

# Yukon Economic Outlook 2006

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## **Yukon Economic Outlook 2006 – Executive Summary**

### **Global Factors**

Key among global issues that are and will likely continue to impact the Yukon economy include global economic growth, trade and integration and demand for commodities.

A four-fold increase in global GDP has been supported, in part, by a doubling of world population over the last 45 years to 6.5 billion with a projected population of nine billion by the year 2045. Global GDP growth is also explained largely through policy shifts, productivity growth and new technologies. The most notable and globally impacting policy shift occurred in Asia where rapidly expanding economies have been increasingly guided by market supply and demand factors rather than government planning.

Economists are generally forecasting economic growth and prosperity for 2006 and beyond. Over the next two years, Canada, the United States and Australia are projected to achieve GDP growth ranging from 2.7% to 3.8%. The European Union is forecasting GDP growth over the same period at between 1.3% and 2.4%. Growth in Japan is forecast at 1.4% to 3.8%.

Canada was one of the most trade-dependant countries in the world in 2005. Although 85% of Canadian exports are currently destined for the US markets, an increasing volume of world trade is now focused on Asia. Global trade, rapid Asian growth and steadier economic growth in the industrialized world have contributed to a substantial increase in demand for key resources such as energy, base metals and forest products.

The US economy is expected to experience above trend growth through this summer with GDP growth at over 4%. Recent growth trends in Alaska, on account of global demands for oil and other natural resources, are likely to continue well into 2006 and 2007. Price increases for oil, lead, zinc, gold and other precious metals have had a positive impact on the state's economy.

Commodity-focused western provinces of Canada are projected to continue to experience above average growth for 2006. Below average growth is observed in Canada's manufacturing core of Central Canada. TD Bank Financial Group anticipates that the east-west disparity will shrink in 2007 with a decline in both the Canadian dollar and in commodity prices. Expectations are for the BC economy to remain strong as construction and services activity more than offsets a slowdown in forestry. The Alberta economy is expected to continue growing at a strong rate of 4% into 2006 with a slowing in 2007 provided oil prices decline as predicted.

### **Yukon Outlook**

Yukon's Real<sup>1</sup> GDP grew by 3.4% in 2005 following similar 3.5% growth in 2004. Business investment was up by 19% with non-residential and machinery and equipment investment showing significant growth. GDP growth should remain at a solid 3% in 2006 as mineral exploration activity and mine development expenditures are expected to be key driving influences.

The annual average population of Yukon in 2005 as reported by the Yukon Bureau of Statistics was 31,240. This represents a 2.0% increase from the 30,627 average of 2004. The majority of the population growth occurred in Whitehorse which grew by 306 between December 2004 and December 2005. Most other communities also registered

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<sup>1</sup> Adjusted for inflation – in chained (1997) dollars

an increase over this time period. It is expected that population growth will continue at a moderate pace. In 2006 Yukon's population should average 31,600.

Overall, the Yukon unemployment rate averaged 4.9% last year. The Yukon Labour Force Survey reported that both the working age population and size of the labour force<sup>2</sup> increased by 100 in 2005 to 21,500 and 16,400 respectively. The number employed increased at a slightly higher pace to an average of 15,500 last year; a jump of 200 from 2004. The average number of unemployed dropped a corresponding amount to 800.<sup>3</sup> It is expected that additional opportunities in the resource and construction industries will entice workers into the labour force throughout the year and employment should remain strong. It is forecast that on average the unemployment rate should be 5.5% with 15,600 employed.

Increased fuel oil and gasoline prices were key contributors to the consumer price index increase in Whitehorse in 2005. Overall price increases in Whitehorse registered identical to the national average of 2.2%. Consumer prices in Whitehorse should follow a similar trend expected to be experienced across Canada in 2006. With energy prices anticipated to moderate over the year, inflation should drop marginally to around 2.0%.

### **Mining**

Last year was a banner year for exploration and mining activity in Yukon and 2006 is expected to be an even better year for the industry. Of particular interest in 2006 will be the initiation of pre-development activities at Minto and Wolverine, with both projects working towards production start-up targets in 2007. Exploration expenditures in 2005 more than doubled from their level in 2004 to approximately \$50 million. The price of gold continued to rise in 2005 ending the year at over \$530 US per ounce which is of particular importance to placer mine operators. Increases in gold prices have been somewhat offset by increased costs associated with the rising fuel prices and an increase in the value of the Canadian dollar.

For 2006, mineral exploration expenditures are expected to total between \$50-60 million. Pre-development expenditures for hardrock mines are estimated to be in the \$70-80 million range. In addition, placer gold production values are expected to increase from last year as a result of significant increase in gold prices. Placer production may reach or exceed \$50 million in 2006

### **Oil and Gas**

The oil and gas resources of Yukon remain underdeveloped, however, a number of significant developments over the past year have led to increased prospects of these resources being developed. The drilling of two wells in 2005 marked the first drilling activity Yukon has seen in almost 20 years. An unsuccessful exploratory well was drilled by Devon ARL Corporation in the Eagle Plains. Devon did, however, drill a successful development well in the Kotaneelee field and has been producing gas for market since May 2005.

There is a possibility that oil production could commence from a field in the Eagle Plains held by Northern Cross (Yukon) Ltd. A decision from the company is expected before the end of 2006.

### **Forest Resources**

Last year was marked by optimism in the Yukon forest industry with a number of small

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<sup>2</sup> The working age population that is actively participating the labour force

<sup>3</sup> Totals may not add due to rounding

and medium sized businesses increasing investments and improving production capabilities. Contracts to develop new harvest areas have improved capacity in Yukon resulting in less dependence on hired contractors from outside the Territory. Two new regional forest management plans are expected to be completed this year and an increase in Yukon forest product production is anticipated for 2006.

### **Tourism**

Overall Yukon experienced visitor growth of 3% last year, receiving a total of almost 290,000 visitors.<sup>4</sup> Yukon's border crossing statistics indicated that overseas visitors increased in number by 10% while U.S. visitation grew by 3%. In addition, Canadian visitors to Yukon increased by nearly 2%. Yukon's overall border crossing increase last year was driven by an additional 15,786 motorcoach travelers (20%). In contrast, total private vehicle traffic was down roughly 3% last year.

