Budget Address
2011 - 2012

NORTHWEST TERRITORIES

BUDGET PAPERS

A ♦ Economic Review

February 3, 2011

ECONOMIC REVIEW

Outlook

The Northwest Territories (NWT) economy is expected to build on its 2010 recovery from the global economic recession of 2008 and 2009. For 2011, real gross domestic product (GDP) is forecast to increase by 1.2 per cent. Nevertheless, because of the severity of the recession, the NWT's 2011 GDP will be 16 per cent below the pre-recessionary high reached in 2007.

The NWT economy is heavily dependent on international trade – in 2008, international exports were 48 per cent of the NWT's GDP. The International Monetary Fund (IMF) is projecting that world GDP will have increased by 4.8 per cent in 2010 and will increase by 4.2 per cent in 2011, but growth will be unevenly distributed. The advanced economies, led by the United States, are projected to grow by 2.7 per cent in 2010 and 2.2 per cent in 2011. Developing Asia, led by China and India, both of which have rapidly growing markets for diamonds, is projected to grow by 9.4 per cent in 2010 and 8.4 per cent in 2011.

The National Energy Board has approved the applications for construction and operation of the Mackenzie Valley natural gas pipeline, subject to a number of conditions, including a requirement that the project proponents make their decision to construct before the end of 2013 and begin construction no later than 2015. The proponents must also make provision for servicing NWT communities along the pipeline corridor, which will enhance the energy security and lower the cost of energy for those communities. Construction of the $16 billion pipeline would have a large impact on the NWT economy during its construction phase and its completion would support additional natural gas exploration and development.

A number of NWT mine projects are in the advanced stages of development. These include the Gahcho Kué diamond project, a joint venture by De Beers Canada and Mountain Province Diamonds, which could be in operation as early as mid-decade. Other mining projects include Tyhee Development's gold mine north of Yellowknife, Avalon Rare Metals Inc. Thor Lake project and Fortune Minerals' NICO cobalt-gold-bismuth mining project near Whatì. The Deze Energy Corporation's Taltson Hydroelectric Expansion project is under consideration by the Mackenzie Valley Environmental Impact Review Board.

Employment of NWT residents is expected to be stable at 21,400 persons in 2011. Consumer price inflation in Yellowknife (NWT – wide figures are not available) was 1.8 per cent in 2010 and is forecast to reach 2.2 per cent in 2011.

Table 1: Economic Outlook

Indicator	2008	2009	2010e	2011f
Gross Domestic Product, chained 2002 $ millions	3,561	3,162	3,249	3,289
% change	(9.6)	(11.2)	2.8	1.2
Total Investments, chained 2002 $ millions	1,353	1,086	1,086	1,023
% change	(21.7)	(19.7)	0.0	(5.8)
Personal Expenditures, chained 2002 $ millions	1,240	1,241	1,271	1,306
% change	2.7	0.1	2.4	2.7
Government Expenditures, chained 2002 $ millions	1,179	1,210	1,224	1,208
% change	0.9	2.6	1.2	(1.3)
Exports, chained 2002 $ millions	2,615	2,230	2,379	2,408
% change	(10.2)	(14.7)	6.7	1.2
Imports, chained 2002 $ millions	2,836	2,635	2,676	2,670
% change	(7.9)	(7.1)	1.6	(0.2)
Employment, number of persons	22,000	20,800	21,100	21,400
% change	(2.7)	(5.5)	1.4	1.4
Average Weekly Earnings, dollars	1,080	1,150	1,195	1,224
% change	7.5	6.5	3.9	2.5
CPI All-Items (Yellowknife, 2001 = 100)	115.2	115.9	117.9	120.5
% change	4.0	0.6	1.8	2.2

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

2010 Economic Performance

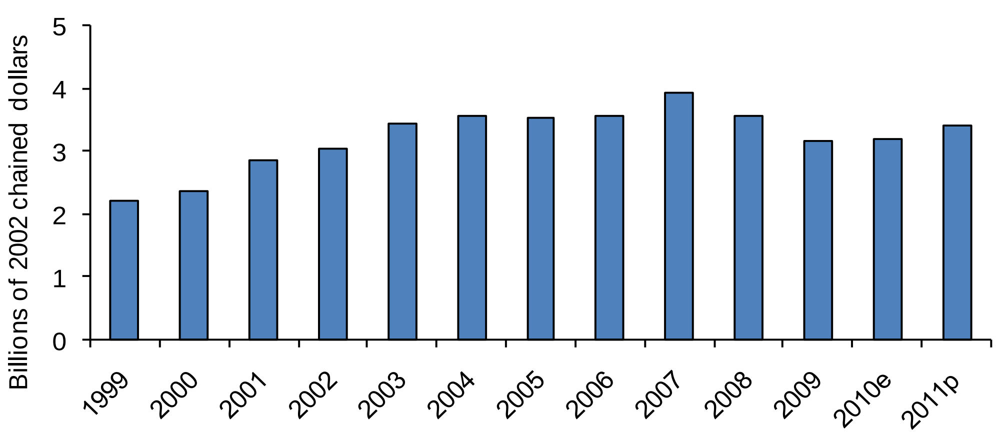
Real GDP is the inflation-adjusted value of all goods and services produced within the NWT. Real NWT GDP fell 9.6 per cent in 2008 and 11.2 per cent in 2009, for a cumulative decline of 19.7 per cent from its pre-recessionary levels - the largest decline of any province or territory in Canada. Real GDP in the NWT is expected to have increased by 2.8 per cent from 2009 to 2010.

The recovery was led by the increase in the value of exports, principally diamonds, as the NWT diamond mining sector increased production, and was supported by the GNWT's two-year aggressive infrastructure investment plan. Although the United States is the largest market for diamonds, the recovery of the diamond market was led by strong growth in the consumer markets of China and India. Investment, another important component of GDP for the NWT economy, is forecast to weaken as government capital plans are reduced as the economic recovery strengthens.

