

Economic Review

2020-2021

Northwest Territories

February 25, 2020

ECONOMIC REVIEW

One of the main priorities of the 2020-21 Budget is to ensure that the expenditure of public funds maximizes economic benefits to Northerners and supports northern business. Achieving this priority requires measuring the performance of the economy over time. The *Macroeconomic Policy Framework* was established in 2007 to measure the progress towards a strong and diversified economy.

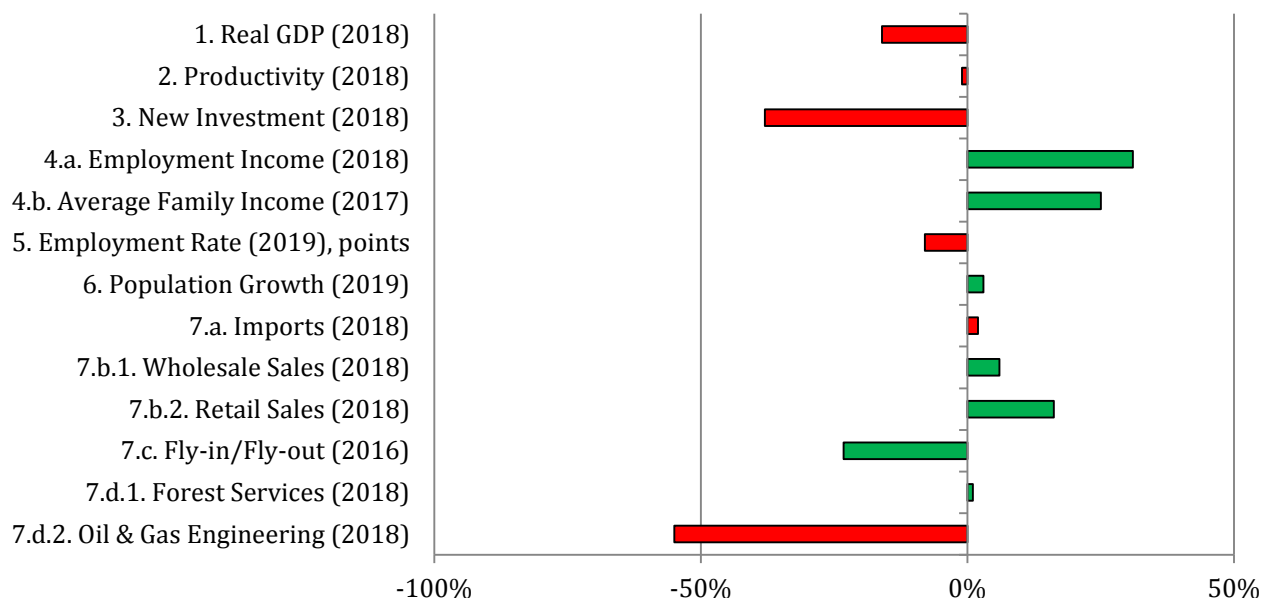
The following performance indicators show how far we have come since the heady times in 2007 when diamond mining was well underway and large capital investments in project expansions were proceeding. Circumstances have changed and the medium and longer term NWT economic outlook is concerning. Low resource prices and global financial and economic uncertainty have made it very difficult for resource companies to obtain financing. The resulting lower economic activity, and the need for new developments to replace the diamond mines that are nearing the end of their lives, have made GNWT investments in the economy even more urgent. Devolution of responsibility for management of NWT public land, water, and non-renewable resources from the federal government to the GNWT on April 1, 2014 also places more importance on co-ordinated decisions based on validated economic information.

Some circumstances remain the same. The NWT private sector economy remains a narrowly-based non-renewable resource export economy subject to global business cycles. The GNWT's tax base is limited by the small number of tax payers and the size of the economy. Formula-based federal transfers remain the majority of GNWT revenues. The high cost of goods and services in the NWT and the lack of economies of scale make government programs and services expensive to deliver and businesses expensive to compete. Finally, the need for a transparent and orderly decision-making process remains unchanged.

The *Macroeconomic Policy Framework* performance indicators measure the change in the performance of the NWT economy over time by comparing current indicators to their 2007 baseline values. 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.

Six of the 13 indicators have moved in a positive direction, but the key drivers of increased GDP, productivity and new investment, are in negative territory and continue to hold back economic growth. In the following figure, the indicators with red bars show the percentage decrease in their values and the indicators with green bars show the percentage increase in their values since the baseline year. 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 more favourable provinces 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.

RECENT ECONOMIC PERFORMANCE

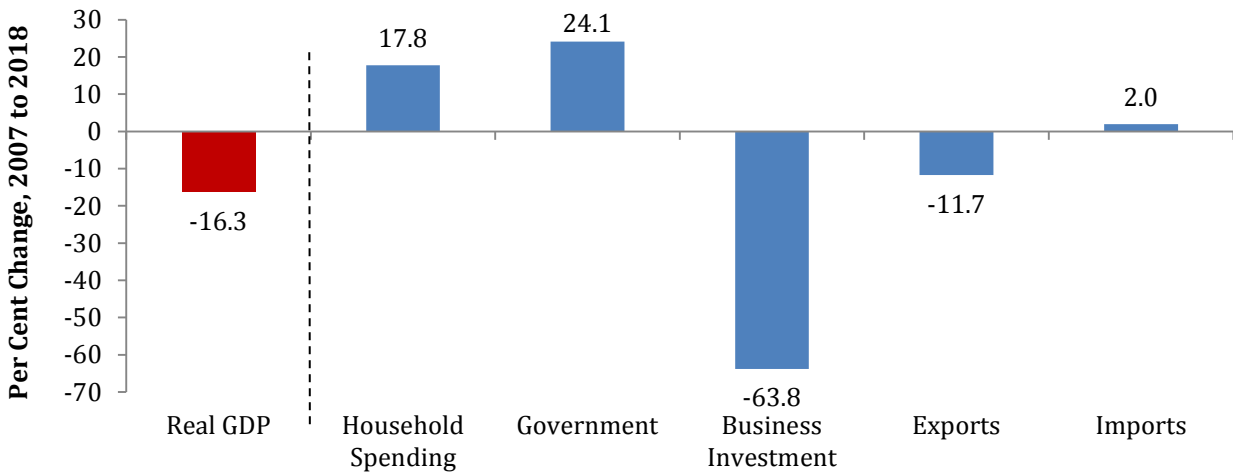
This section uses the 13 performance indicators identified in the *Macroeconomic Policy Framework* to analyze and assess both the progress and recent performance of the NWT economy.

The Size and Growth of the Total Economy – Real GDP

The NWT economy remains 16.3 per cent smaller than it was in 2007, before the global financial crisis occurred. This is reflected by the fact that real business investment remains nearly 64 per cent below 2007 levels, and real exports are almost 12 per cent lower. Without gains in government and household spending, the NWT economy would be even smaller.

The economy in 2007 was particularly strong in the NWT – diamond mines were producing higher quality diamonds, commodity prices for NWT exports were strong, and mine construction was underway. Returning to this level of economic activity may not be possible, although it is important to note that all other provinces and territories except the NWT have regained their losses from the Great Recession.

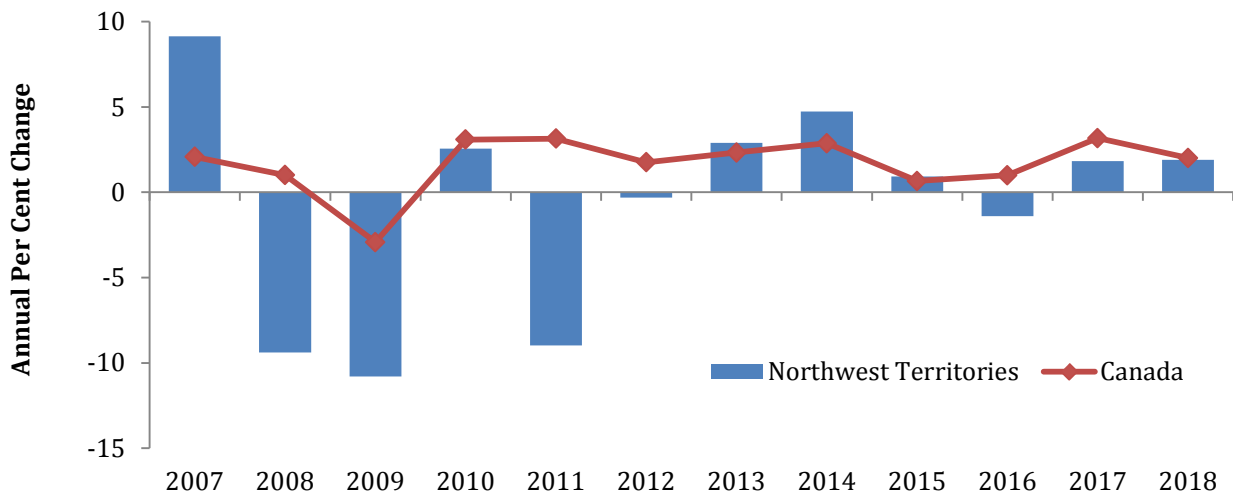
The NWT Economy Remains Smaller than it was Before the Great Recession



Note: Pre-recession peak is 2007.
 Source: NWT Bureau of Statistics and NWT Finance

Although the NWT economy is smaller than it was in 2007, the economy did grow in 2018, retaining the gains it had made in 2017. Following two consecutive years of weak growth, real GDP increased 1.8 per cent from 2016 to 2017 and 1.9 per cent from 2017 to 2018.

Real GDP Growth - NWT and Canada



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

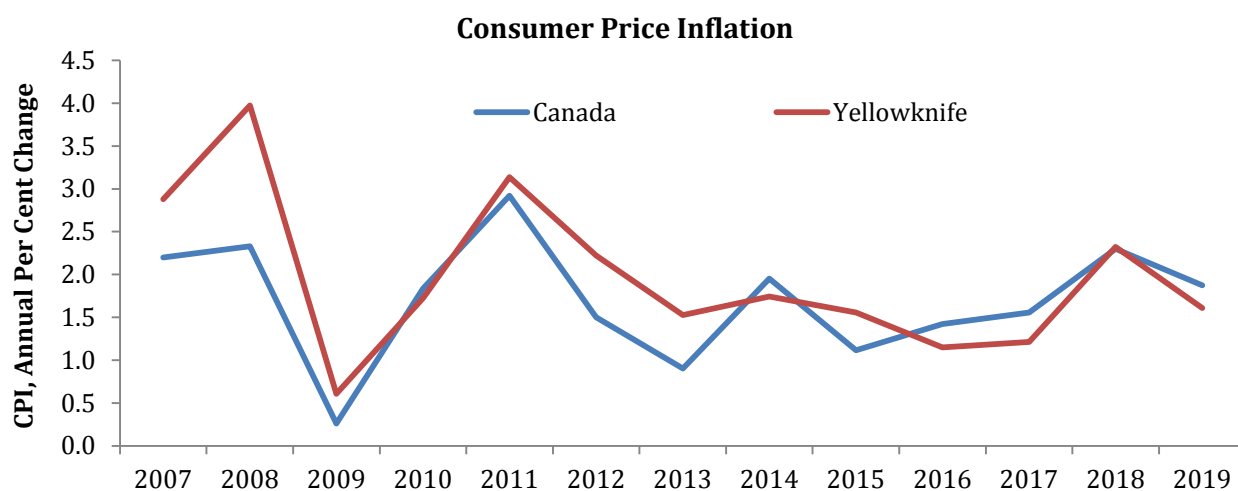
This modest growth reflects gains in real exports, driven by increased diamond production from the Gahcho Kué diamond mine, as well as improvement in household spending and government capital investments. In addition, petroleum production has resumed in the Norman Wells region following the completion of pipeline remediation in late 2018. All of these factors helped improve economic output of the territory, and unlike in previous years, economic growth in the NWT outpaced economic growth in Canada as a whole.

