

Industry PROFILE



An integrated approach to nurturing industry development and NWT wealth

TRADE AND SERVICES

Trade and service businesses are a major force behind economic growth and development in the NWT. Development of the industry is key to maximizing opportunities from development of NWT resources and tourism. Businesses in this industry are major employers, and contribute towards a diverse and stable labour market.

TRADE AND SERVICES TODAY IN THE NWT

Trade and services businesses have contributed significantly to the economic boom in the NWT. Over the 1999-2005 period:

- Overall retail sales have increased by 58%;
- Wholesale trade is up by 50%; and,
- Restaurant, caterer and tavern receipts have increased by 106%.

These growth rates far exceed Canadian averages.

The industry is also a major employer. From 2000 through 2004, the services industry (which includes the retail and wholesale industries) created 3,063 new jobs in the NWT, which equates to 93% of all new jobs created in the NWT. By comparison, there were 629 new jobs in the public sector.

Trade and services is a very diverse industry. Businesses range from professional firms like law firms and accountants, to restaurants and video rental establishments. While most businesses are small (95% have fewer than 50 employees), a significant number have sales in excess of \$10 million per year.

The vast majority of trade and services businesses are owned by local residents. Some companies are traded on Canadian stock markets. Other firms are part of a national or international business like Walmart, Mark's Work Warehouse or Canadian Tire. Some of these may be a local franchise or owned by a national chain.



TRADE AND SERVICES INDUSTRY IN CANADA

Trade and services includes retail shops, hotels, taverns, cleaning services, laundromats, video stores, arcades, automotive repair and sales establishments, service stations, restaurants and accountants, to name a few.

In 2005, roughly 1.7 million of the 2.2 million business establishments in Canada were part of the service-producing industry. Most of these businesses are small, with more than 445 thousand having less than five employees and approximately 600 thousand having less than ten employees.

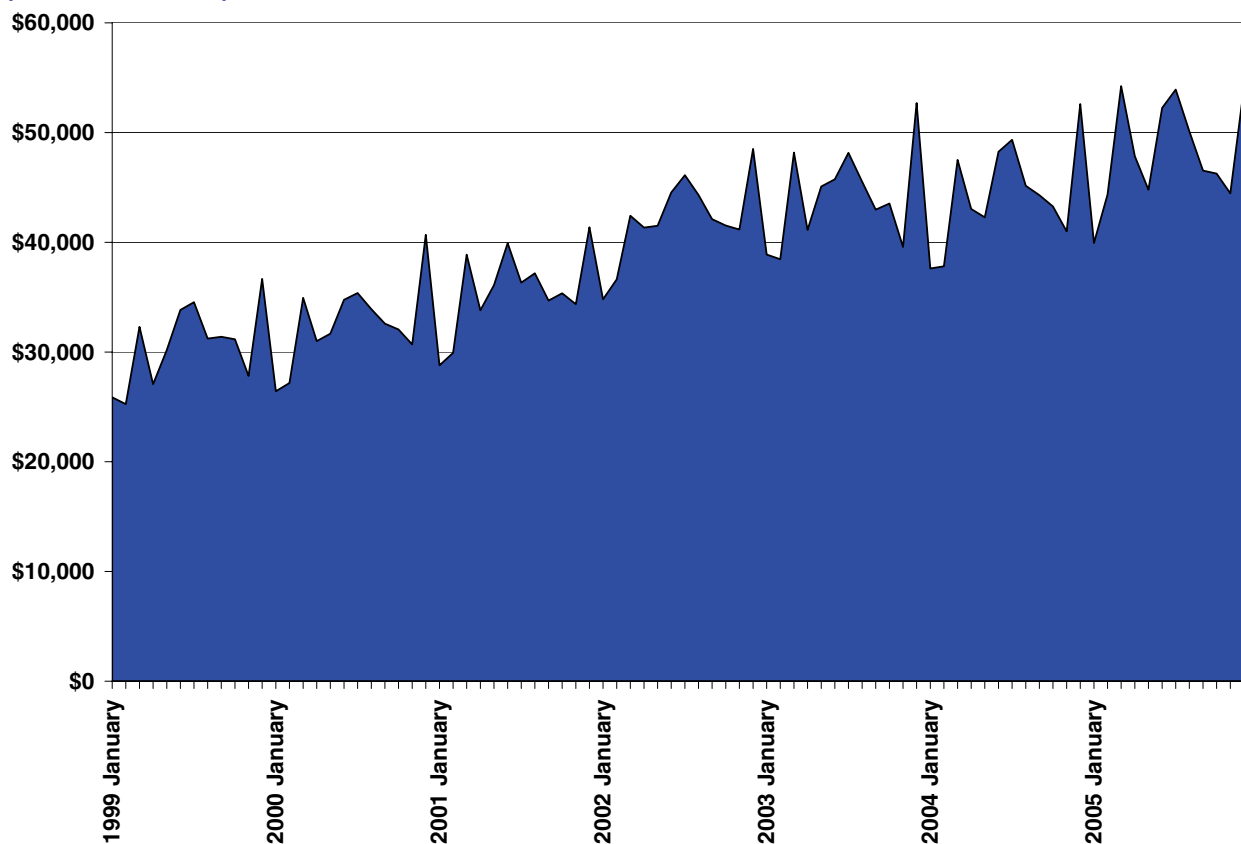
These businesses are a major contributor to the national economy. In 2005, the trade and services sector contributed \$738 billion to the Canadian GDP.

