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Introduction

Budget 2018 continues efforts begun last year to establish a systematic approach to planning. We recognize that challenges still remain in returning Yukon's finances to a sustainable path.

This Budget takes a cautious approach to fiscal change, as the government continues to work through the recommendations of the Financial Advisory Panel. Yukon does not exist in a vacuum; trends in the global economy and in global financial markets also have an impact on Yukon's economic health.

Budget 2018 continues to be focused on the government's priorities, to ensure that:

- **A people-centred approach to wellness helps Yukoners thrive.** Comprehensive and coordinated programs and services to meet people's needs at all stages of their lives to support the well-being of Yukoners.
- **Strategic investments build healthy, vibrant, sustainable communities.** This includes more predictable funding for communities and targeted investments in infrastructure to support community development.
- **Strong government-to-government relationships with First Nations foster reconciliation.** The spirit and intent of final and self-government agreements is to provide benefits to Yukon through reconciliation and nation-building. As Yukon grows and matures as a government, strengthened relationships with First Nations advance a modern Yukon.
- **Our diverse, growing economy provides good jobs for Yukoners in an environmentally-responsible way.** Targeted government investments support broad-based economic growth and maximize the benefits of planned spending to Yukon, while preserving and protecting Yukon's environment.

Part I: Yukon's finances

Overview of fiscal plan

The government's fiscal outlook remains on track for a modest surplus in 2017-18. In future years, the fiscal gap has narrowed, reining in the large deficits projected last year. We will make prudent choices in order to ensure that plans stay on track. Government must manage an increasing demand for public services as Yukon's economy and population continue to grow. We must also continue making smart investments in infrastructure that support future growth and return the government's finances to a path of fiscal sustainability.

Budget 2018 projects deficits for 2018-19 and beyond, which are smaller than those contained in Budget 2017. This plan scales back expenditure growth to ensure that Yukon's finances get back to balance; this will require careful attention and prudent decision-making in the upcoming years to ensure that plans are realized.

Figure 1: Surplus/deficit position (unconsolidated basis)

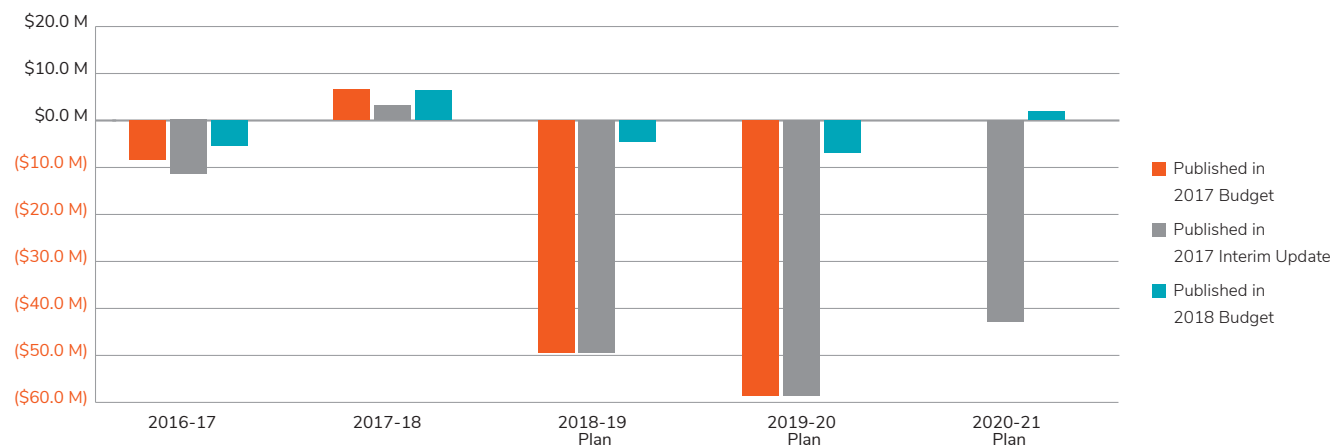


Figure 2: Government of Yukon financial framework (unconsolidated basis)¹

(All figures in millions of dollars)		2016-17	2017-18	2017-18	2018-19	2019-20	2020-21
		Public accounts	Main estimates	Supplementary estimates #2	Plan	Plan	Plan
Revenue:							
Transfers from Canada		945.6	971.5	973.6	1,005.1	1,025.3	1,051.6
Yukon tax and general revenue		163.4	149.9	150.1	161.6	171.8	173.7
Total revenue	(A)	1,109.0	1,121.4	1,123.7	1,166.7	1,197.1	1,225.3
Expenditures:							
Operation & Maintenance							
Expenditures		1,080.2	1,132.5	1,184.3	1,191.9	1,223.8	1,230.1
Recoveries		(105.1)	(109.5)	(116.6)	(111.1)	(109.7)	(107.6)
Subtotal - net operating	(B)	975.2	1,023.0	1,067.7	1,080.8	1,114.2	1,122.4
Capital *							
Expenditures		245.9	307.2	278.6	280.1	288.3	293.4
Recoveries		(35.2)	(58.4)	(47.2)	(55.7)	(98.4)	(94.2)
Subtotal - net capital	(C)	210.7	248.8	231.4	224.5	189.9	199.2
Total expenditures (gross)		1,326.1	1,439.7	1,462.9	1,472.0	1,512.1	1,523.4
Total recoveries		(140.3)	(167.9)	(163.8)	(166.8)	(208.1)	(201.8)
Total expenditures (Net)	(D)	1,185.8	1,271.8	1,299.1	1,305.3	1,304.1	1,321.6
Revenue less expenditures: (A)-(D)	(E)	(76.8)	(150.4)	(175.4)	(138.6)	(107.0)	(96.4)
Adjustments	(F)	71.4	156.9	181.7	134.1	100.1	98.2
Annual surplus (Deficit): (E)+(F)	(G)	(5.4)	6.5	6.3	(4.5)	(6.9)	1.8

* Includes Yukon Housing Corporation rental income, O&M expenditures recoveries

1. Adjustments (shown in Figure 2) are made to present the bottom line on a net expense basis. Some expenditures represent cash outlays that do not affect the government's net surplus/deficit position, such as capital expenditures toward the purchase or construction of tangible capital assets. Those assets are expensed (amortized) over time against the government's bottom line as the assets are "used up" throughout their expected useful life, rather than the total impact of the expenditure being reflected in the year(s) in which it was made.

