

# **Yukon Economic Outlook**

July 2014



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# Economic Forecasting and Risk

This forecast examines near-term expectations for Yukon's economy, focusing on the anticipated performance of key economic indicators and sectors.

Like all forecasts, the results depend on the information available at the time the forecast is completed and the key assumptions incorporated in the forecast. Careful consideration was taken when developing the key assumptions for the current forecast, such as the level and timing of mining development activity, estimates of annual mineral production and the amount of construction spending. While best efforts were made to include appropriate assumptions there is a degree of risk associated with these assumptions and ultimately the forecast results. Key examples of potential risks to the forecast are noted below:

- Global Economic Performance – While the medium-term prospects for the global economy appear positive, there are no guarantees. The global economy will be influenced by the degree to which the U.S. and European economies recover, the rate at which the Asia Pacific countries continue to expand as well as unrest in parts of the world, such as the Middle East.
- Metal Prices – Metal prices are a key determinant of mining activity (exploration, development and production) and are determined on the global market. Projections of several leading forecasting firms were used in preparing this forecast.
- Energy Prices – Energy prices are also determined on the world market. For Yukon, the price of oil can influence economic activity particularly in how it can impact mining sector activity (fuel for project operations and equipment) as well as impact tourism activities (fuel for travelers' vehicles). The price of fuel also influences the cost of Yukon construction and also the cost of goods in Yukon as the majority of goods purchased in Yukon are transported from outside the territory.
- Exchange Rates – The value of the Canadian dollar versus other currencies can impact spending decisions by tourists and also investment decisions by resource-based companies, such as those that export minerals. A strengthening or weakening dollar may affect this forecast.
- Interest Rates – A potential threat to economic growth in Yukon, and in Canada as a whole, is a significant increase in interest rates. The cost of borrowing in Canada has been very low for a prolonged period, with the Bank of Canada's daily overnight target for the bank rate not exceeding 1.0 per cent since January 19, 2009. This forecast assumes that interest rates will remain relatively low for the foreseeable future.

Circumstances that impact the assumptions of a forecast can change rapidly, and forecasts can become dated. Yukon is a prime example of a small economy that can be quickly influenced by outside events. Information in this forecast is current to July 11, 2014.

## Highlights for 2013

- Preliminary estimates indicate the Yukon's Real GDP grew 1.3 per cent to almost \$2.3 billion, the tenth consecutive annual increase.
  - Weakness in mineral prices and a general slowdown in the global mining industry contributed to less activity in Yukon's mining sector with exploration, production and development activities all negatively impacted in 2013.
- Yukon's average population is estimated to have increased by 1.6 per cent to 36,604. Increasing population in 2013 marked the tenth consecutive year of growth.
- The labour market performed well in 2013:
  - Total employment averaged 19,300, up 400 from 18,900 in 2012.
  - The labour force averaged 20,400, matching the record level reported for 2012.
  - The unemployment rate averaged 5.4 per cent, down from 6.9 per cent in 2012.
- Retail sales fell to \$652 million, down from about \$670 million in 2012 and the first annual decline since 2009.
- Border crossings are estimated to have grown by 7.6 per cent, to a record 345,510.
- At \$78.9 million, the value of building permits in 2013 was down from \$100.4 million in 2012. All of the declines were associated with residential permits as the value of non-residential permits increased by \$10 million.
  - The Canada Mortgage and Housing Corporation estimated Whitehorse housing starts in 2013 at 162 units, down significantly from 282 starts in 2012.
- Change in the Consumer Price Index (CPI) for Whitehorse measured 1.7 per cent in 2013.

## Forecast for 2014

- Modest GDP growth of 1.7 per cent is forecast for 2014.
  - Growth is forecasted for a number of industries in 2014 with activity related to construction a major component of this growth.
- Mineral production expected to be down in 2014, with the ongoing shutdown of the Bellekeno mine a primary contributing factor to lower production.
- Population is expected to grow 1.4 per cent in 2014, exceeding 37,000.
- Gains are expected in both employment and labour force, but stronger employment growth should contribute to a decrease in the unemployment rate to 5.0 per cent.
- A return to growth for retail sales is expected with sales increasing to over \$670 million, up from \$652 million in 2013.
  - Higher consumer prices to contribute to growth in 2014.
- Border crossings are expected to grow to 350,000, representing the third straight year of growth.
- Building permits value is expected to post modest growth and total about \$90 million.
  - The Canadian Mortgage and Housing Corporation is estimating an increase in Whitehorse housing starts to 168 units.
- Following recent stronger growth nationally, the CPI for Whitehorse is expected to grow by 2.6 per cent, the highest growth rate since 2011.

## **Preliminary Forecast for 2015**

- The preliminary forecast for GDP growth is 4.5 per cent.
  - Increasing mineral production, primarily from the expectation of a resumption of production in the Keno Hill District along with the expectation of development activity related to the Eagle Gold mine are key drivers of the growth forecast for 2015.
- Population is expected to post further growth in 2015, with growth of 1.4 per cent to 37,600.
- Yukon's labour market is expected to continue to perform well into 2015 with gains in both employment and the labour force, but stronger growth in the labour force will see a slight increase in Yukon's unemployment rate.
- Retail sales are expected to grow to over \$700 million for the first time.
- Border crossings are expected to post modest growth in 2015.
- Building permits value is expected to grow again in 2015, totaling over \$100 million.
- CPI increase for Whitehorse to be similar to 2014 at 2.6 per cent.

## Global, U.S. and Canadian Outlook

Global economic activity picked up in the second half of 2013 with average growth of about 3.7 per cent, notably stronger than the growth of 2.7 per cent noted in the first half of the year. Improved performance from a number of advanced economies was the primary contributor to the stronger growth in the latter half of 2013.

The International Monetary Fund's (IMF) April 2014 *World Economic Outlook* document notes global growth strengthening to 3.6 per cent in 2014 and 3.9 per cent in 2015, up from estimated growth of 3.0 per cent in 2013.<sup>1</sup>

Current IMF forecasts have growth in emerging market and developing economies, such as China and India, continuing to be stronger than growth in advanced economies, but with the growth rate gap between advanced economies such as the United States and the euro area closing in the near-term.

Emerging market and developing economies saw growth of 4.7 per cent in 2013 and are currently forecast to grow by 4.9 per cent and 5.3 per cent for 2014 and 2015, respectively. China and India continue to lead the way for emerging market countries. Following estimated growth of 7.7 per cent in 2013, China's economy is expected to grow 7.5 per cent and 7.3 per cent over the next two years. In India, it is forecasted growth that of 4.4 per cent in 2013 will be followed by growth of 5.4 per cent and 6.4 per cent for 2014 and 2015, respectively.

It is estimated that, overall, advanced economies grew by 1.3 per cent in 2013, with expectations of growth of 2.2 per cent in 2014 and 2.3 per cent in 2015. Improving growth prospects for advanced economies are related to improved prospects for the U.S., as well as the euro area.

After relatively weak growth of 1.9 per cent in 2013, continued improvement in domestic demand is expected to contribute to stronger U.S. growth rates of 2.8 per cent and 3.0 per cent in 2014 and 2015, respectively.

Following estimated contraction of 0.5 per cent in the euro area in 2013, the IMF is forecasting growth of 1.2 per cent in 2014 and 1.5 per cent in 2015. Growth in Germany and France is driving this recovery, along with improved net exports and stabilization of domestic demand in other euro area economies.

For Canada, the IMF is forecasting that growth of 2.0 per cent in 2013 will be followed by growth of 2.3 per cent and 2.4 per cent in the subsequent two years. Improving U.S. growth prospects are improving Canada's outlook given that the U.S. is Canada's largest trading partner.

Recent Bank of Canada forecasts for Canada are consistent with IMF expectations. The April 2014 *Monetary Policy Report* noted real GDP growth of 2.0 per cent for 2013, with forecasts of 2.3 per cent and 2.5 per cent for 2014 and 2015, respectively. The outlook for stronger growth is related in part to the expectation that the lower value of the Canadian dollar and stronger demand for Canadian goods and services, particularly from the U.S., will contribute to growth in Canadian exports. The Bank also notes increased global demand for Canadian goods and services, along with the expectation that oil prices will remain high, should stimulate business investment in Canada. A soft landing for the

Canadian housing market as well as improving household indebtedness are also noted in the April 2014 Monetary Policy Report.<sup>2</sup>

Resource extraction remains a key contributor to the performance of Canada's economy with future prospects for growth tied to the performance of commodity prices. The outlook for mineral prices remains mixed for the near-term. Many forecasters are calling for the prices of gold, silver and copper to decline in 2014 and remain relatively weak into 2015 which will pose challenges to Canada's mining sector. The outlook for zinc and nickel is more positive with prices for both minerals expected to increase in both 2014 and 2015.

