

THE STATE OF THE NORTHERN ECONOMIES: THIS YEAR'S MODEL



INFLATION. LABOUR SHORTAGES. PANDEMIC RECOVERY. NATURAL DISASTERS. WHAT DOES IT ALL MEAN FOR GROWTH AND PROSPERITY IN THE NORTH? THIS YEAR, WE'RE LETTING THE ECONOMISTS DO THE TALKING.

BY GRAEME CLINTON AND KEITH HALLIDAY



THROUGH 2020 AND 2021, the hope was that we'd eventually get past the COVID-19 pandemic and re-enter a period of social and economic tranquility. The past year delivered on that hope somewhat. The pandemic remains a threat to life and livelihoods. But the worst appears to be behind us.

We can be thankful that the beleaguered tourism sector finally has a little breathing room after nearly being crushed by travel restrictions. Lockdowns are over (knock on wood), and people have learned to manage the remaining risks. With greater confidence, they are returning to restaurants and stores. Mining, meanwhile, continues apace.

But that relief is only relative, and barely so at that. We're back up for air, but our economies continue to be roiled by forces beyond their control. It's not so much a virus this time, but rather harsh and stubborn inflation, rapidly rising interest rates, labour shortages, and supply chains that haven't quite untied their knots.

To understand what this means for the Northern economies, we turned to two experienced economists—Keith Halliday in Whitehorse and Yellowknife's Graeme Clinton, who also has deep experience in Nunavut. They offer their insights here—and they don't pull their punches.

ILLUSTRATION:
JOHN FRASER



> 2022 GDP GROWTH (PROJECTED)

YUKON

• 7.6 per cent
(down 1.9 percentage points from 2021)

NWT

• 5.7 per cent
(up 0.9 percentage points from 2021)

NUNAVUT

• 6.4 per cent
(down 1.5 per cent from 2021)

SOURCE: CONFERENCE BOARD OF CANADA, STATISTICS CANADA

NORTHWEST TERRITORIES

WHERE SUPPLY DOESN'T MEET DEMAND

THE NWT NEEDS A VISION AND PLAN TO CAPTURE OPPORTUNITY

In fits and starts, the world emerged from its two-year ordeal with COVID-19 over the course of 2022. It isn't over, but the worst appears to be behind us. So, the NWT government's strategy for pandemic recovery—"Emerging Stronger"—is a good place to start a post-mortem on 2022 and the issues ahead.

"Emerging Stronger" is a catchy phrase, but it hasn't done much to set the economy on a new path. This isn't a critique in particular; all branches of government face enormous challenges brought on by labour shortages, rampant inflation, rising interest rates, and more. Weakness or naivety in its strategy is not the problem. The problem is that the NWT's underlying economic challenges have been ignored for the past 10 years and remain steadfast.

Sure, we can make COVID-19 the scape-

goat. But it would be more constructive to emerge from the pandemic having spent two years developing a clear vision, generating new ideas, and injecting new energy into the territory's future. A former CEO of the Ekati diamond mine once told me that all new ideas start with a conversation. Let's use some of the economic events of 2022 to start that conversation here.

> **NATURAL DISASTERS: EXPOSING GAPS** HayRiver's spring flooding in 2022 was tragic. But natural disasters are often a boon for economies, morose as that sounds, especially for the construction sector and associated industries. As of November, the NWT government alone has spent \$174 million in support of the damage caused by the flood. Every million dollars spent on residential construction and repairs and municipal infrastructure can create as many as 2.5 jobs, generating more than \$230,000 in labour income. If all of government's relief money for Hay River went toward actual re-construction, it would have generated roughly 425 jobs and \$40 million in labour income.

PHOTOS:
DIAVIK
DIAMOND MINE/
BILL BRADEN



IN THE NWT, DEMAND OFTEN OUTSTRIPS SUPPLY. SO, OUR NEEDS ARE MET BY SOUTHERN SUPPLIERS.

years, about \$240 million annually.

The new budget ensures this remediation project will contribute more to the territory's GDP annually (about \$100 million) than the mine did while producing gold. There's a catch, though. During its active years, Giant's entire workforce, roughly 350 full-timers over its final 25 years, lived in Yellowknife. They had families, built homes, paid taxes, and spent money—all locally. The same can be said for the businesses born out of the mine's demand for goods and services.