The Department of Tourism and Culture is forecasting a favourable 2006 summer season based on many factors. For instance, many of Yukon's trade partners and Yukon tourism operators indicate that bookings are up from last year. In addition Condor will commence one week earlier and end service one week later offering direct air service between Frankfurt, Germany and Whitehorse. Despite this optimism, there is an underlying concern that the price of fuel and the high value of the Canadian dollar could negatively impact the industry and Yukon visitation. Overall the department projects travel to Yukon will increase by 3% in 2006.

### **Construction**

The total value of permitted building construction in Yukon decreased by 2% last year to \$75.6 million. Expectations are that construction should remain strong in 2006 with the value of permitted building construction in the territory remaining in the \$65 - \$75 million range. Robust residential construction should continue this year with continued demand for housing, although, increasing interest rates in 2006 may temper some of the growth. Larger commercial development projects should also provide support to building permits in 2006. Institutional construction should remain high with Yukon Government investment in projects such as the Athlete's Village and other facilities for the Canada Winter Games, Tantalus School replacement in Carmacks, Porter Creek Secondary School upgrades and Mayo Community Centre construction.

Among other projects, the Department of Highways and Public Works will spend almost \$35 million under the US funded Shakwak Highway Project in 2006. Much of this is for the replacement of the Donjek River Bridge which will be a project spanning the next two years.

### **Retail and Wholesale Trade**

In 2005 retail sales totaled \$443.4 million, an increase of \$19.4 million (7.1%) over 2004 levels. Retail sales growth was most predominant in food and beverage stores which increased by 13.5% in 2005 to over \$125 million. Growth was also significantly driven by a 3.5% increase in automotive sales to almost \$160 million. Retail sales growth in Yukon is expected again for 2006 with total retail trade projected to increase by 3% this year.

Total wholesale trade increased to \$95.1 million last year, a 10.7% jump from 2004. With continued strong construction activity and a forecast increase in tourism it is expected that wholesale trade will remain strong in 2006.

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<sup>4</sup> International border crossings; does not include Yukon residents, train visitors, those in commercial vehicles, visitors arriving by air or marine arrivals in Dawson City.

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# **1. Economic Environment**

## **Global Trends**

Over the past few decades the nature of the global economy has changed creating new opportunities and challenges to industry and governments alike. Key among global issues that are and will likely continue to impact the Yukon economy include the following:

- ❖ Global Economic Growth
- ❖ Trade and Integration
- ❖ Demand for Commodities

### **Global Economic Growth**

Global Real<sup>5</sup> GDP<sup>6</sup> rose from CDN\$9.2 trillion to over CDN\$40 trillion from 1960 to 2005. This four-fold increase in GDP has been supported, in part, by a doubling of world population over the same timeframe; from three billion to six and one half billion with a projected population of nine billion by the year 2045. Population increases explain about half of the growth in the global economy; the remainder is explained largely through policy shifts, productivity growth, and new technologies. The most notable and globally impacting policy shift occurred in Asia where rapidly expanding economies have been increasingly guided by market supply and demand factors rather than government planning.

A relatively steady rise in GDP has occurred over the past 40 years in spite of a host of crises such as the 1997 Asian financial crisis, the 2000 technology sector crash and worries over rising terrorism. Muted in the overall growth is the rapid increase in economic growth that has occurred in Asia over the past several decades for countries such as Japan, South Korea and Singapore. More recently countries such as China, Vietnam and Thailand have added substantially to growth in the region, elevating Asia to become a key driver in the global economy.

The Japanese economy grew eleven-fold from 1950 to 2003; even stronger growth occurred in Korea, Singapore, Malaysia and Thailand. More recently, Indonesia and Vietnam have begun to expand significantly. Accelerated growth occurred in China, where per capita income increased sevenfold from 1978 to 2003. With a population 10 times that of Japan, China is set to rapidly change the global context through intense demand for global commodities and rising competitiveness in export markets.

Recent GDP growth in emerging markets has been impressive; GDP growth in key Asian countries in 2005 was as follows: China at 9.9%, India at 7.6%, Singapore at 8.7%, and South Korea at 5.2%. Growth in Latin America was also brisk, with Argentina posting GDP growth at 9.2% (a good sign of economic recovery), Chile recording a 5.2% increase while Venezuela grew by 10.2% on account of higher oil prices. Underperforming expectations, Brazil grew by only 1.4% while Mexico posted gains of 2.7%.

Economists are generally forecasting economic growth and prosperity for 2006 and beyond. Over the next two years, Canada, the United States and Australia are projected to achieve GDP growth ranging from 2.7% to 3.8%. The European Union is forecasting GDP growth

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<sup>5</sup> Adjusted for inflation (1995 dollars) – Source: World Bank

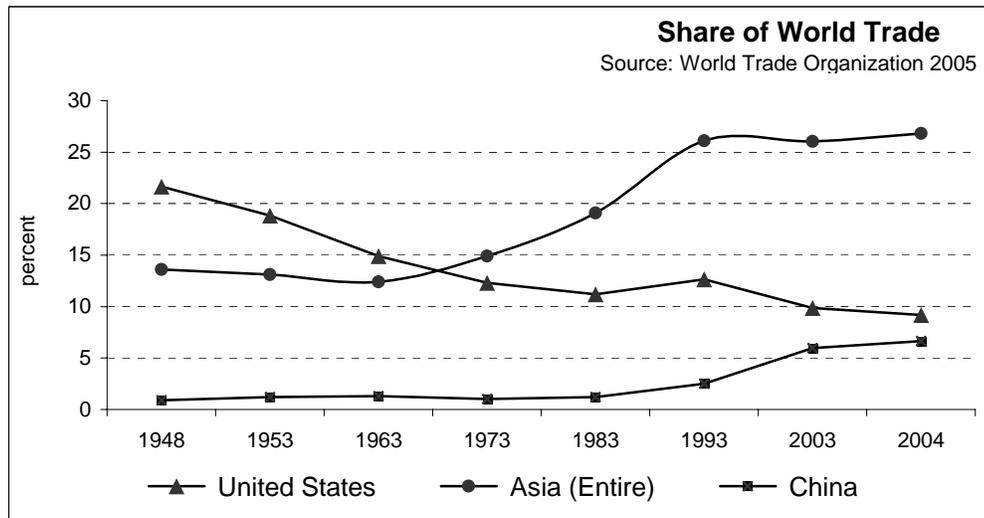
<sup>6</sup> Gross Domestic Product: value of all final goods and services produced within a nation in a given year.

