Economic Review 2024-2025

NORTHWEST TERRITORIES

May 24, 2024

ECONOMIC REVIEW

Overview

The Northwest Territories (NWT) economy grew modestly in 2023, boosted by higher than expected private and public investment. Although employment decreased 3.2 per cent from 2022 to 2023, the employment rate remains high and the labour market is strong with unemployment rates below historical averages. Average weekly earnings increased almost 2 per cent, supporting higher consumer spending and retail sales. Higher diamond prices increased shipment values despite a decline in year-over-year production. However, despite three consecutive years of growth, the NWT economy is on a path of shrinking output and activity.

Economic growth is not expected this year. The 2024 economic forecast projects a mild contraction, as lower diamond mine production and less private and public investments are expected to more than offset increased consumer and government spending. Inflation is moderating but high interest rates will continue to affect mortgages and investments. The most pressing issues continue to be the planned 2026 closure of the Diavik Diamond Mine and the risk that projected new private sector activities do not come to fruition.

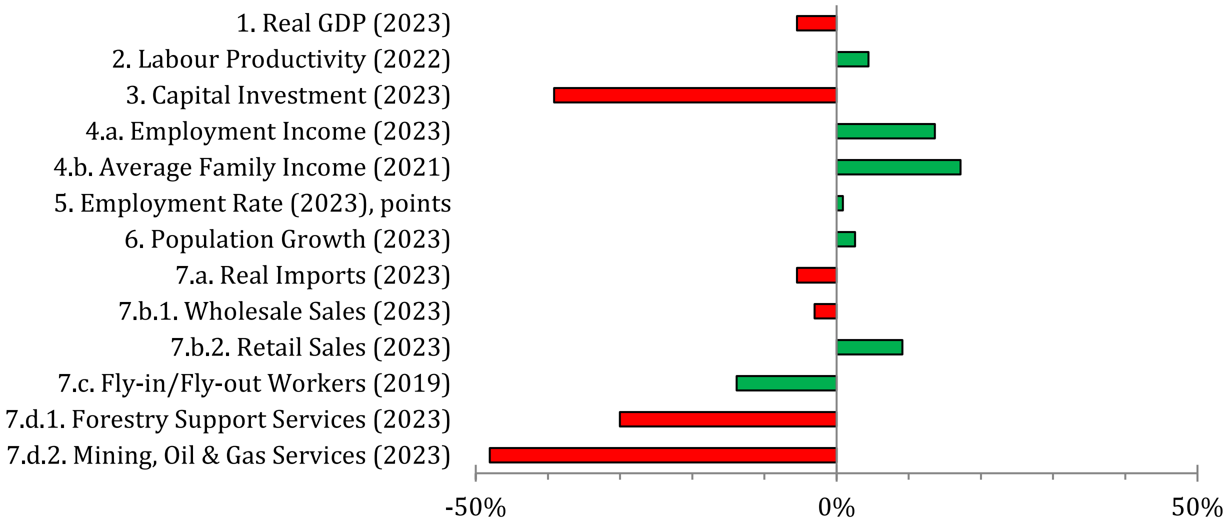
Current State of the Economy

Indicators from the *Macroeconomic Policy Framework*[1] have been used to measure the performance of the NWT economy. The *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 *Framework* provides a broad measure of the effects of policy, government spending, and investment decisions that support economic development. These performance indicators compare current indicator values to their 2014 baseline level. The year 2014 was chosen as the baseline because it reflects the year that the management of lands, waters and non-renewable resources were devolved from Canada to the Northwest Territories.

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 2014 benchmark. All performance indicators reflect the most current data available.

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

Macroeconomic Policy Framework Performance Indicators



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

Seven of the 13 indicators have improved. These improvements occurred primarily in indicators that measure living standards. Productivity, employment and family incomes, local employment, population growth, and retail sales are higher now than in 2014, while the number of non-resident, fly-in/fly-out workers is lower (fewer non-resident workers is an improvement). The most notable increases are in labour productivity, which drives long-term economic growth, efficiency, and increased wages, and the employment rate, which suggests the economy, despite being smaller compared to 2014, continues to provide NWT residents with job opportunities. Taken together, improvements in these seven indicators point to favourable labour market conditions and a higher quality of life.

Six of the 13 indicators have worsened since 2014. Real GDP declined modestly, as did imports and wholesale purchases. Forestry support services decreased significantly from 2014 but is a small component of the overall economy. The two most significant declines are in capital investment, and mining, oil and gas services, which are linked.

Economic Outlook

The NWT economy has recovered from 2020 lows: economic output, investment, imports, and earnings all expanded throughout 2021 to 2023, while household spending, public expenditure, and resident employment surpassed pre-pandemic highs. Over the near term, however, the NWT economic growth is expected to moderate, with mild declines in economic output, investment, exports and employment. Despite this, the NWT labour market is expected to remain robust with rising wages and falling inflation contributing to increased household spending.

Northwest Territories Economic Outlook

Chained (2017) millions of dollars unless otherwise stated.

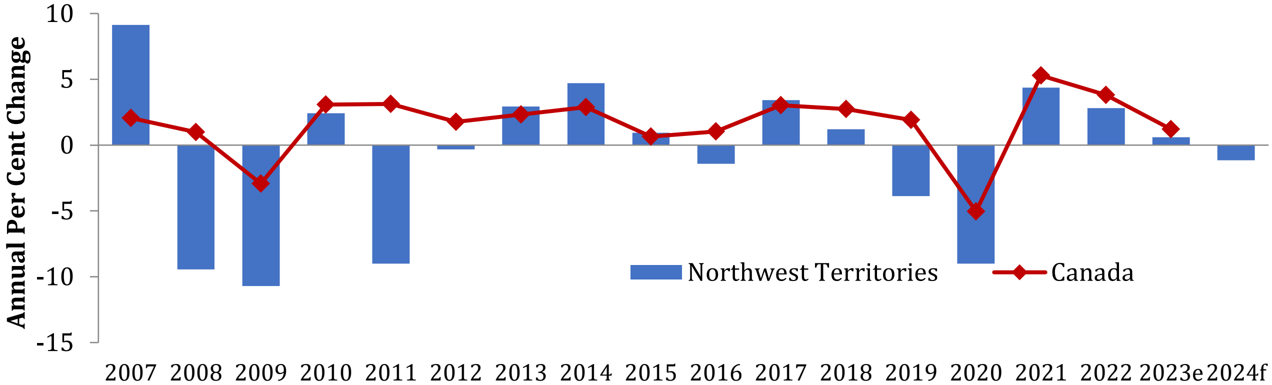
	2018	2019	2020	2021	2022	2023e	2024f
Gross Domestic Product	4,684	4,502	4,097	4,276	4,396	4,420	4,370
Percent Change	*1.2*	*(3.9)*	*(9.0)*	*4.4*	*2.8*	*0.6*	*(1.1)*
Total Investment	1,115	923	684	772	900	973	927
Percent Change	*(4.5)*	*(17.2)*	*(25.9)*	*12.9*	*16.6*	*8.1*	*(4.7)*
Household Expenditure	1,754	1,762	1,745	1,811	1,768	1,787	1,809
Percent Change	*1.6*	*0.5*	*(1.0)*	*3.8*	*(2.4)*	*1.1*	*1.2*
Government Expenditure	2,398	2,451	2,542	2,636	2,753	2,849	2,856
Percent Change	*3.2*	*2.2*	*3.7*	*3.7*	*4.4*	*3.5*	*0.3*
Exports	2,936	2,675	2,126	2,249	2,396	2,360	2,303
Percent Change	*0.9*	*(8.9)*	*(20.5)*	*5.8*	*6.5*	*(1.5)*	*(2.4)*
Imports	3,616	3,378	3,131	3,292	3,550	3,678	3,654
Percent Change	*0.4*	*(6.6)*	*(7.3)*	*5.1*	*7.8*	*3.6*	*(0.7)*
Employment (Number of Residents)	22,700	23,000	21,800	23,500	24,700	23,900	23,500
Percent Change	*0.9*	*1.3*	*(5.2)*	*7.8*	*5.1*	*(3.2)*	*(1.7)*
Average Weekly Earnings	1,423	1,457	1,511	1,527	1,565	1,594	1,626
Percent Change	*1.4*	*2.4*	*3.7*	*1.1*	*2.5*	*1.9*	2.0
CPI (All-Items), Yellowknife	136.6	138.8	138.9	142.0	151.9	156.9	160.7
Percent Change	*2.3*	*1.6*	*0.1*	*2.2*	*7.0*	*3.3*	2.4

Note: Preliminary results for 2023 real GDP by Industry at basic prices were released on May 1, 2024. The forecasts in this Economic Review use expenditure-based real GDP at market prices, which will be released November 2024.
e: estimate
f: forecast
Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – *real GDP*

