

# **Budget Address**

## **2010 - 2011**

***NORTHWEST TERRITORIES***

**BUDGET PAPERS**

**A ♦ Economic Review**

**January 28, 2010**

## ECONOMIC REVIEW

### Outlook

The Northwest Territories (NWT) economy is expected to end its two-year decline in 2010, as real<sup>1</sup> gross domestic product (GDP) is forecast to increase by 9.5 per cent from 2009. The principal economic driver of the NWT recovery is the strengthening diamond industry. Diamond prices have started to recover and are projected to make further gains as the economies of the industry's primary markets strengthen.

There are many encouraging signs of growth in industrialized countries. Most of this recovery, and the prevention of a worse global recession, resulted from the very significant financial support and expansionary monetary and fiscal stimulus that governments poured into their economies. Canada's federal government chose to run temporary deficits to create employment through infrastructure investments. With federal support, the Government of the NWT (GNWT) will inject a record \$744 million in capital spending over the 2009 to 2011 period to soften the impact of the slowdown in the NWT resource industries. The International Monetary Fund cautions that the world-wide growth was driven by government stimulus measures and countries risk a return to recession if anti-crisis measures are withdrawn too soon.

The Report of the Joint Review Panel (JRP) for the Mackenzie Gas Project was completed in December 2009 and submitted to the National Energy Board (NEB). The JRP recommended that the project proceed, subject to 176 specified recommendations. The NEB will hear final arguments from each of the parties beginning in April 2010.

A number of mine projects are at advanced stages of development. These include Tyhee Development's gold mine north of Yellowknife, Fortune Minerals' NICO cobalt-gold-bismuth mining project near Whatì, and Gahcho Kué, a proposed diamond mine under development by De Beers Canada and Mountain Province Diamond. The Dezé Energy Corporation is proceeding with public hearings for expansion of the Taltson Hydroelectric Project.

Employment of NWT residents is expected to increase by 700 persons, from 20,800 in 2009 to 21,500 in 2010. Average weekly earnings are forecast to increase by 2.1 per cent from 2009 to 2010.

Consumer price inflation in Yellowknife (NWT-wide figures are not available) increased 0.5 per cent from December 2008 to December 2009; and is projected to remain below 2 per cent in 2010.

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<sup>1</sup> Measured in chained 2002 dollars

**Northwest Territories Economic Outlook**

Indicator	2007	2008	2009e	2010f
Gross Domestic Product, chained 2002 \$ millions	3,900	3,589	2,998	3,284
% change	10.2	(8.0)	(16.5)	9.5
Total Investments, chained 2002 \$ millions	1,743	1,544	1,203	1,244
% change	2.7	(11.4)	(22.1)	3.4
Personal Expenditures, chained 2002 \$ millions	1,207	1,233	1,225	1,236
% change	4.3	2.2	(0.6)	0.9
Government Expenditures, chained 2002 \$ millions	1,192	1,191	1,209	1,202
% change	1.2	(0.1)	1.6	(0.6)
Exports, chained 2002 \$ millions	2,891	2,617	2,235	2,538
% change	16.9	(9.5)	(14.6)	13.6
Imports, chained 2002 \$ millions	3,148	3,031	2,866	2,925
% change	7.0	(3.7)	(5.5)	2.1
Employment, number of persons	22,600	22,000	20,800	21,500
% change	(0.9)	(2.7)	(5.5)	3.4
Average Weekly Earnings, dollars	1,005	1,081	1,149	1,173
% change	3.2	7.6	6.2	2.1
CPI All-Items (Yellowknife, 2001 = 100)	110.8	115.2	115.9	118.0
% change	2.9	4.0	0.6	1.9

Source: Statistics Canada and the NWT Bureau of Statistics

(e) estimate

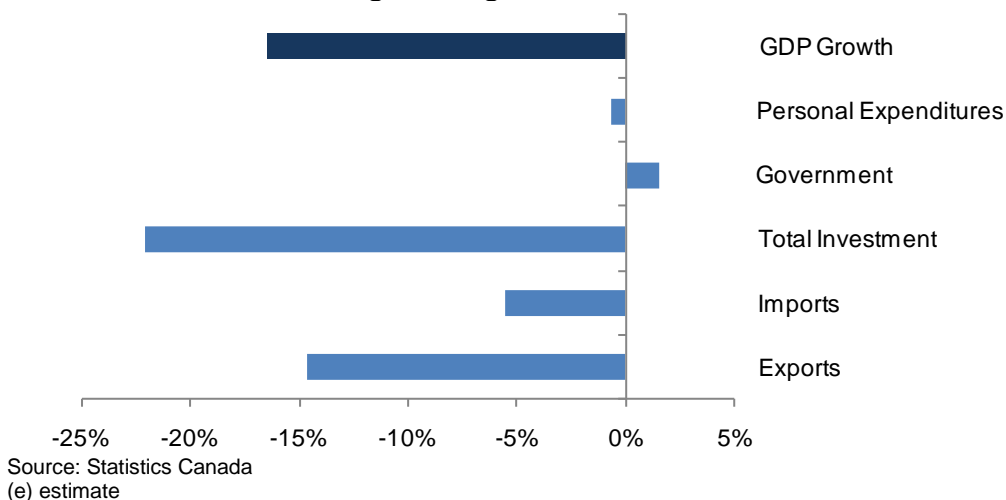
(f) forecast

## 2009 Economic Performance

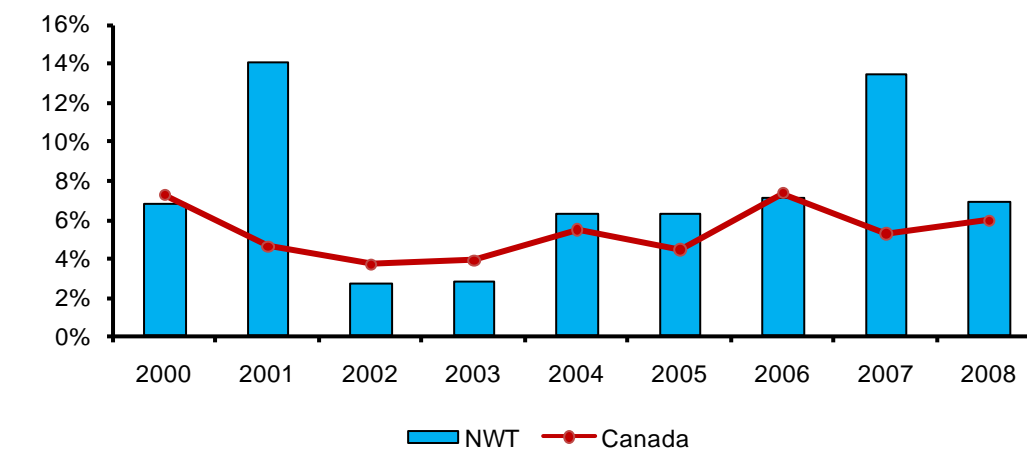
Real GDP in the NWT fell 16.5 per cent from 2008 to 2009. From 2007 to 2009, the economy of the NWT declined 23 per cent, the largest decline in GDP of any province or territory in Canada.

