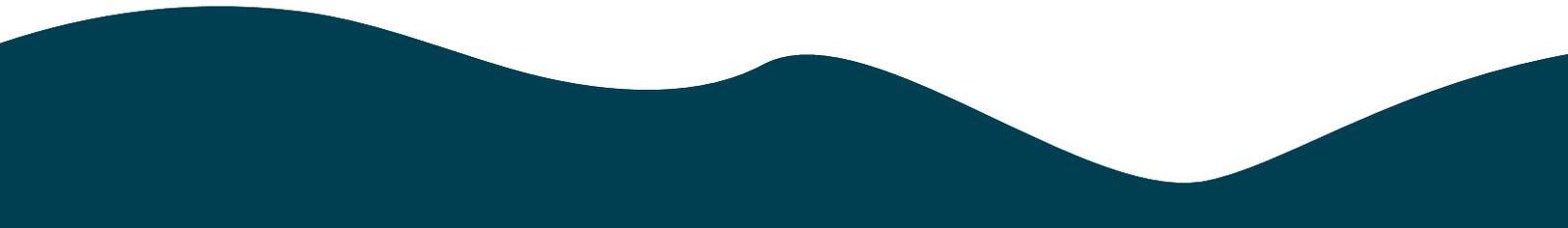




2019–20
INTERIM FISCAL
AND ECONOMIC UPDATE



Introduction

The 2019–20 *Interim Fiscal and Economic Update* presents an overview of current expectations for Yukon's finances and the economy. It provides an update on the discussion presented in the *Fiscal and Economic Outlook* released in March 2019.

Part 1: Yukon's Finances

Yukon experienced an exceptionally intense fire season that started early and extended into fall, with fires in close proximity to communities. This resulted in higher than anticipated wildland fire expenditures and is the primary driver of an upward revision in the deficit projection for 2019–20. The deficit for 2019–20 is now projected at \$20.0 million, up approximately \$14 million from the Main Estimates.

Outside of the increased spending related to an active and prolonged fire season, projected expenses in other areas for 2019–20 are largely recoverable under various federal funding programs. Yukon's finances remain on-track to return to a surplus in 2020–21, with further surpluses forecast in future years.

Table 1. Fiscal summary

\$millions	2018–19	2019–20	2019–20	2020–21	2021–22
	Supplementary Estimates #2	Main Estimates	Supplementary Estimates #1	Plan	Plan
Revenue	1,185.7	1,251.1	1,251.1	1,272.4	1,316.1
Rxpanse	(1,326.2)	(1,325.3)	(1,362.7)	(1,348.6)	(1,389.7)
Accounting adjustments ¹	133.4	68.2	91.6	81.2	77.3
Surplus/Deficit	(7.1)	(5.9)	(20.0)	5.0	3.7

Source: Department of Finance

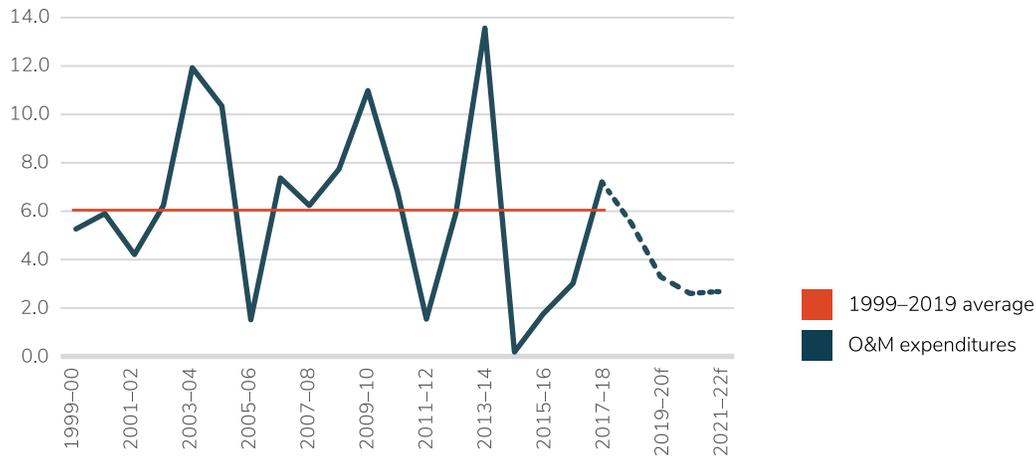
Operating expense

Gross Operation & Maintenance (O&M) expenditures are expected to increase by 1.7%, or \$20.5 million, over the 2019–20 Main Estimates. There are no changes to the O&M recoveries. Additional funding for wildland fire management, in response to an active fire season, accounts for the vast majority of the increase in the revised O&M projection for 2019–20. Another factor behind higher O&M spending was \$1.5 million in support for a group of Yukon First Nations to help them invest in a Canadian technology sector investment fund.

