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The Conference Board of Canada

Forging Ahead

Yukon's Outlook to 2045

Issue briefing | April 27, 2023

Contents

Key findings

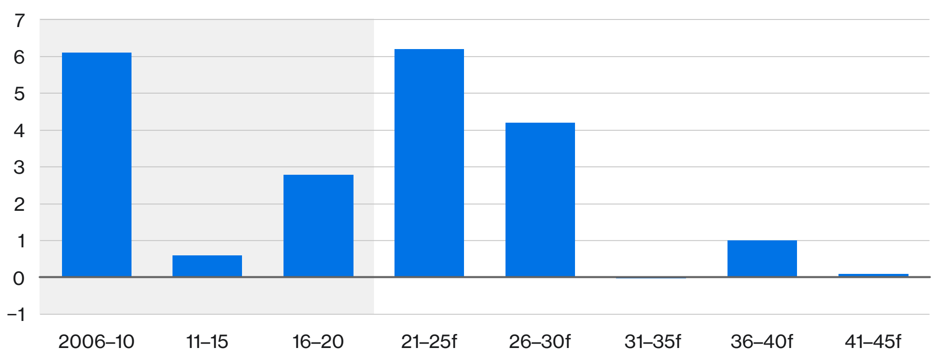
- Yukon's growth outlook is strong, thanks in part to rising mineral production and the expected opening of two more mines over the coming decade.
- A strong economy and tight labour market will continue to act as a draw for migrants to Yukon from other provinces, territories, and countries.
- The pandemic reopening saw Yukon's labour market tighten substantially. A combination of strong labour demand and demographic changes will keep the unemployment rate low and competition for workers high.
- The territory's tight labour market will support wage growth, which will help to strengthen household purchasing power as inflation cools.
- Housing affordability and availability are a challenge in Yukon. Although higher interest rates are weighing on the housing market, high levels of international migration will ensure demand for housing and incentives for residential investment are strong in the years ahead.

Overview

Yukon's economic outlook is bright. Mineral production in the territory is rising, and the growth outlook for the construction, real estate, and public services sectors is strong.

In 2022, real GDP in Yukon expanded by an estimated 5.5 per cent, building on the double-digit growth recorded in 2021. In 2023, we forecast real GDP growth of 4.4 per cent. Between 2023 and 2030, real GDP growth will average 4.6 per cent annually, outpacing our forecast of 1.8 per cent for Canada. (See Chart 1.)

Chart 1
Yukon'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 strong economy is making Yukon an attractive destination for migrants. Given the territory's aging population and low fertility rate, migration is critical for labour force growth. A rising median age will drive up demand for workers in the healthcare and social assistance sector over the forecast period. A raft of non-residential infrastructure projects combined with strong demand for housing will support labour demand in the construction sector.

After mounting an employment recovery from the pandemic, the territory is facing a tight labour supply, with employers struggling to fill vacancies. While labour market tightness will deliver solid wage growth, it will also constrain employment gains in the years ahead.

Rising interest rates are slowly filtering through the economy. Thankfully, inflation in Whitehorse is expected to fall back to the target range by the end of the year. However, rising borrowing costs and an increased incentive to save will see consumption growth, particularly on durables, weaken in 2023. A combination of a low unemployment rate and above-inflation wage growth will support household income and consumer spending over the next few years.