These local benefits will not be replicated in Giant's "second life." Northern employment at

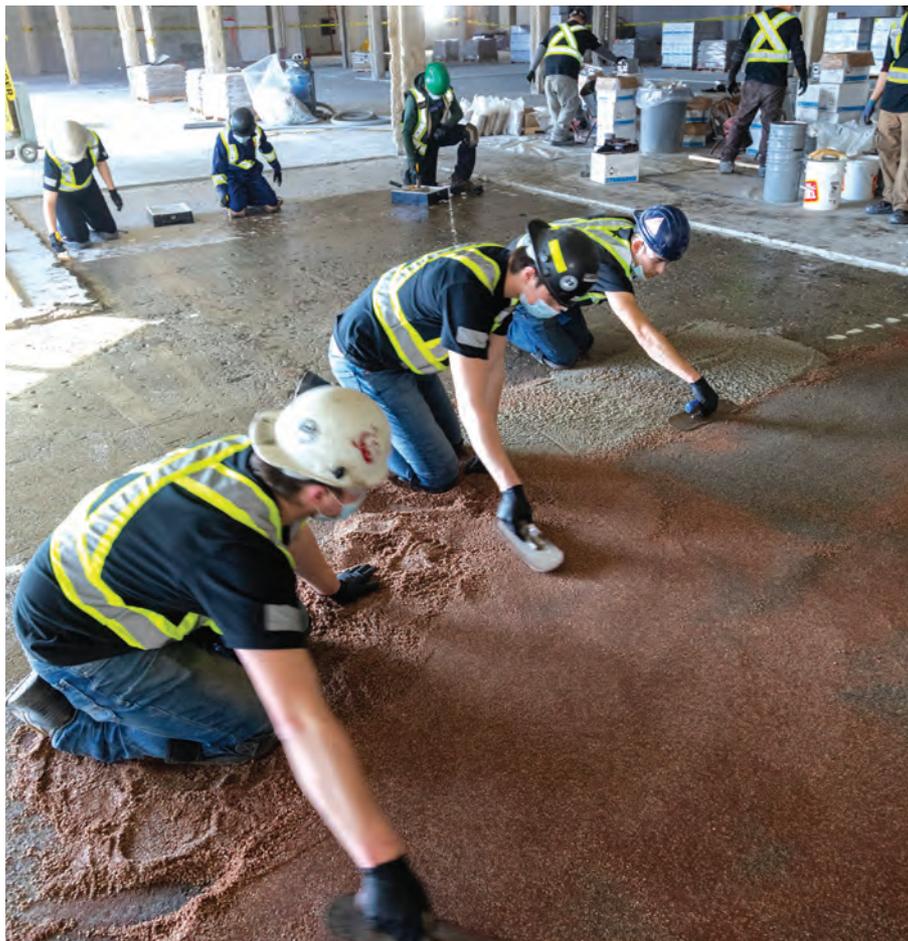
the project was 46 per cent in 2021 while northern firms secured 59 per cent of the procurements—respectable results given the current tight labour market and heightened demand in the construction sector. But it's not an entirely local workforce or a robust supply chain either, despite extensive rules created to interfere with the market in the NWT's favour. And it isn't good enough to make Giant's remediation an economic engine like the mine once was.