¹ Accounting adjustments are made to present the bottom line on a net expense basis. Some expenditures represent cash outlays that do not affect the government's net surplus/deficit position, such as capital expenditures toward the purchase or construction of tangible capital assets. Those assets are expensed (amortized) over time against the government's bottom line as the assets are "used up" throughout their expected useful life, rather than the total impact of the expenditure being reflected in the year(s) in which it was made.

Chart 1. Growth in O&M spending expected to remain below average

Change in Government of Yukon O&M spending (per cent)



Source: Department of Finance

Capital plan

Gross capital expenditures are projected to increase by 15%, or \$43.3 million over the Main Estimates. On a net basis, the increase in capital spending in 2019–20 is projected to increase 7.8% with the majority of the increase offset by recoveries, including the sale of developed land as well as federally recoverable infrastructure projects. Prominent factors contributing to the increase in the capital spending projection for 2019–20 include:

- lot development and community infrastructure development, including work to meet growing housing demands, replace outdated and failing infrastructure and help communities meet the needs of their residents; and
- a significant uptake in the Business Incentive Program, ensuring contractors securing government contracts make full use of Yukon trades people, apprentices and goods and service providers.

Beyond 2019–2020, the outlook for 2020–21 forecasts consistent commitments with gross capital spending of about \$331.2 million.

Table 2. Five-year capital plan gross expenditures by category

\$millions	2019–20	2019–20	2020–21	2021–22	2022–23	2023–24
	Main Estimates	Supplementary Estimates #1	Plan	Plan	Plan	Plan
Land Development, Social Development, Education & Health	80.8	86.6	79.7	73.6	81.5	67.6
Community and First Nations Infrastructure	53.0	90.0	50.7	58.0	59.1	55.7
Real Property and Asset Management	28.2	28.2	29.5	24.0	23.5	43.7
Transportation Infrastructure	92.1	92.1	83.7	84.5	80.1	87.9
Energy	13.9	14.3	31.7	35.0	30.2	16.8
Information Technology	20.0	20.0	55.9	46.0	15.0	17.7
Totals²	288.0	331.2	331.2	321.1	289.4	289.4

Source: Capital Planning Office

² Totals may vary due to rounding.

Revenue

The 2019–20 first Supplementary Estimates show government revenue at \$1.251 billion in 2019–20, which is unchanged from the Main Estimates.

Growth in revenues is expected to average 2.6% over the subsequent two fiscal years and rise to \$1.316 billion by 2021–22. This growth is expected to come primarily from an increase in federal transfers, which account for 85% of all government revenue.

The persistence of a strong labour market and rising household incomes is contributing to increased revenues from personal income tax.

Table 3. Revenue by type

\$millions	2019–20	2019–20	2020–21	2021–22
	Main Estimates	Supplementary Estimates #1	Plan	Plan
Income Taxes	89.8	89.8	92.4	95.7
Property Tax	5.9	5.9	5.6	6.2
Fuel Oil Tax	9.1	9.1	9.4	9.6
Tobacco & Alcohol taxes	18.2	18.2	16.9	18.0
Other taxes	3.2	3.2	3.2	3.4
Other revenue	66.5	66.5	54.0	60.9
Total own source revenue	192.7	192.7	181.5	193.8
Federal transfers	1,058.4	1,058.4	1,090.9	1,122.2
Total revenue³	1,251.1	1,251.1	1,272.4	1,316.0

Source: Department of Finance

Part 2: Economic overview

Yukon's economy continues to perform well

As expected in March, Yukon's economy continues to perform well in 2019. Incomes and retail sales continued to grow, and construction activity has been strong. Employment was up in the first eight months of the year and the unemployment rate remained well below historical averages.

The economic outlook is little changed from the *Fiscal and Economic Outlook*, with further growth expected for key sectors over the forecast horizon.

Real GDP is forecast to increase by 3.0% in 2019, down slightly from the Budget forecast of 3.3%. Further gains are expected in every year of the forecast out to 2023.

³ Totals may vary due to rounding.

Discussion box: Risks to the GDP outlook

The recent merger of Goldcorp and Newmont Mining Corp. has created uncertainty about the development timeline of the Coffee gold mine. Coffee is one of only two new mines included in the medium-term forecast, with development slated for 2020–2021 and production beginning in 2022. With questions about the newly-formed Newmont Goldcorp’s plans for Coffee, development may not proceed as currently envisioned. This would weigh on the forecast, particularly for GDP. On a positive note, even if Coffee was dropped from the forecast, the outlook for GDP, retail sales, and employment remains positive.