The government is considering the options presented by the Financial Advisory Panel as it works through its longer-term strategy. We are taking early action on three of the Panel's proposed options:

- completing a comprehensive review of Health and Social Services as the panel suggested, as nearly one-third of government expenditures are dedicated to these services;
- increasing the efficiency and effectiveness of service delivery, looking not just at what government does but also how it does it; and
- getting out of the business of business, by finding opportunities to stop doing work that is done elsewhere in Canada by the private sector.

The impact of any further decisions made about the Panel's other recommended options will be addressed in the 2018 Interim Update and in Budget 2019, as those decisions are finalized.

Revenue Outlook

Revenues are expected to be modestly improved over the 2017 Budget, driven partly by strong income growth, high levels of participation in the labour market and continued low levels of unemployment. Yukon continues to have one of the highest average incomes in the country, and the impact on Yukon tax revenues is expected to be positive. Corporate tax reductions announced in the 2017 Budget make Yukon more attractive as a place to invest and do business, supporting stronger revenue growth over the longer term.

Yukon's revenues come from three primary streams:

- transfers from the federal government, which make up more than 86% of Yukon's total revenue, and include funding under the Territorial Financing Formula (TFF), the Canada Health Transfer and the Canada Social Transfer;
- taxation revenue from personal and corporate income taxes, fuel taxes, and other taxes (such as the tobacco tax), net of any tax credits; and
- other revenue, including the income earned on government investments.

A breakdown of revenue projections in these three streams is shown in the table below.

Figure 3: Revenue by type

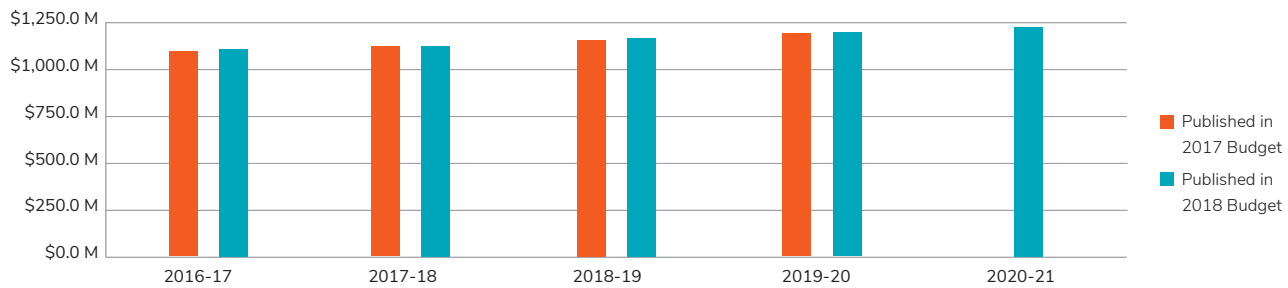
<i>(All figures in millions of dollars)</i>	2016-17	2017-18 (Main estimates)	2017-18 (Supplementary)	2018-19	2019-20	2020-21
Transfers from Canada	945.6	971.5	973.6	1,005.1	1,025.3	1,051.6
Own-source revenue:						
Taxation	111.7	110.7	109.6	118.5	123.2	126.2
Other	51.7	39.2	40.5	43.1	48.6	47.5
Total own-source revenue	163.4	149.9	150.1	161.6	171.8	173.7
Total Revenue	1,109.0	1,121.4	1,123.7	1,166.7	1,197.1	1,225.3

Note: Totals may appear not to add as a result of rounding

Transfers from Canada are negotiated with the federal government, and are primarily driven by population. TFF is an annual unconditional transfer to enable territorial governments to provide a range of public programs and services to their residents that are comparable to those offered by provincial governments, at comparable levels of taxation.

Taxation revenue in Yukon is very volatile, particularly corporate income taxes. Corporate tax revenue is driven, in part, by business activity in Yukon, but it can be difficult to predict the timing of the impact on government tax revenue. Personal income tax revenue is closely related to population growth, levels of employment and income growth. Each of these is projected to show continued strength over the forecast horizon.

Figure 4: Revenue outlook (unconsolidated basis)



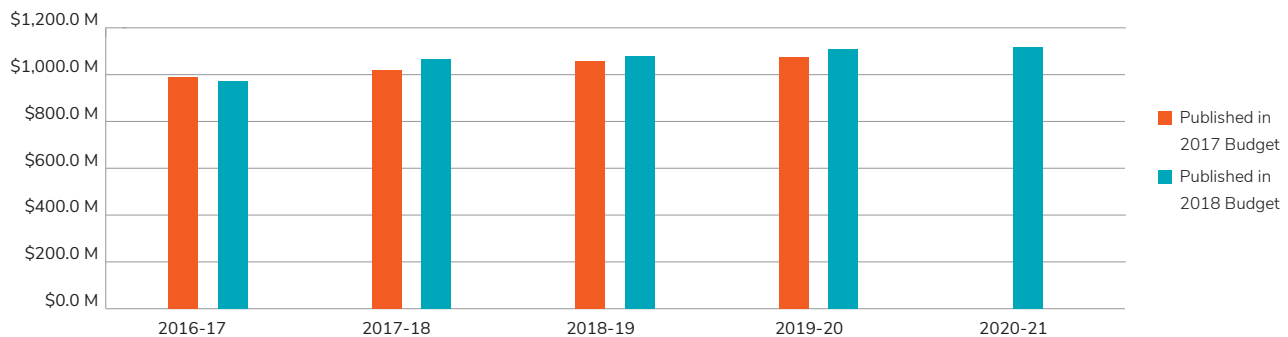
Expense outlook

As noted, Budget 2018 makes progress toward fiscal sustainability, with overall deficits substantially reduced as spending plans have been adjusted since the 2017 Budget.

