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The Conference Board of Canada

A Brightening Sky

Nunavut's Outlook to 2045

Issue briefing | April 27, 2023

Contents

Key findings

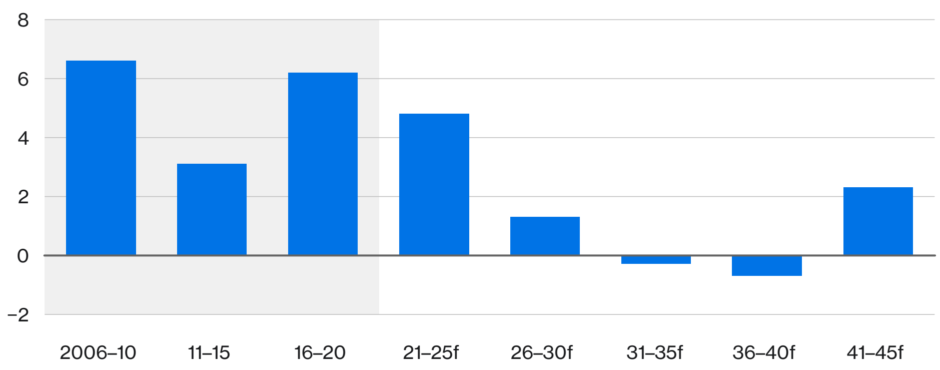
- Rising gold production and the construction of a new gold mine in Nunavut are helping to strengthen the territory's outlook.
- Although milder than elsewhere in Canada, elevated inflation has hurt household purchasing power and created delays in the construction sector.
- Given the robust projected population growth in Nunavut, achieving plans to address the housing shortage is critical.
- Nunavut has the highest unemployment rate in the country. Building skills in the workforce is key to fostering employment growth and reducing the territory's reliance on flown-in workers.
- A lack of infrastructure remains a major barrier to economic development in Nunavut.

Overview

Nunavut's economic outlook is bright. Besides mineral production, the principal driver of growth, favourable demographic factors and an expansion of non-extractive industries, especially the public sector, will support GDP gains in the years ahead.

Having navigated the worst of the pandemic, the economy expanded by an estimated 2.0 per cent in 2022, a slower pace than the 8.0 per cent recorded in 2021. However, growth will accelerate to 7.4 per cent in 2023 and 12.3 per cent in 2024. (See Chart 1.)

Chart 1
Nunavut's real GDP growth
(annual average percentage change)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

The economy of Nunavut is a mixture of wage- and land-based activities. Traditional indicators, which mostly capture wage-based economic activity, offer an incomplete picture of the economy. However, a limited availability of data on land-based activity is a primary challenge for analysis.

Nunavut's population is relatively young, and the fertility rate is higher than in the rest of Canada. Given its high natural rate of increase, the territory does not rely on migration for population and labour force growth. However, a skills mismatch is a barrier to wage-based employment for many Nunavummiut. As a result, the territory has a high unemployment rate while also remaining reliant on workers flown in from outside the territory.

Price inflation for food, energy, and construction materials has exacerbated several pre-existing challenges for Nunavut. Rising food prices raise the risk of food insecurity in Nunavut, where prices are already higher than elsewhere in Canada due to transportation costs. And although inflation will continue to fall as higher interest rates take effect, some residential and non-residential construction projects have already been delayed because of soaring costs. Finally, the territory avoided some of the fuel price inflation in 2022 last year after bulk buying a years' supply of fuel in advance. However, if fuel prices drop—as many are expecting this year—the advance purchase mechanism could be a loss for the territory.

Aside from mining, industries that are important for Nunavut's economic development include tourism, cultural, and fishing industries. Combined, the GDP of these industries is small in comparison to the mining sector, but they still are an important source of employment and income for residents. It remains difficult to capture activity in these sectors owing to a lack of data.