Productivity – *Labour Productivity*

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 2018, NWT labour productivity was one per cent lower than it was in 2007. This is worrying because rising productivity is related to increased profitability, sustained competitiveness, and important, lower costs.

Consumer costs, which contribute to the cost of living, are high in the NWT relative to other jurisdictions. Issues of remoteness, climate, and a sparsely populated large territory mean that NWT residents and businesses often pay more for goods and services than in neighbouring provinces. For this reason, inflation (an increase in the overall price level, resulting in reduced purchasing power) is of particular concern to NWT residents.

The Yellowknife Consumer Price Index (CPI) increased 1.6 per cent from 2018 to 2019. This was a slightly lower increase compared to the Canadian CPI which rose 1.9 per cent over the same period. In Yellowknife, the largest jumps in consumer price categories were in food, which rose 2.5 per cent, and in transportation, which rose 2.1 per cent.

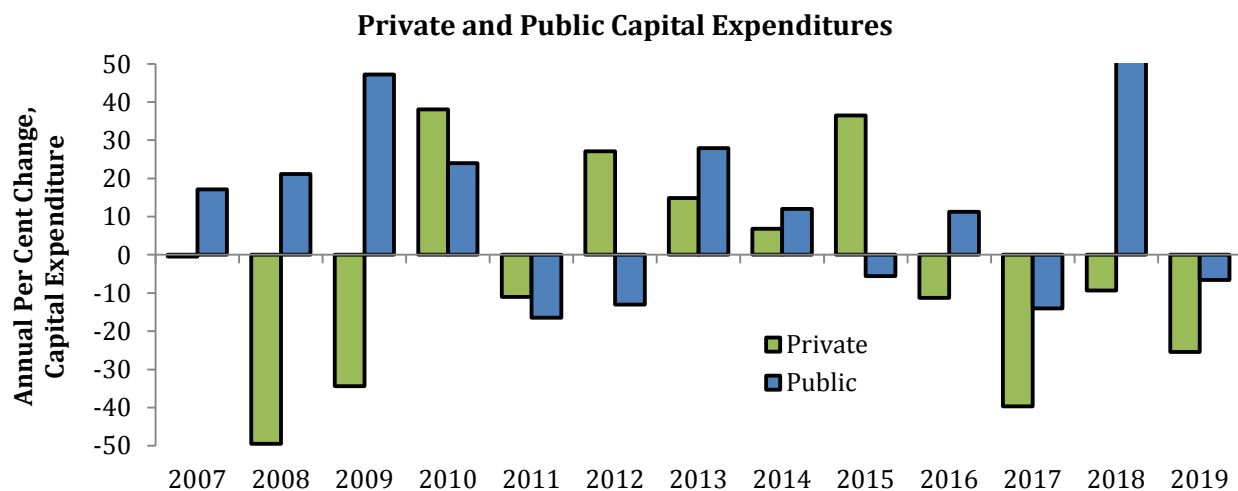


Source: Statistics Canada

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 38 per cent lower in 2018 than it was in 2007, and new business investment (the portion of investment made by the private sector) was 56 per cent lower. Continuing this trend, capital expenditures on new investments by both the public and private sectors are estimated to have declined in 2019 compared to 2018.

Total capital expenditures in 2019 are expected to be \$820 million, a 16.7 per cent decrease over 2018 capital expenditures. This represents the fourth consecutive year of decline in private capital expenditures and a slight decline in public capital spending following very strong growth in 2018. Mining capital investment peaked in 2015 with the construction of the Gahcho Kué diamond mine has gradually declined once the mine was completed and became operational.



Public sector capital expenditures are expected to fall by 6.6 per cent in 2019, declining from \$459 million in 2018 to an estimated \$429 million in 2019. The decline in public sector investment reflects completion of the Inuvik-Tuktoyaktuk Highway and Stanton Territorial Hospital, as well as the end of \$96 million in federal and GNWT spent on upgrading NWT transportation and community infrastructure in 2018.

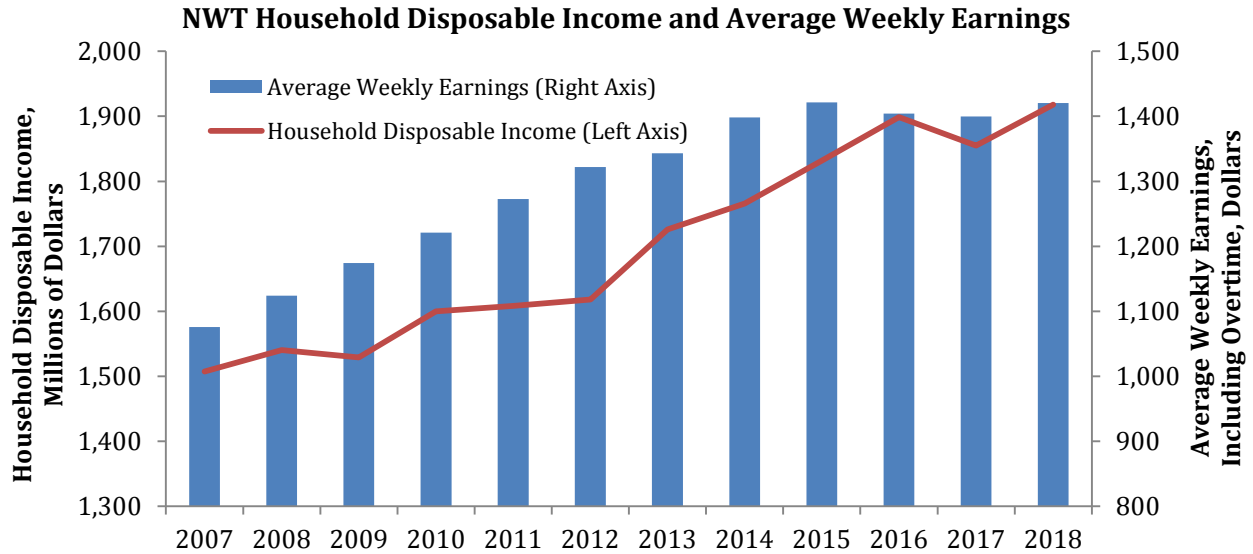
Private sector capital expenditures decreased by 25.5 per cent in 2019, falling from \$525 million in 2018 to just \$391 million in 2019. Private investment is driven largely by the resource sector. During the most recent investment cycle, total investment by the mining and oil and gas extraction industry peaked at \$937 million in 2015 when the Gahcho Kué diamond mine was being built and has fallen to \$201 million in 2019. No new private sector investment projects of similar magnitude have been announced.

Income – Employment Income

Overall employment income provides information on changes in the economy as they impact specific communities in the NWT. Employment income is the largest component of household income from all sources, and indicates how well workers and employees are benefitting from economic growth.

In 2018, overall employment income was 31 per cent higher than it was in 2007 – one of the few *Macroeconomic Policy Framework* performance indicators to have improved! Employment income rose 3.2 per cent between 2017 and 2018 to over \$2.0 billion for all resident households combined. This represented 65 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 is an indication of how well employees are benefitting from economic growth. Personal disposable income is the after-tax income earned by households from all income sources. It supports consumer expenditures, which account for almost a third of the territory's GDP. NWT disposable income grew 3.4 per cent from 2017 to 2018 to \$1.9 billion. This helped strengthen household consumer spending, which in turn contributed to NWT economic growth.



Source: NWT Bureau of Statistics and Statistics Canada

Average weekly earnings, including overtime, also improved in 2018, increasing 1.5 per cent from \$1,400 in 2017 to \$1,420 in 2018. 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 \$1,001 in 2018, nearly a third lower than the NWT average.

Income – Average Household Income

Average household income provides information about the quality of jobs of NWT residents and how much they are benefiting from economic growth. According to the 2019 NWT Survey of Community Statistics, annual average family income was 25 per cent higher than it was in 2007, rising 2.4 per cent from \$130,934 in 2016 to \$134,000 in 2017. In 2017 there were 11,420 families in the NWT, according to annual tax data, 23.7 per cent of which were lone-parent families. This is a slight decrease from a decade ago when 24.5 per cent of families were lone-parent.

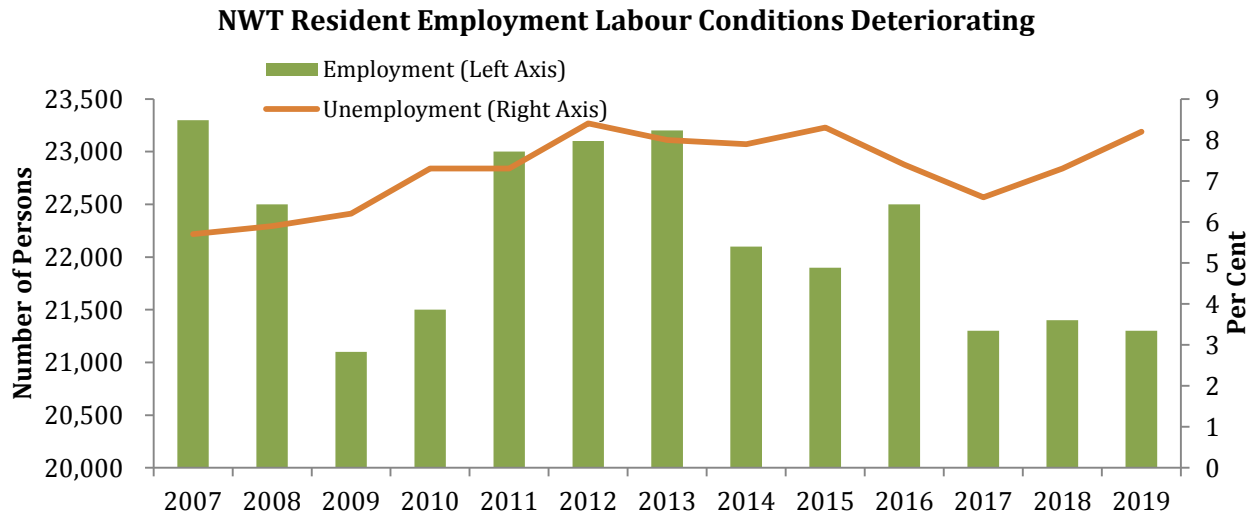
Economic Participation – Employment Rate

The ability of NWT residents to actively participate in economic growth is key to an equitable and balanced economy. The employment rate measures the share of the working age population that is employed, and 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 2019, the NWT employment rate was 66.0 per cent, eight percentage points lower than it was in 2007. A lower employment rate is concerning, as it means fewer working age residents are able to find work. Despite this decline, the NWT continues to have one of the highest employment rates in the country.