RETAIL TRADE

One of the most important segments in the trade and services industry is the retail sector. The technical definition of retail is: "retailing merchandise in small quantities to the general public, generally without transformation, and rendering services incidental to the sale of merchandise. The retailing process is the final step in the distribution of merchandise." (From the 1997 North American Industry Classification System.)

NWT trends in retail sales have been very positive, compared to other industries and other regions of Canada. Over the past six years, retail sales have increased by 58%, significantly higher than the Canadian average of 35% over the same period. Retail sales in the NWT increased from \$367 million in 1999 to \$579 million in 2005. Gross margins in the NWT and Canada averaged 27% in 2004. This compares to the Yukon, Nunavut and Prince Edward Island, which each had margins of 29%, 36% and 26% respectively.

Retail Sales in the NWT By Month (Raw Numbers)
(In millions of \$'s)



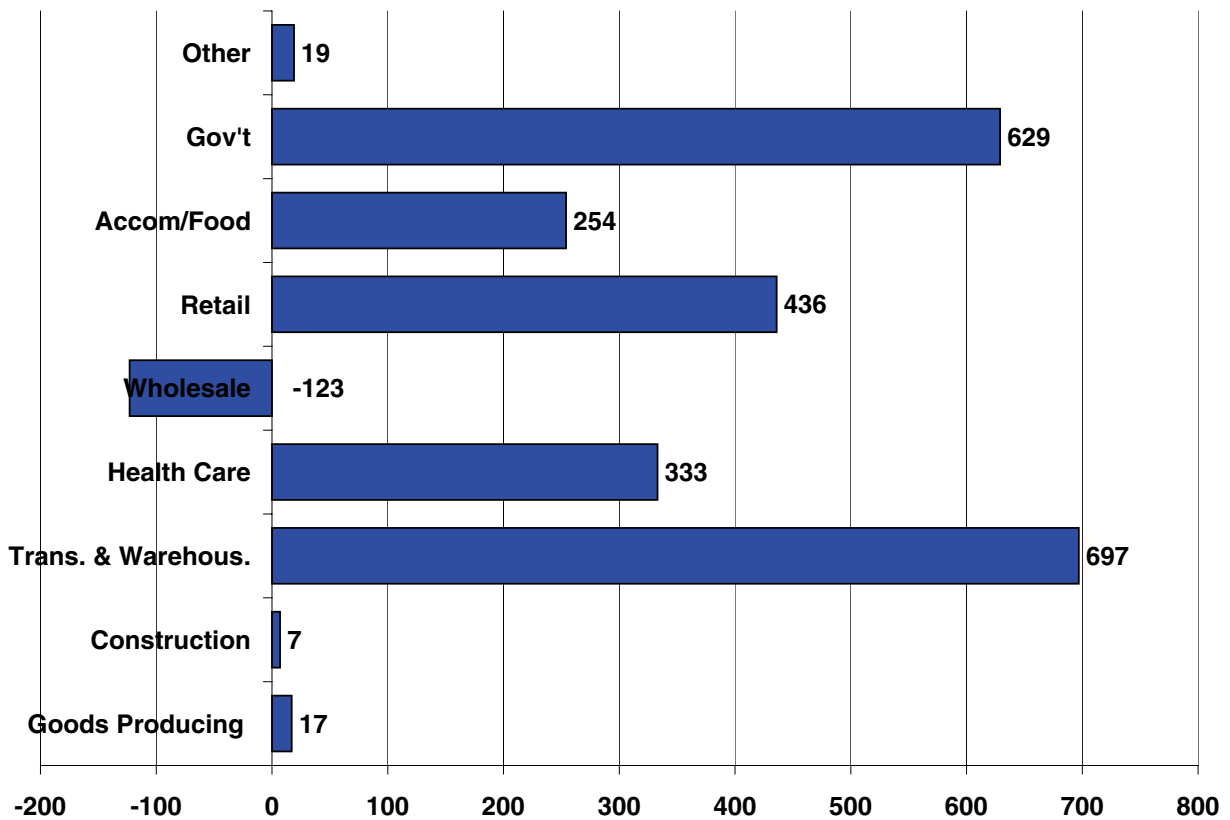
Source: NWT Bureau of Statistics

Employment has increased with industry sales. Over the four year period from 2000 through 2004, there were more than 400 new jobs created in the retail trade sector, or about 19% of all new jobs in the NWT.

Retail trade is closely tied to personal incomes, which in turn, are closely associated with NWT resource development. With Ekati and Diavik in production and the development of the DeBeers Snap Lake Project, and the proposed DeBeers Gahcho Kue project and the Mackenzie Gas Pipeline, retail growth is expected to remain strong for the foreseeable future.