The outlook for oil and natural gas prices is also mixed, with many forecasters calling for oil prices to remain relatively stable over the next couple of years. After an extended period of weakness, natural gas prices are expected to post year-over-year growth in both 2014 and 2015, which could have positive ramifications for Canada's oil and gas sector.

At the time of writing, events taking place in the Middle East, in particular Iraq, have the potential to positively impact prices for metals, minerals, oil and gas going forward. An escalation in the armed conflict in Iraq, coupled with increased tensions in surrounding countries, could certainly contribute to mineral and energy prices exceeding current expectations.

Future growth prospects for Canada are also tied in part to interest rates. Borrowing rates in Canada have been very low for an extended period of time with the overnight rate fixed at 1.0 per cent since September 2009. This rate was maintained by the Bank of Canada during its interest rate announcement on June 4, 2014. The Bank noted that total CPI inflation moved up to the 2 per cent target sooner than anticipated in the April *Monetary Policy Report*, largely due to the temporary effects of higher energy prices and a lower Canadian dollar, but that inflation will remain near target in the near-term.<sup>3</sup> With the Bank of Canada calling for inflation to generally remain low, the current expectation is for interest rates to remain low into 2015 and for the foreseeable future.

**Outlook for Global, U.S. and Canadian Economies**

According to the IMF update to the World Economic Outlook (April 2014):

- Global Growth – 3.6 per cent (2014) and 3.9 per cent (2015);
- U.S. Growth – 2.8 per cent (2014) and 3.0 per cent (2015); and
- Canadian Growth – 2.3 per cent (2014) and 2.4 per cent (2015).



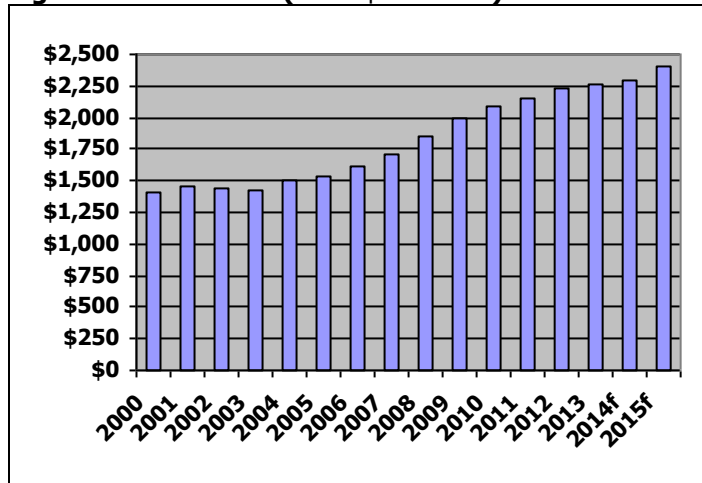
# Recent Performance and Short-term Outlook

## ***PART A: Economic Indicators***

### **Gross Domestic Product (GDP)**

Preliminary data released in April 2014 estimates that Yukon’s real GDP grew by 1.3 per cent in 2013.

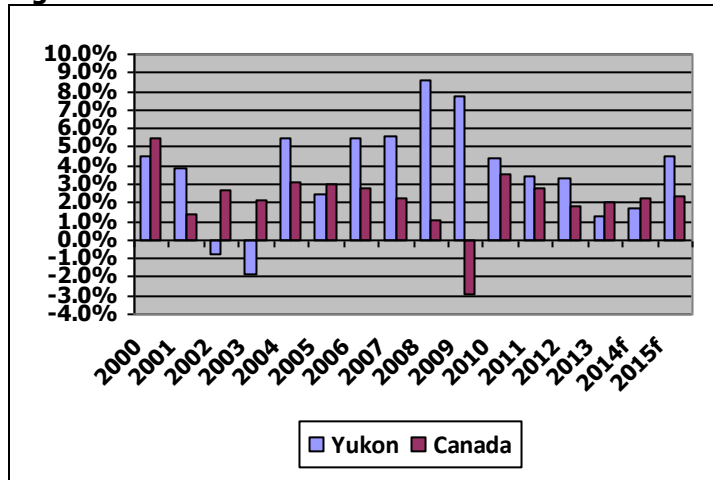
**Figure 1 – Real GDP (2007\$ millions)**



Source: Department of Economic Development; Statistics Canada

Yukon’s 2013 estimated growth rate for real GDP was below the national growth rate of 2.0 per cent and ranked ninth among all the provinces and territories. A modest increase in mineral production primarily accounted for the GDP growth in 2013, but production gains were below expectations due to lower than anticipated production from Yukon’s three operating mines. At 1.3 per cent, growth in 2013 represented the lowest annual growth rate during the current period of expansion.

**Figure 2 – Real GDP – Annual Growth Rate**

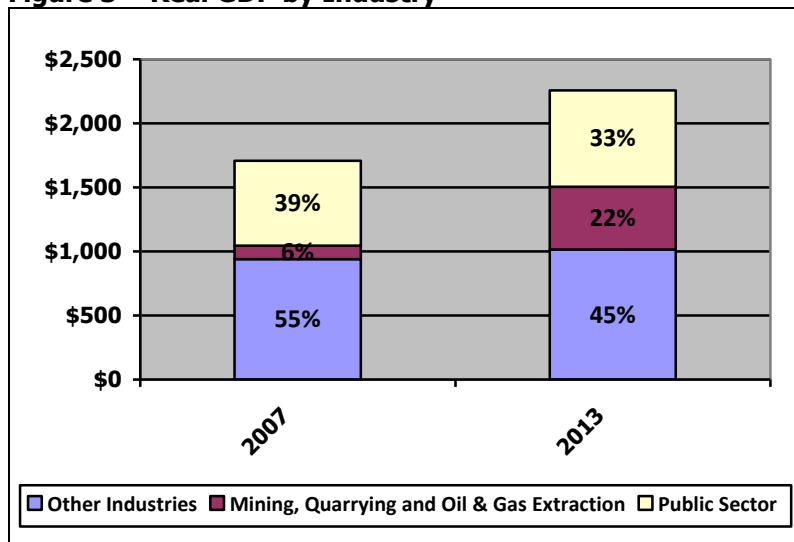


Source: Department of Economic Development; Statistics Canada; International Monetary Fund

Even with weaker growth in 2013 it marked the tenth consecutive year of real GDP growth for Yukon. In terms of the Canadian context, only Yukon, PEI and Nova Scotia have not had a year of negative growth over the last 10 years. The primary contributor to gains during the current period of economic growth has been Yukon’s mining sector, which has seen activities in all phases of the mining cycle. Since 2007, three mines have started production in the territory with hundreds of millions of dollars in expenditures related to development of these projects. Recent history has also seen substantial expenditures on mineral exploration activities in Yukon with exploration expenditures growing from a low of \$7.4 million in 2002 to a peak of \$331.7 million in 2011.

Mining sector growth in recent years has contributed to a change in the composition of Yukon’s economy. As of 2013, the category known as mining, quarrying and oil & gas extraction accounted for about 22 per cent of real GDP, up significantly from the 6 per cent estimated for 2007 (see Figure 3).

**Figure 3 – Real GDP by Industry**



Source: Department of Economic Development; Statistics Canada

The outlook for 2014 is one of continued, but modest, growth. With mineral production down anticipated to be down, growth across a number of industries is expected to contribute to gains in 2014. Construction activities related to the FH Collins School replacement, continued development of the Whistle Bend subdivision as well as other residential development is anticipated to contribute to gains in 2014. As well, expenditures on road work and capital spending related to health and social services are expected to provide positive contributions to growth in 2014. In addition to construction, tourism activities in the territory are expected to continue to contribute to Yukon’s economy and support some of the gains this year.

Looking ahead to 2015, the preliminary forecast is one of stronger growth, with increased mineral production fueled by the expected resumption of production in the Keno Hill District, anticipated development spending at the proposed Victoria Gold mine, further development of the Whistle Bend subdivision and continued construction of the FH Collins School.