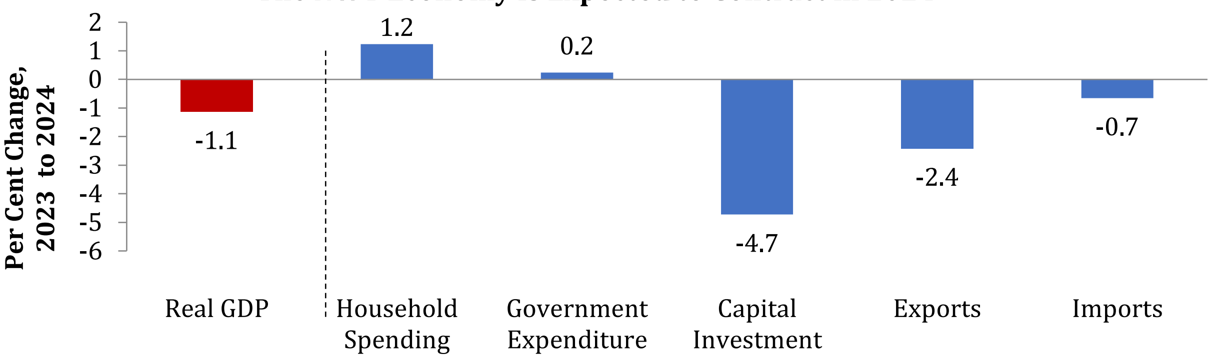
Real GDP is projected to shrink by 1.1 per cent in 2024 following three consecutive years of growth. The forecast decline in economic output is due to a 4.7 per cent drop in total investment, as diamond mine investment continues to wind down, as well as a 2.4 per cent fall in exports due to lower diamond mine and oil and gas production. Government spending is also projected to slow in 2024 as pandemic-related supports continue to unwind. This decline will be offset by robust employment, a 2.0 per cent increase in weekly earnings, and a fall in consumer price inflation to 2.4 per cent, which will support a 1.2 per cent increase in household spending.

NWT Economic Growth Is Slowing



e: estimate
f: forecast
Source: Statistics Canada and NWT Bureau of Statistics

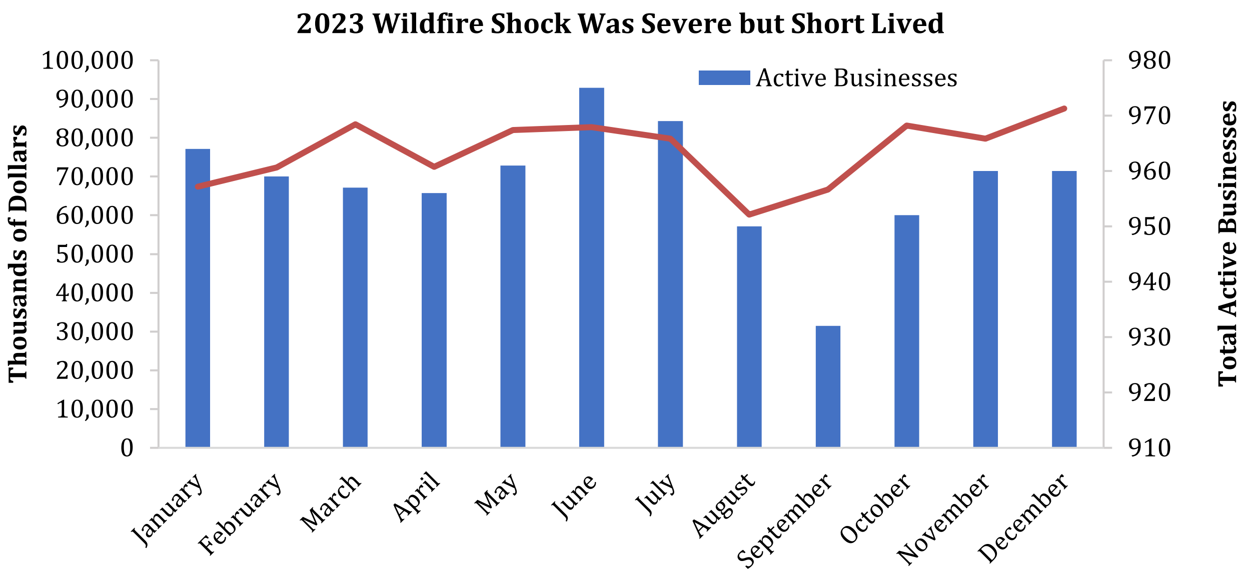
The NWT Economy Is Expected to Contract in 2024



Source: Statistics Canada and NWT Bureau of Statistics

The NWT economy was expected to contract in 2023, as forecast in Budget 2023-24, but surprised on the upside with positive growth. Higher than expected investment in the diamond mines and construction of the Yellowknife swimming pool, combined with stronger than projected household and government spending, helped the economy grow by 0.6 per cent last year. The modest 2023 real GDP growth, despite the unprecedented wildfire season, demonstrated a surprisingly resilient NWT economy.

The severe 2023 wildfire season caused a sharp economic shock. Between May and September 2023, 4 million hectares of land burned, 11 communities were evacuated, and over 2,000 smoke hours occurred. The direct cost was over $250 million in evacuation, firefighting, and rebuilding costs, while the indirect economic cost was disrupted supply chains, business closures, and lost work hours. Between June and September 2023, the number of active businesses declined 4.4 per cent (or 43 businesses), retail sales fell 19.4 per cent (or $16 million), and jobs dropped 8.3 per cent (or 2,400 positions). However, while the economic impact was severe, it was short lived. By December 2023, indicators returned to pre-wildfire levels. Incomes and earnings did not decline, largely because the diamond mines did not shut down, many employers continued to pay their employees including all levels of government, and roughly 4,800 residents were supported through the Evacuation Income Disruption Program.

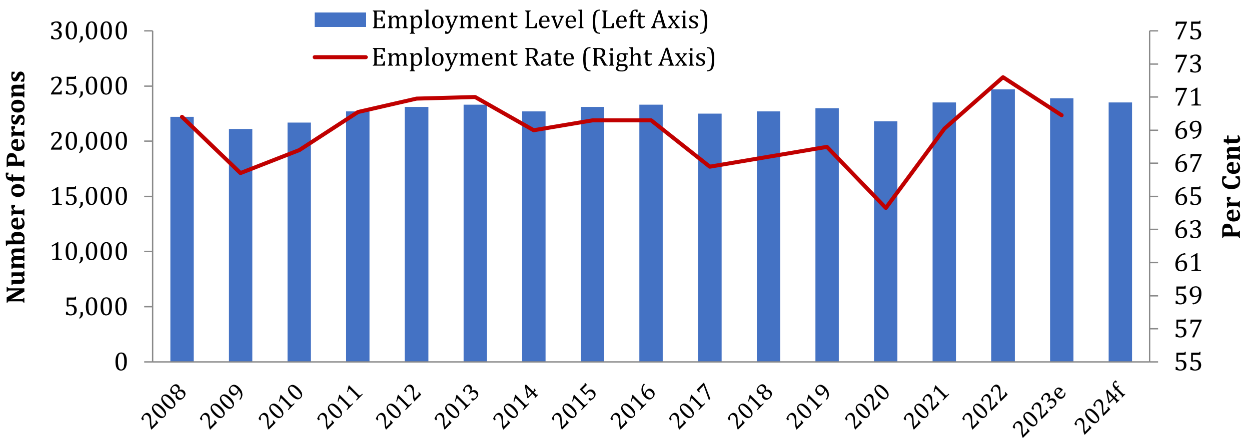


Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – *Employment*

Resident employment is projected to decrease by 1.7 per cent in 2024 (or 400 people) after falling 3.2 per cent in 2023. Despite this projected decline, resident employment is expected to remain above late 2010s levels, and the territorial employment rate, which measures the share of the working-age population that is actively employed, is expected to remain close to 69.9 per cent, as it was in 2023. The employment rate is significantly higher in Yellowknife than in other NWT communities (79 per cent compared to 59 per cent in 2023) and is notably higher for non-Indigenous residents than Indigenous residents (82 per cent compared to 54 per cent in 2023). These employment rate differences are due to a combination of factors, including fewer job opportunities outside of the capital, the fact that many non-Indigenous residents relocated to the NWT for work, and choices of individuals to not participate in the market economy. Regional differences are expected to continue, particularly as diamond mining and oil and gas, which are large employers of local labour in communities outside Yellowknife, wind down.