A resumption of production at the Minto Mine is not included in the current forecast. Pembridge Resources, which signed a deal to acquire Minto from Capstone Mining in June, has indicated a desire to restart operations as early as late 2019. A return to production would be reflected in a modest increase in employment and would have some positive impacts for local goods and services providers. The most notable impact of a return to production would be reflected in Yukon’s GDP, which would be bolstered by increased mineral exports.

Beyond Coffee, there are other projects in the mix for possible development over the next five years. Alexco Resources’ Keno Hill Silver District project, BMC Minerals’ Kudz Ze Kayah project and Golden Predator’s Brewery Creek are poised for potential development in the medium-term. Any development activities, and subsequent production from these projects, or other projects, within the next five years would positively impact the outlook for Yukon’s GDP. This could also be reflected in other key indicators such as employment and retail sales.

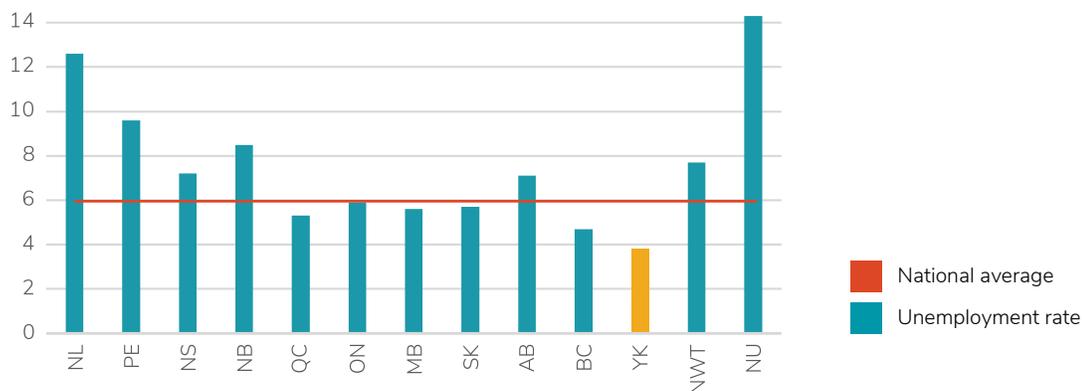
Tight labour market conditions persist

Yukon’s strong labour market performance continued in 2019. In the first eight months of 2019, employment averaged 21,600, an increase of 200 from the same period in 2018. During this time Yukon’s labour force also increased by 500 to 22,400.

Yukon’s unemployment rate averaged 3.8% in the first eight months of 2019 following a historic annual low of 2.7% in 2018. Yukon’s unemployment rate remains the lowest in the country (Chart 2).

Chart 2. Yukon’s labour market tightness persists in 2019

2019 YTD (Jan-Aug) unemployment rate (per cent) by Canadian jurisdiction



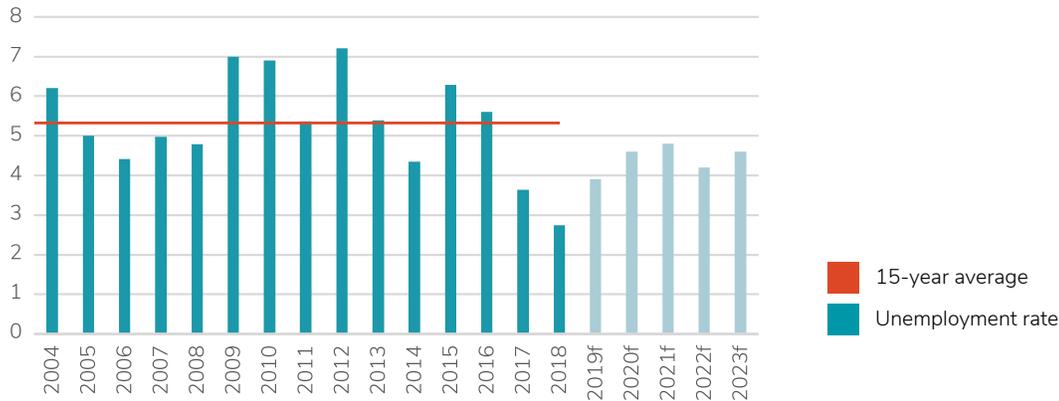
Source: Statistics Canada

The outlook remains positive with further gains in employment and the labour force expected in the medium-term. Yukon is projected to add 1,300 workers by 2023.

Yukon's labour market tightness is expected to dissipate gradually over the forecast period, as rising wages attract new entrants to the labour market. As a result, the unemployment rate is expected to increase but remain below 5% from 2019 to 2023.

