



FALL 2024
ECONOMIC AND FISCAL UPDATE
OCTOBER | 2024

MISE À JOUR ÉCONOMIQUE ET
BUDGÉTAIRE DE L'AUTOMNE
2024
OCTOBRE | 2024

Le présent document contient la traduction française de l'introduction.

K'áhshó got'jne xadā k'é hederı ʔedjhtl'é yerıniwę ni dé dúle.
Dene Kadá

ʔerıhtl'ıs Dēne Sıłıné yatı t'a huts'elkēr xa beyáyatı theʔą ʔat'e, nuwe ts'en yóftı.
Dēne Sıłıné

Edı gondı dehgáh got'je zhatıé k'éé edat'éh enahddhę nıde naxets'é edahfı.
Dene Zhatıé

Jii gwandak izhii ginjik vat'atr'ijahch'uu zhit yinothan jı', diits'at ginohkhii.
Dinjii Zhu' Ginjik

Uvanittuaq ilitchurisukupku Inuvialuktun, ququaqłuta.
Inuvialuktun

Ċ'đċł ɳɳ^{sb}Δ^c ʌɹLJΔɹ^c Δɔ^bɳɳ^cɹLɳɳ^b, ɔ^cɳ^cɳ^cɔ^c ɔ^bɳ^cɹ^aɔ^cɳ^c.
Inuktitut

Hapkua titiqqat pijumagupkit Inuinnaqtun, uvaptinnut hivajarlutit.
Inuinnaqtun

kıspin ki nitawihtın ē nıhıyawıhk ōma ācimōwin, tipwāsinān.
nēhiyawēwin

Tłjchq yatı k'èè. Dı wegodı newq dè, gots'ó gonede.
Tłjchq

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Fall 2024

Economic Update

NORTHWEST TERRITORIES

October 2024

Economic Update Overview

This review updates the Northwest Territories' economic performance since the release of the 2024-25 Budget and describes key risks that may influence the economic outlook for the remainder of the year. The review relies on publicly available year-to-date data, which varies depending on the indicator.

The economic landscape of the Northwest Territories is shaped by its unique geographic isolation, reliance on natural resources, and sensitivity to domestic and global market trends. The Northwest Territories' real gross domestic product (GDP) is expected to shrink this year after three years of growth. This is largely driven by reduced investment and exports, particularly in diamond mine activities and oil and gas production. Government spending is also expected to slow as pandemic era supports phase out and efforts to manage debt continue. However, robust employment and rising wages are expected to support a modest increase in household spending. Inflation has now stabilized with moderating prices for essentials like food, shelter, and transportation costs. The number of active businesses increased this year but is still below pre-pandemic levels.

While the Northwest Territories has not seen the population growth observed in the rest of Canada, labour force participation remains strong despite a decline in resident employment. Public sector employment has held steady but private sector employment continues to struggle, reflecting a complex environment where part-time employment and sectoral shifts, such as declines in mining and resource extraction, continue to play a role.

Overall, while the Northwest Territories economy is facing a contraction in GDP, a foundation of strong labour force and rising earnings provides some optimism for future stability.

Le point sur les perspectives économiques

Cet examen se veut une mise à jour du rendement économique des Territoires du Nord-Ouest depuis la publication du budget 2024-2025 et décrit les principaux facteurs de risque susceptibles d'avoir une incidence sur les perspectives économiques pour le reste de l'année. L'examen s'appuie sur les données publiques recueillies depuis le début de l'année, qui varient en fonction de l'indicateur.

Le paysage économique des Territoires du Nord-Ouest est façonné par son isolement géographique unique, sa dépendance aux ressources naturelles et sa sensibilité aux tendances du marché national et du marché mondial. Après trois années de croissance, le produit intérieur brut (PIB) réel des Territoires du Nord-Ouest devrait diminuer cette année. Cette situation est due en grande partie à la réduction des investissements et des exportations, notamment dans le domaine des mines de diamants et de la production pétrolière et gazière. Les dépenses publiques devraient également ralentir tandis que les mesures de soutien post-pandémie touchent à leur fin et que les efforts de gestion de la dette se poursuivent. Toutefois, la vigueur de l'emploi et la hausse des salaires devraient favoriser une légère augmentation des dépenses des ménages. L'inflation s'est maintenant stabilisée grâce à la modération des prix des produits de première nécessité tels que la nourriture, le logement et le transport. Le nombre d'entreprises actives a augmenté cette année, mais reste inférieur aux niveaux d'avant la pandémie.

Si les Territoires du Nord-Ouest n'ont pas connu la même croissance démographique que le reste du Canada, le taux d'activité sur le marché du travail reste élevé malgré une baisse de l'emploi des résidents. Le taux d'emploi dans le secteur public s'est maintenu, mais reste moins stable dans le secteur privé, reflétant un environnement complexe où l'emploi à temps partiel et les changements sectoriels - tels que le déclin des activités d'exploitation minière ou d'extraction des ressources - continuent d'exercer leur rôle.

Dans l'ensemble, bien que l'économie des Territoires du Nord-Ouest soit confrontée à une diminution du PIB, la solidité de la main-d'œuvre et l'augmentation des revenus des résidents permettent d'être optimiste quant à sa stabilité future.

Economic Update Since Budget 2024-25

Expectations for an economic contraction in 2024, which was projected in Budget 2024-25, remains unchanged.

The Northwest Territories' economy has experienced a series of challenges and shifts this year. Employment levels have fluctuated with declines in private sector jobs but stability in the public sector. Wages have risen more strongly than expected, particularly in the goods-producing sector, while inflation has eased from its 2022 peak. Business activity has shown encouraging growth with the number of active businesses increasing in 2024. However, many of the underlying economic concerns remain, including declining diamond production, lower private sector investment, and ongoing housing shortages. Therefore, the projected 2024 GDP decline continues to shape the economic outlook.

Northwest Territories' Economic Outlook Budget 2024-25

(chained (2017) dollars unless otherwise specified)

	2021	2022	2023e	2024f	2024 YTD
Gross Domestic Product (\$ Millions)	4,276	4,396	4,420	4,370	on track
<i>Percent Change</i>	4.4	2.8	0.6	(1.1)	
Total Investment (\$ Millions)	772	900	973	927	on track
<i>Percent Change</i>	12.9	16.6	8.1	(4.7)	
Household Expenditure (\$ Millions)	1,811	1,768	1,787	1,809	on track
<i>Percent Change</i>	3.8	(2.4)	1.1	1.2	
Government Expenditure (\$ Millions)	2,636	2,753	2,849	2,856	higher
<i>Percent Change</i>	3.7	4.4	3.5	0.3	
Exports (\$ Millions)	2,249	2,396	2,360	2,303	on track
<i>Percent Change</i>	5.8	6.5	(1.5)	(2.4)	
Imports (\$ Millions)	3,292	3,550	3,678	3,654	on track
<i>Percent Change</i>	5.1	7.8	3.6	(0.7)	
Employment (Number of Residents)	23,500	24,700	23,900	23,500	lower
<i>Percent Change</i>	7.8	5.1	(3.2)	(1.7)	
Average Weekly Earnings (\$)	1,527	1,565	1,594	1,626	higher
<i>Percent Change</i>	1.1	2.5	1.9	2.0	
Consumer Price Index (All-Items), Yellowknife	142.0	151.9	156.9	160.7	lower
<i>Percent Change</i>	2.2	7.0	3.3	2.4	