The NWT's economy is integrated with the global and national economies. The largest private sector component of the territorial economy is the non-renewable resource sector, where prices are established in world markets and NWT resources are shipped to markets outside the NWT. The IMF estimates that the global economy grew by 4.8 per cent in 2010 and growth is forecast to slow to 4.2 per cent in 2011 but this growth will be unequally distributed. The economies in advanced countries such as the United States and the European Union are expected to grow, but by barely enough to bring down unemployment. Certain emerging countries are forecast to experience very strong growth in 2011: China's growth is forecast to be 8.6 per cent and India's slightly lower at 8.4 per cent.

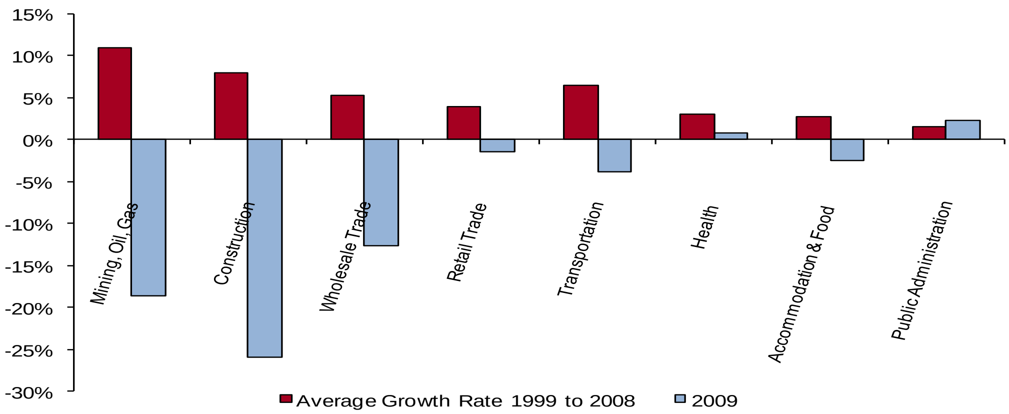
The Bank of Canada forecasts Canadian GDP will grow by 2.4 per cent in 2011 and 2.8 per cent in 2012. Throughout 2011, the global economic recovery will continue but risks remain due to global austerity and reductions in government stimulus spending, uncertainty in demand among traditional trading partners and emerging economies, and a persistently high Canadian dollar.

NWT Real Gross Domestic Product



Source: NWT Bureau of Statistics and Conference Board of Canada
(e) estimate
(p) projected

Annual Real Growth Rates of Selected NWT Industries

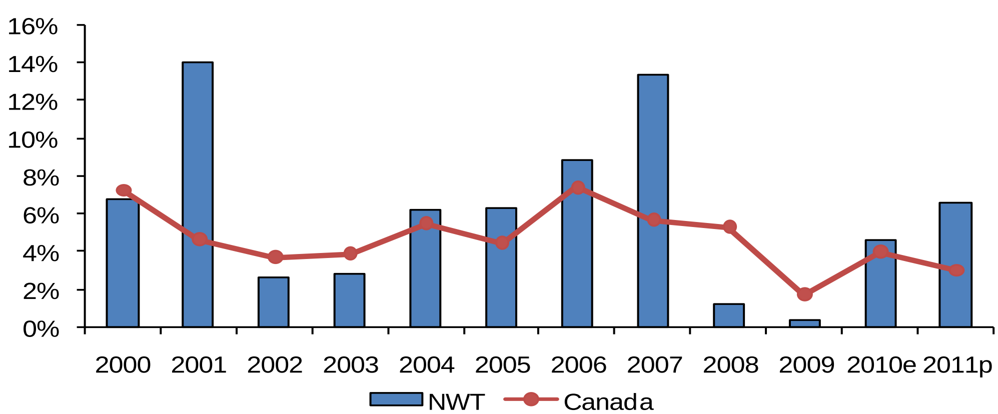


Source: Statistics Canada

Personal Income

Disposable personal income is the after-tax income earned by residents of the NWT from all sources. It supports consumer expenditures, which account for about 30 per cent of the NWT GDP. In 2009, despite the large decline in GDP, total disposable income received by residents of the NWT held stable, increasing by 0.4 per cent from 2008. However, this was the lowest rate of growth during the past decade. At the national level, where consumer expenditures accounted for over 55 per cent of GDP in 2009, personal income increased by 0.3 per cent from 2008.

Annual Percentage Change in Personal Disposable Income, NWT and Canada

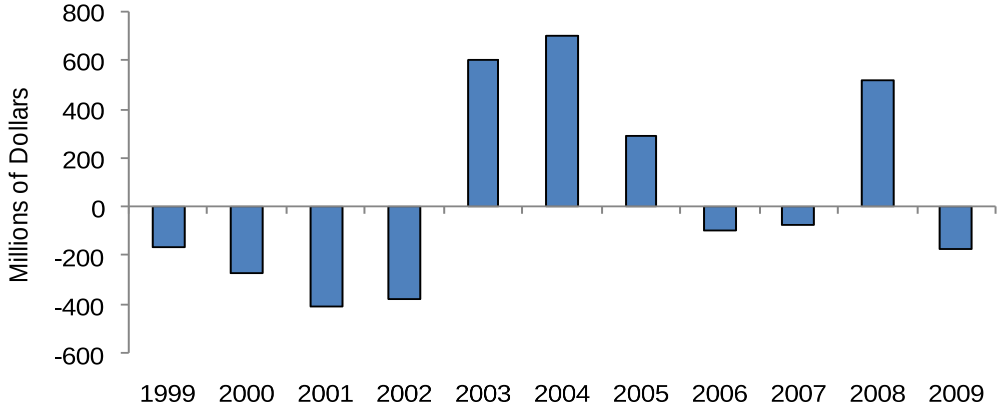


Source: Statistics Canada and Conference Board of Canada
(e) estimated
(p) projected

Trade

The NWT economy depends on trade with other countries and with the rest of Canada. The NWT's trade surplus with other countries grew markedly during the first part of the last decade, reaching its highest level of over $1.5 billion in 2008. In 2009, the NWT's trade surplus with other countries fell 40.8 per cent, due to the global economic crisis and a softening diamond market. The NWT has a trade deficit with the rest of Canada since most of the goods and services used in the NWT, including machinery and consumer products, are imported from southern Canada. In 2009, the trade deficit with the rest of Canada rose by 5.7 per cent from 2008.

