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The Conference Board of Canada

Ascending Despite Turbulence

Yukon's Outlook to 2045

Issue briefing | October 24, 2023

Contents

Key findings

- An unexpected mine closure in the territory will weaken output slightly, but the outlook for the sector remains bright.
- The slowdown in Yukon's labour market has been slower to develop than elsewhere in Canada. Nevertheless, the unemployment rate is expected to creep upward over the coming quarters.
- A raft of public infrastructure projects will support employment and output growth in the construction sector over the medium term.
- Household spending growth will weaken as the latent effects of monetary policy take shape. This will help bring inflation back down to within the inflation-control target range.
- As the natural rate of increase falls, immigration will remain the principal source of population growth. Despite the challenge of low housing affordability, Yukon’s strong economic outlook will drive labour demand and draw migrants to the territory.

Overview

Yukon's economic outlook is strong. Despite some unexpected bumps in the road, the labour market remains resilient, inflation is falling, and mineral production will rise over the coming years.

The territory posted solid growth of 3.3 per cent in 2022, underpinned by strength in the construction sector. The wholesale lifting of pandemic restrictions spurred a recovery among tourism-related services. Accordingly, there was also notable growth in the transportation and warehousing industry as well as in accommodation and food services.

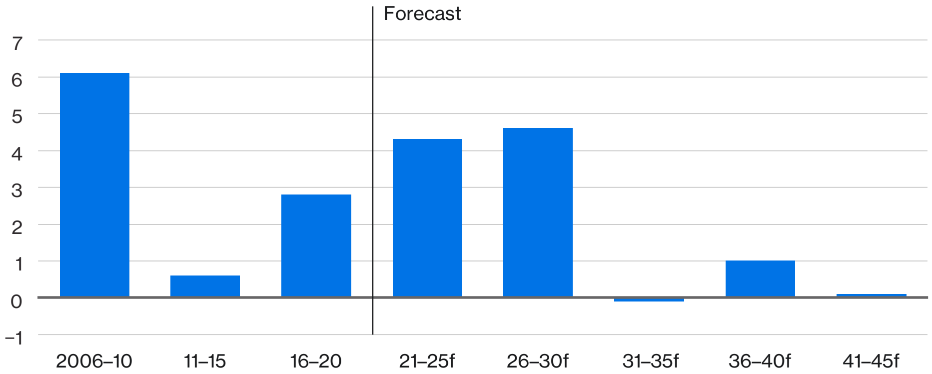
Yukon's construction sector remains busy, and after a flat performance in 2022, growth in the mining industry will resume, driving overall growth of 2.3 per cent in 2023. Between 2024 and 2030, real GDP growth will average 4.1 per cent annually, outpacing our forecast of 1.8 per cent for Canada for that period. (See Chart 1.)

As the federal government pursues record immigration numbers, attracting newcomers to Yukon remains key to supporting labour force growth given the territory's aging population and low fertility rate. Thankfully, a strong economy in the years ahead will ensure the territory remains an attractive destination for migrants.

Yukon has the lowest unemployment rate in the country. As labour markets in other jurisdictions in Canada weaken under the weight of higher interest rates, the slowdown has so far been less pronounced in Yukon, where conditions remain tight. Tightness in the labour market continues to fuel wage growth, which began to rise in 2022, helping to claw back some of the purchasing power lost in the wake of higher inflation.

While headline GDP numbers are rosy, the effects of monetary tightening are being felt. In 2023, we project real household spending and retail sales growth to slow considerably from last year. Among firms, private investment demand will soften and labour demand will ease over the near term.