Chart 3. Unemployment rate to move back towards more sustainable levels

Unemployment rate (per cent)



Source: Statistics Canada, Department of Finance

Competition for workers supports wage growth

Yukon continues to grapple with some challenges arising from a strong, robust economy. Ongoing tightness in the labour market has resulted in unemployment rates well below levels reported in prior periods of expansion. Employers are struggling to fill job openings in a labour market where there are more vacant jobs than there are unemployed workers (Chart 4).

Chart 4. Job vacancies exceeding the number of unemployed

Unemployment and job vacancies (persons)

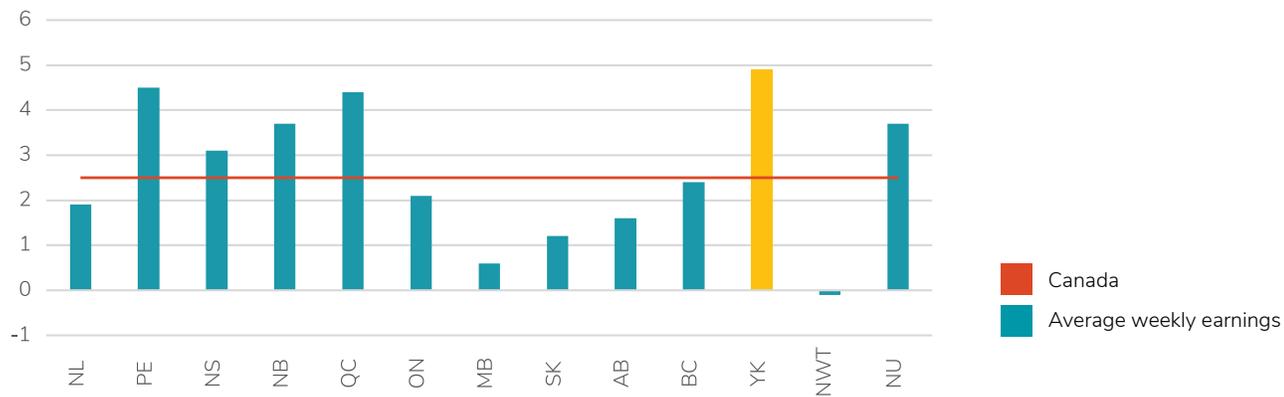


Sources: Statistics Canada

Strong demand for labour has led to rising earnings. As of June 2019 workers in Yukon earned over \$1,170 per week, an increase of almost 5% from 2018 and well above the national growth rate of 2.5%. Average weekly earnings in Yukon are among the highest in Canada, led only by the other territories.

Chart 5. Yukon among the leaders in earnings growth

2019 June year-over-year growth in average weekly earnings by jurisdiction (per cent)



Sources: Statistics Canada

Wages should see continued pressure over the medium-term and this will lead to growing household income. Overall, disposable income is projected to grow by an average of almost 5% over 2019–2023.

Further population gains expected over the medium-term

The outlook for population has not changed since the March forecast. Yukon’s population is forecast to increase for the 16th consecutive year in 2019, up 1.7%. A robust labour market and limited local labour supply are encouraging migration into Yukon.

With a positive medium-term economic outlook, demand for workers will remain high, spurring continued migration and further population growth. Population gains are noted in every year of the medium-term forecast, with an average population growth of 1.7% over 2019–2023 bringing Yukon’s population to over 44,000 by 2023.

Chart 6. Population growth to continue

Annual population change (per cent)