Operating revenues in the Northwest Territories were just shy of \$566 million in 2003. In comparison to the other jurisdictions, the Yukon, Nunavut and PEI had revenues of \$427 million, \$242 million and \$1.4 billion respectively. (Source: Stats Canada)

Jobs Created in the NWT, 2000 - 2004.



Source: NWT Bureau of Statistics, Statistics Quarterly

Table 1: Growth Rate of the Retail Trade in the NWT over five years.

Year	Retail Sales (In millions of \$'s)	% Growth NWT	% Growth in Canada
1999	367.3		
2000	391.3	6.5%	6.0%
2001	426.7	9.0%	4.4%
2002	505.0	18.3%	6.3%
2003	529.9	4.9%	3.6%
2004	532.1	0.4%	4.7%
2005	578.8	8.8%	6.1%

Source: NWT Bureau of Stats, Statistics Quarterly

Table 2: Growth Rate of the Wholesale Trade in the NWT over five years.

Year	Wholesale Sales (In millions)	% Growth NWT	% Growth in Canada
1999	138.5		
2000	158.2	14.2%	6.3%
2001	207.0	30.9%	2.1%
2002	301.4	45.6%	7.5%
2003	198.8	-34.1%	2.2%
2004	192.7	-3.1%	6.5%
2005	207.9	7.9%	5.4%

Source: NWT Bureau of Statistics, Statistics Quarterly



Source: ITI - The retail trade sector is an important part of the NWT economy

WHOLESALE TRADE

The wholesale industry is comprised of two different types of firms: merchants and agents or brokers. Merchants buy and sell merchandise on their own account and they take title to the goods that they sell. In contrast, agents buy and sell goods that are owned by others, but, they do not actually take possession of the goods at any time.