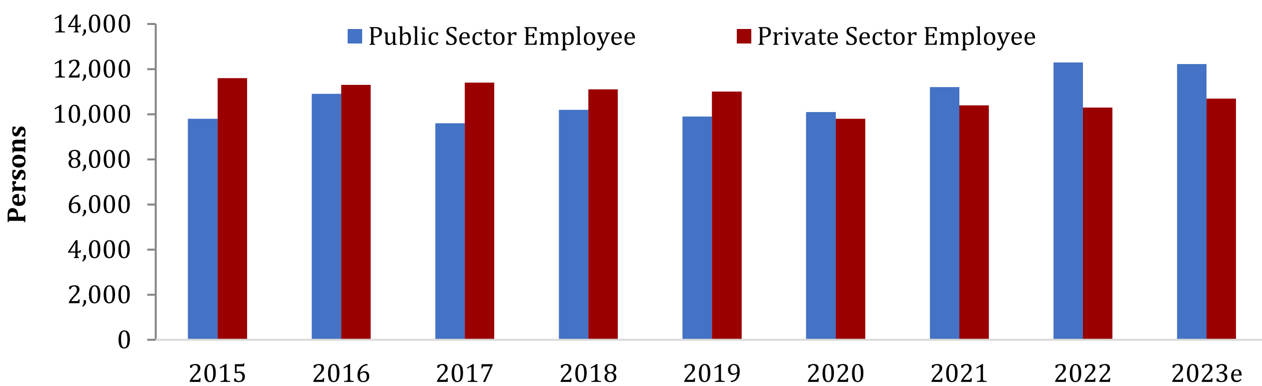
NWT Resident Employment Remains Elevated



e: estimate
f: forecast
Source: Statistics Canada and NWT Bureau of Statistics

The declines in diamond mining and oil and gas operations have resulted in decreases in private sector employment. Since the pandemic, more NWT residents work in the public sector than in the private sector. In 2023 over half of employed residents (or 12,220 people) were employed by the public sector while just under 42 per cent (or 10,060 people) worked for private businesses. Public administration alone employs over 7,800 NWT residents, or one-third of all NWT employees, including courts, policing, corrections services, firefighting services, defence, and government administration but excluding the health, social assistance, and education sectors. Although an economy increasingly dependent on government could lead to a hollowing out of the private sector, the large public sector also acts as an economic stabilizer. Because government employment is not prone to the boom-and-bust cycles of the resource industry, it is able to offer relatively high incomes and steady employment during economic shocks such as pandemics and wildfires.

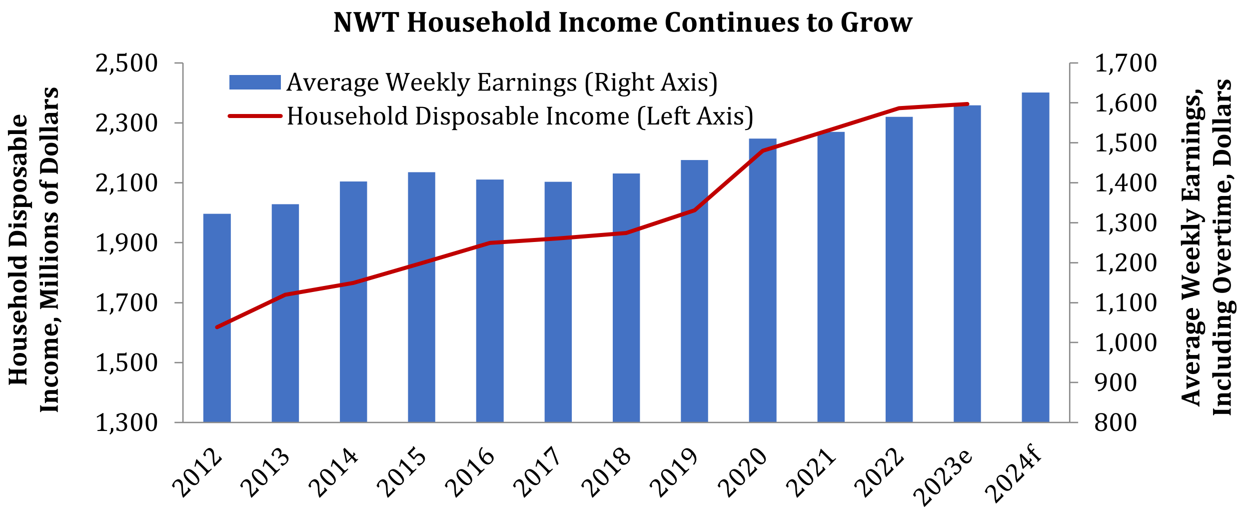
More NWT Residents Are Now Employed in the Public Sector Than the Private Sector



e: estimate
Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – *Average Weekly Earnings*

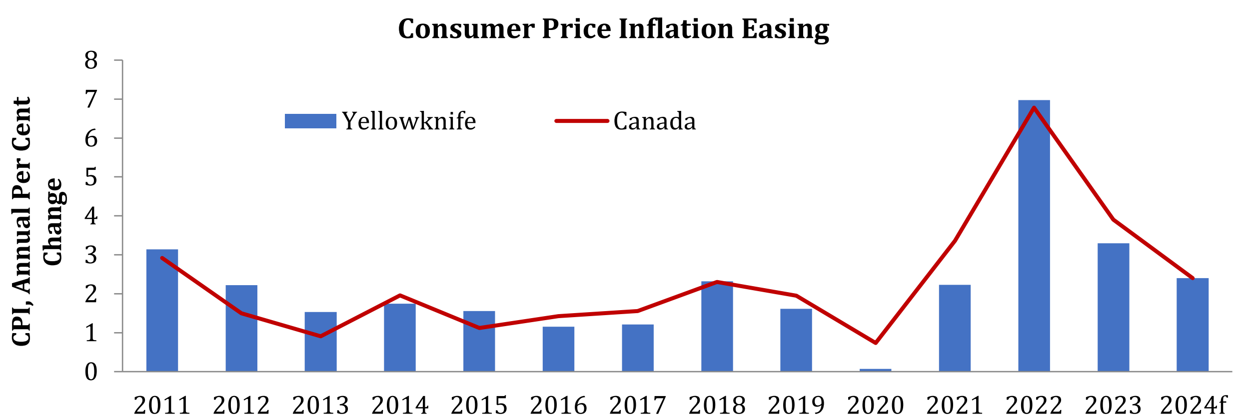
Tight labour markets will continue to push wages higher over the near term. Average weekly earnings, currently the highest in Canada after Nunavut, are projected to increase 2.0 per cent in 2024 after rising an estimated 1.9 per cent in 2023.



e: estimate
f: forecast
Source: Statistics Canada and NWT Bureau of Statistics

Economic Outlook – *Consumer Prices*

Consumer price inflation is projected to continue to slow in 2024. Supply chain disruptions and commodity price fluctuations have eased and higher interest rates are causing inflation rates to fall. The Yellowknife Consumer Price Index (CPI) is forecast to increase 2.4 per cent in 2024.



f: forecast
Source: Statistics Canada, the Bank of Canada and NWT Bureau of Statistics

Risks to the Outlook

Near-term risks to the economic outlook include higher-for-longer interest rates that could slow business activity, dampen consumer spending, and exacerbate infrastructure gaps, including the residential housing shortage, through lower levels of investment. Other negative risks include global factors such as continued political unrest and wars increase prices and cause supply chains disruptions. However, the NWT economy tends to be resilient, mainly due to the stabilizing influence of government spending and employment. Near-term challenges can be met, but it is the potential failure to prepare for longer-term, structural shifts in the NWT economy that pose the largest risk to the territorial economic outlook.

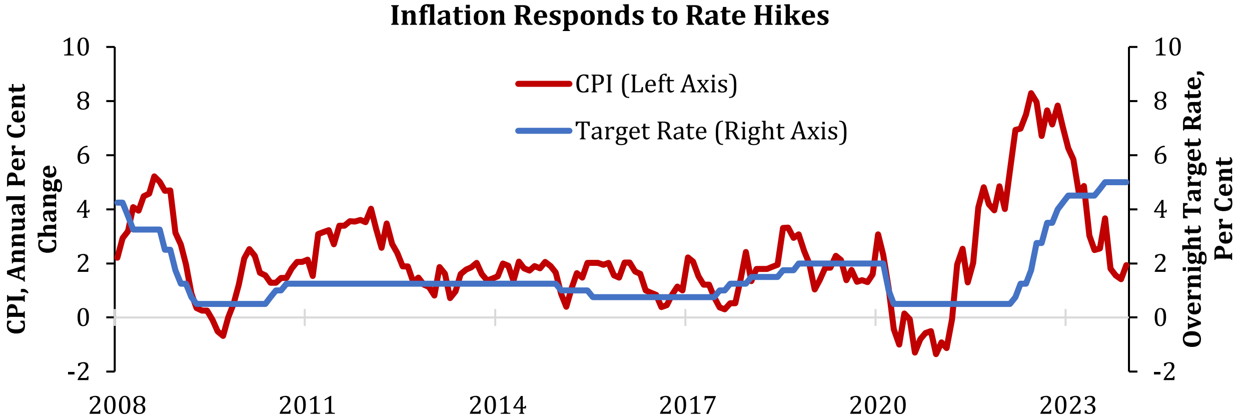
The top structural challenge is the impending diamond mine closures. Connected to this is the continued lack of economic diversification and ongoing shortages for skilled and unskilled labour, especially in smaller communities. These challenges must be addressed to ease the territorial economy into a new normal without the diamond mines.