NWT Balance of Trade, chained (2002) dollars



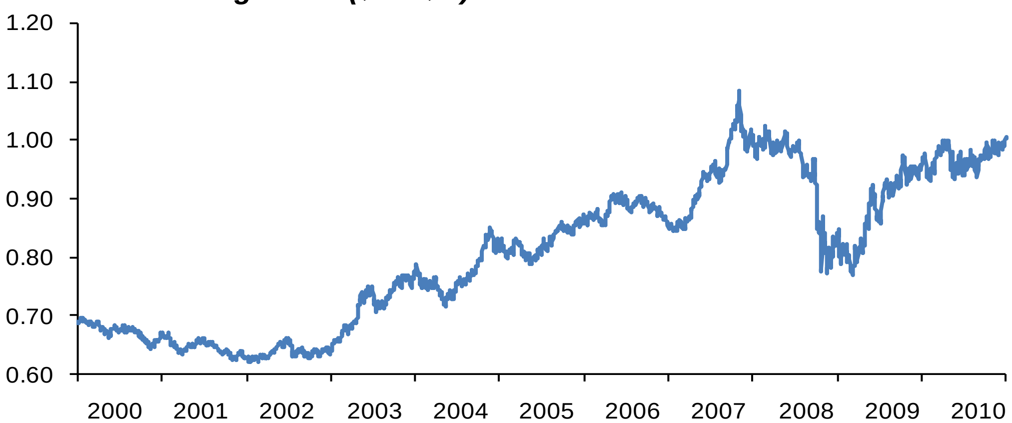
Source: Statistics Canada

Exchange Rate

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

The Canadian dollar averaged 97.1 cents US in 2010, an 11.5 per cent increase from the 2009 average of 87.6 cents US.

US/Canada Exchange Rate ($US/$C)

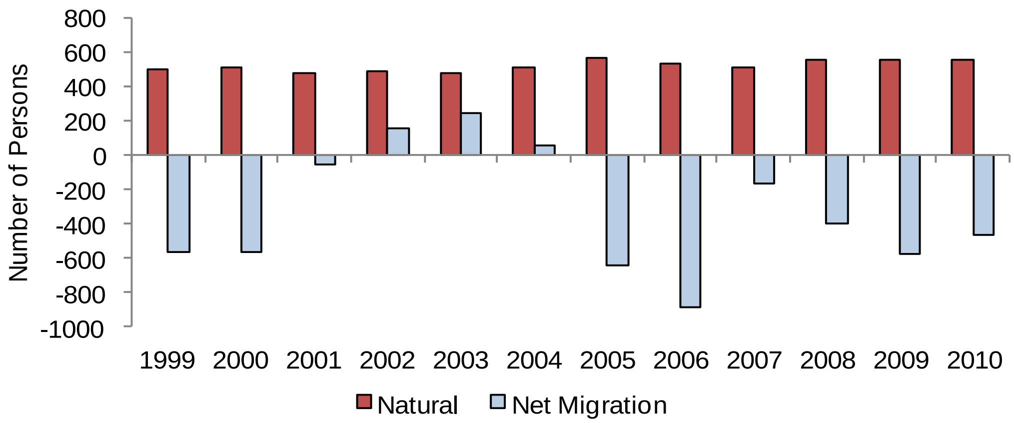


Source: Bank of Canada

Population

The NWT population was estimated to be 43,759 persons on July 1, 2010, an increase of 86 persons from July 1, 2009, or 0.2 per cent, reversing the decline experienced during the recession. Three factors account for population change: natural change, inter-provincial migration and international migration. Natural increase from 2009 to 2010 consisted of 739 births and 186 deaths, resulting in a net increase of 553 persons. Inter-provincial migration accounted for 2,341 persons moving into the territories from the rest of Canada, while 2,818 persons moved out, leaving a net loss of 477 persons. Internationally, there was a net in-migration of 10 persons.

Changes in the NWT Population



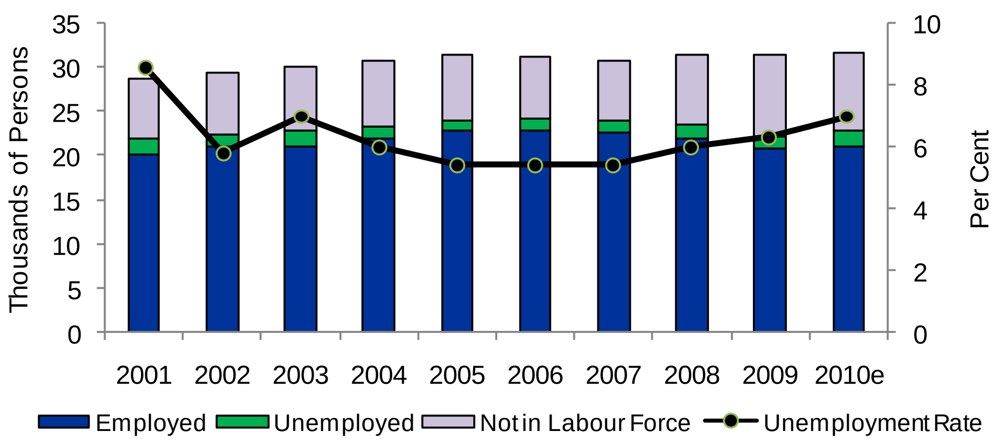
Source: NWT Bureau of Statistics

Labour

During 2010, NWT employment averaged 21,083 persons, an increase of 175 from the 2009 average of 20,908, but 984 below the 2007 pre-recessionary average of 22,067 persons. The average labour force participation rate (the share of the population 15 years of age or older actively seeking or holding a job) increased to 71.4 per cent in 2010, an increase of 0.7 percentage points from 2009. This was below the 2007 level of 75.1 per cent.

The NWT's average unemployment rate rose to 7.0 per cent in 2010 from 6.1 per cent in both 2008 and 2009 and 5.5 per cent in 2007.