The decline was led by a drop in the value of exports, principally diamonds, as NWT mining companies curtailed production in the wake of lower global demand, most notably in the American market. The value of exports decreased 14.6 per cent from 2008 to 2009, and 22.7 per cent from 2007 to 2009. Investment also declined in response to market conditions and the credit crisis, falling 22.1 per cent from 2008 to 2009 and over 30 per cent from 2007 to 2009.

### Contributions to Percentage Change in NWT GDP, 2009e

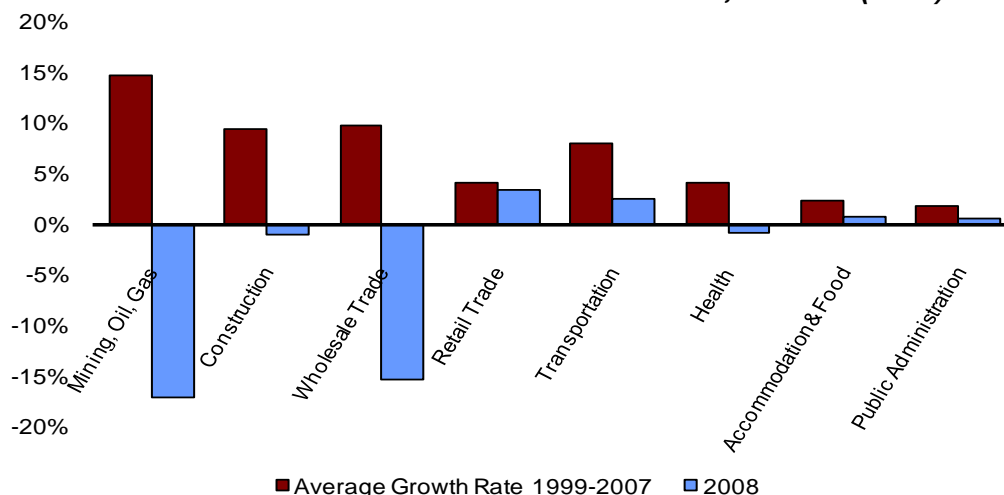


### Annual Percentage Change in Personal Disposable Income, NWT and Canada



Mining, oil and gas is the leading growth sector of the NWT economy. In 2008, this sector declined by more than 17 per cent from 2007. Indications are that this sector continued its marked decline in 2009. Wholesale trade grew an average annual rate of 10 per cent from 1999 to 2007 but fell 15 per cent in 2008. Preliminary 2009 data suggest that wholesale trade continued to fall in 2009.

### **Annual Real Growth Rates of Selected NWT Industries, chained (2002) dollars**



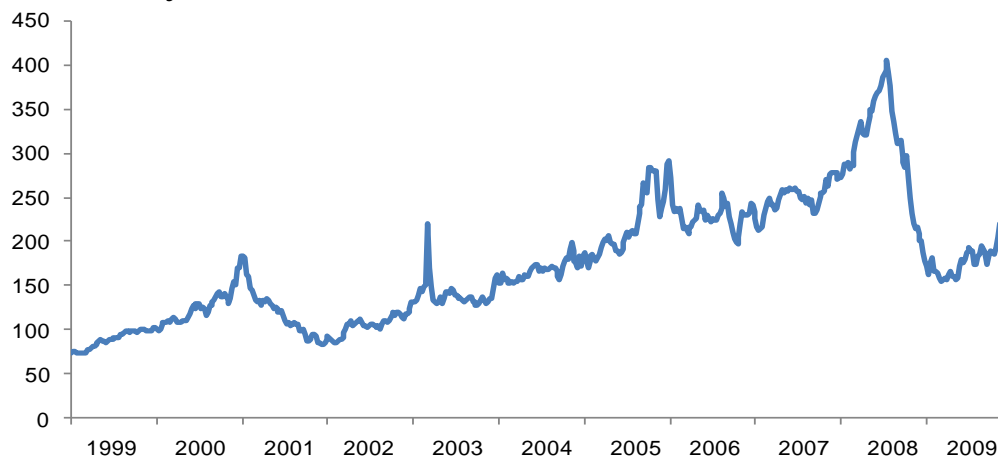
Source: Statistics Canada

Growth in public administration, particularly in capital spending, is estimated to have increased by above average rates in 2009, helping to mitigate the economic downturn in the NWT.

The NWT's economy is integrated with the global and national economies. The largest private sector component of the NWT economy is the non-renewable resource sector, where prices are established in world markets. The International Monetary Fund estimates that the GDP in advanced economies fell 3.4 per cent from 2008 to 2009 and that the volume of international trade for advanced economies, reflecting reduced production and demand for commodity inputs, fell by over 13 per cent.

Economic growth turned positive in advanced economies in the second half of 2009. Commodity prices dropped precipitously from July 2008 to May 2009, but then recovered over the rest of 2009.

