

## **OVERVIEW OF THE NWT ECONOMY**

2001 was a year of vigorous growth in the NWT economy. Real gross domestic product is estimated to have grown by approximately 32 per cent, largely as a result of an 80 per cent increase in capital expenditures. Most capital expenditures were made in the mining and oil and gas industries.

Other sectors of the economy also grew substantially, but their contribution to overall economic expansion was overshadowed by capital investment. Exports grew by about 19 per cent on a real basis, largely as a result of increased diamond production and the inclusion of a full year's natural gas production from the Fort Liard area. Growth in consumer expenditures is expected to be about 8.7 per cent and government expenditures are estimated to rise 6.3 per cent in 2001.

This robust economic activity has allowed the NWT unemployment rate to fall from 13.7 per cent in the winter of 1999 to 9.8 per cent by January of 2002.

Overall economic growth in 2002 is not expected to be as dramatic as in the previous year but will remain solid. Real economic growth will be approximately 2.1 per cent as the high level of capital expenditures is maintained for an additional year.

Growth in other sectors of the economy will remain constant in 2002 with government expenditures providing the largest increase in real spending of about 3.6 per cent.

## **ECONOMIC PERFORMANCE**

The NWT economy has been performing extremely well in recent years and should perform well in 2002. Economic growth to date has originated in the export sector. It has been responsible for rising capital expenditures and increased shipments of exportable goods.

The high rate of capital expenditures this year and last will help to further increase exports out of the territory in the years to come, as additional diamond mines, natural gas and tungsten production are brought on stream.

The NWT's exports are dominated by non-renewable resources. Since the start of diamond production in 1998, the NWT has enjoyed large increases in the value of its exports. The value of oil and gas shipments have played an important role as well.

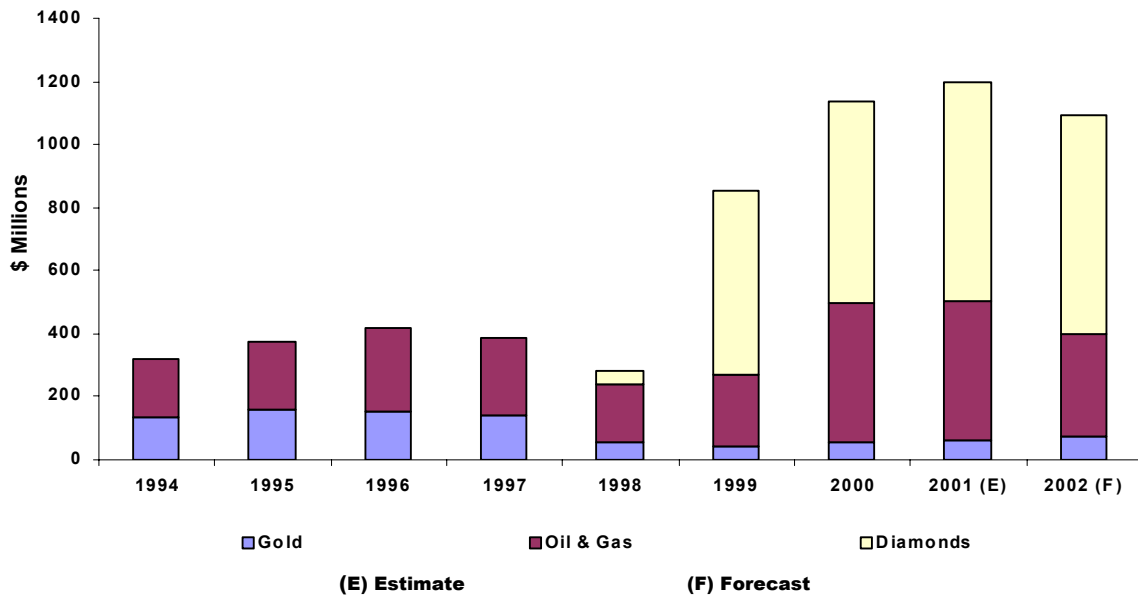
### **Northwest Territories Economic Indicators**