NWT Labour Force Characteristics

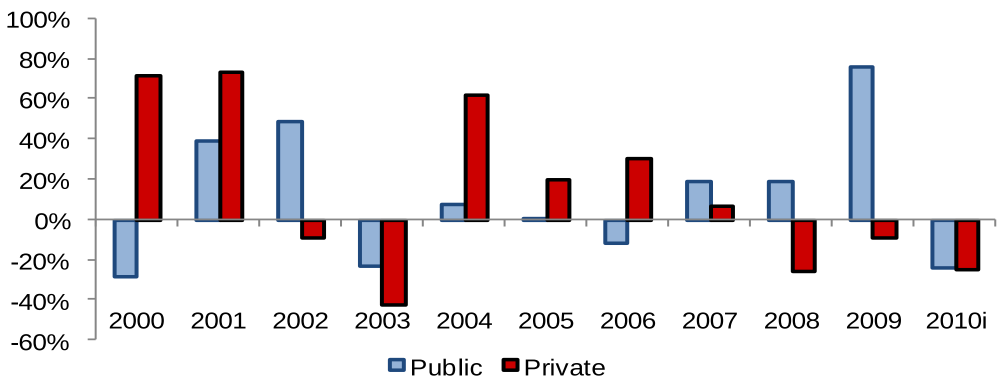


Source: NWT Bureau of Statistics
(e) estimate

Investment

Total 2010 capital investment intentions were down almost 25 per cent from 2009 and almost 40 per cent from 2007. Private sector investment fell from $1,248 million in 2009 to $939 million in 2010, almost half the 2007 level of $1,832 million. Capital investment by the public sector, which includes all levels of government, was accelerated in response to the recession, peaking at $342 million in 2009, more than double the 2007 value of $163 million. As of February 2010, Statistics Canada's forecast for 2010 public sector capital investment was $261 million; however, this does not include the revisions to the GNWT's capital investments, released October 2010.

Annual Percentage Change in Public and Private Capital Investments



Source: NWT Bureau of Statistics
(i) intentions

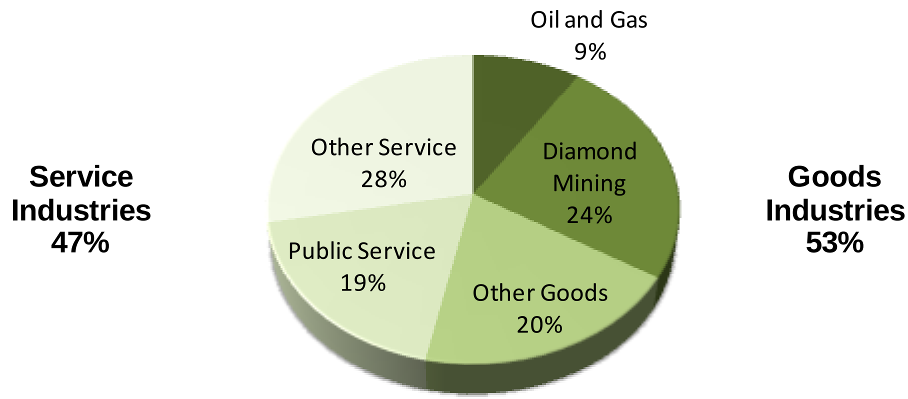
Economic Performance by Sector

The NWT economy is almost evenly balanced between goods-producing industries and service-producing industries. Goods-producing industries require more capital investment per unit of output than service-producing industries. Service-producing industries are more labour intensive and accounted for over 80 per cent of NWT employment in 2010.

Goods-Producing Industries

The goods-producing sector accounts for 53.3 per cent of the NWT economy, compared to only one-third of Canada's economy. Resource extraction industries dominate the goods-producing sector. The diamond mining industry was responsible for almost 25 per cent of 2007 NWT GDP and the oil and natural gas industries accounted for another nine per cent. Renewable resources, construction, utilities and manufacturing accounted for the remainder.

Structure of the NWT Economy, 2007



Source: Statistics Canada

Renewable Resources

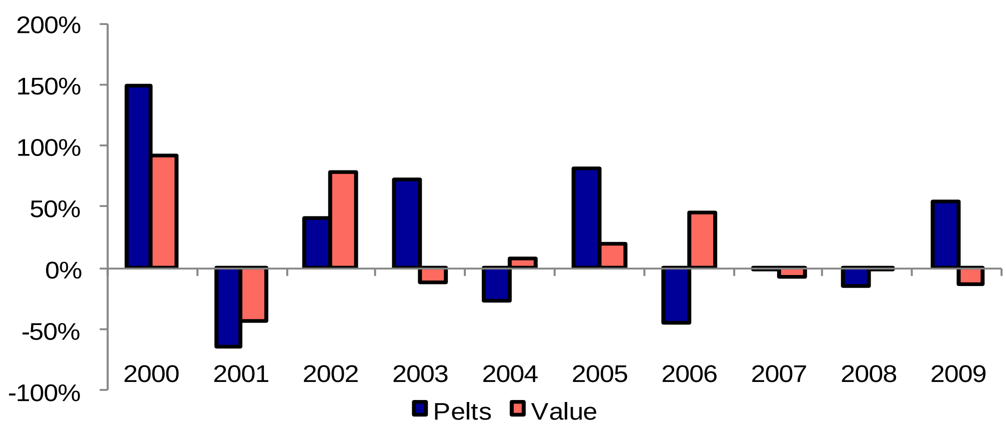
The renewable resource sector includes trapping, fishing, agriculture and forestry. Many NWT residents participate in traditional harvesting by trapping, fishing and hunting.

Fur Harvest

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

The 2010 January wild fur auction showed positive results for most species, with buying strength from China and Greece. The average price of muskrat pelts doubled at the January 2010 auction from the previous year.