### **TD Commodity Price Index, 1997=100**

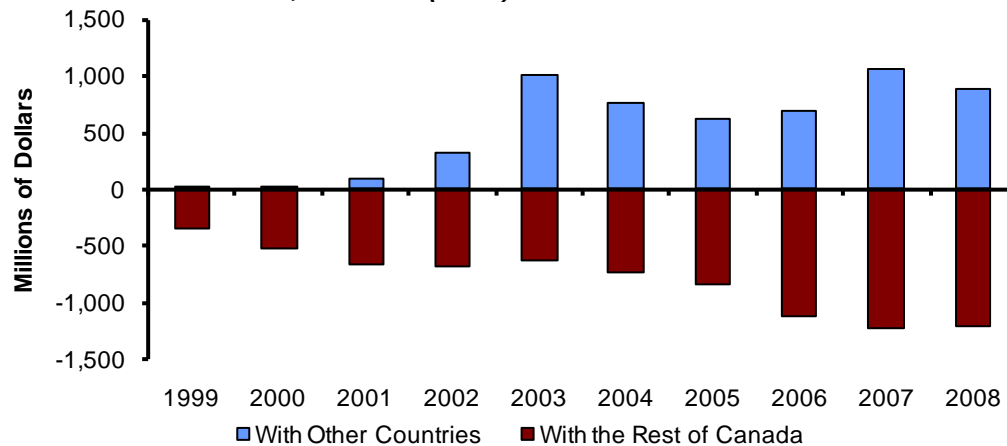


Source: TD Bank Financial Group

## Trade

The NWT economy depends on trade with other countries and with the rest of Canada. The NWT's trade surplus with other countries grew markedly during the first part of the decade, primarily driven by diamond exports. In 2008, the NWT's trade surplus with other countries fell 16 per cent from 2007. The NWT has a trade deficit with the rest of Canada since most of the goods used in the territory, including machinery and consumer products, are imported from southern Canada. In 2008, the trade deficit with the rest of Canada did not change.

### *NWT Balance of Trade, chained (2002) dollars*



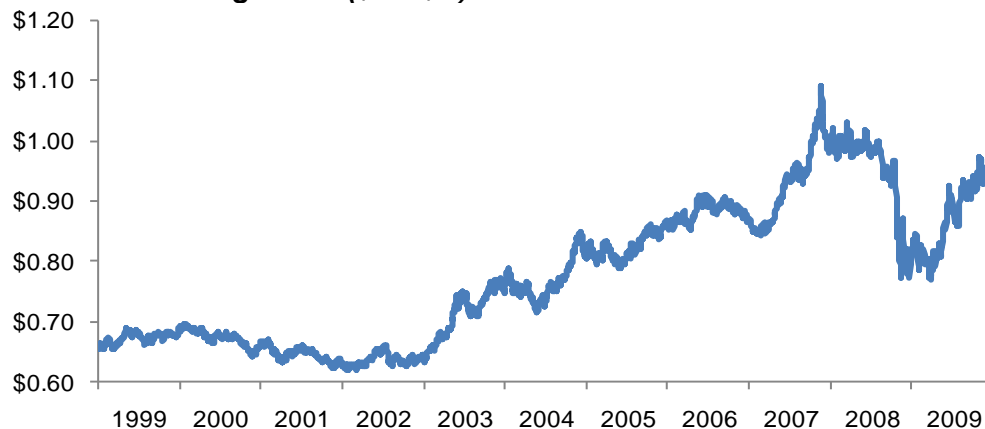
Source: Statistics Canada

## Exchange Rate

The NWT's international trade surplus is important to the health of the economy. A strengthening Canadian dollar means that NWT businesses get paid less in Canadian dollars after the currency conversion, although it also means that capital equipment and other productivity-enhancing capital goods imported into Canada are less expensive. When the Canadian dollar declines, the effects are the reverse: NWT businesses get paid more for their products after currency conversion, while imports cost more.

The Canadian dollar averaged 80 cents US in the first three months of 2009 before rising to an average of 95 cents US by the last three months of the year.

### *US-Canada Exchange Rate (\$US/\$C)*

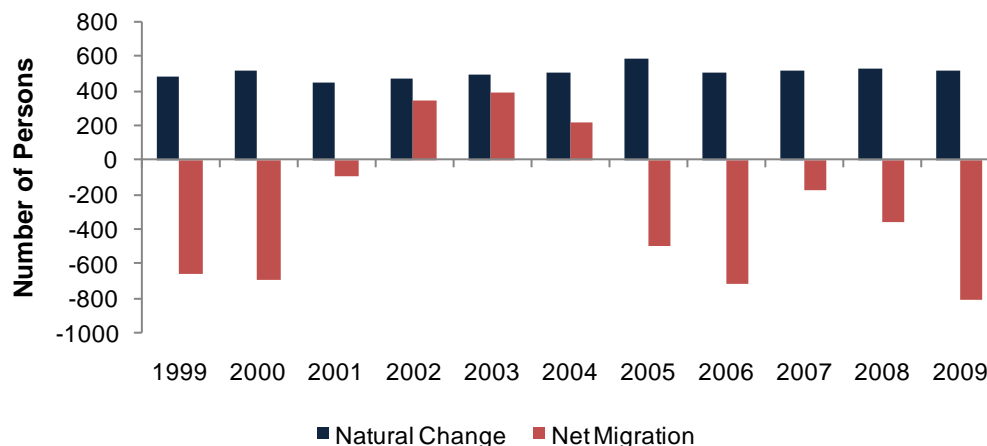


Source: Bank of Canada

## Population

The NWT population was estimated at 43,439 on July 1, 2009, a decline of 281 persons from July 1, 2008. The population decline is attributable to an increase in the number of persons leaving the NWT. In 2009, 808 more persons emigrated to other provinces and other countries than moved to the NWT, compared to a net outflow of 356 persons in 2008. Natural population change, the difference between births and deaths, has remained stable in recent years, averaging 513 persons per year since 1999.

### Changes in the NWT Population, 1999 - 2009



Source: NWT Bureau of Statistics

## Labour

During 2009, NWT employment averaged 21,000 persons, a 5 per cent decline from 2008. This represents a labour force (population 15 years of age or older) participation rate of 71 per cent, down from 75 per cent in 2008.

The NWT's unemployment rate was stable at 6.1 per cent in 2009, the same rate as 2008, largely because more persons left the labour force.

