

Economic Review **2021-2022** **Northwest Territories**

Department of Finance
February 4, 2021

Government of
Northwest Territories



ECONOMIC REVIEW

Global financial, economic, and political uncertainty in 2019 through early 2020, and low commodity and diamond prices, hurt the Northwest Territories (NWT) resource sector and resulted in lower economic activity, private-sector investment, and employment for Northerners. The continued brittleness of an undiversified economy concentrated in a narrowly-based, non-renewable resource export sector and a large, non-competitive government sector, also limited the ability of the Government of the Northwest Territories (GNWT) to generate revenues from its tax bases, further increasing its reliance on federal transfers and hindering its ability to support economic self-sufficiency.

These economic challenges were aggravated by the global coronavirus pandemic, which resulted in the implementation of public health measures in the territory in March 2020. The swiftness of the introduction of public health measures produced a serious disruption to the NWT economy, with an immediate drop in consumer spending, trade, diamond production, and private-sector investment and the closing of the borders to tourists. The disruption created a steep loss in territorial earnings, and employment.

The coronavirus (COVID-19) pandemic also created new economic challenges. Public health measures worldwide that closed borders and consumer reluctance to travel resulted in NWT tourism and many regional airline routes disappear virtually overnight. While the tourism sector is still hampered by border restrictions, other areas of the economy are recovering strongly.

Since reaching economic lows in the second quarter of 2020, many areas of the NWT economy are well into recovery. Nearly all jobs lost during the pandemic have been recovered, average weekly earnings are rising, most businesses have reopened and employees returned to work, retail trade has increased beyond last year's levels, and construction and some investment projects are progressing despite delays. The recovery has been uneven and the NWT economy, especially in areas of pre-pandemic weakness, is continuing to struggle. There are also signs that the recovery may be slowing, and that some economic gains may lose momentum or reverse, particularly if coronavirus cases increase in the territory.

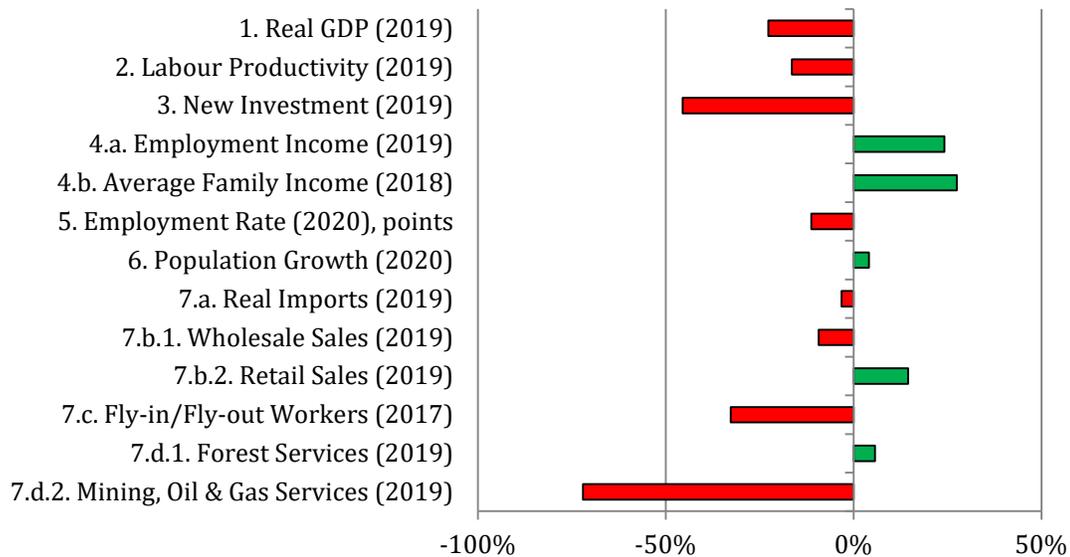
RECENT ECONOMIC PERFORMANCE

The recent performance of the NWT economy is evaluated using the 13 performance indicators found in the *Macroeconomic Policy Framework*. These indicators were designed to capture broad measures of economic wellbeing and provide an indication of the effectiveness of the GNWT's investments to grow and diversify the economy.

Parts of the economy are recovering and although the challenges of 2020 remain, attention is turning towards creating a stronger economy for the benefit of all NWT residents. This requires addressing the real, structural deficiencies in the economy. The *Macroeconomic Policy Framework* is used to assess the progress towards a strong, diverse, and inclusive economy, using performance indicators that compare current indicators to their 2007 baseline values.

Seven of the 13 indicators have moved in a positive direction, but the key drivers of increased GDP, productivity and new investment, are negative and continue to hold back economic growth. In the following figure, the indicators with red bars show a negative percentage change in their values and the indicators with green bars show a positive percentage change in their values since the baseline year of 2007. All performance indicators reflect the most current data available.

Macroeconomic Policy Framework Performance Indicators



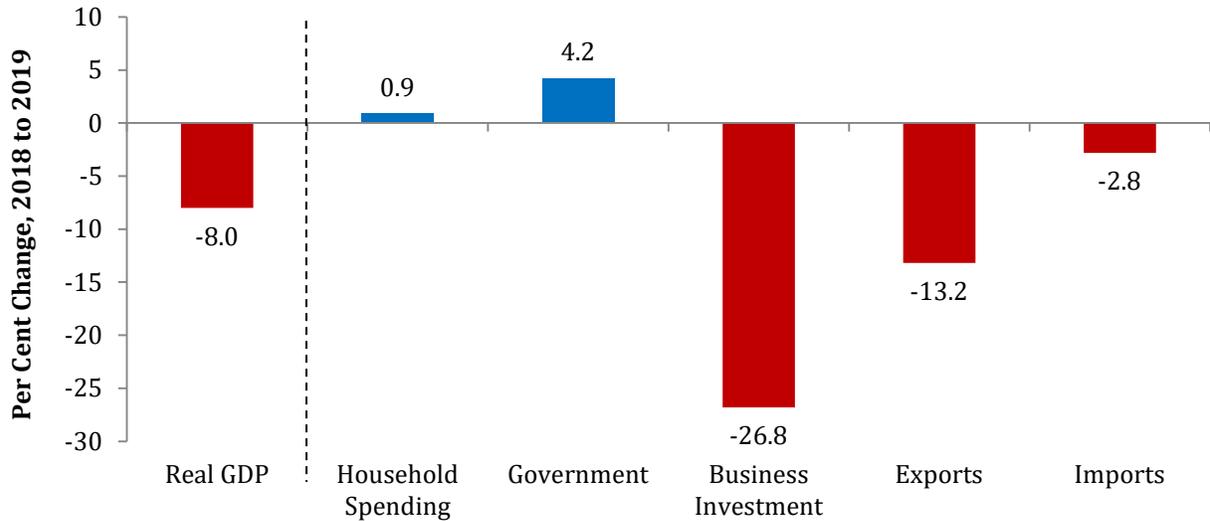
Source: Statistics Canada, NWT Bureau of Statistics, and NWT Finance

Two contributing factors to the low level of resiliency are the economic dependence on the extractive (mainly diamonds) resource industry, and the openness of the NWT economy, with people and capital free to move to other jurisdictions when faced with economic challenges at home. The challenge for the GNWT is to identify and advance investment opportunities that will generate sustainable benefits in the context of the global economic environment in which NWT businesses compete.

The Size and Growth of the Total Economy – *Real GDP*

The NWT economy was eight per cent smaller in 2019 than it was in 2018, reflecting a 27 per cent decline in real business investment, and a 13 per cent decline in real exports. Without small gains in government and household spending, the NWT economy would be even smaller.

The NWT Economy Shrank in 2019 as Investment and Exports Fell

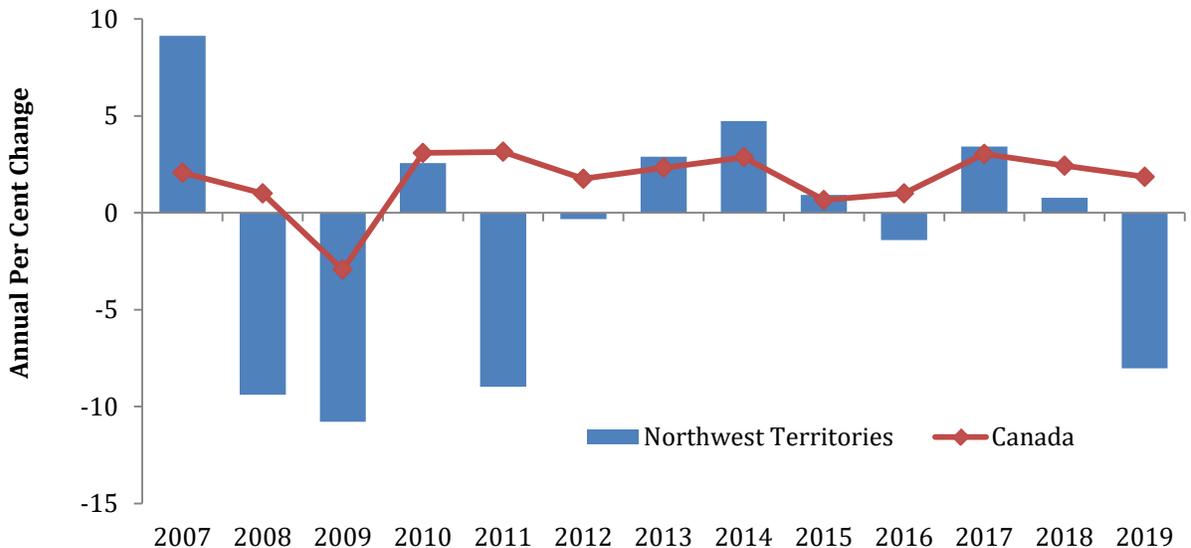


Source: NWT Bureau of Statistics and NWT Finance

The NWT economy shrank in 2019 for the first time in three years, marking the largest decline in real GDP since 2011. The decline followed two consecutive years of weak growth, and marks a sharp contrast to economic growth in the rest of the country. Canada’s real GDP increased 1.9 per cent from 2018 to 2019.

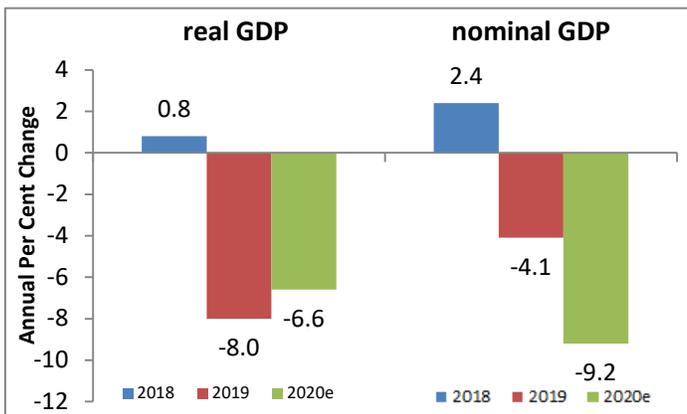
This decline reflects a fall in real exports, driven by a 38 per cent drop in diamond mining, largely due to lower carat production from the Ekati diamond mine in 2019. The decline also reflects a fall in real investment driven by the completion of the Norman Wells pipeline repairs and the Stanton Hospital Renewal Project.

