

**Yukon
Economic Outlook
2002**

Yukon Economic Outlook 2002

**Whitehorse, Yukon
April 2002**



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ISSN 1209-0034

Also available at:
<http://www.gov.yk.ca/depts/finance/>

Table of Contents

1.	Outlook for Global, U.S. and Canadian Economies	1
	▪ GLOBAL ECONOMY	1
	▪ UNITED STATES ECONOMY	2
	▪ CANADIAN ECONOMY	3
2.	Outlook for the Yukon Economy	4
	▪ ECONOMIC OUTPUT	4
	▪ POPULATION	5
	▪ LABOUR FORCE AND EMPLOYMENT	6
	▪ CONSUMER PRICES	7
	▪ MINERAL AND COMMODITY PRICES	8
3.	Sectoral Outlook	9
	▪ MINING	9
	▪ OIL AND GAS	10
	▪ FORESTRY	11
	▪ OTHER RENEWABLE RESOURCES	12
	▪ CONSTRUCTION	13
	▪ COMMUNICATION AND UTILITIES	14
	▪ TOURISM	15
	▪ GOVERNMENT	16
	▪ RETAIL AND WHOLESALE TRADE	17
	Table of Key Economic Indicators	19
	Sources for Indicators	20

1. Outlook for the Global, U.S. and Canadian Economies

Global Economy

Economies around the world are expected to experience modest growth this year after the global slowdown experienced in 2001.

Despite concern about all major economic regions going into a deep and concerted recession last year, the economic damage was relatively short-lived and limited.

Europe went into a downturn later than North America and hasn't benefited from as aggressive interest rate cuts. Virtually all countries in Europe are expected to experience less than 2% growth this year with an average of 1.4% for the region as a whole.

The Japanese economy continues to struggle under the weight of bad debt held by its banking sector. Falling prices, increasing government debt, and lack of structural reform have aggravated the situation. The current plan is to stimulate exports by devaluing the Yen, but little hope is seen on the horizon. China continues to grow rapidly, and is expected to lead the world in growth this year as it did in 2001.

Russia has been growing rapidly for the past three years with increases in consumer spending and new investment responding to the relative political stability. Growth is expected to slow partly because of declines in oil and commodity prices.

Declining commodity prices and Argentina's financial crisis have cast a shadow on Latin America's economic prospects. With its fortune tied more closely to the U.S., Mexico was also affected by the U.S. economic slowdown and may recover as rapidly.

The Middle East and Africa have also suffered from the global slowdown. While great advances have been made in some countries, such as Ethiopia, Uganda and Mozambique, political instability is now afflicting other countries in the region, such as Zimbabwe.

Global Economic Forecast Real GDP Growth		
<i>Region</i>	<i>2001</i>	<i>2002</i>
United States	1.2%	1.3%
Latin America	0.2%	-0.4%
Japan	-0.8%	-0.7%
Other Asia	3.2%	4.2%
Europe	1.6%	1.4%
Russia	4.5%	2.5%
Africa & Middle East	-1.6%	2.2%

Source: CIBC Global GDP Forecast, January 8, 2002

United States Economy

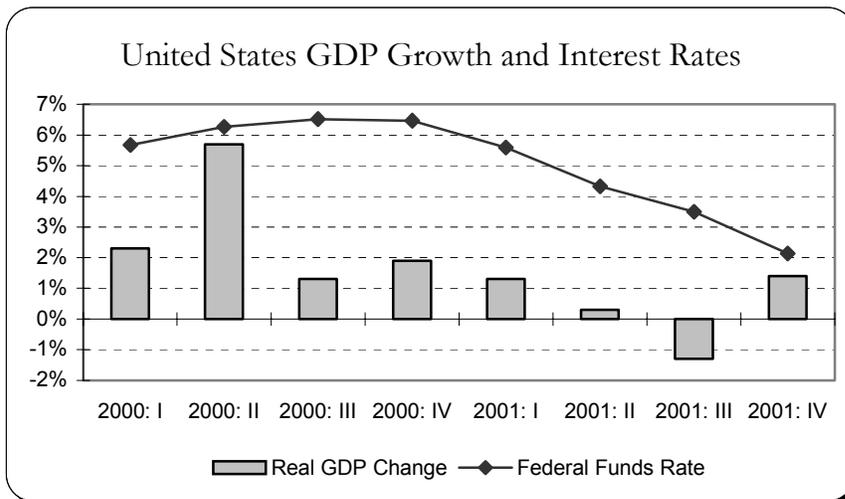
The U.S. economy was well into an economic slowdown before the terrorist strikes hit last September. While the attacks helped to push the U.S. economic output into negative territory in the third quarter of last year, American determination to rekindle their economy was also galvanized by the attacks.

Economic stimulus in the form of aggressive interest rate cuts, tax cuts and additional spending helped the U.S. economy to bounce back with growth of 1.4% in the fourth quarter of last year. Economic signals so far this year are also positive, with strong growth in home sales, production and employment.

In light of positive developments, forecasts for U.S. economic output are being revised upwards and may exceed 2% this year. While strong consumer and government spending strengthened the U.S. economy at the end of last year, rebuilding depleted inventories will boost growth early this year. However, sustained job and economic growth are dependent on increased business investment, which is not expected to recover until the second half of 2002.

Despite lower tourism numbers, Alaska experienced continued modest growth in 2001, escaping the downturn that affected the national economy. While jobs were lost in the resource sectors, retail trade and other services added 5,000 new jobs. These trends are expected to continue with construction of a number of large retail stores increasing employment in both the construction and retail sectors this year. Tourism bookings are gradually rebounding from the uncertainty following the tourist attack and may recover to last year's level.

