Yukon

2020–21 INTERIM FISCAL AND ECONOMIC UPDATE

Introduction

Since the release of the Fiscal and Economic Outlook in March, Yukon has been responding to the emerging challenges of the COVID-19 pandemic. The 2020–21 Interim Fiscal and Economic Update presents an overview of the impacts of the pandemic and the current expectations for Yukon's finances and the economy.

Global efforts to limit virus transmission require a whole-of-society approach. Governments play a central role in coordinating this approach and supporting their citizens with effective policy interventions. In Yukon, this has included extraordinary levels of spending to support public health measures and mitigate economic disruptions. To date, Yukon has been successful at preventing significant community spread of the virus.

While Yukon's health measures were effective, the pandemic has still come with an economic cost, with notable job losses and many businesses reporting substantial losses in revenues. While there is a case for optimism, COVID-19 presents much uncertainty for the future, particularly in the absence of the timely development of a vaccine.

Part 1: Yukon's Finances

The 2020–21 Budget forecast a $4.1 million annual surplus. Yukon's response to COVID-19 is resulting in increased spending on public health measures, emergency management, coordination, and enforcement, service delivery continuity, and financial and economic supports. The pandemic is also causing Yukon's own-source revenue to be revised downward as reduced economic activity is impacting income and excise taxes. Despite increases in federal transfers to offset some of these costs, the pandemic remains the primary driver of a downward revision to the surplus projection, with a forecast deficit of $31.6 million in 2020–21.

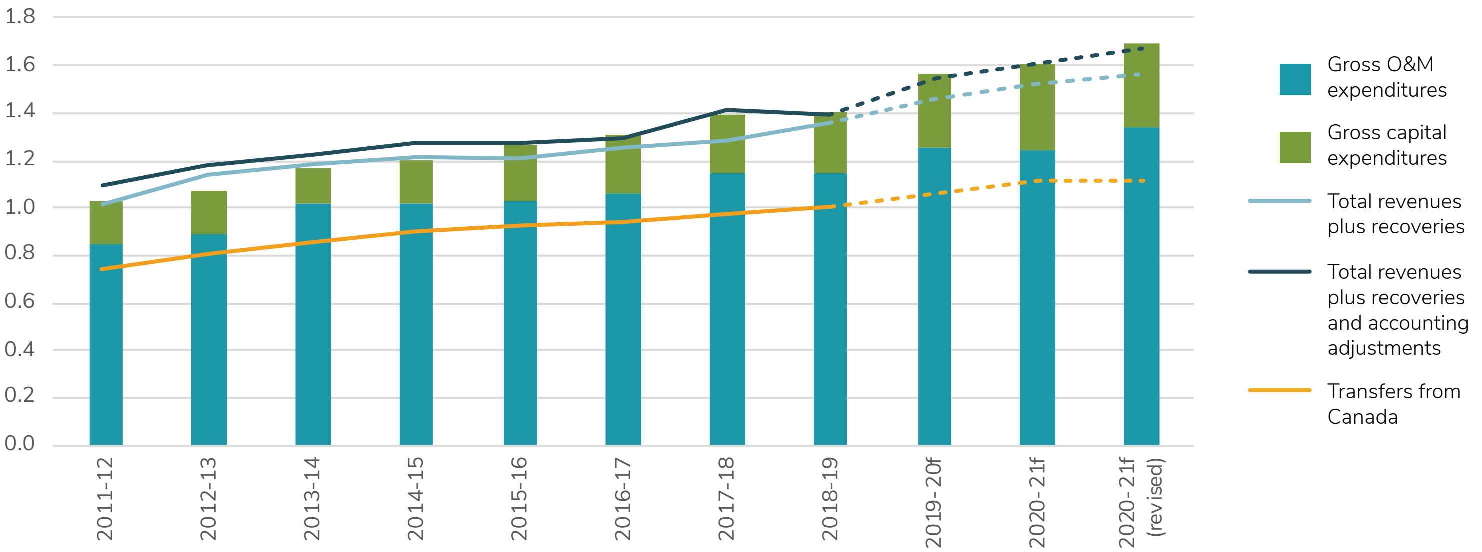
There is the potential for surges in infection rates through the autumn and winter, which could require extended public health restrictions and additional need for economic and financial relief. The magnitude and timing of these events cannot be predicted. The revised 2020–21 forecast incorporates additional spending room to allow government to respond quickly to these developments.

In addition to pandemic responses, other initiatives moving forward in 2020–21 will also require new expenditures. This includes initial actions in response to Putting People First[1], the final report of the comprehensive review of health and social services in Yukon.

1 Putting People First – The final report of the comprehensive review of Yukon's health and social programs and services. Government of Yukon

Chart 1. Government of Yukon fiscal indicators[2]

Expenditures and revenues ($billions)



Source: Department of Finance

Table 1. Fiscal summary[3,4]

$millions	2019–20 Supplementary Estimates #2	2020–21 Main Estimates	2020–21 Supplementary Estimates #1
Revenue (does not include recoveries)	1,250.6	1,307.2	1,297.2
Expense (net of recoveries)	(1,377.4)	(1,405.9)	(1,445.9)
Accounting adjustments	108.2	102.7	117.1
Surplus/Deficit	(18.6)	4.1	(31.6)
Other key metrics			
Net debt (end of year)	60.8	81.5	117.7

Source: Department of Finance

Revenue

Total government revenue excluding recoveries is forecast to be $1.3 billion in 2020–21, a decrease of 0.8 per cent, or $10.0 million from the Main Estimates. This decrease is driven primarily by the downward effects of the COVID-19 pandemic on economic activity. While personal incomes have continued to grow, they have not grown at the rate assumed in the Main Estimates. At the same time, continued strength in the housing sector and rebounding retail sales have mitigated some of the downward effects of the pandemic on corporate income tax revenues.

Comparatively smaller reductions in other revenue include decreased revenues from camping and hunting fees, which are impacted by travel restrictions to the territory, and waiving of fees as part of targeted economic supports to the mining and aviation industries.

2 Total revenue in Chart 1 includes capital and operating recoveries. This differs from the presentation in Table 1, which shows net revenue and expenses. To align with the Yukon Public Accounts, revenues presented do not include those collected by Yukon Housing Corporation.

3 Ibid.

4 Numbers may not add due to rounding.

Table 2. Revenue by type[5,6]

$millions	2019–20 Supplementary Estimates #2	2020–21 Main Estimates	2020–21 Supplementary Estimates #1
Income taxes	95.9	94.0	89.3
Property tax	5.9	6.0	6.0
Fuel oil tax	9.1	9.6	7.3
Tobacco and alcohol taxes	18.2	17.9	17.8
Other taxes	3.2	4.0	4.0
Other revenue	60.0	59.0	56.2
Total own-source revenue	**192.2**	**190.6**	**180.5**
Federal transfers	1,058.4	1,116.7	1,116.7
Total revenue	**1,250.6**	**1,307.2**	**1,297.2**

Source: Department of Finance

Five-Year Capital Plan

Gross capital expenditures are projected to decrease by $3.7 million, or 1.0 per cent from the Main Estimates. The majority of spending decreases are recoverable from Canada or third parties, and therefore have minimal fiscal impact. On a net basis, capital spending is forecast to increase by $2.1 million, or 0.8 per cent from the Main Estimates.

The Five-Year Capital Plan represents the infrastructure spending priorities for Yukon. While the COVID-19 pandemic has brought significant challenges to capital planning and project management, Yukon has been resilient in continuing to make progress on most projects planned for at the Main Estimates. This has included responsive and informed shifts to new projects when delays occur elsewhere in the plan.

There are three notable changes to the capital plan. A reduction in forecast spending and related recoveries for the Dempster Fibre Project, which is being deferred to 2021–22 due to delays in the permitting process, has minimal net impact on the fiscal position. Additional work by the Yukon Energy Corporation on the Mayo to McQuesten Transmission Project and battery storage project, both of which are fully recoverable, address power requirements for a growing territory and industries while having a net-zero impact on the fiscal position. And additional spending on the implementation of the expanded 1Health Information Network initiative leverages federal funding opportunities and will deliver a modernized and integrated health information network for the territory.

5 To align with the Yukon Public Accounts, revenues presented do not include those collected by Yukon Housing Corporation.

6 Numbers may not add due to rounding.

Table 3. Five-Year Capital Plan gross expenditures by category

$millions	2020–21 Plan	2020–21 Revised Plan	2021–22 Plan	2022–23 Plan	2023–24 Plan	2024–25 Plan	Totals
Climate change, energy and green economy	20.7	29.9	24.3	29.7	33.8	25.0	142.7
Land development, social development, education and health	74.0	73.7	87.2	91.9	75.0	68.5	396.3
Community and First Nations infrastructure	101.2	101.2	102.5	103.8	110.3	105.6	523.4
Real property and asset management	44.7	45.0	45.9	42.7	59.0	54.2	246.8
Transportation infrastructure	86.5	86.5	96.0	140.8	117.8	116.5	557.6
Information technology	43.1	30.1	49.8	35.2	14.5	14.5	144.1
Totals	**370.2**	**366.4**	**405.7**	**444.1**	**410.4**	**384.3**	**2,010.9**

Source: Capital Planning Office

Operating expense

Operation and maintenance (O&M) expenses are forecast to increase by $95.9 million, or 7.6 per cent from the Main Estimates. Over $88.7 million, or 92.5 per cent, of this increase is related to the COVID-19 pandemic, driven primarily by economic and financial relief ($44.8 million gross expenditure increase, or 50.5 per cent of the pandemic-related increase) and health care and public health responses ($33.7 million gross expenditure increase, or 38.0 per cent).