### Selected NWT Labour Force Indicators, 2001 to 2009

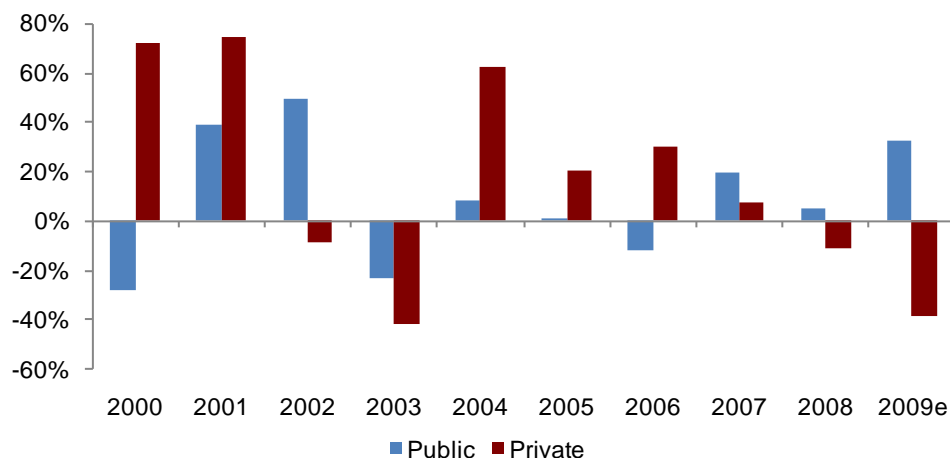


Source: NWT Bureau of Statistics

## Investment

Total 2009 capital investment intentions were down one-third from 2008 levels and almost 40 per cent from 2007, declining from \$1,800 million in 2008 to \$1,215 million in 2009. In the fall of 2008, public sector capital investments was expected to increase by one-third from 2008 to 2009; however, this forecast does not include the GNWT and federal stimulus funding.

### *Annual Percentage Change in Public and Private Capital Investment*



Source: NWT Bureau of Statistics and NWT Finance  
(e) estimate

## Economic Performance by Sector

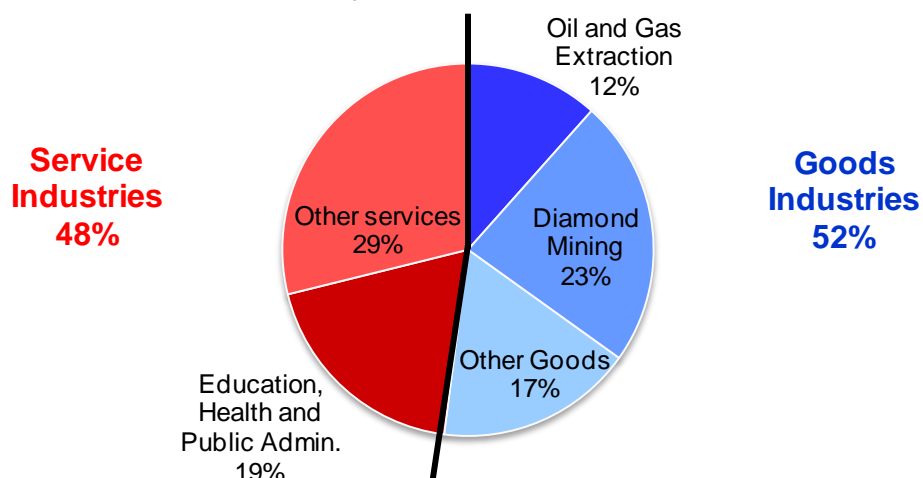
The NWT economy is comprised of goods-producing and service-producing industries. Goods-producing industries use more capital investment per unit of output than service-producing industries. The service sector accounted for over 80 per cent of the employment in 2009.

### Goods-Producing Industries

The goods-producing sector accounts for slightly more than one-half of the NWT economy, compared to only one-third of Canada's economy. Resource extraction industries dominate the goods-producing sector. The diamond industry was responsible for almost one-quarter of 2006 NWT GDP and the oil and natural gas extraction industries accounted for another 12 per cent. Renewable resources, construction, utilities and manufacturing accounted for the remainder.



### Structure of the NWT Economy, 2006



Source: Statistics Canada

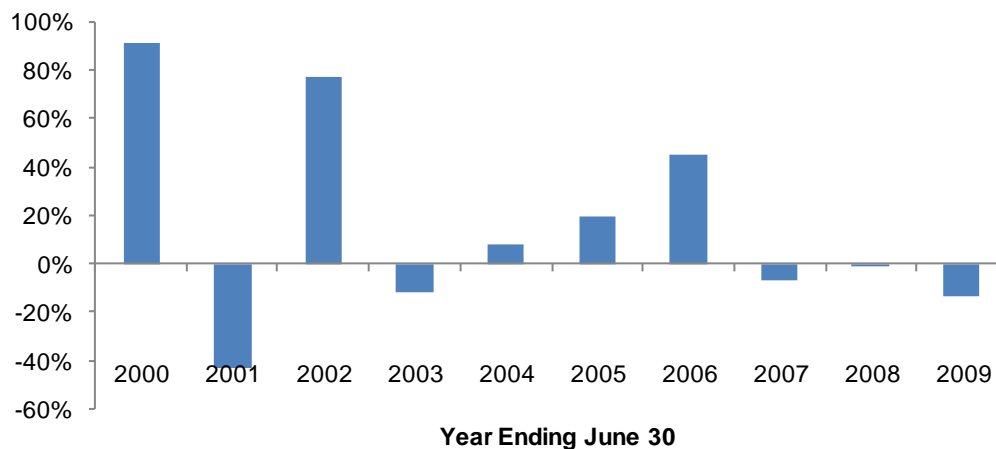
### Renewable Resources

The renewable resource sector includes trapping, fisheries, agriculture and forestry. Many NWT residents participate in traditional harvesting by trapping, fishing and hunting. In 2009, hunting restrictions were introduced to conserve the size of caribou herds. Caribou is an important part of the diet of many NWT residents.

#### Fur Harvest

Trapping remains an important source of income for many people in the NWT, especially in the smaller communities, and allows for a connection with the land that is not possible in most other occupations. For the year ending June 30, 2009, the value of fur sales was \$1.1 million, a decline of 13 per cent from the previous year. Price declines offset increased harvest volumes of marten and lynx.