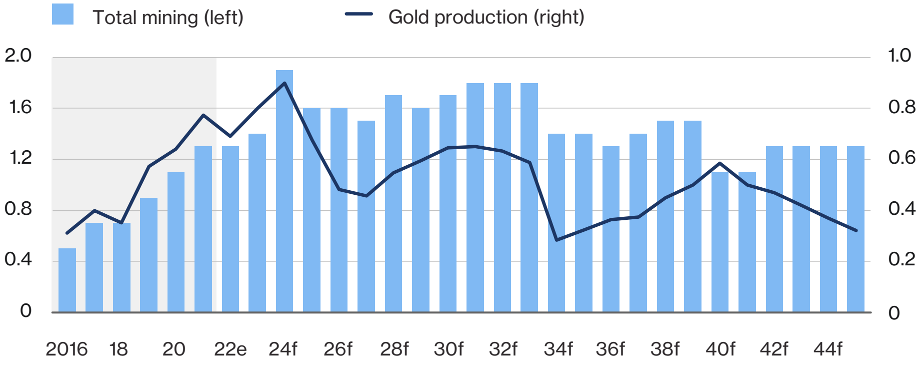
Approaching peak production

Of the four mines now operating in Nunavut, gold production is ongoing at Agnico Eagle's Meliadine and Meadowbank mines. Rising production at these two mines will help to push Nunavut's gold production to a peak in 2024. (See Chart 2.) At a third Agnico Eagle mine, Hope Bay, gold production is currently suspended as the focus shifts to exploration. Meanwhile, the Mary River mine, operated by Baffinland Iron Mines, produces iron ore. Construction of an additional mine, the Goose gold mine at the Back River gold district, is expected to begin this year.

Chart 2

Nearing peak gold production

(output, 2012 $ billions; gold production, millions of ounces)



Note: Unshaded area represents forecast data.
e = estimate; f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

While Nunavut has vast potential for the development of additional mineral projects, obstacles such as a lack of infrastructure are a barrier to investment. However, over the long term, the prospect of further mineral development in Nunavut is likely. As a result, our forecast assumes the arrival of two additional mining projects, one commencing production at the end of this decade and another in the second half of the 2030s.

Current mining operations

Meadowbank Complex

Gold production at the Meadowbank Complex now relies solely on extraction from the Amaruq satellite deposit, about 50 kilometres northeast of the original Meadowbank mine. After lower gold grades and a COVID-19 outbreak hampered production in the first half of the year, production improved markedly in the second half thanks to higher grades from the open-pit mine and the addition of Amaruq underground production. A total of 373,500 ounces were produced in 2022, an increase of 15 per cent on 2021. The mine's production forecast has improved, and gold production is now expected to reach roughly half a million ounces by 2025.

Meliadine

The Meliadine mine achieved record quarterly gold production of 103,000 ounces in the final quarter of 2022. The mine also achieved record annual mill throughput in 2022. Our outlook assumes gold production will peak this year. The company's plans for an extension were placed on hold due to outstanding concerns raised by the Nunavut Impact Review Board. The proposal includes the construction of a windfarm and onsite airstrip, which, if eventually permitted to proceed, would see production extended by 11 years from 2032 to 2043. With the proposed extension almost a decade away, there remains plenty of time to overcome the outstanding hurdles.

Hope Bay

After Agnico Eagle acquired the Hope Bay mine from TMAC Resources at the beginning of 2021, it suspended gold production in September of that year to focus operations on exploration. The suspension is expected to remain in place throughout 2023. The 2022 drilling program confirmed the potential to expand mineral resources at the Doris deposit. In 2023, focus will shift to the Madrid deposit with an emphasis on defining areas of higher-grade mineralization. Under our present assumptions, Agnico Eagle will produce at Hope Bay from 2024 to 2036. The company is investigating the potential to increase annual production and notes that development of the Boston deposit would also enhance the mine's life and production profile.