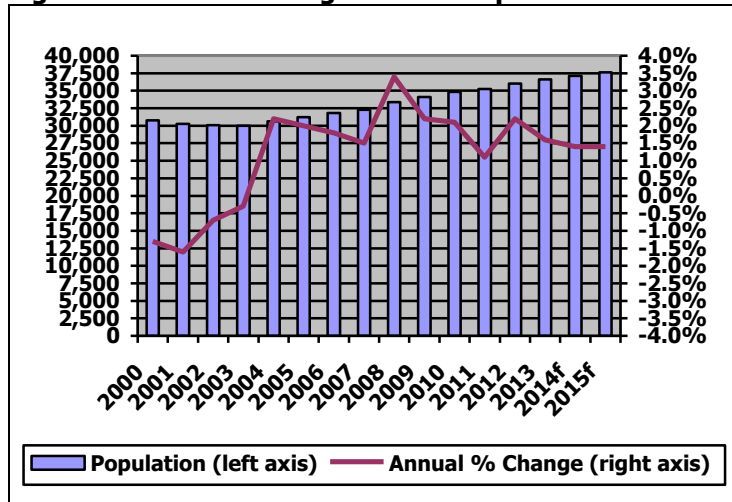
### Outlook for GDP

- Even in light of difficulties in the mining sector, preliminary estimates from Statistics Canada note Real GDP growth of 1.3 per cent in 2013, representing the tenth consecutive year of growth.
- The current outlook is for further gains in 2014 and 2015, with real GDP growth forecasts of 1.7 per cent and 4.5 per cent for 2014 and 2015, respectively.

### Population

Gains in 2013 marked the tenth consecutive year that Yukon’s population has grown. Average annual population in 2013 was 36,604, the highest average population ever recorded.<sup>4</sup>

**Figure 4 – Yukon Average Annual Population**



Source: Department of Economic Development; Yukon Bureau of Statistics

The December 2013 population estimate for Yukon was 36,483, which represents a slight increase from the December 2012 estimate of 36,023. The City of Whitehorse – at 27,825 in December 2013 – accounted for 76 per cent of Yukon’s population. As a goods and services hub for other Yukon communities and also for the local mining industry, population gains in Whitehorse are expected to continue to account for the majority of total population gains for the territory.

Population growth is anticipated to continue, but be generally modest, with gains of 1.4 per cent in both 2014 and 2015, with Yukon’s population anticipated to average more than 37,500 in 2015.

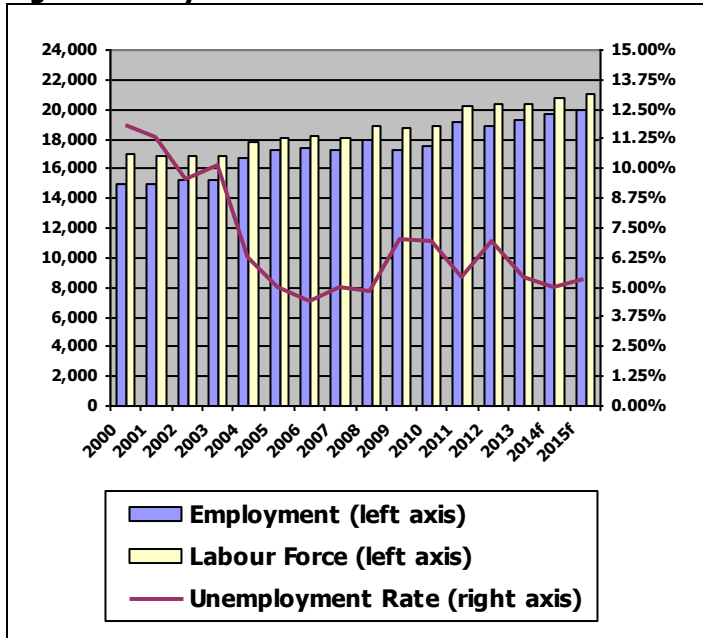
### Outlook for Population

- Yukon’s average population for 2013 is estimated at 36,604.
- Further population growth is expected in the near-term with growth of 1.4 per cent expected for both 2014 and 2015.

## Labour Market

Yukon's growing economy has contributed to strong performance in key labour market statistics with the size of the labour force and the number of people employed reaching record highs in recent years.

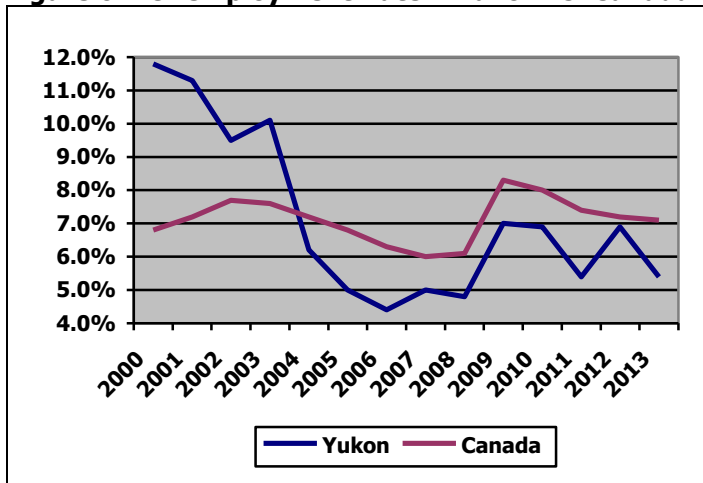
**Figure 5 – Key Labour Market Statistics**



Source: Department of Economic Development; Statistics Canada

Since 2003, Yukon's annual unemployment rate has generally been trending downward. For the period 2004 to 2013, Yukon's unemployment rate averaged below six per cent, lower than the national average of seven per cent reported for the same period (see Figure 6).

**Figure 6 – Unemployment Rate – Yukon vs. Canada**



Source: Department of Economic Development; Statistics Canada

Data from Statistics Canada's Labour Force Survey indicate that 2013 was another positive year for Yukon's labour market. After posting record highs for total employment in 2011 and total labour force

in 2012, Yukon’s labour market continued to perform well in 2013. Employment in Yukon averaged 19,300 in 2013, up 400 from 18,900 in 2012. Looking forward, employment is expected to continue to grow averaging 19,700 and 20,000 in 2014 and 2015, respectively.

After averaging 20,400 in both 2012 and 2013, it is anticipated that Yukon’s labour force will experience growth again in 2014, growing to 20,800. Further growth is expected in 2015, with the labour force forecasted at a record 21,100.

The unemployment rate in 2013 averaged 5.4 per cent, well below the 2012 average of 6.9 per cent and similar to the rate recorded in 2011. Current expectations have Yukon’s unemployment rate falling further in 2014 with the unemployment rate averaging 5.0 per cent before increasing to 5.3 per cent in 2015 as growth in the labour force outpaces growth in employment.

Year-to-date data from the Labour Force Survey supports the current positive outlook for Yukon’s labour market. Employment in the first six months of 2014 averaged 20,000, up 4.7 per cent from the same period in 2013. Year-to-date, Statistics Canada is also reporting an increase in the average labour force to almost 21,000, representing growth of 3.0 per cent. With year-to-date growth in employment outpacing year-to-date growth in the labour force the average unemployment rate declined to 4.3 per cent in the first six months of 2014, down from an average of almost 6.0 per cent in the same period of 2013.

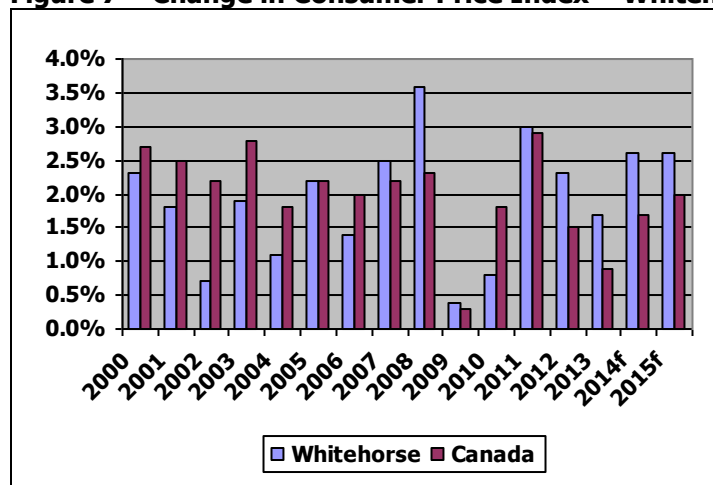
**Outlook for the Labour Market**

- Employment to grow 2.3 per cent in 2014 and 1.1 per cent in 2015.
- Labour force to grow 1.9 per cent in 2014 and 1.5 per cent in 2015.
- The unemployment rate is expected to fall to 5.0 per cent in 2014, before a slight increase to 5.3 per cent in 2015.

**Consumer Price Index**

Annual change in the Whitehorse Consumer Price Index (CPI)<sup>5</sup>, often used as an indicator of price inflation, has generally been low in recent years. For 2000 to 2012, change in Whitehorse CPI averaged about 1.8 per cent, below the 2.1 per cent in Canada for the same period.