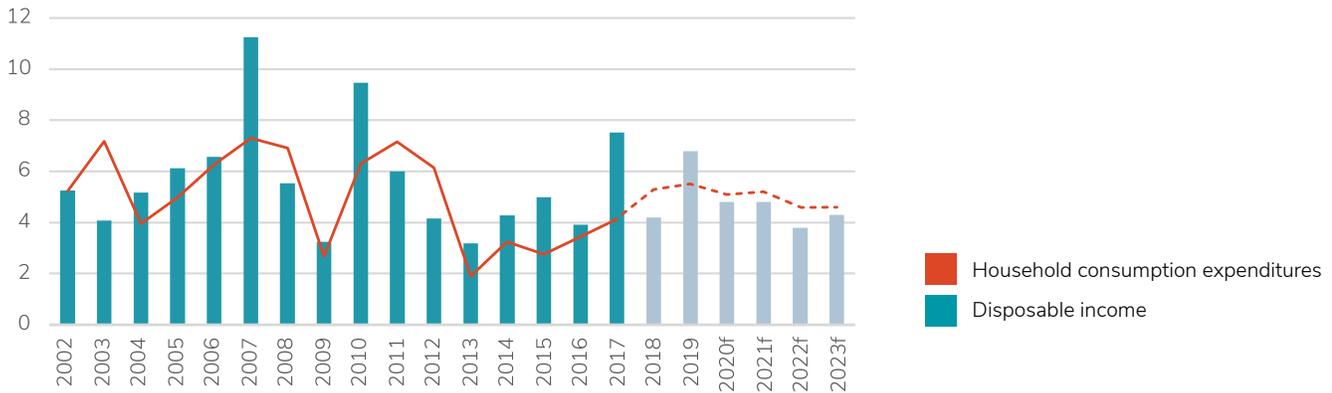
Sources: Department of Finance

Rising incomes continue to drive consumer spending

Following robust growth of 5.3% in 2018, household consumer spending is expected to exceed 5% again in 2019. With increasing incomes and population gains, household spending is expected to remain strong with annual growth averaging almost 5% out to 2023.

Chart 7. Yukon's rising incomes continue to boost consumer spending

Annual change (per cent)



Source: Statistics Canada; Department of Finance

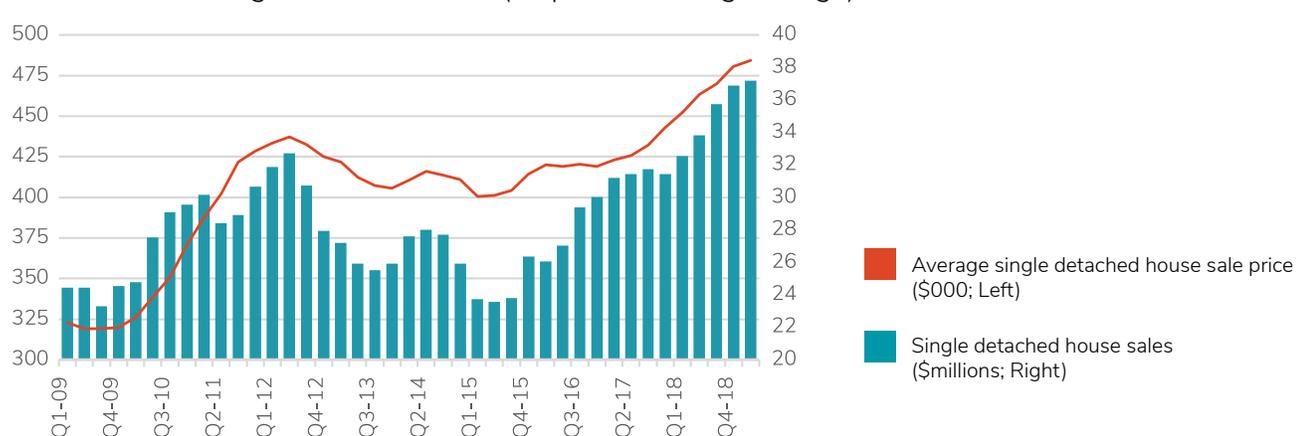
Population and employment gains continue to drive housing market performance

A growing population and a strong local labour market continue to put pressure on the housing market.

The value of real estate transactions in the first quarter of 2019 was up 28.2% from the first quarter of 2018. The average price of a single-detached house in Whitehorse was \$477,000 in the first quarter, up 3.3% from the first quarter of 2018. The recent lottery for lots in Whistle Bend, showed further evidence of an undersupplied market as it was over-subscribed with 246 entries to purchase one of 42 single-family and ten duplex lots.⁴

Chart 8. Housing market remains strong

Whitehorse housing market indicators (4-quarter moving average)



Source: Statistics Canada; Department of Finance

⁴ Whistle Bend subdivision lots proved popular. (September 12, 2019). [Whitehorse Star](#)

The introduction of a new federal program to make housing affordable for first-time homebuyers, recent changes by the Bank of Canada to mortgage stress tests and a more tepid outlook for interest rates have the potential to add more fuel to the local housing market.

High demand for housing is also impacting the rental market. The vacancy rate for buildings in Whitehorse with three or more rental units was estimated at 3% in April 2019 and has been below 4% since 2015. Vacancy rates under 5% are generally representative of a tight rental market. A prolonged period of strong demand has also contributed to growth in rental costs. Overall median rent reached \$1,041 in April, a historic high for Yukon.

Robust demand for housing is elevating inflation in Whitehorse. Consumer prices in August were up 2.4% from 12 months earlier, exceeding national growth of 1.9%. A prominent driver of the elevated inflation rate was shelter costs⁵, which saw an increase of 5.7% in August 2019. This gain in shelter costs was directly preceded by 5.9% growth in July, the largest increase in over a decade. Higher rents, rising home prices and more expensive utilities are all contributing to recent growth. Excluding shelter costs, inflation in August was 1.3%.