Growing economic momentum in the United States will help provinces such as Ontario that are closely dependent on the United States. Ontario firms will also benefit from a North American exemption to the tariffs on steel



recently announced by the U.S. While increased housing starts will firm softwood lumber prices, no resolution is in sight for the softwood lumber dispute and so British Columbia is unlikely to benefit from the re-invigorated United States economy over the short-term.

Canadian Economy

After nine years of solid economic growth, the Canadian economy briefly flirted with recession last year.

Economic output and employment growth slowed considerably in 2001, turning negative in the third quarter. Growth picked up in the last quarter, resulting in 1.5% growth of GDP for the year.

A quick response in the form of deep interest rate cuts combined with tax cuts and increased spending made the downturn short-lived. Business and consumer confidence have rebounded sharply with manufacturing and exports also strong.

The Canadian economy is expected to grow by between 1.5% and 2.0% this year. Momentum is expected to build in the second half of this year, leading to 3.5% to 4.0% GDP growth in 2003. Employment growth could remain slow this year, leading to slightly higher national unemployment rates.

Interest rates are unlikely to be cut any more than the 3.75 percentage points that has already been cut from the Bank of Canada's key lending rate. Increases to this short-term rate are expected half way through the year, when economic growth becomes more solid. Longer-term interest rates are expected to edge up throughout the year.

Inflation will stay low this year, averaging slightly over 1% across the country, thanks to falling oil and gas prices, low interest rates and slack in the economy. Economic fundamentals should push the value of the Canadian dollar higher this year and next.

Newfoundland and Labrador will lead Canadian provinces in economic growth this year due to expanded offshore oil production. The Quebec economy will also show above-average growth this year thanks to \$3 billion in government stimulus. Other provinces will average modest growth this year until export markets and commodity prices recover.

Alberta's economy is suffering from lower oil and gas prices, which have cut back exploration and drilling programs and are moderating growth.

British Columbia's economy will continue to lag this year, with continued downturns in the forestry, film, high-tech, tourism and government sectors.

Following vigorous growth estimated at over 30% last year, the NWT economy is expected to experience more stable growth of 2% in 2002.

Consensus Forecast of the Canadian Economy 2002-2003		
	2002	2003
Real GDP	1.9%	3.8%
Unemployment rate	7.8%	7.4%
Inflation (CPI)	1.2%	2.0%
3 Month T-Bill rate	2.4%	4.0%
Long-term bond rate	5.6%	6.0%
Exchange rate (US\$/C\$)	63.9¢	65.9¢

Average of recent forecasts from the *Conference Board of Canada, TD Bank, Royal Bank, CIBC, Scotiabank, Bank of Montreal, Wood-Gundy, and BMO Nesbitt-Burns*

2. Outlook for the Yukon Economy

Economic Output

The Yukon economy has grown at a modest pace in recent years and is expected to continue to do so in 2002.

A continued slump in resource sectors has made the Yukon economy increasingly dependent on government spending in recent years.

Low metal prices have led to further declines in mineral production and exploration spending. Recent declines in oil and gas prices have also led to reductions in planned oil and gas exploration spending. Yukon's tourism sector has faced two years of declining visitor numbers due to high gas prices and changing demographics.

Despite these challenges, the Yukon economy has continued to grow. Yukon's real GDP grew by 0.7% in 2000 and by 0.2% in 1999 following declines of 3.6% in 1998 and 6.2% in 1997.¹

Economic output increased in 2000 with increased activity in residential and electric utility construction, together with increases in retail trade, business services, and local and territorial government.

GDP figures for 2001 year are not available yet, but indications are that the economy grew again.² Increased private sector construction and investment, higher consumer spending and higher government spending offset the decline in tourism and mining. It is estimated that, because of these factors, the Yukon's GDP increased by 2% last year after adjusting for inflation. The Yukon economy is expected to grow again by 1% this year with increased consumer spending and investment. Economic recovery, renewed investor interest in mining and planned construction projects should help boost the Yukon's economy in future years.

Construction of an Alaska Highway Pipeline would provide a strong boost to the Yukon economy. A proposed U.S. energy bill with tax breaks for an Alaska Highway Pipeline and a requirement that a pipeline go through the interior makes it more likely that a pipeline will be built down the Alaska Highway. Final decisions on the pipeline will depend on the outcome of negotiations at U.S. federal and state levels on regulations and tax rates that influence the financial viability of the project.

Outlook for Output

- Yukon's GDP estimated to have grown by 2% in 2001 and forecasted to grow by 1% in 2002.
- Retail sales, construction and government have sustained growth.

¹ GDP in this publication is reported on an economic accounts, rather than industry, basis and is adjusted for inflation.

² GDP figures for 2001 will not be available until later this year.

Population

Net out-migration has exceeded natural population increase over the past five years and resulted in a drop in the Yukon's population of almost 10% from its peak in December 1996.

The Yukon's population is expected to stabilize this year, with lower rates of outmigration and continued natural population growth.

Although the number of people migrating into the Yukon increased last year, the number of people leaving the territory also increased, resulting in higher levels of net-outmigration.

The Yukon Bureau of Statistics reports that Yukon's population decreased by just over 500 to an average of 30,273 last year, a drop of 1.6% from 2000 levels³. Population levels grew in the later part of 2001 as the population increased from a low of just over 30,000 in August to 30,418 in December.

One-half of all Yukon communities experienced a population decline in 2001. The largest population decreases were in Whitehorse and Watson Lake. Tagish, Pelly Crossing and Haines Junction had the largest increases in population among communities during the year.