Mary River

After a long-running legal battle, Baffinland Iron Mines' Phase 2 expansion proposal for the Mary River mine was rejected by the federal government late last year. The company recently announced renewed plans to ship ore south from the mine to Steensby Inlet. The owners are in the process of securing the requisite financing to build a railway and port. This proposal already received approval under the company's existing project certificate and water licence according to a company spokesperson. While the alternative plan is more expensive than the rejected plan, the owners cite the mines resources, lifespan, and high-grade ore as evidence of the proposal's viability. With some additional permits still outstanding, our assumptions surrounding production at the Mary River mine remain constant, at six million tonnes per year with production expected to last until 2039.

Developing projects

Back River gold district

At the end of 2022, the owners of the Back River gold district announced construction of the Goose gold mine would commence in 2023. A new winter ice road will connect the mine to the company's port on Bathurst Inlet. Transportation of construction materials was set to begin in February 2023, and production is expected to start by the beginning of 2025. Our outlook assumes a 15-year mine life with average annual gold production of 215,000 ounces. In a recent development, B2Gold Corporation made a $1.1-billion offer to buy out Sabina Gold & Silver Corp., the current owners of the Back River gold project. If the deal is confirmed, B2Gold shareholders would own 83 per cent of the merged company, with the remaining 17 per cent held by Sabina shareholders. The transaction has been approved by the boards of both companies and is expected to be completed in the coming months.

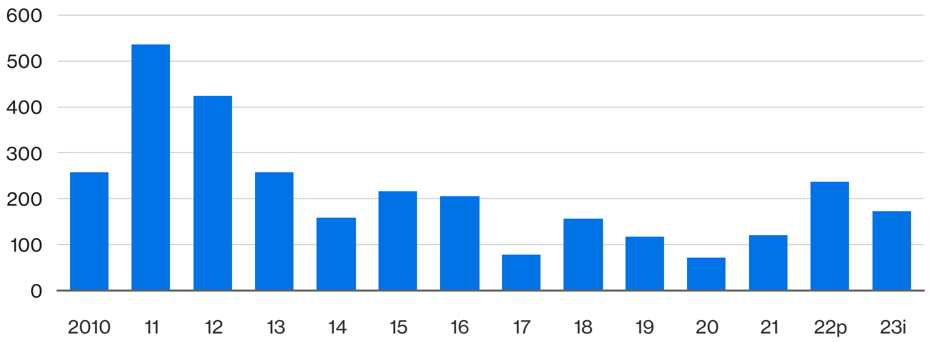
Exploration

Mineral exploration is an important prerequisite to the development of mines in the future. Preliminary estimates of mineral exploration expenditures indicate that spending roughly doubled in 2022, to $237.2 million and that spending in Nunavut was the highest of all three territories. The notable growth in 2022, amounting to the highest level of spending since 2015, is largely attributable to the exploratory activities ongoing at the Hope Bay gold mine. It is worth noting that despite the growth, total spending on exploration remains well below the roughly half a billion dollars recorded in 2011. Spending intentions for 2023 suggest spending will fall back this year. (See Chart 3.)

Chart 3

Spending on mineral exploration expected to dip in 2023

($ millions)



p = preliminary estimates

i = spending intentions

Sources: Natural Resources Canada; The Conference Board of Canada.

Since 2000, exploration spending in Nunavut as a share of total Canadian spending has trended down, a sign that the territory has struggled to keep pace with exploration spending growth across other parts of Canada. Exploratory activity by junior companies—the drivers of new mine development—accounts for just over half of total spending. Remaining barriers to exploration include a lack of infrastructure and competition with other mining jurisdictions in Canada. To boost northern exploration, the N.W.T. & Nunavut Chamber of Mines has called on the federal government to consider establishing an exploration tax credit applicable to all mineral types, which would come hot on the heels of the exploration tax credit for targeted critical minerals (lithium, graphite, nickel, cobalt, copper, and rare earth elements) set out in the 2022 budget.

Gold prices

Although mineral price forecasts are fraught with uncertainty, the outlook for gold is broadly positive. A combination of elevated recession risk and rising geopolitical uncertainty will continue to act as support for gold, a safe-haven asset. On the downside, if inflation is slower to fall than anticipated, interest rate cuts will be delayed, maintaining strength in the U.S. dollar and placing pressure on gold prices.