Mining Outlook

Global trade uncertainty causes metal prices to diverge

The trajectory of metal prices diverged as weaker economic data in 2019 increased concerns about a potential global economic slowdown.

Gold has long been considered a haven for investment dollars during times of uncertainty. Fears of a global downturn contributed to gold prices surpassing US\$1,500/toz for the first time in six years in early August. Recent gains have contributed to a revised outlook, with gold now expected to be closer to US\$1,400/toz in 2019 and 2020, up from the March forecast of approximately US\$1,300/toz for both years.

Copper, zinc and silver prices figure prominently in the potential development of several projects in Yukon. Since the March forecast, private-sector forecasters have tempered expectations for silver, copper and zinc prices for both 2019 and 2020. Following a surge in early 2019 to almost US\$3.00/lb copper, prices softened over the summer, falling to near US\$2.50/lb in August. Zinc prices followed a similar pattern with prices falling to a one-year low in September, erasing gains made earlier in the year. Silver prices, which more closely follow gold, have bucked this trend, reaching US\$19.50/toz in September, the highest level in almost three years.

Production from the Eagle Gold mine is a key driver over the medium-term

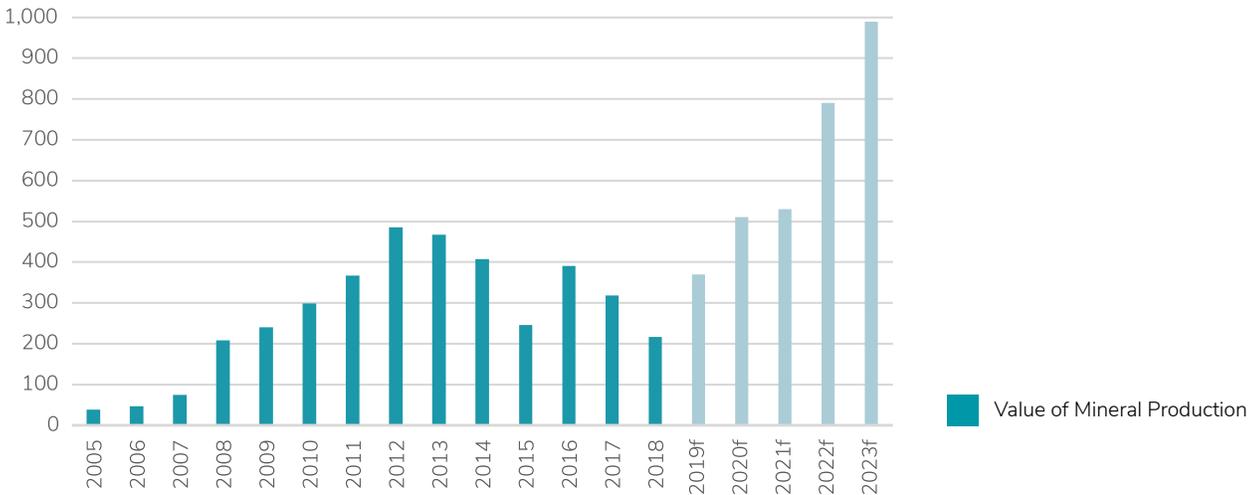
Construction of Victoria Gold Corp's Eagle Gold mine was completed in early July – a month ahead of schedule. The project poured first gold on September 17, 2019. It is expected to produce about 200,000 ounces of gold per year once fully operational, making it the largest gold mine in Yukon's history.

The Coffee gold mine is projected to begin development as early as 2020, but there is some uncertainty about timelines. Following the 2019 merger, newly formed Newmont Goldcorp is reviewing all of its projects. The results of this review, and whether it impacts Coffee, should be known ahead of the release of the 2020–21 *Fiscal and Economic Outlook* next Spring.

⁵ Statistics Canada notes that shelter is the most important of the eight major components of the CPI, representing more than one-quarter of total expenditures on goods and services included in the index. The shelter index is a weighted average of sub-indexes representing price changes associated with shelter-related expenditure categories. The shelter index includes costs related to owned accommodation (mortgage interest cost, replacement cost, property taxes, insurance, maintenance and repairs); rented accommodation (rent, insurance premiums, maintenance and repairs); and costs related to water, fuel and electricity.