**Figure 7 – Change in Consumer Price Index – Whitehorse vs. Canada**



Source: Department of Economic Development; Statistics Canada; Bank of Canada<sup>6</sup>

In 2013 the Whitehorse CPI grew 1.7 per cent. The largest year-over-year increases were recorded in Shelter (3.0 per cent), Transportation (1.7 per cent), Food (1.7 per cent) and Alcoholic Beverages and Tobacco Products (1.6 per cent). Shelter costs were influenced by a 4.7 per cent increase in Water, Fuel and Electricity.

While the majority of the components of the Whitehorse CPI recorded gains in 2013 a 2.0 per cent decline in the Clothing and Footwear component offset some of the annual increase.

In the first five months of 2014 the Whitehorse CPI is up 2.2 per cent versus the same period in 2013. Notable year-to-date gains include Energy<sup>7</sup> (5.6 per cent), Shelter (4.7 per cent), and Food (3.2 per cent). Shelter costs were driven by a 12.0 per cent increase in Electricity while the Food component was driven by a 4.5 per cent increase in the cost of Food Purchased from Restaurants.

Food and energy prices are expected to remain elevated in the near-term contributing to Whitehorse CPI growth in excess of 2.0 per cent for both 2014 and 2015. The current forecast has the Whitehorse CPI growing by 2.6 per cent in both 2014 and 2015.

#### **Outlook for CPI**

- Following estimated Whitehorse CPI growth of 1.7 per cent for 2013, the expectation is that CPI growth will be in excess of 2.0 per cent in the near-term.

## **Part B: Economic Sectors**

### **Mining**

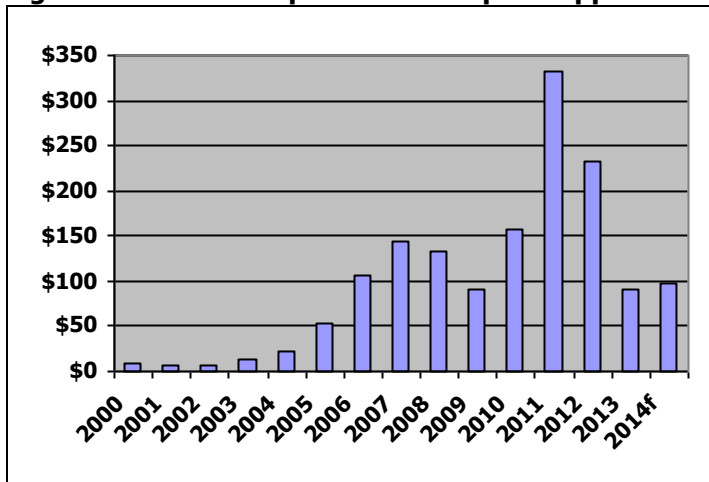
After a high level of activity in Yukon's mining sector in recent years, lower activity related to exploration, production and development contributed to weaker performance for Yukon's mining sector in 2013. Mining related spending was impacted by a general slowdown in the global mining industry and weaker mineral prices. Expectations for 2014 and 2015 are mixed as mineral prices are generally expected to remain weak in 2014 before picking up steam in 2015.

#### Mineral Exploration

After falling for two consecutive years, Natural Resources Canada's (NRCAN) latest *Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development Expenditures* indicates that mineral exploration and deposit appraisal expenditures<sup>8</sup> will increase in 2014.

Following a record estimate of over \$330 million in 2011 and expenditures of over \$230 million in 2012 it is estimated that mineral exploration spending fell to about \$90 million in 2013. While remaining well below recent highs, the current NRCAN forecast has spending increasing to about \$98 million in 2014 with exploration activities related to the Selwyn project accounting for much of the total.

**Figure 8 – Mineral Exploration & Deposit Appraisal Expenditures (\$ millions)**



Source: Department of Economic Development; Natural Resources Canada

Estimates from the Department of Energy, Mines & Resources (EMR) have exploration of about \$65 million in 2014 up from EMR's estimate of \$45 million in 2013. EMR exploration spending estimates are generally lower than NRCAN estimates as the NRCAN spending includes such expenditures as related road development and environmental baseline work while the EMR number is more representative of spending on pure exploration work such as drilling and geochemical. Tracking direct exploration spending is an effective way to compare prospects for discoveries over time. It is also important to track all exploration, deposit appraisal and development expenditures to understand changes in the cost of new discoveries coming into production.

Lower mineral prices and uncertainty related to global demand for mineral resources are expected to remain present in the near-term, which could negatively impact exploration activities in 2014 and 2015.

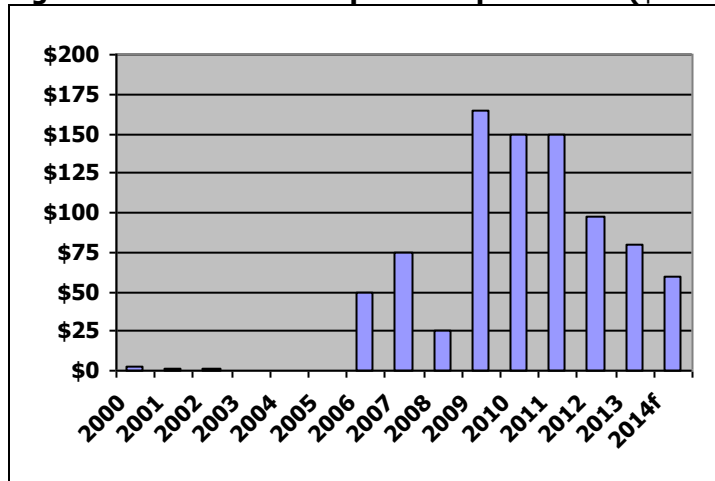
NRCAN has pointed to three key factors driving decreased optimism in the mining industry – declining gold prices, efforts by senior companies to improve their balance sheets by reducing expenditures, and difficulties of junior mining companies raising funds to finance exploration activities. Given the prevalence of junior mining companies in Yukon, near-term prospects for exploration spending depends on Yukon targets and Yukon junior’s abilities to overcome the financial market’s continued risk aversion. Juniors, by definition, do not have producing operations to finance exploration, and have the most difficulty raising financing in times of weak mineral prices. The current outlook is for exploration activity in 2014 and 2015 to be well below the highs noted in 2010 and 2011 but still above the historic annual average.

**Mining Development**

Yukon’s mining sector has grown significantly in recent years with the development of the Minto, Bellekeno and Wolverine mines. With total initial development costs of these three projects estimated at over \$700 million, contributions to the local mining sector, and to Yukon’s economy as a whole, have been significant.

Development activities in 2014 are expected to be negatively impacted by continued weakness in global mineral prices and ongoing concerns about future demand for minerals. Current expectations are for development spending to fall to about \$60 million in 2014. Accounting for \$25 million of this total are expenditures by Alexco Resources Corporation to establish underground infrastructure at the Flame & Moth deposit, upgrade the mill and other facilities, and re-commission the Bellekeno mine.<sup>9</sup> Anticipated spending of over \$17 million by Capstone Mining Corporation, related to the continued expansion of underground mining at the Minto mine also accounts for a significant portion of the 2014 expenditure forecast.

**Figure 9 – Mineral Development Expenditures (\$ millions)**



Source: Department of Economic Development; Department of Energy, Mines & Resources

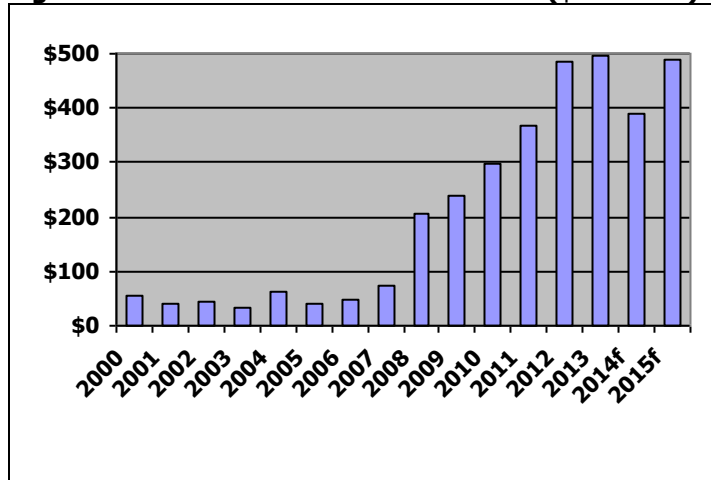
There is uncertainty related to development activities in 2015. The beginning of development of the Eagle Gold mine, with an estimated development cost of about \$400 million, could result in substantial spending in 2015. Victoria Gold Corporation has publically indicated that they expect a water licence in the first quarter of 2015 with construction activities to take place in 2015 and 2016<sup>10</sup>. The current Victoria Gold timeline is also contingent on the company successfully raising the necessary capital for development.