Real GDP Growth - NWT and Canada



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

Box 1: Impact of COVID-19 on the NWT Economy



The NWT economy experienced an almost immediate negative impact from the coronavirus pandemic at the start of 2020. The speed of the economic downturn was swift and following these initial shocks in February and March of last year, the NWT economy declined throughout the second quarter of 2020.

As a result of these declines, the NWT economy is estimated to have shrunk by 6.6% from 2019 to 2020, and nominal GDP is estimated to decline by 9.2% over this same period. The decline in nominal GDP is due to a drop in economic activity and a significant decline in consumer and commodity prices.

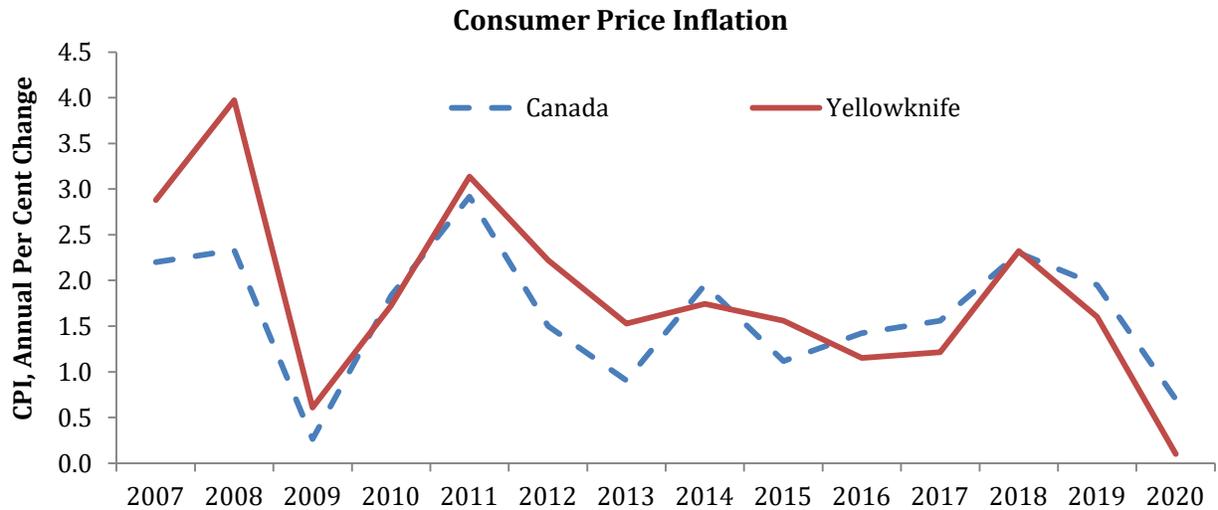
However, not all of the economic decline of 2020 can be explained by the pandemic. The NWT economy has been grappling with pre-existing weaknesses – aging diamond mines, lack of economic diversification, declining employment participation rates – for many years. These pre-existing difficulties in the NWT economy were exacerbated and accelerated by the COVID-19 pandemic.

Productivity – Labour Productivity and Consumer Costs

Productivity is a key performance benchmark for government and economic health. Labour productivity, the most common measure of productivity, measures the efficiency with which labour is used to produce goods and services. In 2019, NWT labour productivity was 7.8 per cent lower than it was in 2018. This is a concern because rising productivity is related to increased profitability, sustained competitiveness, and lower costs.

The costs of living and doing business are high in the NWT relative to other jurisdictions due to remoteness, harsh climate, and a sparsely populated large territory, making inflation (an increase in the overall price level, resulting in reduced purchasing power) a key indicator of quality of life for NWT residents. Inflation, as measured by the Yellowknife Consumer Price Index (CPI), was relatively unchanged from 2019 to 2020, rising by just 0.1 per cent. The Canadian CPI rose by 0.7 per cent over the same period.

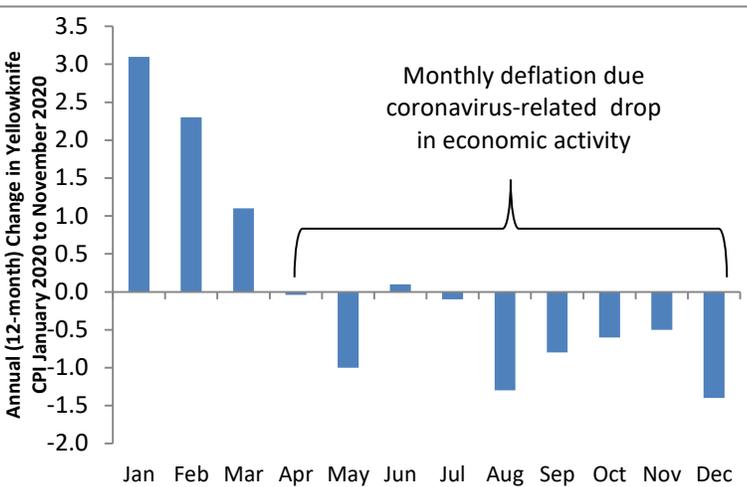
The lack of inflation was due to a 1.4 per cent decline in clothing and footwear prices, a 1.0 per cent decline in household operations and furnishings prices, and a 0.4 per cent decline in health and personal care items, which offset small increases in the other price categories.



Source: Statistics Canada

Box 2 – Consumer Prices during the COVID-19 Pandemic

The COVID-19 pandemic led NWT residents to change their normal spending patterns, as they adapted to staying home, travelling less, and buying more of certain items and fewer of others. Shifts in household spending patterns have implications for the basket weights used to measure consumer price inflation. Statistics Canada has adapted to these changes by developing the adjusted price index in partnership with the Bank of Canada. For example, the importance of air transportation and passenger vehicle purchases was adjusted down, because the demand for travel is low, while the importance of meat and home furnishing purchases were adjusted up, because consumers were spending more on things that can be enjoyed at home.



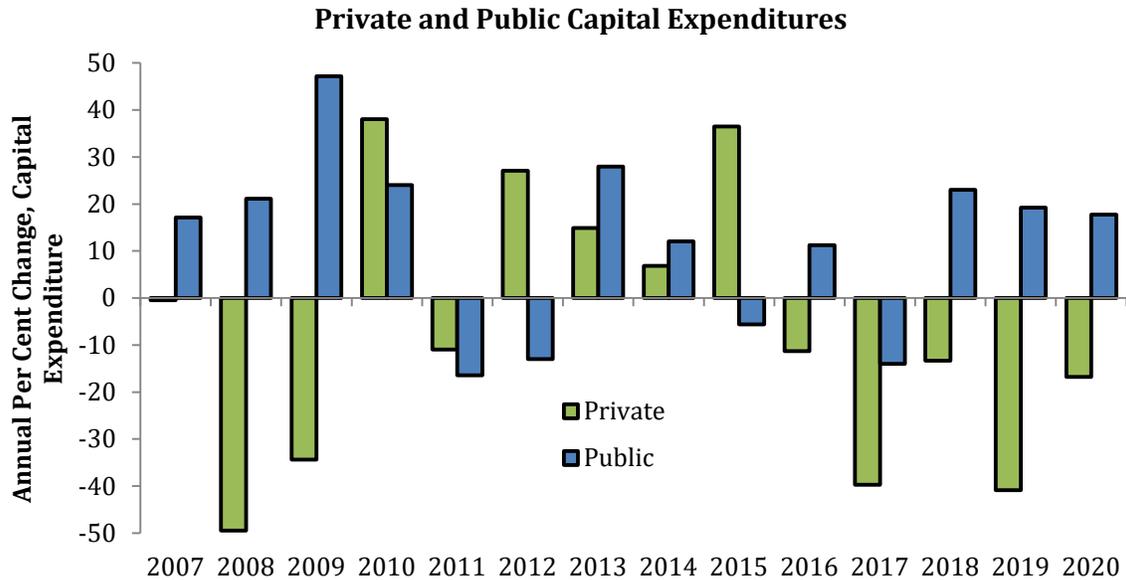
Even with these adjustments, consumer prices still tended to decrease in 2020. For example, the price of air travel declined because airlines offered reduced fees, discounts, and promotions throughout the year as incentives to encourage people to travel. Yellowknife consumer price declined in eight months in 2020.

New Investment – Capital

Expenditures

New investment is a leading indicator of economic growth that measures how well the economy can be expected to perform in the future. New investment was roughly four per cent higher in 2020 than it was in 2019, the first rise in new investment in five years. Business investment (the portion of investment made by the private sector) fell 17 per cent from 2019 to 2020 but this decline was offset by an 18 per cent rise in public (all governments) investment over the same period. Weak business investment, estimated at \$247 million in 2020, reflects a decline in mining capital investment that peaked in 2015 with the construction of the Gahcho Kué diamond mine and has gradually declined as the mine was completed and became operational. No new private sector investment projects of similar magnitude have been announced.

Public sector capital expenditures were estimated to be \$511 million in 2020, reflecting in part construction of the Tlicho All-Season Road. Since 2015, private investment has trended downward, while public investment has trended upward.



Source: NWT Bureau of Statistics and Statistics Canada

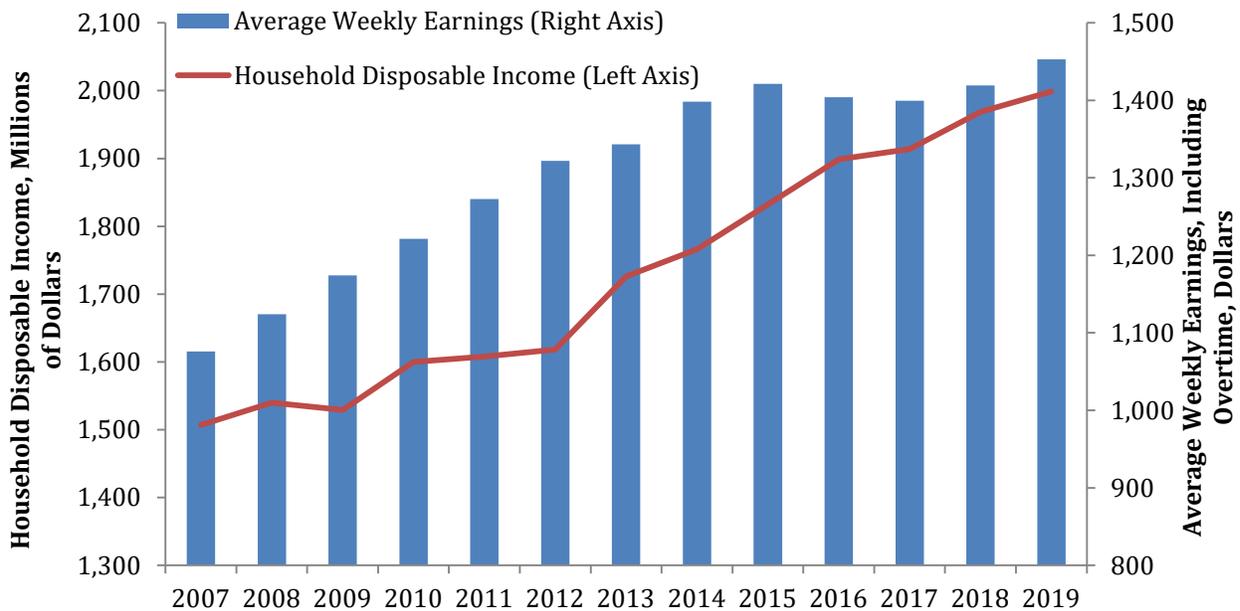
Income – Employment Income

Employment income is the largest component of household income from all sources and indicates how well NWT workers are benefitting from economic growth. Overall employment income rose 0.9 per cent between 2018 and 2019 to over \$2.0 billion for all resident households combined. This represented 64 per cent of total household income from all sources, and helped support consumer spending and government tax revenues.