In 2019, NWT resident employment was estimated at 21,300, a decrease of 100 persons from 2018 and 2,000 persons below the 2007 pre-recession high. The unemployment rate also worsened in

2019, rising from 7.3 per cent in 2018 to 8.2 per cent in 2019. The size of the NWT labour force shrunk from 23,200 persons in 2018 to 23,100 persons in 2019.

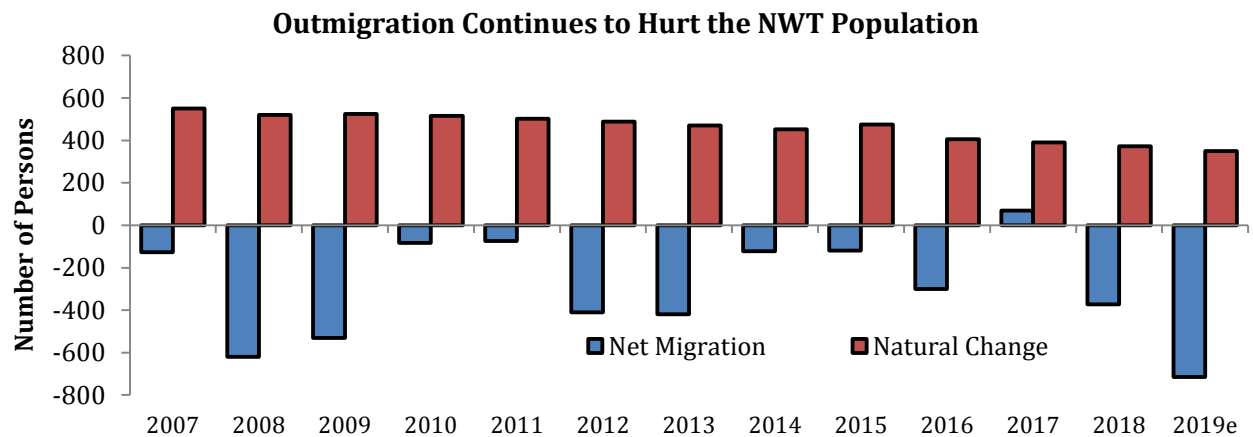


Source: NWT Bureau of Statistics and Statistics Canada

Population Growth – *Population*

People migrate to the NWT when the economy is doing well. The population grows in response to economic growth and provides a base for further growth through diversification.

Population growth is a strong indicator of economic health. By providing labour for NWT businesses, demand for local goods and services, and personal income and consumption taxes, population growth helps support economic activity and sustainable government revenues. The NWT’s population has been relatively stable over the past decade. In 2019, the NWT population was estimated to be 44,826 people, a decrease of 130 persons compared to 2018.



e: estimate

Source: NWT Bureau of Statistics

The population decrease last year was entirely due to outmigration. Between July 1, 2018 and July 1, 2019 interprovincial migration resulted in a net loss of 598 persons, as 1,701 persons moved into the NWT from the rest of Canada and 2,299 persons moved away. This net loss to the rest of Canada was only partially offset by a net natural increase of 345 persons (595 births minus 250 deaths), net international in-migration of 137 persons.

Strength of Economic Linkages – Imports

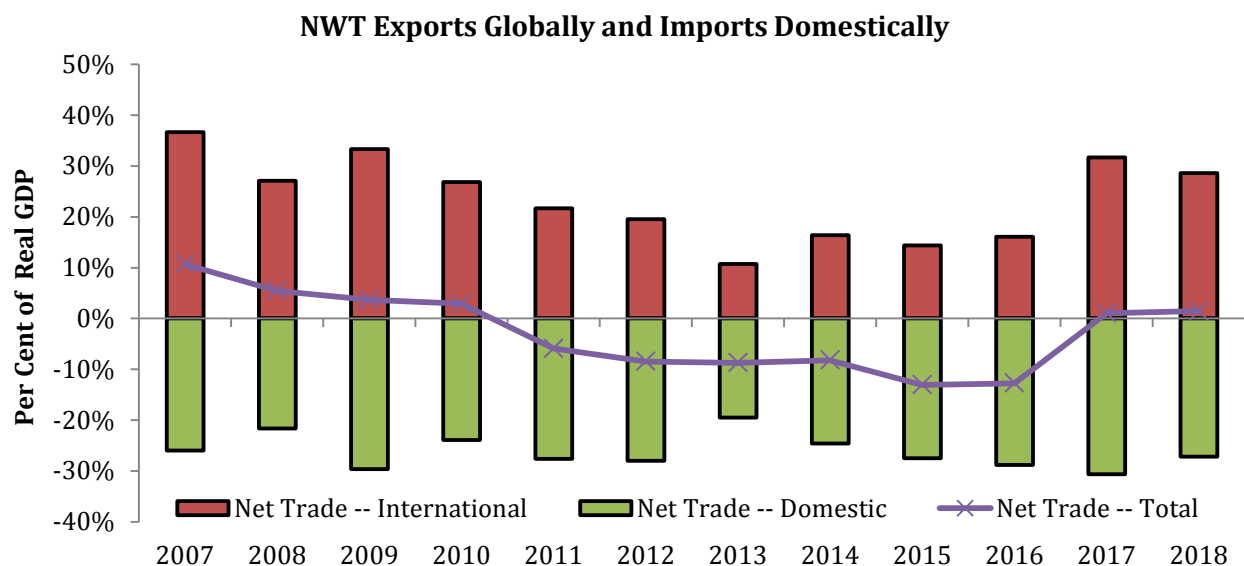
Economic linkages are the interconnections and interdependencies of industries within the NWT economy. Developing links between markets, regions, countries, and sectors is crucial to developing a diversified and balanced NWT domestic economy.

The small, open NWT economy depends on trade 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 2017 to 29 per cent in 2018. This slight deterioration was attributed to a 9.0 per cent rise in the real value of imports from other countries, while the real value of exports to other countries remained flat from 2017 to 2018. 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 27 per cent of real GDP in 2018 due to a 4.6 per cent rise in the real value of exports to other provinces and a corresponding 4.5 per cent decline in the real value of imports.

Compared to 2007, the real value of imports into the territory has increased by 2.0 per cent, while the real value of NWT exports has increased just 0.8 per cent.



Source: Statistics Canada and NWT Finance

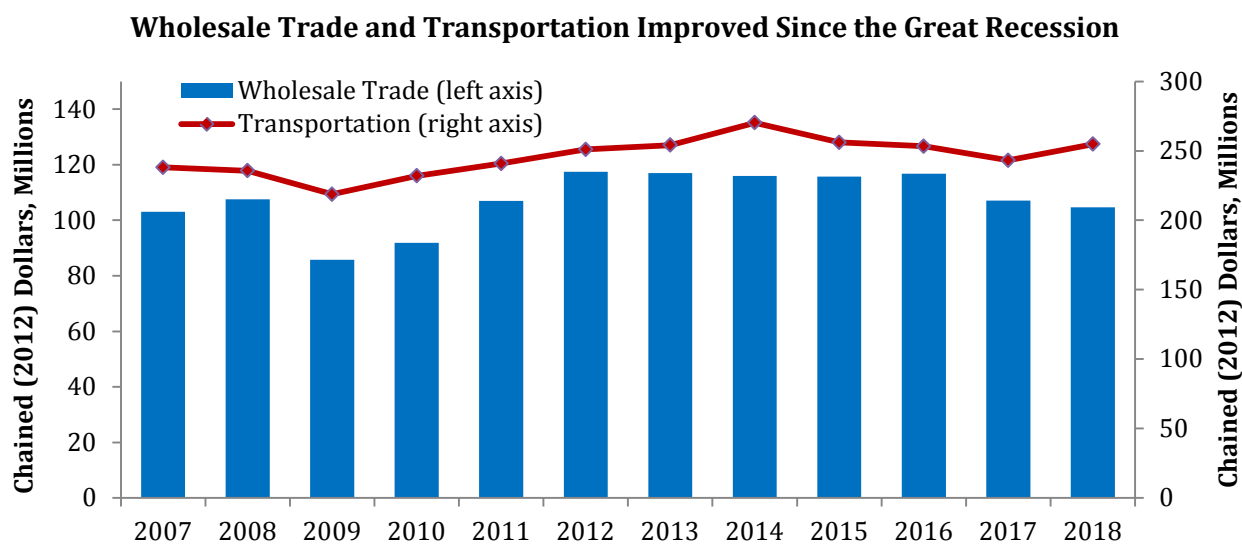
Strength of Economic Linkages – Wholesale Trade

Developing linkages between different industries in the NWT encourages economic growth. Wholesale trade sales are an indicator of linkages at the production level, where producers purchase inputs from NWT suppliers or where they purchase post-production services such as transportation and communications services from NWT companies.

Nominal wholesale trade has fluctuated around \$670 million over the past several years. In 2018, nominal wholesale trade sales were \$689 million, a six per cent increase from both 2017 and 2007. This makes wholesale trade one of the few performance indicators identified in the *Macroeconomic Policy Framework* to have improved.

In real, inflation-adjusted terms however, the value of NWT real wholesale trade fell in 2018, declining 2.2 per cent from \$107 million in 2017 to \$105 million in 2018. Machinery, equipment and supplies made up one quarter, or \$26 million, of real wholesale trade in the NWT that year.

Transportation and warehousing is also crucial for facilitating trade and linkages within the NWT is closely linked to wholesale trade; this industry quite literally ensures goods and services get to where they need to go. In 2018, transportation and warehousing made up seven per cent of the territory’s real economic output, increasing 4.8 per cent from \$243 million in 2017 to \$255 million in 2018.



Source: Statistics Canada and NWT Finance.

