

## **NORTHWEST TERRITORIES ECONOMIC OUTLOOK**

The NWT economy had yet another remarkable year in 2003 and real Gross Domestic Product (GDP) growth is predicted to reach 13 per cent. Diamond mine construction drove GDP growth in 2000 and 2001 and a decline in the momentum was expected in 2002 as construction ended. Now, with two mines in full production, the value of diamond exports has more than doubled and real GDP is expected to continue to grow dramatically – a growth rate of 8 per cent is forecast for 2004.

The NWT has propelled Canada into the forefront of world diamond production, taking the nation in only five years from producing no diamonds to being the world's third largest supplier of rough diamonds by value. Currently, two diamond mines are in production and a third is scheduled to start construction in early 2005. A possible fourth diamond mine is under project review.

Going beyond diamonds, other sectors of the NWT economy are more than holding their own. The oil and gas industry remains healthy. While exploration expenditures for the winter of 2003 were down from the previous winter, this was due largely to the natural cycle of exploration activity, as companies performed analysis on previously explored options.

The buoyant non-renewable resource sector is helping to support other sectors of the economy, especially the housing sector. Housing investment more than doubled from 2001 to 2002 and this level was maintained in 2003. Housing shortages are easing in Yellowknife, primarily due to several large residential construction projects.

The manufacturing sector has almost tripled in value between 1999 and 2003, the wholesale sector saw an increase of 43 per cent from 1999 to 2003 and retail sales continue to climb year after year.

While the growth in the non-renewable sector tends to overshadow the renewable sector of the economy, the tourism industry is coming into its own. The 2002-03 season saw a 22 per cent increase in visitors and a 30 per cent increase in spending by tourists visiting the NWT. Preliminary survey results for 2003-04 suggest another good year for tourism.

The NWT's employment rate averaged a remarkable 70 per cent for 2003, compared to an average of 62 per cent for Canada as a whole. The NWT's two operating diamond mines alone are now providing 1,300 person-years of direct employment annually. This will climb to 1,800 person-years when the third mine becomes operational in 2006.

The future of the NWT economy is bright. The vast potential of the NWT is largely untapped. If approved, the Mackenzie Delta natural gas pipeline is expected to start pre-construction activity in late 2005 and gas may start to flow south in 2009. There is considerable interest in potential hydroelectric production using run-of-the-river technology, which means smaller dams and no massive flooding. Finally, the GNWT continues to make investments in infrastructure that will encourage further economic investment in the NWT.

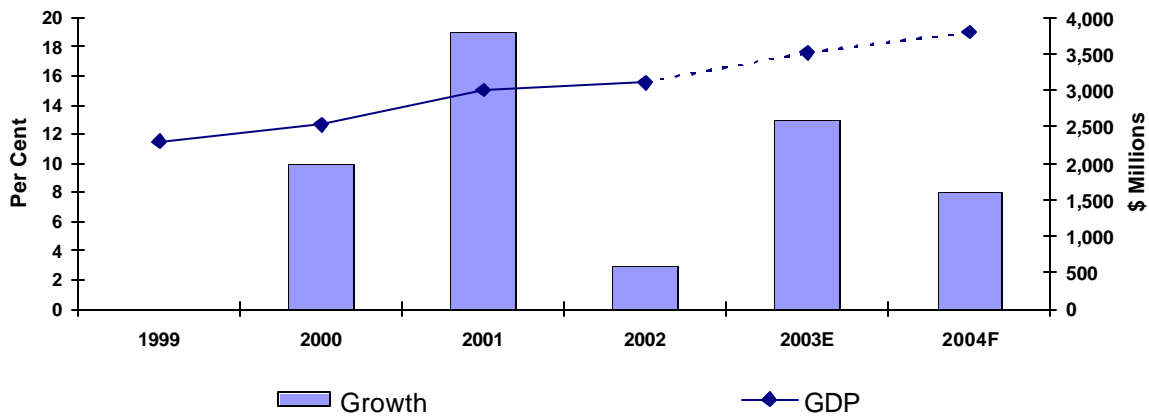
### *Northwest Territories Economic Indicators*