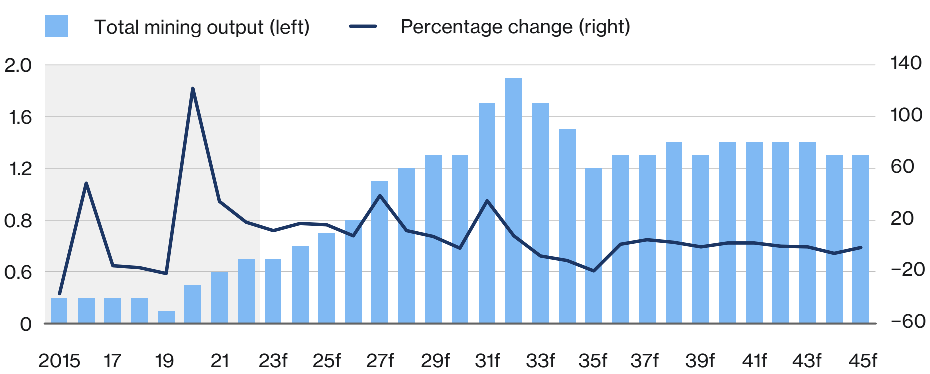
Mining remains on the front foot

The mining sector is a core component of Yukon's economy, and the outlook is strong. (See Chart 2.) Two mines are now producing in the territory, the Minto mine and the Eagle Gold mine. Production at a third mine, the Keno Hill silver district project, was suspended in the summer of 2022 with focus shifting to underground resource development. Production is expected to restart in the second half of 2023. Despite the disruption to operations at Keno Hill, mining sector output is expected to post double-digit annual growth between 2023 and 2025. Further out, our outlook includes the arrival of two new mines within the next 10 years.

Chart 2

Mining sector is expanding

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



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

Current mining operations

Minto

The Minto mine overcame issues related to excessive meltwater to produce 28.9 million pounds of copper in 2022. For 2023, production guidance of 31 million to 34 million pounds of copper has been announced. The owners hope drilling now under way at the Minto North open pit will find increased mineral resources and extend the mine's life. Minto Metals reported several high-grade copper intersections discovered from drilling in 2022. The mine is scheduled to be in production until 2029. The potential extension of the mine's productive lifetime adds upside risk to our mining sector outlook beyond 2029.

Eagle Gold

In 2022, production at the Eagle Gold mine was a little over 150,000 ounces, down 8.5 per cent from 2021 production, after a mechanical fault at the mine in the third quarter of 2022 limited production. The mine's gold production is expected to rise to almost 180,000 ounces in 2023. Production will rise further in the years beyond, reaching a peak around the middle of the current decade. Our outlook assumes production at the mine will continue until 2032, although a recent technical report suggest production may now extend to 2034. The Eagle Gold mine is on Victoria Gold's Dublin Gulch property. A 2022 drilling program at the Raven gold deposit on the property produced positive indications of the potential of this additional gold deposit.

Keno Hill

The Keno Hill silver district was officially acquired by Hecla Mining in September 2022. Its previous owners, Alexco Resource Corp, had suspended production to focus on underground resource development. Production of silver, lead, and zinc is expected to resume in the third quarter of 2023, with production of 2.5 million ounces of silver anticipated in 2023. The mine is scheduled to operate until 2032, producing an average of just under four million ounces of silver per year between 2024 and 2032.

Placer mining

Placer mining—the recovery of deposits in the rocks and gravel of streams and riverbeds—is an important contributor to gold production in Yukon. In 2022, it produced about 66,000 fine ounces of gold, much of it from the Indian River watershed. Annual fluctuations in placer mining are contingent on several factors, including gold and energy prices. Our outlook assumes placer production will average 64,000 fine ounces of gold per year throughout the forecast.

Placer mining is likely to face increasing environmental scrutiny in the years ahead. Conservationists argue that placer mining in peatland areas risks releasing large amounts of carbon into the atmosphere and therefore undermines efforts to reduce greenhouse gas emissions. The Government of Yukon is developing new legislation to replace the Placer Mining Act, which dates back to the Klondike gold rush era. This overhaul will likely see changes to the rules affecting land use and water permitting, reshaping the regulatory environment within which placer miners operate.

Developing projects

Kudz Ze Kayah

BMC Minerals' prospective Kudz Ze Kayah project—to mine and process zinc, silver, copper, gold, and lead from the ABM deposit—has moved to the regulatory stage following a joint decision by the federal and territorial governments to conclude the environmental and socio-economic assessment process. The owners announced that their Type A water licence application for the ABM mine has been deemed adequate by the Yukon Water Board and is now in the public comment period of the licensing process, which will run to May 5, 2023. But the Kaska Nation has launched a civil lawsuit arguing that potential impacts on its rights and titles were not adequately considered in the environmental and socio-economic assessment. Given the legal challenges, the start date for production has been delayed by a year, to 2026.