YTD: year-to-date

e: estimate

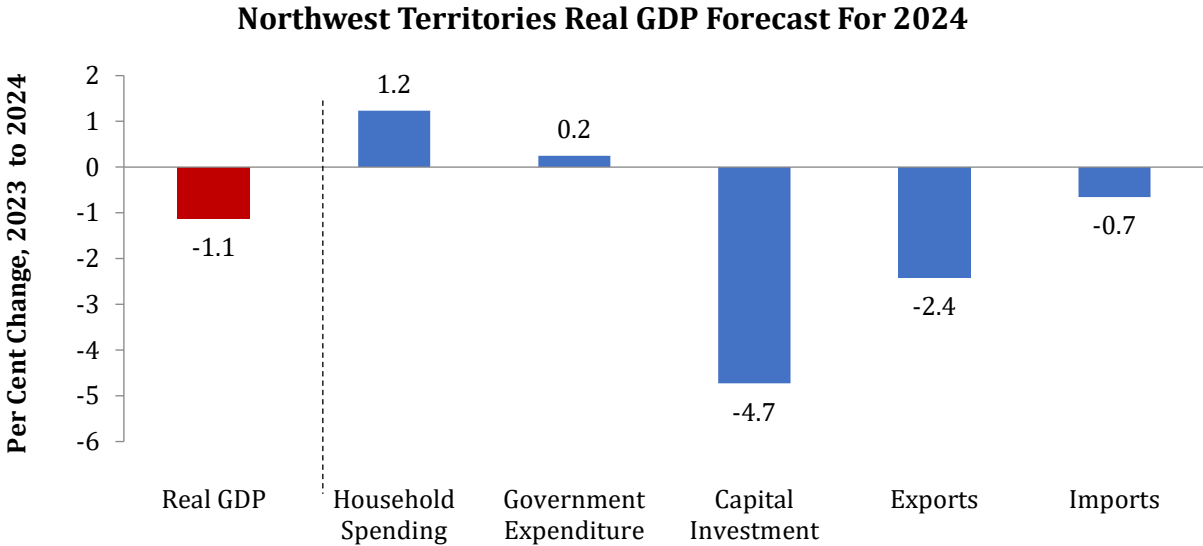
f: forecast

Sources: Statistics Canada, NWT Bureau of Statistics and NWT Finance.

GDP Outlook

Budget 2024-25 forecast a real GDP decline of 1.1 per cent in 2024, the first annual decline following three consecutive years of growth.

This forecast contraction in economic output reflects an expected 4.7 per cent drop in total investment combined with a 2.4 per cent fall in exports due to waning activity in the diamond mining and oil and gas industries. Offsetting declines in investment and exports was a projected 1.2 per cent rise in household spending and stable government expenditures, reflecting ongoing strength in the labour market, increases in weekly earnings, and falling consumer price inflation.



Sources: Budget 2024-25 and NWT Bureau of Statistics.

Evaluating the GDP Outlook

The considerations underlying the Budget 2024-25 GDP forecast remain unchanged. Year-to-date data indicates that the Northwest Territories economy is on track to meet the forecast for all GDP components, resulting in a mild decline in economic growth in 2024.

Investment

Budget 2024-25 projected a 4.7 per cent decline in real investment in 2024. Year-to-date data confirms this projection.

Non-residential capital investment

So far this year, non-residential capital investment is down. In the first half of 2024, real investment in non-residential capital declined 4.4 per cent compared to the first half of 2023, dropping to \$366 million in constant dollar terms. Real investment declines occurred in both private investment (down 3.6 per cent) and public investment (down 5.2 per cent), with public investment making up more than half of total non-residential investments. Since the pandemic the public sector has consistently outspent the private sector on non-residential investments; prior to the pandemic, the reverse was true.

Real investment in engineering construction assets, which accounts for over one-half of all non-residential investment, declined 7.0 per cent in the first half of 2024 compared to the first half of 2023 while real investment spending on machinery and equipment declined 5.4 per cent.

Residential capital investment

Residential capital investment is also down this year. In the first half of 2024 residential construction investment declined 66 per cent compared to the same period in 2023 and investment in new residential building construction declined 24 per cent. These declines correspond to a 10 per cent drop in the number of housing units under construction, falling from 167 units in the first half of 2023 to 150 units in the first half of 2024.

Residential investment accounts for only a small portion of total Northwest Territories investment expenditures because of the territory's small population and the dominance of the mining sector. As a result, large declines in residential investment are unlikely to have a significant impact on overall investment. However, the residential sector is important, particularly given chronic underinvestment and ongoing housing shortages. Promisingly, there were 93 housing starts in the first half of 2024 (up from 3 housing starts in the first half 2023), and 47 housing completions (up from 4 completions) which will help shrink the housing deficit.

Investment Indicators Update

	2014-19 Average	2020	2021	2022	2023	2024 YTD
Non-Residential Capital Investment (Millions, 2017 Constant \$)	1,257	555	639	797	829	366
Government Sector	337	253	318	437	482	201
Business Sector	910	295	313	354	342	163
Non-Residential Buildings	147	62	82	73	71	36
Engineering Construction Structures	683	277	304	435	493	200
Machinery and equipment	260	126	133	155	143	70
Intellectual Property	168	89	120	134	124	61
Residential Building Investment (Millions, 2017 Constant \$)	86	88	87	74	90	23
Single Dwelling	53	61	34	16	11	10
Multiple Dwelling	34	27	53	58	79	13
Yellowknife Housing (Units)						
Housing Starts	77	54	92	57	19	93
Under Construction	238	95	280	332	284	150
Completions	93	43	35	55	15	47

YTD: year-to-date

Sources: Statistics Canada and NWT Finance.

Exports

Budget 2024-25 forecast a 2.4 per cent decline in 2024 real exports. The year-to-date key export products data suggest that real exports will decline in 2024 as projected in the Budget.

Exports are a major component of GDP and an important part of the territory's economy. Exports of Northwest Territories goods and services into interprovincial and international markets bring new money into the territory, increasing business revenues, worker incomes, government tax revenues, and economic activity.

Diamonds

Rough diamonds are the Northwest Territories' highest value export, accounting for nearly 90 per cent of international exports and 60 per cent of total exports to international and interprovincial markets. Changes in the production, sale, and value of rough diamonds have a significant influence on total Northwest Territories exports.

Data from the three operating diamond mines indicates that diamond production and diamond sale values are down compared to the same time last year. In the first half of 2024, the diamond mines produced approximately 6.4 million carats, a 9.3 per cent decline from the first half of 2023. Declines were not experienced uniformly across the three diamond

mines. While diamond production is up so far this year at Gahcho Kué , production is down at Ekati and Diavik, with the most severe drop occurring at Diavik (down 25 per cent) due to the closure of their A21 kimberlite pipe late last year and a tragic plane crash near Fort Smith in January that killed nine workers and temporarily paused operations. Fewer diamonds to sell, combined with softening global diamond prices, led to a 20 per cent drop in the value of Northwest Territories diamonds sold from \$603 million in the first half of 2023 to \$480 million so far this year.

Oil and Gas

Oil and gas production, accounting for around 7 per cent of total Northwest Territories exports, has declined so far this year. In the first seven months of 2024, the Northwest Territories produced 131,000 cubic metres of crude oil, a 4.5 per cent decline from the first seven months of 2023. Natural gas production declined 6.3 per cent to 28.4 million cubic metres over the same period.