INDICATOR	2001(A)	2002(A)	2003(E)	2004(F)
Gross Domestic Product Chained (1997) Dollars	3,011	3,111	3,525	3,803
(% Change)	19.2	3.3	13.3	7.9
Total Investment Chained (1997) Dollars	1,461	1,545	935	981
(% Change)	72.9	5.7	-39.5	5.0
Consumer Expenditures Chained (1997) Dollars	923	952	962	972
(% Change)	3.0	3.1	1.1	1.1
Government Expenditures Chained (1997) Dollars	985	1,018	1,074	1,143
(% Change)	6.1	3.4	5.5	6.5
Exports Chained (1997) Dollars	1,581	1,588	2,762	3,085
(% Change)	11.6	0.4	73.9	11.7
Imports Chained (1997) Dollars	1,853	1,880	2,156	2,326
(% Change)	21.2	1.5	14.7	7.9
Employment (Number of Persons)	20,775	20,925	20,850	20,910
(% Change)	7.4	0.7	-0.4	0.3
Avg. Weekly Earnings (\$)	862	888	895	908
(% Change)	4.8	3.1	0.7	1.4
CPI (Yellowknife, 1992 = 100)	113.0	116.3	118.4	120.3
(% Change)	1.6	2.9	1.8	1.6

Sources: Statistics Canada  
 NWT Department of Finance  
 NWT Bureau of Statistics

(E) Estimated by NWT Department of Finance  
 (F) Projected by NWT Department of Finance  
 (A) Actual per Statistics Canada

### Real Gross Domestic Product (Chained, 1997)



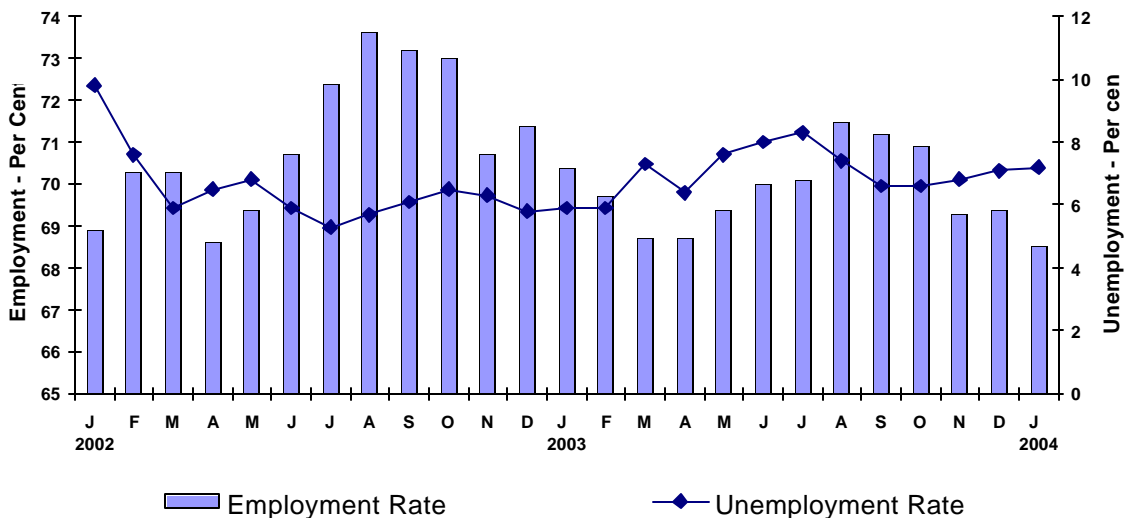
Source: Statistics Canada (2000 to 2002 actuals). NWT Finance (2003 estimate and 2004 forecast).

## EMPLOYMENT

On average in 2003, of the 29,900 NWT residents 15 years of age and older, 20,900 persons were employed, representing an overall employment rate of 69.9 per cent compared to a national average of 62.4 per cent. The employment rate in Yellowknife was 81.9 per cent, compared to 60 per cent in the other NWT communities.

The NWT's participation rate continues to be consistently higher than the national average. The average NWT labour force participation rate in 2003 was 75.2 per cent, compared to 67.5 per cent for Canada. The NWT began 2004 with a January unemployment rate of 7.2 per cent compared with an average January unemployment rate of 7.9 per cent for Canada.