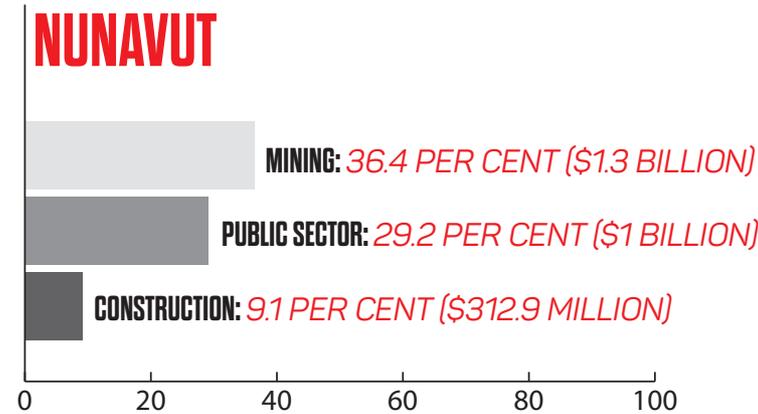
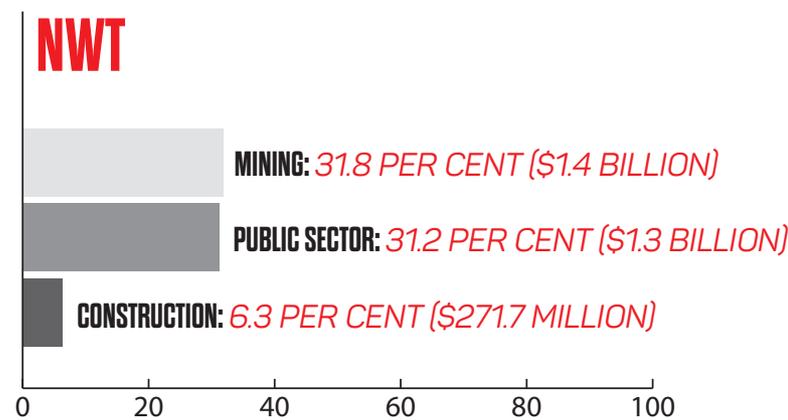
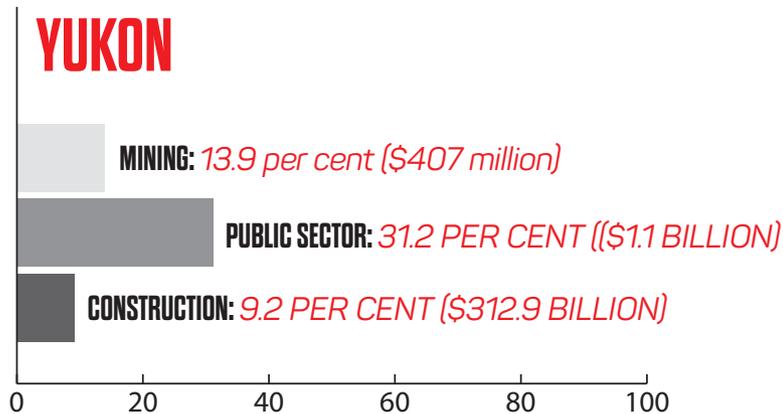
It is worth considering why that is, and whether anything can be done about it before the "Remediation Economy" heads north to Norman Wells and Great Bear Lake.

But it's not in the territory's DNA to capture the majority of economic opportunities that come its way. Fair enough that the NWT doesn't manufacture the sofas or refrigerators to replace those ruined by flooding. But we also don't always have the labour or businesses needed to repair what was damaged. Demand often outstrips supply, and when that happens, our economic needs are readily met by suppliers from the south. NWT residents are happy to have repaired roads and buildings. But they might be happier if the territorial economy benefitted more from the spending.

The sad truth is more climate-related disasters are coming, and, therefore, many more millions will be spent rebuilding. Would the territory overall benefit from a larger share of government's spending? Positioning the economy to do so is worth investigating.

> GIANT MINE: THERE'S A CATCH Late last year, the federal government announced a major increase in the budget for the Giant Mine Remediation Project. The new plan shows \$4.38 billion will be spent from 2005 to 2038. With approximately \$750 million gone already, this leaves \$3.6 billion to be spent over the next 15





SOURCE: STATISTICS CANADA

> **CAPITAL PROJECTS: AN ODE TO KEYNESIAN ECONOMICS?** In response to COVID-19, the NWT government over a two-year period introduced a billion dollars in capital projects, an increase of roughly 40 per cent over the typical spend. Was it necessary? Yes. The territory's infrastructure deficit is substantial and it will only worsen in the years to come.