Positive risks include the increased mineral exploration investments that may lead to new mining operations. Even if potential new mines do not replace the world-class diamond mines, they can help stabilize the economy with high paying jobs and business opportunities. However, there is also the possibility that new mines will not materialize soon and preparation for a different sort of economy will be crucial.

Risks to the Outlook – *Higher for Longer Interest Rates*

In response to rising inflation in 2022 and 2023, the Bank of Canada increased its policy rate from 0.5 per cent in January 2022 to 5.0 per cent in July 2023, where it currently remains. Higher interest rates made borrowing and investing more expensive for businesses and consumers, slowing economic activity and causing consumer price index (CPI) inflation to fall. The low and stable inflation forecast for 2024 will ease the territory's high cost of living and improve residents' purchasing power. With monthly CPI growth rates falling to target levels, it is expected that the worst of inflation is over and that interest rate drops may be forthcoming in 2024 and 2025.

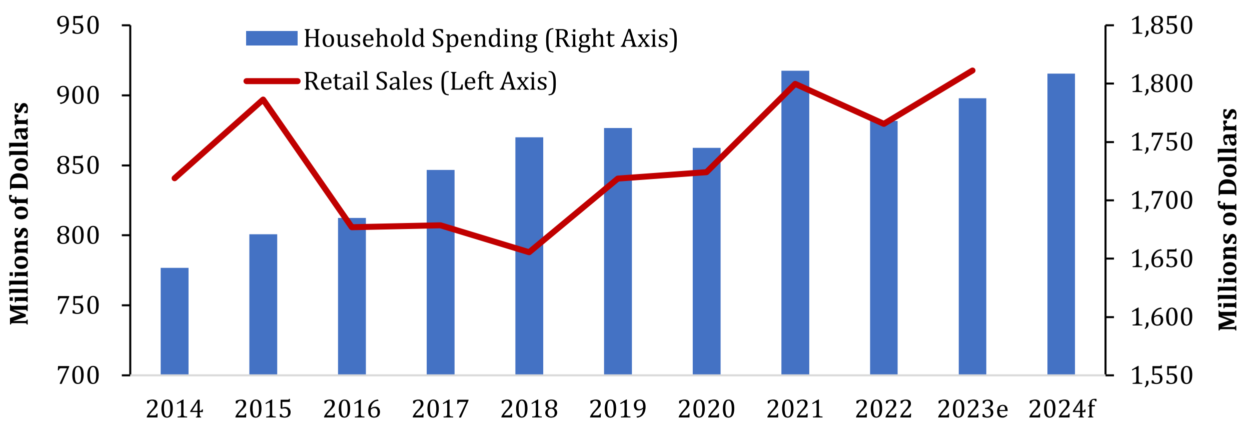
Inflation Responds to Rate Hikes



Source: The Bank of Canada and NWT Finance

However, should inflation become sticky (underlying changes to how certain goods and services are priced keeping their inflation growth above target), interest rates are likely to remain elevated. Higher-for-longer interest rates could stifle spending by households, businesses, and industry as new debt, including mortgages, becomes more expensive and the risk of loan default increases. Higher interest rates also aggravate underlying concerns about debt repayments made by NWT residents, as a larger share of their household income must go to loan servicing costs, reducing household disposable income. This will lead to less economic activity, as seen in 2022, where household spending and retail sales both fell. Consumer spending is expected to grow moderately in the near term, though sticky inflation and interest rates risks reducing forecasted growth in consumer spending further.

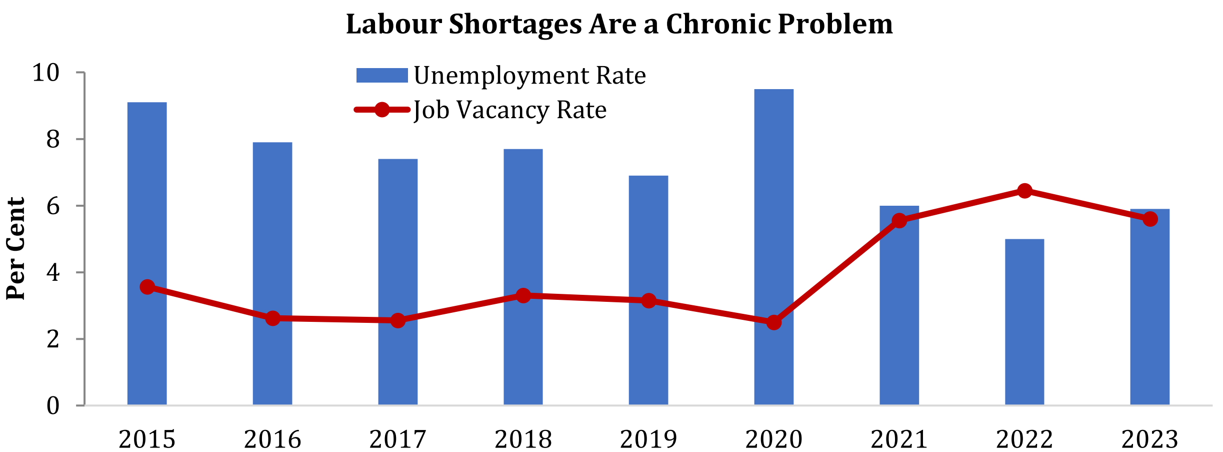
NWT Consumer Spending Is Expected to Grow



e: estimate
f: forecast
Source: Statistics Canada and NWT Bureau of Statistics

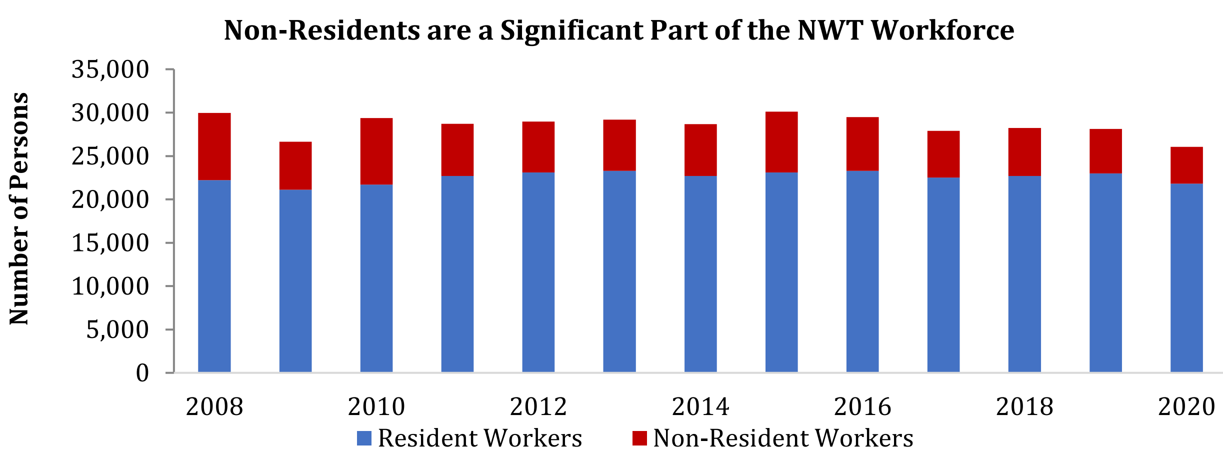
Risks to the Outlook – *Labour Shortages*

The unemployment rate rose from 5.0 per cent in 2022 to 5.9 per cent in 2023, though it remains much lower than the 7.9 per cent average between 2011-2019. This uptick in the unemployment rate (the share of working-age residents who are not employed but looking for work) accompanied a decline in the job vacancy rate from 6.5 per cent in 2022 to 5.6 per cent in 2023. Fewer job openings and an increase in available workers has eased labour shortages, which were particularly acute in 2022 and 2023 in health care, construction, food services, and education. Despite improvements, labour shortages remain an ongoing challenge given the small size of the NWT population and resident workforce. Chronic labour shortages pose risks to the economic outlook as an inability to fill vacant positions prevents businesses from maintaining or expanding their operations and diminishes the quality of life for territorial residents by reducing the variety and availability of public services.