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



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

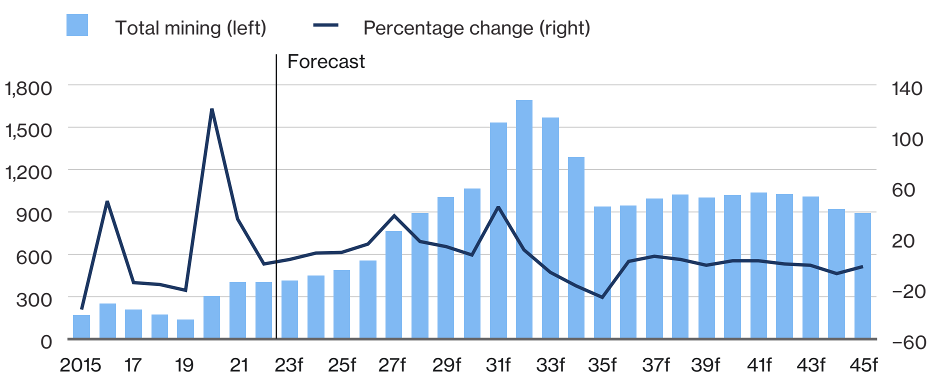
Mining resilient despite closure

Mining is a cornerstone of the Yukon economy. This year saw the unexpected closure of one of the territory's mines. In May 2023, operations abruptly ceased at the Minto mine amid financial and environment-related issues. Of course, this will result in lower mineral production this year and the coming years in which production was planned. On the upside, the resumption of activities at the Keno Hill mine and rising production at the Eagle Gold mine will allow mining sector output to grow in 2023. Over the coming decade, the arrival of two additional mines is anticipated, helping to strengthen the long-term outlook for the economy. (See Chart 2.)

Chart 2

Mining sector expansion

(mining sector GDP, 2012 $ millions; annual change, per cent)



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Sources: The Conference Board of Canada; Statistics Canada.

Current mining operations

Eagle Gold

Operations are progressing at the Eagle Gold mine. Despite a strong first half performance in 2023, third quarter gold production suffered as a result of wildfire activity. We expect production to rise further in the coming years, reaching a peak in 2026. Our present outlook assumes production at the mine will continue until 2032. However, a recently published technical report contains plans to begin open pit mining operations at the Olive deposit in 2031, allowing the life of the mine to be extended until 2034. This prospect confers upside risk to our long-term outlook.

Keno Hill

After halting production in 2022 to focus on exploration, the mill was restarted this summer, with a ramp up over the coming months allowing full production to be achieved by the end of the year. We expect silver production to reach 2.5 million ounces in 2023 and for production at the mine to peak in 2026 and run until 2031.

Placer mining

Placer mining—the recovery of deposits in the rocks and gravel of streams and riverbeds—is a long-standing contributor to gold production in Yukon. Our outlook assumes a total of 64,000 ounces of fine gold in 2023, the majority of which will come from the Indian River watershed. The government is presently developing new legislation to replace the Placer Mining Act, which dates to the Klondike Gold Rush era. This overhaul will see changes to the rules affecting land use and water permitting, reshaping the regulatory environment within which placer miners operate. Strong gold prices will benefit placer miners in 2024, although miners will confront increasingly stringent carbon emission reduction measures in the years ahead.

Developing projects

Kudz Ze Kayah

Despite legal challenges from the Kaska First Nation, the Kudz Ze Kayah mine, owned by BMC Minerals, has received support from the federal and territorial governments to move to the environmental and socio-economic assessment stage. Our current outlook assumes production at the mine will commence in 2027. In a recent update, the company announced full-ownership acquisition of the Kona copper-gold deposit, adding additional mineral resources to the inventory at the Kudz Ze Kayah project. A 2018 technical report from the Kona copper-gold deposit shows inferred copper resources of 130,000 tonnes. Once operational, the Kudz Ze Kayah project will produce significant amounts of zinc and silver, with production lasting for seven years.

Casino

Provided the outstanding hurdles are surmounted, the Casino mine would be substantially larger than any of those currently operating in the territory. In 2022, the owner, Western Copper and Gold, published an updated feasibility study of the mine containing revised resource and reserve estimates. In 2023, the owner is anticipated to submit an environmental and social effects statement to the Yukon Environmental Socio-economic Assessment Board (YESAB). Access to the mine will be facilitated via the Carmacks Bypass, construction of which is expected to completed by 2024. While the Casino mine is included in our forecast assumptions, the risk of setbacks to the project's development confers considerable downside risk to our long-term outlook.