### Labour Market



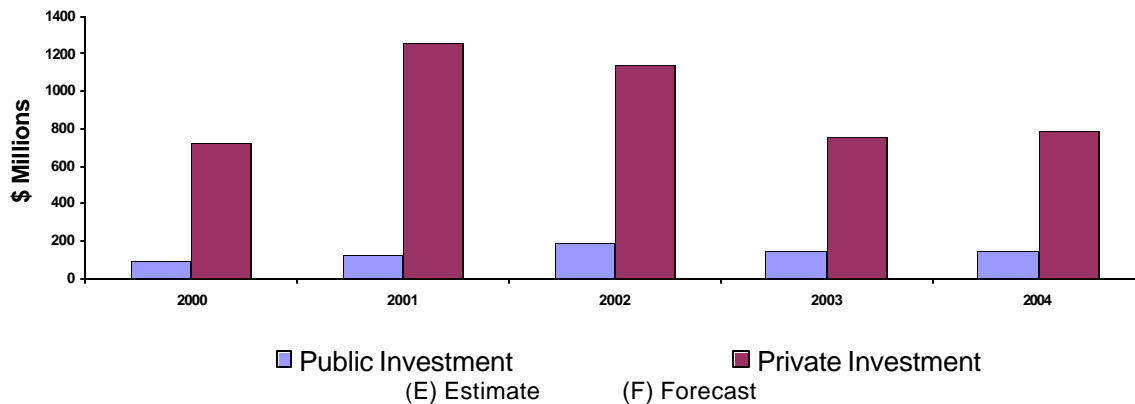
Source: Statistics Canada Labour Force Survey

## INVESTMENT

As expected, private investment decreased 34 per cent in current dollars from 2002 to 2003 as construction of the second diamond mine was completed in late 2002. Private investment is forecast to increase in 2004 because of a slight increase in oil and gas activity in the run-up to the start of the Mackenzie Valley pipeline. Pre-construction investment in both the pipeline and the Snap Lake diamond mine will also impact the investment numbers in 2004.

Government investment as a share of NWT total investment has ranged from 9 per cent to 26 per cent in the past five years. Total government investment decreased 19 per cent from 2002 to 2003 and is expected to decrease a further 5 per cent in 2004. The main driver behind the 2004 decrease is the drop in GNWT capital investment due to fiscal constraints.

### *Public and Private Investment*

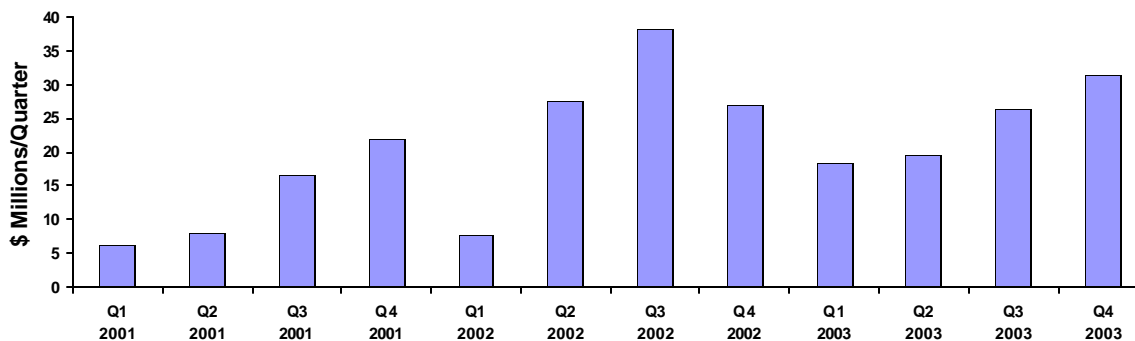


Source: Statistics Canada

Note: 2000 to 2002 data are actuals, 2003 data are preliminary actuals, and 2004 data are based on Statistics Canada's public and private survey of investment intentions.

Total private and public housing investment in 2003 is down slightly from 2002, yet continues to be strong following a dramatic increase of 137 per cent from 2001 to 2002. A total of \$96 million was invested in the housing sector in 2003, compared to \$100.2 million for 2002, a decrease of 4.2 per cent. Most of the housing construction activity in 2003 was centred in Yellowknife.