Source: Statistics Canada and NWT Bureau of Statistics

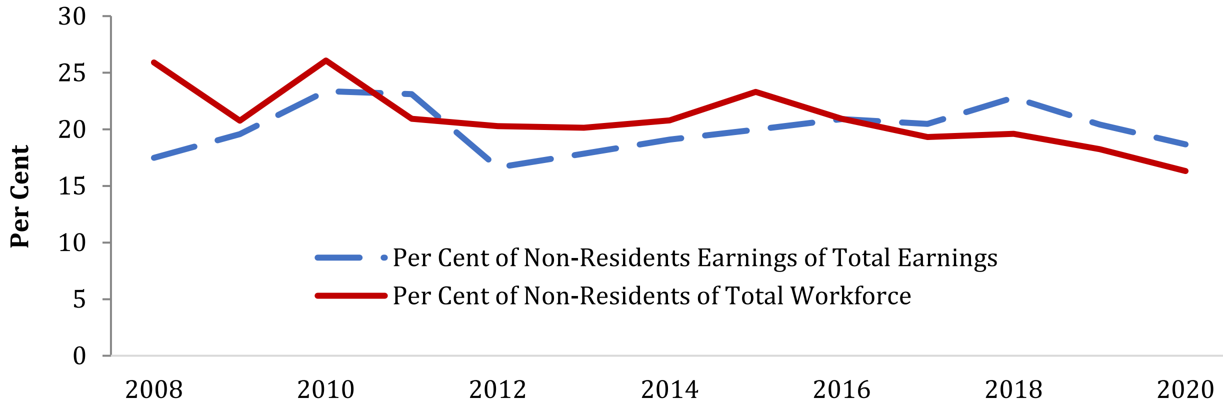
Labour shortages due to the small territorial population are a chronic problem and are the major reason for the NWTs high rate of non-resident workers. The number of non-resident workers employed in the NWT averaged 6,000 between 2008 and 2020, representing about one-fifth of the NWT workforce. These jobs include seasonal, rotational, temporary, and special projects that fill employment gaps that are not met by the resident workforce.



Source: Statistics Canada and NWT Finance

Total aggregate earnings paid to non-resident workers ranged from $261 million to $440 million between 2008 and 2020, averaging about one-fifth of all employment income generated in the territory. Starting in 2018 there has been a decline in non-resident workers as a percentage of the total NWT workforce and as a percentage of total earnings. While employment income earned by non-residents represents lost income that could have been earned in the NWT economy by a resident worker, the NWT does benefit from these workers as many are in jobs that would otherwise be left unfilled.

Non-residents' Share of Earning and Workforce Remain Steady



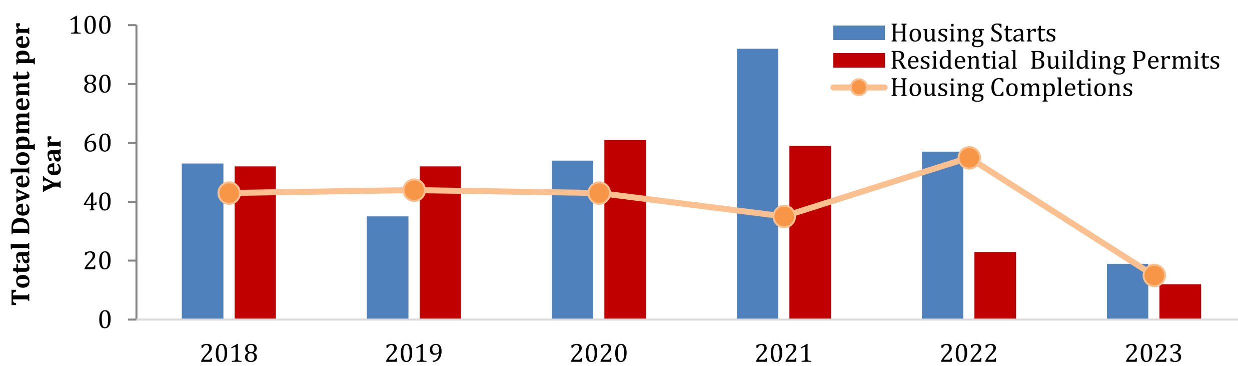
Source: Statistics Canada and NWT Bureau of Statistics

Risks to the Outlook – *Housing Market Imbalances*

Housing market imbalances are a significant and chronic challenge facing the NWT. Strong demand for homes (including market rentals, resales, new builds, and public housing) has not been matched by adequate supply for many years. As a result, every NWT community faces some type of housing shortage with residents unable to find adequate accommodation. Despite strong demand, residential construction to increase the housing stock has been meager.

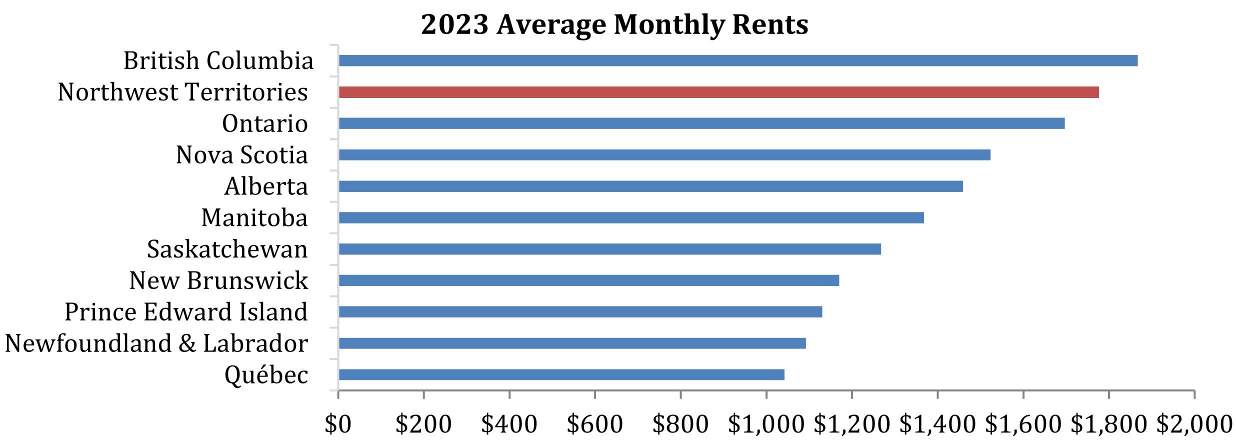
New home construction experienced a particularly bad year in 2023 due to a combination of high interest rates, increased labour and supply costs, a lack of skilled trades workers, and a shortened construction season due to wildfires and evacuations. In 2023, there were 12 residential building permits issued for new units declined, 19 housing starts, and only 15 housing completions.

Housing Investments Underperform



Source: Statistics Canada

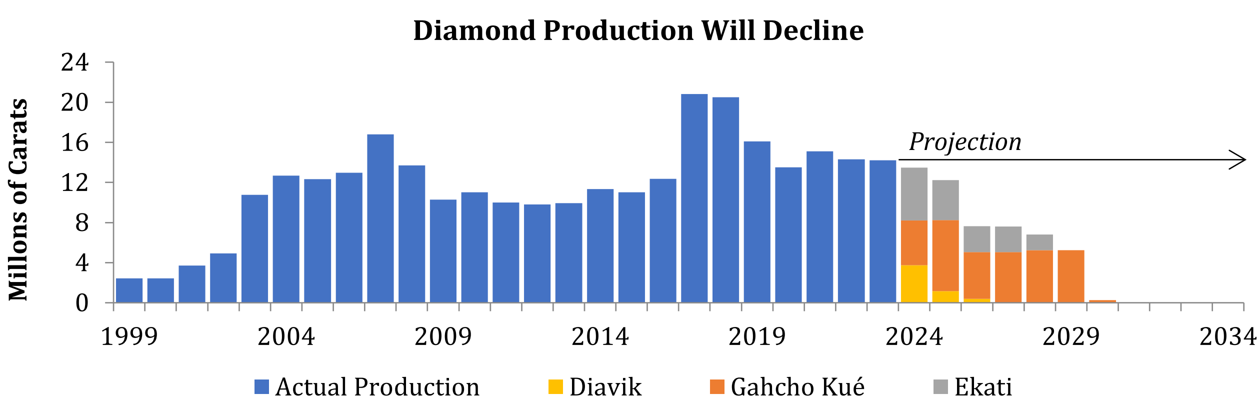
A lack of housing poses a severe risk to the outlook as it limits population growth and worsens ongoing labour shortages as potential employees looking to relocate to the NWT for work must struggle to find accommodation. A tight housing market with limited supply also pushes up home prices and rental costs, which in turn add to the already high cost of living. In 2023, the average monthly rent in Yellowknife was $1,776, the second highest of all reporting jurisdictions (with populations over 10,000) after British Columbia.