Similar to employment income, personal disposable income (the after-tax income earned by households from all income sources) is an indication of how well employees are benefitting from economic growth. NWT disposable income grew 1.5 per cent from 2018 to 2019 to nearly \$2.0 billion. This helped strengthen household consumer spending, which accounts for almost a third of the territory’s GDP, thereby contributing to NWT economic growth.

Average weekly earnings, including overtime, also improved in 2019, increasing 2.4 per cent from \$1,419 in 2018 to \$1,453 in 2019. Wages and salaries earned by employees in the NWT are the highest in the country and well above the national average. The Canadian average weekly earnings, including overtime, was just \$1,028 in 2019, nearly a third lower than the NWT average.

NWT Household Disposable Income and Average Weekly Earnings



Source: NWT Bureau of Statistics and Statistics Canada

Income – *Average Household Income*

Average household income provides information about the quality of jobs of NWT residents and how much they are benefitting from economic growth. Annual average family income rose 2.0 per cent from \$134,000 in 2017 to \$137,000 in 2018. In 2018 there were 11,470 families in the NWT, according to annual tax data, 24.6 per cent of which were lone-parent families. This is a slight increase from 2017 when 23.7 per cent of families were lone-parent.

Economic Participation – *Employment Rate*

The ability of NWT residents to actively participate in economic growth is key to an equitable and balanced economy. The employment rate (the share of working age residents that are employed) provides insight into the NWT population’s ability to take part in the market economy, and to benefit from the production of goods and services. The employment rate also provides some insight into the benefits for communities without mines.

In 2020, the NWT employment rate was 63.1 per cent, nearly three percentage points lower than it was in 2019. The decline is partly the negative effect of the coronavirus pandemic but also a continuation of a steady decline in the employment rate over the past decade. A lower employment rate is concerning as it means fewer working-age residents are able to find work.

NWT Resident Employment Labour Conditions Deteriorating

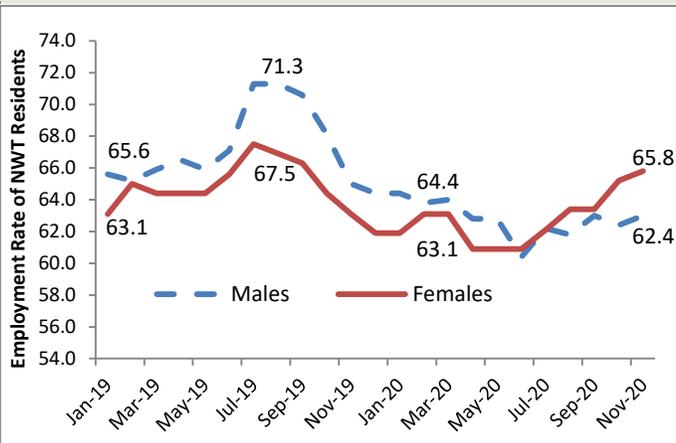


Source: NWT Bureau of Statistics and Statistics Canada

In 2020, NWT resident employment was 20,500, a decrease of 800 persons from 2019 and 2,690 fewer than in 2012 when the employment rate was 71.3 per cent. The unemployment rate also worsened in 2020, rising from 8.2 per cent in 2019 to 8.4 per cent in 2020, a milder rise than expected because the number of residents who chose not to be in the labour force (meaning they were neither employed nor looking for work) rose by 8.7 per cent to 10,000 persons.

Box 3 – COVID-19 Impact on Gender Disparity in Employment

The labour market impact of the coronavirus pandemic has not been evenly distributed across the NWT labour force. Unlike in the rest of Canada, male workers in the NWT lost the majority of NWT jobs. Resident employment reached its lowest point in 2020 in June before starting to recover.

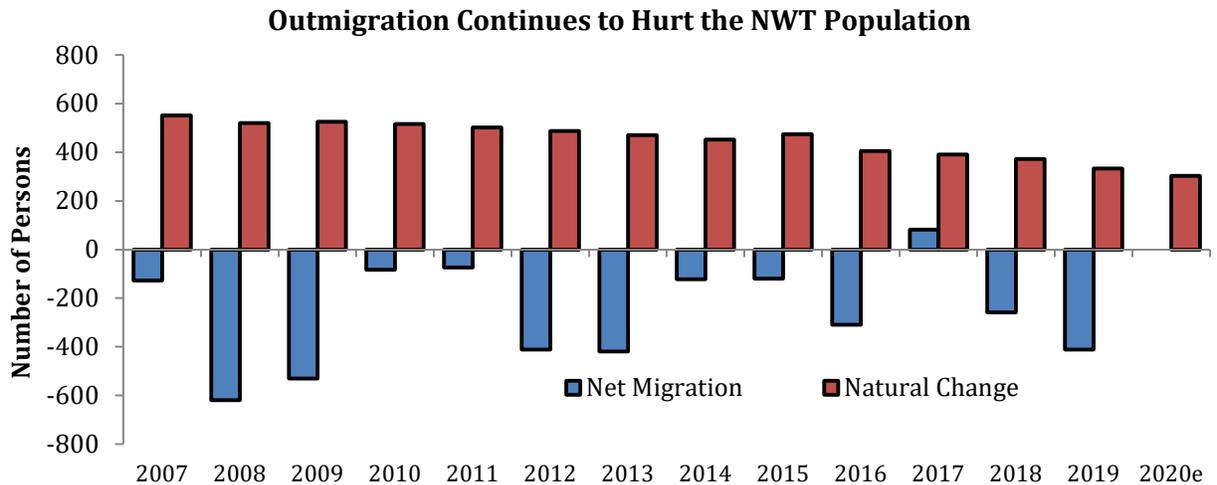


Between January 2020 and June 2020, the share of NWT resident men, 15 years and older, who were employed fell from 64.4 per cent to 60.4 per cent, while the ratio of resident women who were employed fell from 61.9 per cent to 60.9 per cent.

June marked the first time the male employment rate was lower than the female employment rate. Since June, the female-male employment rate gap has increased with the female employment rate rising to 65.8 per cent by November 2020, while the male employment rate rose to just 63.0 per cent.

Population Growth – *Population*

Population growth is a strong indicator of economic health. By providing labour for NWT businesses, demand for local goods and services, and revenues for personal income and consumption taxes, population growth helps support economic activity and sustainable government services. The NWT’s population has been relatively stable over the past decade. The 2020 NWT population was estimated to be 45,161 people, an increase of 133 persons from 2019.



e: estimate
Source: NWT Bureau of Statistics

The population increase last year was entirely due to an increase in births. Between July 1, 2019 and July 1, 2020, there were 576 births and 247 deaths in the NWT, resulting in a net natural population increase of 329 persons. This gain outpaced a rise in outmigration. Between July 1, 2019 and July 1, 2020 interprovincial migration resulted in a net loss of 309 persons, as 1,930 persons moved into the NWT from the rest of Canada and 2,239 persons moved away.

The population grows in response to economic growth and provides a base for further growth through diversification. People tend to migrate to the NWT when the economy is doing well relative to other jurisdictions and are more likely to move away when the economy is doing poorly.

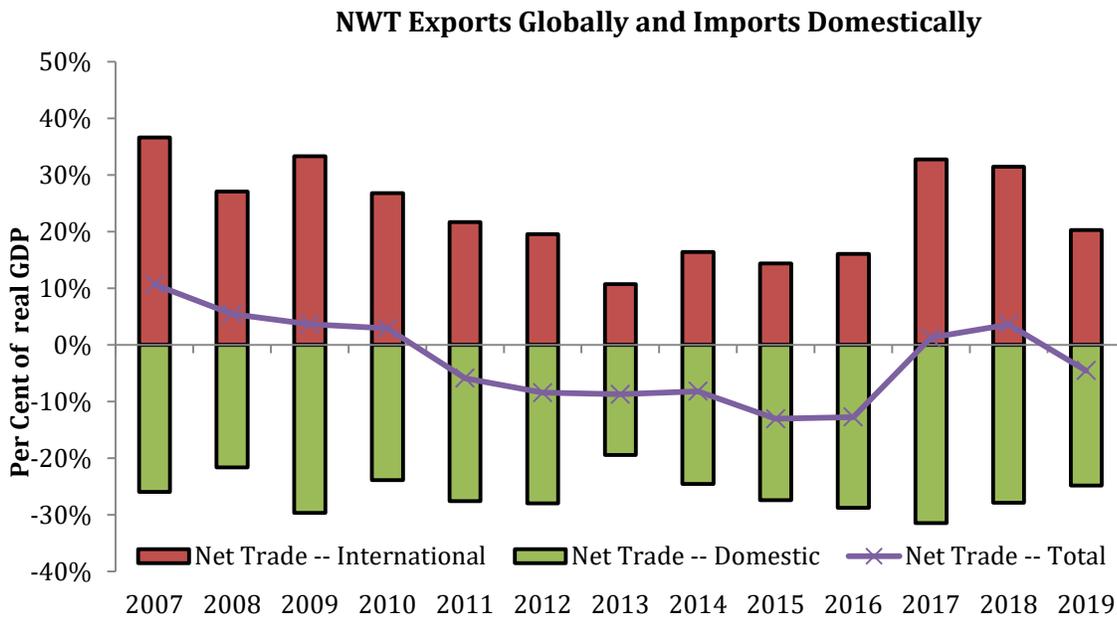
Strength of Economic Linkages – *Imports*

Economic linkages are the connections and dependencies of NWT industries within and outside the territory. Developing links between markets, regions, countries, and sectors is crucial to developing a diversified and balanced NWT domestic economy.

The small, open NWT economy depends on trade linkages with other jurisdictions. The NWT exports natural resources (mainly diamonds) to global markets, and imports goods and services from southern Canada to support industry and personal consumption. As a result, the NWT has a trade surplus with other countries, but a trade deficit with the rest of Canada.

The NWT trade surplus with other countries decreased from 32 per cent of real (inflation-adjusted) GDP in 2018 to 20 per cent in 2019. This deterioration was attributed to a 22 per cent decline in the real value of exports to other countries that more than offset a 5.6 per cent decrease in the real value of imports from other countries. Diamonds represent 98 per cent of the value of all exports flowing from the NWT to global markets.