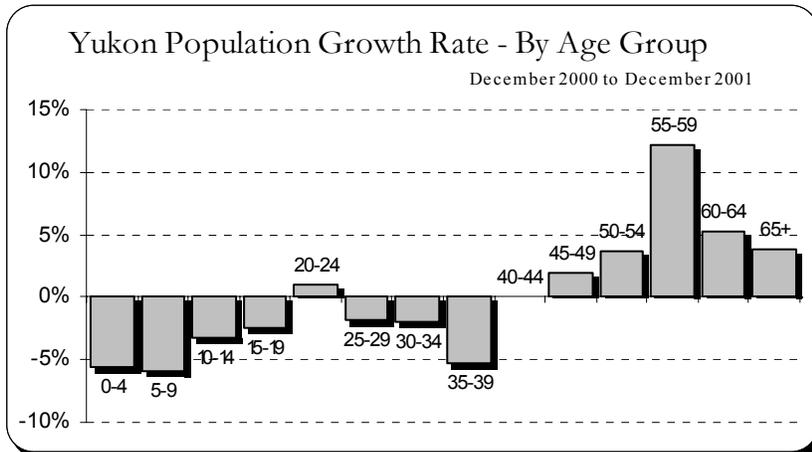
Out-migration appears to have been highest among young working age individuals and families with young children. The number of people in the 25–39 age group dropped by 3.3% last year, while the number of children

Outlook for Population

- The Yukon's population is expected remain similar to 2001 year end numbers for the short term – averaging 30,400 in 2002
- Similar to national trends, the number of people aged 55 and over is expected to continue to increase.

under 10 dropped by 5.8%. In contrast, the number of people aged 45–59 increased by 4.9% while the number of Yukoners aged 60 and over increased by 4.3%.

A relatively stable economy is expected to slow further decline in population this year.



³ Two different estimates for population are used in the Yukon. Yukon Bureau of Statistics figures are based on the number of people registered for Yukon health care cards. Statistics Canada estimates are based on census counts and tax files.

Labour Force and Employment

The Yukon experienced a dramatic fall in its monthly unemployment rate from 13.4% in January to 9.7% in December of last year. Increases in employment late in the year and a decline in the size of the labour force both contributed to the improved jobs situation.

The average annual unemployment rate in 2001 was 11.7% while the average number of people employed dropped by 242 from the previous year.

Continued hardship in the resource sector and a slow tourism season contributed to employment declining in both goods and services sector industries in early 2001.

An increase in full-time employment led to a drop in both part-time and self-employment. Self-employment dropped in 2001 to an average of 2,500, down from 2,700 in 2000.

Employment growth was strong in late 2001 with construction of the Wal-Mart store and the new Whitehorse Aquatic center, increased retail employment at Wal-Mart and the re-opening of the Cantung Mine.

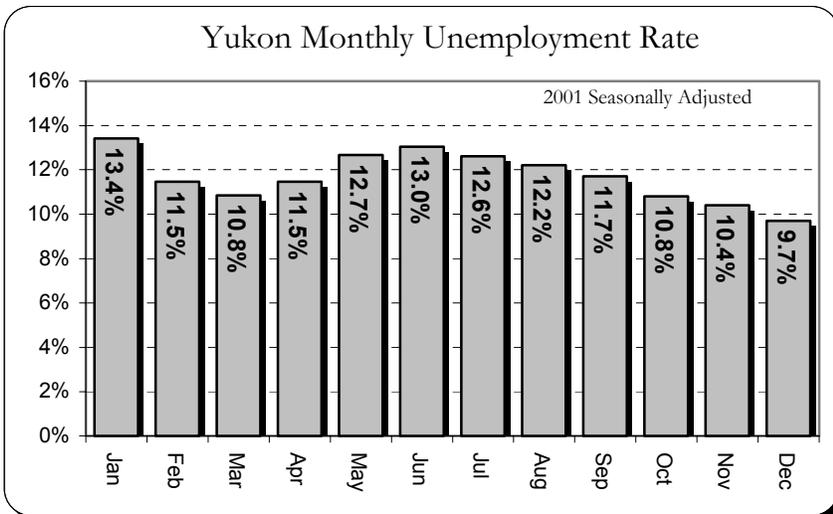
Employment has also remained steady in early 2002 as new building construction continues. Retail sales have also been very strong and continue to provide many service jobs for Yukoners.

Employment is expected to increase slightly over the next year. Although tourism visitation numbers are not expected to increase considerably,

Outlook for Employment

- The labour force is expected to remain similar to 2000 levels at 14,900.
- Unemployment is expected to average about 10% this year with 13,400 employed and 1,500 unemployed

continued strong retail activity and residential and non-residential construction should provide favourable employment opportunities.



Consumer Prices

Falling oil and gas prices have led to a steep drop in inflation in recent months. The inflation rate in Whitehorse averaged 2.0% last year, lower than the national average of 2.6%.

This year, consumer prices in Whitehorse are expected to increase only slightly above last year.⁴

Double-digit drops in the price of fuel and gasoline together with the opening of the Wal-Mart store combined to reduce consumer prices at the end of last year. Consumers have also benefited recently from lower interest rates, which have translated into lower costs for housing and for financing of major purchases, such as automobiles.

Average prices for most categories of consumer goods are expected to be low in 2002, with continued lower prices for fuel, household furnishings and clothing. New competition on the Whitehorse-Vancouver air route could also contribute to lower transportation costs. Housing and rent costs are expected to remain stable. Extension of the rate stabilization program will prevent increases in electricity rates this year. Residential and general service customers who use more than 1,000 and 2,000 kilowatt hours of electricity per month respectively will benefit from a small rate decrease.