Note: Rents are calculated for communities with populations 10,000 and over.
Source: Canada Mortgage and Housing Corporation

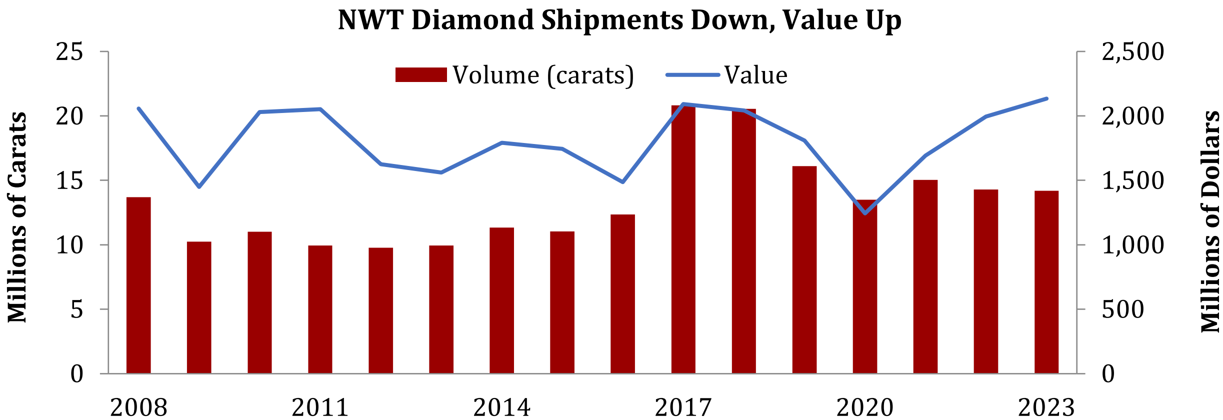
Risks to the Outlook – *Diamond Mine Closures*

Maturing diamond mines are a significant risk to the economic outlook of the NWT. Diamond mining is a primary driver of the NWT economy but all currently producing mines are set to end production by 2030. Diavik is scheduled to close in 2026, followed by the Ekati in 2029 and Gahcho Kué in 2030. Ekati 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 depend on a range of economic and financial factors including global capital credit conditions, consumer demand, and rough diamond prices. An extension of Ekati's mine life would be a significant positive development for the territory.



Note: Projection numbers are subject to change based on mine plan revisions by private mining companies.
Source: mining plans and technical reports, Natural Resources Canada, and NWT Finance

Although the diamond mines are reaching end of life, they are still extracting rough stones and continue to operate. In 2023, NWT diamond shipments were valued at $2.1 billion, a 6.9 per cent increase from 2022, despite almost no change (0.7 per cent decrease) in total diamond shipment volume. Continued mining operation represents an upside risk to the outlook as it would boost NWT export values, resource royalties, and may encourage investment.

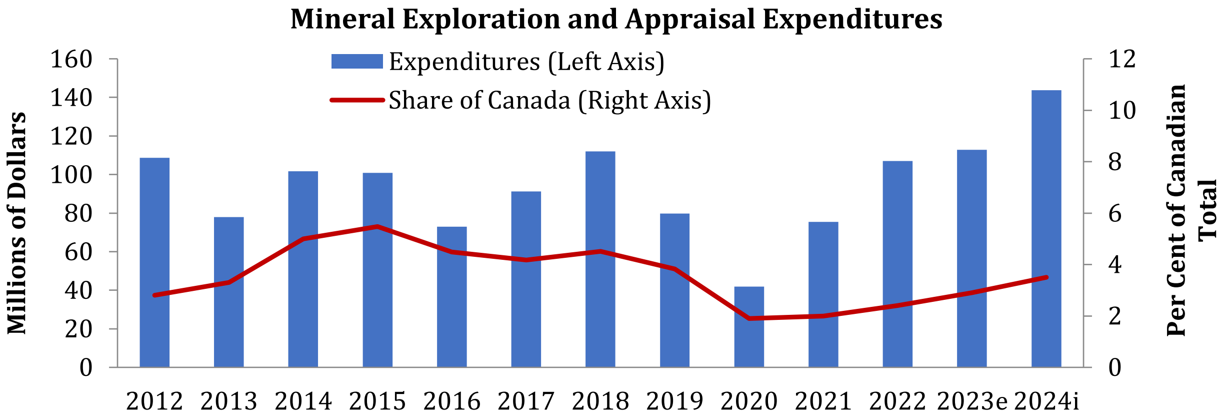


Source: NWT Bureau of Statistics and NWT Finance

Risks to the Outlook – *Exploration and Future Mine Development*

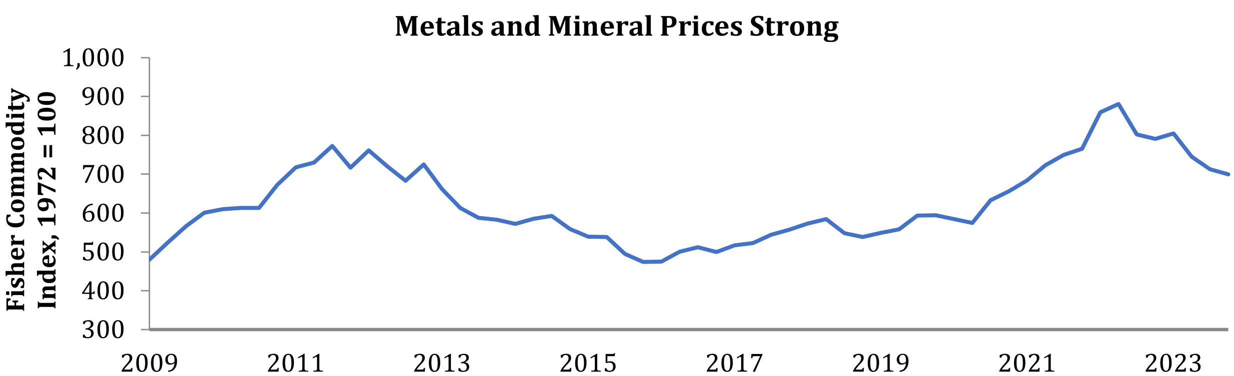
Diamond mines currently dominate the mining industry and the private sector. However, several new mines and resource development projects exist in the territory and, while none are large enough to offset the economic loss that will accompany the closure of the diamond mines, they do present an opportunity for future mining growth. The Prairie Creek mine and the proposed Pine Point lead/zinc mine are examples of smaller-scale mining potential in the territory.

Further evidence of this potential is indicated by mineral exploration and appraisal spending, a requirement for discovering and developing new mines, and that has increased every year since the pandemic, rising to $112.9 million in 2023, the highest level of exploration investment since 2008. 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. Exploration and appraisal spending intentions are expected increase to $143.7 million in 2024. The 2023 and 2024 expenditure increases come from renewed demand for critical minerals and metals that may result in new mine developments in the NWT.



e: estimate
i: spending intentions
Source: Natural Resources Canada

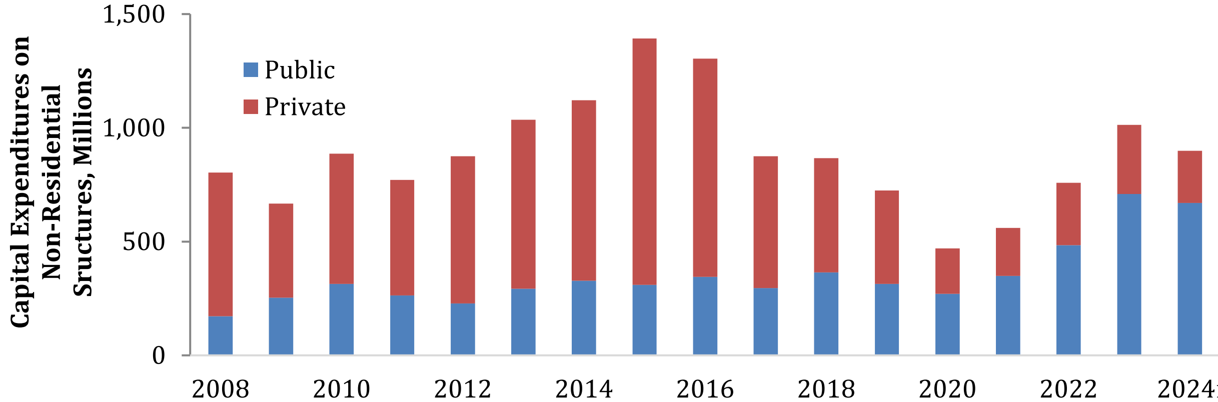
Global prices for resource commodities, including prices for many metals and minerals found in the NWT, softened in 2023 but remain elevated. Higher commodity prices for many of the metals and minerals found in the NWT, such as gold, zinc, copper and silver, present an upside risk to the economic outlook 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

Public investment now represents 75 per cent of total investment, an increase from 30 per cent in 2014. Over the past decade, private investment has been falling due to fewer new large-scale industrial developments in the territory. Should new large-scale mining or construction projects occur, the ratio will shift back towards the private sector. This is because private sector investment in the NWT tends to be “lumpy,” where large investments are made when breaking ground on new developments like mines and then decrease rapidly when initial construction is complete.