## Mineral Production

Much of the recent growth in Yukon's GDP are tied to gains in mineral production. Estimates by NRCAN have the value of mineral production in 2012 and 2013 approaching half a billion dollars and growing in each of the past eight years.

**Figure 10 – Value of Mineral Production (\$ millions)**



Source: Department of Economic Development; Natural Resources Canada

Mineral production in Yukon has recently been negatively impacted by weaker mineral prices, with lower than expected production from both the Wolverine and Bellekeno mines in 2013.

Falling zinc and silver prices and a desire to reduce costs were cited as factors for Yukon Zinc Corporation's June 27, 2013 announcement that it was reducing its daily production by 40 per cent and its project workforce 30 per cent at the Wolverine mine.<sup>11</sup> Production was subsequently increased to 75 per cent of processing capacity in September 2013 with personnel required to sustain the production increase recalled.<sup>12</sup>

Lower metal prices and cost concerns also resulted in less production from the Bellekeno mine in 2013. Alexco Resources Corporation suspended operations, effective September 1, 2013<sup>13</sup>, negatively impacting Yukon's overall mineral production and associated GDP impacts. The shutdown also resulted in layoffs for over 100 employees, both direct and contract workers.

Even with lower than expected production from all three of Yukon's operating mines, production of all minerals – with the exception of lead – increased on an annual basis in 2013. This production increase was led by higher daily rates at Wolverine prior to its production scale-back and an increase in copper production at the Minto mine.

Weakness in mineral prices is expected to persist in the near-term and have a negative impact on Yukon mineral production. Expectations for 2014 are for production of all currently produced minerals to be down. The ongoing shutdown of the Bellekeno mine, along with the expectation that production at the Wolverine mine will remain below processing capacity, accounts for the forecast of lower year-over-year mineral production.

Looking beyond this year, mineral production is expected to be stronger in 2015 with the resumption of production at the Bellekeno mine as the primary contributor to mineral production growth with production to follow the direction noted in Alexco Resources' December 2013 Preliminary Economic Assessment.<sup>14</sup> The announcement that Alexco Resources' had reached a deal with Silver Wheaton Corporation on an improved purchase agreement will allow Alexco Resources to insulate operations during times when silver prices are low<sup>15</sup> and increases the likelihood that Bellekeno will return to production in the near-term. Higher production from the Wolverine and Minto mines are also expected to make positive contributions to Yukon's mineral sector in 2015.

Beyond production from Yukon's larger mining operations, placer gold will continue to be an important contributor to Yukon's mining sector going forward. Estimated production of 56,563 ounces represents an increase of over nine per cent from production of 51,679 ounces in 2012, and the highest level of placer production since 2007. Placer gold production in 2013 increased even as gold prices fell and it is this resilience which supports the forecast of 2014 production being on par with 2013.

After falling just under \$500 million in 2013, the value of Yukon's mineral production is expected to decline to about \$390 million in 2014. In 2015, Yukon's total mineral production value is expected to benefit from the resumption of Bellekeno production and increased production from the Wolverine and Minto mines resulting in the value of mineral production potentially increasing to about \$490 million.

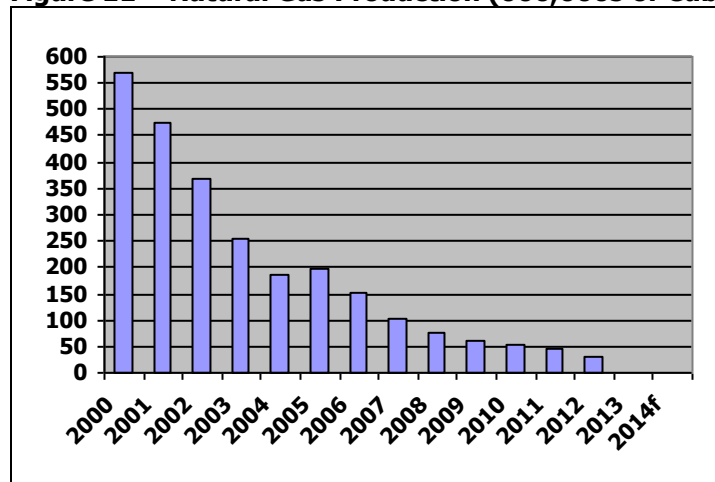
#### Outlook for Mining

- Exploration spending for 2014 is expected to be up slightly from 2013.
- Development expenditures are expected to decline once again in 2014, as low mineral prices continue to create difficulties for the mining sector.
- Current assumptions for mineral production see the value of mineral production declining for the first time in nine years in 2014, before growing to about \$490 million in 2015.

#### Oil & Gas

Natural gas production in Yukon began at Kotaneelee in 1979. Since peaking at 629 million cubic metres in 1999, production of natural gas from this field has been on a downward trend.

**Figure 11 – Natural Gas Production (000,000s of Cubic Metres)**



Source: Department of Energy, Mines & Resources

Production at Kotaneelee ceased in September 2012 due to declining flow and resulting water build up in the producing well. EFL Overseas Inc. (EFLO) has a 54 per cent working interest in the Kotaneelee field and has indicated near-term plans to develop the conventional gas resource which they estimate may have 5 to 10 production years remaining.<sup>16</sup> EFLO has indicated intentions to recompleat one suspended well and commence drilling of a new well in late 2014. These expenditures related to the Kotaneelee field are estimated at up to \$25 million. By the first quarter of 2015, EFLO hopes to have two wells in production.

There is also interest in oil and gas development in the Eagle Plain Basin in North Yukon. Supported by investment from China National Offshore Oil Corporation (CNOOC), Northern Cross (Yukon) Limited estimates that since the current exploration program began in late 2011 it has spent more than \$100 million.<sup>17</sup> Northern Cross proposes to drill up to 20 exploration and appraisal wells in the area that it completed a 3D seismic program in early 2014.<sup>18</sup> These wells would be in addition to the four wells drilled in 2012 and 2013. Work on the new wells is anticipated to begin as early as January 2015 with average costs per well likely in the area of \$15 million.

Also of interest to the discussion of oil and gas is the potential of using liquefied natural gas (LNG) for the generation of power in Whitehorse and Watson Lake.

In August 2013, Yukon Energy Corporation (YEC) submitted an application to the Yukon Environmental and Socio-economic Assessment Board (YESAB) to replace two back-up diesel generators near the Whitehorse Rapids Dam with LNG burning power plants as well as constructing a fuel storage facility in the area. Costs of the plan are estimated at \$34 million<sup>19</sup> and plans are to source natural gas from southern Canada. In mid-May 2014 the Yukon Utilities Board approved the plan which was followed by YESAB publically approving the project in mid-June. Construction is expected to begin upon receipt of regulatory approvals in mid-July 2014. YEC hopes to have the two LNG generators operational by late 2014 or early 2015.<sup>20</sup>

In January 2014, the Government of Yukon issued Yukon Electrical Company Limited, now ATCO Electric Yukon, a licence to install LNG storage and vaporization facilities to modify the existing generator system at the Watson Lake power plant to use a combination of natural gas and diesel fuel to generate electricity.<sup>21</sup> The first phase of the initiative will see the conversion of one of the six diesel-fired electrical generators to a bi-fuel system able to accept natural gas which will be trucked in as LNG from southern B.C.<sup>22</sup> A potential second phase of the project would see the remaining generators modified for bi-fuel use. Work on the first phase is currently on hold pending appeal to the Yukon Utilities Board, but it is expected to take place in 2014 at an estimated cost of just over \$1 million. It is the hope that the first generator will be burning mixed fuel by 2015.

Future development of Yukon natural gas resources depends on the performance of natural gas prices which, until recently, had been depressed for quite some time. Year-to-date, natural gas prices have been strong and the expectation of many forecasters is that prices in the near-term will continue to increase. Concerns about increasing tensions in the Middle East and escalation of the armed conflict in Iraq could contribute to stronger oil and gas prices in the near-term. If natural prices were to continue to trend upward it could result in increased interest in the development of local natural gas resources and increased efforts related to exploration and development.

### Outlook for Oil & Gas

- Continued activities by EFL Overseas Inc. related to restarting production in the Kotaneelee field.
- Continued exploration work by Northern Cross (Yukon) Limited in the Eagle Plain Basin with the potential for 20 new wells drilled over the next few years.