Transportation and Wholesale Trade

Transportation and wholesale trade services represent the second largest territorial export product after diamonds. Services from these two industries account for nearly one-half of interprovincial exports and roughly one-fifth of total exports to international and interprovincial markets. In-year transportation data is not available but in the seven months ending July 2024 wholesale trade rose 8.7 per cent to \$305 million compared to the same period in 2023.

Export Indicators Update

	2014-19 Average	2020	2021	2022	2023	2024 YTD
Diamond Production (Millions, Carats)	15.4	13.5	15.0	14.3	14.2	6.4
Diamond Shipments (Millions, \$)	1,828	1,244	1,692	1,996	2,134	480
Natural Gas (Millions, Cubic Metres)	64	51	58	62	51	52
Natural Gas Shipments (Millions, \$)	7.7	11.8	22.2	34.0	14.2	-
Crude Oil (Thousands, Cubic Metres)	382	310	324	321	234	41
Oil Shipments (Millions, \$)	170	93	179	280	167	-
Wholesale Trade (Millions, \$)	658	350	286	403	443	305

YTD: year-to-date

Sources: Statistics Canada, NWT Finance, Burgundy Diamond Mines, De Beers Canada, Mountain Province Diamonds, and Rio Tinto.

Household Spending

Household spending accounts for roughly 40 per cent of real GDP, making it the second largest contributor to economic output after government spending.

The 2024-25 Budget forecast for a 1.2 per cent increase in real household expenditures is expected to be realised. So far this year, key indicators measuring household spending such as income, consumption, and retail sales are up while household savings are down.

Income and Consumption

In the first quarter of 2024, household disposable income (unadjusted for social transfers) was relatively flat, dipping 0.3 per cent compared to the first quarter of 2023. However, employee compensation, a key driver of household spending, rose 1.8 per cent in the first half of 2024, and final consumption expenditures rose 4.9 per cent in the first quarter of 2024, compared to the previous year. Household consumption expenditures increased most strongly on housing, utilities and fuel expenses (up 9.1 per cent to \$180 million in the first quarter of 2024 compared to the first quarter of 2023), food purchases (up 7.1 per cent to \$60 million), and transportation (up 5.2 per cent to \$61 million).

Savings

Net household savings fell 9.1 per cent to \$220 million in the first quarter of 2024 compared to the first quarter of 2023. This suggests households are using savings to maintain consumption. Net savings remain significantly above the Canadian average. In the first quarter of 2024, Northwest Territories households had average net savings of \$13,122, while Canadian households had average net savings of \$1,600.

Sales

Retail sales, a key component of household spending and an indicator of consumer demand and expenditure, are also up so far this year. In the seven months ending July 2024, the value of Northwest Territories retail sales rose 6.0 per cent compared to the same period in 2023 and core retail sales, which exclude gasoline stations and fuel vendors, increased 3.0 per cent.

Household Consumption Indicators Update

	2014-19 Average	2020	2021	2022	2023	2024 YTD
Compensation of Employees (Millions, \$)	2,456	2,449	2,664	2,805	2,911	1,500
Wages and Salaries (Millions, \$)	2,144	2,107	2,303	2,428	2,521	1,298
Goods-Producing Industries	605	503	559	594	597	283
Services-Providing Industries	1,539	1,603	1,745	1,834	1,925	1,015
Household Disposable Income (Millions, \$)	1,892	2,208	2,278	2,349	2,981	752
Household Final Consumption (Millions, \$)	-	1,801	1,1907	1,984	2,091	513
Housing, Utilities and Fuel	-	585	600	612	657	180
Transportation	-	193	218	245	263	61
Food	-	224	225	224	241	60
Hotels and Restaurants	-	106	122	152	168	39
Recreation	-	144	160	161	162	34
Household Net Savings (Millions, \$)	274	464	427	399	929	220
Retail Sales (Millions, \$)	814	894	931	917	925	585

YTD: year-to-date

Sources: Statistics Canada and NWT Finance.

Government Expenditure

Budget 2024-25 forecast real government expenditure to be almost flat, growing only 0.3 per cent in 2024.

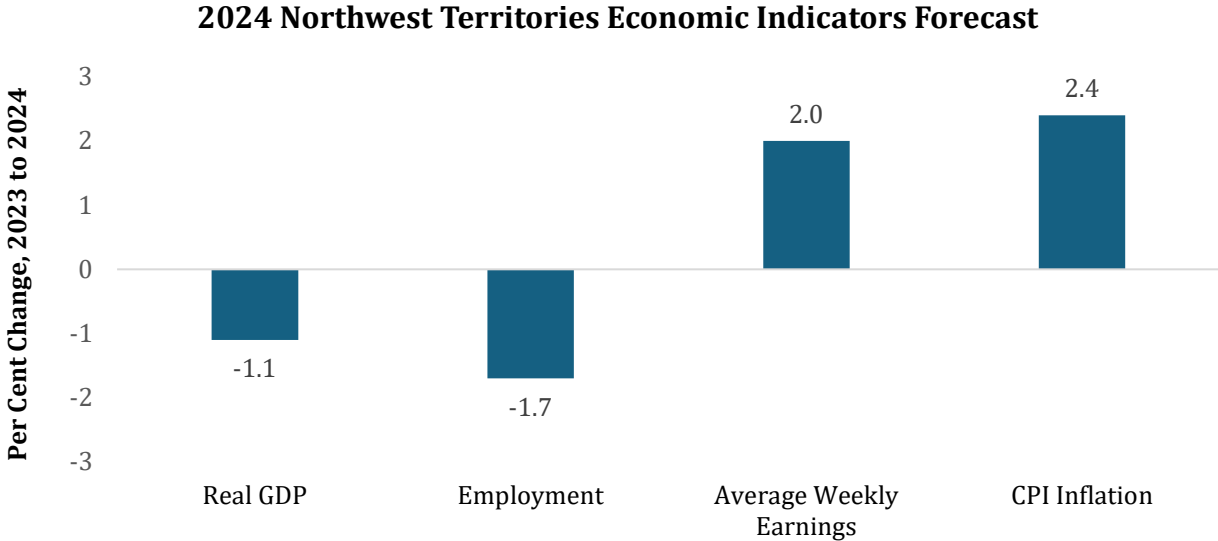
Government spending is the largest contributor to real GDP in the Northwest Territories. The Government of the Northwest Territories (GNWT) accounts for approximately three-quarters of total government spending in the territory.

Several recent developments since Budget 2024-25 have resulted in \$213 million of additional 2024-25 GNWT spending. These developments include low water levels in the Mackenzie River basin, a severe wildfire season resulting in higher fire suppression costs and newly concluded public sector collective bargaining agreements and wage increases.

Economic Assumptions Outlook

Underlying the 2024 real GDP forecast is a set of assumptions for the trajectory of other economic indicators, including labour markets, wages, and prices. At the time of Budget 2024-25, residential employment was forecast to decline 1.7 per cent in 2024, as the labour market descends from post-pandemic historic highs. Average weekly earnings, however, were forecast to rise by 2.0 per cent in 2024, in line with past increases, and consumer price

inflation was forecast to slow from 3.3 per cent in 2023 to 2.4 per cent in 2024 as global supply chain issues were resolved.



Sources: Budget 2024-25 and NWT Bureau of Statistics.