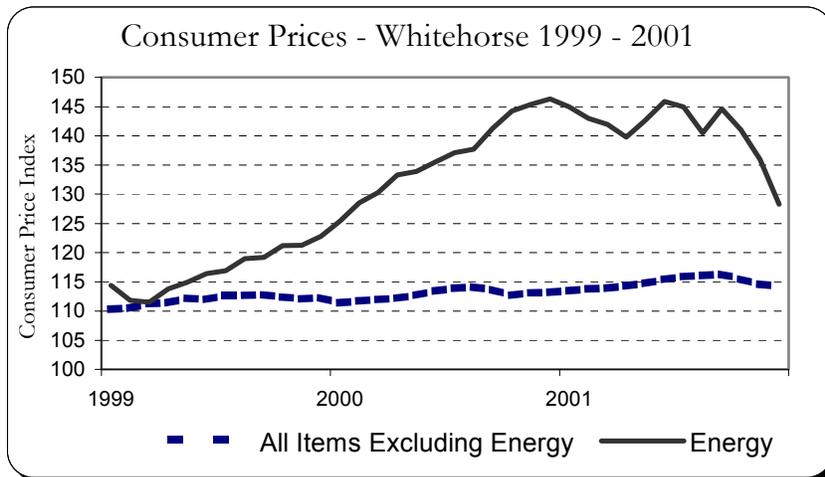
Some consumer goods are expected to experience price hikes this year. Poor harvest conditions in California have already pushed up the cost of fresh fruits and vegetables. The price of beer increased by 4% early this year and suppliers are expected to increase prices further this year. The cost of

Outlook for Consumer Prices

- The consumer price inflation rate in Whitehorse is expected to average 1% or lower in 2002.

some fees and permits are increasing this year, but they are expected to have a very small impact on inflation.

The overall rate of inflation is expected to average 1% or lower this year.



⁴

The Consumer Price Index is available in the Yukon for Whitehorse only.

Mineral and Commodity Prices

Gold

Gold prices rose to over \$300 U.S. per ounce early this year for the first time in over two years. Expectations are for gold prices to average in the \$280 to \$300 range this year.

Other Base and Precious Metals:

- *Zinc*: inventories will keep prices low until economic recovery stimulates increased auto manufacturing.
- *Lead*: a mild winter contributed to decreased demand for lead from the battery sector in 2001; however limited supply should support prices over the next year.
- *Silver*: silver prices were low in 2001 reflecting weak industrial demand. Speculative demand and limited supplies of the metal pushed prices up in early 2002. Prices are expected to end the year slightly above last year's level.
- *Copper*: inventory build-ups in 2001 subdued copper price growth in 2001. Economic growth this year will increase demand and prices.

Outlook for Average Commodity Prices in 2002 – Survey of Forecasts

- Gold: \$280 - \$300 US/oz
- Zinc: \$0.36 - \$0.42 US/lb
- Lead: \$0.22 - \$0.24 US/lb
- Silver: \$4.35 - \$4.50 US/oz
- Copper: \$0.70 - \$0.76 US/lb
- Oil: \$19 - \$23 US/barrel WTI
- Natural Gas: \$2.00 - \$2.20 US/MMBtu
- Lumber: \$255 - \$280 US/mbf SPF 2X4

Oil

A slowdown in world consumption contributed to the price of crude oil dropping by almost 1/3 between December 2000 and December 2001. Further OPEC production cutbacks, restocking of the U.S. Strategic Petroleum Reserve and concern about war spreading to Iraq and other oil producing countries should support prices in 2002 near the \$23/barrel mark.

Natural Gas

A decline in natural gas usage following the price shock of 2000 and a generally warm heating season have brought natural gas inventories in both the U.S. and Canada to double their levels of a year ago. This should contribute to lower prices through spring and summer before upward movement later in the year.

Lumber Prices

Decreasing inventories due to a mild winter and strong U.S. housing construction contributed to an increase in lumber prices in early 2002. Low U.S. inventories and limited new supplies are expected to push prices higher over the next year.

3. Sectoral Outlook

Mining

Investors are showing cautious interest in the mining sector with the expectation that some commodity prices will increase in 2002. This will benefit companies that are trying to raise capital for Yukon projects, especially those involving gold or platinum.

The total value of Yukon mineral production in 2001 is estimated at \$40 million, compared to \$52 million in 2000. No seasonal mining took place in 2001 at Yukon's only operating hardrock mine, Brewery Creek Gold mine, but an estimated 18,230 ounces of gold were produced in 2001 by heap leaching. A decision to resume mining in 2002 will depend largely on the price of gold. If the decision is not to mine at Brewery Creek, the value of mineral production in 2002 will be sustained solely by placer gold production, which is estimated at \$20 to \$30 million for the 2002 season.

AMT Canada plans to undertake an environmental clean-up and reprocess the existing tailings at the Elsa mine site. They anticipate that small scale mining of the silver deposits may be in full operation within two to three years and up to 100 people may be employed.

The CanTung mine in the Northwest Territories resumed production in January 2002. North American Tungsten has forward-sold their tungsten production for the next three years. The company estimates 60 of the 130 people working at the mine are from the Yukon. \$10 million has been spent bringing the mine into production.

Spending on exploration in the Yukon declined further in 2001 to a total of \$7.2 million, down from \$8.8 million in 2000 and \$9.5 million in 1999.

Increases in some commodity prices, promotion of available tax credits for mining investors, renewed investor interest in the mining sector and economic recovery in North America are expected to stem further decreases and perhaps herald a modest increase for 2002 exploration expenditures.

Outlook for Mining

- The value of mineral production in the Yukon in 2002 is expected to total \$20 to \$30 million.
- Cautious optimism in the mining sector could lead to increased exploration spending.