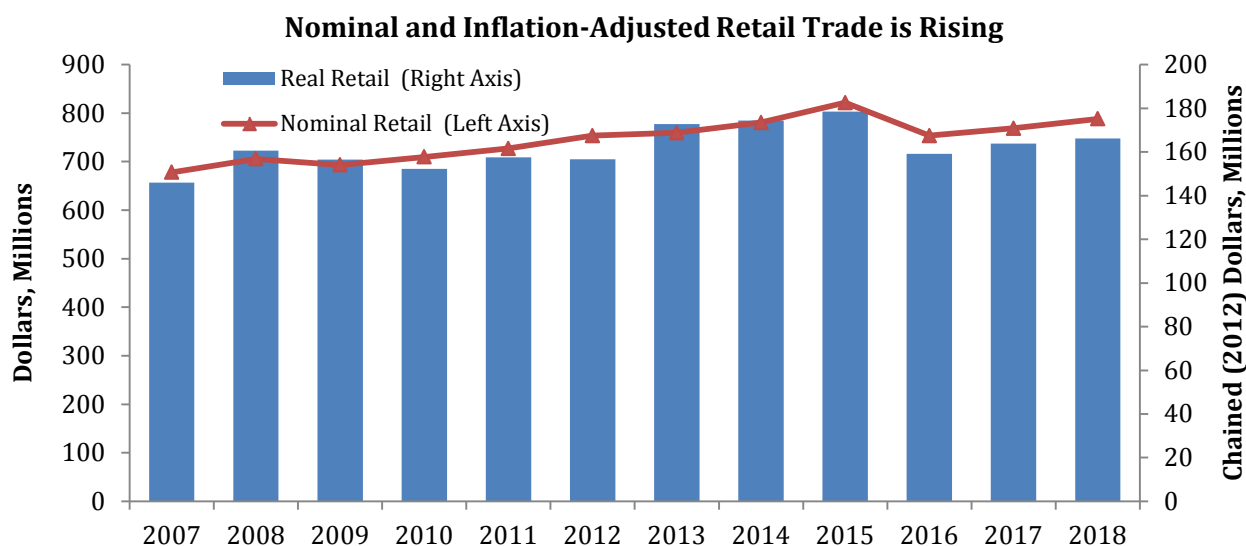
The transportation and warehousing industry in the NWT is driven by air travel. In 2018, the real value of air transportation was \$132 million, more than half the total real value of the transportation and warehousing industry; truck transportation was \$35 million, representing just 13 per cent. Warehousing plays a very minor role in the NWT. In 2018, the real value of warehousing and storage was just \$5.2 million, contributing just two per cent to the transportation and warehousing industry.

Strength of Economic Linkages – Retail Trade

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 by facilitating the exchange of goods and services. This makes retail sales, and domestic trade more broadly, key to the health of the economy.

Nominal retail trade sales have increased in ten of the last 12 years. In 2018, nominal retail sales increased rose 2.5 per cent from \$769 million in 2017 to \$788 million. This puts nominal retail trade 16.2 per cent higher than it was in 2007, one of the best performing *Macroeconomic Policy Framework* performance indicators. Increased nominal retail and wholesale trade indicate that progress is positive in developing domestic trade and key economic linkages in the NWT.

Inflation-adjusted retail trade also performed well last year. The value of NWT real retail trade increased 1.5 per cent from \$164 million in 2017 to \$166 million in 2018, close to the annual increase in nominal retail sales. Roughly half of real retail trade in the NWT is on vehicles and food. In 2018, the real value of motor vehicle and parts sales was \$44 million, while the real value of food and beverage stores sales was \$40 million.

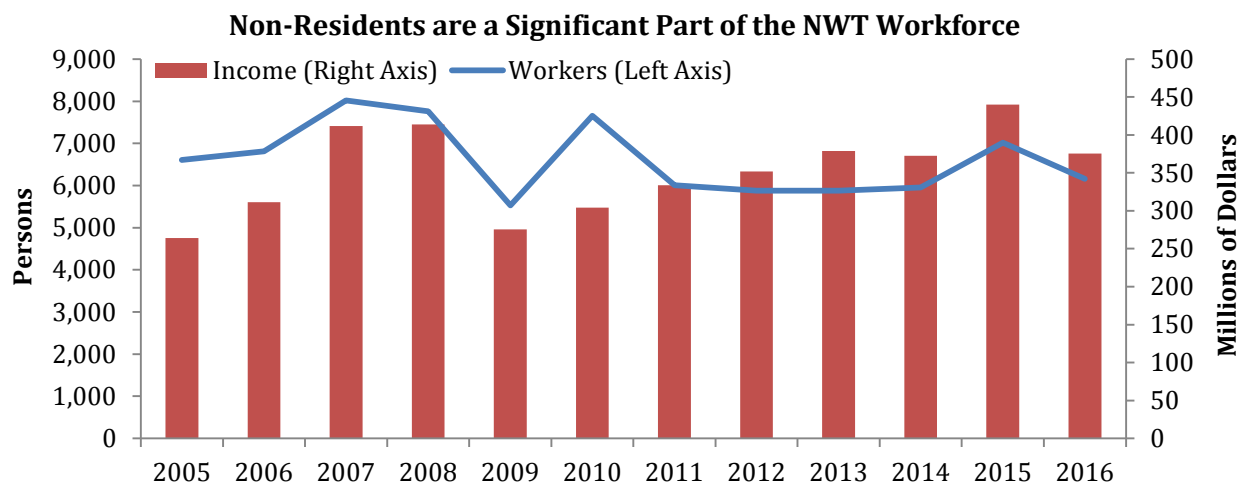


Source: Statistics Canada and NWT Bureau of Statistics.

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

The NWT is characterized by 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.

Between 2002 and 2016, non-resident workers accounted for about one-third of the NWT workforce, which represented around one-fifth cent of all employment income generated in the territory.



Source: Statistics Canada and NWT Finance

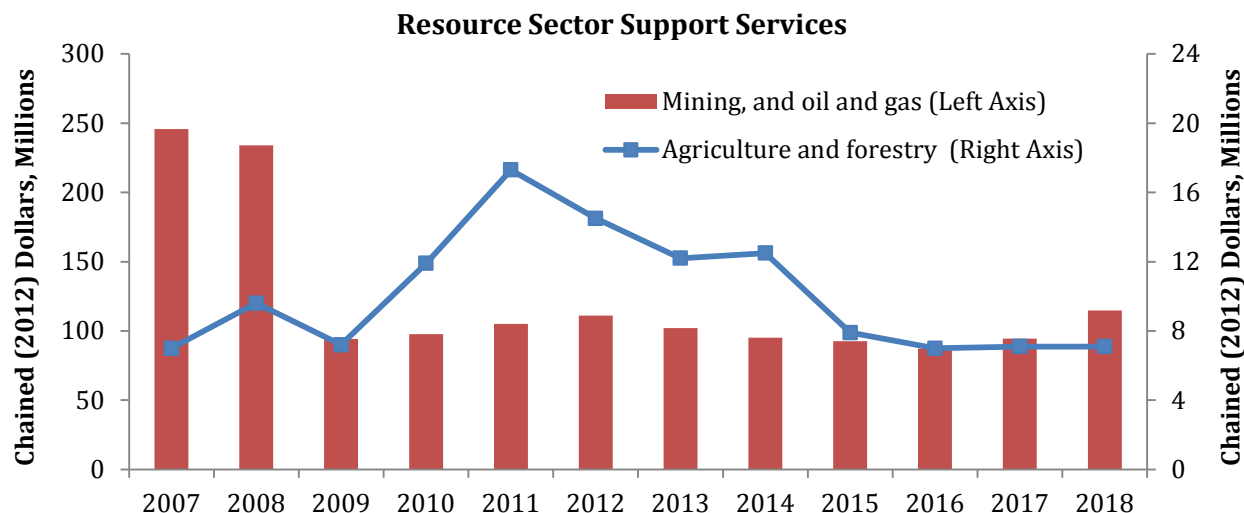
Each year 5,500 to 8,500 non-residents fill jobs in the NWT. These jobs include seasonal, rotational, temporary and special projects that fill gaps that are not met by the resident workforce. Total aggregate earnings paid to non-resident workers from these jobs ranged from \$178 million and \$439 million between 2002 and 2016. This is approximately 20 per cent of all employment income generated in the NWT and represents lost income that could have been spent in the NWT economy.

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.

Policies aimed at addressing population growth and the issue of fly-in/fly-out workers must consider the reasons why people move to, and leave, the NWT. The greatest contributor to strong population growth is in-migration caused by better job opportunities in the NWT compared to the rest of Canada; or, in other words, when the NWT economy is doing well and provincial economies are not. Because the NWT is competing for skilled labour, NWT population growth strategies will depend on the ability to quickly respond to changing economic conditions in other regions in order to shift recruitment opportunities to where the NWT has a comparative advantage. These strategies include GNWT recruitment and retention strategies, and Socio-Economic Agreements, which formalize commitments made by large companies with respect to employment, training and business opportunities for NWT residents. The GNWT is also committed to addressing the other underlying factors contributing to non-resident workers, in particular, the high cost of living.

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 – namely forestry, mining, oil and gas. Due to the NWT’s heavy reliance on diamond mining, economic linkages with this industry are arguably more important than any other, and so support services, such as taking core samples and making geological observations at prospective sites, are indicative of the industry’s health and robustness.



Source: Statistics Canada and NWT Finance

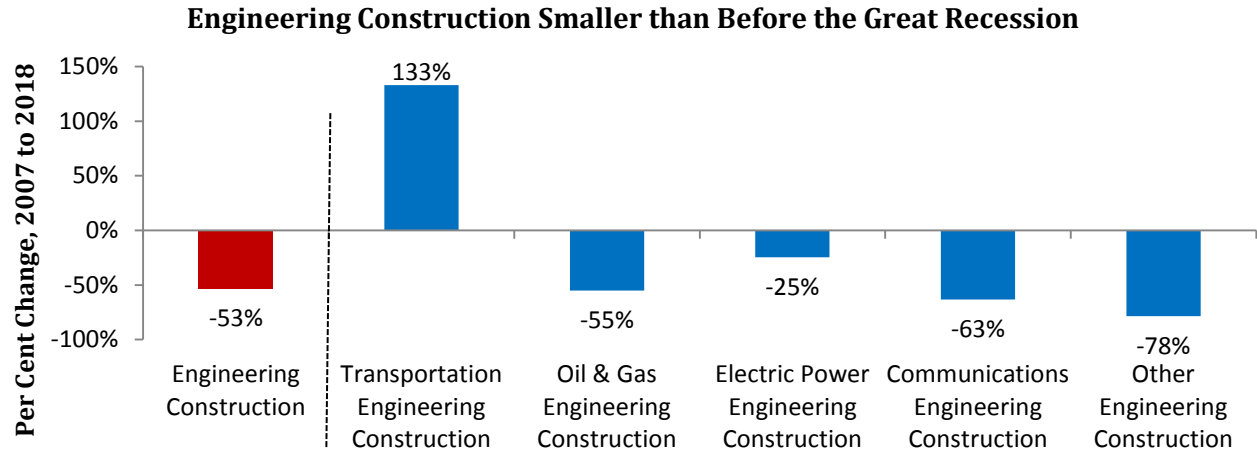
In 2018, the real value of mining sector support services was \$106 million, a 22.5 per cent increase over the previous year. By contrast, the real value of oil and gas support services was just \$4.1 million in 2018, unchanged from 2017. Taken together, the real value of support services to the non-renewable extractive resource sector (mining, oil and gas) increased 21.7 per cent from \$94.4 million in 2017 to \$114.9 million in 2018, although it remains 53 per cent below what it was in 2007.