INDICATOR	2000(A)	2001(E)	2002(P)
Gross Domestic Product (Millions of 1997 \$)	2,255	2,967	3,028
(% Change)	8.8	31.6	2.1
Total Investment (Millions of 1997 \$)	822	1,477	1,455
(% Change)	54.5	79.7	-1.5
Consumer Expenditures (Millions of 1997 \$)	887	965	973
(% Change)	3.0	8.7	0.9
Government Expenditures (Millions of 1997 \$)	893	949	983
(% Change)	1.7	6.3	3.6
Exports (Millions of 1997 \$)	1,151	1,375	1,382
(% Change)	0.6	19.4	0.6
Imports (Millions of 1997 \$)	1,498	1,798	1,765
((% Change)	11.6	20.0	-1.8
Employment	19,349	19,420	19,617
(% Change)		0.4	1.0
Avg. Weekly Earnings (\$)	822	860	868
(% Change)	8.1	4.7	0.9
CPI (Yellowknife, 1992 = 100)	111.2	113.0	114.0
(% Change)	1.7	1.6	0.9

Source: Statistics Canada (E) Estimated by NWT Department of Finance  
 NWT Department of Finance (P) Projected by NWT Department of Finance  
 NWT Bureau of Statistics (A) Actual per Statistics Canada

Note: Average weekly earnings in 2000 represent combined data for the Northwest Territories and Nunavut. Data for 2001 is for the NWT only and is based on actual data for the first eleven months of the year.

**Value of Gold, Diamonds, Oil and Gas Shipments  
Northwest Territories**

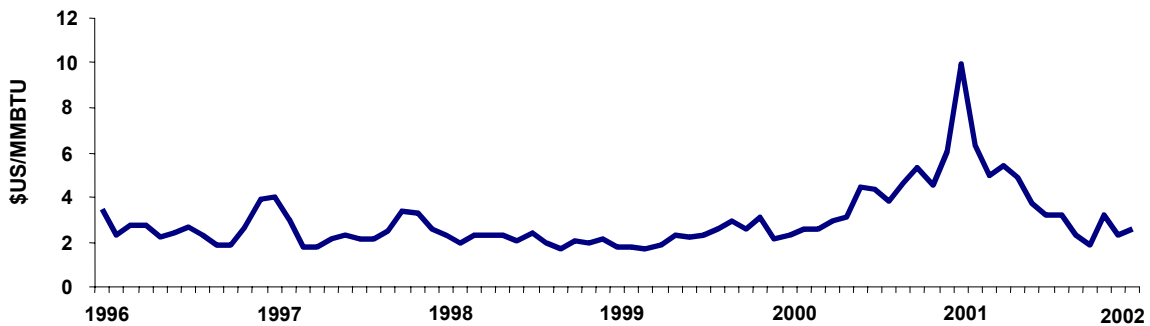


Source: Dia Met Minerals, Miramar Mining Corporation, Natural Resources Canada, NWT Bureau of Statistics, Echo Bay 1998 Annual Report, NWT Finance, National Energy Board, Sproule Associates Limited.

Note: Data excludes Nunavut for all years.

Rising oil and gas production and prices raised the nominal value of oil and gas shipments in 2000 and 2001. However, prices have declined since their peak in early 2001.