Annual Percentage Change in the Number and Value of NWT Pelts, 2000 to 2009

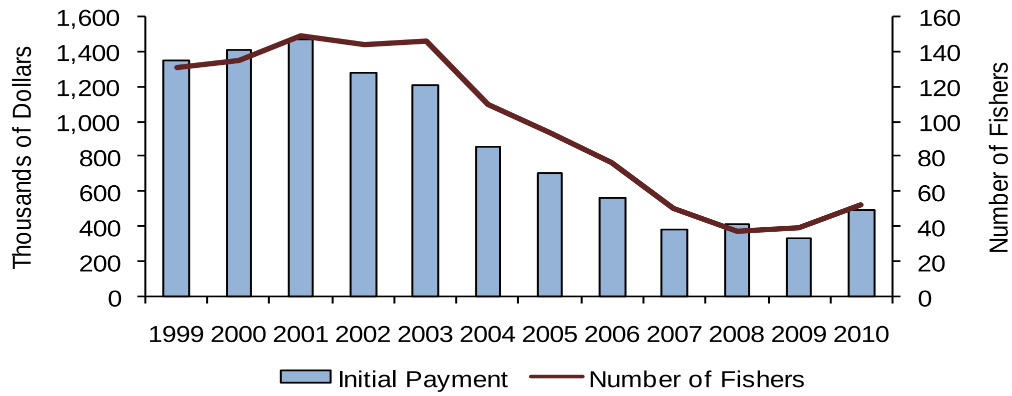


Source: NWT Bureau of Statistics

Commercial Fishing

The NWT's commercial fishery is a small but valued part of the economy. Fish exported from the NWT are marketed through the Freshwater Fish Marketing Corporation, a federal Crown corporation with a mandate across provincial and international borders from Northwestern Ontario, the three Prairie Provinces and the NWT.

NWT Export Fishery: Sales and Number of Fishers



Source: Freshwater Fish Marketing Corporation
Notes: 1. Includes only fish sold outside of the NWT
2. Summer fishery only

Initial payments to NWT fishers – on a delivery-point, net-of-freight basis – increased to $0.5 million in 2010 from $0.3 million the previous year. The increase was largely attributable to a 62 per cent increase in the delivered weight of whitefish for export.

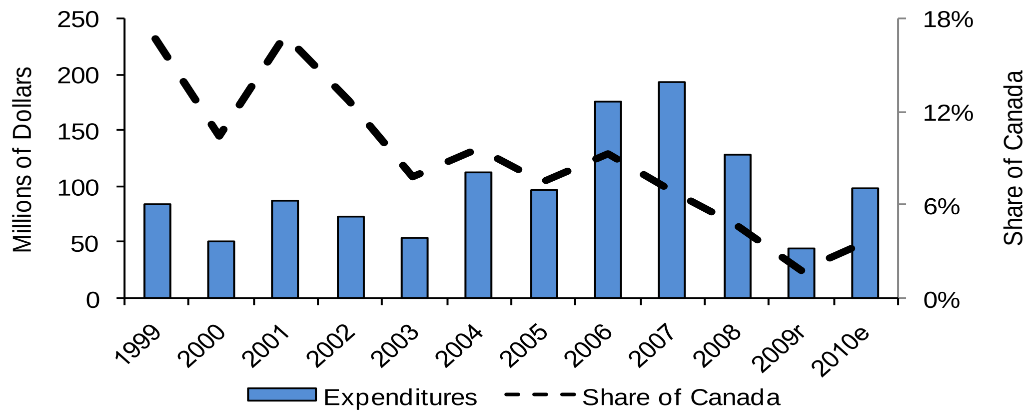
Non-Renewable Resources

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

Exploration and Deposit Appraisal

Exploration expenditures include work on a range of mining activities, including field work, overhead costs, engineering, economic and pre-construction feasibility studies, and environmental and land access costs. Exploration expenditures in 2010 are estimated to have been $98.8 million, an increase of 124 per cent from 2009, with diamond exploration accounting for just over one-half of expenditures. Exploration and deposit appraisal expenditures rose nationally by almost 45 per cent. NWT exploration expenditures, as a share of total Canadian spending, doubled from 1.7 per cent in 2009 to 3.4 per cent in 2010.

NWT Mineral Exploration Expenditures

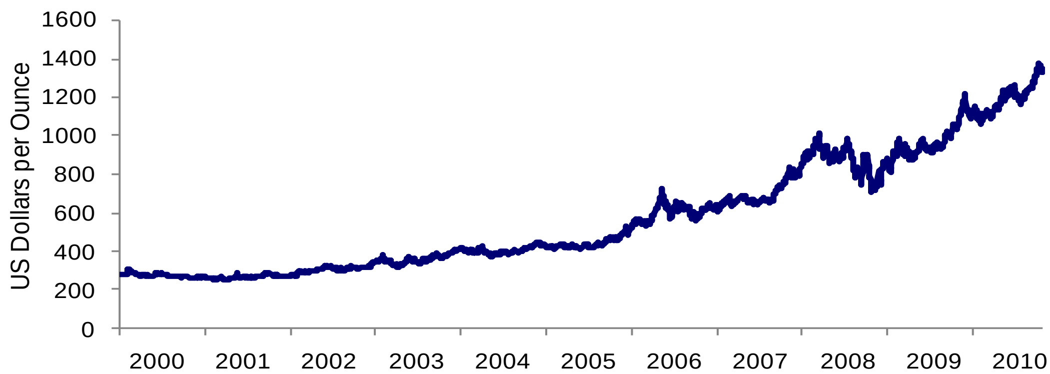


Source: Natural Resources Canada
(e) estimate
(r) revised

Precious Metals

Precious metals include gold and silver. After many decades of gold mining in the NWT, the last gold mine shut down in 2004. However, recent increases in gold and silver prices have led to renewed exploration activity. In 2010, precious metals accounted for just over 25 per cent of exploration expenditures, a three-fold increase over 2009.