The real value of support services for renewable resource industries rose 1.4 per cent between 2007 and 2018 to \$7.1 million. These support services include activities such as harvesting timber and growing crops. The farming and forestry sector is tiny – accounting for less than one per cent of NWT real GDP – and is promoted as a growth sector that will support food security and sustainable economic diversity.

Strength of Economic Linkages – *Engineering Construction*

Engineering construction is also crucial in completing the linkages of the natural resources sector. For example, oil and gas engineering construction -- which includes the creation, maintenance, and repair of oil and gas lines, mains, refineries, storage tanks, and structures -- is essential to oil and gas networks, and helps support the overall oil and gas sector. Although the oil and gas sector currently contributes less than one per cent of real GDP, it used to comprise nearly one fifth of the economy, and so for this reason, the *Macroeconomic Policy Framework* includes oil and gas engineering construction as an indicator of progress.

In 2018, the real value of oil and gas engineering construction more than doubled, rising from \$17 million in 2017 to \$41 million, largely due to the completion of work by Enbridge on the Norman Wells Pipeline. However, real oil and gas engineering construction remains 55 per cent below what it was in 2007, making it the worst performing indicator of progress in the *Macroeconomic Policy Framework*. This is also true for engineering construction overall. Compared to 2007, the real value of engineering construction for all industries – mining, communications, transportation, electric power, as well as oil and gas – declined 53 per cent.

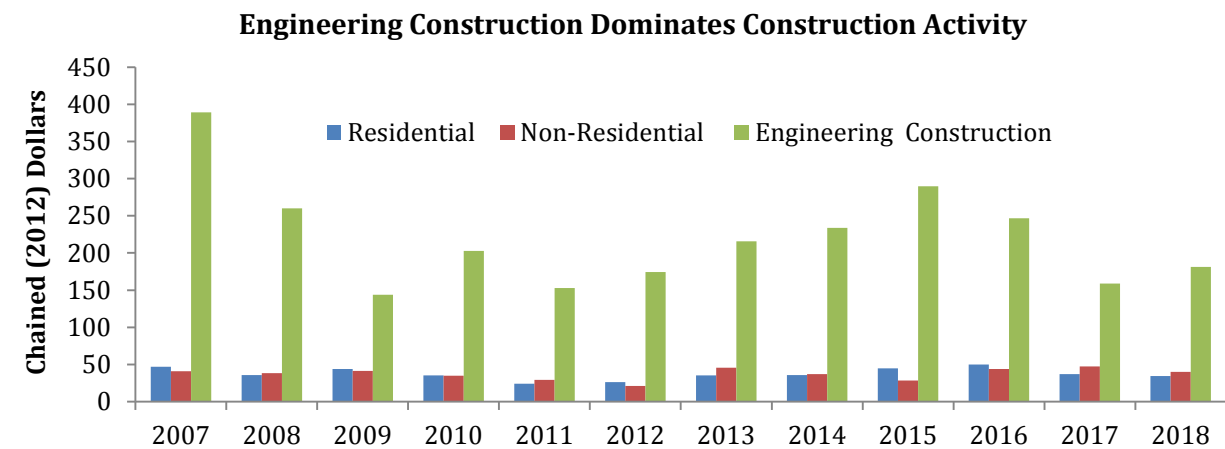


Source: Statistics Canada, NWT Finance

Due to the heavy reliance on the extractive resource sector, the NWT is unique in the size of its engineering construction industry; it accounts for half of all construction activity in the territory.

The construction sector includes residential construction, non-residential construction, and engineering services, as well as repair construction and support activities. Unlike many other jurisdictions, residential construction makes up only a small portion of the value of NWT construction activity, accounting for just 9.5 per cent of real construction expenditure in 2018. In other Canadian provinces and territories residential construction comprises, on average, over one-third of inflation-adjusted construction expenditures in 2018.

Overall construction activity declined 3.2 per cent from 2017 to 2018, and remains at cyclical low levels. Engineering construction, rose 14.1 per cent in 2018 over 2017, following a significant decline as construction on several large infrastructure projects was completed in 2017, including work on the Gahcho Kué diamond mine (cost \$1 billion), the Inuvik-Tuktoyaktuk Highway (cost \$300 million), and Mackenzie Valley Fibre Link (cost \$91 million). Completion of work on the Stanton Territorial Hospital (cost \$350 million) helped lower real non-residential construction expenditures by 16.0 per cent in from 2017 to 2018, while residential construction decreased by 6.8 per cent.



Source: Statistics Canada

Diversification – Real GDP by Industry

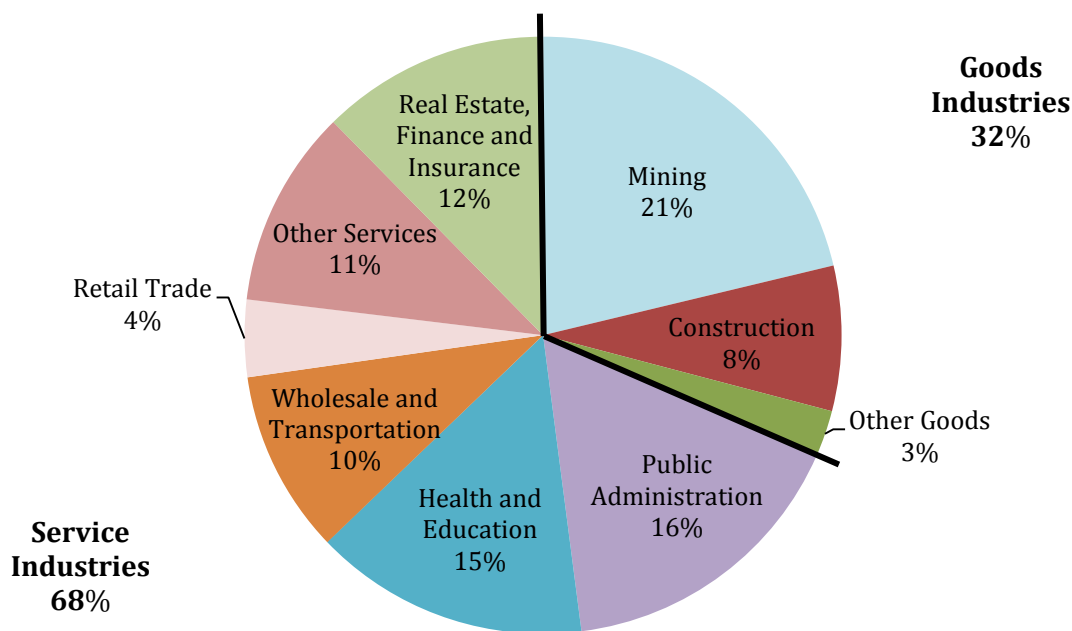
Economic diversity provides more stable and balanced growth by spreading risk more evenly across a number of sectors, making the economy more resilient to business cycles and external shocks. Diversification acts as insurance that reduces the sensitivity of the economy to the ups and downs associated 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.

Diversification of the economy across sectors is an important area of economic health that the *Macroeconomic Policy Framework* meant to monitor. However the development of a single performance indicator capable of capturing economic diversification for a such a small, resource-dependent economy is ongoing, and for this reason diversification does not show up in the table of NWT indicators of progress, though it may in future.

The NWT economy relies heavily on the extractive, non-renewable resource sector, especially the diamond mining industry. In 2018, the mining, oil, and gas extraction sector accounted for over a fifth of NWT GDP. While the share of the economy directly generated by the mining, oil and gas sector has declined from 40 per cent in 2007, it remains the most dominant sector in the NWT economy, demonstrating a lack of diversity in the economy.

The goods-producing sector accounted for 32 per cent of NWT GDP in 2018. Resource extraction industries dominate this sector, although the share has declined over the past several years. Construction is the second biggest industry in the goods-producing sector, accounting for 8 per cent

Mining Dominates the NWT Economy, 2018



Source: Statistics Canada and NWT Finance

of NWT GDP in 2018. The remainder of the goods-producing sector accounted for just 2 per cent of GDP and was comprised of renewable resources, utilities, and manufacturing industries.

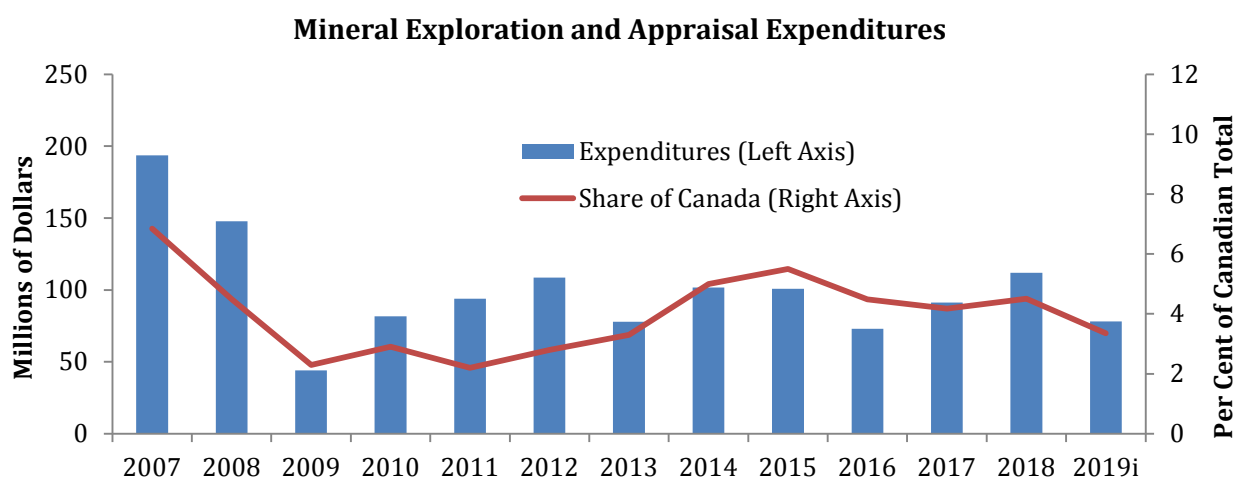
The NWT has been steadily shifting towards a services-based economy. The combined services-producing industries accounted for 68 per cent of NWT GDP in 2018, compared to just 48 per cent a decade ago. Public sector activities dominate this sector, with public administration, education, health and social services accounting for 32 per cent of NWT GDP in 2018. The remainder of the services sector is comprised of industries such as wholesalers, retailers, banks, hotels, and tour operators.