over the same period at between 1.3% and 2.4%. Growth in Japan is forecast at 1.4% to 3.8%.<sup>7</sup>

### Trade and Integration

Canada is one of the most trade-dependant countries in the world. In 2005, the projected sum of Canadian imports and exports amount to 72% of GDP. Corresponding figures from other countries are as follows: China at 75%; Germany at 64%; the United States at 21% and; Japan at 20%. These figures indicate that the United States and Japan are relatively less integrated economies however these two countries are still very active in the global economy with both having large numbers (and often large sized) of their own companies situated outside their home countries.

Economic growth in Asia has led to a corresponding increase in its share of world exports and imports as noted in the chart below. Although 85% of Canadian exports are currently destined for the US markets, an increasing volume of world trade is now focused on Asia, making it a target of interest, understanding and opportunity.



Although “supply chains” and “integrated investment and trade” sound like modern business terms they describe business arrangements that go back centuries to the historic spice and fur trades. A supply chain refers to a network of companies that work together (through the supply chain) to improve competitiveness, quality orientation and responsiveness to the market<sup>8</sup>. In some countries, both government and business are partners in building these linkages. One example is KORES, a South Korean crown corporation that provides financing for many South Korean investments and joint ventures. As South Korea lacks mineral resources but maintains an impressive and expanding manufacturing industry, there is a growing need to secure long term access to base metals and other commodities. KORES Canada has recently begun investing in Canadian mineral exploration. Global supply chain relationships and investments such as this have the potential to benefit Yukon in the future as there are incentives for global firms to ensure that every link in the supply chain is as strong as possible.

<sup>7</sup> Sources: ABN Amro, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, J.P. Morgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Royal Bank of Canada, Citigroup, Scotiabank, UBS

<sup>8</sup> Hau L. Lee, and Corey Billington. The Evolution of Supply-Chain-Management Models and Practice, 1995.

## **Demand for Commodities**

Given the commodity orientation of Canada's economy, the nation is well-positioned for mineral sector growth. At present, the resource sector accounts for over 40% of the S&P/TSX Composite Index and is set to rise.

Global trade, rapid Asian growth and steadier economic growth in the industrialized world have contributed to a substantial increase in demand for key resources such as energy, base metals and forest products. Total global oil demand is expected to increase from roughly 75 million barrels per day in 2000 to more than 100 million in 2015.<sup>9</sup> Base metals such as copper, lead and zinc are in tight supply and, as is also the case for gold, prices have been on a strong and steady rise for the past several years. Over the past four years molybdenum prices have displayed strong growth; the same observation holds for tungsten over the past two years. In many cases, economic growth in China is behind the increase in value of these commodities as the country has shifted from exporter to importer status for key base metals and other commodities.

According to the World Tourism Organization, the global tourism sector is valued at more than one-half trillion dollars and is the largest economic sector; slightly ahead of the automotive industry. Global economic growth spurred an increase in international air traffic of 8.3% in 2005 over the previous year's volume. In 2005, air travel rose by 5.4% in America and 6.0% in Europe; Asia is forecast to grow by 6.8% through 2009. China and some east European countries are projected to continue to grow by around 10% annually.<sup>10</sup> An increasing number of global travelers are seeking an alternate experience where culture, extensive wilderness and unique destinations are the focus.

## ***North America***

### **UNITED STATES**

Moodys, a global investment and banking company, suggests the US economy will experience above trend growth through this summer with GDP growth at over 4%. Inflation is set to rise one percentage point to between 2.5% and 3.0% towards the end of 2006. Federal interest rates are forecast to rise to approximately 5% with other rates following in step. These higher interest rates should negatively affect the housing market and consumer spending, especially where spending has been leveraged by appreciations in real estate. Rising energy prices, declining house prices and trade protectionism, notably in response to a trade deficit with China, are substantial threats to the US economy.

### **ALASKA**

Recent growth trends in Alaska, on account of global demands for oil and other natural resources, are likely to continue well into 2006 and 2007. Price increases for oil, lead, zinc, gold and other precious metals have had a positive impact on the state's economy. Three billion dollars of foreign investment has helped Alaska ramp up several mining and oil projects. The gross state product of Alaska was reported by Northern Economics Inc. to have grown by one-third over the past three years - from \$30 to \$40 billion US.

The value of Alaskan exports at \$3 billion US accounts for a growing share of the state's economy. Japan consumed 32.8% of Alaskan exports, Korea took 19.2%, China accounted for 6.5% while Canada also consumed 6.5%. Of all Alaskan exports, seafood topped the list at 56.3% followed by minerals and energy.

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<sup>9</sup> The World Factbook, Central Intelligence Agency 2006

<sup>10</sup> International Air Transport Association: Passenger and Freight Forecast 2005 – 2009 (October 2005)

## **CANADA**

Commodity-focused western provinces of Canada are projected to continue to experience above average growth for 2006. Below average growth is observed in Canada's manufacturing core of Central Canada. Global Insight, a US-based economic and financial analysis firm, predicts that Ontario and Quebec will grow at 2.7% and 2.4%, respectively. The company is also predicting a 1.3% gain in production of light vehicles for 2006 despite woes in the North American auto industry. Explosive growth of 6.8% is predicted in Newfoundland, the only province east of Manitoba that is included as a growth region, largely on account of new offshore oil discoveries.

Economists from the TD Bank Financial Group anticipate that the east-west disparity will shrink in 2007 with a decline in both the Canadian dollar and in commodity prices. Oil is expected to slip back to \$50 US range by the end of the year and remain in the \$45 US to \$50 US range for 2007. A decline in the US economy could delay a rebound in eastern Canada.