Over $52.9 million of the $88.7 million pandemic-related spending increase is being offset by new federal supports, representing the collaborative approach between the federal government and all provinces and territories in addressing urgent needs during this pandemic.

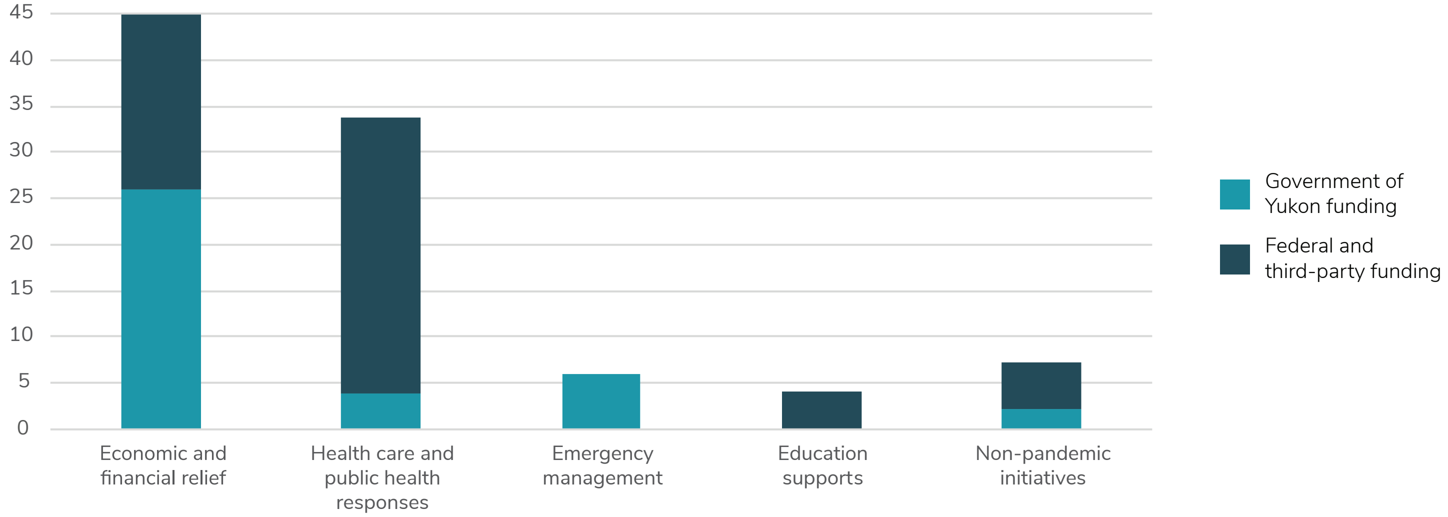
Other spending increases, totaling $14.3 million with $11.3 million offsetting recoveries, are the product of leveraging federal and other funding opportunities, particularly in the health and social services sector. These changes are offset by a $7.1 million decrease in spending, which also carries a $6.1 million decrease in recoveries, driven primarily by an administrative change in the way the Government of Yukon collaborates in the delivery of French education.

On a net basis, when all recoveries from Canada and third parties are considered, total O&M expenditures are expected to increase by $38.0 million, or 3.3 per cent from the Main Estimates. Of this net increase, 94.5 per cent is related to the pandemic. Of the 2.1 million net increase that is unrelated to the pandemic, over three quarters, or $1.7 million, is for initial actions in response to Putting People First[7].

7 Putting People First – The final report of the comprehensive review of Yukon's health and social programs and services. Government of Yukon

Chart 2. Funding sources for changes to O&M expenses, by category

Funding by category ($millions)

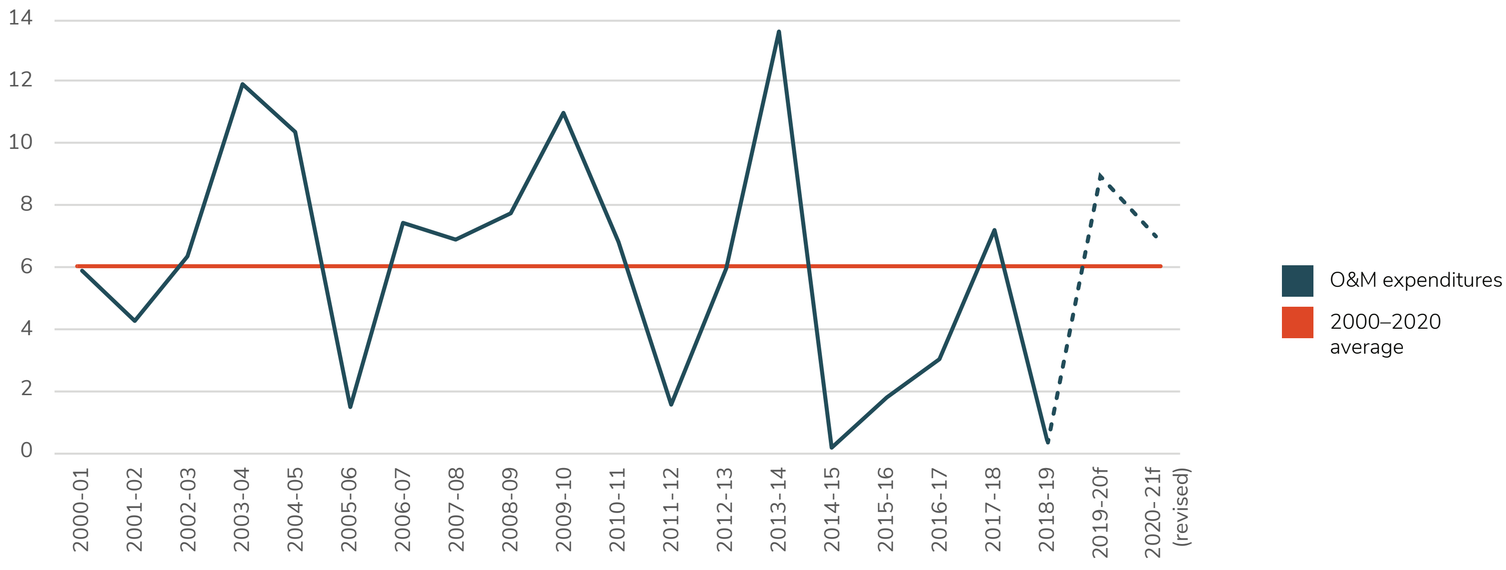


Source: Department of Finance

Despite responding to a global pandemic, the annual growth in O&M spending, based on 2019 –20 and 2020–21 forecasts, will only be 0.8 percentage points above the twenty-year average.

Chart 3. Annual growth in gross O&M spending compared to 20-year average growth

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



Source: Department of Finance

Box 1. Comparison of COVID-19 fiscal and economic impacts

The impact of the pandemic across Canada can be measured by comparing pre-COVID and post-COVID fiscal and economic forecasts. Since actions were first taken by governments in March 2020 to slow the spread of the virus, all provinces and territories have seen steep declines in growth forecasts and expanded government deficits.

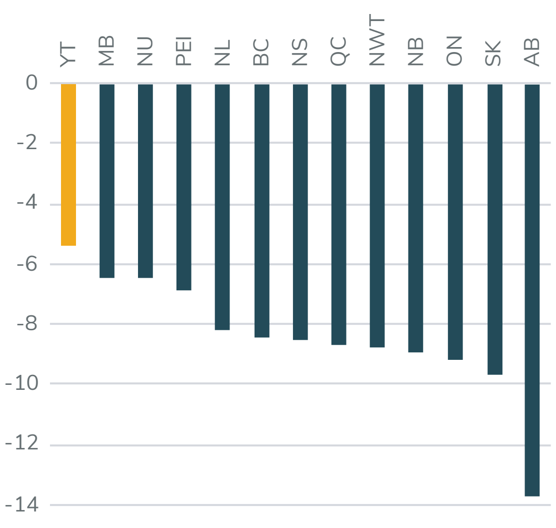
Chart 4 shows how real GDP forecasts have changed since the pandemic. The impact of COVID-19 on provincial and territorial real GDP growth rates in 2020 ranged from -5.4 percentage points in Yukon to almost -14 percentage points in Alberta. Oil-producing regions were especially hard hit, as were provinces with serious outbreaks of COVID-19, namely Ontario and Quebec. Smaller economies were less affected, in part because of a relatively large public sector share of the economy, which provided a buffer. Yukon and Nunavut are the only jurisdictions expected to see real GDP grow in 2020, with Yukon's growth owing to strong momentum from last year and robust strength in the mining sector.

When comparing the impact on government budgets (Chart 5), Yukon ranked third lowest, with the impact on the budget balance in 2020–21 amounting to just over $880 per person, compared to the average provincial/territorial impact of about $1,910 per person. Alberta saw the greatest deterioration per person among regions due to falling oil prices.