NWT Public Investment Now Dominates Total Investment

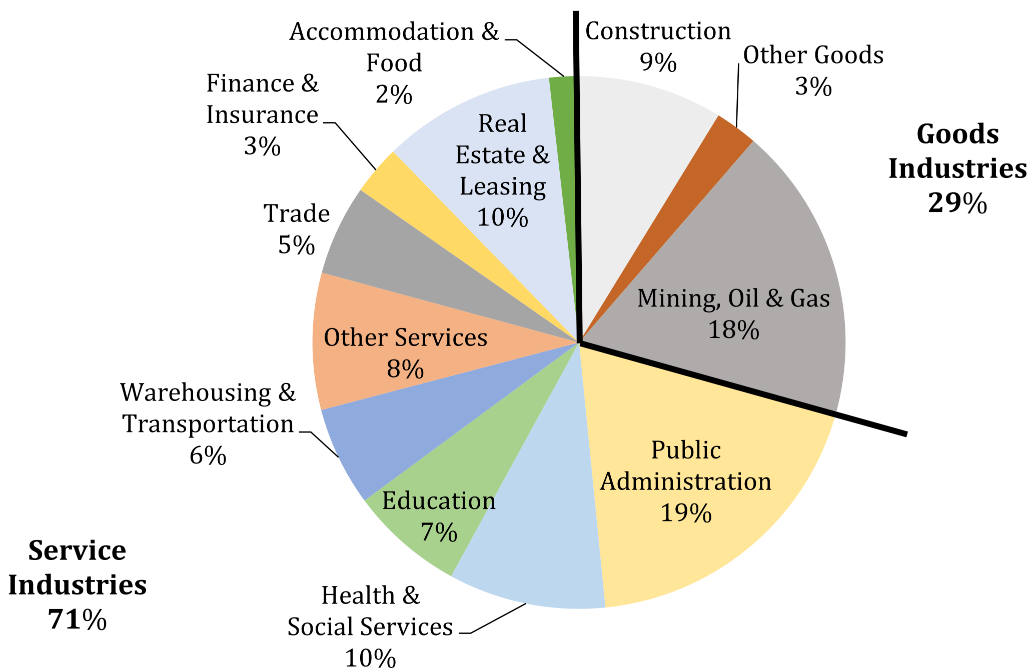


i: intention
Source: Statistics Canada and NWT Bureau of Statistics

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 nearly 40 per cent of both real GDP and jobs. This outsized reliance on two industries creates structural barriers to long-term growth and stability. This is because economic diversity provides for stable and balanced growth by spreading risk evenly across several industries, thereby 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.

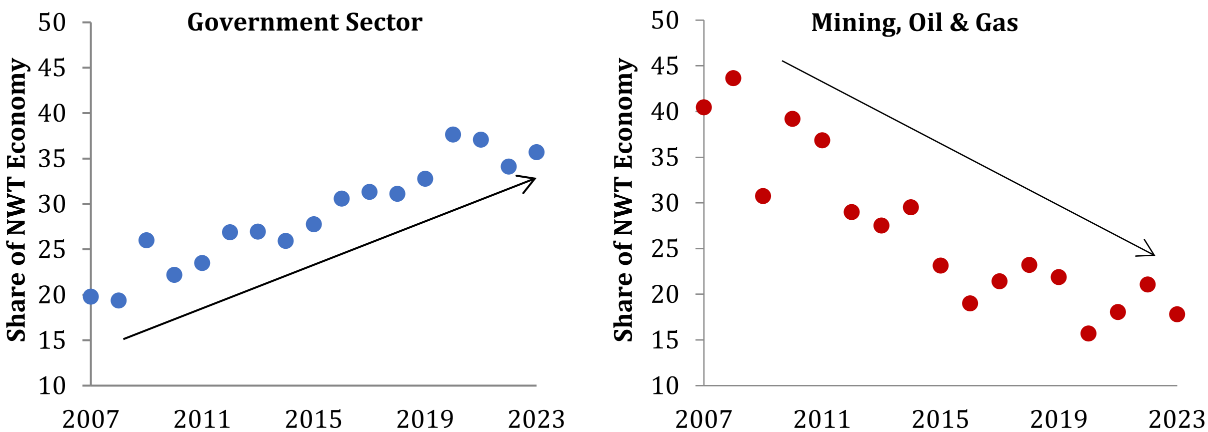
Real GDP dominated by Government and Mining, 2023



Source: Statistics Canada and NWT Finance

As the non-renewable resource extraction sector declines, government and the public sector play a larger role in the economy. This poses both a positive and negative risk to the outlook. While government will provide economic stability during near-term economic shocks, a high reliance on the public sector could stifle private sector growth and innovation, which is already limited in the territory.

Government Plays a Larger Role as Mining Activity Declines

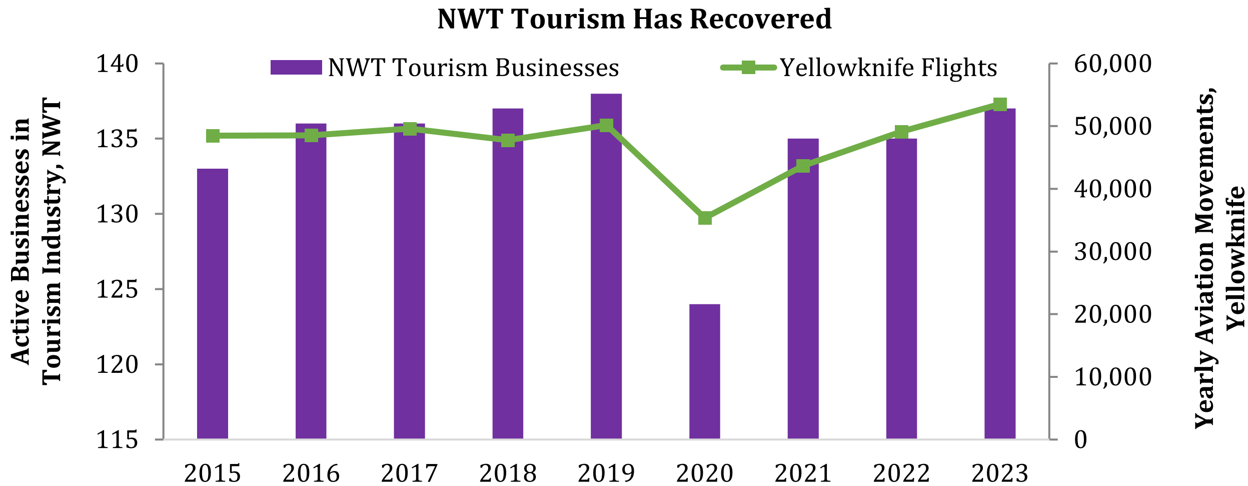


Source: Statistics Canada and NWT Finance

Risks to the Outlook – *Rebound in Growth Sectors*

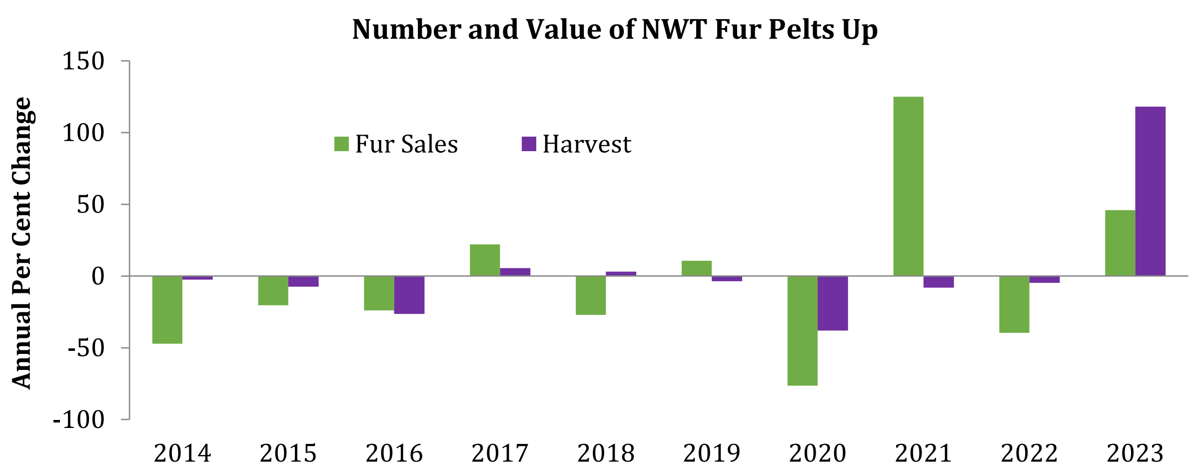
Although attempts to diversify the economy away from mining and public administration have largely failed, there have been some positive surprises in small growth sectors.