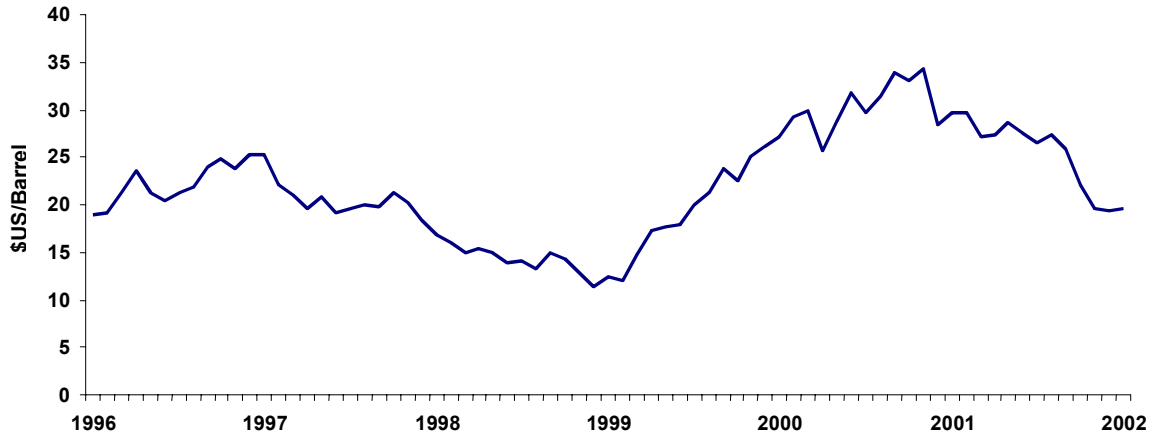
**Natural Gas Prices  
Henry Hub NYMEX**



Source: Sproule Associates Limited

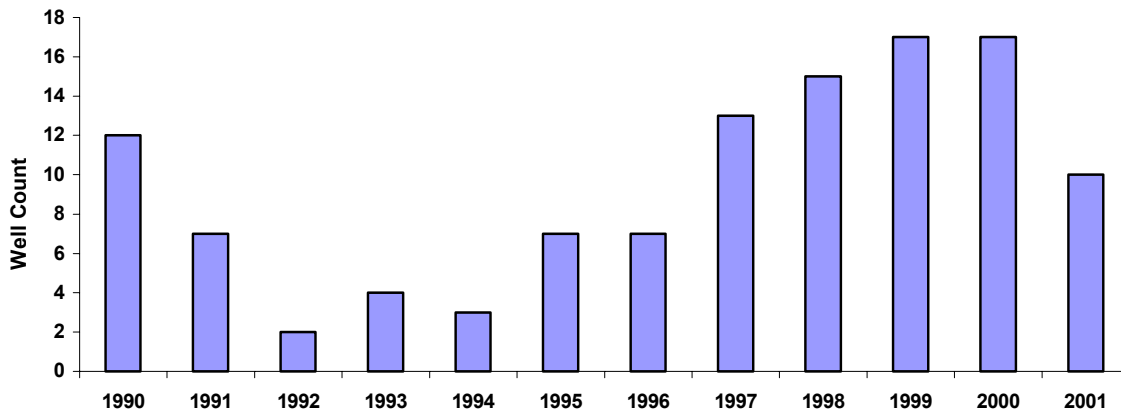
The number of new wells drilled declined in 2001. However, this does not represent a slowdown in overall activity in the sector. Seismic activity in the Mackenzie Delta region, and the testing and workover of several wells helped to offset the decline in drilling.

**West Texas Intermediate Crude Oil Price**



Source: Sproule Associates Limited

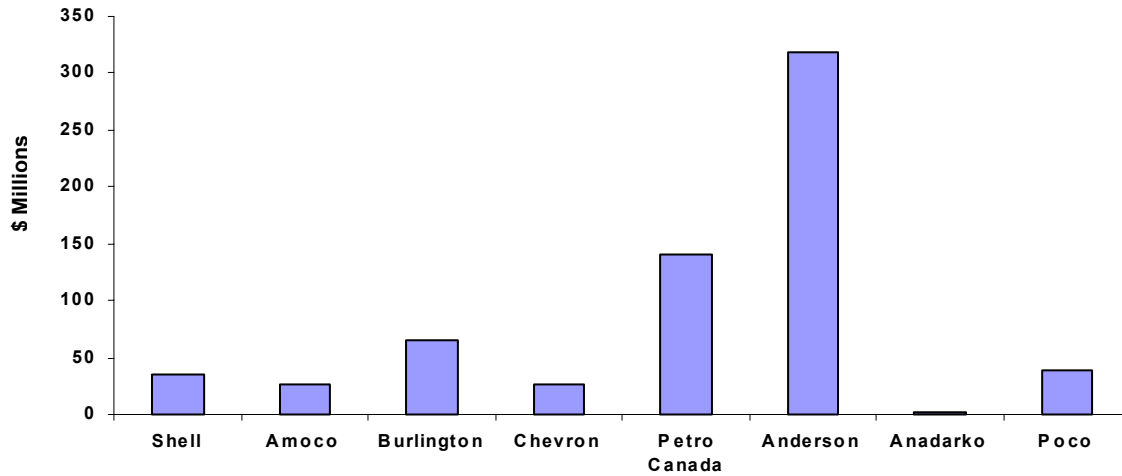
**Oil and Gas Wells Drilled in the NWT**