Chart 4 and 5. COVID-19 impacts in Yukon were worse than some, but better than most[8]

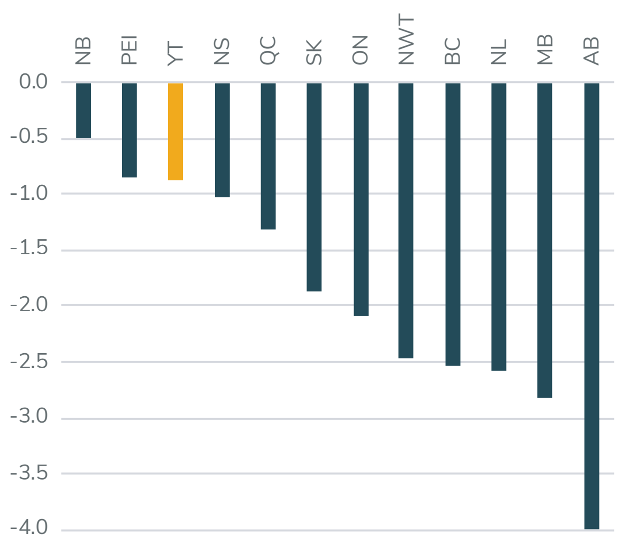
Forecast revision before and after COVID-19

Change in 2020 real GDP growth forecast (percentage points)



Source: Conference Board of Canada for all jurisdictions except for Yukon which is based on the Department of Finance forecast.

Change in 2020-21 Budget balance per capita ($thousands)



Source: Various provincial and territorial budgets and fiscal updates, Department of Finance calculations.

8 These estimates are from various Budgets and Fiscal outlooks and show the change in the forecast between the most recent estimate and the pre-COVID estimate. This is only an approximation and could pick up other factors that have changed between the estimates. Updated fiscal information from Nunavut was not available at time the of writing.

Part 2: Economic overview

Growth expected in 2020, but COVID-19 is weighing on Yukon's economy

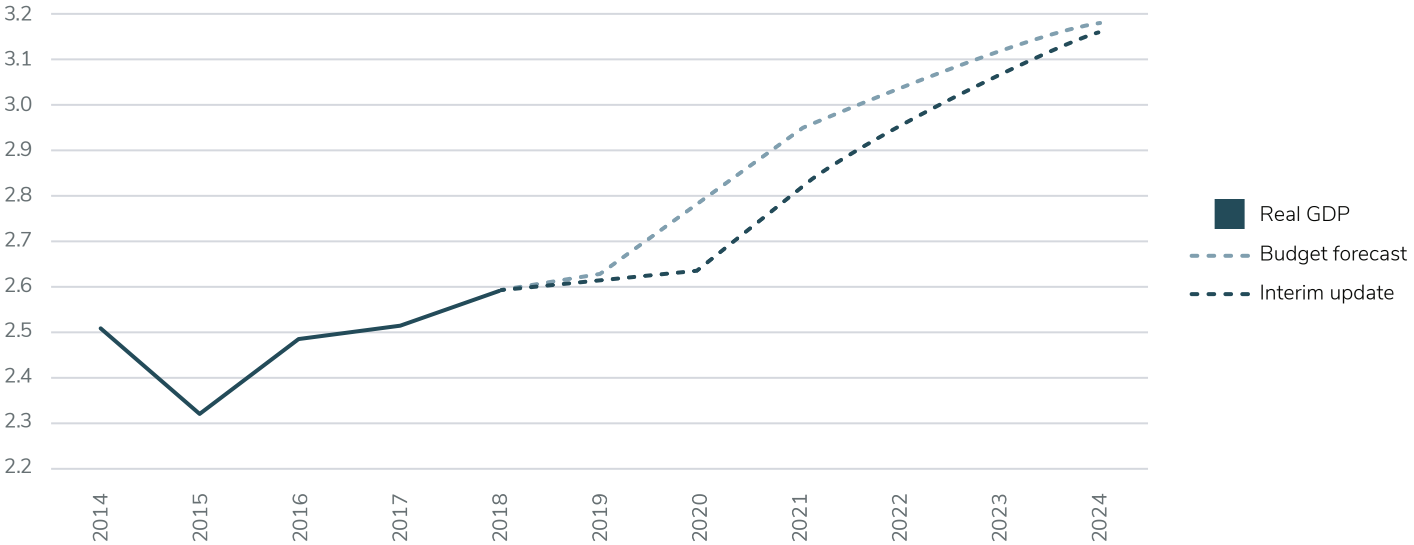
Heading into the pandemic, Yukon's economic fundamentals were generally strong. Yukon's positive labour market led the way, boasting the lowest unemployment rate in the country. Early 2020 also saw further gains in earnings, with growth in Yukon outpacing national growth in the first quarter, supporting local consumer spending and gains in retail sales.

Like the rest of the world, Yukon has seen a precipitous decline in economic activity in recent months. Businesses that depend heavily on tourism, and those that require people to gather, are acutely impacted by travel restrictions, physical distancing rules and limits on public gatherings.

With performance in some sectors set to remain weak for the remainder of the year, Yukon's real GDP growth is expected to fall well short of the 6.2 per cent forecast reported in March. Yukon's real GDP is now projected to grow 0.8 per cent. The weaker outlook is primarily the result of what amounts to a lost season for the tourism sector, with unprecedented declines in border crossings in 2020 (see Tourism sector discussion). Nevertheless, growth remains positive due to underlying momentum in the economy that predates the pandemic, particularly within the mining sector. Yukon and Nunavut are expected to be the only regions to see positive growth this year. While Yukon is forecast to post strong annual growth over the outlook, the notable downgrade in 2020 growth results in Yukon's annual GDP not achieving Budget 2020 forecasts until the end of the forecast horizon.

Chart 6. COVID-19 taking a bite out of Yukon's GDP

Yukon real GDP by forecast vintage (2012 $billions)



Source: Department of Finance

The current forecast assumes that the pandemic will remain stable with gradual improvement and that no major subsequent waves of infection will force aggressive lockdowns. Community spread of COVID-19 in Yukon is the biggest downside risk to the forecast, especially if mining work sites are affected. Also on the downside, there is the possibility of long-term or permanent changes in consumer behaviour impacting services and tourism activities in Yukon. Lastly, the financial system has continued to function well in part because of massive interventions by central banks. This has avoided a financial crisis, but high levels of consumer debt and unprecedented public spending make the financial system more vulnerable.

There is some potential upside risk in this latest forecast. As investors look for safe investments during a time of economic and market upheaval, metal prices have seen notable appreciation in recent months (see Mining sector discussion). If metals prices hold their value after the crisis dissipates it could lead to renewed interest in the territory's metal resources.

Box 2: Forecasting amid uncertainty

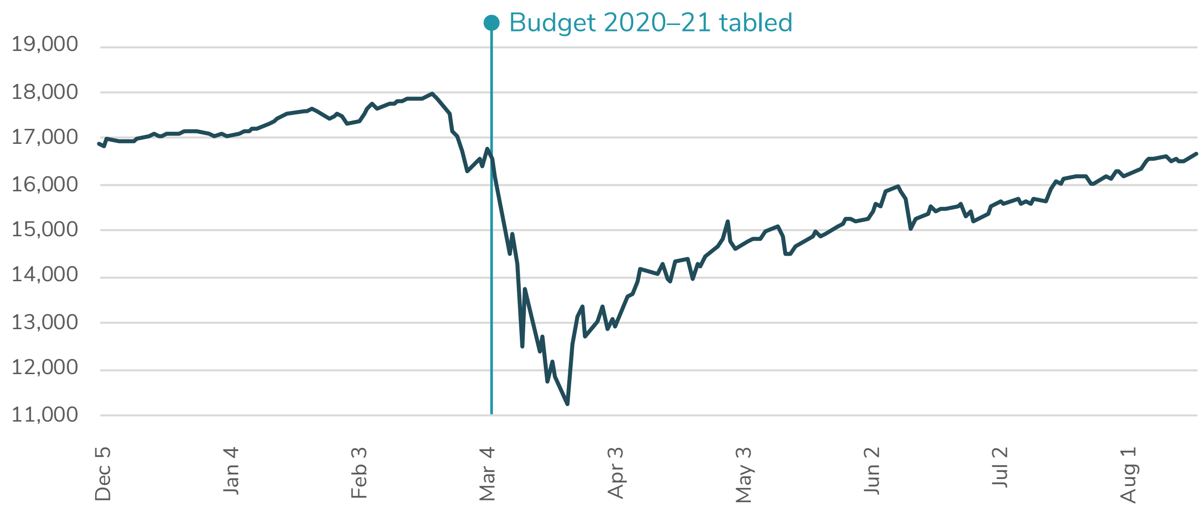
Economic forecasting is always challenging, but even more so under current circumstances. It appears that a vaccine is, at best, several months away and even when a successful treatment is available, the world may not return to "business as usual".

Even if a vaccine were to become widely available late this year or in 2021, the virus is likely to drag on economic performance over the medium term. Behavioural trends are yet to emerge, but it could take several years for the tourism sector to fully recover if travellers remain reluctant to risk exposure to COVID-19 even after restrictions are lifted. It may also take time before people fully embrace returning to restaurants and bars, and places and events that could attract crowds.

The deterioration in the outlook since March demonstrates how much uncertainty there is in the economy and how dramatically economic conditions can shift. When the budget was tabled on March 5, there were just under 105,000 confirmed COVID-19 cases worldwide and financial markets appeared to be improving after a sharp correction a little over a week earlier. By March 19, just two weeks later, confirmed cases would triple and financial markets would collapse with the TSX losing 26 per cent of its value (Chart 7).