Tourism has been highlighted as a growth sector with potential to inject private sector employment opportunities into smaller communities. While three years of pandemic related policies had a damaging effect on NWT tourism, the sector has largely recovered. Aircraft movement data, used as a proxy to measure out-of-territory tourist activity, suggests a good recovery, as does a rebound in the number of tourism-related businesses. In 2023, just over 53,500 separate aircraft movements occurred in Yellowknife, comparable to 2014 to 2019 levels, and the number of active businesses in the NWT tourism sector averaged 137, up from 124 in 2020.



Source: Statistics Canada

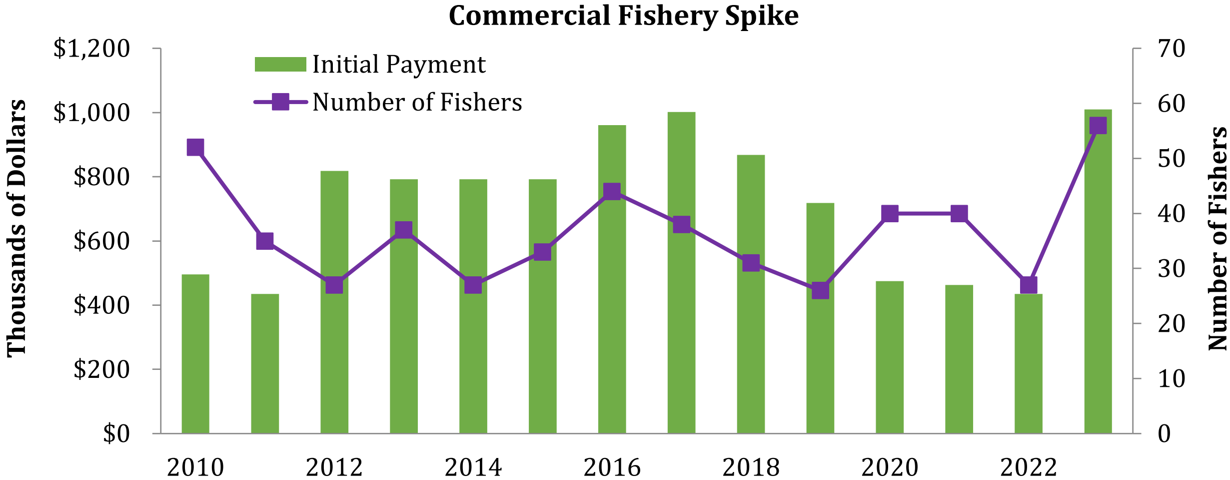
Trapping is another growth sector that, while a small contributor to the overall NWT economy, is traditionally important to many NWT residents for food and clothing as well as incomes, especially in smaller communities. There was a major rebound in trapping in 2023, with the number of fur pelts harvested rising to roughly 21,400 pelts, a 118 per cent increase from 2022. Of these pelts, 40 per cent were sold at auction for a value of $343,000, a 46 per cent increase from 2022. This presents a positive risk to the outlook as it indicates a resurgence in a traditional activity and could mean increased employment and incomes in communities outside Yellowknife.



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

The commercial fishery industry in the NWT is small but represents 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 the new fish processing plant in Hay River which opened in June 2023. These investments appear to be working. Following five years of decline, initial payments (an on-delivery point, net-of-freight basis) to NWT fishers exporting through the Freshwater Fish Marketing Corporation (FFMC) increased by 132 per cent in 2023 to just over $1 million. Similarly, the number of active commercial fishers exporting fish through the FFMC rose to 56, the highest number of commercial fishers since 2006. This increase was partly due to the lack of disrupted trade from previous years and from higher fish prices which led to increased participation and production. This spike in payment and total fishers can be seen as a positive risk, as continued higher levels would indicate that the fishing industry in the NWT is expanding however, more annual data is required for more complete analysis.

Commercial Fishery Spike

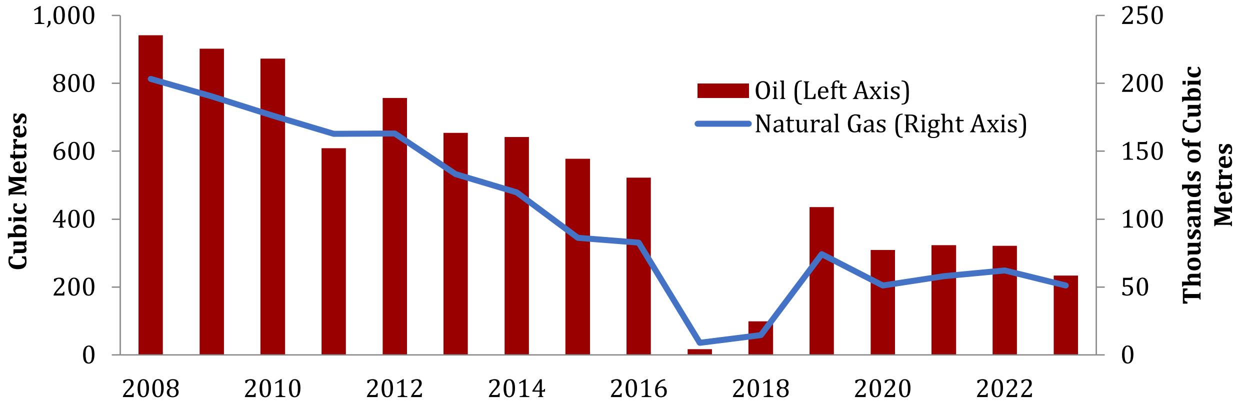


Source: Freshwater Fish Marketing Corporation

Risks to the Outlook – *Global Prices and Currencies*

The benchmark West Texas Intermediate (WTI) crude oil price fluctuated around US$80 per barrel in 2023, a decline from 2022 but still above prices seen in 2015-2021. Elevated oil prices are both a negative and positive risk to the NWT economic outlook. High oil prices could dampen economic growth due to increased heating and transportation costs that contribute to higher operating costs for NWT business and a higher cost of living for NWT residents. High oil and natural gas prices could encourage increased NWT oil and natural gas production and higher export values. Between 2019 and 2023 annual NWT oil and natural gas production averaged 325 million cubic metres and 59 million cubic metres, respectively. Despite steady output, oil and gas production is declining.

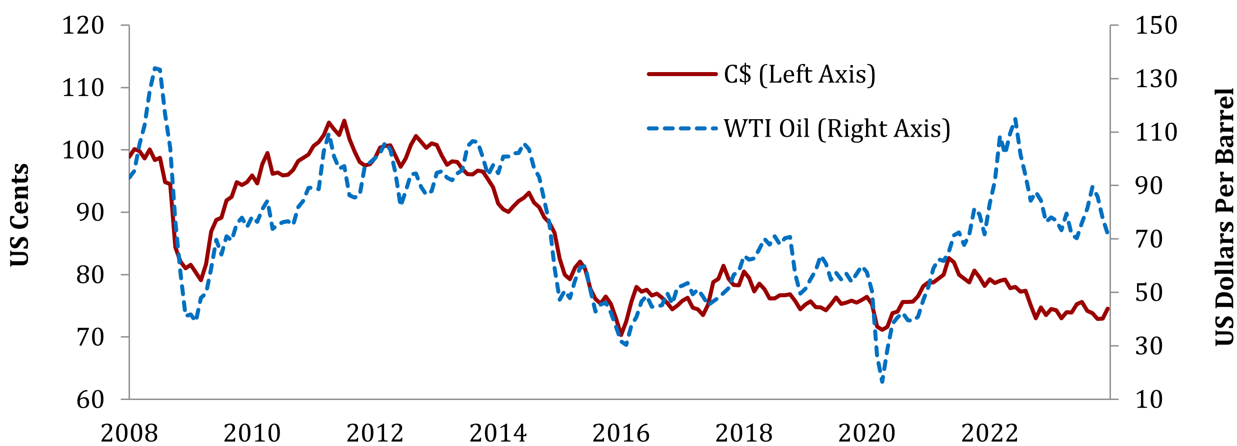
Production of Oil and Gas Continues at Reduced Levels



Source: NWT Bureau of Statistics and NWT Finance

Oil prices and the Canadian dollar used to move in lock-step but beginning mid-2021 WTI and the dollar have diverged, and the value of 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 resource companies that compete globally. However, a lower Canadian dollar will also make machinery and equipment imported from outside the territory more expensive, straining 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.

Comparison of Oil Prices and Canadian Dollar Trends



Source: The Bank of Canada and US Energy Information Administration