

2004

Investment and Economic Analysis
Resources Wildlife and Economic Development

NWT

Economic Trends

another record year for the NWT economy

issue 3 | second quarter



page 1

Another record year for the NWT economy.

page 2

The mining industry, construction industry and investment

page 3

Tourism in the NWT for 2002/2003

page 4

The wholesale and retail sectors of the economy

page 6

Income and productivity in the NWT

page 8

Implications of wood heating in the NWT

Gross Domestic Product

Gross domestic product or GDP, is the most common measure of economic activity. It is the total value of all final goods and services produced in the market economy over a year. Measures of "Real GDP", as shown in Chart 1, remove the effects of inflation.

The NWT economy had another remarkable year in 2003 with Gross Domestic Product (GDP) growth of 10.6% in chained 1997 dollars (NWT Bureau of Statistics). Diamond mine construction was driving GDP growth in 2000 and 2001 and a decline in the momentum was expected in 2002 as construction ended. Currently, with two mines in full production, the value of diamond exports has more than doubled and real GDP is expected to continue to grow; 8 per cent growth is forecasted for 2004. It is expected that the GDP of the NWT will surpass that of PEI in early 2004.

There is also continuing interest in other NWT resources. While oil and gas exploration expenditures for the winter of 2003 were down, there is growing interest in the proposed Mackenzie Valley pipeline.

Last year, there was a shift to housing investment, a direct result of increased income and employment. However, affordable housing remains an issue in many communities.

Chart 1 - The NWT's Real GDP

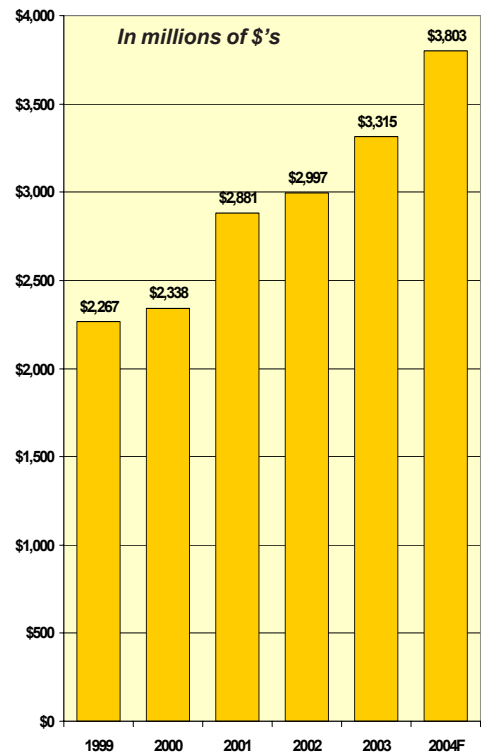


Chart 1: Real and forecasted GDP growth in the NWT; Chained (1997) Dollars; this is a new method used by Statistics Canada to account for inflation.

Source: NWT Bureau of Statistics projections



The Economy and Investment

The NWT economy is closely linked with the development and export of resources

Minerals

The NWT economy has always been heavily reliant on exports. Total mineral exports have increased from \$890 million in 1999 to a forecasted \$2.4 billion in 2004. Diamonds account for over 80% of total exports.

The NWT has the only two commercially producing diamond mines in North America. Production for 2003 was \$1.7 billion, representing 12% of global diamond production and positioning the NWT as the third largest producer of rough diamonds by value in the world. A third diamond mine has just received regulatory approval and is scheduled to begin production in 2006.

Gold is the NWT's other major mineral export. Total production was valued at \$45 million in 2003. With recent increases in gold prices, exploration for gold in the Northwest Territories has been increasing and interest has been shown in the redevelopment of some old properties.

Crude oil shipments were valued at \$337 million and natural gas at \$164 million in 2003. When gas flows down the proposed Mackenzie Valley Gas Pipeline, gas production will increase to over \$2 billion annually. There are an estimated 6 trillion cubic feet of discovered gas reserves and an additional 55 trillion cubic feet of likely gas reserves within the Mackenzie Delta and the Beaufort Sea region.

Construction

The construction industry contributed \$412 million to the GDP in 2002, making it the second largest industry in the NWT. A lot of this activity was directly associated with the development of the Diavik™ diamond mine. The industry has also been very competitive in developing innovative solutions to development challenges and companies have exported their expertise to Russia, Nunavut and other polar regions.