Chart 9. Current forecast supported by production from two new mines

Value of mineral production (\$millions)



Source: Natural Resources Canada, Department of Finance

A return to production at the Minto Mine presents upside risk to the current forecast. Pembridge Resources announced in June 2019 that it had acquired Minto from Capstone Mining Corp. Pembridge has publically indicated a desire to restart production at Minto before the end of 2019. With plans for production from 2019–2023, there is also the potential for an extension of the life of the mine through “exploration targets and initiatives”.⁶

Placer gold production in 2018 came in at near 71,000 crude ounces, the second-highest level reported since 2004. The outlook for placer production has been revised downward slightly from the March forecast, averaging around 68,000 crude ounces per year from 2019 to 2023.

After two years of growth, exploration spending⁷ in Yukon is expected to decline in 2019. Nationally, exploration spending is forecast to be down 6.8% in 2019. Estimates from Natural Resources Canada (NRCan)⁸ show a larger decline for Yukon, down 31% to \$129.2 million. Revised spending estimates for 2019 will be released by NRCan in the fall.

Tourism Outlook

Tourism sector remains positive

Yukon’s tourism sector recorded one of its best years in 2018, with growth noted across several performance measures. Favourable exchange rates, increased interest in Canada from international markets and growing interest in Alaskan cruises all contributed to the recent strength in Yukon’s tourism sector. Early indications are that this strength has carried forward into 2019. In the first half of 2019, international border crossings into Yukon increased by 1.4% to over almost 186,000 (Chart 10). The bulk of the border crossings are yet to be reported.

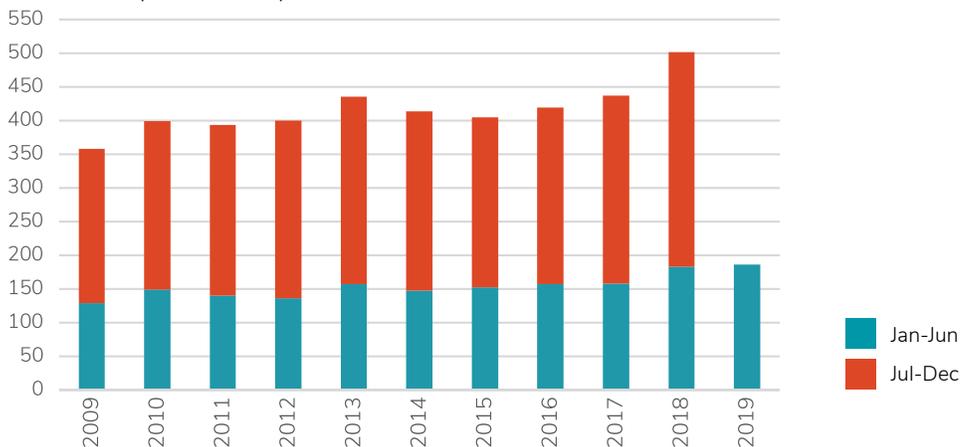
⁶ Corporate Presentation: Corporate Update. (July 2019). [Pembridge Resources plc](#).

⁷ Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development. (July 2019). [Natural Resources Canada](#)

⁸ Exploration Plus Deposit Appraisal Expenditures, by Province and Territory, 2014 - 2017 Annual, 2018 Preliminary Estimates and 2019 Spending Intentions. (February, 2019). [Natural Resources Canada](#)

Chart 10. Border crossings up slightly in the first half

Travellers (thousands)



Source: Statistics Canada, Department of Finance

Construction Outlook

Construction activity remains elevated

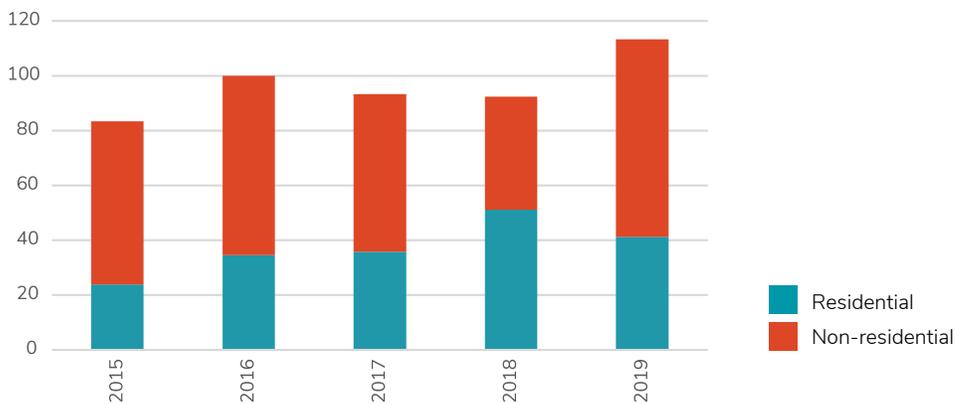
Expectations for the local construction sector remain high with elevated levels of activity in both residential and non-residential construction.