Casino

Western Copper and Gold's proposed Casino mine would be substantially larger than any other mine now operating in Yukon. The copper and gold deposits to be developed at the site are among the largest in the world. The owners published an updated feasibility study in the summer of 2022 with revised resource and reserve estimates. The mine remains subject to the environmental assessment process and will undergo an in-person panel review by the Yukon Environmental Socio-economic Assessment Board. Our outlook assumes commercial production will begin in 2031 and continue for at least 22 years. Total initial capital estimates for the project amount to more than $3.6 billion, of which $2.9 billion is allocated to plant and infrastructure costs. The project site, roughly 300 kilometres north of Whitehorse, will be accessible by plane and by road via the Carmacks Bypass, for which a contract has been awarded and construction is expected to be completed by 2024. Construction of the project itself is expected to take roughly four years and employ about 1,000 workers.

While we have included the Casino mine in our forecast assumptions, further setbacks to the project's development confer considerable downside risk to our 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 the Yukon Environmental Socio-economic Assessment Board, 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 two million ounces of gold. The Coffee project constitutes an upside risk to our long-term outlook.

Exploration

Building on a strong rebound in 2021, spending on mineral exploration and deposit appraisals increased by 6.0 per cent in 2022, according to preliminary estimates. But spending intentions indicate that expenditures will dip slightly in 2023. (See Chart 3.) Exploration for gold accounts for the largest share of spending, followed by copper and then lead-zinc targets.

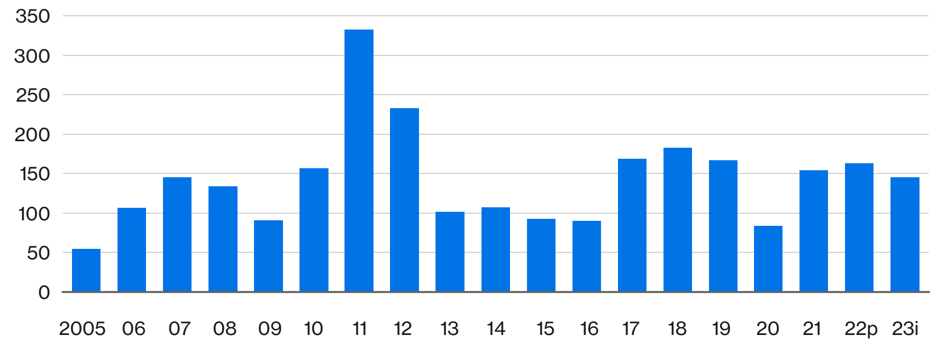
Looking ahead, investors will be challenged by labour scarcity and higher borrowing costs. Energy prices have eased following a spike in early 2022 but, given the ongoing war in Ukraine, remain a risk. Despite cooling recently, the medium-term outlook for metal prices is favourable.

The Yukon government continues to incentivize exploration through the Yukon Mineral Exploration Program. The robust rebound in exploration spending since the pandemic is a positive indicator for the sector and a testament to the attractiveness of Yukon as a mining jurisdiction. Greater exploration today increases the potential for new mining projects to be developed in the future.

Chart 3

Spending on mineral exploration set to dip slightly

($ millions)



p = preliminary estimates

i = spending intentions

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

Metal prices

Precious metals

Ongoing recession risk and a subdued stock market bode well for the near-term outlook for gold and silver prices, given that investors still see precious metals as a hedge against market volatility. However, if year-over-year inflation is slow to fall, the U.S. Federal Reserve could delay interest rate cutting, maintaining the strength in the U.S. dollar. A stronger dollar places downward pressure on gold and silver prices, given that buyers with other currencies can buy less gold. For Canadian miners, some of the decline in prices is offset by the fact that market pricing is in U.S. dollars. But a stronger U.S. dollar could still be difficult for Canadian miners because it also increases the cost of imports.

Despite these risks, futures prices for gold and silver remain above pre-pandemic levels, a signal of positive investor sentiment for prices.

Other metals

Although copper prices fell sharply in the second half of 2022, they have since strengthened, aided by the relaxing of COVID-19 restrictions in China. Demand for the metal is expected to be robust in the years ahead owing to its widespread use in several emerging technologies, such as electric-vehicle batteries. There are concerns of a supply squeeze, with production expected to soften in South America, a significant source of the world's copper production. Strong demand coupled with squeezed supply bodes well for copper prices and production in Yukon.