Source: National Energy Board

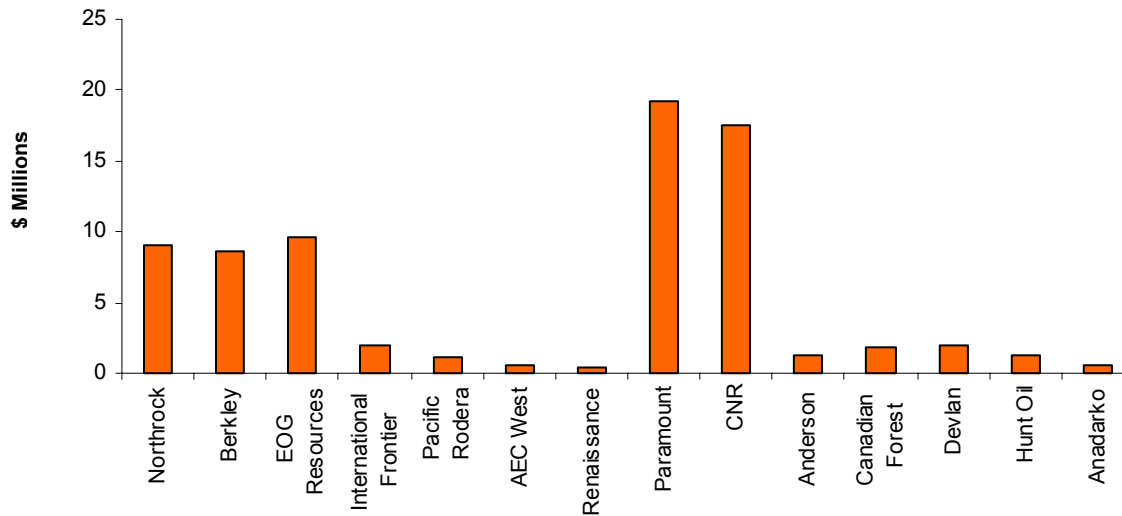
The level of drilling and other oil and gas field work promises to be robust in the future as several corporations have made commitments to spend approximately \$725 million in the Mackenzie Delta through work expenditure bids and bid bonuses. An additional \$75 million was committed to the Central Mackenzie Valley.

**Work Bids in the Mackenzie Delta and Beaufort Sea 1999 and 2000**



Source: Indian and Northern Affairs Canada

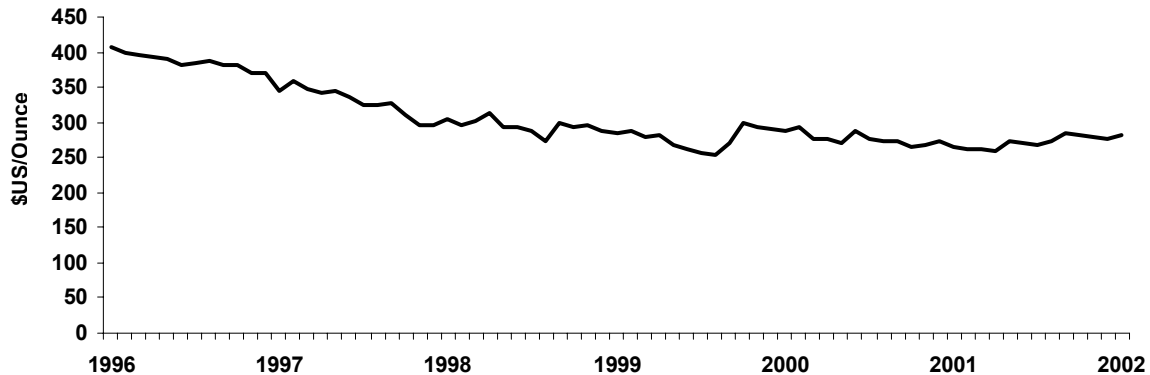
**Work Bids in the Central Mackenzie Valley 2000 and 2001**



Source: Indian and Northern Affairs Canada

The gold mining sector has also contributed to the value of the NWT's exports. However, declining gold prices have reduced their export value. Prices improved slightly in 2001, in part because of uncertainty in financial markets.