The NWT trade deficit with the rest of Canada improved to 25 per cent of real GDP in 2019 due to a 14 per cent rise in the real value of exports to other provinces and a corresponding 1.1 per cent decline in the real value of imports from other provinces.



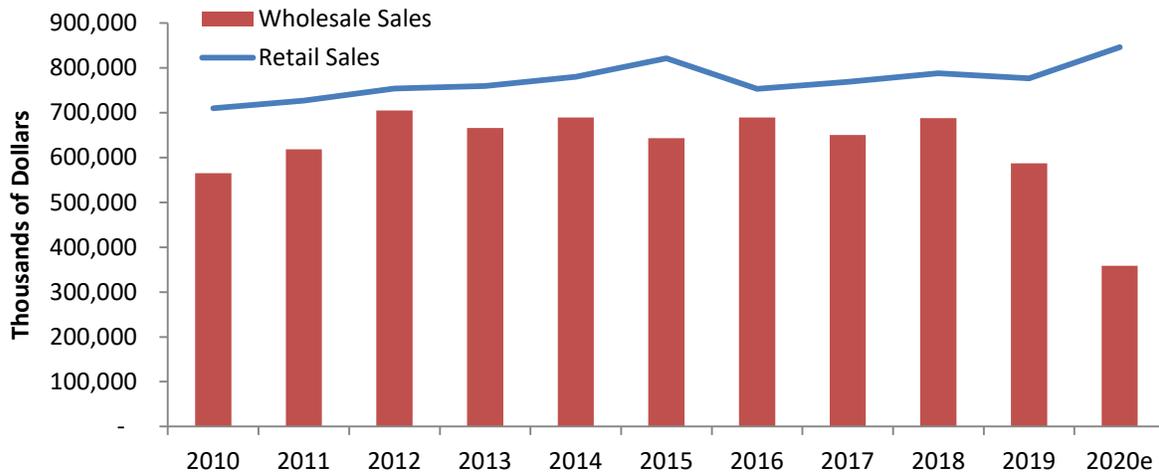
Source: Statistics Canada and NWT Finance

Strength of Economic Linkages – Retail and Wholesale Trade

Wholesale trade is an indicator of production level linkages, where producers purchase goods from NWT suppliers or post-production services such as transportation and communications services from NWT companies. Retail sales are an indicator of final demand linkages that support higher construction and transportation activity and create opportunities for increased retail business. Together with wholesale trade, retail sales contribute to domestic trade within the NWT. This makes retail sales, and domestic trade more broadly, key to the health of the economy.

Nominal wholesale trade sales have fluctuated around \$670 million over the past several years. However, wholesale trade sales fell 14.7 per cent to \$587 million in 2019, mainly due to a decline in diamond mining. Wholesale trade is estimated to have declined by nearly 39.6 per cent in 2020 compared to 2019, largely due to the negative effect of the pandemic on the diamond industry.

Retail Trade and Wholesale Trade Moving in Opposite Directions



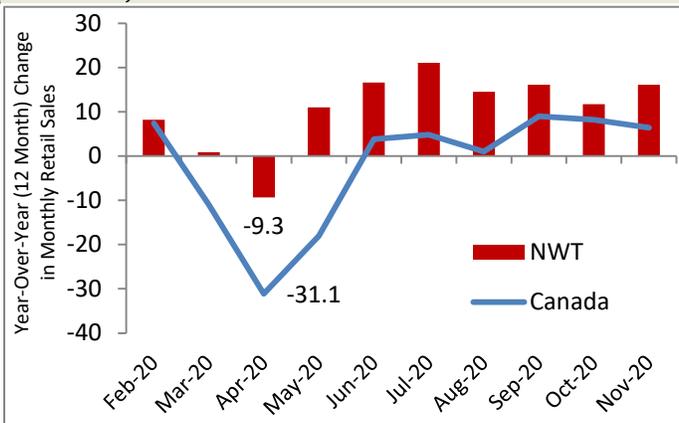
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Source: NWT Bureau of Statistics and NWT Finance

Retail trade sales dipped by 1.4 per cent in 2019 to \$777 million, marking the second annual decline in retail sales in the past decade. However, retail sales performed strongly in 2020 despite, or possibly because of, the coronavirus pandemic. Retail trade is estimated to have grown 9.5 per cent from 2019 to 2020, as many NWT businesses pivoted to online sales, takeout, and curbside pickup.

Box 4 – NWT Retail Sales Strong During the COVID-19 Pandemic

Despite the severity of the economic downturn in 2020, retail sales remained strong in the NWT compared to other Canadian jurisdictions.



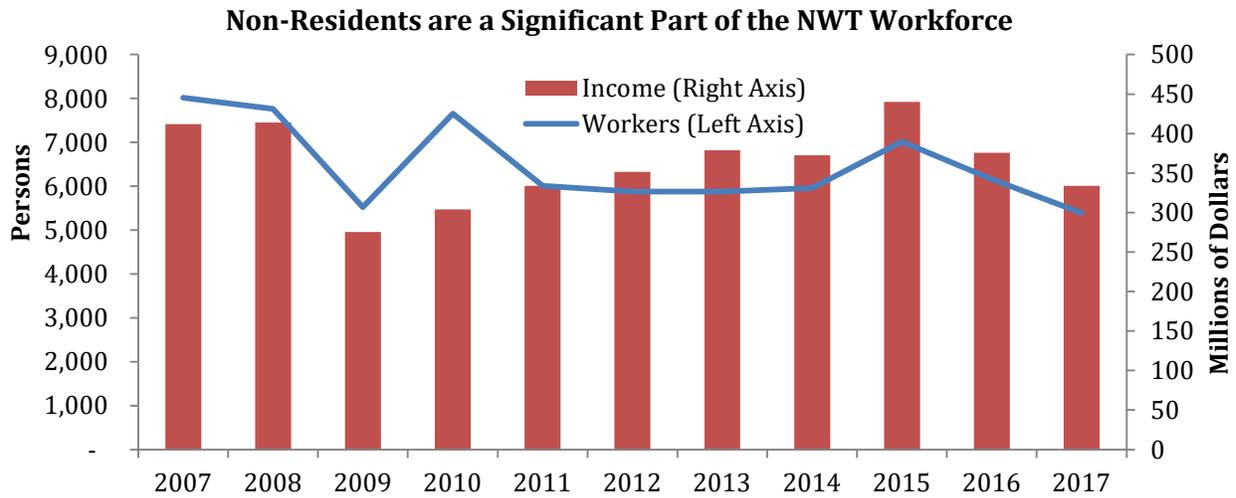
Nationally, retail sales fell by 31 per cent at the start of the pandemic and have struggled to regain losses. By contrast, NWT retail sales declined 9 per cent and have recovered to above pre-pandemic levels.

The main reasons for the strong retail trade were: innovation by NWT business to create new markets and new delivery methods; and the NWT’s large public sector, which acted as a stabilizer in the economy, providing continued demand for local goods and services and sustained wages of government employees to support consumer spending at NWT businesses.

Strength of Economic Linkages – Fly-in/Fly-out, Non-Resident Workers

The NWT has a significant non-resident work force. This is largely due to the small size of the NWT population and reflects the employment needs of the NWT economy that cannot be met by the domestic workforce, most commonly in the NWT’s mining industry. Non-resident workers provide skills needed by NWT businesses but this reliance on out-of-territory workers means lost NWT business from consumer spending and lost revenue for the GNWT.

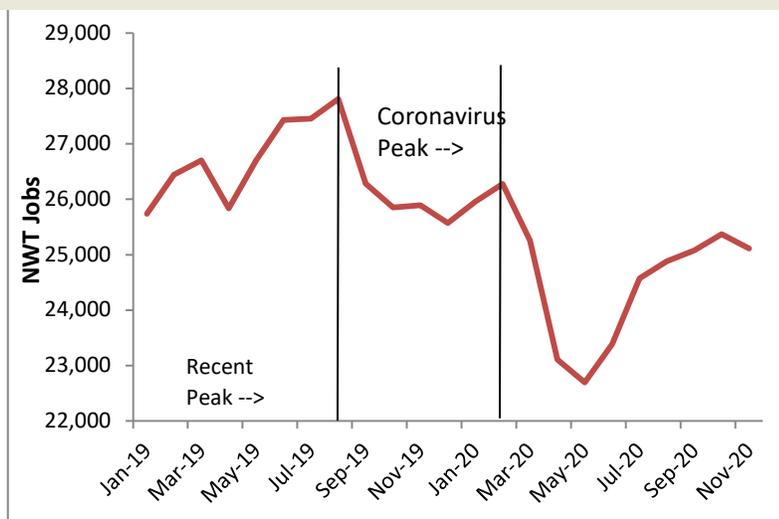
Between 2007 and 2017, non-resident workers were about one-third of the NWT workforce, which represented close to one-fifth cent of all employment income generated in the territory.



Source: Statistics Canada and NWT Finance

Each year 5,500 to 8,500 non-residents fill jobs in the NWT. 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 from these jobs ranged from \$178 million and \$439 million between 2007 and 2017. This employment income generated in the NWT represents lost income that could have been spent in the NWT economy.

Box 5 – COVID-19 Impact on Jobs



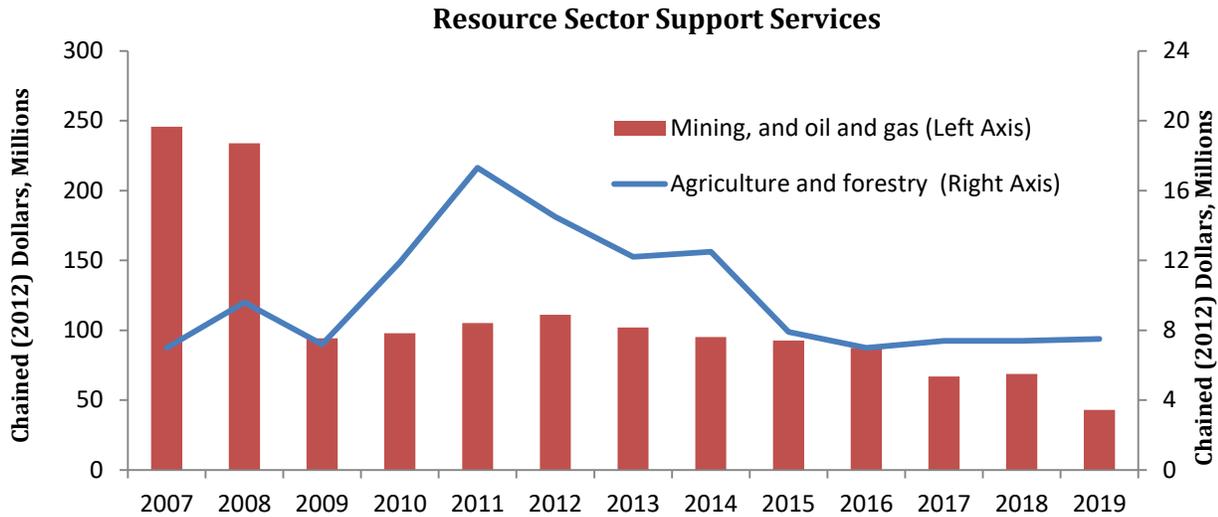
In the first quarter of 2020, NWT jobs were rising from the seasonal lows at the start of the year. The COVID-19 pandemic halted and reversed this increase.