Our outlook for zinc is solid, as demand for the metal will be supported by the ongoing transition to net-zero-emissions vehicles and an expected decline in Chinese supply. Prices for lead, meanwhile, will be driven by increased production of motor vehicles over the next few years, and we still see the metal as a key input in electric vehicles over the long term.

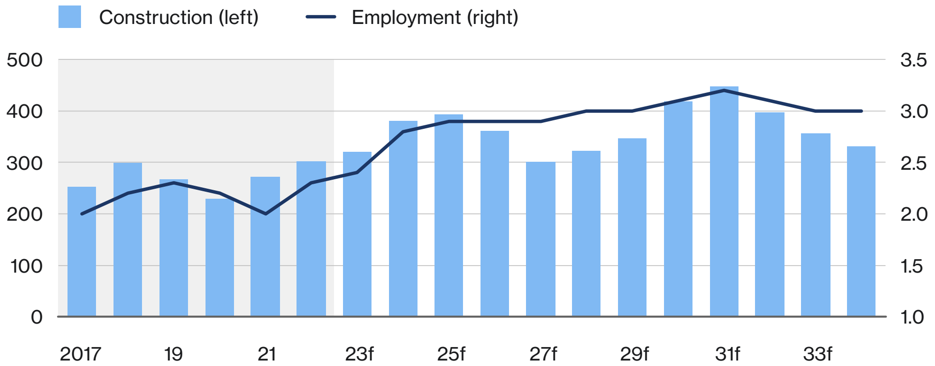
Construction

Yukon's construction sector will be kept busy by several large infrastructure projects and mine construction, as well as strong demand for housing in the territory. Over the next three years, output is expected to grow by an annual average of 9.4 per cent. (See Chart 4.)

Among several large infrastructure projects, construction has started on the new Nisutlin Bay Bridge. Valued at $160 million, work on the replacement bridge is expected to be completed in 2026. Elsewhere in Yukon, construction of an elementary school in the Whitehorse neighbourhood of Whistle Bend is ongoing, with the project expected to be completed in the 2023–24 school year.

Chart 4

Infrastrucutre and mining projects keep construction industry busy
(output, 2012 $ millions; employment, 000s)



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

The Yukon Resource Gateway Program is a portfolio of infrastructure upgrades to existing roads aimed at improving access to areas of high mineral potential. Funding of nearly $469 million is being shouldered largely by the Yukon and federal governments, with the mining industry contributing about $109 million.

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.

Meanwhile, remediation of the Faro mine, once the largest open-pit lead-zinc mine in the world, will start after outstanding design and regulatory approvals are obtained. Following the successful completion of the environmental and socio-economic assessment process, a water licence application will be filed to the Yukon Water Board. Initial work will begin soon, with the main construction expected to begin in 2025. In 2022, contracts were awarded for support and monitoring services.

Following a surge in demand and prices during the height of the pandemic, higher interest rates have pushed up mortgage costs. Since the pandemic reopening, consumer spending has been redirected away from the housing market toward services such as travel and leisure. As a result, Canada's housing market is generally undergoing a correction, marked by a dramatic slowdown in price growth. In Yukon, the slowdown in the housing market has been muted so far. Prices for single-detached homes, condominiums, and duplexes all hit record highs in the third quarter of 2022. But signs are emerging that the housing market is starting to slow. In the final quarter of 2022, real estate transactions and average resale prices were down from the same quarter in the previous year. A recent uptick in housing inventories is also indicative of a near-term housing market moderation. Nevertheless, Yukon's strong economic outlook will continue to draw people to the territory and keep the pressure on housing supply.

As the federal government pursues high immigration targets, housing demand in Yukon will remain strong over the next few years. However, over the long term, Yukon's population growth is forecast to slow, weighing on residential construction.