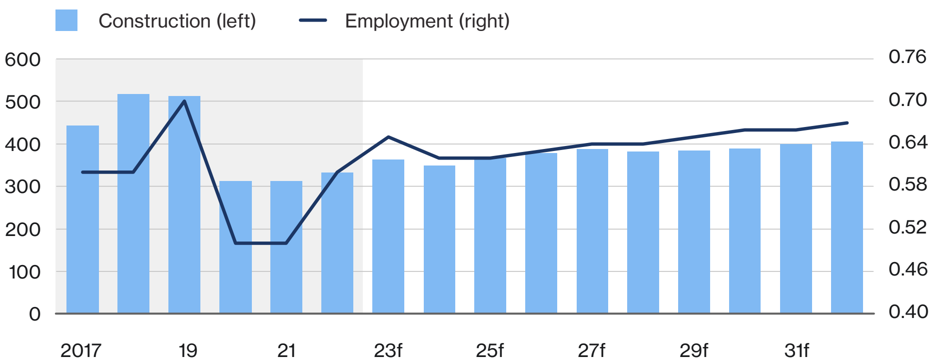
Iron ore prices

Iron ore prices are highly responsive to demand in China, where a significant share of iron ore is destined for use in steel production. Although COVID-19 restrictions in China have eased and government stimulus measures should support steel production and iron ore demand, ongoing weakness in China's housing sector and higher energy costs look set to weigh on demand. A correction in housing markets beyond China is also likely to hurt demand and put pressure on prices. Overall, prices for iron ore are expected to be subdued in the year ahead.

Construction

Rising inflation in 2022 resulted in delays to both residential and non-residential construction projects. There remains an acute need for housing and infrastructure development in Nunavut. Over the next decade, output in the construction sector is forecast to grow by an annual average of 2.0 per cent. (See Chart 4.)

Chart 4
Modest construction outlook
(output, 2012 $ millions; employment, 000s)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

On the non-residential side, construction of the Goose mine at the Back River gold district will offer support to the near-term outlook. Elsewhere, work is almost complete on Iqaluit's new deep-sea port, with what remains expected to be completed in 2023. Progress continues toward construction of the Kivalliq Hydro-Fibre Link, which recently received $7 million in funding from the federal government's Northern Responsible Energy Approach for Community Heat and Electricity Program. The funding will help to support ongoing technical and feasibility studies of building at 1,200-kilometres overhead hydroelectric transmission line from Gillam, Manitoba, to the Kivalliq region. The project offers the prospect of a further pivot away from diesel by providing renewable energy to communities and mines in Nunavut. It will also expand broadband service and is an important piece of telecommunications development. Meanwhile, the timeline for the Grays Bay Road and Port project—a 227-km, all-weather road and deep-water port connecting the Kitikmeot region to the Northwest Territories—remains uncertain.

Housing is a long-standing issue in Nunavut. Core housing need as a share of households is the highest in Nunavut of all provinces and territories. The territory is challenged by low housing affordability, overcrowding, and the high prevalence of unsuitable dwellings. The Nunavut Housing Corporation and NCC Development Limited have announced plans to build 3,000 homes by 2030. The goal of the Nunavut 3000 Strategy includes building a range of housing types across the territory. We expect residential investment to rise steadily over the forecast as a growing, relatively young population fuels demand for housing.

Demographics

Nunavut's population is projected to grow at an average annual rate of 1.2 per cent over the next decade. Driving this growth is a high natural rate of increase due to a high fertility rate.