NWT jobs fell 15% from February 2020, just before the COVID pandemic health restrictions started in Canada, to May 2020 and fell 16% from May 2019 to May 2020. Non-residents were the majority of NWT job losses.

Jobs have since started to recover and as of November 2020 had recovered over 95% of job losses.

Strength of Economic Linkages – Resource Sector Support Services

Industries that provide services and support to the natural resource sector are key drivers of growth and diversification in the NWT economy. They provide specialized services for both the renewable and non-renewable resource sectors of the NWT.



Source: Statistics Canada and NWT Finance

The real value of mining sector support services decreased 36.9 per cent to \$40.3 million from 2018 to 2019, reflecting a slowdown in diamond mining. The real value of oil and gas support services fell 52.4 per cent from \$2.1 million in 2018 to \$1.0 million in 2019.

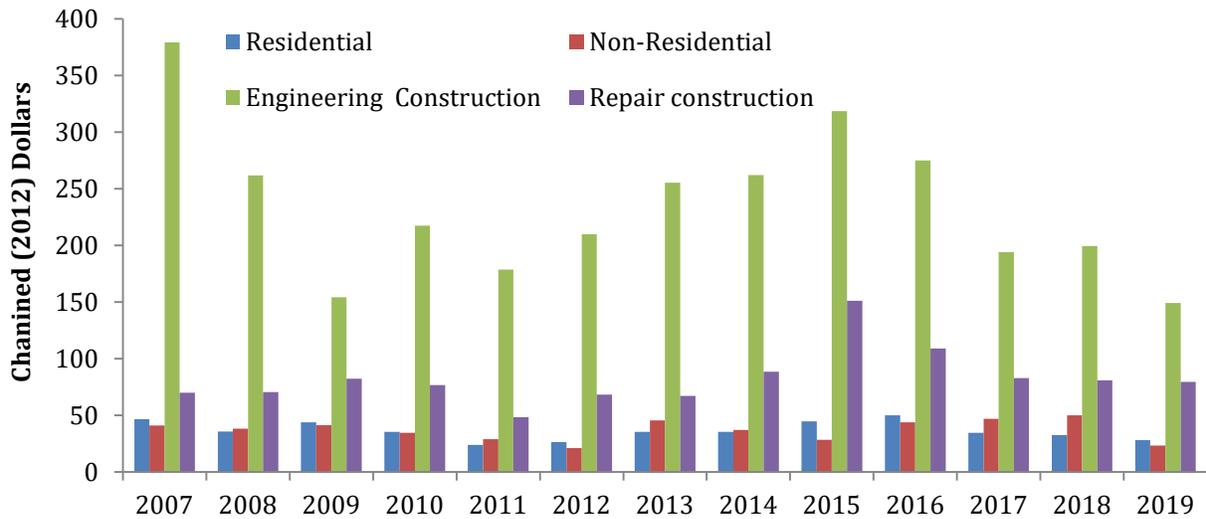
The real value of support services for renewable resource industries rose 1.4 per cent between 2018 and 2019 to \$7.5 million. These support services include activities such as harvesting timber and growing crops. Although the farming and forestry sector accounts for less than one per cent of NWT real GDP, it is promoted as a growth sector that will support food security and sustainable economic diversity.

Strength of Economic Linkages – Construction

The construction sector includes residential construction, non-residential construction, engineering services, and repair construction and support activities. Due to the heavy reliance on the extractive resource sector, the NWT engineering construction industry accounts for half of all construction activity in the territory. Residential construction was only 9.8 per cent of real construction expenditure in 2019. On average in other Canadian provinces and territories residential construction is over one-third of construction expenditures.

Overall construction activity declined 21.4 per cent from 2018 to 2019, reflecting declines in all construction industry activities but mainly due to the 25.5 per cent decrease in engineering construction.

Engineering Construction Dominates Construction Activity



Source: Statistics Canada

Diversification – Real GDP by Industry

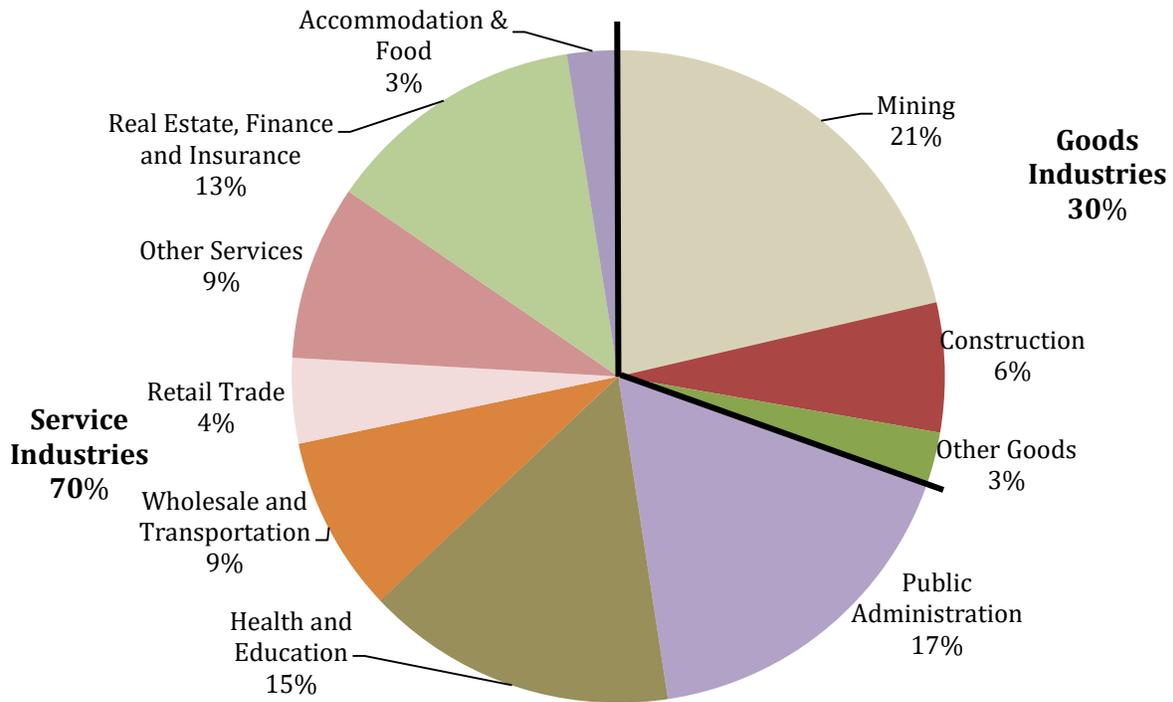
Economic diversity provides for stable and balanced growth by spreading risk more evenly across a number of sectors. This makes the economy more resilient to business cycles and external shocks, and acts as insurance that reduces the sensitivity of the economy to the ups and downs associated with any single industry, market, or region. For example, more diversified economies experience lower unemployment during cyclical economic downturns (recessions) than do economies which are heavily concentrated in a single industry or sector. The NWT economy, however, is not diversified and instead relies heavily on the public sector and the extractive, non-renewable resource sector.

The goods-producing sector accounted for 30 per cent of NWT GDP in 2019, with the mining, oil, and gas extraction industry the largest single industry, accounting for roughly one-fifth of NWT GDP. While the share of the economy directly generated by the mining, oil and gas sector has declined from close to half of all economic activity a decade ago, it remains the dominant industry in the NWT economy, demonstrating a lack of economic diversity. Construction is the second biggest industry in the goods-producing sector, accounting for 6 per cent of NWT GDP in 2019. The remainder of the goods-producing sector accounted for just 3 per cent of GDP and was comprised of renewable resources, utilities, and manufacturing industries.

The NWT is steadily shifting towards a services-based economy. The combined services-producing industries accounted for 70 per cent of NWT GDP in 2019, compared to 48 per cent a decade ago. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 32 per cent of NWT GDP in 2019. The remainder of the services sector is comprised of industries such as wholesalers, retailers, banks, hotels, and tour operators.

While the NWT economy has not diversified away from an outsized reliance on mining, the structure of the economy has changed. In 2007, the goods-producing sector accounted for 51 per cent of the NWT economy, but by 2019 that share had shrunk to 30 per cent. This re-structuring is mainly due to declines in the NWT resource sector.

Mining Dominates the NWT Economy, 2019



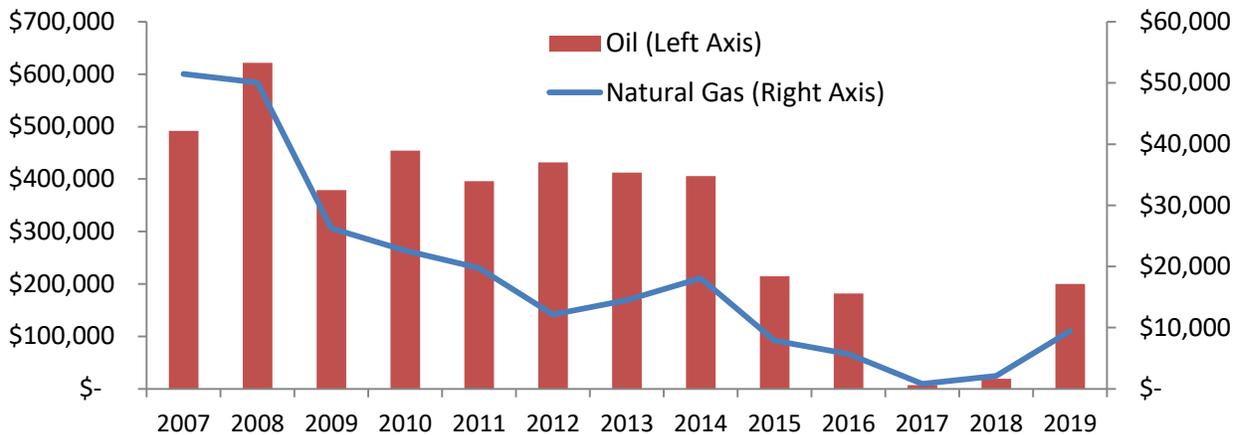
Source: Statistics Canada and NWT Finance

Diversification – Mining, Oil and Gas

The mining, oil and gas sector directly accounts for 21 per cent of real GDP.