### Gold Prices

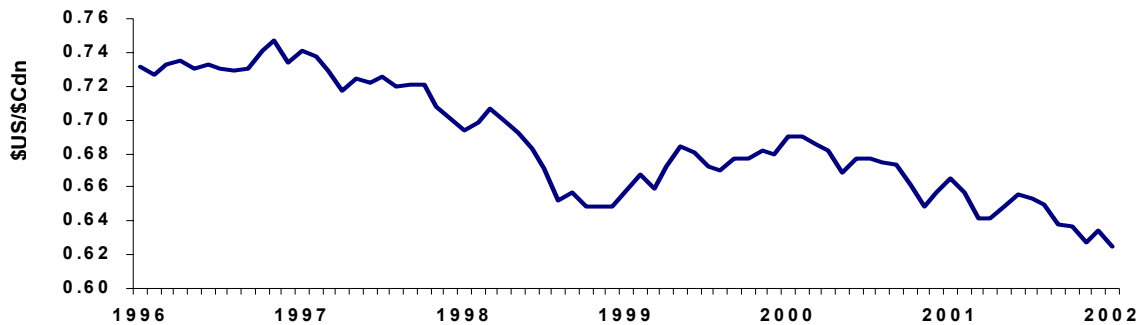


Sources: NWT Bureau of Statistics, Kitco Precious Metals, The Conference Board of Canada, and TD Economics

Note: The last 2002 data point is from February 13, 2002. All other data points are monthly averages.

The falling value of the Canadian dollar relative to the United States dollar has raised the Canadian dollar export value. The Canadian dollar has fallen steadily since early 2000. On January 21, 2002, the dollar traded for only US\$0.618, which was an all time low.

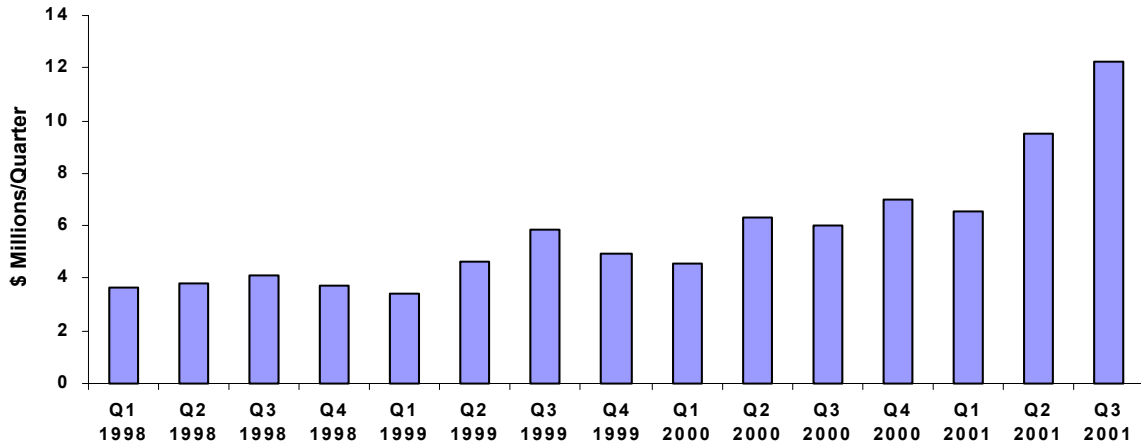
### Canada-U.S. Exchange Rate



Source: Sproule Associates Limited

Manufacturing shipments also contribute to the total value of NWT exports. In 2001 these shipments increased dramatically from a monthly average of \$2.0 million in the first 11 months of 2000 to an average of \$3.1 million over the same period in 2001. In the first three quarters of 2001 shipments were up 67.7 per cent compared to the first three quarters of 2000. The territory's diamond cutting and polishing industry contributed to the increase.