Oil and Gas

Yukon's oil and gas sector has experienced a drop in investment and exploration activity. Natural gas prices have dropped considerably due to falling demand and oversupply. As a result, energy companies have seen a drop in the cash flow they need to finance exploration projects.

Outlook for Oil and Gas

- Natural gas production from Kotaneelee is forecast to drop to 400 million cubic metres due to a declining production profile.

The present price environment has lessened enthusiasm for proceeding with further investments over the short-term. The collapse of Enron and credit concerns with other energy companies has also made it harder to raise capital in the energy sector.

The North American recession, the events of September 11, and warmer than average winter temperatures contributed to lower demand. Overproduction last spring and the resulting surplus natural gas inventories have led to soft gas prices. However, this is not expected to continue over the long term.

Since 2001, two oil and gas companies have acquired rights for oil and gas exploration activity in the Yukon. Devon Canada (formerly Anderson Resources) was granted oil and gas exploration rights in the Eagle Plain area for which they have committed to spend \$2.9 million. In January 2002, Hunt Oil was granted rights in the Peel Plateau region, for which they have committed to spend \$1.16 million.

Devon Canada completed 275 kilometres of seismic work in Eagle Plain last year, creating approximately 85 short term jobs for Yukon residents. It has since suspended its exploration activities due to decreased cash flow. However, Devon plans to resume activities in 2002, as soon as they have found a suitable partner to share project costs.

The Kotaneelee Field in southeast Yukon has continued to produce natural gas at economic levels since 1991. In 2001 the two wells produced about 475 million cubic meters. In 2002 they are expected to produce about 400 million cubic meters due to a declining production profile.

Construction of an Alaska Highway Pipeline would provide an enormous boost to the Yukon's oil and gas sector and stimulate development of gas fields in the Yukon. While the three major oil and gas producers have completed their study into pipeline routes, they have no immediate plans for its release. They are currently involved in negotiations at the federal and Alaska state levels over regulations and tax rates that would affect the financial viability of the project. A proposed U.S. energy bill with preferences for the Alaska Highway route makes it more likely that the route will be chosen. While construction would not start for a number of years, planning is underway to determine and maximize the potential benefits for the Yukon.

Forestry

Forest products have shown the potential to become a valuable Yukon commodity. Over the last decade, lumber exports have increased and there has been a strong interest in harvesting, milling, and developing value-added facilities. A small but diverse group of local forest businesses are currently producing rough green lumber and value added products such as furniture and log homes.

Outlook for Forestry

- Lower than average harvest levels in 2002.
- Continued development of value-added facilities is expected to maintain the industry through 2002.

Growth in the forest sector is expected over the long term in the Yukon. This growth is closely linked to international and national timber markets, the availability of long-term tenure agreements and the continued development of milling and processing capacity within the Yukon.

In 2001 most of the available wood under the established harvest ceiling was allocated, but not harvested. It is expected that harvest levels for this year will continue to be lower than average.

Nationally, the Canadian wood products market has been dramatically affected by the softwood lumber dispute. In the Yukon, this has contributed to a continued slowdown in forest harvesting and processing, particularly in the Watson Lake area. Continued exemptions for at least two Yukon companies under the recently imposed U.S. tariff will help the forestry industry to grow.

Continued consultation on major issues such as timber supply, forest planning and the Timber Harvest Agreement process have also contributed to some uncertainty for Yukon forest businesses. Finalizing these initiatives will enable continued growth in the industry and attract investors by providing greater security over the long term for industry's source of wood.

A new mill, Forevergreen Wood Products, announced its opening in Watson Lake last year but is not yet fully operational. Kaska Forest Resources has made progress on having its Timber Harvest Agreement pass through environmental screening and may be in operation in this year. Dakwakada Forest Products, while still operational, suffered from a slowdown in 2001. The extent of its future operations is presently uncertain.

Yukon River Timber, Deadmans Creek, and B. Luken Logging in Teslin have small permits in the Teslin area and continue to focus on developing an Alaskan market. Arctic Inland Resources in Dawson City is continuing its operation on a small scale, focusing on local markets and exports to Alaska.

Other Renewable Resources

The value of agricultural production sold in the Yukon in 2001 is estimated at \$4.1 million. The increase in output was due to improved production of cereal grain, beef, poultry and forage crops. Forage production recovered after poor weather caused crop losses in 2000.

Agricultural production is expected to remain level or increase slightly in 2002. Recent investments in production and irrigation equipment and plans for a new bedding greenhouse may contribute to increased production.

Yukon River chinook and chum salmon again experienced poor returns in 2001. Although chinook escapement into Canada was above average, the run came too late in the season for commercial fishers to benefit. Consequently, the commercial chinook catch was 82% below the 10 year average while the commercial chum catch was 87% below average.

The cause of poor returns is likely related to unfavourable conditions in the Bering Sea and North Pacific. In addition, a parasite known as *Ichthyophonus* may be causing in-river mortality on chinook. Warmer water temperatures appear to aggravate the impact of this parasite.

The estimated volume of commercial production of freshwater fish (lake trout, lake whitefish, and other species) in 2001 was lower than in the previous year. An estimated 2,000 kilograms of lake trout were harvested last year, down from 2,500 kg in 2000. This harvest declined because of fewer commercial fishers operating during the past season. Expectations for this year are that the lake trout harvest will again decline slightly.

The estimated value of Yukon furs sold at auctions increased to more than \$350,000 in 2000/2001, up 18% from the previous trapping season. The auction value of furs sold in the 2001/2002 season is expected to remain stable or show further increases.

After a decade of low returns, the market for furs is looking more positive. A recent agreement on international humane trapping standards now ensures Canadian access to European markets. Locally, the Yukon Trappers' Association is in the second year of marketing strategy aiming to build interest and value in Yukon-fur as a high quality product.