### *Housing Investment*



Source: Statistics Canada

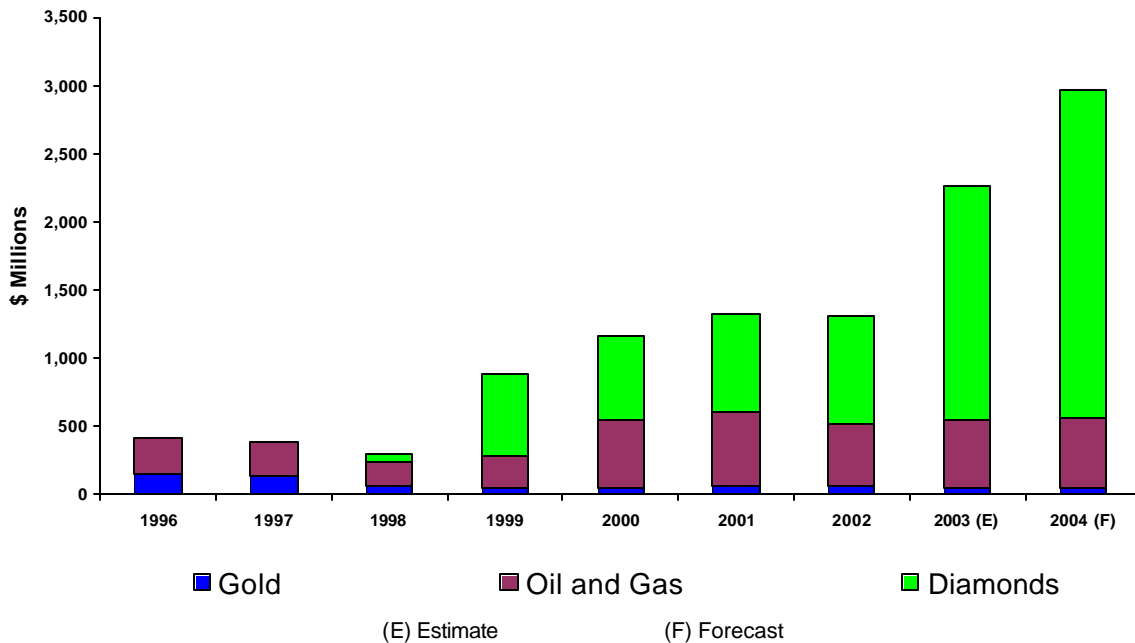
The value of NWT residential building permits was down only slightly from \$53.8 million in 2002 to \$51.5 million in 2003. These numbers continue to reflect the strength of the NWT economy as the level of building permits was maintained through 2003 even after growth rates of 163 per cent and 94 per cent from 2000 to 2001 and 2001 to 2002, respectively.

### MINING AND OIL AND GAS EXPLORATION

The non-renewable resource sector is the dominant force in the NWT economy. Diamond production drives the NWT non-renewable resource sector with a 60 per cent share of the value of total NWT mining and oil and gas extraction. In 2002, the two producing diamond mines generated 12 per cent of the world’s diamonds by value. Diamond production increased 10 per cent from 2001 to 2002 and a further 117 per cent increase is expected in 2003.

The current value of rough diamonds mined in Canada is \$1.7 billion. The final retail value of these diamonds is estimated at \$12.2 billion. However, currently less than one per cent by volume of Canada’s rough diamonds remains in Canada to be cut and polished.

**Value of Gold, Oil and Gas Production, and Diamonds**



Source: Natural Resources Canada, Mineral and Metals Sector

Note: Data excludes Nunavut for all years.

Oil and gas production has been fairly constant over the past few years, representing approximately 22 per cent of the value of the NWT total mining and resource extraction sector.

