

Yukon Economic Update

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The following text provides an update to the *Yukon Economic Outlook 2009* that was released on May 29, 2009. This document is intended to provide an update, using the most current data available, on construction, mineral exploration and development, and tourism. The document also provides relevant commentary on current economic indicators for the labour force, population, trade among other areas of interest. Information and data in this document is current as of November 11, 2009.

Global, U.S. and Canadian Economic Outlook – 2009/2010

With signs of economic recovery in many countries, most prominent economic forecasting bodies have raised their forecasts for economic growth in 2009 and 2010. On October 1, 2009 the International Monetary Fund (IMF) released revised estimates for global growth with 2009 now expected to see a global GDP decline of 1.1%, versus a 1.4% decline in the previous July 2009 release, and 2010 is now expected to see global GDP growth of 3.1%, up from the July forecast of 2.5% growth.

The IMF now expects U.S. GDP to grow by 1.5% in 2010, up from the 0.8% estimate of July 2009. The IMF still expects U.S. economic activity to be weak in 2009 with the current forecast of a decline of 2.7%, down 0.1 percentage points from the July forecast.

During the economic downturn, Canada has benefited from relatively stable housing prices and stable labour incomes. While significant job losses were recorded, the impacts on employment were far less than what was experienced in other countries, and in particular, the United States. Many forecasters have recognized Canada's good relative economic position which has been reflected in revised growth forecasts. The IMF has recently increased its 2010 forecast of GDP for Canada to 2.1%, from 1.6% in July. The IMF is expecting Canada's GDP to decline by an estimated 2.5% in 2009.

On October 28, the Governor of the Bank of Canada, Mark Carney, noted in a speech to the Committee on Banking, Trade and Commerce that the Bank of Canada now projects the Canadian economy to contract by 2.4% in 2009 and grow by 3.0% in 2010. These projections are improvements from the April forecasts which had the economy in 2009 declining by 3.0% and the economy in 2010 growing by 2.5%.

Canada's major banks (BMO, CIBC, RBC, TD, Scotiabank) have recently revised forecasts for 2009 and 2010 upward, recognizing that Canada's well functioning financial markets, low borrowing rates and significant government stimulus should contribute to economic growth going forward. All of the major banks are expecting economic growth to be posted in the final two quarters of 2009, and for this growth to continue into 2010. Real GDP growth forecasts for 2010 among Canada's major banks range from 2.0% to 2.7%.

Yukon Outlook

Mining

Work to bring both the Wolverine and Bellekeno mine projects into production in 2010 is currently ongoing. At Wolverine, the 205 person camp was completed in 2009 with project related employment currently in excess of 200 people. Production is now expected to begin mid-2010. Alexco Resource Corporation announced its plans to proceed to production at the Bellekeno project on November 11, 2009. Alexco will initiate construction activity at Bellekeno and anticipates that production at the project will commence in the third quarter of 2010.

Mineral exploration expenditures for 2009 are now estimated to total around \$90 million, surpassing the estimate of \$25 to \$40 million made in the May 2009 Outlook publication. The upward revision to the estimate for 2009 is due in part to increased interest in properties near Underworld Resources' White Gold property following excellent drill results by Underworld Resources in the spring of 2009. Recent positive results along with strong gold prices throughout 2009 have helped contribute to over 7,000 new claims staked in the area around the Underworld Resources property. Changes to the Claims and Administration section of the Quartz Mining Act to simplify staking have also helped contribute to the recent staking rush. As well, numerous exploration projects including White Gold, Keno Hill, Wolverine, Rau, Casino, Brewery Creek and Selwyn Resources Selwyn zinc-lead project had higher than expected exploration spending in 2009.

Other projects such as Northern Freegold, Victoria Mining's Eagle Gold, and Western Copper's Casino are expected to contribute to future growth in Yukon's mining sector. It is anticipated that 2010 will see three operating hard rock mines in Yukon, with production from the currently producing Minto mine joined by production from the Wolverine mine in mid-year and from the Bellekeno mine in the third quarter.