The TD Group expects the BC economy to remain strong as construction and services activity more than offsets a slowdown in forestry. Employment in BC rose faster in 2005 than anywhere else in the country at 3.3%; Alberta posted gains of 1.6%. The Alberta economy is expected to continue growing at a strong rate of 4% into 2006 with a slowing in 2007 provided oil prices decline as predicted. Energy and mining sector expansions along with some growth in agriculture is expected to help Alberta and nearby prairie provinces maintain above average growth.

## 2. Outlook for the Yukon Economy

### ***Economic Output***

Yukon's Real<sup>11</sup> GDP grew by 3.4% in 2005 following similar 3.5% growth in 2004. Business investment was up by 19% with non-residential and machinery and equipment investment showing significant growth.

Personal expenditure on goods and services grew by 4.5% last year, contributing to a 5.0% increase in imports of goods and services into the territory. On the other side of trade flow, the exportation of Yukon goods and services decreased by 3.8% in 2005. Yukon imported approximately three times the value of goods and services that it exported last year based on GDP figures.

When looking at GDP on a by industry basis, construction output increased by 20.2% in 2005 driven by strong residential and non-residential construction activity. Work on the Jeux du Canada Games Centre contributed significantly to non-residential construction increasing by 39.4% while residential construction increased at a slightly lower pace than previous years at 6.4%.

Strong construction activity, increased mineral exploration and a good tourist season led to wholesale trade's contribution to GDP increasing by 7.8% last year. Retail trade also showed an increase of 4.9% with strong demand from Yukon consumers and visitors to the territory.

GDP growth should remain at a similar 3% in 2006 as mineral exploration activity and mine development expenditures are expected to be key driving influences. In addition, construction activity will continue to support economic growth. Strong residential construction, upcoming commercial developments and large institutional projects, such as Tantalus School replacement and construction of the Mayo Recreation Centre, should fill the gap left by the completion of the Jeux du Canada Games Centre in the construction industry.

### ***Population***

The annual average population of Yukon in 2005 as reported by the Yukon Bureau of Statistics was 31,240. This represents a 2.0% increase from the 30,627 average of 2004.

The majority of the population growth occurred in Whitehorse. The city's population grew by 306 between December 2004 and December 2005. Most other communities also registered an increase over this time period with the exceptions of Watson Lake (-3), Teslin (-11) and Beaver Creek (-14).

Population growth was not consistent across all age groups in 2005. The number of younger children (0-14 years) decreased by 145 and the number of people between 30 and 44 years decreased by 106. The number of youth (15-29) increased by 238.

The number of older Yukoners is also on the rise. The number of persons in the 45-59 age group increased by 259 and the population of Yukoners aged 60 years and older increased by 215 in 2005.

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<sup>11</sup> Adjusted for inflation – in chained (1997) dollars

The number of births in the territory declined significantly in 2005. While on average for the last decade 395 children are born each year, 2005 recorded only 314 births. The number of deaths in the territory was slightly above average last year at 160. The net effect is that natural population growth (births minus deaths) contributed 154 persons to the 2005 population change.

It is expected that population growth will continue at a moderate pace. In 2006 Yukon's population should average 31,600.

## ***Labour Force***

The Yukon Labour Force Survey reported that both the working age population and size of the labour force<sup>12</sup> increased by 100 in 2005 to 21,500 and 16,400 respectively. The number employed increased at a slightly higher pace to an average of 15,500 last year; a jump of 200 from 2004. The average number of unemployed dropped a corresponding amount to 800.<sup>13</sup> Overall, the unemployment rate averaged 4.9% in 2005.

The participation rate in 2005, or the percentage of the working age population either employed or actively seeking employment, remained virtually constant compared to the previous year at 76.3%. However there has been a trend of increasing participation in the labour force of young adults (15-24 years old). Between 2000 and 2005 the participation rate of this group has jumped from 59.5% to 69.0%. In contrast the participation rate of those 25 and older has dropped from 82.1% to 77.5%. This decrease in labour force participation was seen in both sexes in the 25+ age group.

Aided by increased employment opportunities in resource industries, employment in the goods producing sectors increased from an average of 1,500 in 2004 to 1,800 in 2005. The service sector, which accounts for the vast majority of employment in Yukon, remained stable at 13,700.

Total employment includes the number of employees in the territory as well as those who are self-employed. The number of employees increased slightly in 2005 to 12,900. Employees in the public sector<sup>14</sup> increased by 300 last year while private sector<sup>15</sup> employees dropped by 200. Self employment grew last year to 2,700 which is an increase of 300 over 2004 figures.

Part time<sup>16</sup> employment remained constant in 2005, averaging 2,400. The majority (1,700) of the part-time job holders were female. Full time employment increased by 300 in 2005 to 13,100.

Employment in early 2006 has remained strong with unemployment hovering around 5.0%. Observed shrinkage in the size of the labour force in early 2006 appears to be almost entirely tied to a decrease in the participation rate; fewer people are choosing to

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<sup>12</sup> The working age population that is actively participating the labour force

<sup>13</sup> Totals may not add due to rounding

<sup>14</sup> Public employees include those who work for a municipal, territorial or federal government, First Nations band office, or for a government service or agency, a crown corporation, or a government funded establishment such as a school (including universities) or hospital.

<sup>15</sup> Private employees include those who work as employees of a private firm or business.

<sup>16</sup> Part-time employment consists of persons who usually work less than 30 hours per week at their main or only job.

participate in the labour force than in the same time period in 2005. It is expected that additional opportunities in the resource and construction industries will entice workers back into the labour force throughout the year and employment should remain strong. It is forecast that on average the unemployment rate should be 5.5% with 15,600 employed.

### ***Consumer Prices***

Increased fuel oil and gasoline prices were key contributors to the consumer price index increase in Whitehorse<sup>17</sup> in 2005. Overall price increases in Whitehorse registered identical to the national average of 2.2%. If energy was removed from the consumer basket then the overall annual increase would have been substantially less at 1.2%.