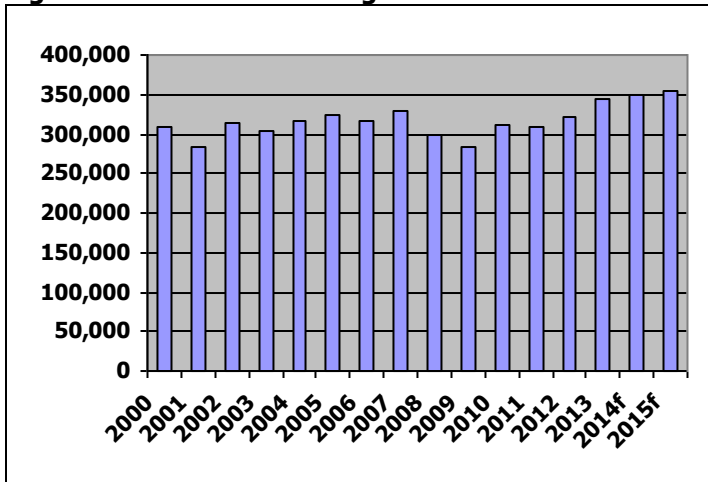
### Tourism

Tourism-related activities support numerous local jobs and a variety of local goods and service providers including retailers, grocery stores, accommodations providers, restaurants, arts and culture as well as providers of sports and recreational activities. Tourism activities contribute to the diversity of Yukon's economy. The 2013 *Yukon Business Survey* notes that Yukon businesses attributed almost \$250 million of their gross revenue in 2012 to tourism and that based on these revenues the total GDP attributable to tourism was about \$114 million in 2012, accounting for over 4 per cent of Yukon's total GDP in 2012.<sup>23</sup>

Results released from the 2012/2013 Yukon Visitor Tracking Program completed for the Department of Tourism & Culture support the importance of tourism activities in Yukon. Comparing 2012 to 2004 shows that visitation to the territory increased by 26 per cent, equivalent to average growth of about three per cent annually. Visitor spending over the same period has grown by 31 per cent, which means more revenue for Yukoners, particularly small business owners, artists and tourism operators.

In terms of international border crossings, since posting a 20-year low in 2009, crossings have been well over 300,000 in every year averaging over 322,000 over the period 2010 to 2013. International border crossings are used as a measure of the performance of Yukon's tourism sector.

**Figure 12 – Border Crossings**



Source: Department of Economic Development; Department of Tourism & Culture

Visitation in 2013 is estimated to have grown by 7.6 per cent over 2012, totalling 345,510.

U.S. visitors continued to account for the majority of border crossings, with 230,625 crossings (+6.8 per cent) in 2013 accounting for over 67 per cent of total visitation. With an increase of over 14,000 visitors in 2013, the increase in U.S. visitation accounted for 60 per cent of the total increase in visitation of 24,270. Non-U.S. visitation also increased in 2013, up 9.2 per cent to 114,885. Visitation from other parts of Canada posted very strong growth of 16.9 per cent to 32,607. International travel

(excluding US) also posted strong growth, with visitation of 36,657 representing growth of 8.0 per cent. The remaining non-U.S. visitation in 2013 was associated with border crossings of Yukon residents, and at 45,621, which was up 5.1 per cent from 2012.

By mode of transportation, gains were noted in both private vehicle (+7.2 per cent) and motor-coach (+8.0 per cent) in 2013. At the Erik Nielsen Whitehorse International Airport, the total number of passengers arriving and departing declined slightly in 2013 to 292,598. This decline ended four consecutive years of increasing passenger volumes at the airport.

Following growth of over 7 per cent in 2013 expectations are for modest growth in border crossings in both 2014 and 2015. There is some potential upside risk to the current forecast related to ongoing weakness of the Canadian dollar versus the U.S. dollar as well as expectation of lower oil prices in 2014 and 2015.

Following a period which saw the annual average value of the Canadian dollar generally above parity in 2012 and into early 2013, the Canadian dollar has traded about 9 per cent below the U.S. dollar year-to-date in 2014. Most forecasters are calling for the value of the Canadian dollar to remain relatively weak against the U.S. dollar in both 2014 and 2015 which could have positive ramifications for Yukon tourism visitation, as improved purchasing power for U.S. residents helps contribute to the decision to travel to the territory.

Visitation to Yukon can be impacted by fuel costs. A number of forecasters are calling for lower oil prices in 2014 and 2015 which could translate into lower fuel prices thereby reducing the costs of operating a motor vehicle and also operational costs of airlines which could possibly see increased visitation to Yukon. However, these anticipated declines could be threatened by recent events in the Middle East which could contribute to oil prices actually increasing in the short-term.

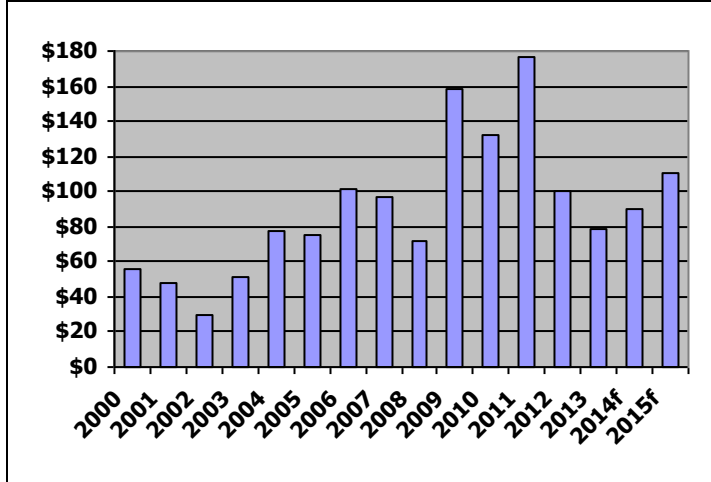
#### **Outlook for Tourism**

- Current expectations are for border crossings to grow for a third consecutive year in 2014 to 350,000, which would represent growth of just over 1.0 per cent.
- Further growth in tourism visitation in 2015 of 1.0 per cent.

## Construction

Following a period of strong construction activity, lower construction activity in the past couple of years has contributed to a lower value for building permits.

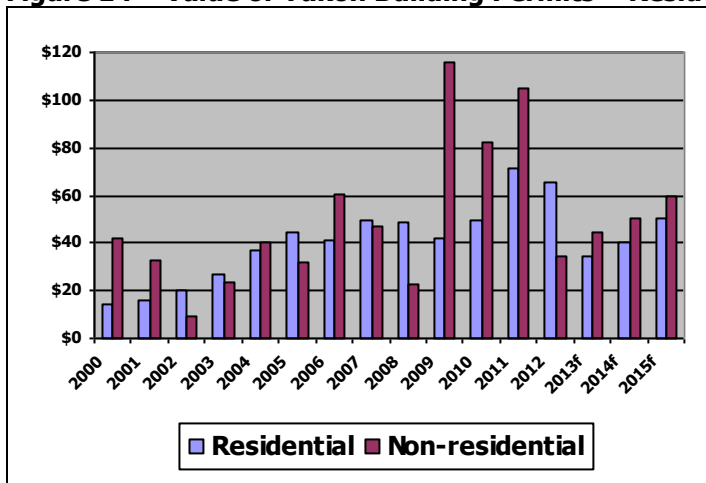
**Figure 13 – Value of Yukon Building Permits (\$ millions)**



Source: Department of Economic Development; Yukon Bureau of Statistics

Prior to recent declines, construction activity had been generally strong in both residential and non-residential construction activity, with non-residential construction performing particularly well.

**Figure 14 – Value of Yukon Building Permits – Residential vs. Non-residential (\$ millions)**

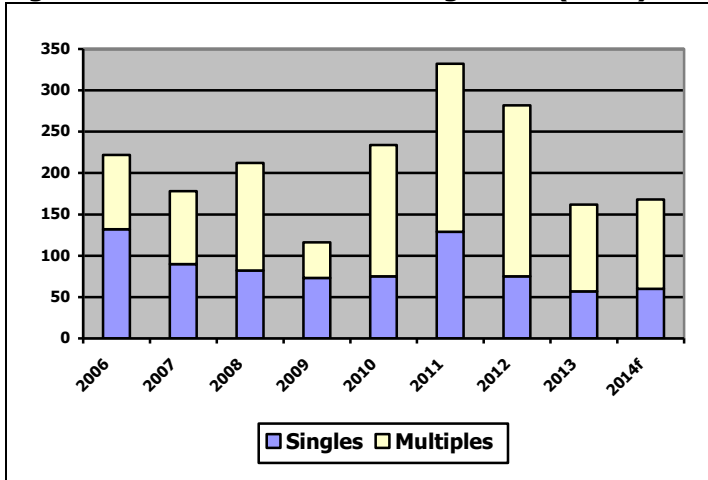


Source: Department of Economic Development; Yukon Bureau of Statistics

Completion of work several major projects explain much of the decline in non-residential building permits in 2012 and 2013. Completion of initial development activities on the Wolverine and Bellekeno mines along with the completion of the Watson Lake and Dawson City hospitals, wastewater treatment facilities in Dawson City, Carcross and Ross River, cultural centres in Whitehorse and Haines Junction, as well as other projects in Whitehorse (correctional facility, hospital residence, public safety building, airport expansion) account for much of the recent decline in permit value.