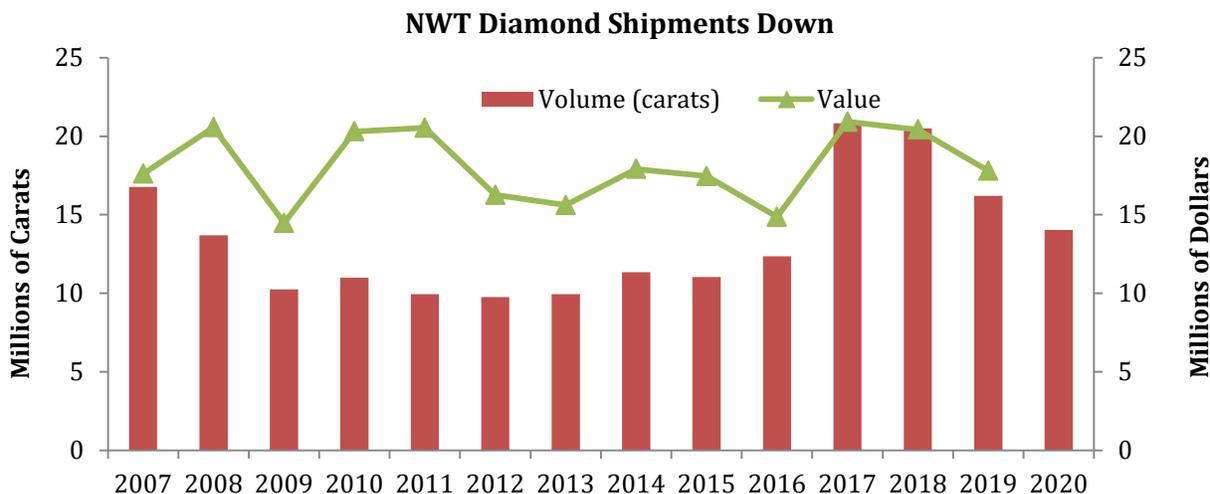
The restart of the pipeline service at Norman Wells in September 2018 caused oil production to rebound in 2019, rising from 17 million cubic metres in 2017 when the pipeline was shut down, to 435 million cubic metres in 2019. However, oil production remains well below what it once was. Similarly, natural gas production rebounded in 2019, rising from production lows in 2017.

Value of Oil and Gas Rebounds



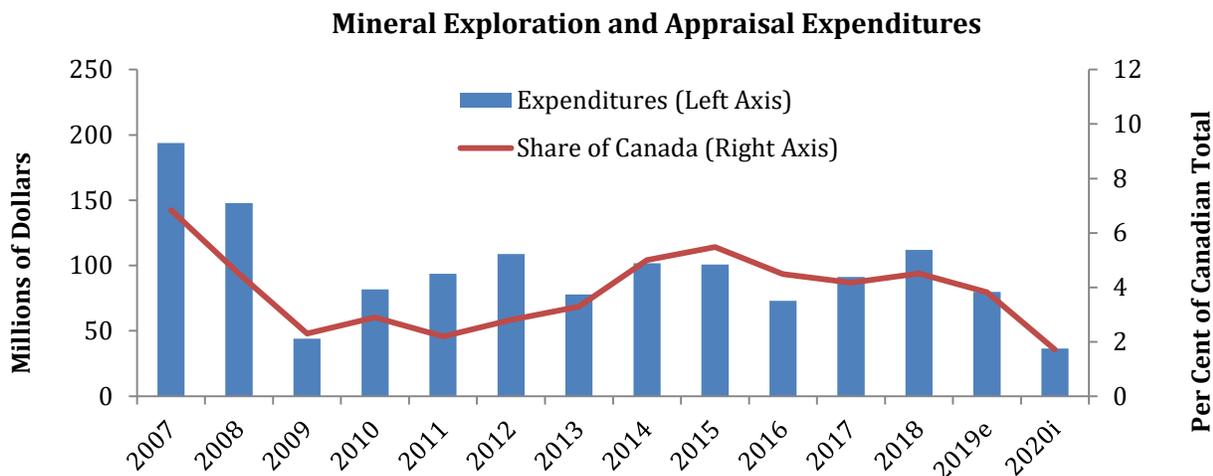
Source: NWT Bureau of Statistics and NWT Finance

Carat production at the three NWT diamond mines (Ekati, Diavik and Gahcho Kué) rose 68.7 per cent in 2017 as Gahcho Kué production started. The value of diamond shipments increased 38.6 per cent from 2016 to \$20.6 billion in 2017 and this level was maintained in 2018. However, diamond production declined 21 per cent to 16.2 million carats in 2019. Diamond production is estimated to have decreased 13.4 per cent from 2019 to 2020 because of weak consumer demand, global diamond pipeline interruptions due to the pandemic, and a ten-month shutdown of the Ekati diamond mine that began in mid-March 2020. Ekati resumed production in January 2021.



Note: Value data unavailable for 2020.
 Source: NWT Bureau of Statistics and NWT Finance

NWT mineral exploration and deposit appraisal expenditures have declined, decreasing from \$112 million in 2018 to an estimated \$79.8 million in 2019 and intentions are \$36.6 million in 2020. While in past years roughly half of all NWT exploration and appraisal expenditures have been on diamonds, in 2020 diamonds will account for less than one fifth of spending intentions. The NWT exploration and appraisal expenditures share of the Canadian total is declining over time: from 5.5 per cent in 2015, 4.5 per cent in 2018 to 1.7 per cent in 2020.



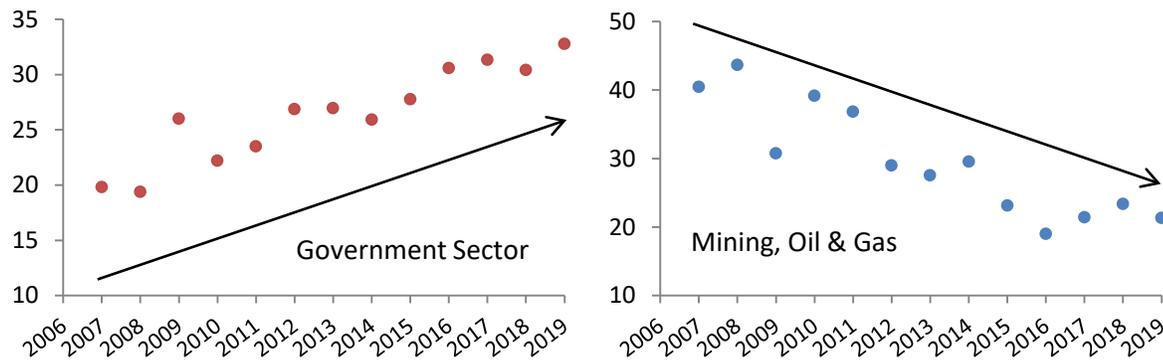
e: estimate; i: intentions
 Source: Natural Resources Canada

Diversification – *Public Administration*

Public administration at all levels of government (federal, territorial, municipal, and Indigenous) is the second largest industry in the NWT, accounting for 17 per cent of GDP and contributing significantly to jobs and income creation. NWT public administration includes courts, policing, corrections services, firefighting services, defence, and government administrative work but excludes the health, social services and education sectors.

In total, public administration expenditures in real (inflation-adjusted) terms rose 1.5 per cent from 2018 to 2019, but municipal government expenditures decreased 0.7 per cent. The rise in public administration expenditures corresponds with a more general shift in the structure of the NWT economy away from mining, oil and gas towards government sector industries (public administration and education, health care and social services). Government industries' share of real GDP has increased from one-fifth of real GDP a decade ago to nearly one-third of real GDP in 2019.

As Mining Declines, the NWT Economy is Increasingly Driven by Government



Source: Statistics Canada and NWT Finance

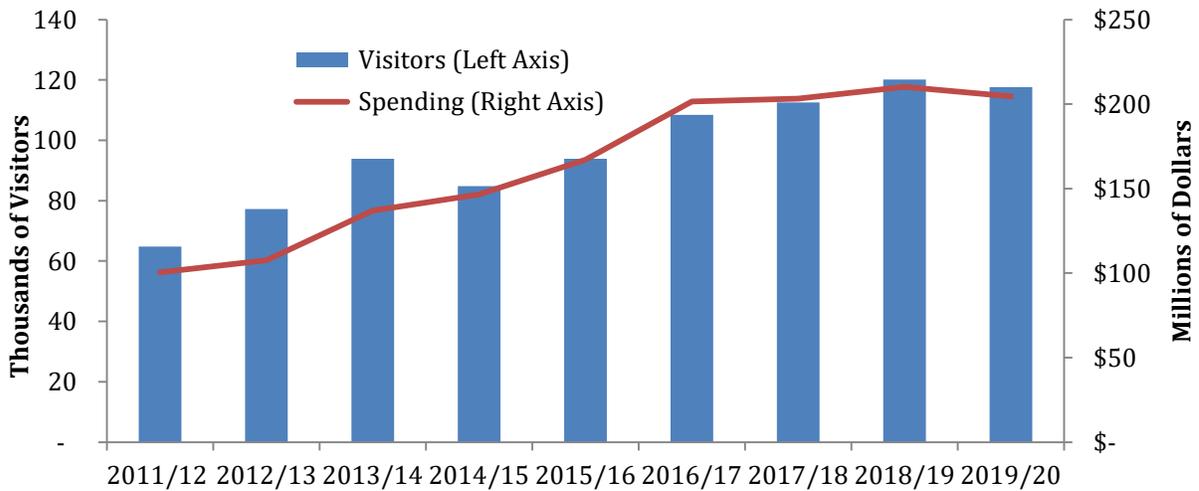
Diversification – *Tourism, Trapping and Fisheries*

Tourism is not formally defined as an industry in NWT GDP data. However, tourism has direct implications for measured components of GDP such as transportation, travel services, accommodations, food and beverage retailers. In aggregate, the tourism sector contributes only a small portion to the territory's GDP and employs a small number of residents, often on a seasonal basis. However, tourism is a growth sector with potential to diversify the economy and to also inject private-sector employment opportunities into the smaller communities, especially those that are outside Yellowknife and where populations are majority-Indigenous.

Between April 2019 and March 2020, the number of visitors to the NWT decreased 2.1 per cent from 120,130 to 117,620. Over this same period, visitor expenditures fell by 2.7 per cent, decreasing from \$210 million to \$205 million. Both declines were primarily caused by less aurora viewing tourists at the start of 2020, which coincides with the start of the global coronavirus pandemic. An 11.7 per cent decline in aurora tourism spending between 2018-19 and 2019-20 more than offset a 4.6 per cent rise spending by non-aurora leisure tourists.

Border closures, lockdowns, and other public health measures in many countries throughout 2020 and into 2021 have hurt the 2020-21 NWT tourism season even further.