The forecast for operation and maintenance (O&M) expenditures includes a number of changes from 2017-18 Main Estimates, such as \$37 million in additional spending for Health and Social Services and \$7 million for Education (in part for additional educational assistants and backup for teachers).

Changes to recoveries also affect net O&M expenditures. The 2018 Budget includes modest increases to recoveries for programs such as the recovery of third party health care costs and increases to the Early Learning and Childcare Funding and Labour Market Development Agreements:

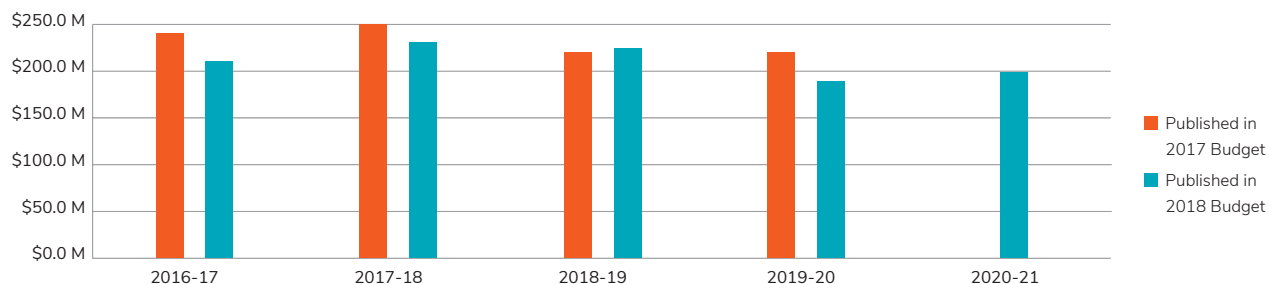
Figure 5: Net operating expenditures (unconsolidated basis)



Government capital spending is critical to meeting Yukon’s needs, including projects undertaken in partnership with the federal government. Spending to support reliable, efficient infrastructure – both new projects to meet increasing needs, and maintenance of existing assets – is an important part of ensuring Yukon’s future prosperity, building a solid foundation for an economy that is poised for significant growth and a population that continues to expand. The 2018 capital plan includes investments such as:

- upgrading and maintaining Yukon’s highway system to enable the transport of goods and services to and from Yukon in order to facilitate access for growing numbers of tourists to the territory, and to support Yukoners’ continued enjoyment of all corners of their territory for work and play;
- constructing and maintaining social and affordable housing units owned by the Yukon Housing Corporation to better support the most vulnerable Yukoners;
- investing in school facilities that meet the needs of a growing Yukon student population;
- investing in fibre redundancy, to improve and maintain reliability of internet connectivity through the territory and support Yukon’s burgeoning knowledge economy;
- expanding Yukon’s health care options to meet the needs of a changing demographic, including continued investment in the Whistle Bend Continuing Care Facility and Thomson Centre; and
- investing in better IT infrastructure to provide more transparent and timely information to the public.

Figure 6: Net capital expenditures (unconsolidated basis)



Budget 2018’s capital plan can be broken down as shown in the table below. Beginning in 2018-19, the Government of Yukon is releasing a long-term capital plan, and details can be found in the *Five-Year Capital Plan*. The plan is carefully balanced to meet Yukon’s most critical needs for future growth without overheating demand in the construction sector and exceeding local capacity

Figure 7: Gross capital expenditures by type (unconsolidated basis)

(all figures in millions of dollars)	2018-19	2019-20	2020-21
Real property (buildings)	88.7	69.8	71.5
Transportation infrastructure	65.3	70.3	75.2
Community / First Nations infrastructure	41.9	46.0	50.7
Land development	17.7	17.7	17.7
Equipment	14.9	8.6	8.7
Information technology	14.3	14.2	14.1
Loans	12.2	11.9	11.6
Capital transfers	8.2	11.4	9.4
Other projects	16.9	38.4	34.5
TOTAL	280.1	288.3	293.4

The government's net surplus/deficit position is not affected by the full amount of capital spending in a given year², but there may be a significant impact from related O&M costs each year. One example of this is the Whistle Bend Continuing Care Facility, whose associated O&M costs are fully reflected in the government's expense outlook and which accounted for the majority of the deficits projected last year. As a result, development of the capital plan needs to consider the government's ability to manage any related operating costs in future years, without damaging the sustainability of Yukon's finances.

Recoveries of capital expenditures are primarily related to transfers from the federal government under infrastructure funding agreements.

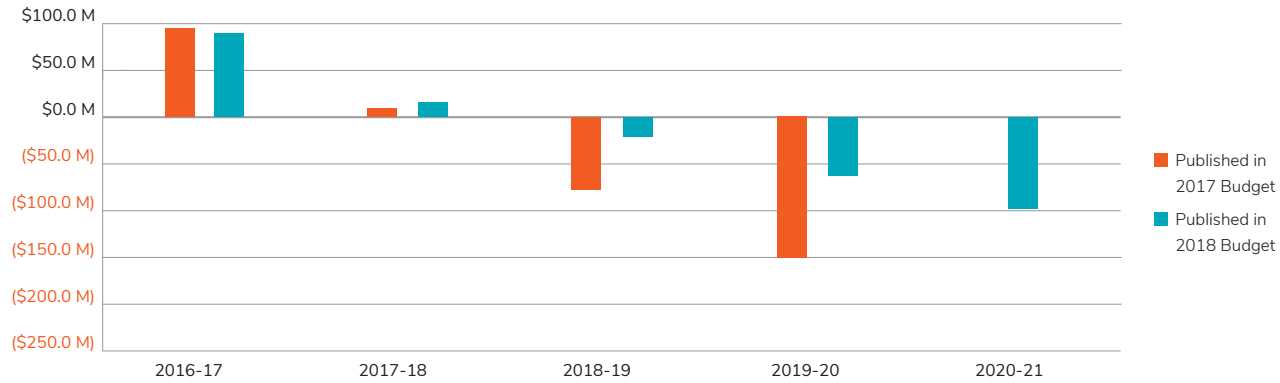
Net Financial assets/debt³

The balance of net financial assets declined in 2017-18, from just under \$90 million down to an estimated \$30 million by the end of the year as the government accounted for costs that had not been included in projections developed in previous years.