Non-residential activity is driving building construction and permit value in 2019. Non-residential building investment is up 24.9% to \$73.3 million in the first seven months of 2019. Non-residential permits issued up to August increased to \$72.1 million, 75% higher than the same period of 2018.

Residential building investment and permit value are down in 2019, but are forecast to rebound once data for peak construction months become available. Residential building construction investment was \$92.4 million in the first seven months of 2019, down almost 19% from the same period of last year. Declines in residential investments are confined to multiple-dwelling buildings, with investments in single-dwelling buildings up 1.4% over the same period. Residential building permit value was \$41.2 million in the first eight months of 2019, down 19.3%. Overall, housing demand pressures are expected to keep residential activity high over the medium-term.

Chart 11. High level of non-residential activity in 2019

2019 YTD (Jan-Aug) building permits (\$millions)



Source: Department of Finance

Investment by the public sector continues to support construction activity in 2019. The first Supplementary Estimates of gross capital expenditures⁹ for 2019–20 total \$331.2 million, up from \$288.0 million in the Main Estimates. Capital spending is projected to remain stable, averaging about \$300 million annually to 2023–24.

The August announcement of funding to upgrade sections of the North Klondike highway will also support the local construction sector. This project is valued at \$157 million with contributions of \$39 million from the Government of Yukon, and the remainder from the federal government. Work on the North Klondike Highway is due to begin in 2020, with expected completion in 2027.

The mining sector remains a driver of private-sector spending. Construction activities related to the Eagle Gold mine have contributed almost CDN \$490 million¹⁰ in development costs since 2017. Similarly, the Coffee gold mine is to become key for investment over the forecast with development costs above \$300 million.

Conclusion

The medium-term economic outlook is little changed from what was presented in the *Fiscal and Economic Outlook* in March, with projections for continued growth in key economic indicators.

In 2019, higher expenses related to a difficult fire season contributed to growth in the projected deficit in 2019–20. Despite this, Yukon's finances remain on-track to return to a surplus in 2020–21, with further surpluses projected over the forecast period.

⁹ Spending figures noted include expenditures on other items not related to construction, such as loans, equipment and information technology. Spending figures are rounded to the nearest one million.

¹⁰ News Release: *Victoria's Eagle Gold mine construction complete – Operations ramping up*. (September 9, 2019). [Victoria Gold Corp.](#)

Appendix A: Key economic indicators

INDICATOR	2018	2019f	2020f	2021f	2022f	2023f
Real Gross Domestic Product						
Annual percent change	2.8	3.0	2.5	4.1	1.5	3.7
Population						
Population (persons)	40,483	41,200	41,900	42,600	43,300	44,100
Annual percent change	2.1	1.7	1.7	1.8	1.6	1.7
Labour market[†]						
Labour force	21,900	22,700	23,200	23,500	23,500	23,700
Employment	21,300	21,800	22,200	22,300	22,600	22,600
Unemployment rate	2.7	3.9	4.6	4.8	4.2	4.6
Consumers						
Inflation (per cent)	2.4	1.9	2.0	1.9	1.9	1.8
Retail Sales (\$millions)	838	880	920	960	1,000	1,040
Commodity Prices[*]						
Gold (\$US/toz)	1,269	1,380	1,395	1,400	1,400	1,400
Silver (\$US/toz)	15.70	15.82	16.25	16.50	16.50	16.50
Copper (\$US/pound)	2.96	2.77	2.91	2.90	2.90	2.90
Zinc (\$US/pound)	1.33	1.22	1.18	1.18	1.18	1.18
Oil (\$US/barrel)	65.36	57.10	59.21	61.86	63.10	64.36
Natural Gas (\$US/MMBTU)	3.12	2.63	2.80	3.03	3.10	3.15
Key Rates						
Three month T-bill rate	1.4	1.6	1.4	1.4	1.4	1.4
Canada/U.S. exchange rate	0.77	0.76	0.76	0.76	0.76	0.76
Mining						
Mineral production (\$M)	217	370	510	530	790	990

Source: Real GDP; Population; Labour Market and Consumers are from Statistics Canada. Exchange Rates and Interest Rates are from the Bank of Canada. Commodity prices are taken from a variety of private-sector forecasts.

This document includes data available as of September 24, 2019. The population forecast is produced by the Yukon Bureau of Statistics. All other forecasts are produced by the Economic Research branch.

f forecast.

[†] annual averages rounded to the nearest 100. Totals may appear not to add due to rounding.

* annual averages.