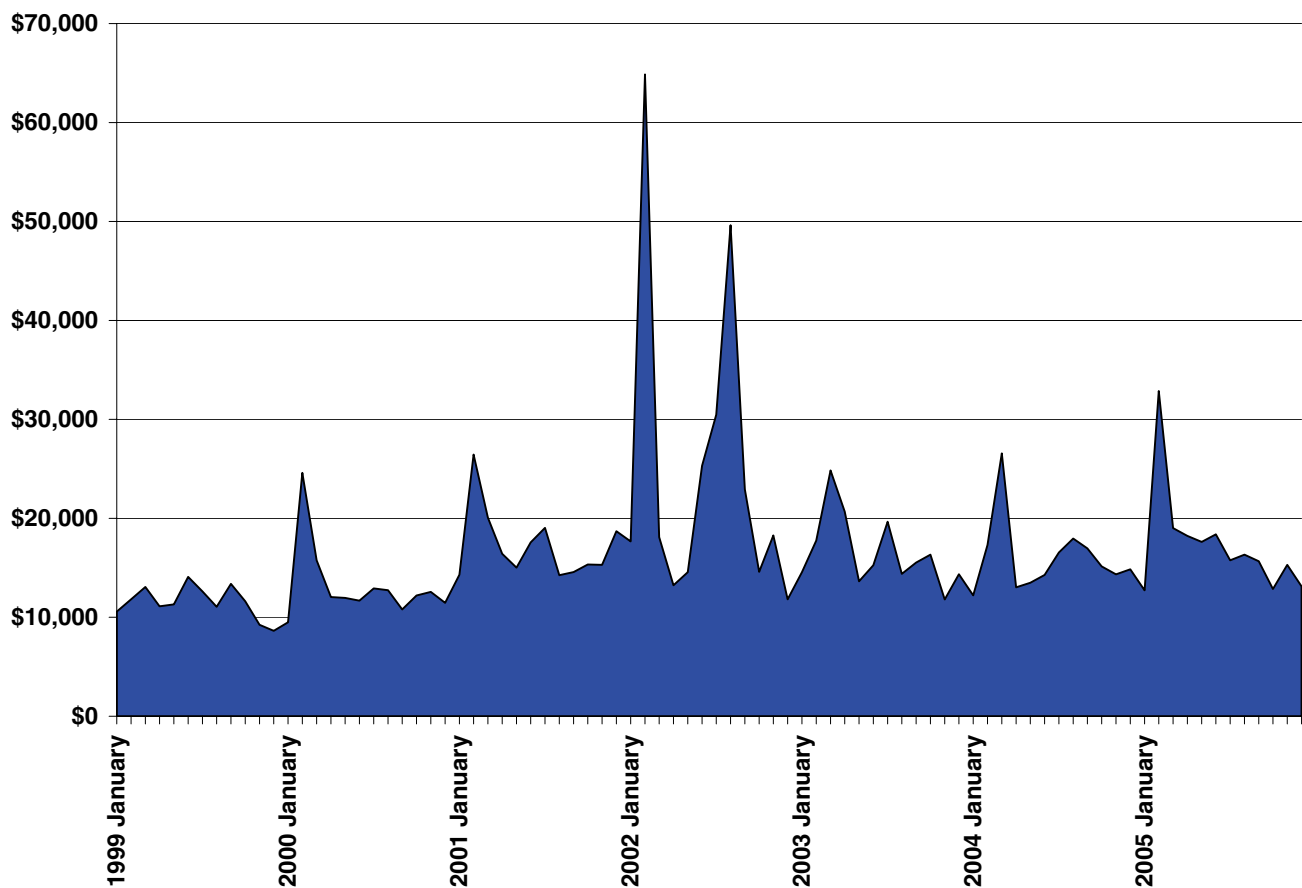
Wholesalers comprise an important part of the national economy, linking manufacturers and the marketplace.

While still a relatively small part of the NWT economy, wholesale businesses have reacted positively to new mineral investment. As shown in the chart below, wholesale activity is closely associated with “resupply” windows during the winter and summer. There is also a growing trend for regional centres to provide wholesale services to surrounding smaller communities.

Industry sales peaked in 2002 at \$301 million and has since declined by 31%. This decline in sales is likely associated with the completion of the construction phase of the Diavik Diamond Mine™ at the end of 2002. With the DeBeers Snap Lake Project in its construction phase, it is expected that sales in this sector will once again increase.

While wholesale trade sales have declined over the last two years, growth rates remain comparable to Canada’s rate of growth for the corresponding period.

Wholesale Sales for the NWT on a month-by-month basis.



Source: NWT Bureau of Statistics

RESTAURANTS, TAVERNS AND OTHER CATERERS CATERER SALES

An important part of the trade and services sector is restaurants, caterers and taverns. Sales in this industry have also benefited from NWT economic and tourism growth.

In 1999, sales were \$39 million. By 2005, sales had more than doubled to \$81 million. At the same time, these businesses saw significant spikes in sales, both during the summer construction period, peak tourism months (both summer and aurora winter tourism) and during the winter resupply windows.