2. Investment in tangible capital assets (such as buildings) are recorded as non-financial assets in the government's books and their value drawn down (amortized) each year over their useful life in adjustments to the government's bottom line. For example, capital spending on a new building that cost \$40 million to construct in one year (but was expected to have a useful life of 40 years) would not result in an immediate \$40 million hit to the government's bottom line. Rather, the \$40 million value of that building would be drawn down each year, and \$1 million (\$40 million total divided by 40-year life span, assuming amortization was straight-lined) captured as an expense each year until the end of the building's useful life.

3. Financial assets: those assets that could be used to discharge existing liabilities (for example, pay off debt) or to finance future operations. These assets can include cash, investments, accounts receivable, loans receivable and land held for sale. Net financial assets represent the difference between financial assets and liabilities, and a positive balance means that the government currently hold enough financial assets to more than meet its existing obligations. Liabilities include financial obligations to outside organizations or individuals because of past government activities, such as accounts payable, long-term debt, and post-employment benefits.

Figure 8: Net financial assets (unconsolidated basis)



2018 Budget projections for the balance in financial assets/debt include two components. The “effect of change in non-financial assets” includes the impact of investments in tangible capital assets (such as buildings or equipment) which are not considered financial assets. The other major impact on the net asset/debt position at the end of the year comes from the annual surplus or deficit position⁴.

The government remains in an accumulated surplus position through the next three years, although it is projecting small annual deficits in 2018-19 and 2019-20.

Part II: Yukon’s economy

Budget 2018 presents a more buoyant outlook for Yukon’s economy than the 2017 Budget, lifted by expectations of a pickup in mining activity, continued strength across most sectors, and an improving outlook for global growth. The labour market has tightened and is expected to continue its strong performance, with low levels of unemployment, strong income growth and high rates of participation in the labour force. This supports a positive outlook for Yukon’s own-source revenue in coming years.

Strong GDP growth with broad-based economic expansion

In 2018, real GDP is expected to grow by 4.4%, with growth in most economic sectors. GDP will also be boosted by development spending for Eagle Gold and an increase in mineral production. Production at the Minto mine is expected to increase and placer gold production should also see an increase.

Beyond 2018, Yukon’s GDP is expected to be supported by a generally healthy local economy, as well as activities related to the mining sector. Real GDP gains are expected every year out to 2022, with high levels of mine development spending and production from new mines over this period. In 2019, GDP is expected to grow another 7.3%, before levelling off to more modest growth of 2% in 2020.

There is significant upside risk to Yukon’s GDP forecast, with potential mining projects at Keno Hill and Kudz Ze Kayah. A discussion of these potential developments and other factors related to key economic sectors in Yukon follows in the Sector Analysis section.

4. Surplus/deficit: A surplus adds to the net asset position as the government has not used all of the financial resources it had available at the start of the year, while a deficit reduces the net asset position (or adds to debt)

The expenditure method for GDP is the most widely used approach to estimate a jurisdiction’s economic output for a particular period of time (most often over the course of a year). The expenditure approach estimates GDP by summing up final expenditures within a jurisdiction. The sum of purchases made by these categories, minus imports, equals the total output of goods and services.

Figure 9: Real GDP, expenditure-based (all values in 2007 millions of dollars)



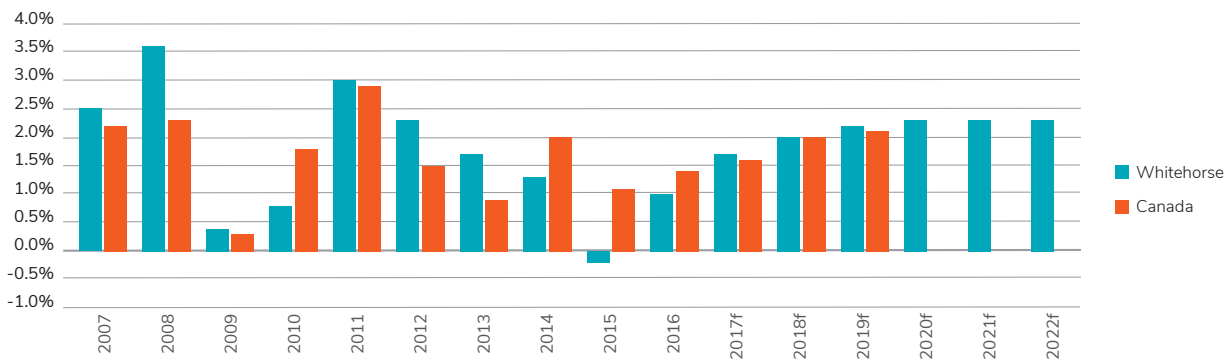
Source: Department of Finance, Statistics Canada

An increase in real GDP is generally viewed as a sign that the economy is performing well. In many jurisdictions, gains in real GDP are accompanied by gains in employment, population, and retail sales. However, for Yukon the correlation is weaker between GDP changes and other indicators of economic performance. Along with GDP, the following sections will look at other key indicators to consider when assessing Yukon’s economic performance.

CPI growth expected to edge up slightly in 2018, with stronger growth in the medium-term

Consumer inflation is measured by the Whitehorse Consumer Price Index (CPI)⁵, a market basket of key consumer goods and services. CPI increased by 1.7% in 2017 and has averaged about 1.6% over the previous 15 years, lower than the 1.9% average for Canada over the same period.

Figure 10: Annual percentage change in CPI (Whitehorse and Canada)



Source: Department of Finance, Statistics Canada, Bank of Canada

5. Note that the Whitehorse CPI is reflective of price changes in Whitehorse only, not more generally within the territory.

Most components of Whitehorse CPI grew in 2017, with price gains in gasoline (6.6%); transportation (3.3%); alcoholic beverages and tobacco products (3.2%); recreation, education and reading (3.1%); and health and personal care (2.1%). Only a few components declined, including food (-0.6%). Although food prices were only down slightly, its relatively large share of CPI moderated the price increases seen in other components.