NWT Tourism, Number of Visitors and Expenditures

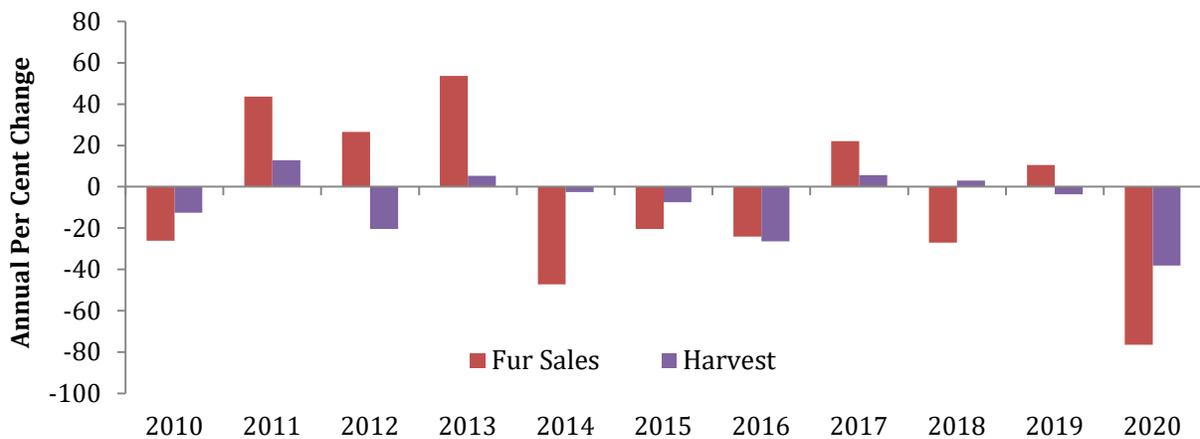


Source: Department of Industry, Trade and Investment

Trapping is a component of the renewable resource sector, and while a small contributor to the overall NWT economy, it is a sector that is important to many NWT residents for food and clothing as well as incomes, especially in smaller communities.

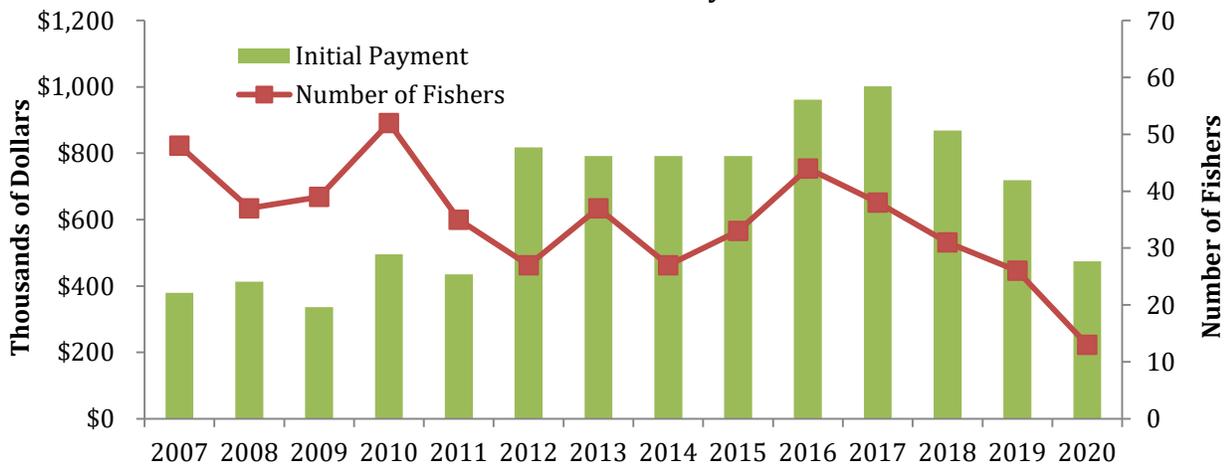
The global coronavirus pandemic had a significant, negative impact on the fur trade. Border closures and travel restrictions in many countries meant that fur auctions last year were held online rather than in person. For a luxury goods industry, the lack of in person international buyers meant a steep decline in sales. For the year ended June 30, 2020, roughly 1,200 NWT pelts were sold, a decrease of 38 per cent from the previous year, while the value of fur sales fell by 79 per cent to just \$172,700. The number of commercial trappers in the NWT declined only slightly from 600 in 2019 to 579 in 2020.

Number and Value of NWT Fur Pelts Down



Source: NWT Industry, Trade and Investment and NWT Finance

Commercial Fishery in Decline



Source: Freshwater Fish Marketing Corporation

The commercial fishery in the NWT is small, and shrinking. Initial payments to NWT fishers – an on delivery point, net-of-freight basis – fell by 34 per cent in 2020, declining from \$719,000 in 2019 to \$475,000, and the number of active commercial fishers halved from 26 in 2019 to just 13 in 2020. This was partly due to the coronavirus pandemic, which disrupted trade and depressed demand.

Despite three consecutive years of decline, commercial fishing presents an opportunity for NWT economic diversification and regional employment because fish are an abundant, renewable resource. With the completion of the fish plant in Hay River, and an expected increase in post-pandemic demand, the NWT commercial fishery is expected to grow.

ECONOMIC OUTLOOK

Although economic activity is expected to recover from lows in 2020, the NWT economy is projected to remain smaller in 2021 than it was in 2019 and the economy faces the same risks and challenges as before the severe disruption caused by the coronavirus pandemic.

Long-term challenges such as maturing diamond mines, an aging population, a lack of economic diversification and declining private-sector activity will depress future growth unless there are substantial structural changes. Most pressing of these long-term challenges is that the diamond mining industry, which has been the engine of the NWT private sector economy for the last two decades, may see all existing NWT diamond mines close by 2030. The closure of the diamond mines may lead to a large drop in future economic output since at this time, there are no other projects on the horizon large enough to fill this gap.

Near-term challenges stemming from the economic downturn triggered by the global pandemic will also put a drag on growth. Although the NWT is rebounding solidly, the recovery has been uneven across sectors, industries, and demographics. Industries such as local retail, construction, and public administration have all returned to pre-pandemic levels, while hard-hit sectors such as tourism, hospitality, mining, and wholesale trade continue to struggle. The recovery in the NWT labour market has also been uneven. Although in aggregate nearly all NWT jobs lost during the pandemic have been recovered, jobs in specific industries, such as accommodation, food services, wholesale trade and

transportation, remain depressed. Employment rates for female workers are recovering at a faster pace than for males, and the quality of jobs may have deteriorated during the pandemic as the share of part-time and reduced-hours employment is increasing compared to full-time employment. These disparities may take many years to close, and could delay the recovery and hinder growth.

These near-term and long-term challenges have resulted in lower economic output in the NWT. The NWT economy shrank 8.0 per cent in 2019 compared to 2018, and is estimated to have decreased by a further 6.6 per cent in 2020 compared to 2019. Last year's decline was largely due to a steep drop in diamond production resulting from the temporary shutdown of the Ekati diamond mine, which dragged down NWT exports by an estimated 17.1 per cent, and contributed to a 3.8 per cent decrease in resident employment. Total investment also fell last year by an estimated 4.4 per cent to its lowest level on record. This year, real GDP is forecast to rebound by 5.8 per cent compared to 2020, as the Ekati diamond mine resumes production, causing a projected 10.1 per cent rise in NWT exports. As recovery takes hold in 2021, total investments are forecast to grow by 1.9 per cent and household spending is projected to increase by 1.4 per cent.

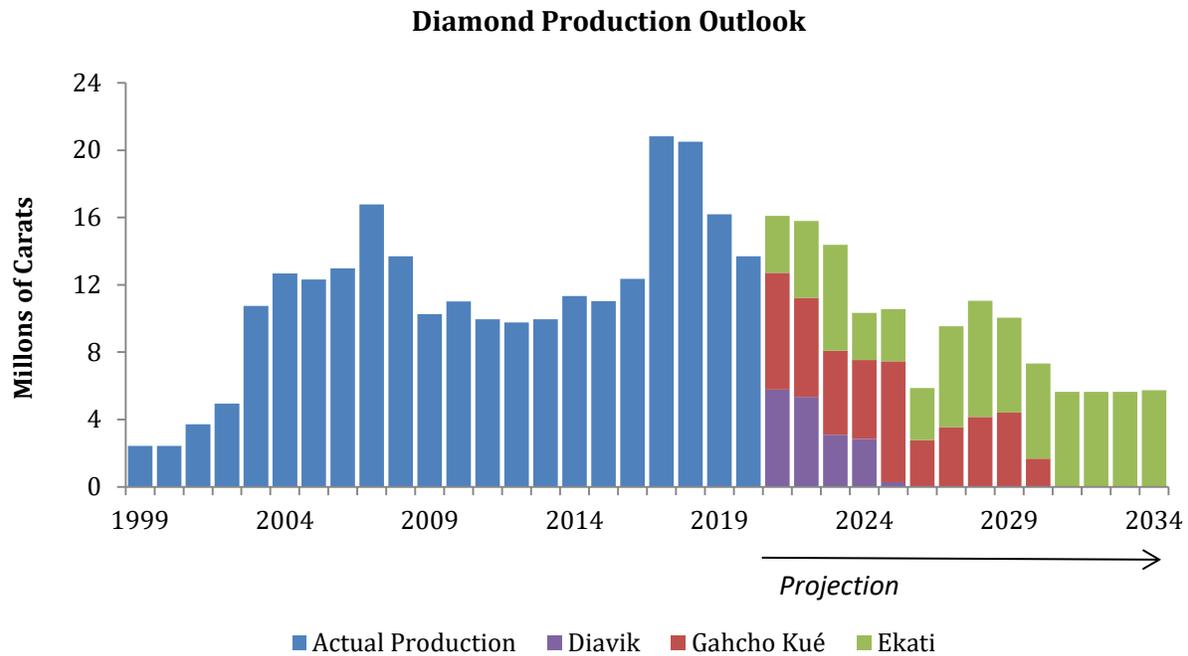
Despite this strong growth forecast, real GDP will remain lower in 2021 than it was in 2019, as will total investment, exports and imports. While economic growth will return to the NWT this year, the outlook is uncertain. Long-term, structural challenges must not be downplayed, and risks to the economic recovery must be clearly understood. In the near-term, risks to economic growth include a re-emergence of coronavirus in the territory that would force renewed and more stringent public health measures, thereby halting the economic recovery; continued coronavirus outbreaks worldwide, which would cause further global economic uncertainty, continued disruptions to global supply chains and a decreased demand for NWT exports; and increased household and business debt that could dampen future consumer demand, local spending, and business investment. A failure to prepare for inevitable structural shifts to the NWT economy, as significant tourism is unlikely to return in the near term and the remaining diamond mines close within the next decade, also poses a risk.

Another risk to the outlook is the removal of government support programs before the economic recovery has fully taken hold. Government expenditures rose by an estimated 6.2 per cent in 2020, helping to offset declines in exports and investment. The role government can play in supporting targeted economic growth should not be underestimated. Government spending at the federal and territorial levels on direct financing to businesses and individuals; investments in infrastructure such as roads, hospitals, and schools; health and social programs for communities; and goods and services purchased from local retailers and wholesalers provide stability to the economy by helping to sustain the economic recovery. Government spending also helps support wages, household consumption and local business sales, thereby contributing to higher standards of living for Northerners.

Risks to the Outlook – *Diamond Mine Plans*

The NWT economic outlook is based on future mineral development and the opening of new mines. Diamond mining drives the NWT economy but mine plans for currently producing mines, and those expected to be submitted for environmental review and permitting, are all set to end production by 2034. Diavik diamond mine is scheduled to close first in 2025, followed by Gahcho Kué in 2028. The Ekati mine resumed production in January 2021 and could operate until 2042 if the Jay and Fox Deep kimberlite expansions go ahead. However, Ekati diamond mine faced considerable financial and production difficulties in 2020 and these difficulties remain a concern.