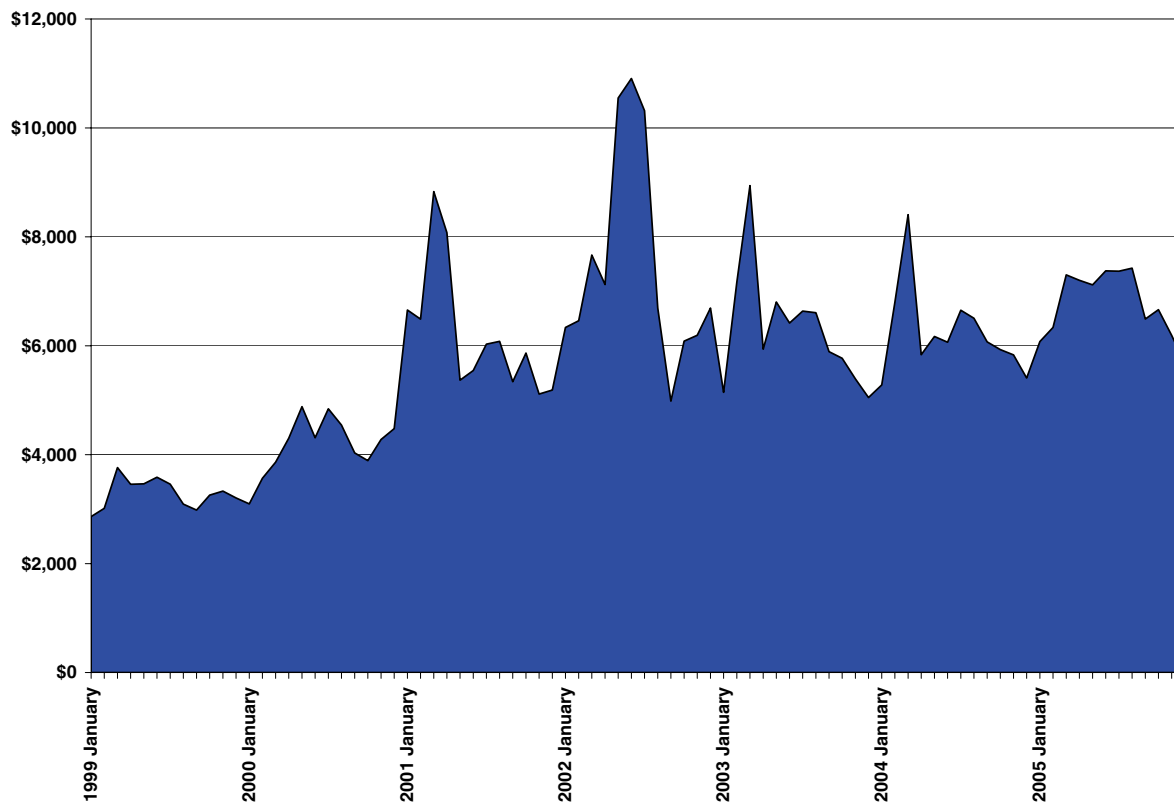
While sales have more than doubled, the number of establishments involved with the industry grew from 61 in April 1999 to 88 in April 2004, a 44% increase.

Caterers have particularly benefited from mineral development and exploration. Over the 1999 - 2003 period, catering sales increased by 131%. (Information is now suppressed)



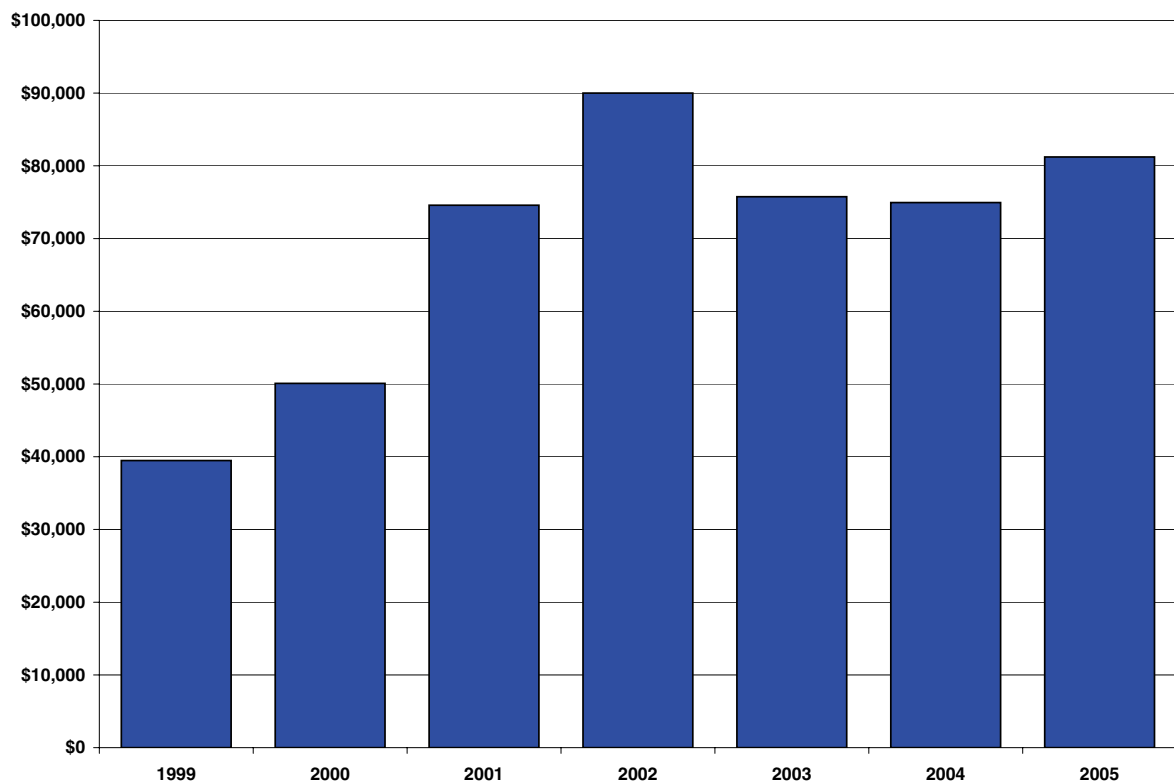
Source: ITI - Restaurants are a Major Employer.