Capstone Mining Corporation's results from its 2008-09 exploration programs at the Minto mine proved very positive. Even taking into account reductions due to two years of production, the estimated measured and indicated mineral resource saw an increase of over 32% in contained copper, over 38% in contained gold and over 28% in contained silver over the last consolidated estimate reported in 2007.

Prices for a number of minerals of interest to Yukon saw recovery from the lows recorded in the early days of the economic downturn in late 2008. Copper prices have increased throughout 2009 with the price at the time of writing of this publication of U.S.\$2.99 per pound (November 11, 2009), more than double the price of U.S.\$1.39 per pound recorded at the beginning of 2009. Current copper prices, while down significantly from the record high of U.S.\$4.08 per pound recorded on July 3, 2008, are up substantially from the low of U.S.\$1.26 per pound recorded on December 24, 2008 during the worst of the global economic downturn.

Gold prices continued to be strong throughout the economic downturn and into 2009. Gold prices for the month of October 2009 averaged over U.S.\$1,044 per ounce, a record high.

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Year-to-date (to November 11, 2009) gold prices averaged a record U.S.\$948.84 per ounce, up 7.6% from the previous record of U.S.\$881.68 per ounce recorded in the same period in 2008.

At the time of publication of the Outlook in May 2009, a relatively low Canadian dollar versus the U.S. dollar was providing benefits to Yukon producers in terms of value of production. In recent months, the value of the U.S. dollar has weakened significantly versus the Canadian dollar. This has been a positive for Canadian operators who need to purchase machinery and equipment for exploration or development activities, as many of these items are priced in U.S. dollars. The higher Canadian dollar does have some negative impacts for Canadian mineral and metal producers as they receive less for their product due to the lower exchange rate differential. For Yukon placer gold producers, the high price of gold in U.S. dollars has helped soften some of the negative impacts coming from the high and strengthening Canadian dollar.

Oil and Gas

Current estimates of Yukon oil and gas potential indicate onshore estimates of 17 trillion cubic feet of conventional natural gas potential and 790 million barrels of oil. Current estimates of potential for the Beaufort Sea offshore include 40 trillion cubic feet of conventional natural gas and 4.5 billion barrels of oil.

Production at Kotaneelee, Yukon's only producing gas field, declined in 2009, dropping to 57 million cubic metres from 76 million cubic metres in 2008.

Yukon's oil and gas rights disposition process occurs twice each year. The Spring 2009 Call for Work Bids closed on June 10, 2009 with Permit #0019 being issued to Northern Cross (Yukon) Ltd. for work in Eagle Plain. The Government of Yukon's Oil and Gas Rights Disposition Fall 2009 Request for Posting closed on July 15, 2009 and yielded no Request for Postings. The next opportunity for industry to express interest in Yukon oil and gas rights is January 20, 2010.

The Government of Yukon continues to focus on northern pipeline development, with the Alaska Highway Pipeline Project and the Mackenzie Gas Project on the radar. Two proposals, TransCanada Pipelines and Denali, are helping to make the development of a gas pipeline from Alaska through Yukon into southern markets a possibility.

On June 11, 2009 TransCanada Pipelines Limited announced that they had reached an agreement with ExxonMobil, the world's largest publicly owned oil company, to pursue the development of an Alaska Gas Pipeline. TransCanada continues to move forward with project development, which includes engineering, environmental reviews, Alaska Native and Canadian Aboriginal engagement, and commercial work to conclude an initial binding open season by July 2010.

The Denali Project partners, ConocoPhillips and BP, are also continuing with efforts to ensure they are ready for a 2010 open season. To date there has been more than U.S.\$100 million spent on the Denali Project with much of the work associated with field data

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gathering and analysis, engineering work, project cost estimates, and commercial preparations for the open season.