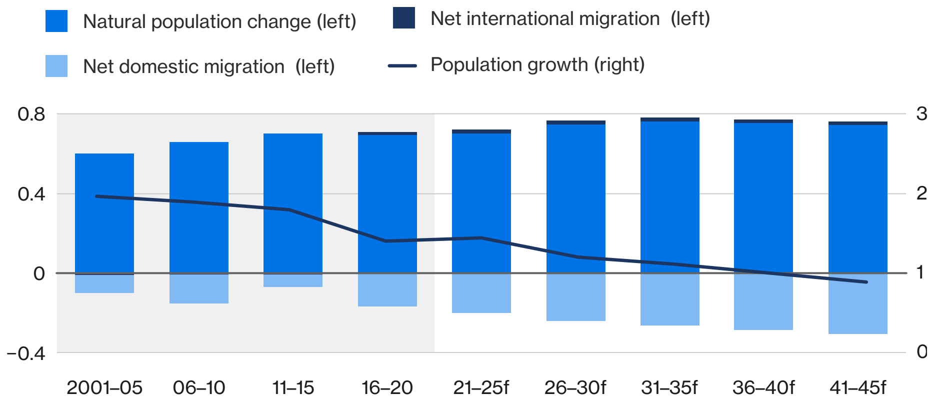
Nunavut's population is the youngest in Canada, a reflection of a higher fertility rate and lower life expectancy. The median age in Nunavut in 2021–22 was 26.9 years, compared with 41 years in Canada. Generation Z, those born between 1997 and 2012, make up the largest single age cohort in the territory, while the baby-boomer cohort, which dominates across several provinces, accounts for just over 10.6 per cent of the population according to the 2021 Census. Nunavut's distinct age structure has several implications for healthcare services and housing needs, as well as creating unique labour market pressures.

Net interprovincial migration was positive in 2021–22, likely a reflection of the end of pandemic-related health restrictions. Nevertheless, over the forecast period, we expect Nunavut to lose a net average of 240 people every year to other provinces or territories in Canada. Only a fraction of these losses will be offset by net gains from immigration. (See Chart 5.)

Chart 5

Nunavut's populaton growth fuelled by births

(annual average contribution to population growth, 000s; per cent)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Labour market

Data from Statistics Canada's Labour Force Survey and its Survey of Employment, Payroll and Hours show that employment in Nunavut fully rebounded from the decline caused by the pandemic and continues to grow. The public sector will remain a key source of jobs in the territory in the years ahead. In the private sector, demand for workers in construction, trade, and tourism-related services is also expected to rise. Over the next decade, employment in Nunavut is projected to grow by an annual average of 180 people. (See Chart 6.)

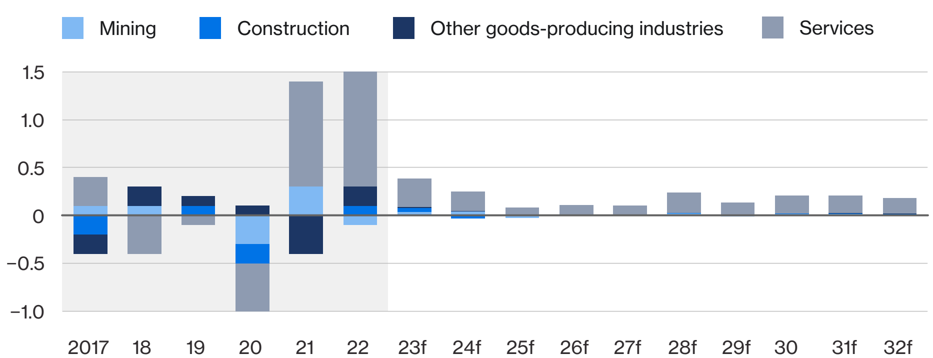
Alongside wage-based economic activity, many Nunavummiut participate in the land-based economy, which includes trapping, fishing, and hunting. This form of labour is not captured by traditional statistical surveys but represents an important source of employment for residents.