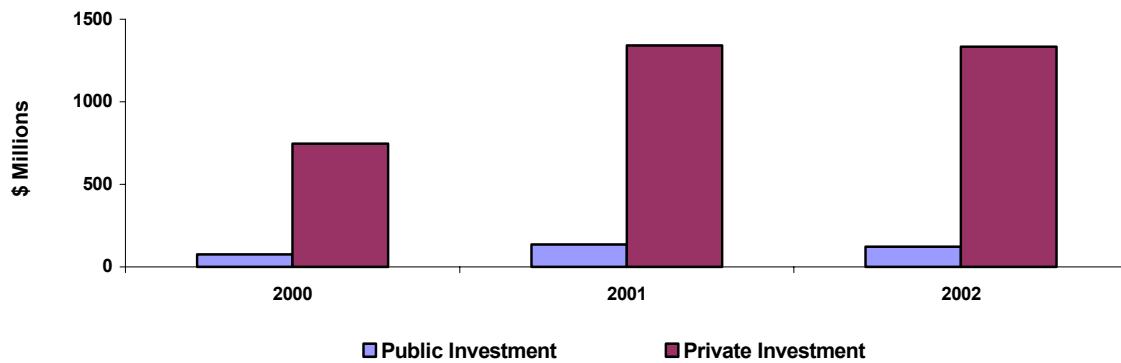
### NWT Manufacturing Shipments



Source: NWT Bureau of Statistics

Large investments are being made to develop the territory’s diamond mining industry and development is continuing in the oil and gas sector. Private sector investment expenditures are expected to show a dramatic 80 per cent increase in 2001, and are predicted to remain at about that level in 2002. Mining, oil and gas extraction industries should account for about 82 per cent of capital expenditures in 2001.

### Real Public and Private Investment Northwest Territories (1997 \$)

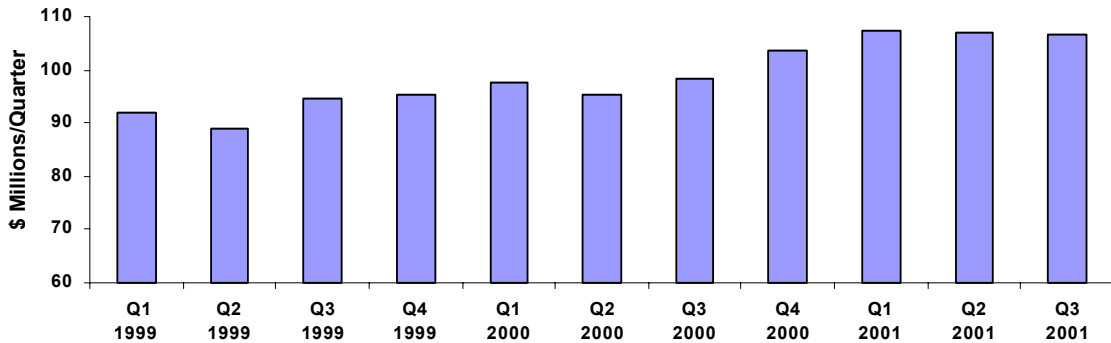


Source: Statistics Canada, NWT Finance

Note: 2000 figures are actuals, 2001 amounts are based on Statistics Canada’s survey of intentions and 2002 is a NWT Finance forecast.

