Strategy for Revitalizing the Great Slave Lake Commercial Fishery*. Key among these is a new fish processing plant in Hay River scheduled to open in June 2023. The plant will provide an avenue for the development and sale value-added product which is not currently available to fishers as well as expand available opportunities associated with plant operation and maintenance.



Source: Freshwater Fish Marketing Corporation

Risks to the Outlook – *Global Prices and Currencies*

The benchmark West Texas Intermediate (WTI) crude oil price spiked above \$110 US per barrel in 2022 due to the rapid rise in inflation, a slow response to increased fuel demands, and the embargoing of Russian oil producers. Prices continue to remain elevated and are expected to stay high for an extended period. High oil prices are both a negative and positive risk to the NWT economic outlook. Higher oil prices may lower economic growth because they increase heating and transportation cost, which feeds through as higher operating costs for NWT business and a higher cost of living for NWT residents. On the other hand, higher oil prices make NWT oil production and export to international markets more profitable. Between 2019 and 2022, NWT oil production averaged 350 million cubic metres a year and NWT natural gas production averaged 61 million cubic metres a year. Despite steady output, oil and gas production remain well below what they once were.

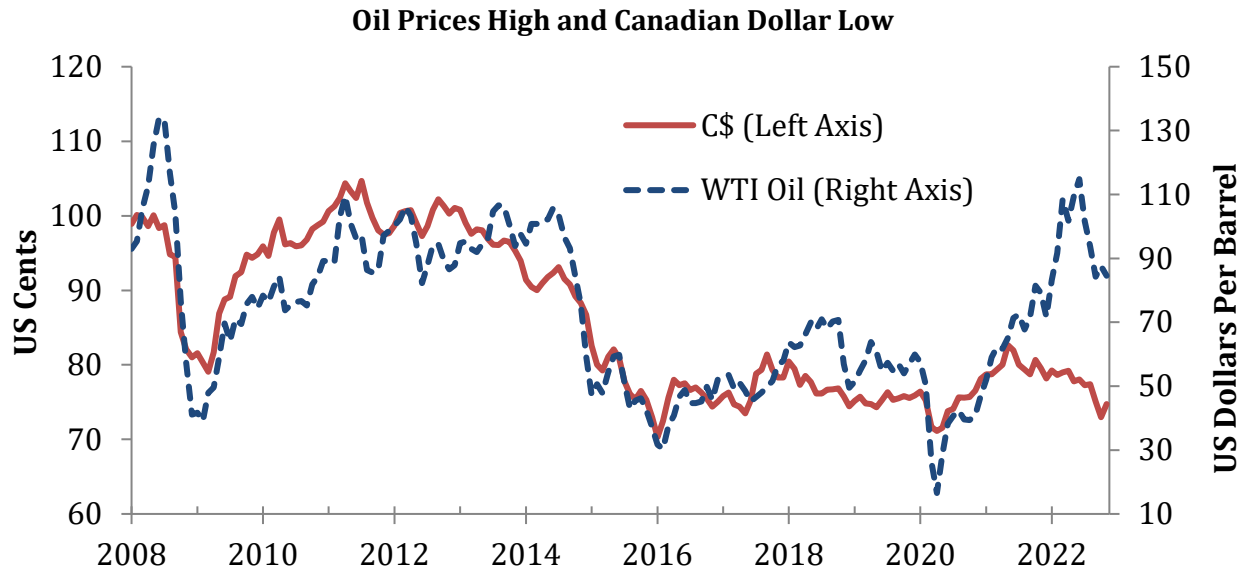


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Source: NWT Bureau of Statistics and NWT Finance

Oil prices and the Canadian dollar have moved in lock-step over the past decade. However, beginning mid-2021, WTI and the dollar have not moved together, and the Canadian dollar remains low, despite persistent elevated oil prices. The value of the Canadian dollar against its US counterpart has a direct effect on the health of the NWT economy because most goods and services bought and sold internationally are paid for in US dollars. The lower Canadian dollar presents an upside and downside risk to the economic outlook. A low Canadian dollar means that NWT businesses that export their production internationally will get paid more for their products after the payments are converted

into Canadian dollars, which will help NWT companies compete globally and boost exports. However, a lower Canadian dollar will also make machinery and equipment imported from outside the territory more expensive, putting a strain on many NWT businesses. In addition, the low Canadian dollar has boosted the cost of imported food and other goods, having a negative impact on many NWT households.



Source: US Energy Information Administration and Bank of Canada