Chart 7. The onset of COVID-19 contributed to a large hit to financial markets

S&P/TSX composite index

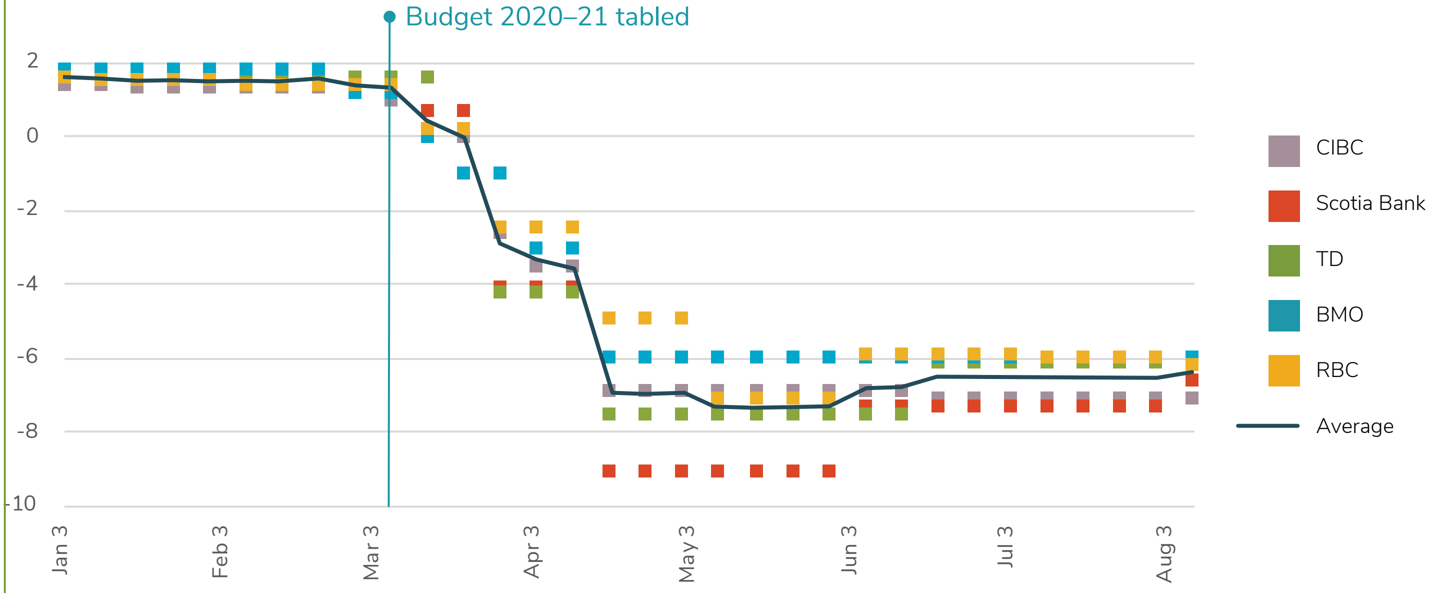


Source: Toronto Stock Exchange

Over the next several months, the economic situation would go from bad to worse to the worst downturn since the Great Depression. The deterioration in the national outlook can be seen in Chart 8 showing the evolution of the Canadian real GDP growth forecasts from the five major banks. Private sector forecasters repeatedly downgraded the economic outlook and it took well into June before enough data were available to start moving towards a consensus. While conditions seem to have stabilized, the experience over the last several months shows how quickly risks can materialize.

Chart 8. The economic outlook deteriorated rapidly

2020 Canadian real GDP forecast by forecast release date

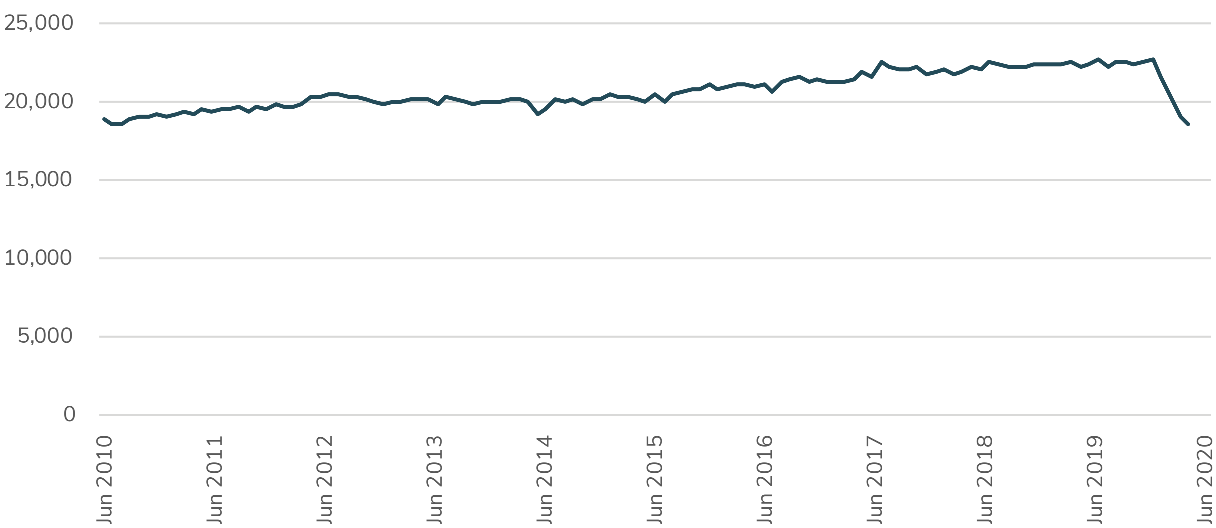


Source: CIBC, Scotiabank, TD, BMO, RBC

Containment measures introduced during Yukon's pandemic response phase had a dramatic effect on the labour market. From March to June 2020, Yukon's economy lost over 4,000 jobs[9], which is about the same as the number gained over the previous ten years (Chart 9). Service industries bore the brunt of the job losses as operating and travel restrictions weighed on many businesses. Employment related to food and accommodation was reduced by half and accounted for one third of the overall job losses.

Chart 9. Ten years of job growth reversed in three months

Yukon payroll employment (adjusted for seasonality)

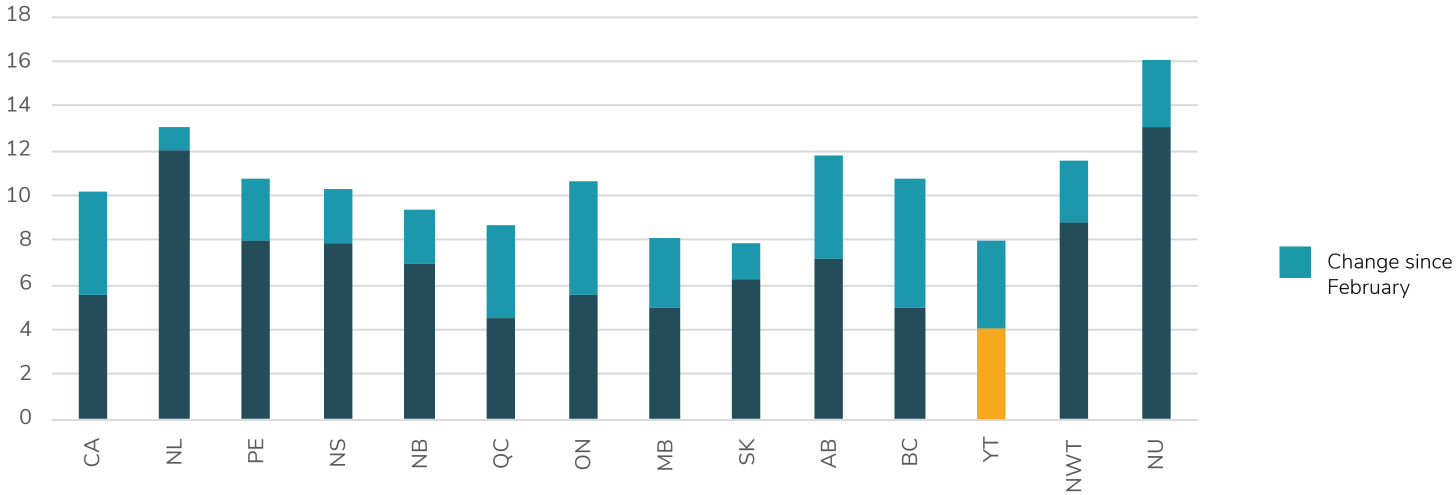


Source: Statistics Canada

9 For the latest figures, refer to Statistics Canada's Survey of Employment, Payroll and Hours (SEPH).

Yukon benefited from having a strong labour market heading into the pandemic with record low unemployment rates in 2018 and 2019. The unemployment rate remains among the lowest in Canada (Chart 10). However, August's unemployment rate of 8.0 per cent is well above the February figure of 4.1 per cent when the outbreak had yet to fully take hold, and the highest level since June 2015[10]. The increase in the unemployment rate understates the job losses, as workers are only counted as unemployed if they are actively looking for work. Many workers elected to wait the pandemic out rather than look for jobs when there were few to be had. Had they been actively looking for work, August's unemployment rate would have been 12.5 per cent[11].