The economic considerations underpinning the Budget 2024-25 forecast remain largely unchanged. As a result, rising wages and a decline in employment and inflation are still expected. However, recent developments indicate that the Northwest Territories economy may be on track see larger employment declines, higher wage increases, and lower inflation than projected in the Budget.

Labour Market

Budget 2024-25 forecast resident employment to decline by 1.7 per cent in 2024 but remain above pre-pandemic levels. However, current data indicates that this decline may be steeper than projected.

Employment

In the eight months ending August 2024, Northwest Territories resident employment declined 4.1 per cent compared to the same period in 2023, although the number of employed residents (22,650) remains comparable to the 2014-19 average (22,900).

Resident employment declines were concentrated in the private sector and self-employment. In the first half of 2024, private sector employment declined 11.0 per cent (or 1,100 employees) and self-employed workers decreased by 1.0 per cent compared to the first

half of 2023. However, public sector employment remained stable over this period, providing job stability.

The continuing decline in private sector employment is widening the spread between private and public sector employment. Comparing the first half of 2023 to the first half of 2024, the share of Northwest Territories residents employed in the public sector rose from 50 per cent to 53 per cent and the share of private sector employment fell from 42 per cent to 40 per cent. The share of self-employed residents remained unchanged at 7 per cent.

Employment Rate

The employment rate, which measures the share of working-age residents who are actively employed, has also declined so far this year, falling to 66 per cent in the first half of 2024 compared to 70 per cent last year.

Yellowknife's employment rate is significantly higher than in other Northwest Territories communities (75 per cent compared to 55 per cent in the first half of 2024) and is notably higher for non-Indigenous residents than Indigenous residents (78 per cent compared to 51 per cent). These employment rate differences are due to a combination of factors, including that Yellowknife attracts southern hires who are predominantly non-Indigenous, and in smaller communities there are fewer job opportunities, ongoing barriers to health care and education, and higher participation in activities outside the market economy.

Regional differences are expected to continue, particularly as diamond mining and oil and gas activities, which are large employers of local labour in communities outside Yellowknife, wind down. Yellowknife has the largest share of government employment, which is not prone to the boom-and-bust cycles of the resource industry, offers relatively high incomes, and remains a steady source of employment during economic shocks such as pandemics and wildfires. Public administration alone employs over 7,800 Northwest Territories residents, or one-third, of all territorial employees, including courts, policing, corrections services, firefighting services, defence, and government administration but excluding the health, social assistance, and education sectors.

Population

Population growth is a key driver of employment and labour market activity. The Northwest Territories has not kept pace with Canada's significant population growth over the past few years. Population fluctuated slightly between 2000 and 2024 but overall growth has been flat, increasing by only 4,000 over two decades. This is equal to a yearly population growth rate of just under one-half of one percent. By contrast, Canada's average annual population growth rate over this period was 1.5 per cent. Population is not projected to increase significantly in the Northwest Territories over the near term. This will put pressure on the labour market due to fewer available workers, particularly as the population is aging, and limit the territory's ability to attract new businesses and promote economic activity.

Labour Market Indicators Update

	2014-19 Average	2020	2021	2022	2023	2024 YTD
NWT Population	44,393	44,504	44,579	44,634	44,681	44,731
Resident Employment	22,900	21,800	23,500	25,000	23,900	22,650
Public Sector	9,600	10,300	11,200	12,300	12,300	12,000
Private Sector	11,500	9,700	10,300	10,300	10,000	9,000
Self-Employed	1,800	1,800	2,000	2,400	1,600	1,650
Full-Time	20,100	19,300	20,400	21,500	21,200	20,200
Part-time	2,800	2,500	3,100	3,200	2,700	2,450
Employment Rate (%)	68.4	64.3	69.1	72.2	69.9	65.8
Yellowknife	79.3	72.9	75.4	76.4	79.3	75.6
Communities	57.5	54.9	62.1	67.5	58.9	54.5
Indigenous	52.4	49.3	58.3	60.9	54.0	51.3
Non-Indigenous	81.5	76.3	76.0	79.9	82.3	78.4
Females	67.8	65.5	71.5	72.5	70.7	66.5
Males	68.8	63.2	67.2	72.0	69.1	65.4
Adults	72.9	68.7	71.7	75.7	73.5	70.8
Youth	47.6	40.0	55.6	51.9	50.9	40.5
Participation Rate (%)	74.2	71.1	73.5	76.3	74.3	70.2
Unemployment Rate (%)	7.8	9.5	6.0	5.0	5.9	6.1
Job Vacancy Rate (%)	3.0	2.5	5.6	6.5	5.6	6.4

YTD: year-to-date

Sources: Statistics Canada and NWT Finance.

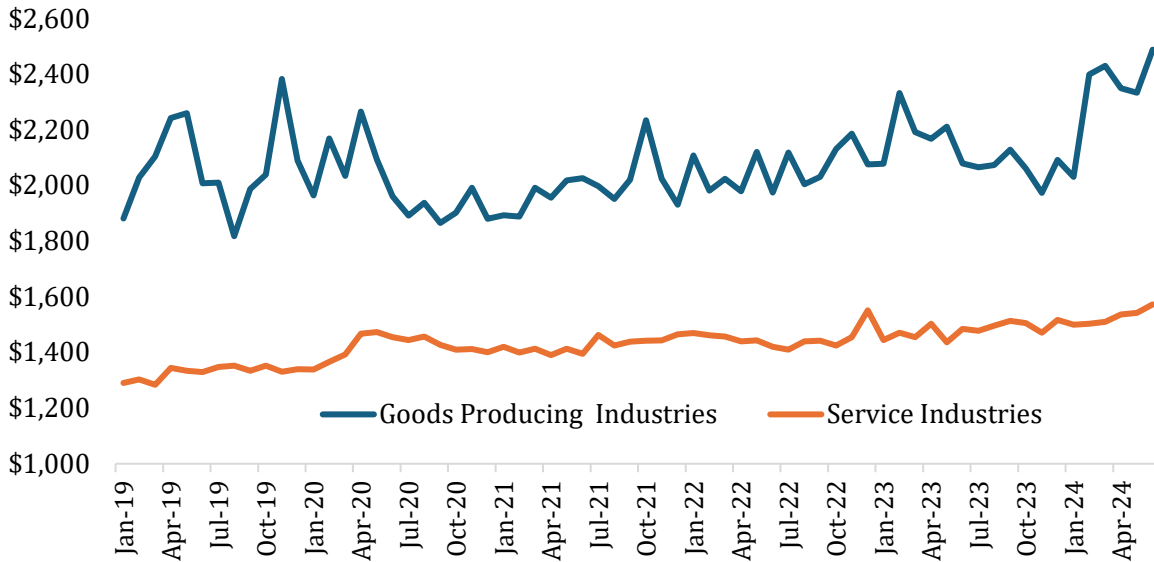
Earnings

Budget 2024-25 forecast a 2.0 per cent increase in 2024 average weekly earnings. However, weekly earnings have increased at a much higher pace so far this year due to increased wage rates and hours worked. As a result, 2024 average weekly earnings are expected to be higher than the Budget projection.

Average Weekly Earnings

Average weekly earnings for all Northwest Territories industries rose to \$1,680 in the seven months ending in July 2024, a 5.6 per cent increase compared to the same period in 2023. Wage growth occurred in nearly all industries.

Average Weekly Earnings Higher in Goods Producing Sector



Source: Statistics Canada, and NWT Finance.