Investment

Construction is linked closely with investment. Private investment decreased 34 per cent in current dollars between 2002 to 2003 as construction of the Diavik diamond mine was completed in late 2002.

Major capital investments expected over the next decade include:

- Approximately \$8 billion towards the development of the Mackenzie Valley pipeline and related fields;
- \$275 million towards development of a 3rd diamond mine at Snap Lake; and,
- \$310 million in highway and related infrastructure development.



Source: Minerals Oil and Gas Division, RWED, GNWT

Tourism

Tourism growth has been negatively impacted by 9/11, world conflicts and SARS

Tourism

During the 2002/2003 tourism year, visitors (including business travellers) spent \$75.3 million in the NWT, far outstripping the value of fisheries, forestry and trapping combined. Over half of leisure visitors come from other parts of Canada, primarily Alberta, BC and Ontario. Five years ago, the number of visitors from the US and the number from Japan were approximately equal (around 6,000). However, the Japanese market has proven extremely sensitive to events such as 9/11, the Iraq war and SARS. After 9/11, the number of Japanese visiting the NWT dropped by 50%, and while it improved the following year, the advent of SARS resulted in a dramatic stop to this rebound. A concerted marketing campaign in Japan funded by the NWT and federal governments has proven fruitful. The number of visitors from Japan in the winter of 2003/2004 increased by 11% compared to the same period a year earlier.

The NWT is an attractive location for big game hunters, mainly US residents. These visitors account for only 3% of tourism by volume but contribute an astounding 37% of total tourism spending.

The summer season accounts for around 60% of all NWT tourists, but only 39% of spending.

While the tourism industry in the NWT faces challenges similar to other jurisdictions, our territory also faces the hurdle of a blurry brand image. Many people outside our borders confuse the NWT with the Yukon. The NWT has no distinct image in the minds of most southerners and many of the images people do associate with the NWT are more appropriate to Nunavut, a carry-over from the days prior to the NWT's split from our eastern neighbour.

On the bright side, the NWT has not yet tapped the full potential of our appeal to outdoor adventurers. The NWT is regarded as a premier destination for Aurora viewing and our aboriginal cultures offer an opportunity to attract the growing number of older, educated travellers interested in authentic cultural experiences.



Windsurfing on Great Slave Lake

Rapid Growth in the Wholesale and Retail Trade

Record growth associated with high incomes and investment

Wholesale Trade

The NWT's wholesale trade is closely tied to resource development. Annual sales over 2003 were \$205 million compared to \$147 million in 1999. Table 1 highlights wholesale trade growth in the NWT, Yukon and Canada since 2000.

Table 1 - Wholesale Trade Growth

	Canada	NWT	Yukon
2000	7%	8%	-3%
2001	2%	21%	6%
2002	6%	39%	-5%
2003	4%	-23%	5%
Change	20%	39%	2%

Source: NWT Bureau of Statistics Matrix TM100009

With construction ending at Diavik and some downturn in oil/gas activity, wholesale revenues declined from \$268 million in 2002 to \$205 million in 2003. Despite this relatively large decline, overall sales are still up 39% since 1999 or \$57 million.

Retail Trade

Growth in the NWT's retail industry is closely tied to personal incomes, which in turn are linked to mineral development and production. With the construction of the Diavik diamond mine ending, retail trade growth slowed over 2003. Even with this drop in investment, the rate of growth in retail sales still exceeded national averages. Overall, NWT retail sales have increased by \$174 million since 1999, or 44%. Annual sales, at \$534 million during 2003, are the highest per capita in Canada.

Investment in the development of the "Snap Lake" property will provide another positive stimulus to retail trade.

Table 2 - Retail Trade Growth

Year	Canada	NWT	Yukon
2000	6%	7%	4%
2001	5%	11%	8%
2002	6%	18%	8%
2003	3%	4%	2%
Change	21%	44%	23%

Source: NWT Bureau of Statistics Matrix TM100002



Manufacturing

Manufacturing in the NWT benefits from resource development in terms of products (diamonds) and demand for products

Manufacturing

The development of secondary diamond processing plants has had a significant impact on NWT manufacturing. Overall manufacturing shipments were up \$12 million or 23 per cent in 2003.