Price of Gold

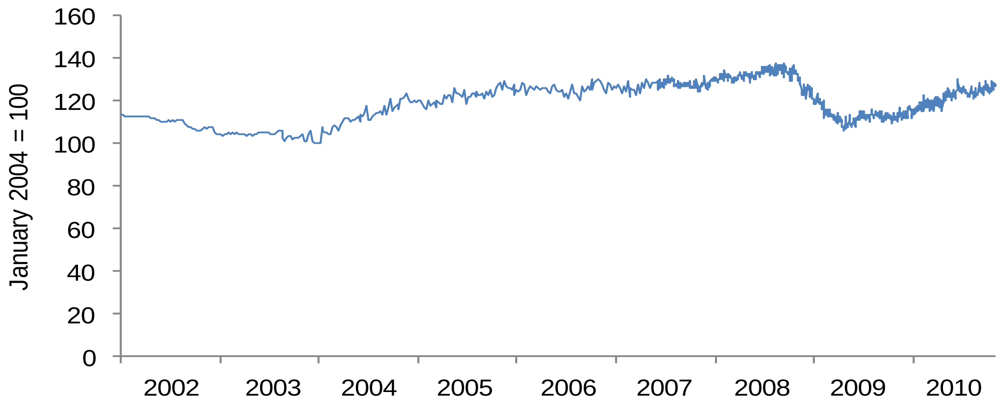


Source: Gold Insight

Diamond Mining

The main driver of the NWT economy is the diamond mining industry, with three producing diamond mines (the Ekati mine in 1998, Diavik in 2003 and Snap Lake in 2008). The owners of a fourth proposed mine, Gahcho Kué, are proceeding with the environmental assessment.

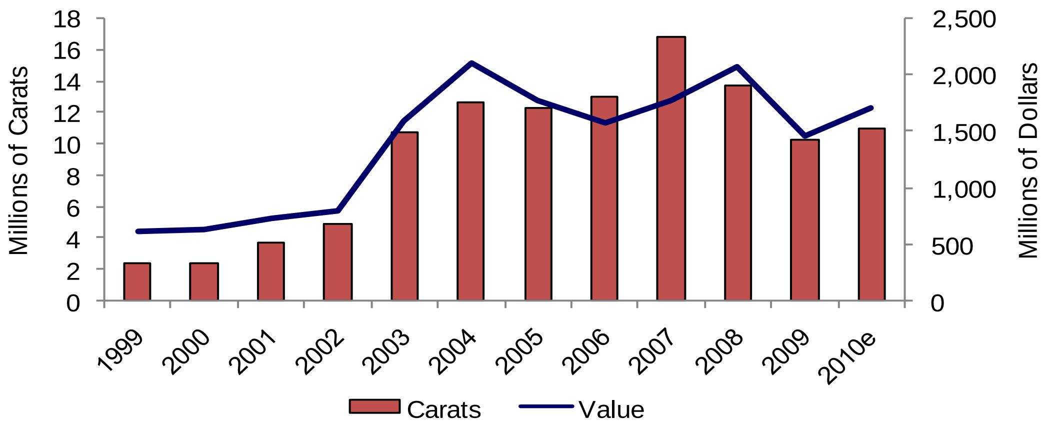
Polished Diamond Price Index, Overall



Source: PolishedPrices.com

The global diamond industry recovered during 2010 from the recession. Prices for rough diamonds increased by 20 per cent over a year ago, reflecting the relative scarcity of rough diamonds. The value of diamond shipments from the NWT rose by an estimated 18 per cent in 2010.

NWT Diamond Shipments: Weight and Value

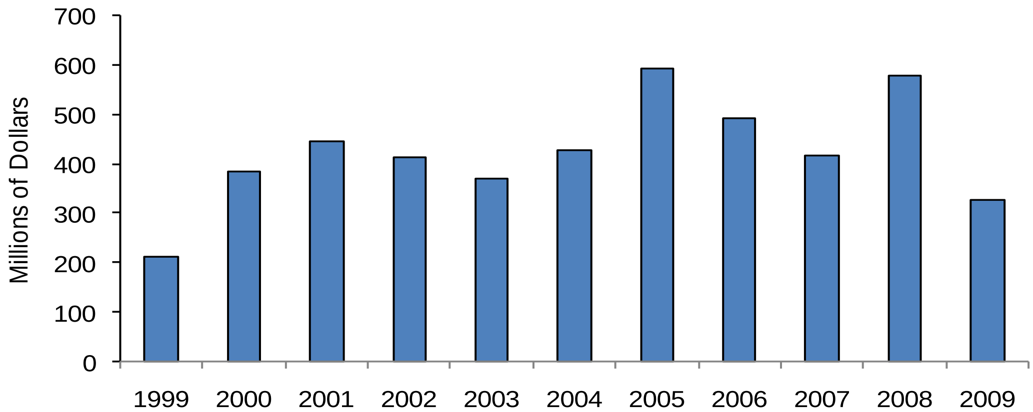


Source: NWT Bureau of Statistics and NWT Finance
(e) estimate

Oil and Natural Gas

Oil and gas production in the NWT is in decline due to the depletion of reserves. Growth in production requires new discoveries and new field development to replace depleted wells. Expenditures on oil and gas activities in the NWT fell from $576.8 million in 2008 to $328.3 million in 2009, a decrease of 43 per cent and the lowest level since 1999. Following the April 2010 oil spill in the Gulf of Mexico, the National Energy Board (NEB) announced its Arctic Offshore Drilling Review on May 11, 2010. The NEB will use the results of the review to develop safety and environmental protection requirements for offshore drilling in the Canadian Arctic.

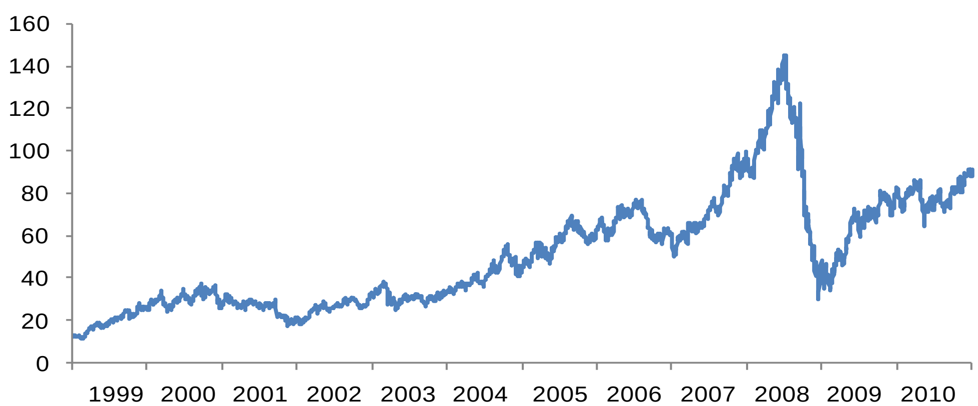
Net Cash Expenditures by the Petroleum Industry: NWT and the Arctic Islands



Source: Canadian Association of Petroleum Producers

Crude oil prices peaked on July 3, 2008 at US$145 per barrel before collapsing to US$40 at the beginning of 2009. During 2010, oil prices were stable, averaging close to US$80 per barrel. They reached an annual high of US$91.48 per barrel on December 28, 2010.