But did the economy need the stimulus? No. It is true that job numbers fell in the first three months after pandemic restrictions were put in place in 2020. Then they came back, at least in the big picture. According to Statistics Canada's *Labour Force Survey*, the jobs lost in the first three months of COVID-19 restrictions were recovered well before year's end. By March 2021, there were 1,000 more jobs in the NWT than there were just prior to the start of the pandemic in March 2020. Sectors such as tourism, accommodations, and hospitality suffered greatly. But if you were a government employee—likely, given that government is the NWT's largest employer—the paycheques kept coming. Only your place of work changed. In fact, government jobs grew during the pandemic.

This is the great paradox of the NWT economy. After two years of devastating challenges—disease, floods, lockdowns, and talk of mine closures—the only thing left is to hear the sky is fall-

ing. Yet there is no sign of Chicken Little, nor should we expect him anytime soon. The truth is, the NWT economy, just like its neighbours to the east and west, received the economic equivalent to the COVID-19 vaccine long ago. The territory's economic health flows from the deep pockets of its single benefactor: the federal government.

So, it should be no surprise that when presented with a federal government determined to spend its way out of the pandemic, the NWT government's rather astute financial managers were there with a list. If Ottawa wanted to throw money at whatever project was shovel-ready, why stand in the way?

But here's the problem: A slap-happy approach to infrastructure funding has little in common with the comprehensive nation-building exercises the rest of Canada received decades ago and that the NWT needs today.

If Ottawa is going to help the NWT emerge stronger, the territorial government should hand over a list that outlines a clear vision for the future—perhaps one in which the territory fully benefits from the economic activity it creates. Consider that in 2021, wages and salaries worth almost a half billion dollars were paid to job tourists. The other problem is that, one day soon, the economy will enter a period of decline. When that happens, the NWT will have to learn how to live with less. But if it were positioned to make the most of every dollar coming in, the people might not even notice the difference.

> **DIAMONDS: A MINE IS NOT FOREVER** The Diavik mine's last day of production is fast approaching. The NWT's other diamond mines aren't too far behind. Gahcho Kué and Ekati, are likely to close sometime by 2030, although Ekati's owner is testing remote underwater mining technology that, if successful, would extend the mine's life for several years. Regardless, the heydays of diamond mining are coming to an end. The economic consequences will be profound.

Altogether, the territory's diamond mines create employment for as many as 3,000 people and spend close to \$1 billion annually on their operations and capital projects. You read that correctly. They employ that many people and spend that much (or close to it) *every* year.

Impressive as that sounds, the conversation the NWT needs to have—one that ought to have started 10 years ago—is on what comes next. Diamond mines will continue to create jobs and spend money for a few more years. And as Ekati is showing, they won't go if there's a reason to stay. But it's hard not to see a rather grim future for the territory's extractive industries, especially if you add in the fact that Imperial Oil will likely pull its final barrel of oil from the ground in Norman

Wells sometime in 2026.

The next mining cycle that emerges in the NWT cannot start where the diamond mines left off; it will have to do better. The labour needs of the territory's potential new mines are smaller, therefore the percentage of resident employees will have to be higher. Spending on operations will be lower, so the NWT business community will have to expand to capture a greater diversity of contracts.

Hardest of all, the profits from these mines will likely be smaller, so the way we share benefits and manage expectations will also have to change. Failing at this will mean much of the growth in labour and business in the NWT's diamond era will be lost. It will also be a signal that the territory did not emerge stronger. And that would be a shame.

—Graeme Clinton

YUKON

STEADY AS SHE GOES... BUT AS THE PAST THREE YEARS SHOW, SURPRISES HAPPEN FAST.

Economic predictions in a small northern economy like the Yukon's can make Northern Lights forecasting look like a precise science. One mine opening or closing due to the vagaries of global commodity markets can dramatically skew the headline figures. Despite this, northern decision makers still need some idea of where the economy is headed. So, instead of throwing a dart marked "GDP estimates," let's look at the fundamental megatrends driving the Yukon economy in 2023.

The biggest economic driver is, of course, government. If our Alaskan friends struck oil, Yukoners struck transfer payments. In

the current fiscal year, the feds provide 87 per cent of the Yukon government's revenue, transfers that equate to more than 40 per cent of the Yukon economy. And that doesn't include direct spending by federal agencies or federal transfers to First Nation or municipal governments.