Table 3 - Retail Trade Growth

Year	NWT	Canada	Yukon
2000	18%	10%	3%
2001	52%	-3%	-50%
2002	31%	1%	-24%
2003	23%	-1%	-2%
Change	192%	7%	-62%

Source: NWT Bureau of Statistics Matrix TM100011

As shown in the Table 3, NWT manufacturing has demonstrated fairly consistent and strong growth. However, it should be noted that the industry still plays a relatively small role in the economy compared to national averages.

Current shipments are around \$63 million per year; this compares to \$12 million in the Yukon, where manufacturing has suffered from a downturn in forestry. Shipments have increased in value by \$42 million or almost triple their 1999 values. As noted, a large portion of this increase is associated with secondary diamond processing.



Trusses manufactured in the NWT

Highest Per Capita Income in Canada

Labour productivity and incomes are the highest in Canada

Incomes and Productivity

GDP per capita, which is calculated by dividing the value of output by population, is widely regarded as the best single measure of well-being. While other measures, like health and social indicators, should be examined as well, people want more than a basic standard of living. This is proven by world mobility patterns. Every year millions of people migrate from poor to rich countries, countries with high per capita GDP's. (McKinsey Institute).

GDP per capita in the NWT, at \$70,976 per person in 2002, is significantly greater than any other province or territory (see the table below). This high level of GDP output tells us NWT workers have an extremely high level of productivity, which can be attributed to the large level of capital investment and the high value of our resource commodities.

Lessons Learned in Other Nations

The McKinsey Global Institute just completed a comprehensive assessment of economic development in 13 countries over 10 years. This research included a detailed examination of industry trends within each country. They found that the wealth of the nation and its people depended on its core industries. In the NWT, core industries are resource exports.

The study found that encouraging competition at the local and territorial levels was a key component to economic success. When government action limits competition, more efficient investments are missed. Economic growth and development slow. Government actions which can limit competition include zoning bylaws, investment regulations, licensing and a variety of regulations.

Table 4 - GDP Per Capita in 2002

Rank	Province/Territory	GDP	Rank	Province/Territory	GDP
1	NWT	\$70,976	7	BC	\$32,872
2	Alberta	\$47,991	8	Nunavut	\$32,193
3	Yukon	\$40,956	9	Manitoba	\$32,034
4	Ontario	\$39,366	10	Newfoundland	\$31,853
5	Saskatchewan	\$34,762	11	Nova Scotia	\$28,973
6	Quebec	\$32,927	12	New Brunswick	\$28,193
			13	PEI	\$27,307

Source: RWED Calculation Based on GDP and population estimates from Statistics Canada

Household Expenditure Survey

Recent Bureau of Statistics Survey highlights living costs in the NWT

Household Expenditure Survey

In early 2003, the NWT Bureau of Statistics completed research into the cost of housing in the NWT and Canada.

Table 5 indicates that, on average, “NWT households spend some \$12,136 per year in shelter costs for their principal accommodation. In Yellowknife this value is \$15,700, while in other communities the average was \$8,706. These differences, in part, can be explained by the differences in prices and, in part, by difference in circumstances like the presence of private rental housing, the presence of public rental housing, the size of dwellings, the level of property taxes, and other factors. For comparison, the average household in Canada spends \$10,429 on shelter costs for their principal accommodation.” Source: NWT Bureau of Statistics.

The data of particular interest is the mortgage expenditures for owned dwellings and the utility costs. For mortgage payments, the average expenditures are \$10,433 for the Northwest Territories. Average mortgage payments per year in Yellowknife are \$11,628, while average mortgage payments for the rest of the communities are \$8,444 per year.