Both proponents are planning for an open season in 2010. An open season allows a pipeline company to identify gas producers and shippers interested in seeking carrier capacity on the line if built and willing to commit their product at an economically feasible carrier price. The U.S.\$30 to U.S.\$40 billion project could see a functional pipeline system in 2018.

Looking to advance pipeline development, TransCanada and Denali continue to meet with the Yukon government and Yukon First Nations along the proposed pipeline right of way. While planning and consultations continue, neither proponent had substantial spending in Yukon in 2009.

On the Mackenzie Gas Project, the Joint Review Panel is expected to deliver their report to the National Energy Board in December 2009 on their hearings for the project. Yukon will take part in one final hearing, scheduled for April 2010.

Tourism

Data published by the Department of Tourism and Culture reports visitation to Yukon down by 7% through the end of September 2009 compared to the same period in 2008. Border crossings show total of 265,719 visitors from January through September 2009 which is 20,873 fewer than the 286,592 visitors reported in the same period in 2008. As was noted in the May release of the *Yukon Economic Outlook 2009*, the economic downturn, especially in the United States, was expected to negatively impact visitation to Yukon in 2009. The data in the first nine months of the year supports the May forecast with visitation from the United States down 19,562, or 10%. Visitation from other countries was also down significantly in the first nine months, by 3,503 visitors or 11%. On a bright note, the first nine months of 2009 saw increasing visitation from other areas of Canada, up 3,171 or 13%.

The strength of the Canadian dollar versus the U.S. dollar throughout 2009 has likely contributed to some of the recent weakness in visitation from the U.S.. Higher relative costs of travel related activities in Yukon are a consideration for would-be visitors to the territory. Going forward, a strong Canadian dollar may have some negative impacts on visitation from the U.S., as U.S. residents turn to travel activities in destinations which are now relatively less costly than travel to Yukon.

While the strength of the Canadian dollar versus the U.S. dollar remains a concern, many economic indicators are suggesting that Canada and most other countries are in the midst of a recovery from the global economic downturn. It is expected that the global economic recovery will contribute to a rebound in tourism visitation to the Yukon.

Construction

The *Yukon Economic Outlook 2009* called for a substantial increase in the value of permitted building construction for Yukon with the value forecast to increase to \$220 million from \$71.5 million. Spending associated with the development of the Wolverine mine along with

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substantial public spending on various construction projects were expected to constitute the bulk of the forecast increase in building permit value.

The first ten months of 2009 have seen a significant increase in the value of building permits with the total of \$137.3 million to October up 125.7% from the value of \$60.7 million posted in the same period in 2008. As expected, the majority of the increase in building permit value has been associated with projects being funded in part by federal stimulus spending, with the value of institutional building permits increasing by 968.0% in the first ten months of the year to \$75.4 million. Among the current construction projects driving institutional spending in 2009 are the construction of the Whitehorse corrections centre, the Yukon Hospital Corporation's residence and medical services building and the City of Whitehorse public safety building. As expected, a decline in the value of residential building permits has countered some of the increase in the value of building permits. The value of residential building permits is down 16.8% to \$32.8 million in the first ten months of the year.

The recent announcement of construction of the new Bellekeno mine near Keno will further boost construction activity into 2010.

While posting a strong increase in the first ten months of 2009, the forecast for the value of building permits will likely fall short of initial expectations but remain at twice the value of the previous year.

Retail Sales

Retail sales totaled \$336.3 million in the first eight months of 2009, 5.3% lower than the level posted in the same period in 2008. The lower retail sales can be primarily attributed to a decline in the value of automotive sales category which was down 20.3% from the \$124.3 million recorded in the first eight months of 2008. The automotive sales category includes sales from service stations; therefore the large drop can be partially attributed to significantly lower gasoline prices which are down 26% in Whitehorse in September 2009 versus September 2008. Yukon retail sales, excluding automotive sales, were up 2.8% in the first eight months of 2009; totaling \$237.2 million.