And as the chatter in the halls of the State House in Juneau is invariably about the oil market, Yukoners keep a close eye on fiscal happenings in Ottawa. Back in the 1980s, the debate was whether the territory should be funded by a steady formula-based approach or get money from various federal programs relevant to the North. The answer, happily for us—if perhaps less so for the taxpayers of suburban Toronto—turned out to be *both*. The federal money plane flies both a regularly scheduled service with our formula-based transfer as well as a series of special deliveries for health, social services, cannabis, housing, and capital programs that exceeded \$350 million in 2022-23.

The formula funding is highly predictable, but the special programs are less so. There is talk of a new national healthcare deal, but estimating what Prime Minister Trudeau and the premiers will agree to requires political forecasting skills that make economic or Northern Lights prognostication look easy.

In general, the outlook for 2023 remains good for federal funding in the Yukon. Health and other deals may happen, and many of the existing special programs are multi-year affairs. But there are questions in the longer run. As the federal government exercises fiscal restraint after a few years of big-spending pandemic deficits, there may be less interest in Ottawa in supplementing the base transfer payment with additional funds. Some Ottawa watchers in Whitehorse thought they sensed

YUKON

1,371

(monthly average)

No. of active businesses

711

No. of openings

718

No. of closings

-7

Net change

NWT

952

(monthly average)

No. of active businesses

382

No. of openings

382

No. of closings

0

Net change

NUNAVUT

355

(monthly average)

No. of active businesses

NA

No. of openings

NA

No. of closings

NA

Net change



SOURCE: STATISTICS CANADA

44,900. These 900 new Yukoners will soon be joining everyone else complaining about the housing shortage.

Combined with a full slate of government capital projects, the construction market is likely to remain red hot. For tourism and retail, the outlook is more mixed. Pandemic disruptions are slowly fading into the rear-view mirror. Tourist numbers were up sharply in 2022, although still well below 2019 levels. Finance forecasts local retail spending to rise two points faster than inflation in 2023. However, businesses in these sectors face some headwinds. The labour shortage means higher wage costs for industries that rely on large numbers of relatively low-wage workers. And inflation and higher mortgage costs are biting savagely into the wallets of potential customers, whether those are Whitehorse shoppers or people Outside considering that bucket-list trip to the Yukon.

Net net, as they say at the end of Bay Street PowerPoint presentations, the 2023 outlook for the Yukon economy is solidly positive. However, the pandemic and the war in Ukraine have taught us to expect the unexpected. Who knows what 2023 might hold for us? Perhaps, this time, it might even be a positive surprise. —Keith Halliday

NUNAVUT'S CHALLENGE LIES IN DEVELOPING ITS LABOUR FORCE, NOT IN REDUCING OPPORTUNITIES

NUNAVUT

HARD ROAD AHEAD

NUNAVUT'S FUTURE RESTS ON INVESTING IN TODAY'S YOUTH

To say that Nunavut's biggest economic headline of 2022 was anything other than the rejection of Baffinland Iron Mines Corp.'s proposed expansion at Mary River iron ore project is to not properly understand the magnitude of what was being proposed or what it represents for the long-term outlook of Nunavut's economy. As this issue of *Up Here Business*

was going to press, it was unclear what the decision means for the mine's fate. It seems that some form of expansion is necessary for its long-term survival. For the sake of the economy and for everyone who would benefit from it, let's hope Baffinland finds a way forward.

For the past few years, Mary River has been producing six million tonnes of iron ore. In 2021, that production translated to a \$1 billion increase in Nunavut's GDP (chained, 2012). In more tangible terms, operations created more than 2,000 jobs, while Baffinland purchased \$220 million worth of goods and services from Inuit firms, generating addition-

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al jobs and economic activity.

One might argue that only a small percentage of the jobs at Mary River were filled by Nunavummiut, which is true. But that shouldn't distract from the fact that 327 Inuit were working at the project over the six-month period from April to September 2022. Meanwhile, opportunities abound for new entrants into the workforce. The Nunavut government predicts there will be 10,000 Nunavummiut coming of age in the next 10 years. The challenge for the territory lies in developing that labour force, not in suppressing opportunities to create the labour demand they will need.