A new house in Yellowknife

The average annual cost of utilities, such as water, heating fuel and electricity, were \$3,292 for the year. The cost of utilities was fairly consistent across the North as the average for Yellowknife was \$3,410 and the average in the rest of the communities was \$3,185. A copy of the full study can be found at: <http://www.stats.gov.nt.ca>

Table 5 - Average Annual Household Expenditures

	Canada	Yellowknife	Other NWT	NWT
Total Shelter Costs	\$ 10,429	\$ 12,136	\$ 8,706	\$ 15,700
	113	132	94	170
Rental Costs	\$ 6,780	\$ 9,905	\$ 6,834	\$ 8,586
	100	146	101	127
Ownership Costs	\$ 9,226	\$ 13,781	\$ 6,164	\$ 9,980
	100	149	67	108
Water/Sewer	\$ 494	\$ 1,105	\$ 826	\$ 995
	100	224	167	201
Heating Fuel	\$ 1,073	\$ 1,726	\$ 2,037	\$ 1,883
	100	161	190	175

Source: Bureau of Statistics Special Survey

Wood Fuel can Save Household Incomes

In many remote communities, households can save significant funds by using wood fuel

Wood Heat Can Save Households

Table 6 (below) estimates savings associated with wood heat, based on purchasing wood at a relatively high price of \$220 per cord versus fuel oil (a lower cost per cord of \$150 is used for Hay River, Fort Smith and Fort Simpson). With the exception of Yellowknife, where wood is expensive and heating oil relatively cheap, all communities would save significantly from using wood heat. These estimates do not include the added benefit of using local resources and labour versus imported heating fuel.

Savings are generally greater with more remote communities. For example, in Wekweti, the average household would save over \$2,400 per year on wood heat. In Colville Lake the average savings would be \$3,010. With substantial fuel price increases expected during 2004, these savings should increase further.

Key Contacts

Economy and Business

Resources, Wildlife and Economic Development
4th Floor, Scotia Centre
P.O. Box 1320
Yellowknife, NT X1A 2L9
Tel: 867-873-7394
Fax: 867-873-0434
Email: Dan_Westman@gov.nt.ca
Use the web portal at www.BusinessNWT.com

Table 6 - Select Community Cost Comparisons 2003, Wood and Heating Oil Heating

Costs	Cost Per Liter of Fuel Oil	Annual Litre Consumption	Fuel Oil Cost Per House	Cost Per Cord	Cords Per Year	Estimated Cost of Wood Heat
Hay River	\$ 0.51	4,000	\$ 2,040	150	10.5	\$ 1,575
Inuvik	\$ 0.67	4,000	\$ 2,668	220	10.5	\$ 2,310
Fort Simpson	\$ 0.54	4,000	\$ 2,156	150	10.5	\$ 1,575
Fort Smith	\$ 0.51	4,000	\$ 2,040	150	10.5	\$ 1,575
Yellowknife	\$ 0.47	4,000	\$ 1,888	220	10.5	\$ 2,310
Lutsel K'e	\$ 0.83	4,000	\$ 3,320	220	10.5	\$ 2,310
Wha Ti	\$ 0.93	4,000	\$ 3,720	220	10.5	\$ 2,310
Rae Lakes	\$ 1.05	4,000	\$ 4,200	220	10.5	\$ 2,310
Wekweti	\$ 1.19	4,000	\$ 4,748	220	10.5	\$ 2,310
Jean Marie River	\$ 0.87	4,000	\$ 3,472	220	10.5	\$ 2,310
Nahanni Butte	\$ 0.91	4,000	\$ 3,652	220	10.5	\$ 2,310
Trout Lake	\$ 1.07	4,000	\$ 4,280	220	10.5	\$ 2,310
Tulita	\$ 0.83	4,000	\$ 3,320	220	10.5	\$ 2,310
Fort Good Hope	\$ 0.83	4,000	\$ 3,320	220	10.5	\$ 2,310
Deline	\$ 0.97	4,000	\$ 3,868	220	10.5	\$ 2,310
Colville Lake	\$ 1.33	4,000	\$ 5,320	220	10.5	\$ 2,310
Tsiigehtchic	\$ 0.92	4,000	\$ 3,688	220	10.5	\$ 2,310

Notes

- 1 Fuel prices for small communities were taken from government assessed rates as levied by Petroleum Products. Actual prices were obtained for larger communities with private fuel suppliers. Average household consumption was estimated at 4,000 litres, based on a study by Economic Development "Subsistence and Non-Industrial Forest Use"
- 2 Wood consumption was estimated at 10.5 cords per home for 100% dependence on wood heat. This was based on the "NWT Housing Corporation Wood As An Alternative Fuel, 1985". Prices per cord were estimated at \$220 per community except for Hay River, Simpson and Smith where price was estimated at \$150 per cord, based on earlier research by IEA.
- 3 Employment and house hold estimates are from the 2001 Census.