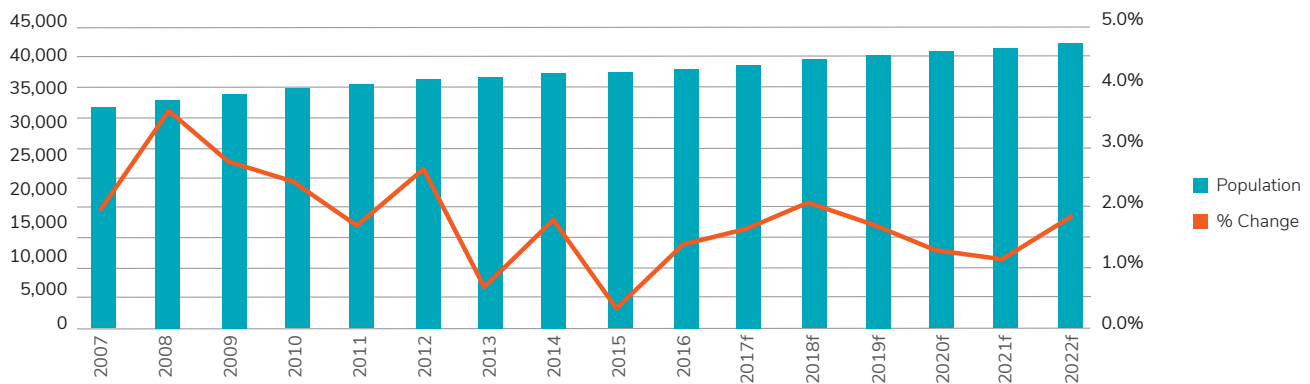
Whitehorse CPI is expected to increase by 2.0% in 2018, the same amount as the Bank of Canada's forecast of 2.0% for Canada. Beyond 2018, stronger growth is expected, averaging 2.3% over 2019 to 2022. This results from expected increases to fuel prices, a growing population, further growth in employment and incomes, and a generally positive economic outlook.

If CPI growth outpaced the forecast, it would lower purchasing power of households and increase the costs of doing business. In times of higher inflation, discretionary spending on items such as entertainment or restaurant meals often decline as a greater share of household income is directed to non-discretionary goods such as food or fuel. For businesses that have to pay more for their inputs, inflationary pressures cut into revenues, except to the extent they are able to pass increased costs onto consumers. This could dampen Yukon's economic performance with lower levels of retail sales, lower levels of employment, and weaker than expected GDP performance. However, gains in personal income are expected to outpace inflation and average 2.5% over 2018-2022, softening any negative effect from CPI growth.

Population growth to continue over the medium-term

For the 14th consecutive year, Yukon's population increased, adding 597 persons in 2017. This is a 1.6% increase from 2016, bringing the total population to 38,455. Whitehorse continues to be the population and service centre for Yukon, representing more than 77% of the territory's total population. Whitehorse's population grew by 500 (about 1.7%) in 2017, accounting for almost 85% of the total growth in the territory's population in 2017. This trend is expected to continue.

Figure 11: Annual Yukon population (June) and percentage change



Source: Department of Finance, Yukon Bureau of Statistics

Dawson City also grew by 68 persons (3.2%) to 2,226, making it the second most populous community in Yukon. (Note that the June number is used for annual population figures, and Dawson's population in the winter months can be considerably smaller.) Watson Lake, with a population of 1,464, remained the 3rd largest community in the territory with its population relatively unchanged.

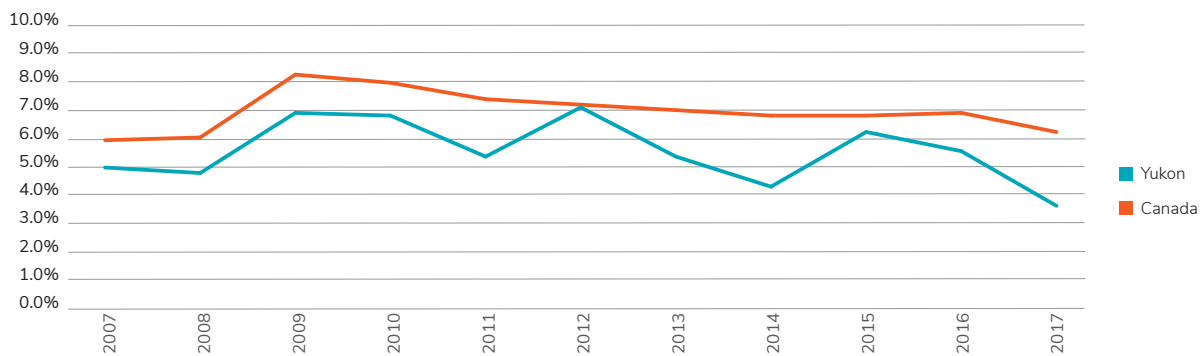
Although decreasing for the last 3 years, the First Nations⁶ population in Yukon has increased by 5.9% in the last decade to 7,751. This increase is comparatively slower than the population as a whole (up 19.4% over the same period). First Nations in Yukon represented 20.2% of Yukoners in 2017, and that population is younger on average with a median age of 33, compared to 40 for non-First Nations.

Buoyed by a strong local labour market and expectations of further mining development leading to net migration into Yukon, the population is expected to continue to rise. Population is expected to grow by another 2.0% in 2018, and continue to grow every year to reach a population of 41,500 by 2022.

Yukon's labour market expected to continue to perform well

Yukon's labour market continued to perform well in 2017, with growth in employment and a decrease in the unemployment rate. The average annual unemployment rate in Yukon dropped to a historic low in 2017.