### Annual Percentage Change in the Value of the NWT Fur Harvest, 2000 to 2009



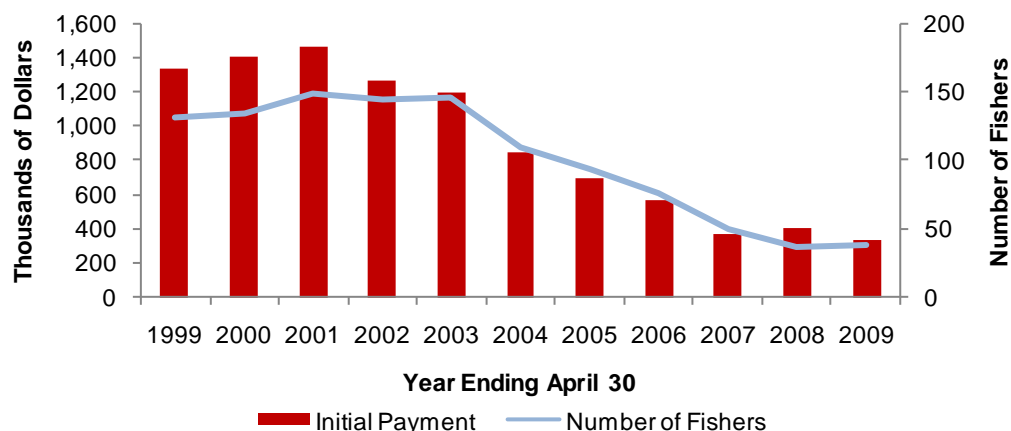
Source: NWT Bureau of Statistics

### *Commercial Fishery*

The NWT's commercial fishery is a small but valued part of the territory's economy. The Freshwater Fish Marketing Corporation, a federal Crown corporation, is the buyer, processor and marketer of freshwater fish sold across provincial and international borders from Northwestern Ontario, the three Prairie provinces and the NWT.

Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – declined to \$0.3 million in 2009 from \$0.4 million the previous year.

### ***NWT Export Fishery: Sales and Number of Fishers***



Source: Freshwater Fish Marketing Corporation  
 Note: Includes only fish sold outside of the NWT

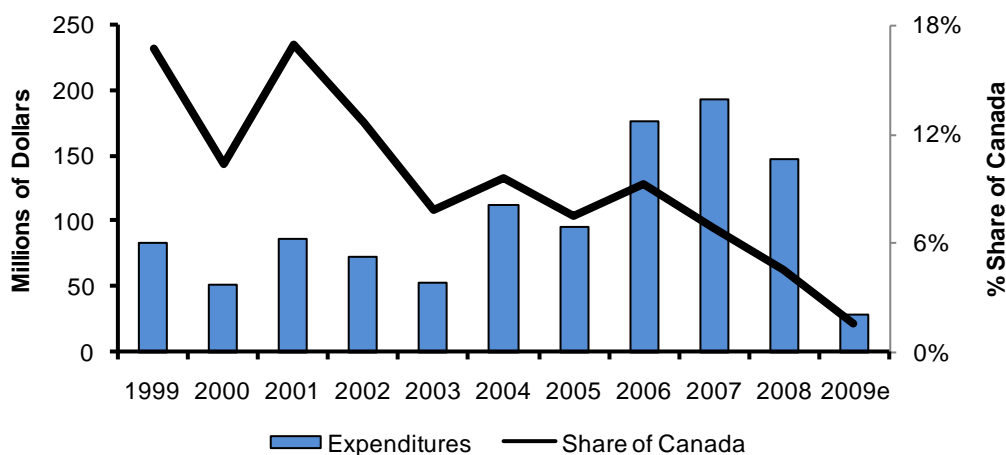
### ***Non-Renewable Resources***

Non-renewable resource industries form the largest component of the NWT GDP.

### ***Exploration and Deposit Appraisal***

Exploration expenditures include work on a range of mining activities, including field work, overhead costs, engineering, economic and pre-production feasibility studies, and environmental and land access costs. Exploration expenditures in 2009 are estimated to have been \$28.7 million, down almost 80 per cent from 2008. Exploration and deposit appraisal expenditures fell nationally by 44 per cent as the global commodity markets weakened. NWT exploration expenditures, as a share of total Canadian spending, have fallen from 17 per cent in 2001 to 2 per cent in 2009.

### NWT Mineral Exploration Expenditures



Source: Natural Resources Canada  
(e) estimated

### Precious Metals

Precious metals include gold and silver. After many decades of gold mining in the NWT, the last of the territory's gold mines were shut down by 2004. However, recent increases in gold and other precious metal prices have led to increased exploration activity.

### Price of Gold



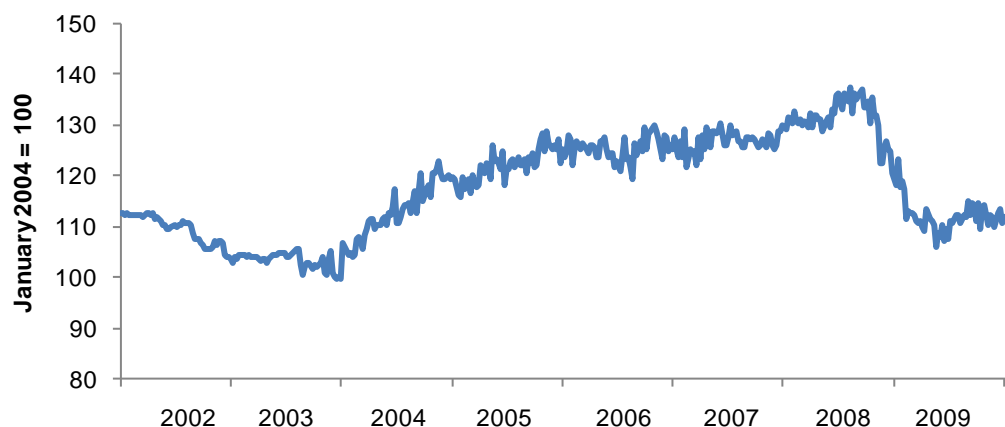
Source: Gold Insight

### Diamond Mining

The main economic driver of the NWT economy is the diamond industry, with three producing diamond mines (Ekati Mine in 1998, Diavik in 2003 and Snap Lake in 2008). The owners of a fourth proposed mine, Gahcho Kué, are conducting a feasibility analysis.

The world's diamond industry suffered from the global economic downturn as diamond prices continued to fall precipitously into the second quarter of 2009. During the last half of the year, diamond prices stabilized, then recovered modestly.