The price of fuel oil and other fuels in Whitehorse jumped by a sizeable 22.2% in 2005 contributing to a 4.3% increase in shelter costs. Household operations and furnishings, however, remained flat with no overall price change in 2005. Although some components of household operations did increase, such as paper products and household textiles, they were balanced by decreases in items such as kitchen utensils and household appliances.

If you purchased your food from stores in 2005, the increase to your family spending based on price increases was limited to 1.4% in the last year. The prices of both seafood and meat decreased in 2005 but the prices of vegetables jumped by 4.5%. In addition consumers were milked for an additional 3.6% for dairy products and eggs last year.

Visitors and consumers purchasing food from restaurants in 2005 saw an increase of 3.9% on their tabs. For visitors to Whitehorse, this was offset by a 3.1% decrease in the price of traveller accommodations.

Transportation costs increased by 4.6% last year fuelled substantially by a 12.0% increase in the price of gasoline. Auto insurance premiums also registered a 6.1% jump in 2005. The cost of public transportation increased at less than ½ the pace of private transportation over the last year.

Consumer prices in Whitehorse should follow a similar trend expected to be experienced across in Canada in 2006. With energy prices expected to moderate over the year, inflation should drop marginally to around 2.0%. The higher Canadian dollar and the relatively cheaper price of imports should serve to temper many price increases over the year as domestic manufacturers would be reluctant to pass on higher input costs to consumers of Canadian produced goods.

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<sup>17</sup> The Consumer Price Index is available in Yukon for Whitehorse only

### **3. Yukon Sectoral Outlook**

#### ***Mining***

Last year was a banner year for exploration and mining activity in Yukon and 2006 is expected to be an even better year for the industry. Of particular interest in 2006 will be the initiation of pre-development activities at Minto (Sherwood Copper Corporation) and Wolverine (Yukon Zinc Corporation), with both projects working towards production start-up targets in 2007. As well, several projects are completing project feasibility studies, and significant advanced exploration efforts will play on the success of previous efforts. With continued exploration success, it is hoped that there will be further development announcements in the foreseeable future. The placer industry should also benefit from improved gold prices that have surpassed \$500 US per ounce and are expected to remain strong throughout 2006.

Exploration expenditures in 2005 more than doubled from their level in 2004 to approximately \$50 million with more than 50 active exploration projects. Many of these projects produced good results and either identified new prospects or continued to extend reserves on known mineralized zones. Work should continue on many of these projects in 2006.

The largest exploration program in Yukon in 2005 was conducted by Yukon Zinc Corporation (formerly known as Expatriate Resources) on the Wolverine deposit in southeastern Yukon. Yukon Zinc spent approximately \$20 million on advanced exploration efforts including decline construction and bulk sample testing. They are now completing a bankable feasibility study and are expected to reach a production decision by mid-2006.

Quartz claim staking remained at significant levels and claims in good standing have increased slightly in 2005 to 50,373 claims. Quartz claims in good standing were up about 13% over 2004 with 49,772 claims. Placer claims in good standing increased slightly from 16,054 in 2004 to 16,249 in 2005.

Commodity prices in world markets continue to be very strong for both base and precious metals. High prices have been primarily driven by the demand for minerals in Asia, and in particular China, where strong economic growth levels are being experienced. Many mining analysts are suggesting the current mining growth cycle has the potential to be long in duration, possibly up to 10 years or more, in comparison to historically shorter cycles. As a result investor interest in the exploration and mining sectors is very strong and has been enabling junior mining companies to secure investor funding in financing significant exploration activity. This is especially important to Yukon as over 90% of exploration conducted is by junior mining companies.

Of particular importance to Yukon's mining industry are the prices of mineral commodities such as gold, silver, lead, zinc and copper.

The price of gold continued to rise in 2005 ending the year at over \$530 US per ounce. The price of gold is of particular importance to placer mine operators. Increases in the price have been somewhat offset by increased costs associated with the rising fuel prices and an increase in the value of the Canadian dollar.

Yukon placer gold production in 2005 totaled 70,322 crude ounces. The total dollar value of Yukon placer gold produced in 2005 was about \$29.9 million. Placer gold production

currently accounts for the majority of mineral production in Yukon. The value of the Canadian dollar, the world price for gold and the new placer régime will be influencing factors in how well the industry performs in 2006.

The price of silver also increased to over \$9 US per ounce by the end of last year. This supports expanded interest in the precious metal sector with prices expected to show continued strength in 2006. Strong precious metal prices significantly enhance the economic viability for developments such as Minto (Sherwood Copper), Skookum (Tagish Lake Gold), United Keno Hill (Alexco Resource Corp.), Dublin Gulch (StratGold Corporation) and many other properties throughout Yukon.

Base metals have also demonstrated sharp price increases as a result of strong global market demand. Average lead and zinc prices have shown increases of 9% and 54% respectively since December 2004. The price of copper has also topped \$2.40 US/lb recently with the average price increasing by about 45% over the past year. The price forecast for these base metals remains positive due in part to reducing inventories and increasing global demand. The price of base metals is important to a large number of projects including the proposed mine developments at Minto (Sherwood Copper), Wolverine (Yukon Zinc), Howard's Pass (Pacifica Resources), and Carmacks Copper (Western Silver).

Other minerals of potential importance to Yukon include molybdenum, tungsten, uranium and coal.

Molybdenum rose from a price of approximately \$6 US/lb to \$30 US/lb in December 2005. Molybdenum is primarily used in strengthening metals applied in oil and gas pipelines. Yukon hosts numerous molybdenum deposits and the price increase has sparked exploration interest in projects such as Red Mountain (Tintina Mines).

Improvements in tungsten markets have resulted in the reopening of the Cantung Mine (North American Tungsten) located on the Yukon-NWT border. It has also stimulated interest in other properties such as Mactung, Logtung and Kalzas.

Increased world attention and emphasis on alternate energy sources has stimulated uranium exploration worldwide and led to price increases. Yukon has several areas with significant potential for uranium deposits which are expected to be actively explored by numerous companies in 2006. Of particular interest is continued exploration for uranium in the Wernecke Mountains area east of Dawson City.