Coffee

Newmont Corporation's Coffee gold project is not included in our forecast. Although the potential mine has been granted permission to proceed following a recommendation by YESAB, several regulatory hurdles remain, including the acquisition of a quartz and water licence. If the open-pit gold mine is developed, a two-and-a-half-year construction phase would be followed by 10 years of production, yielding in the region of 2 million ounces of gold. The Coffee project constitutes an upside risk to our long-term outlook.

Exploration

Spending intentions for 2023 suggest exploration will decrease by just over 10 per cent in 2023. The reduction is in part a reflection of the shift from exploration to production at Keno Hill mine. The outlook for exploration is worsened by rising borrowing costs, though on the upside, energy prices have eased significantly since last year.

This year, the Government of Yukon is investing $1.4 million across 44 exploration projects as part of the Yukon Mineral Exploration Program, up $200,000 from the pervious year's allocation.

Precious metals continue to account for the lion's share of exploration activity, and a positive price outlook for these metals is an incentive for exploration. The array of minerals sought will change in the years ahead as the journey toward a green economy continues. Interest in critical minerals is growing, as evidenced by the federal government's Canadian Critical Minerals Strategy. Significant deposits of several critical minerals, including copper, tungsten, and nickel, exist in Yukon.

Construction

Yukon's construction sector is an important source of employment and output. In 2022, the sector grew by 16.6 per cent, accounting for roughly 10 per cent of overall output and jobs in the territory. Gains in non-residential construction outweighed a contraction in residential construction. Over the next five years, we expect construction output to grow by an annual average of 4.6 per cent, driven principally by government-funded infrastructure projects.

After slowing in 2022, the residential construction sector has regained some momentum in 2023, painting a contrasting picture to the national story. Over the first half of 2023, the year-to-date value of building permits in constant dollars was up 7.0 percent from the same period in 2022. Yukon has long struggled with tight housing supply, which in turn has created a crisis of affordability. Overcoming this is crucial given the need to encourage migration of young and core-aged workers to the territory.

While homebuyer demand in Yukon has also shown resilience, the weight of higher interest rates is gradually having an effect. A fall in the value of real estate transactions and average residential sales price indicates that demand for housing is moderating. We anticipate that a further weakening in homebuyer demand will see residential investment contract in 2024. However, in the years beyond, higher immigration and the strong economic outlook will maintain pressure on housing supply and help support an upward trend in residential investment.

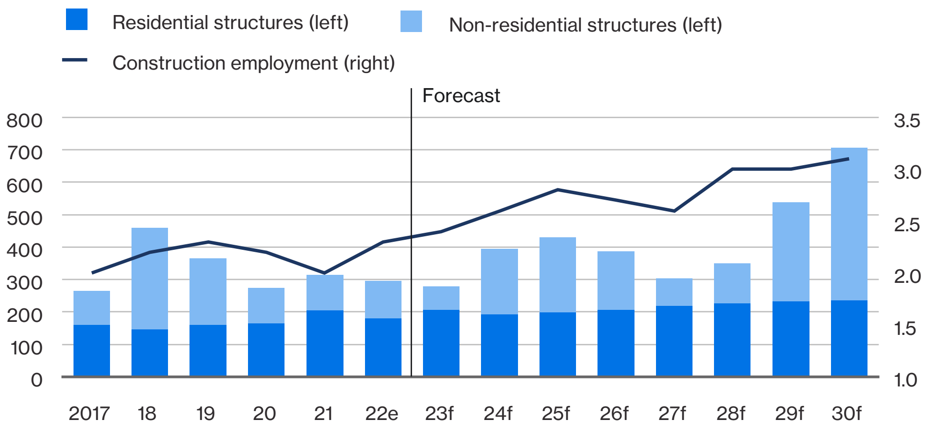
Meanwhile, non-residential construction in Yukon is booming, with a raft of government-funded infrastructure projects underpinning activity in the sector. These include work on the replacement of the Nisutlin Bay Bridge. The project, valued at over $160 million, is anticipated to be completed in 2026. Construction of Whistle Bend Elementary School in Whitehorse is now heading into the final straight, with enrollment opened for the 2024–25 school year admission.