Figure 12: Average unemployment rate, Yukon and Canada



Source: Statistics Canada, Department of Finance

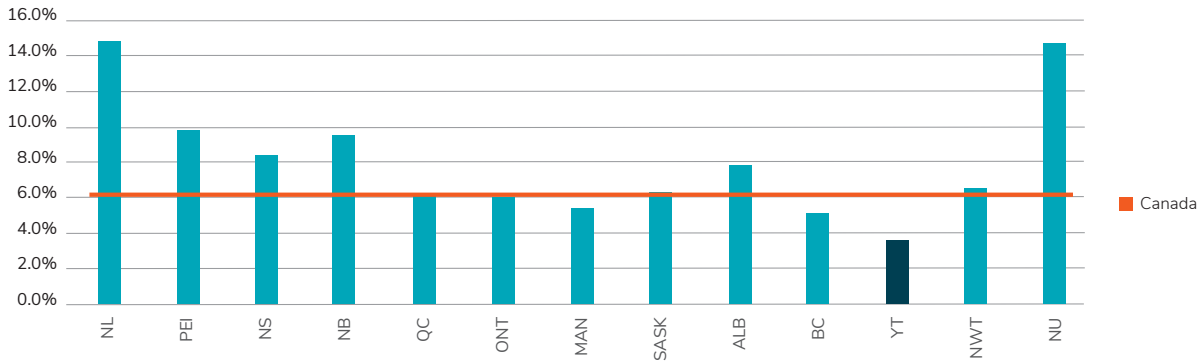
Total employment in Yukon increased by almost 5% in 2017 to average 21,200. Most of this was driven by full-time (not part-time) employment in the territory. The labour force grew more slowly (600 in the last year) than employment, so the unemployment rate dropped to 3.6% on average in 2017 with only 800 persons reported as unemployed.

Employment gains were concentrated in services-producing industries, rising to 18,500 people (up 1,100 from 2016), supported by gains in retail trade (up 600 to 2,500), information, culture and recreation (up 300 to 1,200), transportation and warehousing (up 200 to 1,100) and accommodation and food services (up 100 to 1,900). Some declines in employment were seen in professional, scientific and technical services (down 300 to 900) and finance, insurance, real estate and leasing (down 200 to 600).

Yukon's unemployment rate was well below the Canadian average of 6.3%, and the lowest of all the provinces and territories. Next lowest was neighbouring British Columbia with 5.1%, while Newfoundland and Labrador continued to report the highest rate at 14.8% last year.

6. On the basis of self-reported identity

Figure 13: Average 2017 unemployment rate by province/territory



Source: Statistics Canada, Department of Finance

Labour force participation⁷ in Yukon increased for the fourth year in a row to 76.4%, and remained the highest in the country in 2017 – more than 10 percentage points higher than the national average of 65.8%. Besides Yukon, only the Northwest Territories (70.7%) and Alberta (72.4%) had labour force participation over seventy percent.

Statistics Canada’s *Survey of Employment, Payrolls and Hours (SEPH)* also reports growth in the number of occupied positions in Yukon in 2017. The preliminary average number of positions in Yukon from January to November of 2017 was reported at 21,702, an increase of 3.1% over the same period in 2016. “Goods Producing Industries” (including mining) grew by 8.3% to 2,221 on average, while “Service Producing Industries” increased at a slower pace (2.1%) to 19,174 on average over that period.

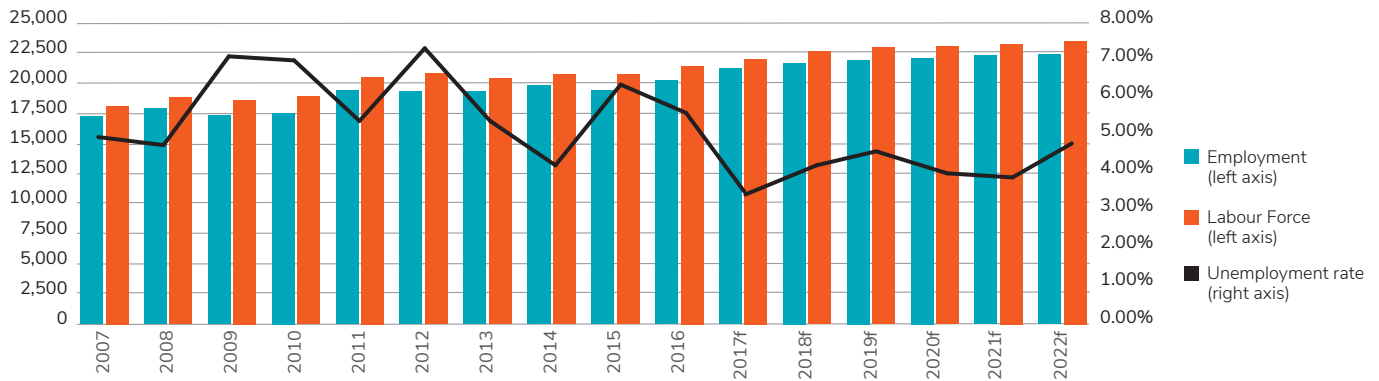
Yukon also continues to rank among the highest in the country in terms of average weekly earnings, with the average of \$1,093/week in the first 11 months of 2017, fourth among all the provinces and territories behind only the Northwest Territories, Nunavut and Alberta. Yukon was also well above the national average of \$973/ week. Yukon’s average weekly earnings increased 3.7% in the first 11 months of 2017, with growth in a variety of industries.⁸

Yukon’s labour market is expected to continue to perform well in 2018, with forecasts of gains for both employment and the labour force. Employment is expected to grow by 2.1% to 21,700 in 2018, with a 2.8% gain in the labour force. With the size of the labour force growing slightly faster than employment, the unemployment rate is expected to increase modestly, but will remain low at 4.3% this year.

7. The percentage of the population 15 years and older who are either employed or actively seeking employment

8. Industries include ‘other services’ (up 23.9% to \$908/week), transportation and warehousing (up 12.7% to \$1,033/week), accommodation and food services (up 5.2% to \$489/week), construction (up 3.3% to \$1,190/week) and finance and insurance (up 3.2% to \$1,268/week).

Figure 14: Yukon labour force, employment and unemployment rate



Source: Statistics Canada, Department of Finance

Employment gains are expected to be broad-based, increasing across a number of industries including mining, transportation and warehousing, and professional, scientific and management. By 2022, Yukon employment is projected to be 22,400, with a total labour force of 23,500 and unemployment remaining low at 4.8%. Rising employment and a tightening labour market in Yukon puts upward pressure on income levels in the territory, reflected in expectations for continued strong income growth over the forecast horizon. This supports a robust revenue forecast for Yukon’s personal income tax revenues.