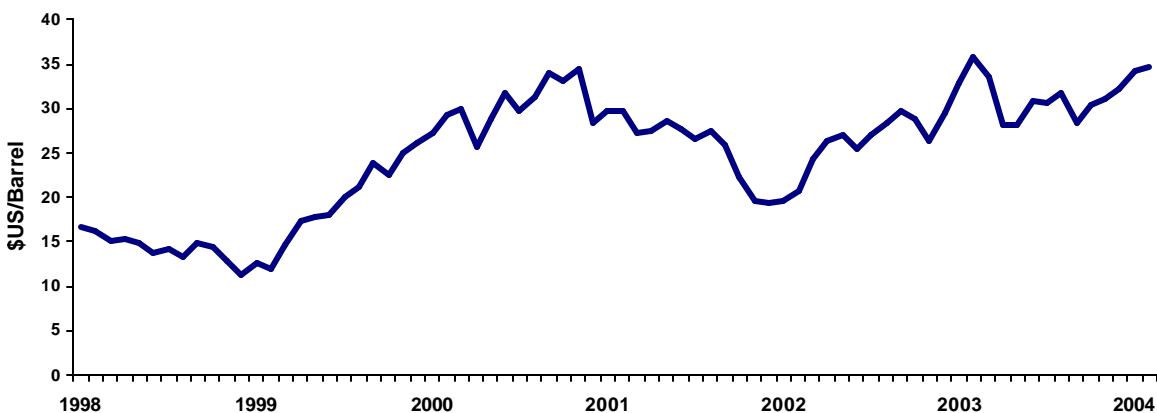
Oil and gas exploration activity is occurring throughout the NWT but varies in intensity depending on the region. Exploration in the Mackenzie Delta is being postponed until closer to a time when the natural gas can be transported to southern markets. Exploration is expected to decline 25 per cent to approximately \$140 million in the 2003-04 winter season.

Gold mining represents 2 per cent of the value of the NWT total mining and resource extraction sector. One of the two remaining gold mines in Yellowknife stopped underground gold mining in 2003. The second gold mine is expected to remain in production through to mid-2005.

## COMMODITY PRICES AND EXCHANGE RATES

Commodity prices in general have picked up since the low prices experienced in late 2001 and are again at levels last experienced in 2000. The average price of oil in December 2003 was 32.14 US\$/bbl compared to 29.44 US\$/bbl in December 2002. Prices are expected to remain strong throughout 2004.

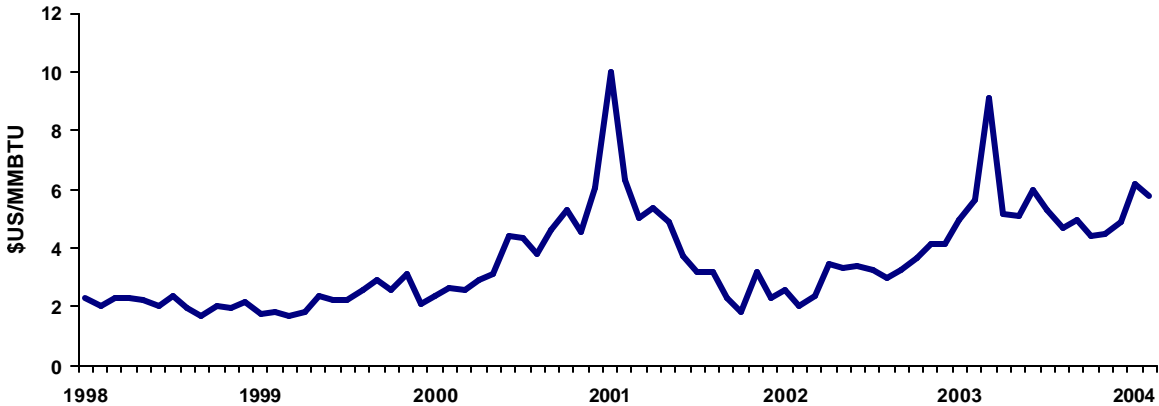
*West Texas Intermediate Crude Oil Price*



Source: Sproule Associates Limited

Natural gas prices continued to increase throughout 2003, rising considerably from the low prices seen at the end of 2001. The average natural gas price for 2003 was 5.39 US\$/MMBtu, a \$2.17 increase from the 2002 average of 3.22 US\$/MMBtu.