Despite employment gains, Nunavut's unemployment rate rose in 2022 owing to higher labour force participation. The increase in labour force participation is of course welcome news after it fell in 2020 due to the pandemic. Nunavut's unemployment rate—which is higher than that of any other province or territory—reflects the mismatch between labour demand and supply in the territory. Given the territory's younger population, investment in education and skills could provide significant returns and reduce the reliance on flown-in workers. Income earned by residents is more likely to be recirculated within the local economy, providing additional benefits. Over the forecast period, the unemployment rate in Nunavut is forecast to average 10.4 per cent, almost double that at the national level. (See Chart 7.)

Chart 6

Employment growth by industry, Nunavut

(change in employment, 000s)

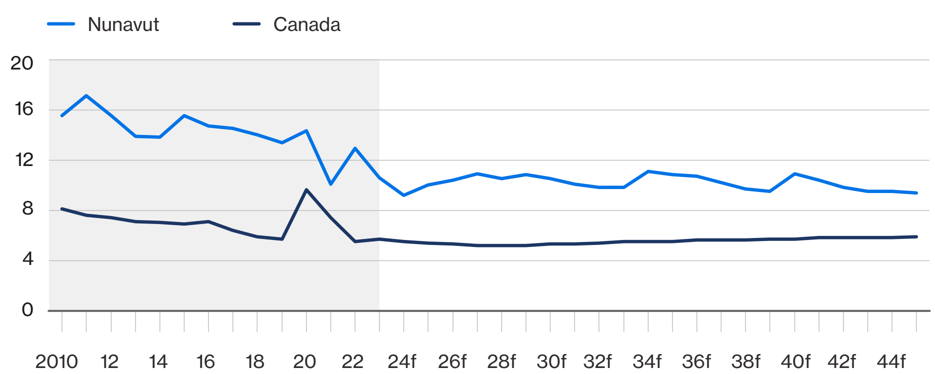


Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Chart 7

Persistent unemployment rate gap

(per cent)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

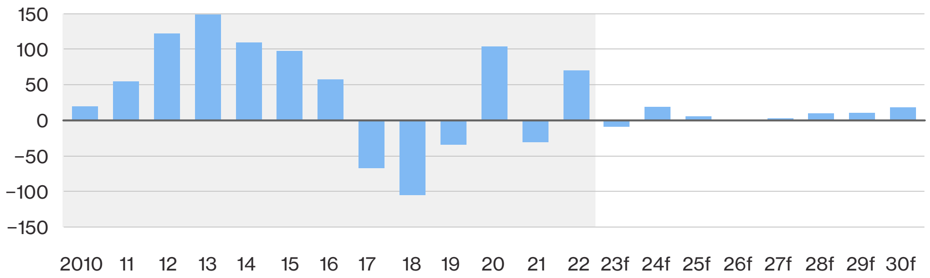
Public accounts

In Nunavut, total government revenues, the majority of which are derived from Territorial Formula Financing transfers, are expected to rise faster than total spending, helping to support a rising budgetary surplus in the years ahead. (See Chart 8.)

Relatively strong population growth will bolster the transfer from the federal government. Meanwhile, total own-source revenue will grow at an average rate of 4.0 per cent as an expanding mining sector contributes to higher intake from corporate and personal taxes.

On the spending side, total program spending in Nunavut is forecast to grow by an annual average of 4.8 per cent. Demand for healthcare services is rising, and the government will need to allocate a rising share of total spending to healthcare and social services over the forecast period.

Chart 8
Nunavut's budget balance
($ millions)



Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Methodology

This report examines the long-term economic outlook for Nunavut. The outlook is based on detailed analysis of local and regional conditions, combined with The Conference Board of Canada's proprietary macroeconometric model of the territorial economies. The model contains over 1,200 variables and equations structured uniquely to each of the territories. Inputs and outputs include components of gross domestic product, the interaction of industry sectors, detailed population and labour force conditions by age group, interprovincial trade, and pricing and investment activity.

The forecast was completed on March 8, 2023.

Acknowledgements

Nunavut's Outlook to 2045 was prepared by Liam Daly, Economist, under the general direction of Ted Mallet, Director of Economic Forecasting. The territorial outlooks are funded by the Centre for the North.

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