The increased demand for coal in China, due to its own declining reserves and the continuation of rapid industrial growth, has resulted in coal prices vastly improving since 2004. Yukon has significant reserves of coal throughout the Whitehorse Trough and in the Bonnet Plume area. Exploration efforts in the Whitehorse Trough are expected to continue and feasibility studies on deposits such as Division Mountain (Cash Minerals) are ongoing.

Yukon also hosts precious gem deposits such as emeralds at Tsa da Glisza (True North Gems). In 2005 exploration efforts included extensive trenching and mini-bulk sampling that has led to a pre-feasibility study that is expected to be completed by mid-2006. Cutting of the emeralds, test marketing, reserve extension and developing techniques on handling the stone to produce market quality gems has been the focus of efforts over the past two years. Several new emerald prospects at the Tsa da Glisza property area have also been explored and this has resulted in the discovery of several new mineralized zones.

The Yukon government continued to support the mining exploration industry by funding the Yukon Mining Incentive Program. In 2005 \$1,009,000 was offered to 63 successful applicants. Prospectors have been very successful in the past few years in identifying and advancing new mineral occurrences and stimulating exploration investment through promotional activities and option arrangements with junior and major mining companies.

The Yukon Mineral Exploration Tax Credit program, that provides a 25% tax refund on eligible exploration expenditures with a cap of \$300,000 credit per company, has been extended to March 31, 2007.

For 2006, mineral exploration expenditures are expected to total between \$50-60 million and pre-development expenditures for hardrock mines are estimated to be in the \$70-80 million range. In addition, placer gold production values are expected to increase from last year as a result of significant increase in gold prices. Placer production may reach or exceed \$50 million in 2006

## ***Oil and Gas***

The oil and gas resources of Yukon remain underdeveloped, however, a number of significant developments over the past year have led to increased prospects of these resources being developed. The most significant market factor in recent years has been the strengthening of oil and gas prices. This trend continued through 2005 with oil and gas prices seeing a 30% increase in Western Canada on account of the strength of global markets. However the impact on Canadian prices has been dampened by a 7.4% increase in the value of the Canadian dollar over the same period. These strong markets resulted in unprecedented levels of investment in petroleum exploration in Canada in 2005 and 2006 is expected to be another strong year for oil and gas prices and investments nationally. Yukon has so far remained on the periphery of this investment boom.

The drilling of two wells in 2005 marked the first drilling activity Yukon has seen in almost 20 years. An unsuccessful exploratory well was drilled by Devon ARL Corporation in the Eagle Plains. Devon did, however, drill a successful development well in the Kotaneelee field and has been producing gas for market since May 2005. This new well has resulted in increased production of Yukon natural gas and will certainly extend the life of Kotaneelee gas production. Additional production from the new well is being partially offset by declining production from the other two producing Kotaneelee wells.

No drilling activities are planned for Yukon in 2006 and the proposed seismic program by Hunt Oil Company of Canada on its exploration license has been delayed a year as the company seeks a partner for this property.

There is a possibility that oil production could commence from a field in the Eagle Plains held by Northern Cross (Yukon) Ltd. A number of scenarios are being considered by Northern Cross, including the possibility of using a small semi-processing plant to produce a product that could be used for generating electricity in Yukon. A decision from Northern Cross is expected before the end of 2006.

A large stimulus to increased exploration activity would be achieved in Yukon through another land disposition. The Department of Energy, Mines and Resources has proposed some administrative changes to its land disposition process and is currently engaged in a consultation process relating to those changes. The Department is also

working on the Oil and Gas Royalty Regulations and, when final, these Regulations should foster further exploration by enhancing regulatory certainty.

Lack of pipeline infrastructure has limited exploration and production of Yukon oil and gas resources. Progress in diminishing this hurdle is being seen as the northern gas pipelines from the Mackenzie Delta and Alaska's North Slope continue to progress and gather momentum. As the certainty increases regarding pipeline construction the interest in exploration in Yukon should follow.

## ***Forest Resources***

Last year was marked by optimism in the Yukon forest industry with a number of small and medium sized businesses increasing investments and improving production capabilities. The Yukon Government has facilitated increased access to timber by contracting development work and passing on the costs of the contracts to permit holders through an engineering levy. Furthermore, contracts to develop new harvest areas have improved capacity in Yukon resulting in less dependence on hired contractors from outside the Territory.

Timber salvage rights to two large areas in the southeast Yukon affected by forest fires in the summer of 2004 have been awarded to a Yukon company. There is potential for the recovery of greater than 300,000 m<sup>3</sup> from these regions. These permits are valid for ten years making them the most secure form of tenure seen in Yukon in many years.

In southwest Yukon a new harvest area providing access to over 165,000 m<sup>3</sup> of beetle attacked spruce was developed. Multiyear permits totaling 55,000 m<sup>3</sup> were issued for this area. In addition to this, an area slated for agricultural development is providing a three year wood supply of 15,000 m<sup>3</sup> per year.

A handful of smaller companies are focusing on value added niche markets and on providing local markets common products such as rough cut lumber, siding and trim. These products have traditionally been imported from outside sources. One local business has begun production of birch syrup at a scale not previously seen in Yukon.

Implementation of the Strategic Forest Management Plan for the Champagne-Aishihik First Nation traditional territory is well underway. One objective is to refine forest salvage opportunities within the greater than 380,000 hectare area that is affected by the ongoing spruce bark beetle infestation. Given the nature and configuration of the resource in this region, innovative approaches to harvest and marketing will be required to achieve the goals outlined in the strategic plan. In this regard, the Yukon Government and Champagne Aishihik First Nations are seeking Requests for Proposals to harvest up to one million cubic meters of the beetle affected timber over the next ten years.

Two new regional forest management plans are expected to be completed in 2006. These plans will focus on the Teslin Tlingit Council and Kaska traditional territories with total planning areas of 2 million and 8 million hectares, respectively. Regional forest management plans are a key step to direct forest management activities as well as in scoping the size and nature of commercial opportunities.

Overall, an increase in Yukon forest product production is anticipated for 2006.

## **Tourism**

Visitor travel to Canada was down 0.5% last year compared to 2004. The number of overseas visitors to Canada increased 6.8% while the number of US visitors declined by 8.6%.