Chart 10. Yukon's unemployment rate remains among the lowest in Canada, despite notable job losses
August unemployment rate (per cent)



Source: Statistics Canada

The pandemic is expected to cast a long shadow over the labour market. Weakened demand is reflected in the forecast, with the labour force not expected to return to pre-COVID levels until 2023. Employment is forecast to fully recover by 2024. After increasing to an annual average of 6.9 per cent this year, Yukon's unemployment rate is expected to average 5.4 per cent over the following four years.

Average earnings increase, as job losses are concentrated in low earning industries

Even in light of significant job losses, average earnings have continued to grow in Yukon. Data for the first six months of the year shows average weekly earnings[12] increasing 6.9 per cent from the same period of 2019, slightly stronger than the 6.6 per cent growth reported nationally. The increase in average earnings is being driven by compositional changes in the labour market as employment losses have fallen more in low-paying industries, which brings up the average. About 37 per cent of the jobs lost from March through June were in food and accommodation as well as trade, which are among the lowest paid industries at $554 per week for food and accommodation and $793 per week for trade.

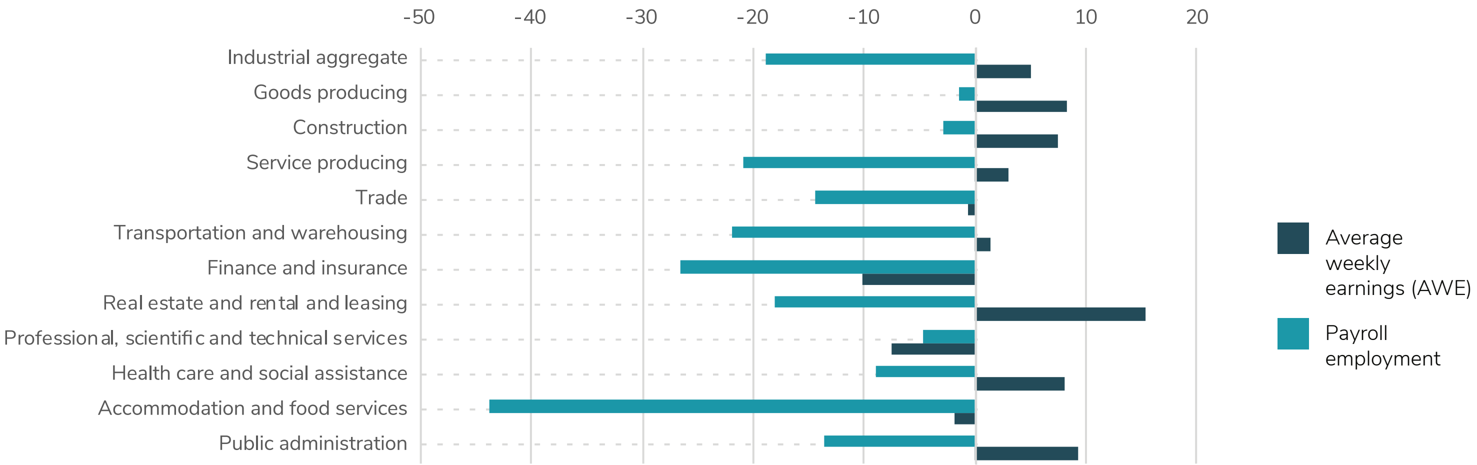
10 Based on Statistics Canada's Labour Force Survey, September 2020.

11 Yukon Employment Report August 2020. Yukon Bureau of Statistics

12 These data have not been seasonally adjusted.

Chart 11. Earnings have continued to grow despite labour market disruption

Change in payroll employment and average weekly earnings, February to June (per cent)



Source: Statistics Canada.

As has been the case in past downturns, Yukon's public sector has helped to buffer the local economy. About 44 per cent of working Yukoners in August were employed by one of the four levels of government in the territory, about twice the national average. Most public sector employees have been able to weather the labour market disruption without loss of income, adding to overall resiliency in earnings.

Box 3. Federal programs CERB and CEWS, accounting for more than $100 million in local support

The federal government has allocated near $320 billion[13] to COVID-19 pandemic relief measures through Canada's COVID-19 Economic Response Plan. This is roughly equal to the GDP of Alberta in 2018. By far the largest support programs are the Canada Emergency Response Benefit (CERB) and the Canada Emergency Wage Subsidy (CEWS). Combined, these two programs are expected to cost $160 billion with $109 billion dispensed to date.

CERB, which wound down in September, provided $2,000 per month to Canadians whose employment was affected. Individuals could have labour earnings up to $1,000 per month and still qualify. Almost 9,000 Yukoners applied for CERB between March 15 and August 17 and received an estimated $72 million in payments. The federal government has announced that CERB is to be replaced by an expanded and modified EI program. There are also new benefits for individuals not covered by EI, namely self-employed and people caring for sick relatives.

Approximately 4,000 Yukon employees had their wages subsidized by CEWS. From March 15 to July 4[14] CEWS offset up to 75 per cent of the wage bill for employers who experienced major declines (greater than 30 per cent) in revenue due to COVID-19. This enabled employers to maintain ties with employees and reactivate their workforce when it was time to reopen. Yukon businesses have accessed $32 million in funding through this program[15]. CEWS was modified significantly starting on July 5. Under the new program, subsidy rates are determined using a sliding scale: the greater the revenue losses, the greater the subsidy. CEWS will be phased out in stages until it expires at the end of 2020.

13 Economic and Fiscal Snapshot 2020. Finance Canada

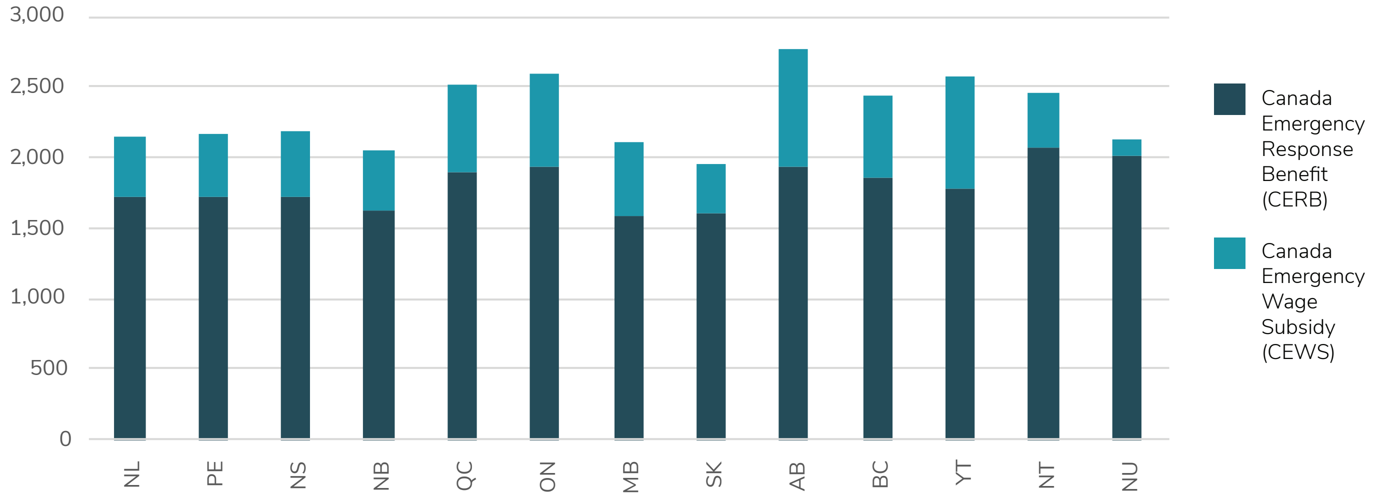
14 Canada Emergency Wage Subsidy (CEWS). Canada Revenue Agency

15 Ibid.

Box 3. continued

Chart 12. Substantial level of federal funding flowing to all jurisdictions

Combined CERB and CEWS suport per capita by region



Source: Department of Finance based on data from Canada Revenue Agency and Service Canada. CEWS covers payments made prior to July 5, 2020. CERB data covers payments to August 10, and is derived by multiplying the number of unique applicants per region by the national average of benefits payments per unique applicant.

Federal and territorial supports have protected cash flows

Targeted government spending prevented sharp drops in some sectors from having a cascading effect on demand throughout Yukon's economy. Several territorial supports helped to complement the federal measures described in discussion box 3. The Yukon Business Relief Program paid for fixed costs for hard hit businesses. This was designed to help prevent business bankruptcies, which preserved intangible capital such as supplier relationships and firm-specific knowledge. Tax deferrals gave businesses access to liquidity and maintained much-needed cash flows. Similarly, the Rent Assist program provided payments to landlords on behalf of tenants, ensuring landlords continue to receive partial income from their rental properties, and tenants who have deferred paying rent will owe less. The federally-funded Essential Worker Income Support Program topped-up wages of low wage essential workers and strengthened Yukon's response to the pandemic.

COVID-19 impacts varied both within industries and across them

After sharp drops in March and April, Yukon's retail sales rebounded in June 2020[16], to $81.4 million, almost as high as June 2019 ($82.0 million). Nationally, sales more than recovered their pandemic losses, with June figures showing year-over-year gains, of $2.6 billion, or 4.8 per cent. This stands in stark contrast with the 2008–09 recession when retail sales nationally did not recover for eighteen months.