The goods-producing sector experienced the strongest wage growth over the last seven months with weekly earnings climbing 9.2 per cent to \$2,360, reflecting the sector’s high productivity and pay. Goods producing industries are also more dynamic, resulting in more volatile wage growth. Meanwhile, weekly earnings in the service industries rose at a slower pace, increasing 4.2 per cent to \$1,530 in the first seven months of 2024. Weekly earnings averaged \$1,869 in public administration, the second highest paying industry after the mining, oil and gas industry where weekly earnings averaged \$2,850.

Business Activity

Broad-based wage growth suggests resilience amongst Northwest Territories businesses. Prior to the pandemic, the Northwest Territories had been experiencing a slow decline in the number of local businesses. However, post-pandemic recovery efforts have reversed this trend with a steady increase in business activity since 2021. The average number of active businesses has grown to 972 in 2024, which is a sign of confidence and resilience in the territorial economy.

Weekly Earnings Update

	2014-19 Average	2020	2021	2022	2023	2024 YTD
Average Weekly Earnings (\$)	1,420	1,512	1,526	1,564	1,594	1,680
Goods-Producing Sector	1,940	1,996	1,994	2,061	2,121	2,360
Services-Providing Sector	1,297	1,420	1,425	1,451	1,481	1,530
Mining, Oil, Gas	2,383	2,347	2,252	2,434	2,446	2,848
Construction	1,483	1,552	1,706	1,718	1,805	1,796
Retail trade	717	755	775	777	742	797
Education	1,654	1,707	1,743	1,735	1,738	1,760
Healthcare	1,419	1,332	1,319	1,494	1,581	1,783
Accommodation and food	593	669	649	625	617	687
Public administration	1,683	1,850	1,831	1,822	1,858	1,869
Number of Active Businesses	995	916	949	956	958	972

YTD: year-to-date

Sources: Statistics Canada and NWT Finance.

Inflation

Budget 2024-25 forecast consumer price inflation to ease to 2.4 per cent in 2024, returning to an annual inflation rate within the Bank of Canada's one to three per cent inflation target range. However, inflation has declined faster than expected. As a result, 2024 consumer price growth is expected to be lower than projected in the Budget.

Consumer Price Index

The Northwest Territories has experienced considerable variation in inflation over the past few years. After a period of low inflation to no inflation in 2020, inflation surged to 7.0 per cent in 2022, driven by global supply chain issues, rising commodity prices, and government responses to the pandemic. Inflation measured by the Yellowknife consumer price index (CPI) has fallen to 1.7 per cent so far in 2024.

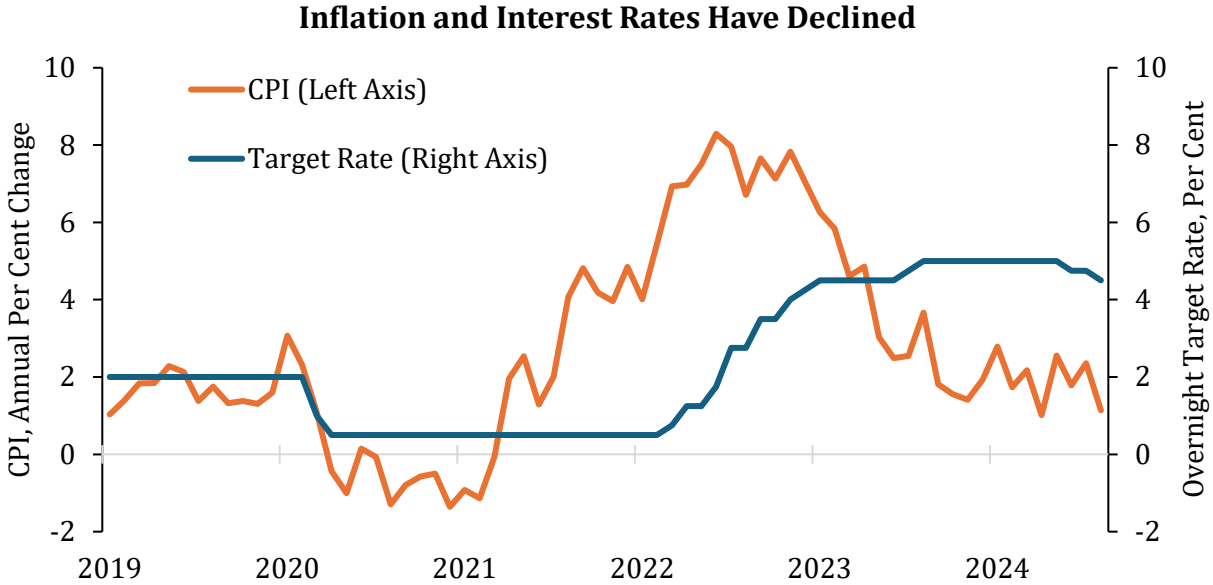
While inflation for some CPI components remains elevated, deflation has occurred in other segments: in the first eight months ending August 2024, shelter costs rose 4.0 per cent compared to the same period in 2023 while clothing costs and prices for household furnishings and operations declined 2.2 per cent and 2.4 per cent, respectively.

The inflation rate will likely be different in communities outside of Yellowknife. The Yellowknife CPI is Statistics Canada's only Northwest Territories inflation measure, making it difficult to assess the rate of consumer price changes in the rest of the territory. Because

the cost of living in remote Northwest Territories communities is typically higher than in Yellowknife, especially for those without all-season road access, retail prices in outlying communities can remain elevated even when inflation slows.

Barge Cancellation and Prices

Low water levels in the Mackenzie River Basin led to the cancellation of MTS community barge deliveries this season. This disruption has created supply shortages in some communities, increased transportation costs, and led to some consumer good price hikes, potentially increasing the cost of living for affected communities. Unfortunately, localized price changes are not captured in official data. However, this disruption is temporary and supply disruptions will resolve once products can be delivered by winter ice roads, and local consumer prices should return to pre-low water levels.



Sources: Bank of Canada, Statistics Canada and NWT Finance.

Interest Rates

With Canadian CPI inflation declining to targeted levels, the Bank of Canada has cut its benchmark interest rate three times since Budget 2024-25. Lower interest rates will increase household disposable income by reducing the amount of household income required for debt servicing and encourage increased spending by households, businesses and industry as new debt becomes less expensive and the risk of loan defaults declines.

Inflation Indicators Update

	2014-19 Average	2020	2021	2022	2023	2024 YTD
Total CPI Inflation Rate (%)	1.6	0.0	2.3	7.0	3.3	1.7
Food	2.2	0.0	0.7	8.1	10.7	2.6
Shelter	1.4	0.4	2.0	7.7	4.1	3.9
Household Operation	0.5	-1.0	-0.2	4.9	-6.4	-2.4
Clothing	1.3	-1.8	0.9	3.1	3.0	-2.1
Transportation	2.4	0.7	6.4	10.4	1.9	0.9
Health and personal care	1.2	-0.5	0.2	4.4	5.0	3.4
Recreation and education	1.2	-0.1	1.8	6.5	0.7	0.6
Alcohol, tobacco, cannabis	2.2	0.2	0.4	2.5	4.3	2.2
Energy	0.9	-10.1	13.5	25.0	0.6	-0.6
Gasoline	-0.5	-12.7	23.2	24.7	-6.4	-2.6
Interest Rate (%)	1.3	0.8	0.5	2.2	4.7	4.3

YTD: year-to-date

Sources: Bank of Canada, Statistics Canada, and NWT Finance.