So, while the NWT economy has not diversified since 2007, the structure has changed. In 2007, the goods-producing sector accounted for 51 per cent of the NWT economy, but by 2018 that share had shrunk to 32 per cent. This re-structuring is mainly due to declines in the NWT resource sector.

Diversification – Mining, Oil and Gas

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

NWT mineral exploration and deposit appraisal expenditure intentions declined in 2019, decreasing from \$112 million in 2018 to an estimated \$78 million in 2019. Exploration and appraisal expenditures are focussed on diamonds, which account for over half of intended expenditures in 2019. The NWT exploration and appraisal expenditures share of the Canadian total is declining over time: from 5.5 per cent in 2015, 4.2 per cent in 2017 to 3.4 per cent in 2019. Low commodity prices continue to influence resource development in Canada.



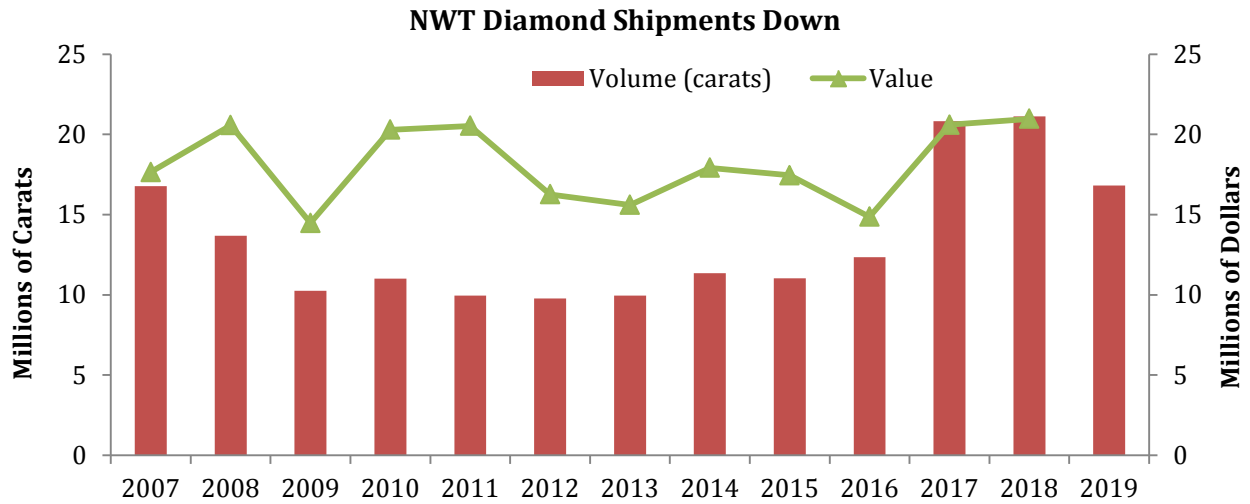
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Source: Natural Resources Canada

The NWT has three producing diamond mines: Ekati, Diavik and Gahcho Kué.

Carat production at NWT diamond mines rose dramatically in 2017, increasing 68.7 per cent from 12.3 million carats in 2016 to 20.8 million carats in 2017 as Gahcho Kué diamond production started. Similarly, the value of diamond shipments increased 38.6 per cent from \$14.9 billion in

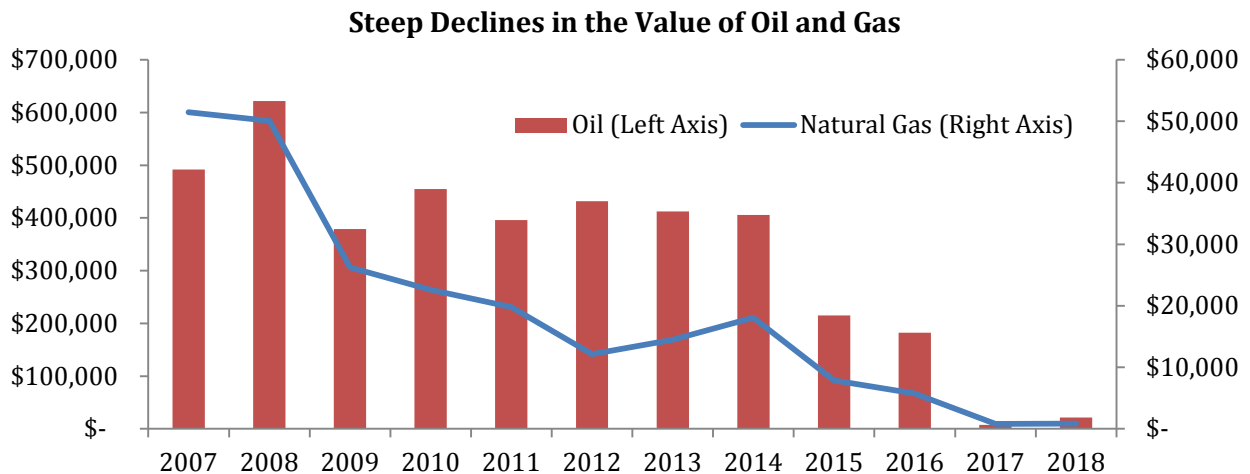
2016 to \$20.6 billion in 2017. Both shipments and the value of shipments remained at this elevated level throughout 2018.

However, diamond production declined in 2019, falling 20.4 per cent from 21.1 million carats in 2018 to just 16.8 million carats in 2019. This decline was largely due to low production at the Ekati diamond mine.



Note: Value data unavailable for 2019.
 Source: NWT Bureau of Statistics and NWT Finance

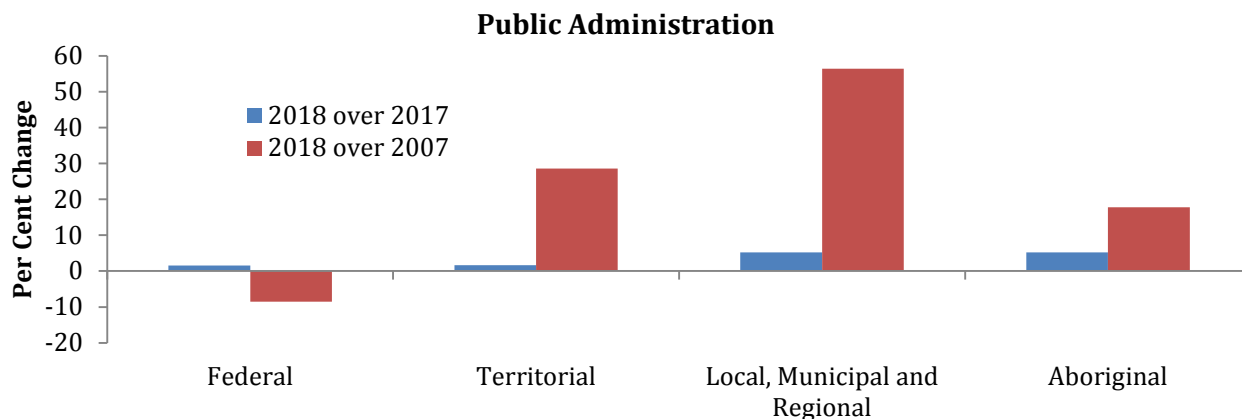
Oil production rebounded last year, rising from 98 million cubic metres in 2018 to an estimated 431 million cubic metres in 2019. The production increase was due to the restart of the pipeline service at Norman Wells in September 2018. Oil production almost stopped in early 2017 when the Norman Wells pipeline was shut down for repairs and remains well below what it once was.



Note: Value data not available for 2019.
 Source: NWT Bureau of Statistics and NWT Finance

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 16 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.



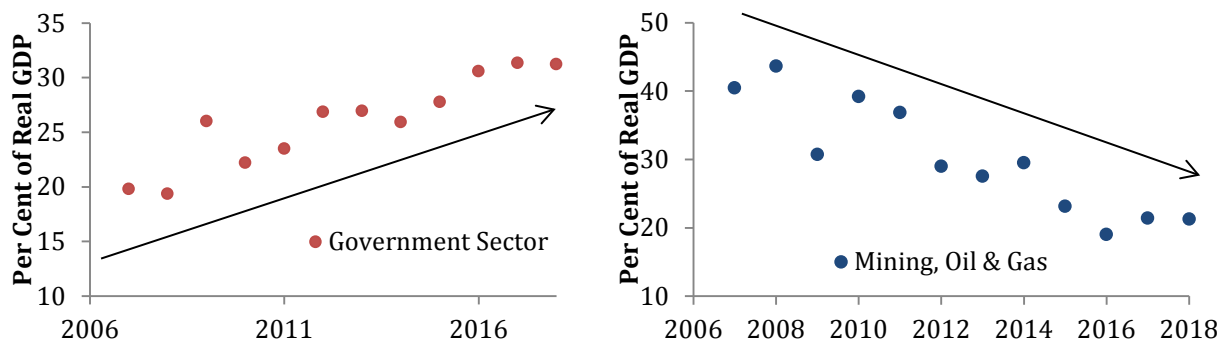
Source: Statistics Canada

Public administration expenditures rose 2.5 per cent from 2017 and 2018. Since 2007, all levels of government experienced solid increases in public administration except for the federal government which declined 8.5 per cent between 2007 and 2018, partly due to devolution of the management of lands, waters and non-renewable resources to the GNWT on April 1, 2014.

The rise in public administration expenditures corresponds with a more general sectoral shift in the structure of the NWT economy – a shift away from mining, oil and gas (the traditional backbone of the NWT economy), and towards government sector industries (public administration and education, health care and social services).

This shift has seen government industries increase over the past decade from representing just one-fifth of real GDP to comprising nearly one-third of real GDP in 2018. Over this same period, the percentage of real economic activity being generated from the mining, oil, and gas sector has shrunk from nearly 50 per cent to 20 per cent in 2018.