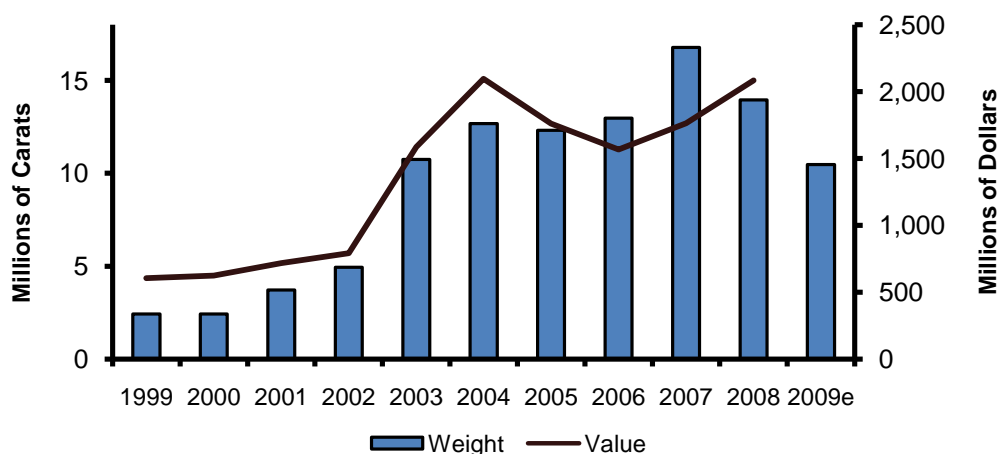
### Polished Diamond Prices Index, Overall



Source: PolishedPrices.com

As a result of the economic downturn and credit crisis, NWT diamond producers postponed planned investments and scheduled temporary mine shutdowns in 2009. Mine production is estimated to have fallen by one-third from 14 million carats in 2008 to an estimated 9 million carats in 2009.

### NWT Diamond Shipments: Weight and Value

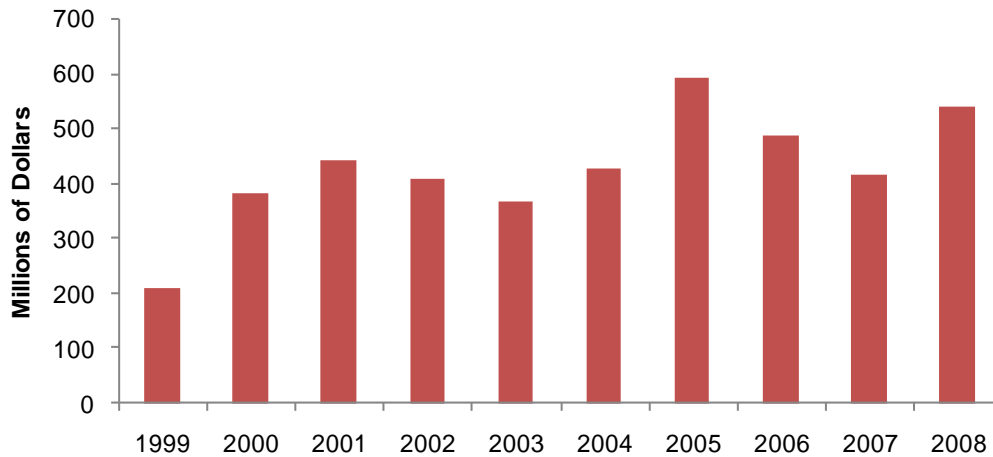


Source: NWT Bureau of Statistics and NWT Finance  
(e) estimate

### Oil and Natural Gas

Expenditures on oil and gas activities in the NWT have been stable in recent years. Expenditures include costs of exploration and development drilling, well completion and abandonment, and geophysical programs. Exploratory drilling in 2008 focused on the Mackenzie Delta and the central Mackenzie Valley.

### ***Net Cash Expenditures by the Petroleum Industry: NWT and the Arctic Islands***

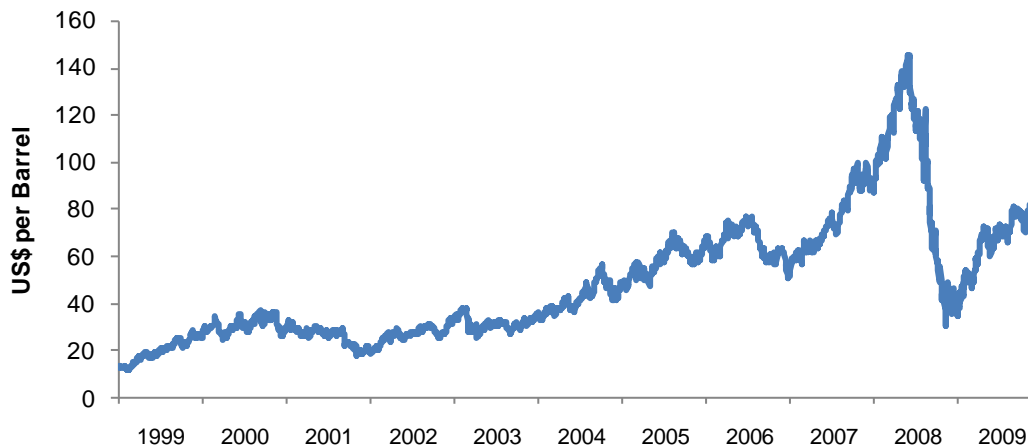


Source: Canadian Association of Petroleum Producers

Crude oil prices peaked on July 3, 2008 at US\$145 per barrel. Prices then collapsed to US\$30 by December 23, 2008. Crude oil prices almost doubled in 2009, with West Texas Intermediate averaging US\$41 per barrel during January and ending with a December average price of US\$75 per barrel.

Oil and gas production in the NWT has been gradually decreasing due to the depletion of reserves. Growth in production requires new discoveries and new field developments to replace depleted wells. If the Mackenzie Gas Project goes ahead, substantial oil and gas exploration and production would likely take place in the Mackenzie Delta and Beaufort Sea areas, making the NWT a major exporter of energy resources.