The Yukon Resource Gateway Program is a portfolio of infrastructure upgrades to existing roads aimed in part at improving access to areas of high mineral potential. Construction of the Carmacks Bypass component of the infrastructure program commenced in 2021 and is scheduled to run until 2024. Several other projects have agreements in place with Yukon First Nations, including upgrades to the Nahanni Range Road, Silver Trail, North Canol Road, Robert Campbell Highway, and Freegold Road.

Other projects included in our outlook include the Dempster Fibre Project, upgrades to the North Klondike Highway, and the construction work at Erik Nielsen Whitehorse International Airport.

As residential investment moderates, non-residential infrastructure investment will help buoy output in the construction sector. Further ahead, construction of the Kudz Ze Kayah and Casino mines will support non-residential investment growth. (See Chart 3.)

Chart 3
Construction sector buoyed by infrastructure projects
(investment expenditures, 2012 $ millions; employment, 000s)



e = estimate; f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Demographics

Faced with an aging population and a low fertility rate, the natural rate of increase of the population (births – deaths) is decreasing and will become negative by 2037. The territory is increasingly reliant on migration, principally international, for population growth. (See Chart 4.) Thankfully, the federal government is pursuing record levels of immigration, which will help support the flow of newcomers into the territory both in 2023 and in the next few years. In 2023, we forecast that net international migration will add roughly 1,000 newcomers to the population. Net interprovincial migration will remain positive over the next decade as a strong economy and labour market draws migrants to the territory from elsewhere in Canada. On the other hand, affordability challenges in the housing and rental market remain obstacles to those wishing to move to Yukon, particularly younger workers.

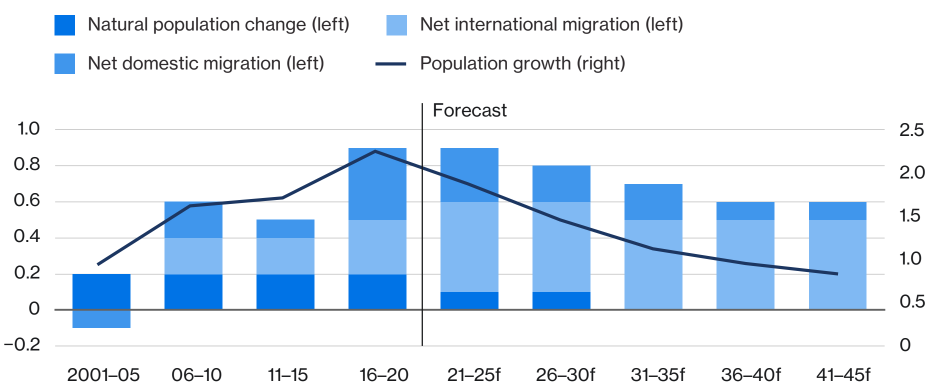
Supported by high levels of international migration, Yukon's population will grow by an average of 1.8 per cent over the next five years. We forecast that total population in Yukon will surpass 50,000 by 2030. However, the transmission of population growth to labour force growth will be constrained by the territory's declining labour force participation rate.

Demographic change brings several social and economic implications. An aging population creates pressure in the labour market. A rising number of retirements constrain labour supply and employment growth. From a fiscal perspective, Yukon's aging population will see the dependency ratio (the number of dependants per 100 people of working age) increase, rising from 25.3 in 2023 to 32.5 by 2045. This is a challenge for the government, which must accommodate rising demand for healthcare services at a time when weak labour force growth limits the expansion of the tax base.