Risks to Northwest Territories Economy

As projected in Budget 2024-25, the Northwest Territories economy is on track to contract this year. Mild declines in employment and diamond production, weakening public and private investment, and lower government spending, will put a drag on 2024 economic growth despite gains in wages, household spending, and the number of active businesses. Government expenditures may be higher this year than originally forecast, which could cushion the decline in real output, but a contraction is still expected. There are short-term and long-term risks to this forecast.

Short-Term Risks

On the downside, commodity price volatility could further dampen production and exports of diamonds and other products; an escalation in geopolitical conflict that either disrupts global supply chains or sharply increases oil prices could reignite CPI inflation; and localized transportation and disruptions such as cancelled barges due to low water levels or delayed truck shipments due to a shortened ice road season could increase costs and reduce economic activity in affected communities.

On the upside, however, further Bank of Canada interest rate cuts could boost household spending and private sector investment and continued wage gains could increase household incomes and consumption.

Long-Term Risks

Over the long-term, maturing diamond mines and slow-to-no population growth continue to pose significant structural risks to the Northwest Territories economy. Diamond mining is a primary economic driver but the three producing mines are set to end production by 2030, starting with Diavik's scheduled 2026 closure. While there is a possibility that the mines could operate beyond 2030, decisions to expand existing diamond mines and develop new kimberlite pipes depend on a range of global economic and financial factors. Meanwhile, a stable or shrinking population puts pressure on the labour market as fewer workers are available to fill roles in public and private sectors. This lack of population growth can limit the region's ability to attract new businesses, drive economic expansion, or support essential industries like mining and resource extraction. An aging population, compounded by a lack of new residents, could also contribute to labour shortages, making it difficult to sustain economic growth and development over the long term.

Climate Change

Climate change is another risk with short-term and long-term implications. Adverse weather events that cause barge supply disruptions and intense wildfire seasons, which trigger highway closures and community evacuations, are localized and temporary. If climate change causes these types of events to become more frequent, it could create permanent changes in local populations, supply chains, and infrastructure, increasing the cost of living and doing business in the Northwest Territories.

Fall 2024

Fiscal Update

NORTHWEST TERRITORIES

October 2024

Fall Fiscal Update

The overarching goal of Budget 2024-25 was to align with *Restoring Balance: A Fiscal Sustainability Strategy for the 20th Legislative Assembly* to improve fiscal capacity so that the Government of the Northwest Territories (GNWT) can respond to emergencies and reduce short-term debt.

The GNWT remains in pursuit of its *Restoring Balance* goals to return the GNWT to fiscal sustainability by increasing operating surpluses, reducing short-term debt, realigning health spending to make programs more sustainable, and allocating funding to priorities. However, changes in the fiscal situation since Budget 2024 have made the 2024-25 fiscal strategy targets unattainable. Expenditure pressures have reduced the projected operating surplus to lower than what is needed to fully fund the capital plan. Unbudgeted spending increases combined with increased borrowing required by the Northwest Territories Power Corporation will risk total GNWT debt breaching the federally-imposed borrowing limit.

The following report describes changes in the GNWT fiscal situation since the release of Budget 2024-25 on May 24, 2024.

2023-24 Interim Results

Revenue was \$2.63 billion in 2023-24, up \$141 million or 5.7 per cent relative to budgeted projections. This was driven by total transfers increasing \$165 million compared to budget and partially offset by resource revenue declining by \$60 million.

Total expenditures were \$2.65 billion, a \$345 million, or 15.0 per cent, increase from the 2023-24 Budget. The main reasons for the \$345 million in unbudgeted spending was caused by:

- \$112 million in Department of Environment and Climate Change spending mainly for wildfire suppression activities;
- \$103 million in the Department of Municipal and Community Affairs for costs related to 2022 and 2023 natural disasters and emergency management costs;
- \$68 million in the Department of Health and Social Services expenses; and,
- \$39 million in the Department of Finance including disaster relief funding and \$19 million in additional borrowing charges due to higher interest rates and more short-term debt.

The \$22 million operating deficit for 2023-24 is a decline of \$204 million from the operating surplus of \$182 million projected in the 2023-24 main estimates. The operating deficit

contributed to net debt increasing by 2.2 per cent, or \$43 million, from budgeted projections to \$1.51 billion as of March 31, 2024.

2024-25 Budget Update

Expenditure projections since the 2024-25 budget have reduced the operating surplus from \$293 million to \$67 million. The expenditure increases include collective bargaining amounts and higher short-term borrowing costs, additional NTPC costs for the Inuvik Wind Project, healthcare needs, and other cost pressures and commitments. The revised operating surplus is not enough to fully fund the capital plan, which will increase debt and take the GNWT further from the *Restoring Balance* fiscal strategy targets.

Revenue is projected to be \$2.62 billion in 2024-25, a \$13 million dollar decrease from the revenue projection presented in Budget 2024 resulting from minor declines in the tax revenue forecasts offset by changes in operating transfer payments.

Total expenditures are expected to be \$2.55 billion, an increase of \$213 million, or 9.1 per cent compared to Budget 2024-25. The expenditure increases include the \$188 million for the first Supplementary Appropriation for 2024-25, including \$28 million that is offset by federal funding and \$88 million for wage and salary agreements with GNWT employees, teachers, judges and the RCMP. Another \$56 million is added to the 2024-25 budgeted expenditures as a reserve for anticipated other fiscal pressures.

The requested additional spending after adjustments will use all the \$35 million supplemental reserve and cause the operating surplus to shrink by \$227 million. The reduced operating surplus means that the GNWT will have to borrow more, and short-term borrowing is now projected to increase by \$49 million from the projection in the 2024-25 Main Estimates. The Northwest Territories Power Corporation (NTPC) requires \$75 million more borrowing because of increased capital costs and increased reliance on diesel for power generation stemming from low water at the Snare Hydro Facility.

The extra borrowing is projected to bring total debt to \$1.74 billion, leaving \$60 million available for borrowing capacity under the federally imposed borrowing limit. However, under the *Fiscal Responsibility Policy* debt management guidelines, the GNWT needs at least \$120 million under the federal borrowing limit to ensure the flexibility to respond to unanticipated fiscal shocks. Therefore, the revised debt projection has triggered a request to Canada for an increase to the federal \$1.8 billion debt limit.

2024-25 Fiscal Outlook

(Millions of dollars)	2023-24	2024-25	2024-25	Change
	Interim	Main	October	since Main
		Estimates		Estimates
Total Revenue	2,626	2,633	2,620	(13)
Operating Expenditures	2,648	2,339	2,552	213
Operating Surplus/(Deficit)	(22)	293	67	(227)
Capital Investment	174	218	202	(16)
Total Debt at March 31				
Short-Term Debt	613	651	700	49
Long-Term and Guaranteed Debt	899	965	1,040	75
Total Debt	1,512	1,616	1,740	124
Borrowing Limit	1,800	1,800	1,800	-
FRP Borrowing Limit Trigger	120	120	120	-
Available Borrowing Capacity	168	64	(60)	(124)

2024-25 Proposed Additional Spending

Infrastructure Expenditures – Supplementary Appropriation 2

In the May-June 2024 Session of the 20th Legislative Assembly, a supplementary appropriation of \$142 million for the capital budget was approved. These amounts consisted of \$146 million for carryovers from work that was not completed from 2023-24 and \$51 million to address 2024-25 capital budget costs that were higher than expected. These amounts were offset by \$55 million in changes in the cash flow for certain projects, which meant the first infrastructure supplementary appropriation did not alter the GNWT's fiscal situation.