Price of Oil: Cushing, OK WTI Spot Price FOB (US Dollars Per Barrel)

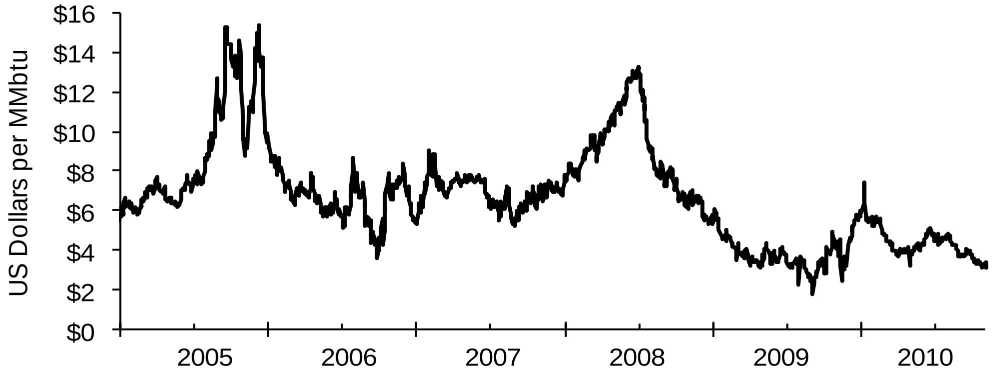


Source: U.S. Energy Information Administration

The Mackenzie Gas Project has been approved by the National Energy Board and is awaiting federal Cabinet approval. Should the pipeline proceed, substantial oil and gas exploration and production would likely take place in the Mackenzie Delta and Beaufort Sea areas, making the NWT a major exporter of energy resources.

The following chart shows the volatility of spot market natural gas prices. Much of this volatility results from the fixed level of short-term supply and weather-sensitive changes in demand. Through 2010 the spot price and the short-term futures price for natural gas averaged US$4.38 per mmBTU. Because of the volatility of spot natural gas prices, they are a less reliable indicator of the future health of the natural gas industry than futures prices, which reflect current expectations of future North American demand and supply conditions. Medium-term natural gas prices have also fallen since the spring of 2010.

Price of Natural Gas: Henry Hub Spot Price



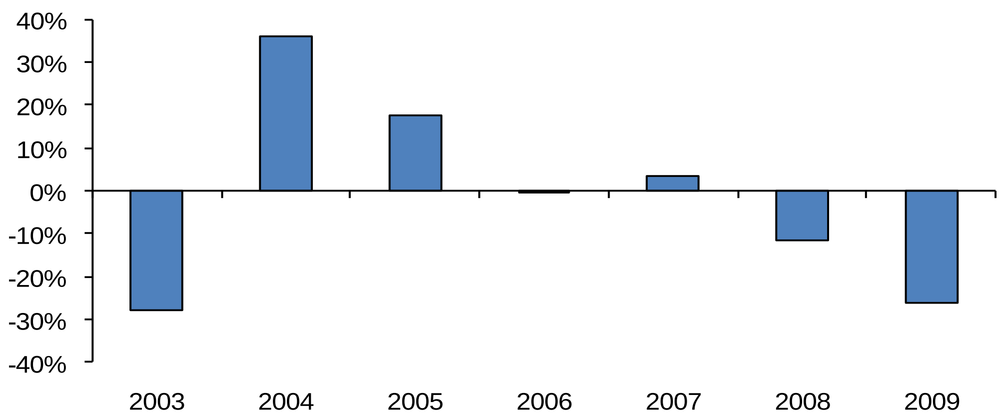
Source: U.S. Department of Energy

Construction

The construction industry includes residential construction and non-residential construction, and engineering services. The construction sector accounted for 11.9 per cent of NWT GDP in 2007. In 2006, the latest year with complete data, almost 50 per cent of the value of construction activity was attributed to "other engineering construction", and 20 per cent to "oil and gas engineering construction". Residential and non-residential construction together accounted for less than 20 per cent of total construction activity.

Construction activity decreased by 12 per cent from 2007 to 2008, decreased a further 26 per cent from 2008 to 2009 for a total decline of 35 per cent from 2007 to 2009. Two components of the construction industry had strong growth in 2009 – non-residential construction increased by 130 per cent and transportation engineering rose by over 90 per cent, driven in part by GNWT Department of Transportation infrastructure investments.

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

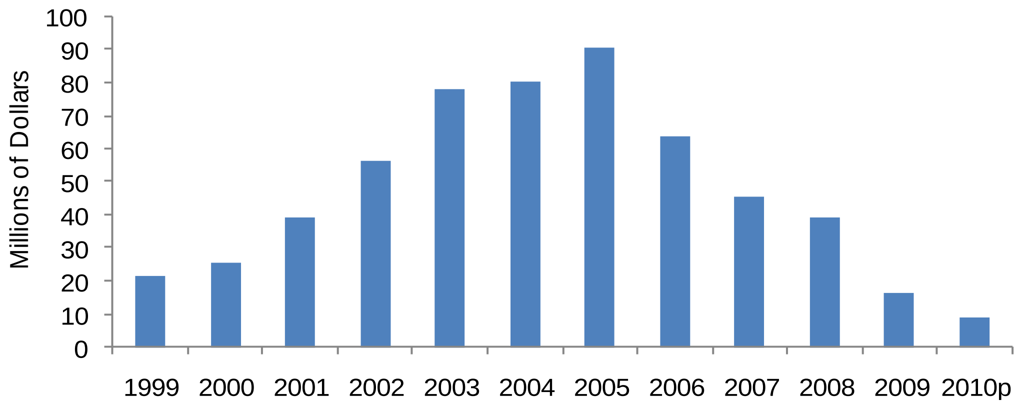


Source: Statistics Canada

Manufacturing

The NWT's manufacturing sector includes businesses such as food processors, cement and concrete producers, and jewellery artisans. The value of sales by manufacturers has fallen every year since peaking in 2005. Based on the reported value of shipments for the first ten months of 2010, sales are projected to fall by almost 45 per cent from 2009.