Monthly Restaurants, Taverns and Other Receipts (In 000's of \$'s)



Source: NWT Bureau of Statistics

Annual Restaurants, Taverns and Other Receipts (In 000's of \$'s)



Source: NWT Bureau of Statistics

Canadian Federation of Independent Businesses (CFIB) Survey of NWT Members

CFIB regularly solicits feedback from small firms in the NWT on issues of concern to their organizations.

In January 2006, the Canadian Federation of Independent Business (CFIB) presented the GNWT with their pre-budget submission, "Towards the Vision: Small Business Agenda for the 2006/07 NWT Budget." The CFIB made recommendations that it believes would assist businesses in the NWT, and by doing so help the NWT achieve its vision of: *Self-reliant individuals and families sharing the rewards and responsibilities of healthy communities and a prosperous and unified Northwest Territories.*

Remember, today's small firms are tomorrow's medium-sized or large firms. Therefore, it is very important to develop policies that foster entrepreneurship and encourage smaller businesses to grow, which in turn helps to diversify the economy and create new jobs and opportunities for NWT residents. This environment can be created and maintained by ensuring that the NWT remains competitive on all forms of taxation, by being aware of the impact of government decisions on small firms and working to minimize policies that hinder investment and growth in NWT small firms. The following recommendations were made in the report:

- Reduce the gasoline tax to 6.4 cents/litre for all regions in the NWT and cut the diesel fuel tax to 7.2 cents/litre to stay competitive with Yukon.
- Reduce the small business corporate tax rate by one percentage point and gradually reduce the general corporate rate to 12 per cent to remain competitive with Nunavut, Alberta and British Columbia.
- Reduce the payroll tax to one per cent.

- Ensure that private sector wages and compensation are used to help determine appropriate public sector wages and that public sector wages do not grow faster than private sector wages. Public sector wages should follow, not lead private sector wages.
- Implement strategies to address the shortage of qualified labour:
 - Lower the tax burden to provide additional resources to put towards hiring, training, retention and salaries;
 - Ensure education system is positioned to meet the needs of employers and do not undervalue private institutions;
 - Work towards creating more affordable housing and consider ways that private developers could play a role; and,
 - Allow for more flexible labour laws.
- Institutionalize a process to measure and reduce the regulatory burden.
- Increase awareness about the threats and opportunities around business succession. Do not focus government programs only on start ups, but also on how to buy or sell an existing business.

Source: Letter to the GNWT from the CFIB, January 2006

FOOD MAIL PROGRAM

The Food Mail Program is administered by the Department of Indian and Northern Affairs Canada (INAC). INAC provides funding to Canada Post for transporting nutritious, perishable foods to isolated communities by air.

The program provides the lowest postage rate for nutritious perishable foods. These foods, such as vegetables, fruit, bread, meat and milk, can be shipped as food mail for \$0.80 per kilogram plus \$0.75 per parcel and these rates have remained stable since July 1993. Non-perishable food and some essential non-food items can also be shipped under this program at higher postage rates. Foods of little nutritional value, such as pop and chips, are not funded. In 2003-2004, approximately 13,400,000 kilograms of food and other goods were shipped under the program.

Eighteen of the NWT's communities are eligible under the program including some of the highest cost communities in the NWT – Paulatuk, Colville Lake and Ulukhaktok.

A number of community organizations can benefit from this program and local community businesses could also benefit from this program. For example, direct shipments to tourist operations and businesses are also allowed under the program.