Sector overview: generally healthy performance across the board

Steady growth in finance, insurance, real estate, rental and leasing buoyed by strong employment and income growth

Finance, Insurance, Real Estate, Rental and Leasing has historically been a large contributor to the Yukon economy and represented almost 18% of total GDP at basic prices in 2016. Its contribution has remained relatively constant over the last decade, fluctuating by less than 2%. This sector encompasses:

- finance and insurance – businesses primarily engaged in financial transactions (that is, transactions involving the creation, liquidation, or change in ownership of financial assets) or in facilitating financial transactions; and
- real estate and rental and leasing – businesses primarily engaged in renting, leasing or otherwise allowing the use of tangible or intangible assets. Establishments primarily engaged in managing, selling, renting and/or buying real estate for others are also included.

This sector remained robust even when the economy contracted in 2015, expanding by 2.2%. This was due, in part, to population and employment growth in 2015, which supported demand in the housing and rental market, even given a contraction in real GDP. Short-term changes in economic activity should not significantly influence this industry, although a prolonged downturn that leads to declines in population or employment could set this industry back. Projected strength in employment, income growth and population over the forecast horizon mean that this industry is expected to continue to grow steadily.

Whitehorse continues to have a low residential rental housing vacancy rate, between 1% to 3% in recent history. This shows a high demand for rental units as well as an incentive for renters to move into owned

accommodation. Affordability in Whitehorse has remained relatively stable over the last three years since reaching an affordability low in 2011, based on changes in earnings, housing prices and mortgage interest rates. Rising interest rates and changes to mortgage lending rules may have a dampening effect on new home-ownership in Yukon, but this should not be significant given the Yukon's high average incomes and continued demand.

Real estate transactions in Yukon continued to grow in 2017, with year-to-date sales (up to the third quarter) increasing by 3.8% over the same period in 2016. This is a slower pace than previous years, with 9.7% growth observed in 2016 and 8.4% in 2015.

Average housing sales prices in Whitehorse have shown some growth in 2017 despite the decline in permitted construction. The average weighted Whitehorse house price of \$439,100 over the first three quarters of the year was 4.1% higher than in the same period in 2016.

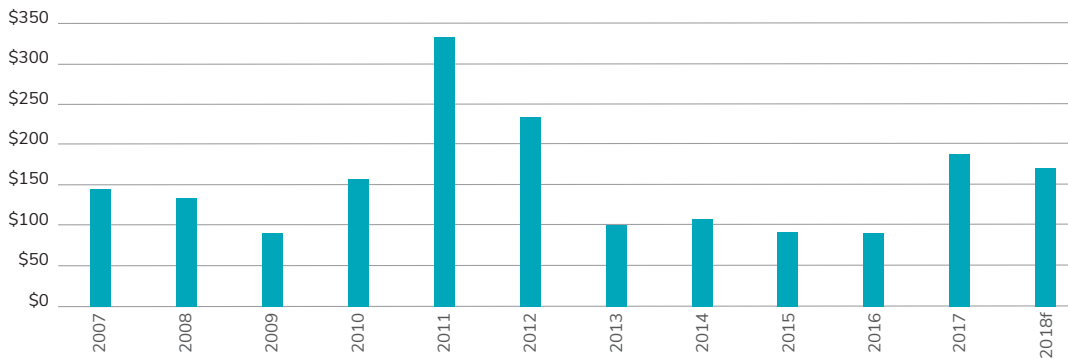
In the forecast period, 2017 to 2022, this sector is projected to grow by an average of 2.0% each year, supported by average overall real GDP growth and a population increasing by almost 8% to 41,500 by 2022.

New mines on the horizon

An improved outlook for mineral prices is contributing to optimism for further exploration and development with a number of projects now positioned to contribute to Yukon's economy in the medium term.

After two years of decline, exploration spending grew in 2017, with recent estimates noting expenditures of close to \$200 million, the highest level since 2012. Current estimates are well above the current public estimate of \$133.4 million from Natural Resources Canada (NRCAN)⁹.

Figure 15: Yukon mineral exploration (in millions of dollars)



Source: Natural Resources Canada, Department of Finance

Renewed interest in Yukon mineral resources comes, in part, from an improved mineral price outlook, described earlier. As a result, financial institutions have loosened their grip on financing. This particularly benefits junior mining companies.

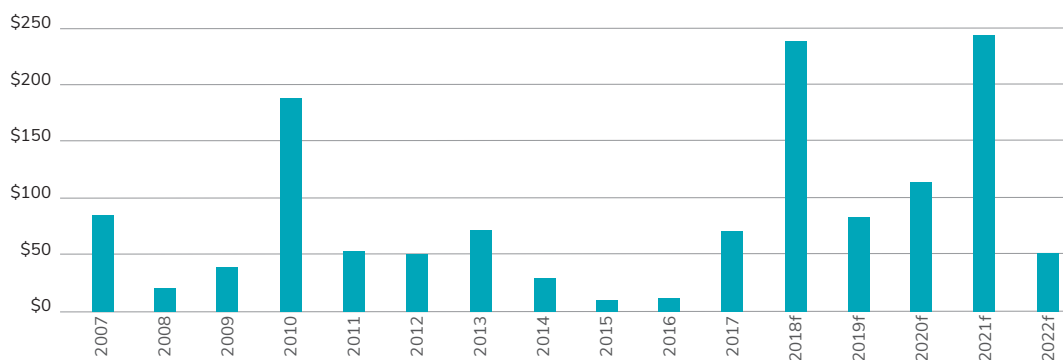
Firming mineral prices are expected to support exploration spending in 2018 with current estimates that spending will be in the area of \$170 million.

9. Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development Expenditures (September 2017). Natural Resources Canada

Development spending is also expected to pick up in 2018 and beyond. Without the development of new mines in recent years, development spending in Yukon has averaged less than \$20 million over the last three years. However, 2017 saw a large increase in spending with the start of Victoria Gold Corp's Eagle Gold project the primary contributor to the current public figure of near \$70 million¹⁰ in development spending. Looking ahead, the development of two mines is expected in the next few years, which would contribute significantly to development spending in Yukon and provide opportunities for associated employment.