The second supplementary infrastructure appropriation proposes \$10.2 million to be added to the 2024-25 capital budget, offset by \$10 million in changes to project timing or offset by federal funding. The amounts by department are described below.

Finance

- \$2.0 million for the transfer of Technology Service Centre infrastructure expenditures from the Department of Infrastructure, with no effect on the overall GNWT budget.

Infrastructure

- \$5.0 million under the Investing in Canada Infrastructure Program for the rehabilitation of Liard Access Road.
- \$3.5 million to complete reconstruction on Northwest Territories Highway 3 (Yellowknife Highway).
- \$622,000 for ventilation upgrades in Northwest Territories dental suites.

Industry, Tourism, and Investment

- \$71,000 in infrastructure expenditure for the Northwest Territories permafrost geoscience education project to help support critical mineral research project.

Operations Expenditures - Supplementary Appropriation One

The first supplemental appropriation for the 2024-25 operating budget proposes \$188 million in spending including \$13.4 million to honour agreements made during the review and approval of the 2024-25 Main Estimates in June 2024. The total supplemental appropriation request is partially offset by almost \$28 million in federal funding.

The following provides a description what each department is requesting in additional spending in 2024-25, excluding each department's shares of the \$69.6 million increase in wages and salaries under the 2023 to 2026 collective bargaining agreement.

Executive and Indigenous Affairs

- \$2.281 million for the Department of Executive and Indigenous Affairs to support a strategic approach to addressing homelessness in Yellowknife.
- \$1.647 million to support the Healthcare System Sustainability Unit to carry out healthcare reform. Health Canada is funding this initiative through the Territorial Health Investment Fund Agreement.
- \$632,000 for actions under the National Action Plan to End Gender Based Violence from unused 2023-24 federal funding.

Health and Social Services

- \$331,000 for two midwifery positions as part of Budget 2024-25 negotiations.
- \$240,000 for respite services as part of Budget 2024-25 negotiations.

- \$869,000 and one position for hematology and medical oncology services partnership with Alberta Health Services to support the increased number of cancer patients who have been repatriated to receive treatment in the Northwest Territories.
- \$100,000 fully funded by Health Canada to the Toll-Free Quitline Numbers on Tobacco Packaging Initiative.
- \$9.013 million for medical travel, chronic disease, mental health, and oral health spending funded by Health Canada.
- \$5.407 million for the binding arbitration agreement between the GNWT and the Northwest Territories Medical Association from 2023 to 2026.
- \$909,000 for actions under the National Action Plan to End Gender Based Violence from unused 2023-24 federal funding.

Infrastructure

- \$1.5 million for the community access program as part of Budget 2024-25 negotiations.
- \$6.5 million to replace 24 metal adjustment bars and a cable on the Deh Cho Bridge to mitigate risks to public safety and supply chain.
- \$100,000 to administer initiatives funded by a grant under the Northern Responsible Energy Approach for Community Heat and Electricity program, fully offset by funding from Crown-Indigenous Relations and Northern Affairs Canada, in support of advancing hydropower work in the Northwest Territories.
- \$2.35 million to complete the Hay River Harbour Restoration Project Phase 1 before the end of the construction season, which would result in a navigable channel.

Industry, Tourism and Investment

- \$378,000 fully offset by federal funding for Geomapping for Energy and Minerals (expiring March 31, 2025); Critical Minerals Geoscience and Data Initiative (Selwyn Basin) (expiring March 31, 2027); and Critical Minerals Geoscience and Data Initiative (Slave Geological Province).
- \$1.80 million to provide support funding for Northwest Territories businesses and communities impacted by the cancellation of barge services in 2024.
- \$226,000 to support the marketing initiative to attract capital investment to new and existing mineral resource projects across the three territories, this project is fully offset by funding from the Canadian Northern Economic Development Agency (CanNor), Government of Yukon and the Government of Nunavut.

Municipal and Community Affairs

- \$258,000 to provide for increased payments required as per the provisions of the Délı̄nę Financing Agreement.
- \$600,000 for the Property Taxation Revenue Grant Program created under the 2005 New Deal for Community Governments Framework, funded through property tax revenue from General Taxation area communities.
- \$588,000 for a coordinated, regional approach to deal with coastal erosion in the coastal communities of Paulatuk, Tuktoyaktuk, Sachs Harbour and Ulukhaktok funded through Natural Resources Canada Climate-Resilient Coastal Communities Program.

Education, Culture and Employment

- \$3.50 million for early learning and childcare funding as part of Budget 2024-25 negotiations.
- \$1.0 million for the small community employment program as part of Budget 2024-25 negotiations.
- \$500,000 for the Aurora College Polytechnique as part of Budget 2024-25 negotiations.
- \$174,000 fully funded by the Canada Council for the Arts (CCA) to distribute CCA funding, raise awareness about the CCA and GNWT funding for the arts, learn more about regional needs to shape future programs; and provide grant program funding to Northwest Territories arts and Indigenous organizations for projects that would build human and organizational capacity.
- \$100,000 to fully use federal 2023-24 *Building Skills 4 Success in the NWT* agreement funding.
- \$7.818 million for salary increases following ratification of the *Northwest Territories Teachers Association Collective Agreement 2023-2026*.
- \$4.924 million to implement the actions outlined under the amended *Canada-Northwest Territories Canada-wide Early Learning and Child Care Agreement (2021 to 2026)* that will be fully offset by revenues received from Employment and Social Development Canada.
- \$42,000 for the Prince of Wales Northern Heritage Centre, fully offset by Canadian Heritage funding, to develop a traveling exhibit titled “Fish For Sale” that describes the history of commercial fishing in the Great Slave Lake basin, from the emergence of fishing as an Indigenous cultural practice, to the present day.
- \$44,000 for actions under the National Action Plan to End Gender Based Violence from unused 2023-24 federal funding.

Justice

- \$2.698 million to extend operating the Fort Smith Correctional Complex into the 2024-25 fiscal year as part of Budget 2024-25 negotiations.
- \$360,000 for the Indigenous Justice Program for Gladue Aftercare and an NWT Community Justice Regional Gathering, fully offset by federal funding.
- \$239,000 to support obligations under the *Indigenous Justice Program Agreement*, fully offset by Justice Canada funding.
- \$800,000 to support obligations under the *Gun and Gang Violence Action Fund Agreement* designed to help prevent gun crime and gang violence, fully offset by Public Safety Canada funding.
- \$5.303 million to fund the GNWT's share of increased compensation, benefit, and administrative costs for the Royal Canadian Mounted Police (RCMP) members, public servants and civilian member positions contracted under the *Territorial Police Services Agreement* and *First Nations Inuit Policing Program*.
- \$219,000 to fund increased compensation and benefits for Territorial Court Judges, the Chief Judge salary differential and Deputy Judge honoraria increases, in response to the *2024 Judicial Remuneration Commission Report*, which has the same force as if enacted by the Legislative Assembly.
- \$57,000 for actions under the National Action Plan to End Gender Based Violence from unused federal funding from 2023-24.

Finance

- \$5.0 million to address an increased need for short-term debt servicing costs.
- \$580,000 to Housing NWT for barge support for the Lutselk'e Housing Project.
- \$3.0 million to Housing NWT for maintenance funding.