Outlook for Renewable Resources

- Recent investments in production and irrigation equipment could increase agricultural output in 2002.
- The lake trout harvest in 2002 is expected to decline slightly.
- The value of Yukon fur harvest is expected to increase.

Construction

The construction industry had a relatively busy year in 2001 with work at the Continuing Care facility in Whitehorse, the Aquatic Centre and construction of the new Wal-Mart store.

The total value of permitted building construction in 2001 dropped by 14.5%, but this was because some large institutional projects such as the Continuing Care facility were permitted in 2000. While the value of institutional building construction dropped by 50%, the total value of private building construction was up by 42%.

There were positive results in both the residential and commercial sectors of the industry. On the strength of lower interest rates and incentive programs, such as Yukon Housing's enhanced Home Repair Program, residential construction increased nearly 10% to \$15.6 million. Commercial construction was up 125% to \$14.9 million. Much of this increase was on the strength of the Wal-Mart retail project, which was the largest private sector building construction project seen in the Yukon over the last few years. Even if the \$6.45 million Wal-Mart project is factored out, commercial activity was up 28% over 2000.

The vacancy rate for rental accommodations in Whitehorse dropped from 15.6% in December 2000 to 9.7% in 2001. If this trend continues and interest rates remain at or near their current historic lows, the residential construction sector could see continued growth in 2002. However, this trend could be countered by a decrease in permitting activity for large commercial and institutional projects.

There are a number of potential private sector building projects that could materialize in 2002, adding considerable up-side potential to the construction forecast. These include continued development at the Chilkoot Centre, commercial and residential developments on the Waterfront and office space development in downtown Whitehorse. Permitting of the new Whitehorse Correctional Facility and new government service centre could increase construction activity considerably.

The Shakwak project will again account for the majority of highway construction in 2002, with approximately \$23.5 million in spending. In addition, \$7 million is budgeted for the Alaska highway between Champagne and Haines Junction and a variety of other upgrade projects are planned for the Marsh Lake and Lake Laberge areas as well as the Campbell highway and Tagish Road.

Outlook for Construction

- Low interest rates could help boost residential construction in 2002.
- The value of permitted building construction is expected at \$45 million this year.
- Spending on highway projects up this year, Shakwak project again tops the list.

Communications and Utilities

Both Yukon Energy and Northwestel are continuing with major capital projects in 2002.

The building of a 223 kilometre transmission line from Mayo to Dawson City enters the construction phase this year. Yukon Energy will spend approximately \$20 million on the project in 2002, which will displace electricity produced by diesel fuel with surplus hydropower. In addition to the Mayo-Dawson line, the YEC is expecting to spend \$5 million on capital projects.

Northwestel is proceeding with its four-year *Service Improvement Plan*, partially funded with contributions from southern telephone companies. An estimated \$2.0 million will be spent this year on the service improvement plan in the Yukon. In addition, the company is planning to spend another \$9.3 million on other capital projects in the Yukon.

Yukon Electrical Company Ltd. is planning to spend \$4.5 million on capital spending this year, up slightly from 2001.

A number of companies have shown interest in building a gas distribution system for Whitehorse. This would provide piped propane and ultimately natural gas when a pipeline is built. Before construction begins, the Yukon Utilities Board would have to award a franchise, which is not expected until after this year.

With the *Connect Yukon* high-speed data and Internet service project now complete, the Yukon government is now working on applications, such as a Tele-Health project, to use with the network. The Yukon government is also working with the City of Whitehorse on phase one of a fibre optic network for Whitehorse to link selected government buildings in Whitehorse.

Governments in the Yukon and the local IT industry are currently in the process of developing an *IT Sector Strategy* for the territory. This document is expected later this spring and should provide direction for both government and industry in developing and strengthening the sector.

Outlook for Communication and Utilities

- About \$20 million will be spent on construction of a Mayo-Dawson transmission line this year.
- Northwestel is planning to spend \$11 million on capital projects in the Yukon this year.

Tourism

The number of visitors coming to the Yukon declined by 10% in 2001 compared to the year before. Non-Yukon resident border crossings last year totalled approximately 236,500, down from 261,800 in 2000. Despite the drop in visitor numbers, registrations at Yukon's Visitor Reception Centres increased by 5% which may indicate that tourists stayed longer in the Yukon.

The drop in visitors was primarily due to fewer motorcoach travelers arriving from southern U.S. and Canadian markets. A slump in the North American economy and rising fuel prices helped to reduce the number of visitors to the Yukon.

Canadian tourism markets are expected to experience little growth in 2002 as a result of the terrorist attacks on September 11th and the recent slowdown in the U.S. economy. Yukon can also expect flat or modest growth in the number of visitors in 2002 compared to 2001, according to the Conference Board of Canada.

Preliminary indications from Statistics Canada show that tourism continues to recover from the downturn following September 11th. Visitors to Canada from the U.S. and overseas were up in December from October and November levels.

The number of overseas visitors to the Yukon in 2001 declined by 19%. The Yukon is still a popular destination for German-speaking travelers and direct flights from Europe will continue for the summer of 2002. The Yukon is marketing in emerging markets such as the United Kingdom and expects to attract an increased number of European tourists who view the Yukon as a relatively safe destination.

Winter tourism continues to grow. Northern lights viewing for Japanese and Taiwanese visitors is a new and quickly expanding market for the Yukon. Bookings by dog mushing tour operators have also increased significantly.

While rubber tire tourism dropped from the previous year, wilderness tourism has soared. The number of licensed operators is now over 100. Established firms expect to maintain the high level of bookings they experienced in 2001. A recent survey by outfitters showed that their clients directly spent over \$10.3 million to take Yukon big game hunting trips.