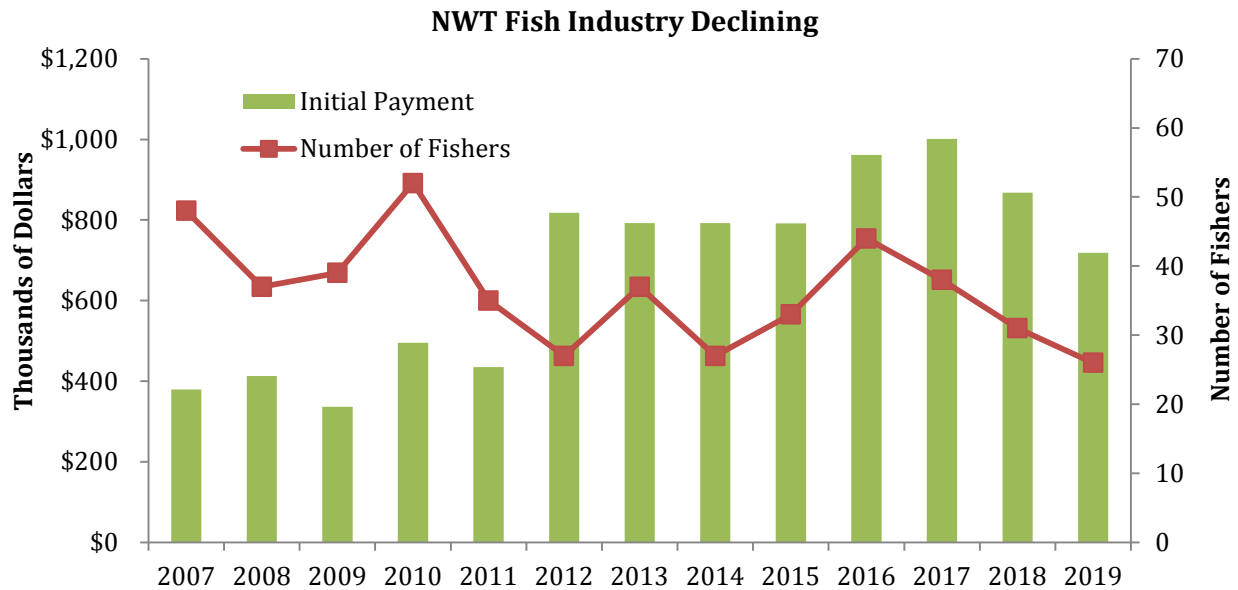
As Mining Shrinks, the NWT Economy is Increasingly Driven by Government



Source: Statistics Canada and NWT Finance

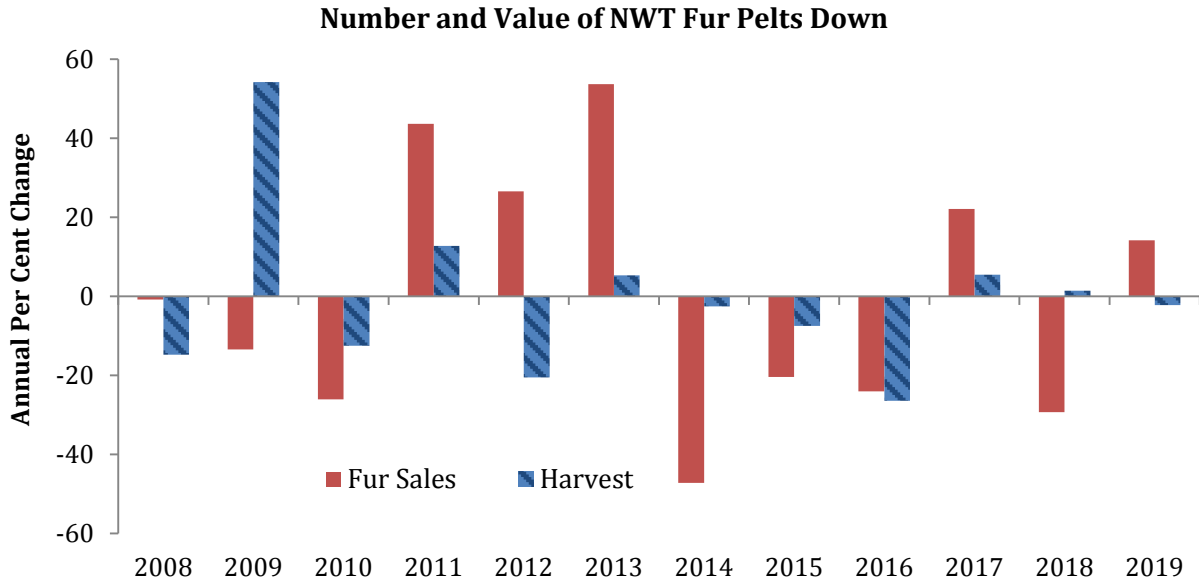
Diversification – Other Potential Growth Sectors

The commercial fishery in the NWT is small with room for growth. Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – decreased for a third consecutive year, falling 17.2 per cent from \$868,000 in 2018 to \$719,000 in 2019, while the average initial payment increased 1.2 per cent from \$1.77 per kilogram to \$1.79 per kilogram. The delivered weight of fish received by the Freshwater Fish Marketing Corporation decreased 18.2 per cent from 490,545 kilograms in 2018 to 401,302 kilograms in 2019. Whitefish was the main fish (by weight) delivered in 2019.



Source: Freshwater Fish Marketing Corporation

Trapping is a component of the renewable resource sector, and is important to many NWT residents for food and clothing, especially in smaller communities. For the year ended June 30, 2019, roughly 18,100 NWT pelts were sold, a decrease of 2.2 per cent from the previous year, while the value of fur sales rose 14.1 per cent to \$731,200. The number of commercial trappers in the NWT was unchanged at 600. In addition to fur sales, the Prime Fur Bonus Program provided \$94,690 to NWT trappers, and the Trapper’s Grubstake Program provided \$66,510. The fur market is cyclical, and though last year’s sales were modest, the Genuine Mackenzie Valley Fur program continues to perform as intended by stabilizing the market for NWT trappers, thereby providing financial support.



Source: NWT Industry, Trade and Investment and NWT Finance

Tourism is not formally defined as an industry in NWT GDP data. However, the tourism industry has direct implications for measured components of GDP such as travel services, accommodations, retail trade, and other supporting industries. From 2017-18 to 2018-19, the number of visitors increased 6.8 per cent from 112,530 to 120,130. Over the same period, visitor expenditures rose by 3.4 per cent, increasing from \$203 million to \$210 million.

Leisure travel represented over half of visitor expenditures in 2018-19, with one quarter of total visitor spending associated with Aurora viewing.



Source: Department of Industry, Trade and Investment

ECONOMIC OUTLOOK

The outlook for the NWT economy is uncertain. From 2018 to 2019 the NWT economy is expected to shrink by 4.3 per cent, due to steep declines in diamond production and private-sector investment. This economic decline would have been even more severe had it not been for an increase in government expenditures which helped to stabilize the economy and cushion the fall in private sector activity. This year, NWT economic growth is forecast to improve, with real gross domestic product forecast to increase 3.8 per cent from 2019 to 2020. However, this growth will only partially offset the real GDP decline of 2019, leaving the NWT economy smaller this year than it was in 2018. The NWT economy is stable, but it is not growing.

The diamond mining industry has been the engine of the NWT private sector economy for the last two decades. However, the industry has matured, and it is possible that all existing NWT diamond mines will close by 2030. Diavik diamond mine is scheduled to close first in 2025, followed by Gahcho Kue in 2028. The Ekati diamond mine could operate until 2042 should both the Jay and Fox Deep kimberlite expansions go ahead, but the decision to invest in this expansion remains under examination. The closure of the diamond mines will leave a large drop in economic output; at this time, there are no other projects on the horizon large enough to fill this gap, though efforts continue for developing the next resource projects.

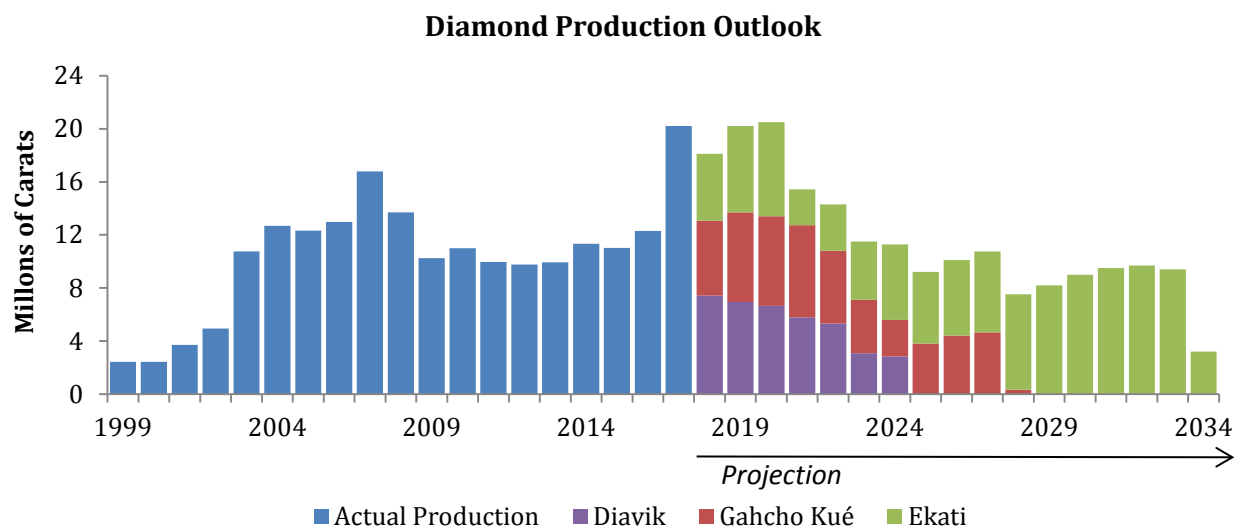
GNWT infrastructure investments are key to supporting future economic growth. Total private and public investment is forecast to increase 3.4 per cent from 2019 to 2020 and the public investment portion is the prime growth driver. The role government can play in supporting economic growth should not be underestimated. Government spending on programs, goods and services will provide stability to the economy by supporting wages, household consumption and local business sales, while public infrastructure investments on items such as roads, bridges, power corridors, and communications networks will contribute to higher standards of living for Northerners, and to improved private-sector business cases for future investments. Investing in infrastructure today sets the NWT up for economic growth tomorrow.

The GNWT's 2020-21 \$399 million capital budget continues the delivery of the government's infrastructure program to support program delivery for the well-being of residents and businesses and supports the groundwork for private sector investment and economic growth. Starting in 2020, construction of an all-season road to Whatì will provide employment today and when open to traffic in 2022 is expected to lower the cost of living for residents, boost tourism and improve business cases for resource projects in the region. Pre-construction activities are on-going for portions of the Mackenzie Valley Highway (focus is on the sections from Wrigley to Norman Wells) and if construction is approved will connect more communities to the all-weather road system. These investments will create a legacy that has the potential to spur future economic activity and growth.