Value of NWT Shipments by Manufacturers, All Industries



Source: NWT Bureau of Statistics
(p) projected

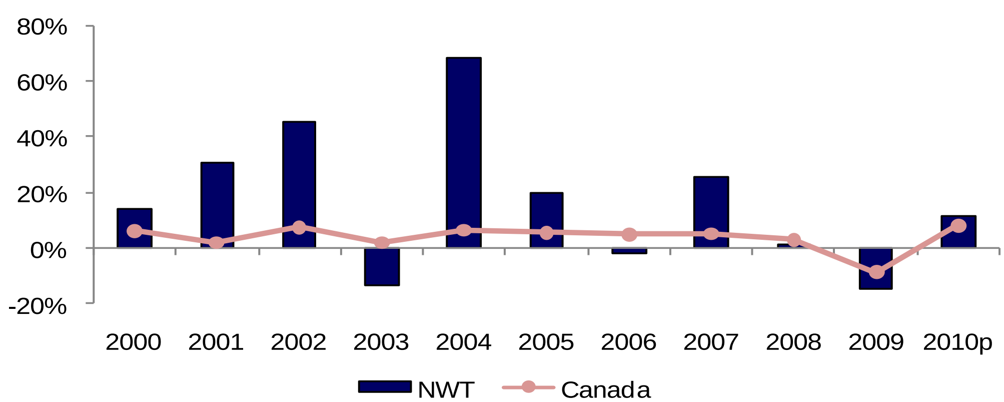
Service Industries

Service industries accounted for 46.7 per cent of NWT GDP in 2007, compared to 67.5 per cent nationally. The service sector includes industries such as wholesalers, banks, retailers and hotels. The broad public sector is also included in the service sector: schools, hospitals, and police and fire services, federal and territorial governments, as well as local and Aboriginal governments.

Wholesale Trade

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

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



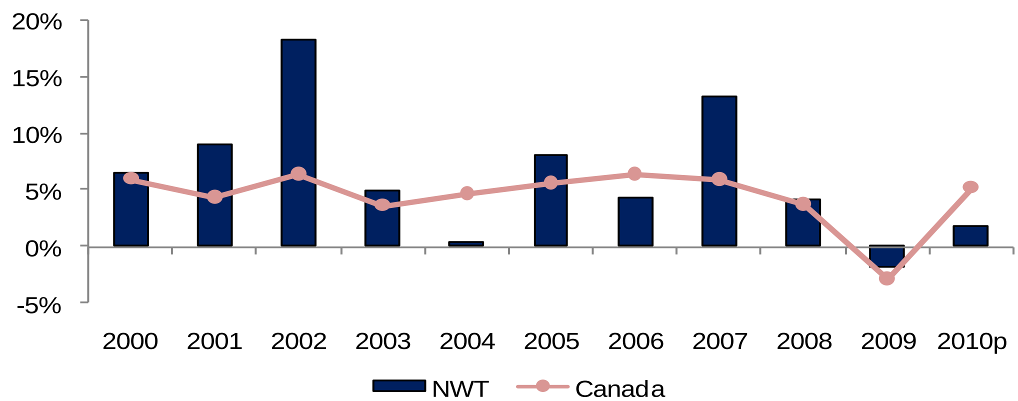
Source: NWT Bureau of Statistics and NWT Finance
(p) projected

Over the first ten months of 2010, wholesale trade is projected to have increased 12.9 per cent from the same period of 2009; however, it remains 4.0 per cent below the same period of 2008.

Retail Trade

Retail trade sales are sales to the final consumer and include all consumer services. Based on the first ten months of 2010, retail sales are projected to increase by 0.8 per cent from 2009 to 2010 but remain 1.9 per cent below 2008 sales.

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



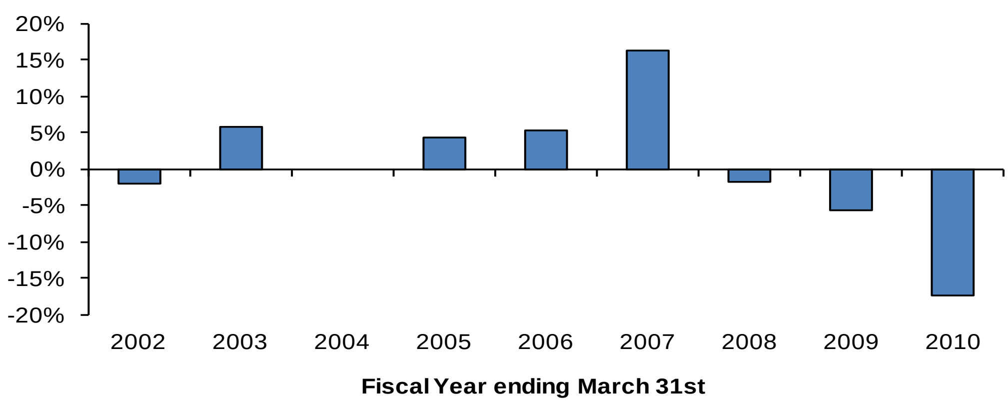
Source: NWT Bureau of Statistics and NWT Finance
(p) projected

Tourism

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

Total spending by visitors peaked in 2007 at $140 million before falling in each of the following three years, for a total decrease of 23.4 per cent from 2006-07 to 2009-10. The number of business travellers declined 26.3 per cent over the same period.

Annual Percentage Change in the Total Expenditures by All Travellers to the NWT



Source: NWT Industry, Tourism and Investment

Public Administration

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

Public sector expenditures increased by 2.3 per cent from 2008 to 2009, reflecting, in part, the GNWT's response to the recession with off-setting fiscal stimulus spending.

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

Source: Statistics Canada