The major staging point in the Northwest Territories is Yellowknife. If a business or person living in a remote community wants to place an order under the Food Mail Program, they first need to contact a wholesaler in Yellowknife. For example, the Direct Charge Cooperative in Yellowknife provides this service to members in outlying communities. The member simply phones, emails or faxes an order to the store, the store packages the items and then takes them to the airport and they arrive in the respective community one or two days later.

Savings under the program can be quite significant. For example, in the sample order on the following page, the cost to a business is only around \$183 compared to \$154 in Yellowknife. The cost is the same for a business in Ulukhaktok, Paulatuk or Wekweti. ***(Note: included in the cost is a packaging cost of \$.75 per box or parcel)***

The Food Mail Program could potentially reduce costs for certain businesses and tourism operations in remote communities. INAC spent approximately \$32 million to subsidize Food Mail service provided by Canada Post in 2003-2004. Of the total, approximately 66 percent was used to provide Food Mail service to communities in Nunavut and 38 percent of the funding was used in northern Quebec. NWT residents only used \$1.1 million of the total, or about 3%. By comparison, consumers in Nunavut used \$21 million in funding. Based on the population of eligible communities, the NWT should have used close to \$3 million in assistance (with the same usage as Nunavut). However, usage of the program, as stated above, is low compared to other northern regions. If NWT residents and businesses used the program at the same rate as Nunavut, the program could reduce food costs by \$2 million for communities in the NWT.

A Sample Order for a Community Consumer Compared to a Yellowknife Resident

	kg	Price	Unit	Number Purchased	Price in Yk	Weight in kg's	Freight Food Mail	Community Price	% Over Yk
Coffee	0.343	2.49	package	4	\$9.96	1.372	1.1	\$11.06	111%
Bread	0.57	1.99	1 loaf	4	\$7.96	2.28	1.82	\$9.78	123%
Milk	1	2.49	1 carton	2	\$4.98	2	1.6	\$6.58	132%
Eggs	0.24	2.49	dozen	4	\$9.96	0.96	0.77	\$10.73	108%
Yogurt	0.75	3.59	tub	4	\$14.36	3	2.4	\$16.76	117%
Oranges	2.27	3.89	1 bag	2	\$7.78	4.54	3.63	\$11.41	147%
Potatoes	9.07	6.99	1 bag	1	\$6.99	9.07	7.26	\$14.25	204%
Butter	0.454	5.89	1 brick	3	\$17.67	1.362	1.09	\$18.76	106%
Margarine	0.907	4.89	1 tub	3	\$14.67	2.721	2.18	\$16.85	115%
Cheese	0.689	8.82	1 block	2	\$17.64	1.378	1.1	\$18.74	106%
Broccoli	0.24	0.98	kg	4	\$3.92	0.96	0.77	\$4.69	120%
Beef Roast	1	9.68	frozen	1.51	\$14.62	1.51	1.21	\$15.82	108%
Turkey	1	4.17	frozen	4.175	\$17.41	4.175	3.34	\$20.75	119%
Chicken	1	4.38	frozen	1.275	\$5.58	1.275	1.02	\$6.60	118%
					\$153.50	36.6	29.28	\$182.78	119%