A 'Welcome Alaska' initiative, to be launched by the Yukon government in 2002, will focus on encouraging Alaskans to visit the Yukon during the summer and shoulder seasons.

Outlook for Tourism

- Flat or modest growth in Yukon visitor numbers, according to the Conference Board of Canada.
- Winter tourism will experience modest growth due to high profile events and a growth in Northern Lights viewing.
- Wilderness tourism is expected to continue to show strong growth year-round.

Government

Government spending has traditionally provided stability for the Yukon economy. With continued uncertainty in the resource sectors and a recent decline in tourism, this is even more the case.

Over a third of the Yukon workforce is directly employed by federal, territorial or municipal levels of government. Many more businesses or individuals indirectly depend on government spending for their livelihood. First Nations governments are playing an increasingly important role in the Yukon, but there is currently little data available on their overall number of employees and expenditures.

The Yukon government is highly dependent on transfers from the federal government, with territorial revenues providing only about 20% of the Yukon government's total income.

The principal transfer from the federal government is based on a formula that helps provide the Yukon with a relatively stable level of funding. The amount of the transfer is affected by the relative growth rate in population between Canada and the Yukon, overall changes in provincial-local government spending and changes in the Yukon government's tax revenues.

Total net budgetary spending by the Yukon government is expected to increase by 8.2% to \$475.4 million in 2001/2002, up from \$439.3 million in the previous year. The bulk of this increased expenditure comes from the establishment of a Canada Winter Games Infrastructure Fund, endowments and a negotiated wage increase. The Canada Winter Games Infrastructure Fund and endowments were established through revenues provided on a one-time basis from Canada.

Total capital spending by the Yukon Government for 2002/2003 is estimated at \$118 million, down 13% from 2001/2002. The drop is largely explained by revotes of 2000/01 lapsed capital, which increased spending in 2001/02. The new Whitehorse Correctional Facility, with an approximate total cost of \$17 million, begins in earnest in 2002/2003. Highway and transportation projects account for around \$40 million of 2002/2003 capital spending.

The City of Whitehorse will be proceeding with development of a waterfront park this year as well a variety of road reconstruction projects around the city. Proposed budgetary spending by the City of Whitehorse for this year is \$50.3 million, 2.4% above 2001 levels.

The Yukon and other governments are supporting a number of large construction projects this year, many of which are continued from last year. These include the Whitehorse Aquatic Centre, the Mayo School, Dawson City Recreational Centre, Whitehorse waterfront development, the Continuing Care facility and reconstruction of the Alaska Highway.

Outlook for Government

- Increased government spending has helped to sustain the Yukon economy while resource and commodity prices have declined.

Retail and Wholesale Trade

Retail sales grew by 5.9% in 2001, representing the tenth straight year of growth. Despite another decline in tourism, sales increased to \$363.1 million last year from \$343.0 million in 2000.

The Yukon retail landscape changed substantially in late 2001, with the opening of the Whitehorse Wal-Mart store. The addition of this new retail capacity should help reduce spending leakages and could serve to attract spending to the Yukon from south-eastern Alaska and northern British Columbia.

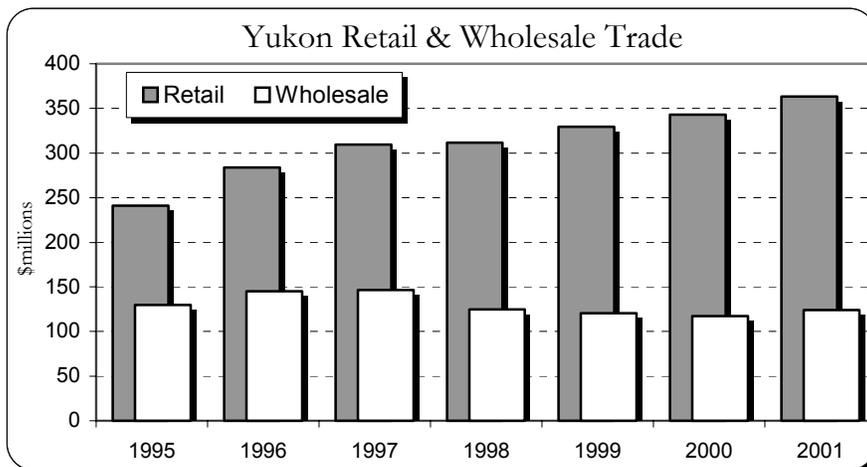
Deep drops in interest rates, the low Canadian dollar, discounts and attractive financing options offered in the wake of September 11 served to sustain retail spending both nationally and within the territory.

Across Canada, retail spending has increased at twice the rate of personal disposable income over the past decade. High levels of spending have led to a significant drop in the personal savings rate, which fell to 3.9% in 2000 from 12.9% a decade ago. The situation in the Yukon is much healthier. While the level of retail spending in the Yukon has grown much faster than disposable income, the personal savings rate in the Yukon remains one of the highest in Canada at 13.8% of personal disposable income.

Wholesale sales increased by 5.7% last year, following declines of 2.7% in 2000 and 3.4% in 1999. The declining wholesale sales trend was reversed by buoyant residential and commercial construction activity, a large decline in lending rates and a lower Canadian/U.S. exchange rate making the Yukon a favourable wholesale supplier for some Alaskan businesses.

Outlook for Trade

- Greater levels of disposable income, continued low interest rates and more retail capacity will increase the value of retail sales this year.
- Retail trade sales are expected to increase by 7% to about \$389 million in 2002.