The NWT economy is stable in the near term, though the risks to the outlook create uncertainty. Even with public investment in programs and infrastructure, the NWT economy competes in a competitive global market. External forces, including international financial conditions, currency movements and world economic activity, directly impact the territorial economy and contribute to uncertainty and turbulence for both businesses and 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. 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

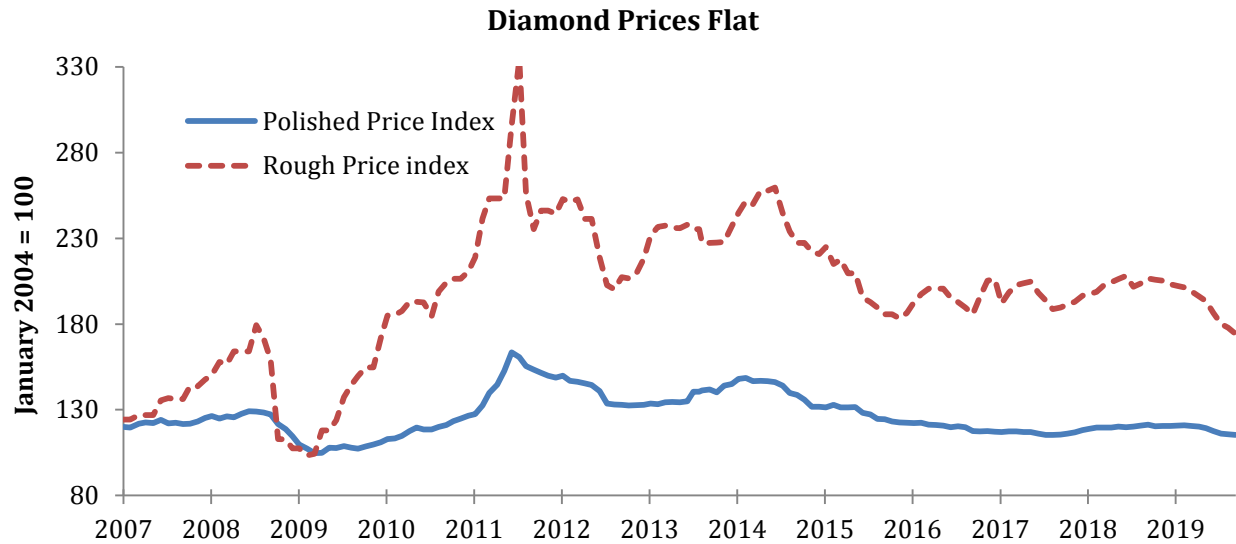
Risks to the Outlook – *Prices and Currencies*

The final 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 0.6 per cent from 2018 to 2019, while indexed prices for rough stones fell 4.7 per cent. This caused the price spread between rough and polished stones to narrow somewhat, although rough diamonds remain expensive relative to polished stones. NWT diamond mines produce rough diamonds, exporting them to manufacturers who cut, polish, and clean the stones, making the price spread a key risk to the NWT economic outlook.

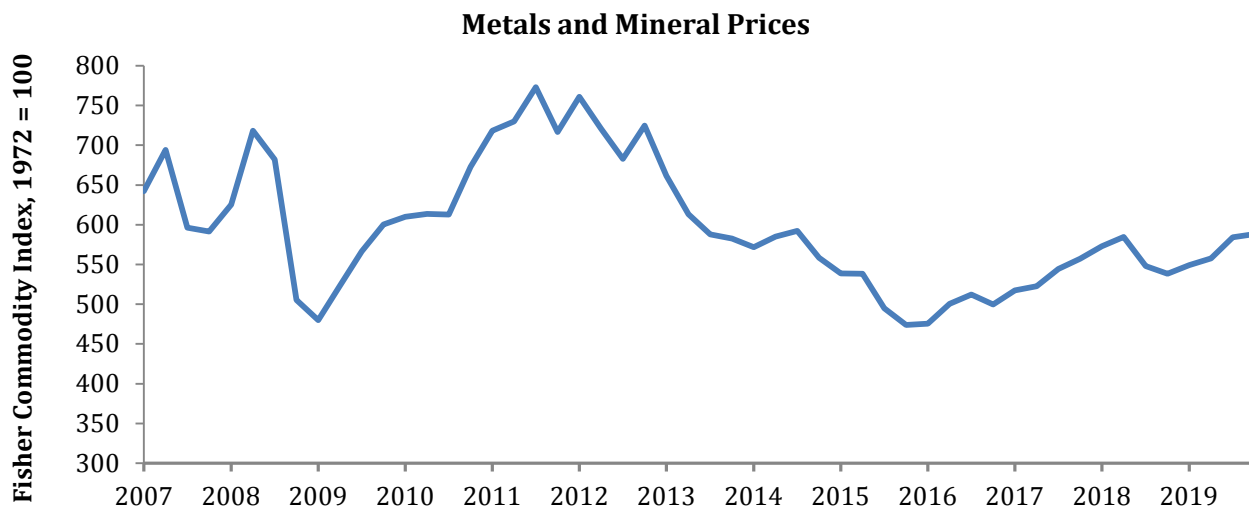
A decreasing supply of rough diamonds is projected to create a shortage within two years. Complicating the industry outlook is that end-consumer diamond demand continues to be dampened by trade disputes between China and the United States (the diamond industry’s two main markets), an economic slowdown in Europe, and ongoing protests in Hong Kong (an important retail and industry trade market). Also, synthetic diamonds are becoming increasingly competitive in the commercial small diamond market but have limited impact on prices for larger diamonds.

Commodity price changes have implications for 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.



Source: PolishedPrices.com and WWT Overall Rough Diamonds

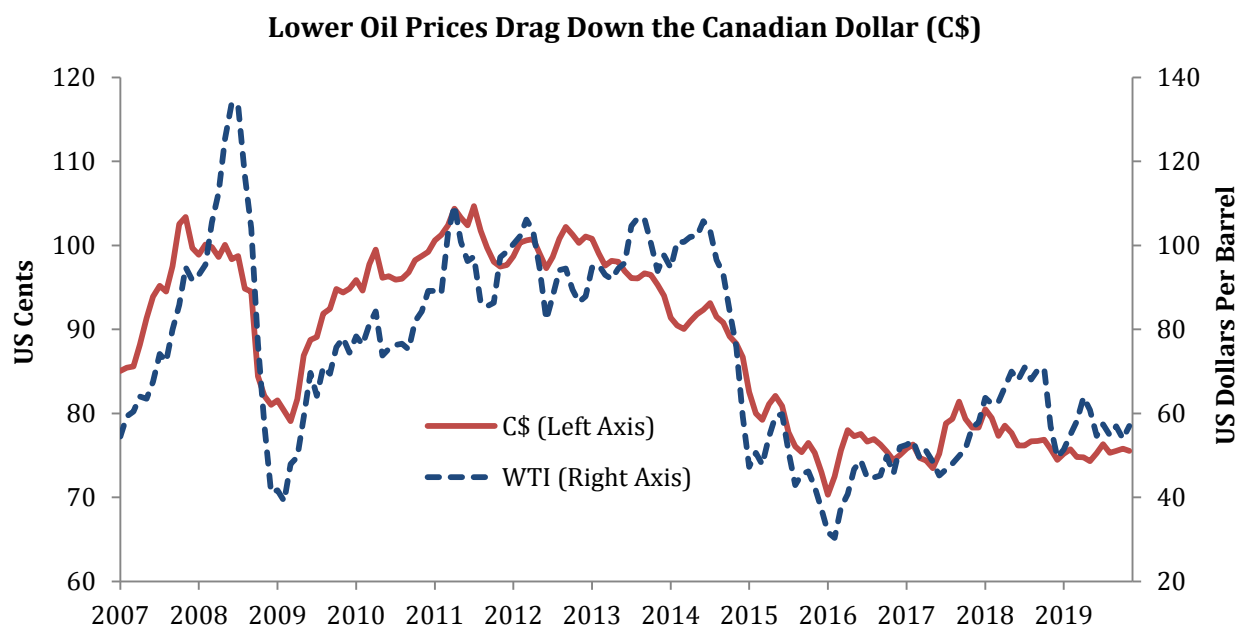
Global prices for resource commodities, including many metals and minerals found in the NWT, rose modestly in 2019, consolidating the price gains of previous years. However, these gains come in the midst of a synchronised, cyclical slowdown in global growth. This suggests price growth for metals and minerals will be muted over the near term, and will likely decrease mineral exploration in the territory.



Source: Bank of Canada

The NWT exports a small amount of oil to international markets. International oil prices therefore effect NWT trade, and have a serious impact on oil exploration activity in the Sahtu and Beaufort-Delta regions. The benchmark West Texas Intermediate (WTI) crude oil price recovered from a sharp price drop at the end of 2018, rising from a low of \$49.52US in December 2018 to \$63.86US by April 2019 before stabilizing around \$56US throughout the rest of the year. Despite the stabilization, a rebound in WTI prices to those seen five to ten years ago is not projected as increased global supply over the near term is expected to continue putting downward pressure on oil prices.

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

For the year as a whole, WTI prices decreased 12.7 per cent from 2018 to 2019. As an oil-exporting country, this drop in global oil prices lowered the Canadian dollar compared to the United States dollar. Despite modest monthly volatility the Canadian dollar averaged 75 US cents in 2019, down from 77 US 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.

NWT Economic Outlook

Chained (2012) millions of dollars unless otherwise stated

	2016	2017	2018	2019e	2020f
Gross Domestic Product	4,712	4,798	4,889	4,679	4,859
<i>per cent change</i>	(1.4)	1.8	1.9	(4.3)	3.8
Total Investment	1,493	1,073	1,093	936	968
<i>per cent change</i>	(10.9)	(28.1)	1.9	(14.4)	3.4
Household Expenditure	1,593	1,627	1,648	1,661	1,681
<i>per cent change</i>	0.8	2.1	1.3	0.8	1.2
Government Expenditure	2,085	2,095	2,111	2,165	2,178
<i>per cent change</i>	1.2	0.5	0.8	2.6	0.6
Exports	2,970	3,553	3,581	3,309	3,516
<i>per cent change</i>	(7.5)	19.6	0.8	(7.6)	6.3
Imports	3,538	3,514	3,535	3,388	3,477
<i>per cent change</i>	(7.5)	(0.7)	0.6	(4.2)	2.6
Employment (number of residents)	22,500	21,300	21,400	21,300	21,500
<i>per cent change</i>	2.7	(5.3)	0.5	(0.5)	0.9
Average Weekly Earnings (dollars)	1,404	1,400	1,420	1,450	1,493
<i>per cent change</i>	(1.2)	(0.3)	1.5	2.1	3.0
CPI (All-Items), Yellowknife 2002=100	131.9	133.5	136.6	138.8	141.5
<i>per cent change</i>	1.2	1.2	2.3	1.6	2.0

e: estimate

f: forecast

Source: Statistics Canada and NWT Bureau of Statistics