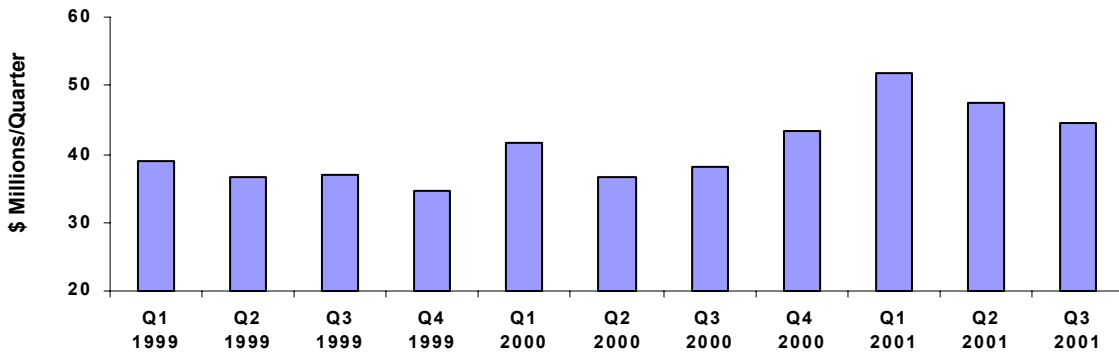
Improvements in capital expenditures, rising exports and modest growth in government spending have provided consumers with additional spending power. As a result, retail and wholesale trade in the territory has risen steadily. In the first three quarters of 2001 retail trade grew 10.4 per cent compared to the same period in the previous year. Wholesale trade was even stronger, growing 23.8 per cent in the first nine months of 2001 compared to the first nine months of 2000.

**NWT Retail Trade  
(Seasonally Adjusted)**



Source: NWT Bureau of Statistics

**NWT Wholesale Trade  
(Seasonally Adjusted)**



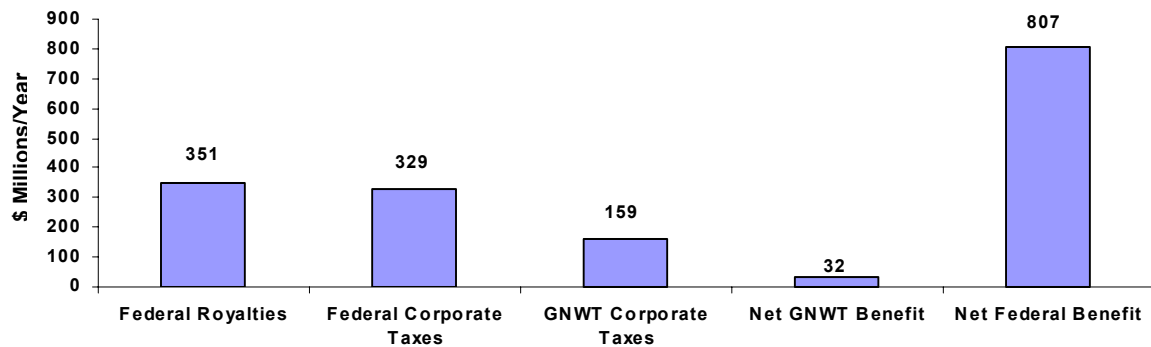
Source: NWT Bureau of Statistics



Fiscal arrangements for the NWT are different from those in Canadian provinces. In the provinces, the royalties generated from onshore resource development are earned by the provincial treasury. In the NWT, these royalties accrue to the federal government. In addition, similar to the Equalization program for the provinces, revenues generated from the resource sector through taxation are offset by reductions in the Grant from Canada. Therefore, the net fiscal benefit of resource development for the NWT is small.

Fiscal benefits for the GNWT are estimated to be only 3.8 per cent of the total royalty and corporate tax revenues generated during the next 25 years from resource development at three diamond mines, the Mackenzie Delta natural gas field, natural gas at Fort Liard, and oil in Norman Wells. The federal, Aboriginal, and territorial governments are discussing devolving natural resource revenues to NWT governments.

**Average Annual Fiscal Impact of Resource Development in the Northwest Territories**



Source: NWT Finance, NWT Resources, Wildlife, and Economic Development

The NWT’s economy has performed extremely well, but that performance does not substantially improve the GNWT’s ability to invest in its people. Government spending in infrastructure, health and education rises dramatically in a growing economy. In cooperation with the federal government, NWT governments will have to earn a greater portion of the revenues generated by economic development if they are going to be able to invest in these priority areas.