Yukon fared better than Canada in 2005 with visitor growth of 3% over 2004 figures, receiving a total of almost 290,000 visitors.<sup>18</sup> Yukon's border crossing statistics indicated that overseas visitors increased in number by 10% to almost 29,000 while US visitation grew by 3% to 231,000. In addition Canadian visitors to Yukon increased by nearly 2% to 31,000. Yukon's overall border crossing increase last year was driven by an additional 15,786 motorcoach travelers which was an increase of almost 20% over 2004 figures. In contrast, total private vehicle traffic was down roughly 3% last year.

In support of the growth reported by Yukon border crossing statistics, Yukon's Visitor Information Centres reported a corresponding increase in visitation. Visitor Information Centres registered 235,752 visitors from May through September 2005. This amounted to an increase of 6,390 visitors, or nearly 3%, over the same period in 2004.

Anecdotal reports from a number of Yukon tourism operators also indicated that they were pleased with the 2005 summer season. Many recorded continued growth from last summer however some sectors were not back to pre-9/11 levels. Wilderness adventure operators, those specializing in the Japanese market and businesses catering to the motorcoach travelers reported a good season. Operators focused on European markets performed well with those servicing the fly-drive and RV rental segments indicating an excellent season.

Preliminary indications from Yukon tourism operators also suggest they experienced a good fall/winter season in 2005/2006. Wilderness adventure operators that specialize in dog sledding and northern lights viewing showed strong bookings and expect final levels to be an increase over the previous season.

Forecasters surveyed by the Conference Board of Canada in January 2006 are positive regarding Canada's tourism prospects. They estimated that tourism will increase in 2006 but will drop in 2007 and 2008 as the Western Hemisphere Travel Initiative (WHTI) is implemented. This new regulation passed by the United States is scheduled to be phased in over the next two years. The WHTI will require travelers entering or re-entering the US to produce secure identification. The exact type of identification accepted has yet to be determined.

For Yukon, the Department of Tourism and Culture forecasts a favourable 2006 summer season based on many factors. For instance, many of Yukon's trade partners and Yukon tourism operators indicate that bookings are up from last year. In addition Condor will commence one week earlier and end service one week later offering direct air service between Frankfurt, Germany and Whitehorse.

Despite this optimism, there is an underlying concern that the price of fuel and the high value of the Canadian dollar could negatively impact the industry and Yukon visitation. Overall the Department of Tourism and Culture projects travel to Yukon will increase by 3 % in 2006.

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<sup>18</sup> International border crossings; does not include Yukon residents, train visitors, those in commercial vehicles, visitors arriving by air or marine arrivals in Dawson City.

## **Construction**

The total value of permitted building construction in Yukon last year decreased by 2% from 2004 to \$75.6 million. With the completion of the Jeux du Canada Games Centre, the value of institutional permitting dropped by 18% to \$23.4 million. Much of the drop was mitigated later in the year when some permitting for the construction of the Athlete's Village for the 2007 Canada Winter Games took place. The value of permitted industrial construction increased by 28% to \$2.1 million in 2005. The value of permitted commercial construction declined by 42% to \$5.8 million last year.

The value of permitted residential construction increased at a strong pace again in 2005; surpassing levels in 2004 by 18% and totaling \$44.1 million for the year. An increasing population, continued low interest rates and the expectation that higher interest rates are on the horizon have been contributing factors in residential construction growth over the last few years. In 2005 there were 291 new dwelling units permitted in Yukon, an increase of 36 from the previous year.

Expectations are that construction should remain strong in 2006 with the value of permitted building construction in the territory remaining in the \$65 - \$75 million range.

Robust residential construction should continue this year with continued demand for housing, although, increasing interest rates in 2006 may temper some of the growth. Rental vacancy rates in Whitehorse have also decreased in the last year (dropping to 2.9% in March 2006) and should spur additional investment in residential construction. Yukon Housing incentive programs and less restrictive mortgage terms offered through commercial lenders and Yukon Housing are also expected to continue helping Yukoners invest in housing, adding additional support to growth in the residential construction sector. In addition, in order to meet continued demand for new housing, the Department of Community Services will invest \$12.5 million this year developing rural, country and urban residential lots in and around Whitehorse.

Larger commercial development projects such as construction of a new Canadian Tire store and a new Metro Chrysler dealership should also provide support to building permits in 2006.

Institutional construction should remain high with Yukon Government investment in projects such as the Athlete's Village and other facilities for the 2007 Canada Winter Games, Tantalus School replacement in Carmacks, Porter Creek Secondary School upgrades and Mayo Community Centre construction.

There will also be construction activity in public infrastructure investment. There are sewage treatment projects for Dawson City and Carmacks slated for 2006. In addition there are also plans for waterfront development in Carcross and the City of Whitehorse has budgeted almost \$6 million for waterfront development, including underground services and surface road work, in 2006.

The Department of Highways and Public Works will spend almost \$35 million under the US funded Shawkak Highway Project in 2006. Much of this is for the replacement of the Donjek River Bridge which will be a project spanning the next two years. The Alaska Highway will also benefit from over \$5 million in work under the Canadian Strategic Infrastructure Fund. Improvements will also occur on the Dempster Highway (\$2 million) and the Atlin Road (\$2 million), as well as to the Whitehorse Airport (\$3 million). Pavement rehabilitation will also take place in and around the City of Whitehorse.

Increased construction costs have also contributed to the gain in permitted value recently as the prices of transportation, materials and labour have been on the rise. Key influencing factors to recent cost increases have been higher energy prices and higher demand for skilled workers locally as well as in neighboring jurisdictions such as BC and Alberta who are experiencing strong economic growth. These increased costs will continue to be a factor in the value of building permits in the upcoming year.

### ***Retail and Wholesale Trade***

Retail sales in Yukon have steadily increased each year since 1991 with the exception of a slight decrease in 2004. In 2005 retail sales totaled \$443.4 million, an increase of \$19.4 million (or 7.1%) over the 2004 levels.