Source: ITI - Goods being unloaded from float plane in Jean Marie River

Major Costs for Businesses in the NWT

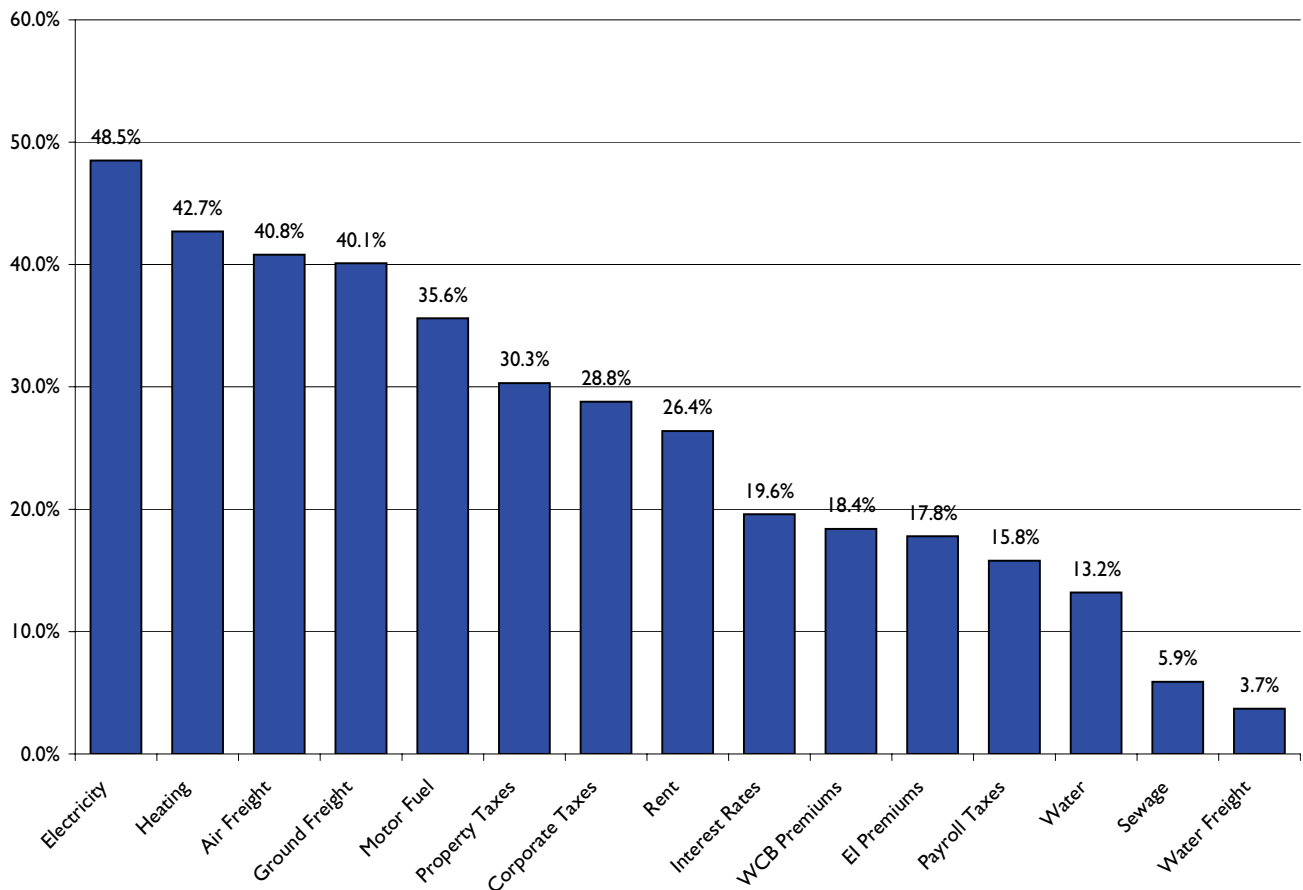
In October of 2001, the Department of Resources, Wildlife and Economic Development (RWED), the NWT Chamber of Commerce and the NWT Construction Association worked together in surveying business conditions in the NWT. The business survey sampled 246 businesses throughout the NWT. The sample was reflective of the distribution of businesses in the NWT and included airline companies, convenience stores, contractors, hotels, publishing companies, restaurants, service stations, a window manufacturer and a bank.

The chart below plots the percentage of businesses ranking different categories of cost as a major concern to doing business in the NWT.

Approximately half of all businesses that were surveyed identified that electricity (48.5%) and heating costs (42.7%) were the top two major expenses of doing business. The next three major expenses were air freight, ground freight and motor fuel identified respectively by 40.8%, 40.1% and 35.6% of the businesses.

The department of Industry, Tourism and Investment is planning a new 2006 business survey with the NWT Bureau of Statistics and major business associations in the NWT.

Percentage of Businesses Ranking these Costs as a Major Issue, 2001.



Source: ITI

Conclusion

The NWT trade and services industry has experienced tremendous growth. This growth is a direct result of the development in both the oil and gas and mining industries.

- Retail market sales grew by 58% from 1999 to 2005;
- Wholesale receipts increased 50% from 1999 to 2005; and
- Restaurant, caterer and tavern sales jumped 106% from 1999 to 2005.

However, future growth is not assured and there are challenges. One major challenge is finding employees. Businesses have to compete with resource and public sector employers, and they have to pay sufficient wages to cover increasing living costs. Rental costs, for example, are significantly above Canadian averages in some NWT centres.

Another challenge is utility costs. Increased fuel prices will impact on heating, water and other utility charges.

Growth in the industry is also tied to development of the economy's base sectors. The means promoting oil and gas development, further mining development and tourism.

One risk is the growing presence of transient workers. If more workers decide to relocate and commute to the NWT, it is likely most of their personal purchases will be made in southern Canada.



Source: ITI - Financial services play an important role in business development