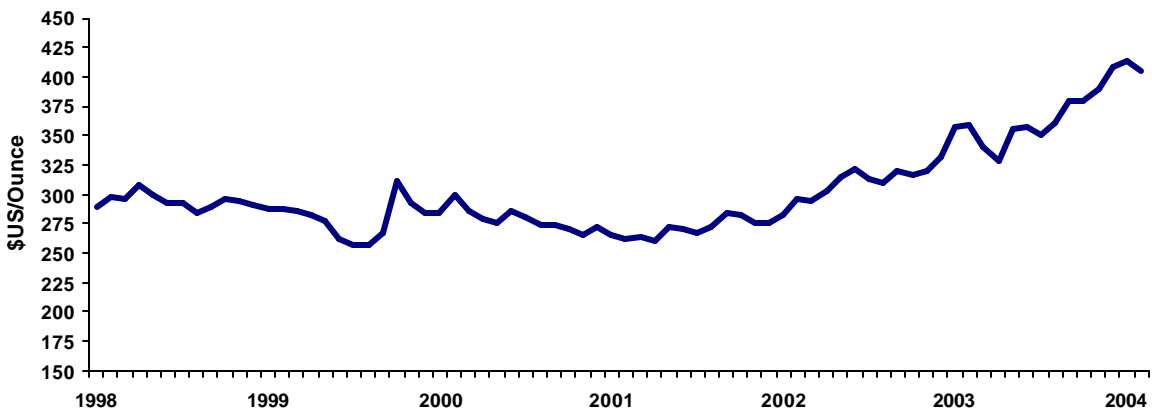
**Natural Gas Prices  
Henry Hub NYMEX**



Source: Sproule Associates Limited

Gold prices are at their highest levels since 1996, at 405.33US\$ per ounce in February 2004. The rise in the price of gold is directly related to the decrease in the value of the U.S. dollar against major world currencies. Gold is expected to remain strong throughout 2004.

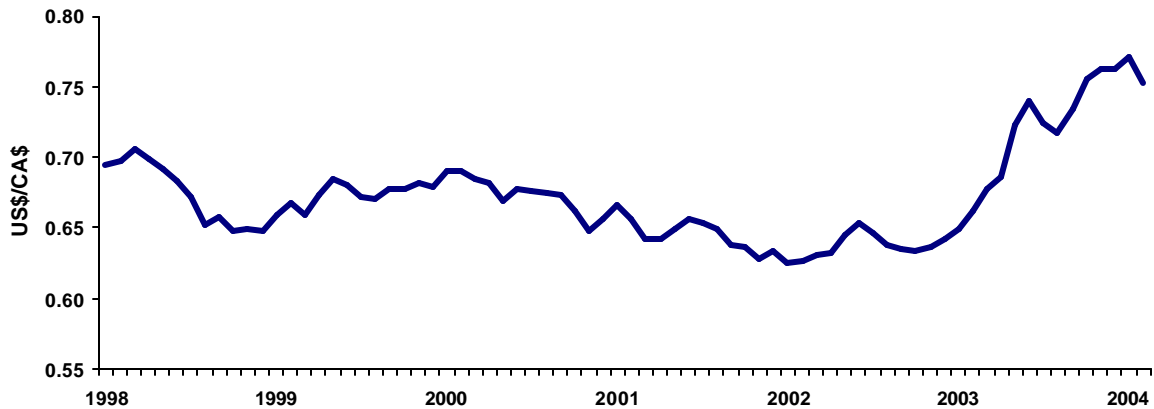
**Gold Prices**



Source: Kitco Precious Metals, TD Economics

The Canadian dollar experienced a dramatic increase in value in 2003. The average value of the Canadian dollar in 2003 was US\$0.716 compared to an average value of US\$0.637 in 2002. Canadian tradable exports have been under pressure as a result of the ascent of the Canadian dollar relative to the U.S. dollar.