How might Nunavut develop its labour force? It will require considerable investment in the territory's youth population, from early childhood development and education to safety, housing, and food security. Mary River could be part of the solution. Baffinland has estimated its mine could generate as much as \$4.7 billion in revenues for governments and Inuit organisations. Thinking long term, the potential beneficiaries of Mary River are well beyond the current Inuit workforce. So again, for those who stand to benefit from Mary River's expansion, it would be unfortunate if Baffinland cannot find a path forward.

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> **CERB: IT FOUGHT POVERTY** According to the 2021 Census for Canada, Nunavummiut were avid participants in the CERB program, which provided emergency funds to people who lost work due to pandemic lockdowns. On a per capita basis, no other jurisdiction received a greater share of the program's dollars. More than \$90 million was handed out in emergency and recovery benefits in 2020, including contributions from regional governments and Inuit organizations. The result was a substantive lowering of poverty rates in Nunavut. Well done, Canada.

To understand the magnitude of these benefits, consider that in 2015, 39 per cent of income earners in Nunavut registered after-tax income below \$20,000 and 52 per cent had after-tax income below \$30,000. In 2020, these two figures fell to 29 per cent and 44 per cent, respectively. This change was due, in part, to the COVID-19 relief paid out to 8,615 Nunavummiut, averaging \$10,470 per recipient. That's a lot of money for a family, especially those that had multiple recipients.

The trouble is, what happens now? The COVID-19 emergency measures have ended. The Nunavut economy has re-opened, and the \$90 million in extra transfers has disappeared. The one-time *continues on p.60*

YUKON

• \$1.25 billion/\$29,875 per person (6.4 per cent year-over-year increase)

NWT

• \$1.61 billion/\$37,073 per person (5.9 per cent year-over-year increase)

NUNAVUT

• \$1.97 billion/\$49,208 per person (5.8 per cent year-over-year increase)

SOURCE: GOVERNMENT OF CANADA

continued from p.32 windfall gave hundreds of Nunavut families a glimpse of life with a modest degree of financial freedom. It afforded those living below the poverty line an opportunity to clear pent-up demand, from home furnishings and electronics to snowmobiles and

other harvesting equipment. Perhaps over time, the money would be put to other upgrades such as housing, education, or savings.

To be fair, CERB wasn't created to combat poverty so much as to prevent families from sliding into poverty during a crisis. And it turns out, most Nunavummiut saw little to no change in their income (although many individuals suffered greatly due to the impact of lockdowns and travel restrictions on some sectors.) Believe it or not, employment income actually grew by \$28 million in the first year of the pandemic. Combined with the government emergency benefits and some smaller changes, total after-tax income was up \$113.7 million in 2020 compared to one year earlier.

Regardless, the unintended consequence of CERB was to substantively lower poverty in Nunavut (and in Canada, by the way). That has rejuvenated interest in concepts of Universal Basic Income, Guaranteed Livable Income, and Living Wage. It will be something to follow in the next few years. In places like Nunavut, where living below the poverty line is a reality for as much as half the population, it is likely to receive a lot more attention.

> INDUSTRIAL DEVELOPMENT: JOBS, JOBS, JOBS?

Industrial development across Nunavut has

been inching forward for the past decade. Much of this growth is the result of mining; there are now mining projects in all three regions of the territory, with strong potential for more.

A similar pace of change cannot be seen in the development of Nunavummiut, however. The word "crisis" has been attached to most socio-economic issues including education, health, housing, food security, and family violence. The lack of progress in these areas stands as a major risk to Nunavut's future economic growth. It is what prevents greater participation in the economic affairs of the territory and is why so many of the jobs created in Nunavut are being filled by job tourists.

It appears that some observers watching this unfold have concluded that further development should be contested if not stopped altogether. Active and interested developers have come under increased scrutiny over the past year. None was bigger than the negative response to Baffinland's proposed expansion. More recently, the Nunavut Impact Review Board (NIRB) has also stated there are significant outstanding issues to be addressed with the proposed extension of Agnico Eagle Mines Ltd.'s Meliadine gold project.

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