### ***Price of Oil: West Texas Intermediate***

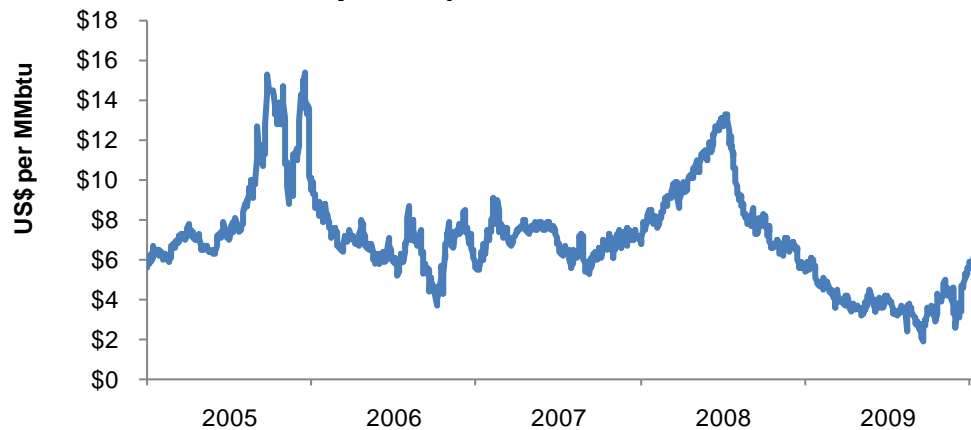


Source: U.S. Department of Energy

The following chart shows the volatility of spot market natural gas prices. Much of this volatility results from the fixed level of short-term supply and weather-sensitive changes in demand. At the beginning of 2010, the spot price for natural gas and its near-term futures price were converging at approximately US\$6 per mmBTU. Because of the volatility of spot natural gas prices, they are a less reliable indicator of the future health of the natural gas industry than futures prices, which reflect current expectations of

future North American demand and supply conditions. Futures prices have not increased since the summer of 2009. Most gas is sold on long-term contracts, not the spot market.

### **Price of Natural Gas: Henry Hub Spot Price**



Source: U.S. Department of Energy

### **Construction**

The construction industry includes residential and non-residential construction and engineering services. In 2006, the construction sector accounted for 11.3 per cent of the NWT GDP.

### **Annual Percentage Change in the Contribution of NWT Construction Activity to GDP, chained (2002) dollars**



Source: Statistics Canada  
(e) estimate

The value-added of residential construction is projected to increase 10 per cent in 2009. From a peak in 2002, the value of residential construction activity fell by one-half through 2008. Other construction activities have been stable since 2006, recording a decrease of less than one per cent in 2008. No estimates are available for 2009.

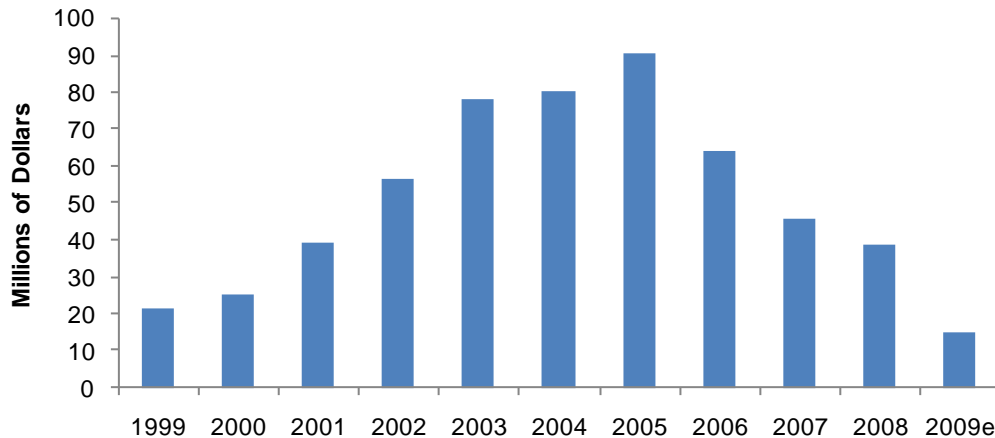
The GNWT increased its capital budget from \$181 million in 2008-09 to \$426 million in 2009-10 to help mitigate the impact of the slowdown in the NWT economy. This increase is not included in Statistics Canada's preliminary estimates for 2009.

## Manufacturing

The NWT's manufacturing sector includes a variety of businesses such as food processors, cement and concrete producers, jewellery artisans and diamond processors. Prior to 2005, NWT manufacturers and wholesalers benefited from the strong economic growth of the diamond-mining industry.

The value of sales by manufacturers has fallen every year since peaking in 2005. Based on reported value of shipments for the first nine months of 2009, sales are projected to fall by more than half from 2008. Information on specific manufacturing industries is not released due to confidentiality concerns.

### *Value of NWT Shipments by Manufacturers, All Industries*



Source: NWT Bureau of Statistics  
(e) estimate

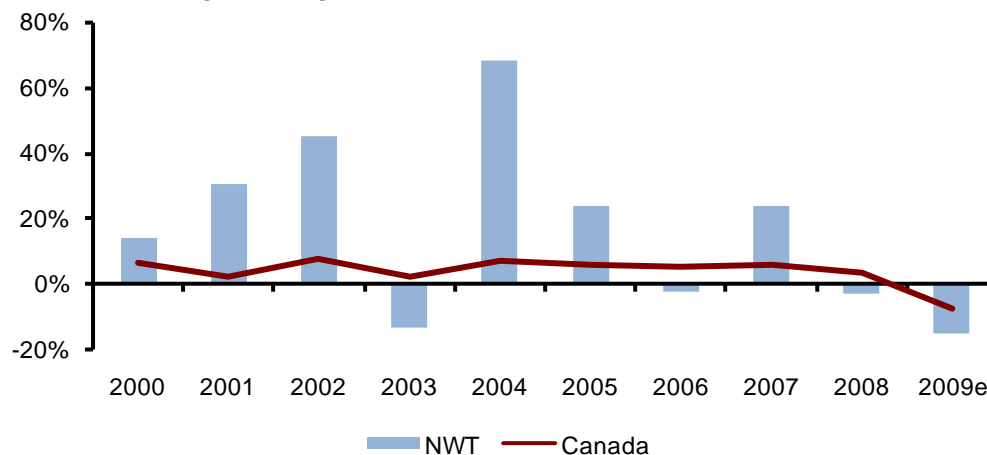
## Service Industries

In 2009, service industries accounted for 48 per cent of the NWT economy, compared to 67 per cent nationally. The service sector includes a wide range of industries such as wholesalers, banks, retailers and hotels. The broad public sector is also included in the service sector: schools, hospitals, police and fire services, federal and territorial departments, as well as local and Aboriginal governments.

### *Wholesale Trade*

Wholesalers handle the distribution of merchandise to retailers, business, and institutional customers, including the supply of equipment and capital goods. The sector is strongly influenced by capital investment and business activity.