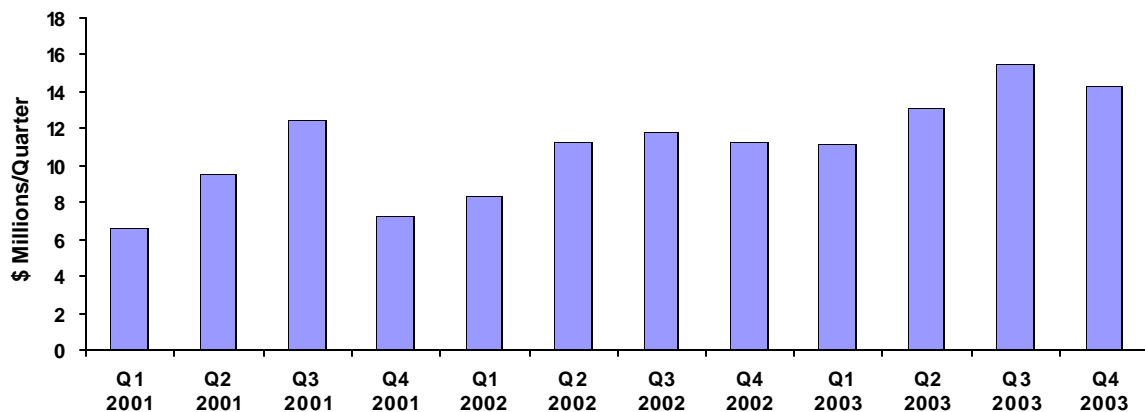
### *U.S.- Canada Exchange Rate*



Source: Bank of Canada

As the value-added industry for diamonds continues to expand in the NWT, manufacturing shipments' share of export values continue to grow. Shipments were up \$11.4 million, or 26.5 per cent, in 2003.

### *Manufacturing Shipments*



Source: Statistics Canada



## RENEWABLE RESOURCE SECTOR

### Tourism

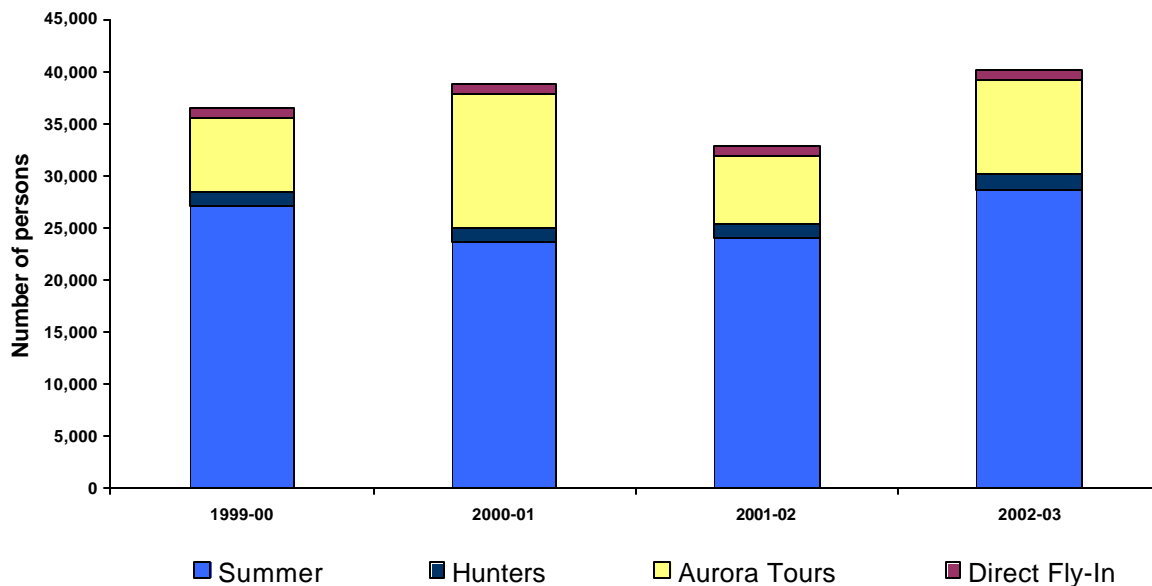
The total number of visitors to the NWT increased 22 per cent in 2002, from 32,833 in 2001 to 40,100. Almost 2,500 more Aurora tour visitors and an additional 5,000 summer tourists visited the NWT during 2002 compared to 2001.

The value of tourism to the NWT economy is estimated to have increased \$12 million, or 30 per cent, from 2001 to 2002. Most of the increase was due to the increase in Aurora tour and summer visitors; however, there was also an overall increase in spending by summer visitors.

Preliminary data for May through August of 2003 show a 10.5 per cent decline in the number of visitors compared to the summer of 2002. However, preliminary data suggests that the number of Aurora tourism visitors will show an increase over 2002. Spending data for 2003 is not yet available.

Despite the tourism industry's \$50 million contribution to the NWT economy, its potential is still largely undeveloped. The vastness of the NWT landscape provides for extensive tourism possibilities. Lack of infrastructure, particularly highways, is a major impediment to increasing the size of this industry.