Due primarily to the lower year-over-year price for gasoline, which is positive for the Yukon economy but reduces the total automotive retail sales, the forecast for the value of retail sales may fall short of initial expectations, however; should remain strong, totaling more than \$500 million over 2009.

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Economic Growth (Gross Domestic Product)

Statistics Canada released its revised estimate for Yukon Real GDP for 2008 on November 9, 2009. The new revised estimate of \$1.500 billion was lower than the preliminary estimate of \$1.527 billion resulting in a revision to 2008 Yukon GDP growth to 4.5% from 5.2%. Yukon's real GDP growth rate, however, was still second highest in Canada, second only to Nunavut which increased by 9.2% over 2007 figures. Based on the new estimate for 2008 GDP and the forecast of 3.0-4.0% GDP growth for 2009, the current GDP forecast for 2009 is expected to range from \$1.545 billion to \$1.560 billion.

Population

Yukon population growth in the first half of 2009 was higher than the annual rate of 2.0% forecast in May 2009. Year-to-date population to June 2009 averaged 30,057, 3% higher than the average in the same period in 2008.

The population of Yukon reached a level of 34,157 in June 2009, an increase of 863 from June 2008. By community, Whitehorse saw the largest increase in population increasing by 746 people. Twelve other communities also posted growth with increases amongst these communities, totaling 168 people. The total population decline among the four communities that reported a population loss was 51 people, with Watson Lake accounting for 35 of these people.

Overall, it is expected that population in the territory should still average 34,200, unchanged from the May 2009 Forecast.

Labour Force

It was noted in the *Yukon Economic Outlook 2009* publication that the unemployment rate was expected to average around 7% in 2009. Yukon's seasonally adjusted unemployment rate in the first ten months of 2009 has averaged 6.9%, 2.1 percentage points above the 4.8% averaged during the first ten months of 2008.

As evidenced by the year-to-date increase in the average unemployment rate, there appears to have been some negative impacts related to the recent economic downturn. Lower visitation to Yukon in 2009 has resulted in negative employment impacts in some businesses that rely on tourist dollars, whether directly or indirectly. Mineral exploration expenditures, while not down as much as forecast in the May Outlook publication, are down from expenditures in 2008. Lower mineral exploration activity could account for some of the employment weakness in the first ten months of 2009. As well, it has been speculated that some of the higher unemployment rate could be explained by the loss of employment for residents of Yukon who were employed outside of the territory. This might be the case for Yukoners who work in the mining and oil and gas sector in other parts of Canada or around the world.

While higher in 2009, the unemployment rate in Yukon remains below the national average which averaged 8.2% in the first ten months of 2009.

Consumer Prices

Average consumer prices in the first nine months of 2009 for Whitehorse have increased by 0.8% over the same period in 2008, significantly lower than the 3.5% posted in the same period of 2008. Prices in the first nine months of 2008 were bolstered by high and increasing energy costs (electricity, gasoline and fuel oils). Lower energy costs in the first nine months of 2009, however, have accounted for the significantly lower increase in the Whitehorse consumer price index.

Looking at the latest month available, September prices for Whitehorse in 2009 were down 1.0% from prices posted in September 2008. While price increases were recorded in rent, housing replacement costs, and inter-city transportation, strong declines in gasoline (-26.0%), fuel oil and other fuels (-29.8%) and electricity (-14.4%) contributed to the year-over-year decline in Whitehorse CPI in September.

Sustained decreases in gasoline and fuel oil prices have had a greater than expected impact on year-to-date prices levels. Inflation in 2009 will fall significantly below the May forecast of 2% and should average closer to 1% over the year.