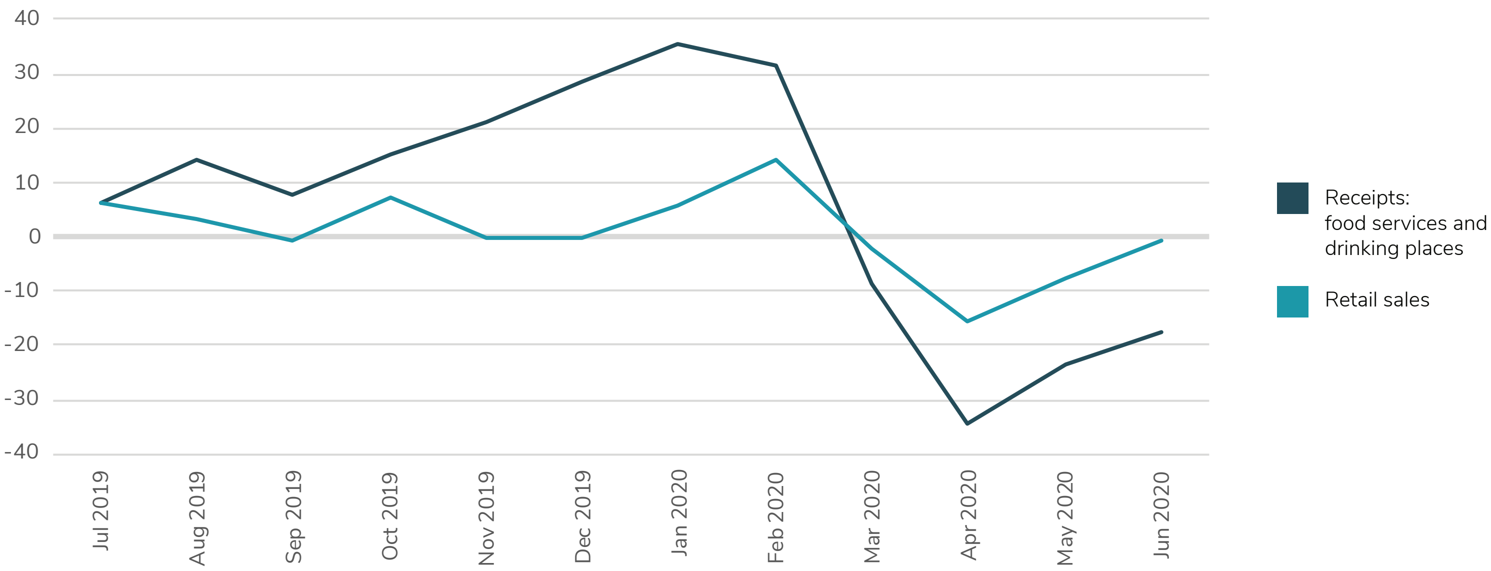
Unprecedented fiscal supports and pent-up demand are part of the reason for the rebound in retail sales, but there are other factors as well. Business practices within the retail sector can meet social distancing requirements more readily than other customer-facing businesses. Expenditures at bars and restaurants have been acutely impacted by decreases in tourism and the need to comply with each phase of Yukon's reopening plan[17]. Restaurants that derive a significant portion of their revenues from delivery, drive-thru and takeout were equipped to continue operating for the most part with only a few modifications. Dine-in restaurants were able to generate some revenues by offering takeout and condensing opening hours, while bars were directed to close entirely from March 22 to May 15.

16 For the latest figures, refer to Statistics Canada's Retail Trade releases.

17 A Path Forward: Yukon's plan for lifting COVID-19 restrictions. Government of Yukon

Chart 13. Sales are rebounding at Yukon retail outlets, restaurants and bars

Year-over-year change (per cent)



Source: Statistics Canada; Department of Finance

The recovery of customer-facing businesses will be largely determined by how well business practices can be adapted to meet Yukon's public health measures. While bars and restaurants can now serve people on the premises, regulations requiring physical distancing are limiting capacity and will likely continue to weigh on sales at these establishments for the foreseeable future. Hotels and other venues face similar pressures due to limitations on gatherings, which impact revenues from local events, concerts, conferences and weddings. Once CEWS and other supports are phased out, some businesses currently operating may not remain profitable.

Consumer patterns are shifting

The pandemic has changed consumer behavior resulting in new spending patterns. Nationally, there have been strong sales in recent months for lumber and other building material, as residents use these extraordinary times to do home improvements. This was almost certainly the case in Yukon as well, with the value of residential permits for alterations and improvements for May to July totaling over $5.0 million, up 87 per cent from $2.7 million in May to July of 2019[18]. Staycations have become more popular and Yukon campgrounds have been busy since opening on June 4[19].

Population gains in 2020 to slow with reduced immigration

The most recent population estimates released by the Yukon Bureau of Statistics show Yukon's population at 42,152 as of March 31, 2020, an increase of 2.9 per cent from March 31, 2019 and up 21 per cent since March 31, 2010. Growth in the last ten years has been fuelled by population gains in the Whitehorse area, up 24.2 per cent to 33,119.

Travel restrictions are limiting international immigration. Yukon only reported 25 admissions of new permanent residents in the second quarter, down from 115 in the second quarter of 2019[20].

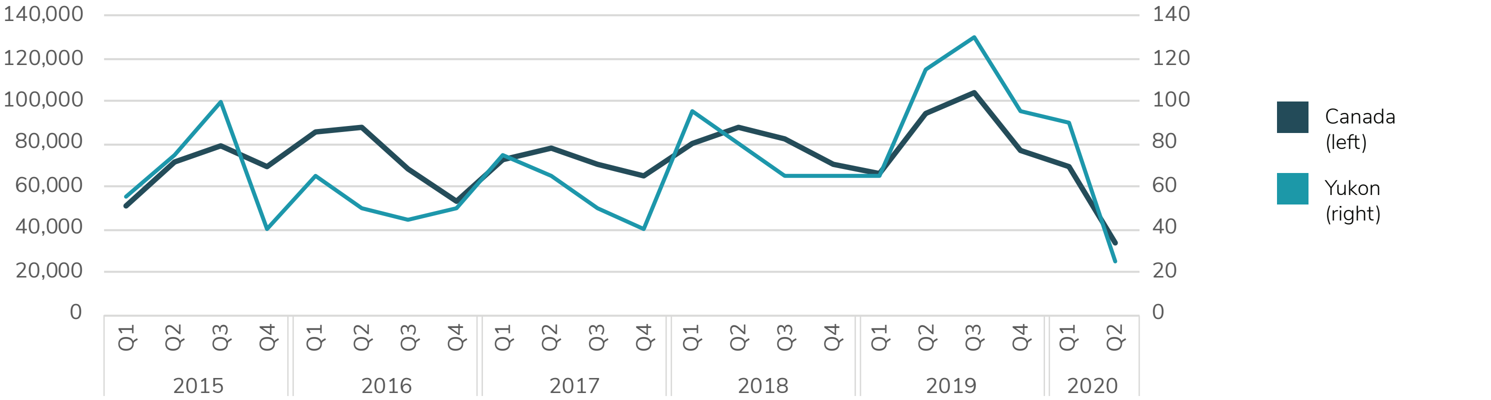
18 Building permits, by type of structure and type of work. Statistics Canada

19 Campgrounds popular amid COVID-19 restrictions. (June 29, 2020) Whitehorse Star

20 Permanent Residents – Monthly IRCC Updates. Immigration, Refugees and Citizenship Canada

Chart 14. Travel restrictions weighing heavily on immigration

Permanent resident intake (persons)



Source: Immigration, Refugees and Citizenship Canada

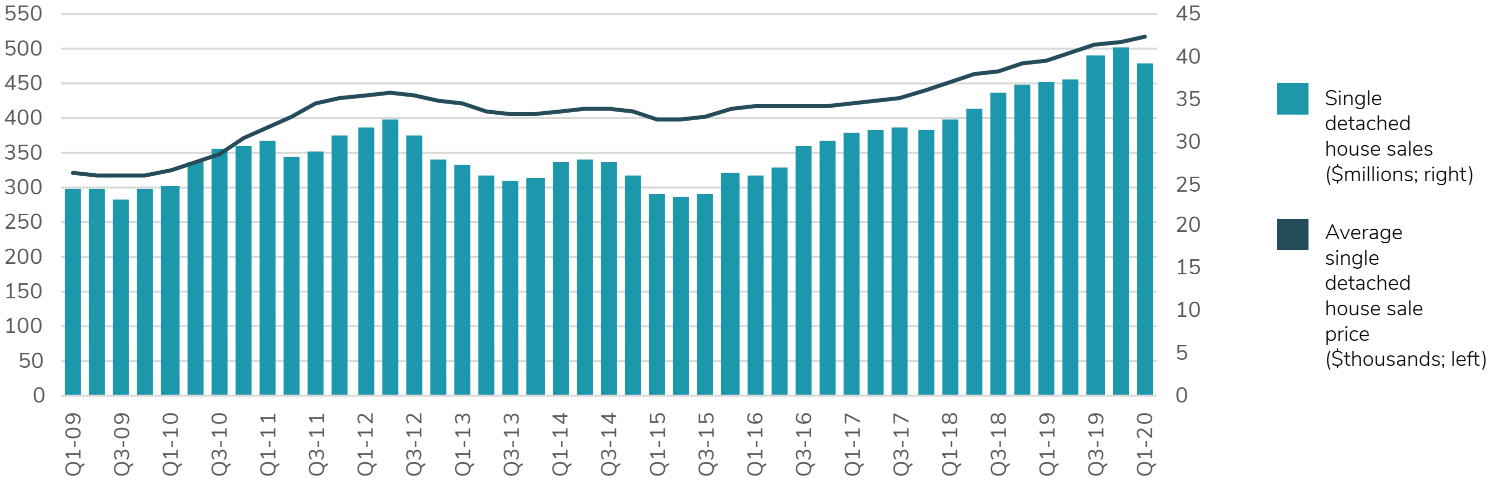
Travel restrictions may continue to impact international migration for the remainder of the year and into 2021. This is not anticipated to have a significant impact over the medium term. While weaker than the 1.7 per cent increase noted in 2019, Yukon's population is forecast to increase for the 17th consecutive year in 2020, growing 1.2 per cent. Further annual gains over the outlook are expected, with Yukon's population forecast to reach just over 45,000 in 2024.