**Visitors to the Northwest Territories**



Source: NWT Resources, Wildlife, and Economic Development

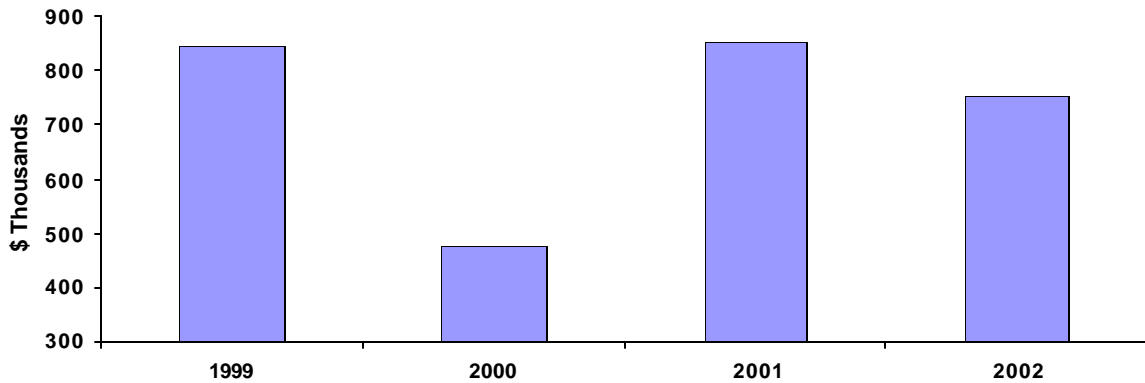
### Commercial Fishery

At 3.8 per cent of the Canadian industry total by value, the NWT's commercial fishery industry added over \$1.4 million to the NWT economy in 2002. According to the federal Department of Fisheries and Oceans, 1,164 tonnes of freshwater fish were caught commercially in 2002, 4.9 per cent of the national freshwater total.

**Fur**

The total value of pelts produced in the NWT in 2002 was over \$750,000, the most recent year for which data was available. The pelts with the greatest market share in 2002 were marten, lynx, beaver, muskrat, seal, wolverine and white fox. Good returns are expected for both 2003 and 2004 as prices remain high and there exists a continued interest in the industry. However, prices realized and sales depend heavily on the value of the Canadian dollar and trends within the highly unpredictable world of fashion.

**Total Value of Pelts, for Year Ending June 30**

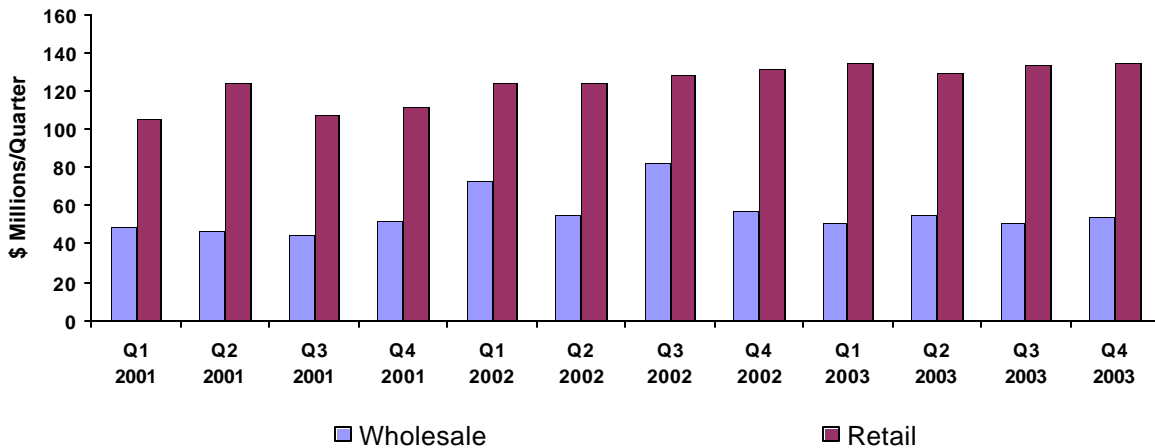


Source: NWT Resources, Wildlife, and Economic Development

**TRADE**

The level of retail trade has increased significantly over the last year, driven by an increase in population and by higher consumer spending power, which was the result of higher average employment earnings. Retail trade grew by \$24.5 million, or 4.8 per cent, in 2003 compared with 2002. Wholesale trade decreased 21.5 per cent from 2002 to 2003 due to completion of the second diamond mine.

**Retail and Wholesale Trade  
(Seasonally Adjusted)**



Source: Statistics Canada