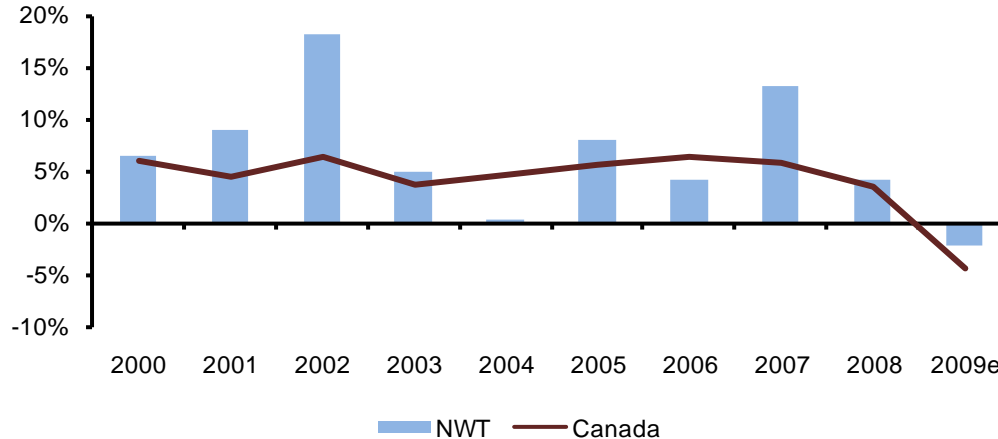
Wholesale trade is estimated to have fallen 15 per cent from 2008 to 2009, following a one per cent drop from 2007 to 2008.

**Annual Percentage Change in the Value of Wholesale Trade, NWT and Canada**

Source: NWT Bureau of Statistics and NWT Finance  
(e) estimate

**Retail Trade**

Retail sales are sales to the final consumer and include the full range of consumer services. The economic downturn impacted the NWT's retail sector from the last quarter of 2008. Based on the first ten months of 2009, retail sales are projected to decline 2 per cent from 2008. Nationally, the drop in retail sales was more severe, with an estimated 4 per cent decrease from 2008 to 2009.

**Annual Percentage Change in the Value of Retail Trade, NWT and Canada**

Source: NWT Bureau of Statistics and NWT Finance  
(e) estimate

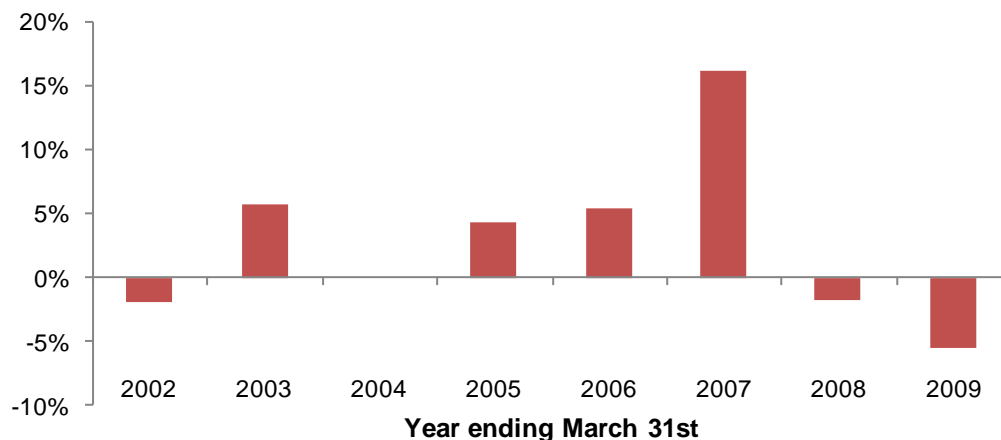
**Tourism**

Tourism is an important part of the NWT's economy, with large untapped potential. There are four components to the territory's tourist trade: eco-tourism, hunting and fishing lodges, leisure travel and business travel.

Total spending by visitors peaked in 2007, reaching \$140 million. It fell in each of the next two years, for a total decrease of almost 8 per cent. Business traveller spending moderated the decline with a 5.4 per cent decrease in expenditures from 2007 to 2009, compared to a 10 per cent decrease in leisure visitor expenditures.



### ***Annual Percentage Change in Total Expenditures by Leisure and Business Travellers to the NWT***



Source: NWT Industry, Tourism and Investment

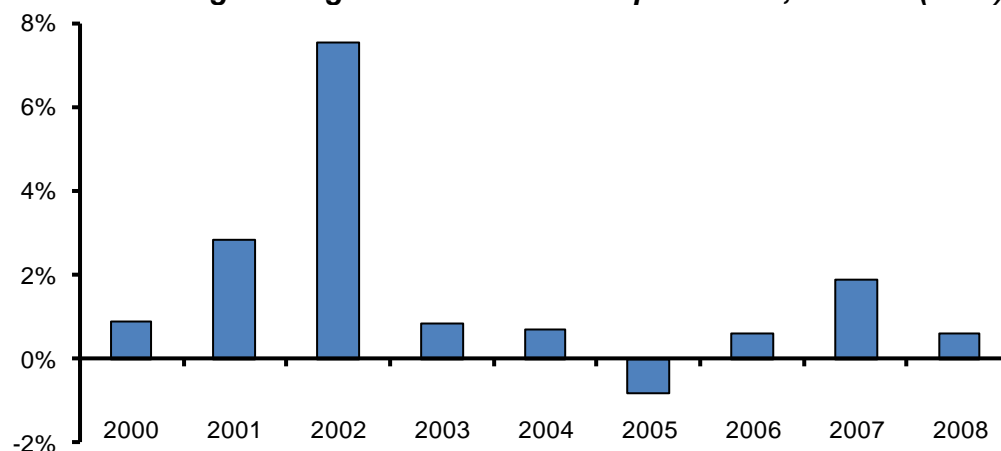
### ***Public Administration***

Public administrative services includes all levels of government in the NWT (federal, territorial, local and Aboriginal). This includes the courts, policing and correction services, fire protection, defence and public program administration, but excludes the health, social services and education sectors.

Public administration is measured in terms of its contribution to NWT GDP. This avoids double-counting government expenditures, a particular problem when money is transferred from one level of government and spent by another level of government.

Public administration increased by 0.6 per cent from 2007 to 2008. This was well below the average annual growth rate of 1.7 per cent since 1999, but equal to the average annual growth rate since 2002.

### ***Annual Percentage Change in Public Sector Expenditures, chained (2002) dollars***



Source: Statistics Canada