Retail sales growth was most predominant in food and beverage stores. Retail sales in this trade group increased 13.5% over the previous year to more than \$125 million.

Growth was also significantly driven by a 3.5% increase in automotive sales to almost \$160 million. The automotive retail trade group includes new and used vehicles from dealers, auto parts stores and service station sales. This group accounts for roughly 35% of total retail trade in the territory.

Clothing and accessories stores showed a gain of 9.1% over 2004 figures to \$15.6 million in 2005.

The “catch-all” other trade group category reported a 5.8% increase in sales to \$142.7 million for 2005. This trade group includes home furnishings and electronics stores, building and outdoor supplies stores, pharmacies and personal care stores, general merchandise stores and other retailers not specified elsewhere.

Retail sales growth in Yukon is expected again for 2006. Total retail trade is projected to increase by 3% this year. Two factors may come into play in retail sales growth in 2006. Firstly, the Bank of Canada is expected to continue to raise its short term interest rates in order to keep inflation within its target range. This will make consumer credit more expensive and may curb consumer spending. Secondly, consumers and retailers are awaiting the Conservative election campaign promise to lower the GST to 6% from its current level of 7%.

Wholesale trade also experienced strong growth in 2005. Overall wholesale trade increased to \$95.1 million last year, a 10.7% jump from 2004 figures. Wholesale trade is the trade in goods between business such as construction materials to contractors or food to restaurants. With continued strong construction activity and a forecast increase in tourism, it is expected that wholesale trade will remain strong in 2006. In addition, recent price increases for building materials, specifically to the construction industry, will add additional support to the value of wholesale trade this year.

## Key Economic Indicators Summary Table

<b>Indicator</b>	<b>2004</b>	<b>2005</b>	<b>2006 (f)</b>
<b>Population, Prices, Rates †</b>			
Population	30,627	31,240	31,600
Inflation Rate (CPI for Whitehorse)	1.0%	2.2%	2.0%
Overnight Rate	2.25%	2.65%	4.25%
U.S./Canada Exchange Rate	\$0.768	\$0.8254	\$0.85
<b>Employment †</b>			
Labour Force	16,300	16,400	16,500
Employment	15,300	15,500	15,600
Unemployed	1,000	800	850
Unemployment Rate	6.1%	4.9%	5.5%
<b>Economic Output</b>			
Real Gross Domestic Product (chained 1997\$)	\$1,206 million	\$1,247 million (p)	\$1,285 million
Real GDP Growth Rate	3.5%	3.4%	3.0%
<b>Commodity Prices †</b>			
Gold	\$409.32 US/oz	\$444.87 US/oz	\$576.74 US/oz
Silver	\$6.69 US/oz	\$7.34 US/oz	\$10.08 US/oz
Lead	\$0.400 US/lb	\$0.442 US/lb	\$0.522 US/lb
Zinc	\$0.475 US/lb	\$0.626 US/lb	\$1.089 US/lb
Copper	\$1.299 US/lb	\$1.668 US/lb	\$2.129 US/lb
Oil (West Texas Intermediate Crude)	\$41.45 US/barrel	\$56.44 US/barrel	\$62.33 US/barrel
Natural Gas (NYMEX)	\$6.18 US/MMBtu	\$9.00 US/MMBtu	\$7.68 US/MMBtu
Lumber (West. SPF 2X4)	\$394 US/mbf	\$353 US/mbf	\$326 US/mbf
<b>Mining</b>			
Value of Mineral Production	\$54.4 million	\$33.2 million (p)	--
Exploration Expenditures	\$22.0 million	\$48.8 million	\$50 - \$60 million
<b>Oil and Gas</b>			
Volume of Natural Gas Production	187,000,000 m <sup>3</sup>	199,000,000 m <sup>3</sup>	--
<b>Tourism</b>			
Border Crossings+	315,897	324,284	334,000
<b>Government</b>			
YTG Expenditures*	\$698 million	\$819 million	\$793 million
<b>Construction</b>			
Permitted Building Construction	\$77.5 million	\$75.6 million	\$65 - \$75 million
<b>Trade</b>			
Value of Retail Sales	\$414.0 million	\$443.4 million	\$457 million

*f = forecast,*

*e = estimate*

*p = preliminary*

*-- = not available*

*† annual averages – totals may not add due to rounding*

*\* 2004 = 2004/2005; 2005 = 2005/2006; 2006 = 2006/2007*

*+ totals do not include visitors arriving by air or marine arrivals (Dawson City)*

## Data Sources for Key Economic Indicators Summary Table:

<b>Indicator</b>	<b>Source</b>
Population	2004 & 2005: Yukon Bureau of Statistics, <i>Yukon Population Estimates</i> . 2006: Yukon Economic Development forecast.
Inflation (Consumer Price Index)	2004 & 2005: Statistics Canada, <i>Consumer Price Index</i> . 2006: Yukon Economic Development forecast.
Overnight Rate	2004 & 2005: Bank of Canada 2006: Yukon Economic Development survey of forecasters.
Canada/U.S. Exchange Rate	2004 & 2005: Bank of Canada (daily average noon rate). 2006: Yukon Economic Development survey of forecasters.
Labour Force Indicators	2004 & 2005: Yukon Bureau of Statistics <i>Yukon Employment</i> . 2006: Yukon Economic Development forecast.
Economic Output (GDP)	2004 & 2005: Statistics Canada, <i>Provincial Economic Accounts</i> . 2006: Yukon Economic Development forecast.
Metal Prices	All Years TD Canada Trust Economics
Value of Mineral Production	2004 & 2005 preliminary: Natural Resources Canada Minerals and Mining Statistics Division
Exploration	All years: Yukon Energy, Mines and Resources
Natural Gas Production Volume	All years: Yukon Energy, Mines and Resources, Oil and Gas Branch.
Tourism Visitation	All years: Yukon Bureau of Statistics and Yukon Tourism and Culture
YTG Expenditures	All years: Yukon Finance.
Permitted Building Construction	2004 & 2005: Yukon Bureau of Statistics 2006: Yukon Economic Development forecast
Retail Trade	2004 & 2005: Statistics Canada 2006: Yukon Economic Development forecast.