Chart 4

Migration makes up most of Yukon's population growth

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



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

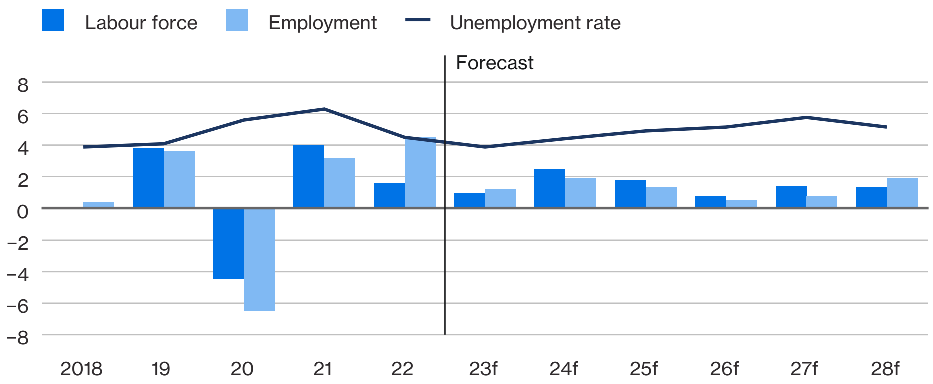
Labour markets and households

After the tailwinds of the pandemic reopening drove employment to a record high in 2022, employment growth in 2023 is gradually slowing. Yet Yukon's labour market remains relatively tight. The situation in Yukon contrasts with many other regions in Canada, where immigration-fuelled population growth and moderating labour demand have caused a swifter increase in the unemployment rate. Throughout the first half of 2023, the jobless rate remained anchored at or below 4.0 per cent, as elevated vacancy rates fuelled hiring. Nevertheless, we expect the unemployment rate to rise over the coming quarters as the full effects of interest rates feed through to the labour market.

Over the next decade, as the population ages further, both public and private sector employers will confront stiff competition for workers, especially given Yukon's strong economic growth outlook. This will keep the unemployment rate relatively low, averaging 5.1 per cent. (See Chart 5.)

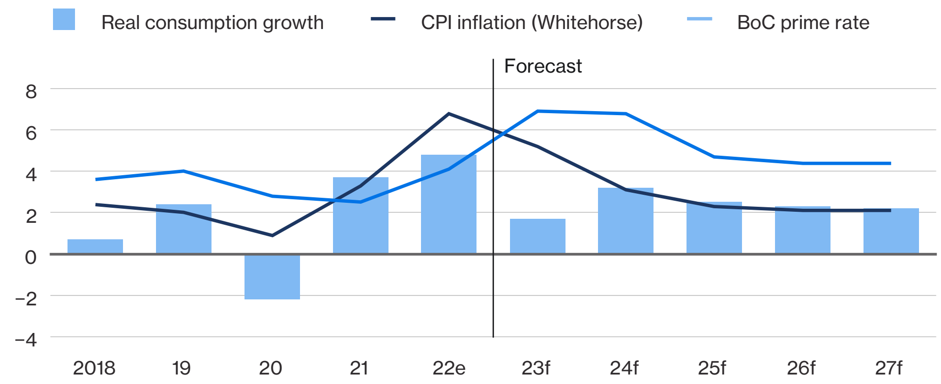
Robust labour demand and relatively tight labour supply will create upward pressure on wages and earnings. Meanwhile, inflation is falling as higher interest rates supress demand in the economy. We expect inflation in Whitehorse to average 5.2 per cent in 2023 and 3.1 per cent in 2024. The decline toward the target range will restore positive real wage growth, a positive indicator for living standards in the territory.

Chart 5
Unemployment rate creeps up as labour force growth outpaces job growth
(per cent)



f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Chart 6
Higher interest rates cause consumption growth and inflation to cool
(per cent)



e = estimate; f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Over the near term, weaker employment growth and the latent effects of monetary policy will cause household consumption growth to weaken. We expect retail sales to slow over the coming quarters as excess savings dry up and consumers become more guarded. Slowing consumption growth in Yukon and across the rest of Canada is an important prerequisite to bringing down inflation. (See Chart 6.)

Public accounts

The strong economic growth outlook for Yukon over the next 10 years bodes well for the territorial government's finances. Healthy wage gains will support personal tax revenue intake. Own-source revenues will also be supported by growth in corporation tax intake, while a buoyant mining sector will result in rising royalty revenues. Besides own-source revenues, a majority share of the territory's revenues come from Territorial Formula Financing transfers, which will be bolstered by an expanding population.

Given the aging demographic profile of Yukon's population, health costs in the territory are rising. By 2045, healthcare and social assistance spending as a share of total spending will have risen from 29.0 per cent in 2023 to around 41.0 per cent.

We forecast that Yukon's revenues will rise faster than spending, resulting in a budgetary surplus throughout the forecast period.

Methodology

This report examines the long-term economic outlook for Yukon. 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 September 21, 2023.

Acknowledgements

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