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Key Economic Indicators Summary Table – November Update

<i>Indicator</i>	<i>2008</i>	<i>2009</i>
Cells highlighted in yellow are revised from the <i>May 2009 Yukon Economic Outlook</i>		
Population, Prices, Rates		
Population	33,378	34,200
Inflation Rate [^]	3.6%	1%
Overnight Rate	3.04%	0.40%
U.S./Canada Exchange Rate	\$0.938	\$0.883
Employment ^t		
Labour Force	17,900	18,300
Employment	17,100	17,100
Unemployed	900	1,200
Unemployment Rate	5.0%	7%
Economic Output		
Real Gross Domestic Product (millions of chained 2002 dollars)	\$1,500 (r)	\$1,545 - \$1,560
Real GDP Growth Rate	4.5%	3% - 4%
Commodity Prices ^r		
Gold (\$U.S./oz)	\$872.53	\$950.00
Silver (\$U.S./oz)	\$15.05	\$14.50
Zinc (\$U.S./lb)	\$0.8533	\$0.6900
Copper (\$U.S./lb)	\$3.1694	\$2.2300
Uranium (\$U.S./lb)	\$63.76	\$46.00
Oil - WTI (\$U.S./bbl)	\$100.15	\$60.00
Natural Gas (\$U.S./MMBTU)	\$8.88	\$3.85
NYMEX		
Lumber (\$U.S./mbf)	\$253.33	\$218.00
West SPF 2x4		
Mining		
Value of Mineral Production	\$203.9 million	\$230-\$250 million
Exploration Expenditures	\$110 million	\$90 million
Development Expenditures	\$25 million	\$200 million
Oil and Gas		
Natural Gas Prod'n Volume - m ³	75,872,900	--
Government		
Gross YG Expenditures* - millions	\$960.9	\$1,003.2
Construction		
Permitted Building Construction	\$71.5 million	\$150 - \$ 160 million
Trade		
Value of Retail Sales	\$530.2 million	\$500 - \$510 million
Tourism		
Non-resident Border Crossings ⁺	299,860	280,000 - 295,000

[^] - CPI increase for Whitehorse Only

f = forecast, e = estimate, p = preliminary, r = revised, -- = not available

^t = annual averages – totals may not add due to rounding

* 2008 = 2008/2009 forecast; 2009 = 2009/2010 estimate

+ 2008 total reported by the Department of Tourism and Culture

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Data Sources for Key Economic Indicators Summary Table

<i>Indicator</i>	<i>Source</i>
Population	2008: Yukon Bureau of Statistics, Yukon Population Estimates 2009: Yukon Department of Economic Development
Inflation (Consumer Price Index)	2008: Statistics Canada, Consumer Price Index 2009: Yukon Department of Economic Development
Overnight Rate	2008: Bank of Canada (average daily rate) 2009: BMO Capital Markets, Canadian Economic Outlook
Canada/U.S. Exchange Rate	2008: Bank of Canada (average daily noon rate) 2009: BMO Capital Markets, Canadian Economic Outlook
Labour Force Indicators	2008: Statistics Canada, Yukon Labour Force Survey 2009: Yukon Department of Economic Development
Economic Output (GDP)	2008: Statistics Canada, Provincial Economic Accounts 2009: Yukon Department of Economic Development
Commodity Prices	All Years: TD Canada Trust Economics
Value of Mineral Production	2008 Natural Resources Canada Minerals and Mining Statistics Division 2009: Yukon Department of Economic Development
Mineral Exploration & Mine Development	All Years: Yukon Energy, Mines and Resources
Natural Gas Production Volume	2008: Yukon Energy, Mines and Resources, Oil and Gas
GY Expenditures	<i>Yukon Finance, 2009-10 Financial Information</i>
Permitted Building Construction	2008: Yukon Bureau of Statistics 2009: Yukon Department of Economic Development
Retail Trade	2008: Statistics Canada 2009: Yukon Department of Economic Development
Tourism Visitation	2008: Yukon Department of Tourism and Culture 2009: Yukon Department of Economic Development