Expansion of the mining industry depends on successful exploration programs to identify potential new mine projects, as well as the deposit appraisal and environmental review process to identify which potential new mine projects can be developed.



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, NWT Finance

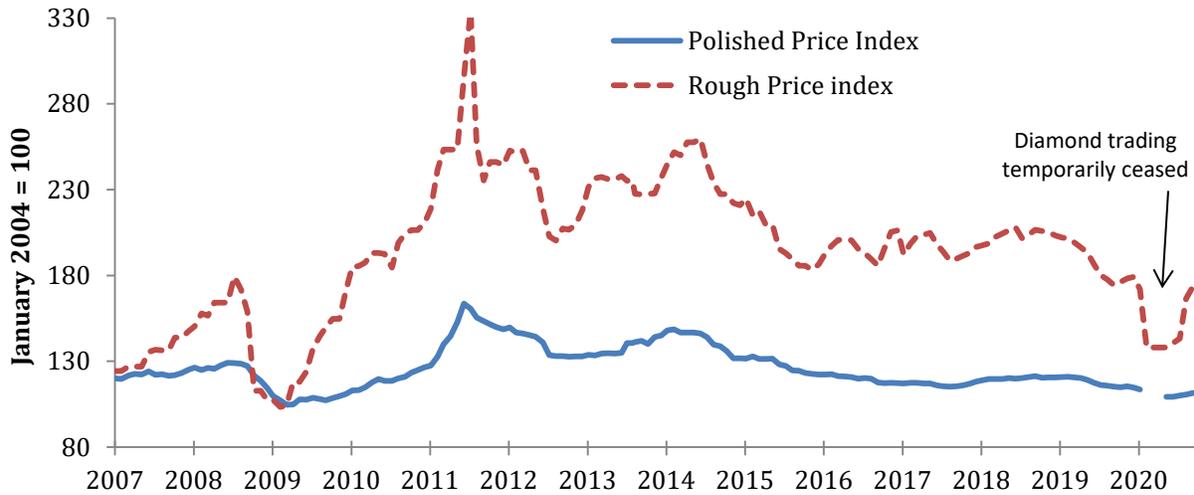
Risks to the Outlook – Prices and Currencies

The decision to construct new mines depends on a range of economic and financial factors, including global capital credit conditions, currencies, and prices.

Indexed diamond prices for polished stones decreased 5.7 per cent from 2019 to 2020, while indexed prices for rough stone fell 19.0 per cent. This caused the price spread between rough and polished stones to narrow significantly. NWT diamond mines produce rough diamonds, exporting them to manufacturers who cut and polish the stones, and so the spread between rough and polished diamonds is a key risk to the NWT economic outlook.

The global diamond production pipeline was severely, negatively affected by the coronavirus pandemic, causing many polishers and manufacturers to temporarily close amidst global lockdowns, border closures, and strict public health measures in many countries. The disruption to global economies also saw demand for luxury goods like diamonds to decline. As a result, diamond trading, auctions, and sales ceased for several months in 2020. Trade has resumed and prices, especially for rough stones, have recovered. However, continued economic slowdowns in many countries suggest that diamond prices and demand will remain depressed.

Diamond Prices Recovering

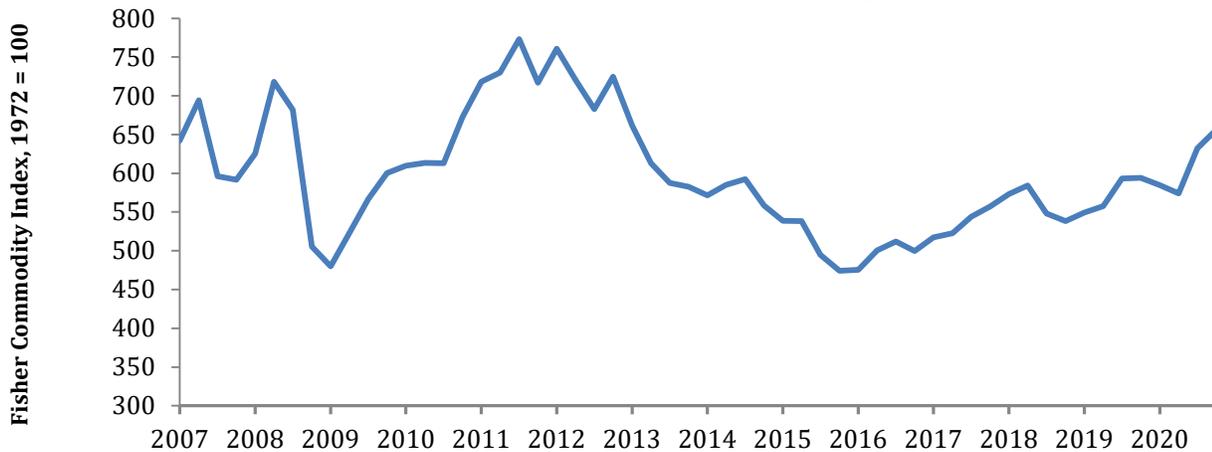


Source: PolishedPrices.com and WWT Overall Rough Diamonds

Commodity price changes have implications for the NWT economic outlook over the long term. Exploration and development expenditures by the mining industry are driven by the expected value of future mine projects; these in turn are driven by the expected price of the mineral or metal to be mined.

Global prices for resource commodities, including many metals and minerals found in the NWT, rose through 2020 after a weak start to the year, consolidating the price gains of previous years. These gains come in the midst of continued declines in global growth as most countries deal with ongoing coronavirus outbreaks. However, as a global recovery takes hold through 2021, prices for most metals and minerals are expected to increase, which may lead to growth in mineral exploration and mine development in the territory.

Metals and Mineral Prices Rising



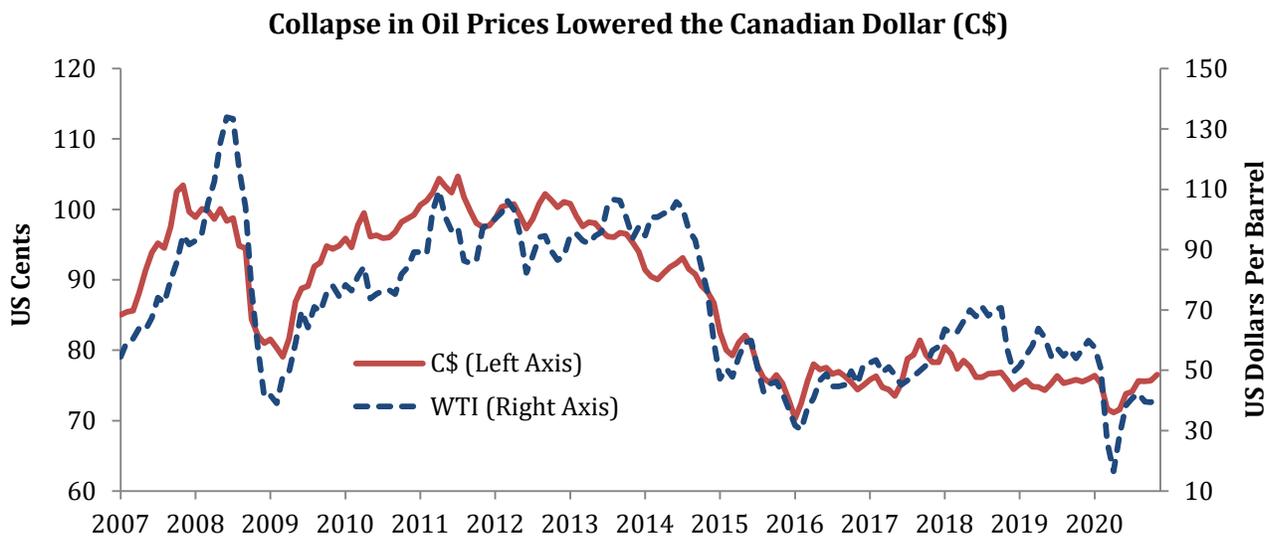
Source: Bank of Canada

The NWT exports a small amount of oil to international markets. International oil prices therefore have implications for NWT trade and oil exploration, especially in the Sahtu and Beaufort-Delta regions. The benchmark West Texas Intermediate (WTI) crude oil price collapsed in 2020 as the global coronavirus pandemic forced large swaths of the global population to halt travel, thereby sharply curbing demand for gasoline, diesel, and jet fuel. Despite price stabilization by November 2020, a rebound in WTI prices to those seen five to ten years ago is not projected as demand remains depressed and increased global supply over the near term is expected to continue putting downward pressure on oil prices.

WTI prices decreased 32.9 per cent from 2019 to 2020. As an oil-exporting country, this drop in global oil prices contributed to a lower Canadian dollar relative to the United States dollar. Despite modest monthly volatility the Canadian dollar averaged 74 US cents in 2020, down from 75 US cents in 2019 and 77 cents in 2018. With oil prices expected to remain low, the Canadian dollar is also expected to remain low.

The value of the Canadian dollar against its US counterpart has a direct effect on the health of the NWT economy. This is because the majority of goods and services bought and sold internationally are paid for in US dollars. The lower 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.

Lower oil prices have positive implications for other parts of the NWT economy by lowering the cost of energy for consumers, business and the energy-intensive mining industry.



Source: US Energy Information Administration and Bank of Canada

NWT Economic Outlook

Chained (2012) millions of dollars unless otherwise stated

	2017	2018	2019	2020e	2021f
Gross Domestic Product	4,873	4,911	4,517	4,221	4,465
<i>per cent change</i>	3.4	0.8	(8.0)	(6.6)	5.8
Total Investment	1,068	1,021	922	881	898
<i>per cent change</i>	(28.5)	(4.4)	(9.7)	(4.4)	1.9
Household Expenditure	1,632	1,660	1,674	1,687	1,711
<i>per cent change</i>	2.4	1.7	0.8	0.8	1.4
Government Expenditure	2,114	2,071	2,090	2,220	2,212
<i>per cent change</i>	1.4	(2.0)	0.9	6.2	(0.4)
Exports	3,521	3,617	3,139	2,602	2,866
<i>per cent change</i>	18.6	2.7	(13.2)	(17.1)	10.1
Imports	3,538	3,514	3,535	3,388	3,268
<i>per cent change</i>	(2.0)	(0.4)	(2.8)	(4.0)	1.5
Employment (number of residents)	21,300	21,400	21,300	20,500	21,000
<i>per cent change</i>	(5.3)	0.5	(0.5)	(3.8)	2.8
Average Weekly Earnings (dollars)	1,399	1,419	1,453	1,533	1,515
<i>per cent change</i>	(0.3)	1.4	2.4	5.5	(1.2)
CPI (All-Items), Yellowknife 2002=100	133.5	136.6	138.8	139.2	142.1
<i>per cent change</i>	1.2	2.3	1.6	0.3	2.1

e: estimate

f: forecast

Source: Statistics Canada and NWT Bureau of Statistics