Demographics

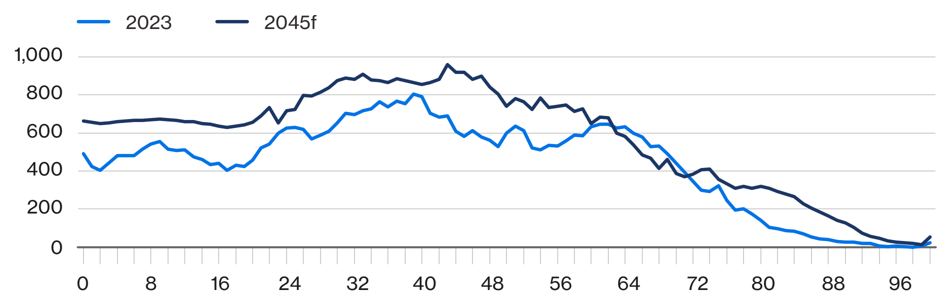
Among Canada's provinces and territories, Yukon has a relatively young population. But that population is aging. (See Chart 5.) Given the rising median age and a fertility rate below the replacement rate, the natural rate of population increase (the difference between births and deaths) is decreasing in Yukon. We project that the natural rate of population increase will fall into negative territory by 2037.

Demographic change has many social and economic implications. An aging population exerts a significant impact on the labour market. As older residents retire, the size of the labour force decreases, constraining 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 to 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 5

Yukon's population is aging

(population by age , number of persons)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

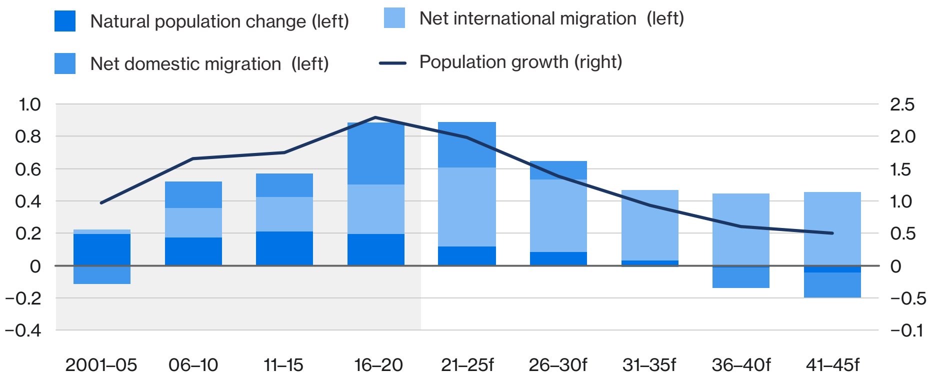
Due to a weakening natural rate of population increase, Yukon's population growth is increasingly dependent on migration, specifically international migration. (See Chart 6.) Immigration to Yukon rose markedly in 2021–22 and is expected to remain elevated in the years ahead. We forecast net international migration—composed of immigration, emigration, and the net change in non-permanent residents—will see roughly 500 additional people added to the population annually over the next five years. Although the territory recorded a small net loss in migration to other provinces and territories in 2021–22, we forecast net positive interprovincial migration over the next decade.

In the outer years of the forecast, international migration will become the sole driver of population growth, as net migration to other provinces and territories will fall below zero around the middle of the next decade.

Overall, we forecast annual population growth between 2023 and 2030 of 1.2 per cent, falling to 0.9 per cent over 2030–45.

Chart 6

Migration makes up most of Yukon's population growth
(annual average contribution to population growth, 000s; per cent)



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

Labour market

In 2022, employment in Yukon rose by 1,000 jobs, surpassing the level recorded in 2019, before the pandemic. Gains in public sector employment underpinned this increase. Over the next five years, we forecast employment will increase by an average of 380 per year. We expect these job gains to occur principally in the services economy, particularly in public administration and commercial services. Among the goods-producing industries, the most significant job growth will occur in the construction sector. (See Chart 7.)