Environment and Climate Change

- \$38.922 million for extra fire suppression expenses to address the 168 wildfires that burnt 1.6 million hectares in the 2024 season.
- \$2.791 million fully funded by partners for conservation network planning for land use, consisting of:
 - \$846,000 for Nature Fund Protected Areas,
 - \$147,000 for Protected Areas of Inuvialuit Owned Lands, and
 - \$1.798 million for Dehcho Conservation Protected Areas.

- \$1.382 million for 2024-25 projects under the Alberta-NWT bilateral water management agreement. The requested funding will be fully offset by pooled contribution funding received from the Government of Alberta and the GNWT.
- \$70,000 for 2024-25 projects under the Yukon-NWT bilateral water management agreement. The requested funding will be fully offset by pooled contribution funding received from the Government of Yukon and the GNWT.
- \$1.349 million for the implementation of the FireSmart program agreement with, and funded by, Natural Resources Canada. This program supports a whole-of-society approach to enhance wildfire prevention and mitigation efforts across the Northwest Territories.
- \$706,000 for the 2 Billion Trees Program agreement, which provides funding for projects that support the regeneration of forests impacted by natural and human disturbances. This project is offset by funding from the federal government.
- \$480,000 to continued work on the National Forest Inventory, fully funded by Natural Resources Canada.
- \$291,000 to help with pre-remediation work related to six expected waste sites, this includes four phases: pre-remediation, regulatory and permitting, remediation, and long-term monitoring. This work is fully supported by federal funding.
- \$100,000 for polar bear subpopulation assessment in the Northwest Territories. This is to account for a contribution agreement extension with the federal Department of Environmental and Climate Change Canada and funding is fully offset by the federal government.
- \$68,000 for climate change preparedness in the North, including projects related to Adaptation Capacity, Pan-Territorial Adaptation Partnership, Flood Mapping for at-risk NWT communities, and Surficial Geology Mapping for Northwest Territories communities, fully offset by federal funding.
- \$55,000 to survey the Bison Control Area in the south Slave Region to prevent contact between diseased and disease-free Mackenzie bison herd, fully offset by federal funding.

2025-26 Capital Estimates

The 2025-26 Capital Estimates will be tabled in the October 2024 Session so that once approved, departments can start the planning process to ensure projects can begin in spring 2025. The capital budget calls for a total planned infrastructure investment of \$339 million, of which fully half, or \$170 million, is for projects that are partially or completely funded by the federal government.

The proposed 2025-26 Capital Estimates includes \$245 million for departmental capital, \$81 million in infrastructure contributions, \$11.5 million for Housing NWT and almost \$2 million for deferred maintenance. These strategic investments connect communities, reduce the cost of living and increase the number of homes to meet core housing needs.

The GNWT's capital investments also help support the territorial economy. The NWT Bureau of Statistics estimates that the proposed 2025-26 capital plan will add about \$132 million to the territory's gross domestic product, with an estimated 676 full-time job equivalents and almost \$82 million in labour income.

Highlights of the 2025-26 Capital Estimates include:

- \$102 million for highways and roads,
- \$61 million for health care facilities, services, and equipment,
- \$58 million for community government infrastructure,
- \$47 million for renewable energy,
- \$17 million for airports and runways,
- \$10 million for housing;
- \$7 million for technology, and,
- \$3 million for new education facilities and renovations for existing facilities.

The 2025-26 Capital Estimates maintains a \$260-million limit on departmental capital spending to reflect the economy's capacity to supply necessary labour and material to complete projects. This maximum does not include infrastructure contributions for community governments and funding for Housing NWT. Smaller capital projects and deferred capital maintenance budgets are not affected by the cap.

Fiscal Responsibility Policy

The *Fiscal Responsibility Policy* provides guidelines for sustainable borrowing and debt management. Under the Policy's guidelines the GNWT should:

- never borrow for the operating budget;
- limit GNWT infrastructure investments to a minimum of 50 per cent from operating cash surpluses and a maximum of 50 per cent from government debt;
- limit GNWT debt servicing payments (principal and interest) to five per cent of total revenues; and

- maintain a \$120 million debt cushion below the federally imposed borrowing limit.

In 2023-24 the GNWT was compliant under the FRP guidelines, however in 2024-25 the GNWT is expected to breach the \$120 million debt cushion by \$60 million. Although the GNWT remains \$60 million below the federally imposed limit there is little room to adjust for any other fiscal shocks. The \$120-million cushion provision acts as a warning signal to take action because current debt levels are becoming unsustainable.

Fiscal Strategy and Next Steps

In February 2024 the *Restoring Balance: A Fiscal Sustainability Strategy for the 20th Legislative Assembly* was released. The overarching purpose of the fiscal strategy was to increase the GNWT's fiscal capacity so that it has flexibility to respond to unanticipated expenditure or revenue shocks.

The fiscal sustainability strategy includes the following targets to improve the GNWT's finances:

- Operating surpluses must be large enough to:
 - Repay a minimum of \$150 million in short-term debt by March 31, 2028, and
 - Fund 100 per cent of capital projects from operating surpluses (the *Fiscal Responsibility Policy* requires a minimum of 50 per cent);
- Annual supplementary reserves must be held to \$35 million, which means that departments will be asked to find budget overruns within existing budgets; and,
- Annual forced growth and new initiatives must be held to \$10 million.

Expenditure shocks came too soon in 2024-25 to permit the systematic and prudent realization of the *Restoring Balance* goals over the life of the 20th Assembly. With the increased borrowing required for capital cost overruns and previous emergency disaster payments, the GNWT is requesting an increase to the federally-imposed borrowing limit. The federal response to that request will dictate adjustments to the fiscal sustainability strategy targets with the continued goal to start to reduce short term debt.

Fiscal Responsibility Policy Compliance

	\$ Million 2023/24	\$ Million 2024/25
Provision 6(3)(a) - Infrastructure Financing		
Capital Acquisitions	175	202
Less: P3 Items - Out of Scope	-	-
Projected Cash Required for Infrastructure Investment Expenditures	175	202
Projected Cash Operating Surplus Required		
Minimum cash required from operating surplus	88	101
Projected Cash Operating Surplus Available		
Projected Operating Surplus	(22)	67
Add: Non-Cash Item - Amortization	132	132
Total Projected Cash Operating Surplus Available	110	199
Coverage (Shortfall) in Cash Generated by Operations	22	98
Provision 6(5)(a) - Debt Servicing Payments		
Revenues	2,626	2,620
Maximum Debt Servicing Payments - 5% of revenues	131	131
Projected Debt Servicing Payments		
Short-term Interest Expense	20	20
Government bonds	4	8
Deh Cho Bridge	11	9
P3 Debt Servicing	16	16
Total Debt Servicing Payments	51	53
Projected Debt Servicing Payments as a % of Revenues	1.9%	1.9%
Provision 6(5)(c) - Borrowing Cushion		
Total Debt	1,460	1,740
Borrowing Limit	1,800	1,800
Debt Cushion	120	120
Available Borrowing Capacity	220	(60)
Summary Compliance Table		
6(3)(a) Infrastructure Financing (minimum 50% funded by surplus)	Yes	Yes
6(5)(a) Affordable Debt (not to exceed 5% of revenue)	Yes	Yes
6(5)(c) Debt Cushion (\$120-million under limit)	Yes	No