Housing market mostly unaffected by the pandemic

Early indications are that the housing market has been resilient. Home sales in Yukon totalled $65 million in the first quarter of 2020 – a record high – up 18.6 per cent from the same period of 2019. Real estate transactions in Whitehorse totaled $55.6 million in the first three months of the year, representing 86 per cent of total sales. Over the same period, condominium sales in Whitehorse more than doubled to $28 million, an increase of almost 113 per cent from last year. By contrast, single detached sales in Whitehorse fell to $15.8 million during the first quarter of 2020, the lowest level since 2016. The pandemic may be limiting sales numbers, but this has not trickled through to prices. The average price of a single-detached home in Whitehorse increased to $508,800 in the first quarter of 2020, up 6.7 per cent from $477,000 in the first quarter of 2019.

Chart 15. Whitehorse housing market remains strong

Whitehorse housing market indicators (four quarter moving average)



Source: Statistics Canada, Department of Finance

The continued strength in housing prices demonstrates that the market is being driven by long-term fundamentals rather than short-term swings in the economy. Robust credit expansion and lower mortgage rates protected against foreclosures that otherwise might have brought more houses onto the market. Overall, continued population growth and a positive labour market, along with mortgage rates that are expected to remain low for the foreseeable future, support a positive medium-term outlook for the housing market.

Mining sector

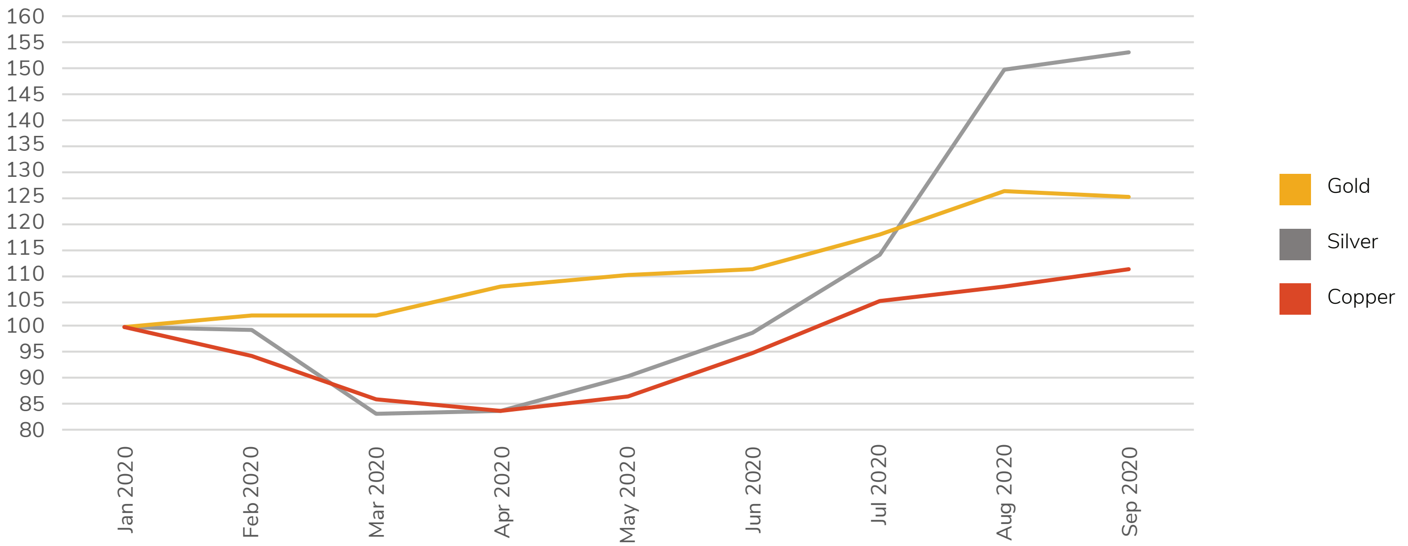
Strong mineral prices add potential fuel to the mining outlook

While much of the global economy is suffering due to the COVID-19 pandemic, gold prices have never been higher. The price of gold reached an all-time high in June of just under US$1,900/troy ounce (toz) and then surpassed US$2,000/toz in August. Since that time, Gold settled somewhat, trading at about US$1,950/toz. In times of financial stress, gold tends to outperform other assets.

In addition to gold, silver and copper have improved markedly since March, which is good news for the operators of the Eagle Gold and the Minto mines and the Keno Hill project currently in development. After falling as low as US$12.00/toz in March, silver prices have appreciated substantially, surpassing US$29.00/toz in early August, its highest level since early 2013.

The price of copper too has been on the rise and was trading at over $3/lb at the time of writing, the highest level since mid-2018. Though the increase in copper has been more modest than that of silver or gold it is perhaps more unexpected. Unlike gold prices, copper tends to move in sync with global activity, so much so that copper is often used as a global economic barometer. Operational issues at some of the largest copper producers have contributed to the rise in copper prices. London Metal Exchange warehouse stocks have also reached lows not seen since 2008, prior to the global financial crisis.

Chart 16. Growth in metal prices in 2020 a positive for the mining sector
Metal prices (index; January 2020 = 100)



Source: BMO commodity prices, Department of Finance

New mine production supporting medium-term gains

For the first time since 2013, Yukon could have three producing mines in 2020. Expectations are for the Eagle Gold and Minto mines to be joined by Alexco Resource Corp's Keno Hill operation this year as per company information. Production is set to begin in the fourth quarter of 2020, eventually ramping up to 4 million ounces annually as Canada's only primary silver producer.

After pouring first gold last September, Victoria Gold's Eagle Gold mine reached full commercial production on July 1, 2020. As a result, production is expected to rise from 39,000 ounces in the first six months to between 85,000 and 100,000 ounces over the final six months[21].

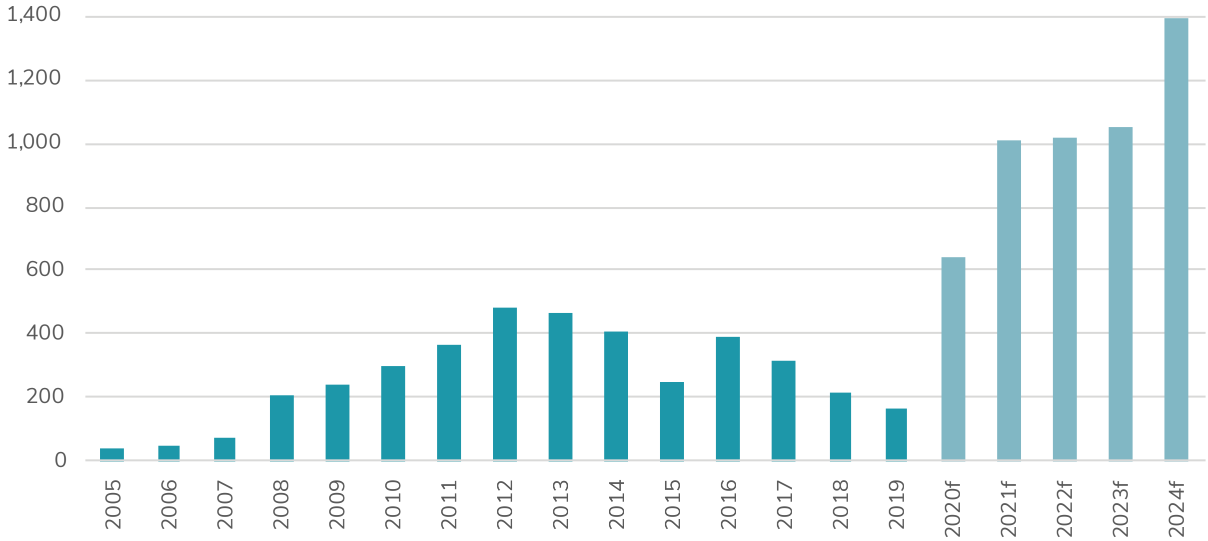
Pembridge Resources' Minto mine had its first concentrate shipment in January 2020. According to the company, almost 13,800 wet metric tonnes of concentrate was produced in the first half of 2020[22], with higher production expected for the second half. In addition to the start of Keno Hill production, the forecast includes a fourth mine in 2024, although uncertainty remains over the timing of development and production.

Placer mining remains a key contributor to territorial mineral production. In 2019, over 75,000 ounces of placer gold[23] was exported from Yukon with an approximate value of $116 million. Lower fuel prices and high gold prices are expected to contribute to higher production of 80,000 ounces in 2020, valued at $140 million. Expectations are that annual production will remain in the area of 80,000 crude ounces over the medium term.