In terms of residential construction, estimates of over \$71 million and near \$66 million for building permits in 2011 and 2012 respectively, reflect a period of robust residential construction. Strong residential activity in 2011 and 2012 was also reflected in housing start numbers for Whitehorse which averaged over 300 units over those two years.

**Figure 15 – Whitehorse – Housing Starts (Units)**



Source: Canada Mortgage and Housing Corporation<sup>24</sup>

As noted, more recent performance indicates a softening in residential construction activity. The value of building permits for 2013 is estimated to be about half of the amounts for 2011 and 2012, with the value of \$34.8 million down 47 per cent from 2012. Housing start data from the Canada Mortgage and Housing Corporation also supports weaker residential activity in 2013 with total starts of 162 well below the 332 starts and 282 starts noted for 2011 and 2012, respectively.

The outlook is clouded by concerns regarding the performance of Yukon’s mining sector and uncertainty about new mining developments, but activities in a number of areas are expected to contribute to construction activity in the near-term.

Current estimates compiled by the Department of Highways & Public Works have total project spending in Yukon estimated at over \$280 million in 2014-15. While capital expenditures make up a large portion of this figure there is some non-capital spending included in this total. This estimate also includes both public and private spending estimates but does not include spending related to mineral exploration or development. Among the largest contributors to spending in 2014-15 include:

- Over \$70 million related to Road and Bridge Work with major projects including pavement overlay work on the Haines Road, surface restoration in the Destruction Bay area and rehabilitation work on the Nisutlin Bay Bridge;
- Over \$30 million related to Education with the majority of this total associated with construction related to the F.H. Collins school in Whitehorse. (commencement of construction of a building to house the Centre for Northern Innovation in Mining on the Whitehorse campus of the Yukon College is also expected in 2014);
- About \$30 million related to Community Operations and Infrastructure including replacement of the Beaver Creek firehall and water and sewer upgrades in various communities;
- Over \$25 million associated with Health and Social Services including the replacement of the McDonald Lodge in Dawson City, work on a new continuing care facility in Whitehorse and work

at the Whitehorse hospital related to the new Magnetic Resonance Imaging scanner and expansion of the emergency department; and

- Over \$15 million associated with Airports and Airstrips with the majority of the anticipated expenditures related to work at the Whitehorse airport including Apron 1 panel replacement and parallel runway surface overlay.

Expenditures related to social housing and residential land development are anticipated to be strong in the near-term with expectations of spending of over \$30 million in 2014-15. Included in this estimate are a \$12 million seniors' building in Whitehorse, about \$5 million for spending related to the Whistlebend subdivision, completion of the \$4.7 million Alexander Street Seniors' Residence in 2014 and a nearly \$3 million seniors' building in Mayo, which is expected to begin construction in 2014.

Near-term residential activity will also be supported by significant spending related to continued development of the Whistlebend subdivision. Spending of over \$95 million on stages 3, 4 and 5 is anticipated to occur from 2015 to 2018. Once complete, this subdivision is expected to host 3,900 housing units and accommodate approximately 8,000 residents.

While concerns about the performance of Yukon's mining sector continue to temper expectations for construction activity the value of building permits is expected to increase to about \$90 million in 2014, up from \$78.9 million in 2013. Growth is expected in both residential and non-residential permits. After falling for the last two years, CMHC is forecasting that housing starts will increase slightly to 168, up from 162 starts in 2013. Beyond 2014, expectations of increased expenditures related to mine development has the potential to contribute to significant construction activity.

#### **Outlook for Construction**

- Following two years of annual declines building permit value is expected to increase to \$90 million. Growth is expected in both residential and non-residential permits.
- Housing starts are expected to increase slightly in 2014 to 168 units, up from 162 in 2013.

#### **Retail Trade**

A growing mining sector, increasing population, strong employment numbers and growing household incomes have contributed to recent strength in retail sales numbers. Retail sales of almost \$670 million in 2012 marked a record value for the territory.

While remaining well above the ten-year average of \$544 million, total sales of \$652 million in 2013 were down 2.6 per cent from 2012. The decline in retail sales was the result of a lower level of economic activity in 2013, related primarily to less activity in the mining sector. Lower year-over-year energy prices also contributed to some of the decline in 2013.

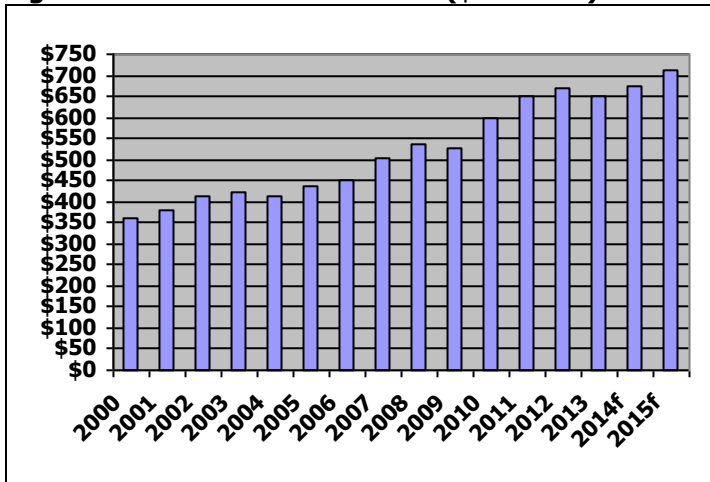
Food and Beverage Stores, the largest segment of retail sales in Yukon at about 30 per cent of total sales, actually grew slightly to \$195 million in 2013. Some of this increase was related to higher prices for some food products in 2013.

Gasoline Stations, the second largest contributor to Yukon retail sales, totalled over \$106 million in 2013, down 1.7 per cent from \$108 million in the same period of 2012. Declines were also noted in Building Material and Garden Equipment and Supplies Dealers, down 10.2 per cent to \$48.5 million,



Furniture and Home Furnishings Stores, down 6.3 per cent to \$15.5 million and Health and Personal Care Stores, down 3.6 per cent to \$31.0 million.

**Figure 16 – Value of Retail Sales (\$ millions)**



Source: Department of Economic Development; Yukon Bureau of Statistics

Retail sales for the first four months of 2014 are essentially on par with sales in the same period of 2013. Declines in sales related to Health and Personal Care Stores and Furniture and Home Furnishings Stores were noted while growth recorded in Food and Beverage Stores and Gasoline Stations more than made up for the declines.

The expectation for 2014 is for gains in the value of retail sales, growing to over \$670 million. Much of the gains are expected to be related to higher prices as consumer prices are expected to be higher in 2014. Growth is also expected in 2015, with the value of retail sales expected to total almost \$720 million. While the expectation is for retail sales to return to growth there is uncertainty associated with this forecast, as growth will depend on the performance of Yukon’s mining sector.

**Outlook for Retail Trade**

- The current forecast has the value of retail sales in 2014 increasing to over \$670 million, with higher consumer prices expected to contribute to increased sales.
- Stronger growth is expected in 2015, with the current forecast calling for retail sales to total almost \$720 million.
- Risks related to possible continued weakness in metal prices and the impact on Yukon’s mining sector present a risk for the performance of retail sales in the near-term.