The value of retail sales is expected to increase again this year, thanks to continued low interest rates, tax cuts and increased retail capacity in Whitehorse.

Key Economic Indicators Summary Table

Indicator	2000	2001	2002(f)
Population, Prices, Rates †			
Population	30,776	30,273	30,400
Inflation Rate (CPI for Whitehorse)	2.2%	2.0%	1.0%
Prime Rate	7.27%	5.81%	4.81%
U.S./Canada Exchange Rate	\$0.673	\$0.646	\$0.64
Employment †			
Labour Force	15,242	15,017	14,900
Employment	13,492	13,250	13,400
Unemployed	1,725	1,750	1,500
Unemployment Rate	11.5%	11.7%	10%
Economic Output			
Real Gross Domestic Product (1997\$)	\$1,079 million	\$1,102 million (e)	\$1,112 million
Real GDP Growth Rate	0.7%	2.0%	1.0%
Commodity Prices †			
Gold	\$279.11 US/oz	\$271.09 US/oz	\$280 - \$300 US/oz
Silver	\$4.95 US/oz	\$4.36 US/oz	\$4.35 - \$4.50 US/oz
Lead	\$0.21 US/lb	\$0.216 US/lb	\$0.22 - \$0.24 US/lb
Zinc	\$0.51 US/lb	\$0.402 US/lb	\$0.36 - \$0.42 US/lb
Copper	\$0.83 US/lb	\$0.717 US/lb	\$0.70 - \$0.76 US/lb
Oil (West Texas Intermediate Crude)	\$30.29 US/barrel	\$25.87 US/barrel	\$19 - \$23 US barrel
Natural Gas	\$4.31 US/MMBtu	\$4.02 US/MMBtu	\$2.00 - \$2.20 US/MMBtu
Lumber	\$257 US/mbf2X4	\$250 US/mbf2X4	\$255 - \$280 US/mbf2x4
Mining			
Value of Mineral Production	\$52 million	\$40 million	\$20 - \$30 million
Exploration Expenditures	\$8.8 million	\$7.2 million	---
Development Expenditures	\$550,000	\$500,000	---
Oil and Gas			
Volume of Natural Gas Production	569,639,000 m ³	465,000,000 m ³	400,000,000 m ³
Tourism			
Visitation (Border Crossings) ⁺	261,852	236,500	236,500
Government			
Net YTG Expenditures*	\$452 million	\$490 million	---
Construction			
Permitted Building Construction	\$56 million	\$47.9 million	\$45 million
Retail Trade			
Value of Retail Sales	\$343.0 million	\$363.1 million	\$389 million

e = estimated, f = forecast,

-- = not available

† annual averages

** 1999 = 1999/2000; 2000 = 2000/2001; 2001 = 2001/2002.*

+ Not including train arrivals, air arrivals, marine arrivals in Dawson City or Yukon residents.

Data Sources:

Indicator	Source
Population	2000 and 2001: Yukon Bureau of Statistics, <i>Yukon Population Estimates</i> . 2002: Yukon Economic Development forecast.
Inflation (Consumer Price Index)	2000 and 2001: Statistics Canada, <i>Consumer Price Index</i> . 2002: Yukon Economic Development forecast.
Prime Rate	2000 and 2001: Bank of Canada (average of end of the month rates). 2002: Conference Board of Canada forecast.
Canada/U.S. Exchange Rate	2000 and 2001: Bank of Canada (daily average noon rate). 2002: Yukon Economic Development survey of forecasters.
Labour Force Indicators	2000 and 2001: Yukon Bureau of Statistics <i>Yukon Employment</i> . (Seasonally-adjusted figures.) 2002: Yukon Economic Development forecast.
Economic Output (GDP)	2000: Statistics Canada, <i>Provincial Economic Accounts</i> Cat. No.13-213. 2001 and 2002: Yukon Economic Development forecast.
Metal Prices	2000 and 2001: London Metal Exchange: metalprices.com, kitco.com. 2002: Yukon Economic Development survey of forecasters.
Value of Mineral Production	2000: Yukon Bureau of Statistics, <i>Yukon Annual Statistical Review 1999</i> . 2001: Natural Resources Canada Minerals and Metal Sector ISSN 0709-292X (SS# 00-12) and Yukon Economic Development 2002: Yukon Economic Development forecast.
Exploration and Development	1999 and 2000: Department of Indian Affairs and Northern Development, Exploration and Geological Services Division.
Natural Gas Production Volume	All years: Yukon Economic Development, Oil and Gas Branch.
Tourism Visitation	2000 and 2001: Yukon Bureau of Statistics and Tourism Yukon. 2002: Tourism Yukon, from <i>Travel Markets Outlook 2001 – The Canadian Tourism Research Institute</i> , Conference Board of Canada.
YTG Expenditures	All years: Yukon Finance.
Permitted Building Construction	2000 and 2001: Yukon Bureau of Statistics. 2002: Yukon Economic Development and Yukon Community and Transportation Services.
Retail Trade	2000 and 2001: Statistics Canada, <i>Retail Trade</i> , Cat. No. 63-005. 2002: Yukon Economic Development forecast.

Internet Web Sites of Reference

Yukon Energy Mines & Resources	http://www.emr.gov.yk.ca/
Yukon Finance	http://www.gov.yk.ca/depts/finance/
Yukon Bureau of Statistics:	http://www.yukonweb.com/government/ybs/
Statistics Canada:	http://www.statcan.ca/
Bank of Canada:	http://www.bankofcanada.ca/
MetalPrices	http://www.metalprices.com/
Kitco Inc.	http://www.kitco.com/
Natural Resources Canada	http://www.nrcan.gc.ca/
Industry Canada Strategis	http://strategis.ic.gc.ca/