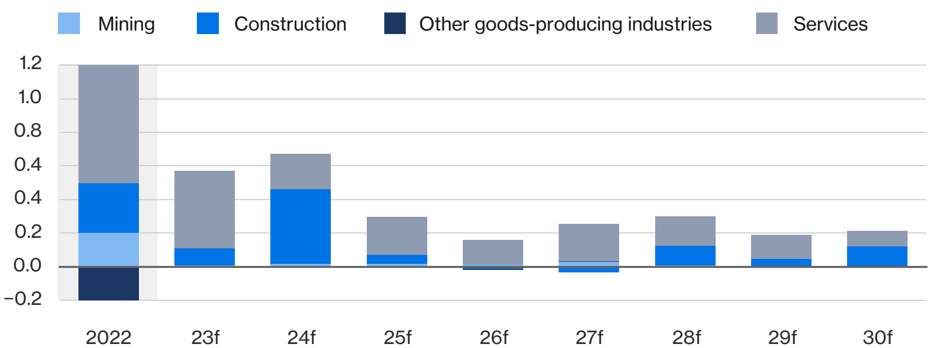
Employment growth in 2022 contributed to a decline in the unemployment rate to 3.7 per cent. Yukon's labour market is tight, and there is strong competition for labour. These conditions will maintain a low unemployment rate, which is forecast to average 5.0 per cent over the next 10 years. (See Chart 8.)

Strong competition for workers will support wage growth. Despite exceeding wage growth in 2022, inflation is declining and is expected to fall substantially in 2023 as the effects of higher interest rates kick in.

Chart 7

Employment growth by industry, Yukon

(change in employment, 000s)

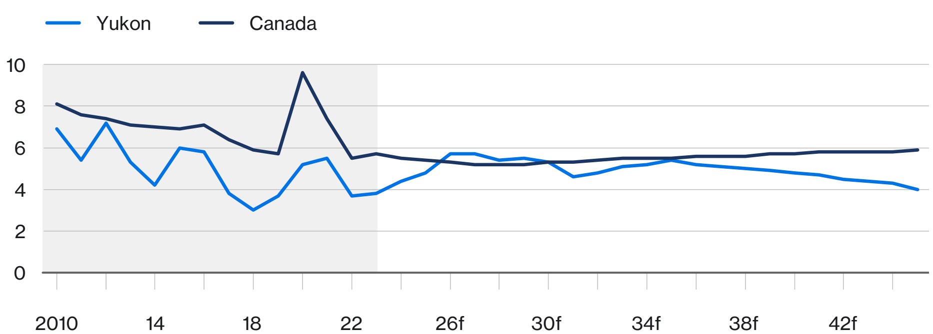


Note: Unshaded area represents forecast data.
f = forecast
Sources: The Conference Board of Canada; Statistics Canada.

Chart 8

Labour scarcity keeps unemployment rate low

(per cent)



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

Public accounts

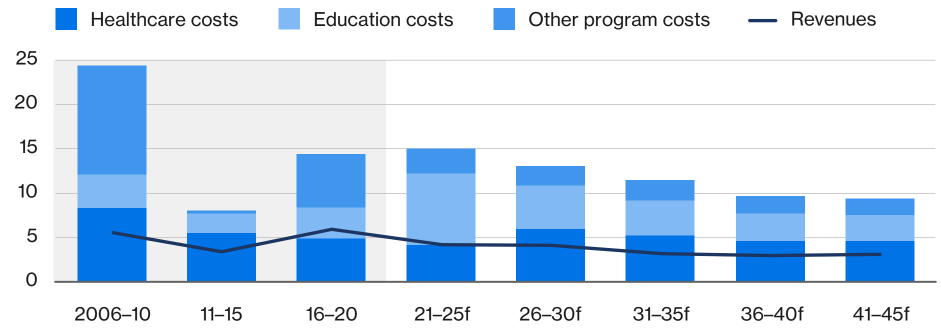
The strong economic growth outlook for Yukon over the next 10 years bodes well for the territorial government's finances. Healthy wage gains will support personal tax revenue intake. Own-source revenues will also be supported by growth in corporation tax intake, while a buoyant mining sector will result 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. (See Chart 9.) By 2045, healthcare and social assistance spending as a share of total spending will have risen from 32 per cent in 2023 to around 45 per cent.

Yukon's revenues are forecast to rise faster than spending, resulting in a budgetary surplus throughout the forecast period.

Chart 9

Aging population drives growth of healthcare costs
(per cent)



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

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 March 8, 2023.

Acknowledgements

Yukon'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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