## Key Economic Indicators

<i>Indicator</i>	<i>2013</i>	<i>2014f</i>	<i>2015pf</i>
Population, Prices, Rates			
Population	36,604	37,100	37,600
CPI Growth Rate <sup>^</sup>	1.7%	2.6%	2.6%
Overnight Rate	1.00%	1.00%	1.19%
Canada/U.S. Exchange Rate	\$0.9710	\$0.9150	\$0.8780
Employment <sup>†</sup>			
Labour Force	20,400	20,800	21,100
Employment	19,300	19,700	20,000
Unemployed	1,100	1,100	1,100
Unemployment Rate	5.4%	5.0%	5.3%
Economic Output			
Real Gross Domestic Product (billions of chained 2007 dollars)	\$2.258 (e)	\$2.296	\$2.400
Real GDP Growth Rate	1.3%	1.7%	4.5%
Commodity Prices <sup>~</sup>			
Gold (\$US/oz)	\$1,411	\$1,265	\$1,200
Silver (\$US/oz)	\$23.83	\$20.00	\$20.25
Zinc (\$US/lb)	\$0.87	\$0.94	\$0.95
Copper (\$US/lb)	\$3.32	\$3.15	\$3.10
Oil - WTI (\$US/bbl)	\$97.94	\$99.00	\$95.00
Natural Gas – Henry Hub (\$US/MMBTU)	\$3.73	\$4.50	\$4.70
Mining			
Value of Mineral Production	\$495.0 million (p)	\$390.0 million	\$490.0 million
Exploration Expenditures	\$89.9 million (p)	\$97.7 million	--
Development Expenditures	\$80 million (e)	\$60 million	--
Construction			
Permitted Building Construction	\$78.9 million	\$90 million	\$110 million
Trade			
Value of Retail Sales	\$652 million	\$673 million	\$713 million
Tourism			
Non-resident Border Crossings <sup>+</sup>	345,510	350,000	353,500

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

<sup>^</sup> CPI increase for Whitehorse only

<sup>†</sup> annual averages – totals may not total due to rounding

<sup>~</sup> annual averages

<sup>+</sup> as reported by the Department of Tourism & Culture

# Data Sources for Key Economic Indicators Table

<i>Indicator</i>	<i>Source</i>
Population	Yukon Bureau of Statistics, Yukon Population Estimates, Yukon Department of Economic Development
Inflation (Consumer Price Index)	Statistics Canada, Consumer Price Index, Yukon Department of Economic Development
Overnight Rate	Bank of Canada (average daily rate), BMO Capital Markets
Canada/U.S. Exchange Rate	BMO Capital Markets
Labour Force Indicators	Statistics Canada, Yukon Labour Force Survey, Yukon Department of Economic Development
Economic Output (GDP)	Statistics Canada, Provincial Economic Accounts , Yukon Department of Economic Development
Commodity Prices	BMO Capital Markets
Value of Mineral Production	Natural Resources Canada Minerals and Mining Statistics Division, Yukon Department of Economic Development
Mineral Exploration Expenditures	Natural Resources Canada Minerals and Mining Statistics Division , Yukon Department of Economic Development
Mine Development Expenditures	Yukon Department of Energy, Mines & Resources, Yukon Department of Economic Development
Tourism Visitation	Yukon Department of Tourism & Culture, Yukon Department of Economic Development
Permitted Building Construction	Yukon Bureau of Statistics, Yukon Department of Economic Development
Retail Trade	Statistics Canada, Yukon Department of Economic Development

# Endnotes

- <sup>1</sup> Unless otherwise noted, all data from this section is sourced from International Monetary Fund, *World Economic Outlook – Recovery Strengthens, Remains Uneven (April 2014)* <http://www.imf.org/external/pubs/ft/weo/2014/01/pdf/text.pdf>
- <sup>2</sup> “Monetary Policy Report (April 2014)”. Bank of Canada. <http://www.bankofcanada.ca/wp-content/uploads/2014/04/mpr-2014-04-16.pdf>
- <sup>3</sup> “Bank of Canada maintains overnight rate target at 1 per cent”. Bank of Canada. <http://www.bankofcanada.ca/2014/06/fad-press-release-2014-06-04/>
- <sup>4</sup> Accurate population estimates are not available for the time of the Klondike Gold Rush.
- <sup>5</sup> Consumer Price Index data is only available in Yukon for Whitehorse.
- <sup>6</sup> Monetary Policy Report Summary (October 23, 2013). Bank of Canada. [http://www.bankofcanada.ca/wp-content/uploads/2013/mpr\\_summary\\_october2013.pdf](http://www.bankofcanada.ca/wp-content/uploads/2013/mpr_summary_october2013.pdf)
- <sup>7</sup> Energy is an aggregate that includes electricity, natural gas, fuel oil and other fuels and fuel, parts and supplies for recreational vehicles.
- <sup>8</sup> Exploration and deposit appraisal expenditures include on-mine-site and off-mine-site activities; field work, overhead costs, engineering, economic and pre- or production feasibility studies, environment, and land access costs. Expenditures also include only the search for and appraisal of deposits and do not include work for extensions for known reserves.
- <sup>9</sup> “Alexco Releases Positive Preliminary Economic Assessment for Expanded Silver Production from Eastern Keno Hill Silver District, Yukon”. Alexco Resource Corp. <http://www.alexcoresource.com/s/news.asp?ReportID=614976>
- <sup>10</sup> Victoria Gold Corporation. Corporate Presentation (May 2014). <http://www.vitgoldcorp.com/i/pdf/ppt/presentation.pdf>
- <sup>11</sup> “Yukon Zinc Cuts Costs in Uncertain Market Conditions”. Yukon Zinc Corp. <http://www.yukonzinc.com/documents/NewsRelease-YukonZincCutsCostsinUncertainConditions-June272013.pdf>.
- <sup>12</sup> “Yukon Zinc Increases Wolverine Mine Production”. Yukon Zinc Corp. <http://www.yukonzinc.com/documents/NewsRelease-YukonZincIncreasesWolverineMineProduction-September25-2013.pdf>
- <sup>13</sup> “Alexco Reports Increased Silver Production in Second Quarter 2013; Low Silver Prices Prompt Plans for Suspension of Winter Operations”. Alexco Resources Corp. <http://www.alexcoresource.com/s/news.asp?ReportID=593371>.
- <sup>14</sup> “Alexco Releases Positive Preliminary Economic Assessment for Expanded Silver Production from Eastern Keno Hill Silver District, Yukon”. Alexco Resource Corp. <http://www.alexcoresource.com/s/news.asp?ReportID=614976>
- <sup>15</sup> “Pricing deal puts Alexco in a good place: CEO”. Whitehorse Star. <http://www.whitehorsestar.com/archive/print/63210/>
- <sup>16</sup> Presentation to Yukon Select Committee on Hydraulic Fracturing (January 31, 2014). EFLO ENERGY Inc. [http://efloenergy.com/resources/presentations/EFLO-Select\\_Committee\\_on\\_Hydraulic\\_Fracturing31Jan14.pdf](http://efloenergy.com/resources/presentations/EFLO-Select_Committee_on_Hydraulic_Fracturing31Jan14.pdf)
- <sup>17</sup> Northern Cross (Yukon) Limited Open House Presentations (June 16-18, 2014). [http://www.northerncrossyukon.ca/upload/news\\_item/11/02/community-open-house-presentations-june-2014.pdf](http://www.northerncrossyukon.ca/upload/news_item/11/02/community-open-house-presentations-june-2014.pdf)
- <sup>18</sup> Northern Cross (Yukon) Limited Open House Presentations (June 16-18, 2014). [http://www.northerncrossyukon.ca/upload/news\\_item/11/02/community-open-house-presentations-june-2014.pdf](http://www.northerncrossyukon.ca/upload/news_item/11/02/community-open-house-presentations-june-2014.pdf)
- <sup>19</sup> “Yukon Energy eyes May 2014 for LNG project start”. Whitehorse Star. <http://www.whitehorsestar.com/archive/print/57852/>
- <sup>20</sup> <http://www.yukonenergy.ca/energy-in-yukon/our-projects-facilities/back-up-electricity/liquid-natural-gas/when-is-it-being-done/>
- <sup>21</sup> “Government of Yukon authorizes natural gas power generation in Watson Lake”. Government of Yukon. <http://www.gov.yk.ca/news/14-003.html>
- <sup>22</sup> “Watson Lake LNG project recommended for approval”. Whitehorse Star. <http://www.whitehorsestar.com/archive/story/watson-lake-lng-project-recommended-for-approval/>
- <sup>23</sup> Yukon Business Survey 2013. Yukon Bureau of Statistics. [http://www.eco.gov.yk.ca/stats/pdf/2013\\_Business\\_Survey\\_Report\\_R.pdf](http://www.eco.gov.yk.ca/stats/pdf/2013_Business_Survey_Report_R.pdf)
- <sup>24</sup> “Northern Housing Report, 2014”. Canada Mortgage & Housing Corp. <https://www03.cmhc-schl.gc.ca/catalog/productDetail.cfm?cat=107&itm=13&lang=en&fr=1402682245603>