Overall, the near-term outlook for mineral production has improved since the March forecast, due partly to a stronger metal price outlook, particularly for gold, silver and copper. The value of mineral production is expected to more than triple in 2020 to well over $600 million.

Chart 17. Improved outlook for mineral production value supported by improving metal prices and new mine production

Value of mineral production ($millions)



Source: Natural Resources Canada, Department of Finance

21 Victoria Gold provides inaugural guidance for the Eagle Gold mine, Yukon Territory. News Release (July 14, 2020) Victoria Gold Corp.

22 Minto Operation Update for Q2 2020 – News Release (July 20, 2020). Pembridge Resources plc.

23 Placer gold is generally worth about 70-90 per cent of the posted price for a troy ounce of gold.

COVID-19 is weighing on mineral exploration

So far, 2020 has been a mixed bag for mineral exploration activity in Yukon. A significant decrease in mineral claim staking has occurred this year due to travel and work restrictions. Relief from assessment work requirements was granted to claim holders on April 24 for a period of one year[24], acknowledging the impact of public health measures and constraints on activity. This measure mitigates against lapsing claims and offers protection of title for existing claim holders. However, the stage is set for increased exploration activity and higher exploration spending in the near term due to the increase in gold prices.

Tourism sector

COVID-19 puts the brakes on tourism sector momentum

Yukon's travel and hospitality economy spans a wide range of businesses, from guided tour operators and airlines to accommodations, retail and restaurants. The pandemic has left these businesses extremely exposed and 2020 is shaping up to be the most difficult year on record for the tourism sector.

The number of people clearing Canadian customs in Yukon in the first 6 months of 2020 was down 92 per cent from 2019 levels. Airlines are operating at only a fraction of historic capacity, resulting in the cancellation of numerous routes and a reduction in the frequency of flights. Aircraft movements at the Whitehorse International Airport was down 38 per cent in the first six months of 2020 from 2019 levels. Even with Yukon softening travel restrictions with B.C. and the other territories, the outlook for air visitation in 2020 remains bleak.

Chart 18. Border crossings taking a big hit in 2020

International border crossings[25] (thousands)

Source: Statistics Canada, Department of Finance

Based on the year-to-date decline in border crossings, and the poor outlook for the remainder of the year, visitation to Yukon may be 80 to 90 per cent below the 2019 level. With the tourism sector accounting for about 5 per cent of Yukon total GDP[26], tourism's decline is a driving factor behind the downward revision in the real GDP forecast for 2020.

24 A Path Forward: Yukon's plan for lifting COVID-19 restrictions. Government of Yukon

25 Data were only available for the first six months of 2020 at the time of writing.

26 Yukon Business Survey 2019. Yukon Bureau of Statistics

Given the unparalleled disruption to the travel and tourism sector, forecasters have been hesitant to make predictions about the magnitude and duration of impacts. For Yukon, a great deal will depend on how long international border restrictions remain in place. Of the over $100 million spent by non-residents in Yukon in 2018, roughly 70 per cent was from international visitors versus 30 per cent from out-of-territory Canadians[27].

The tourism sector is not likely to rebound next year if border restrictions remain in place. Even if they are lifted, concerns over contracting COVID-19 while travelling will limit demand until a vaccine can be widely distributed. Under the current forecast, 2022 is the first tourism season projected to be unencumbered by restrictions on travel and business operations. Due to reduced demand from risk-averse travellers, tourism activity is not expected to return to pre-COVID levels until 2023.

Construction sector

Construction activity remains robust

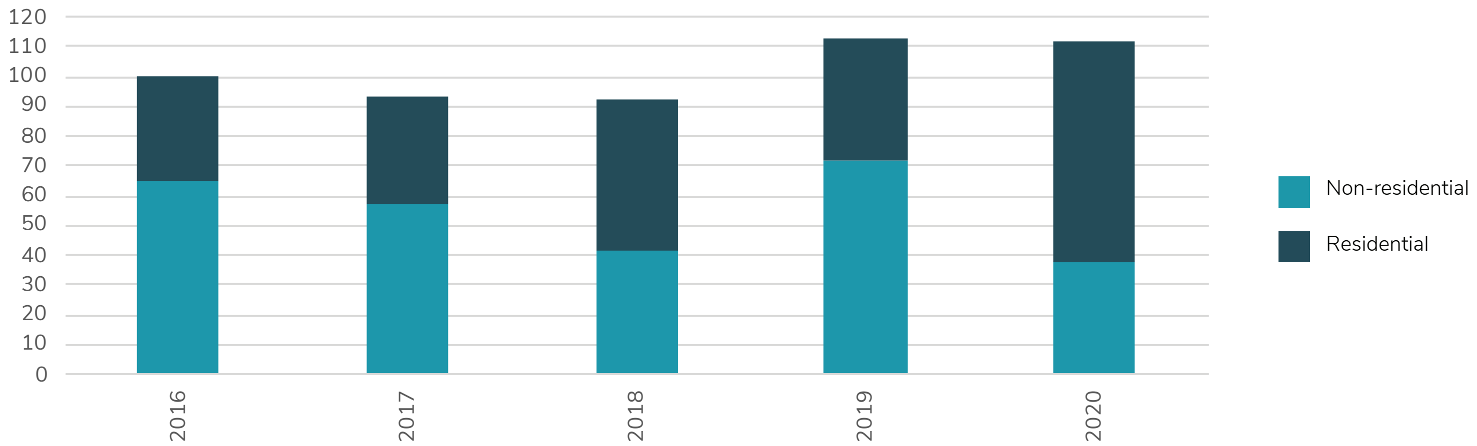
Despite many complications in the form of pandemic-related worker safety protocols, the construction industry remained active in 2020.

The ambitious capital spending program laid out in Budget 2020–21 is largely on target. The First Supplementary Estimates of gross capital expenditures for 2020–21 total $366.4 million, up 13 per cent from 2019–20 and only $3.8 million lower than in the Main Estimates. Beyond 2020–21, capital spending is projected to average about $410 million annually to 2024–25.

Residential building construction has already exceeded last year's total, with $74.4 million worth of building permits issued through August 2020, over 81 per cent higher than in the first eight months of 2019. Residential investment data shows that growth in the last year has been a mix of both new construction and renovations. Both single home construction and investment in multiple dwelling buildings have seen a boost, with permits year-to-date growing 29 per cent and 42 per cent, respectively[28].

Chart 19. Residential activity up substantially in the first eight months

Building permits January to August 2020 ($millions)



Source: Statistics Canada

27 Detailed Household Final Consumption Expenditure – Yukon. Statistics Canada

28 Building permits, by type of structure and type of work. Statistics Canada

Continued development of the Whistle Bend subdivision in Whitehorse, along with other projects, should continue over the medium term as strong demand fuels investment from builders.

The completion of construction of the Eagle Gold mine and the Raven Inn combined with the winding down of construction of the new Paul-Émile Mercier Secondary School Community Centre has lowered non-residential building permits in the first seven months of 2020. Non-residential construction should be buoyed in the medium term with development at Alexco's Keno mine site and potential for development of other mining operations, including the Coffee gold project. There will also be investment in a new school for the Whistle Bend subdivision.

Conclusion

Even with the gradual reopening of the economy underway, 2020 will be a challenging year for Yukon's economy. Fallout from the virus is expected to extend into next year and possibly beyond, with potential ramifications affecting both Yukon's economic and fiscal outlooks.

Appendix A: Key economic indicators

INDICATOR	2019	2020f	2021f	2022f	2023f	2024f
Real Gross Domestic Product						
Percent change	1.0	0.8	6.9	4.7	3.9	3.2
Population°						
Population (persons)	41,352	41,800	42,600	43,500	44,300	45,100
Percent change	1.7	1.2	1.8	2.1	1.8	1.7
Labour market†						
Labour force	22,300	21,600	21,700	22,300	22,700	23,200
Employment	21,500	20,100	20,500	20,500	21,400	22,000
Unemployment rate	3.6	6.9	5.3	5.3	5.6	5.3
Consumers						
Inflation˜ (per cent)	2.0	1.2	2.0	1.8	2.0	2.0
Retail Sales ($millions)	865	820	830	860	900	940
Commodity Prices*						
Gold ($US/toz)	1,392	1,716	1,762	1,750	1,750	1,750
Silver ($US/toz)	16.21	17.19	19.58	19.50	19.50	19.50
Copper ($US/pound)	2.73	2.58	2.71	2.75	2.75	2.75
Zinc ($US/pound)	1.16	0.91	0.96	1.00	1.00	1.00
Oil ($US/barrel)	56.88	38.07	45.64	52.50	55.00	55.00
Key Rates						
Three month T-bill rate	1.6	0.5	0.2	0.3	0.5	0.8
Canada/U.S. exchange rate	0.75	0.74	0.74	0.75	0.75	0.75
Mining						
Mineral production ($millions)	170	640	1,010	1,020	1,050	1,390

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 sourced from a variety of private-sector forecasts.

Forecasts are based on data available as of August 26, 2020. The Yukon Bureau of Statistics produces the population projections. All other forecasts produced by the Economic Research branch. For up-to-date statistics, refer to the latest releases from Statistics Canada and the Yukon Bureau of Statistics.

f forecast.

° rounded to nearest 100.

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

˜ captures CPI increase for Whitehorse only.

* annual averages.