Total development spending for the Eagle Gold project is expected to exceed \$300 million. The project broke ground on phase 1 of construction in August 2017, but the majority of development spending is expected to occur in 2018, with completion in 2019. The company has said that when the first phase of construction is in full swing, the number of employees on site would peak at 300.¹¹

Figure 16: Yukon mineral development (in millions of dollars)



Source: Natural Resources Canada, Department of Finance

For the Coffee Gold project, the Yukon Environmental and Socio-economic Assessment Board (YESAB) ruled in early February 2018 that GoldCorp had not provided adequate information about its mine plan. Further work is required before the proposal can move on to a full environmental assessment. GoldCorp has said they hope to get through the assessment and have a recommendation from the YESAB's executive committee in 15 to 18 months¹². Recent public statements suggest costs could be \$420 million to bring the mine into production¹³. Most spending is expected to occur in 2020 and 2021. The company estimates there will be more than 400 people employed during construction¹⁴.

Since the closure of the Wolverine mine in January 2015, Yukon mineral production has primarily been comprised of output from the Minto mine and production from placer gold operations. Mineral production is expected to pick up as two additional mines begin operations within the next five years.

The Minto mine recorded exceptional gains in mineral production in 2016, leading to very strong GDP growth. Copper production was up by more than 90%, and gold and silver production more than doubled with gains of 145% and 108%, respectively. In 2017, production declined significantly for all metals, lower than anticipated in the October 2017 Interim Update¹⁵. Underground production at the Minto

10. Ibid.

11. 'We start moving dirt next week' (August 10, 2017). Whitehorse Star. <http://www.whitehorsestar.com/News/we-start-moving-dirt-next-week>

12. Coffee gold project proposal is resubmitted (December 28, 2017). Whitehorse Star. <http://whitehorsestar.com/News/coffee-gold-project-proposal-is-resubmitted>

13. Ibid.

14. Ibid.

15. http://www.finance.gov.yk.ca/pdf/budget/2017-18_InterimFiscal_and_Economic_Update.pdf

mine continued to lag behind planned rates, but production is expected to rebound in 2018, with copper production increasing by 20% to just under 42 million pounds and growth in silver production. The mine is expected to continue to produce through mid-2021, with production starting to fall gradually beginning in 2019, down to about 75% of the 2018 production level by 2021.¹⁶

Placer gold mining continues to be significant contributor to Yukon’s mining sector, supporting local employment and currently accounting for a substantial portion of annual mineral production. After averaging near \$70 million annually from 2012 to 2015, the value of placer gold production increased to almost \$96 million in 2016. Placer gold operations benefitted from another good year for prices in 2017 and a favourable Canada-U.S. exchange rate. Placer production in 2017 is estimated to be about 72,000 crude ounces, a new record level and growth of 3% from 2016. The value of placer production is estimated at more than \$90 million.

The anticipated development of new mining projects could be reflected in Yukon’s mineral production as early as this year:

- *Eagle Gold* – The Eagle Gold mine is projected to have a ten-year lifespan with production of almost 1.9 million ounces of gold over that period. First production is currently anticipated to begin in 2019 and the project would employ 350-400 people annually during operation.
- *Coffee Gold* – GoldCorp has adjusted its timeline for first production from Coffee Gold, publically indicating that they expect first gold in 2021 as opposed to late 2020 as originally planned¹⁷. The project is presently expected to produce for 12 years and during operation, employment is expected to total about 320¹⁸.

The estimated value of mineral production of about \$290 million for 2017 was well below Natural Resources Canada’s (NRCAN) estimate of more than \$409 million¹⁹ for 2016. This resulted from lower production at the Minto mine.

Figure 17: Yukon value of mineral production (in millions of dollars)



Source: Natural Resources Canada, Department of Finance

16. Capstone Mining 2017 Production Results and 2018 Operating and Capital Guidance. <http://capstonemining.com/news/news-details/2018/Capstone-Mining-2017-Production-Results-and-2018-Operating-and-Capital-Guidance/default.aspx>

17. *Coffee gold project proposal is resubmitted*. (December 28, 2017). Whitehorse Star. <http://whitehorsestar.com/News/coffee-gold-project-proposal-is-resubmitted>

18. Ibid.

19. Annual Statistics of Mineral Production. Natural Resources Canada

Going forward, production from new mining projects should make significant contributions to the overall value of mineral production, and ultimately to Yukon's GDP through mineral exports. **Figure 17** shows the impact of the addition of production from these new mines, with first production from the Eagle Gold mine in 2019, and production from Coffee Gold beginning in 2022. Minto mine is currently slated to cease production mid-way through 2021 and this is reflected in the forecast.

There is upside risk related to the development of Alexco Resource Corporation's Keno Hill Silver District and BMC Minerals' Kudz Ze Kayah mine:

- Keno Hill: Alexco's Bellekeno mine was in production from 2011 to 2013, and at the time was Canada's only operating primary silver mine. After suspending operations, Alexco discovered two new high grade silver deposits, and outlined plans last year for the development of four high grade silver deposits over an eight-year mine life. Total capital costs are estimated at just \$100 million, with about half of that spending occurring in the first three years. The mine is planned as a fly-in/fly-out operation, and total employment is anticipated to range from 197 to 235 persons over the project life.
- Kudz Ze Kayah: BMC Minerals Ltd. has submitted a proposal for the Kudz Ze Kayah project (zinc, lead, copper, gold and silver) to YESAB, and has publically stated its intent to make a final decision whether to proceed with construction in late 2019. Commissioning of the mill would begin in late 2021 and commercial production in 2022. Construction would be done over two years at a cost of \$426 million. The project would employ about 400 people during construction and about 400 annually during operations.²⁰

The announcement of more than \$360 million in combined federal and territorial funding to improve road access in the Dawson Range and the Nahanni Range also bodes well for the outlook for Yukon's mining sector. Improved access in these mineral-rich regions of Yukon could lead to increased exploration and development, boosting local employment and opportunities for local businesses.

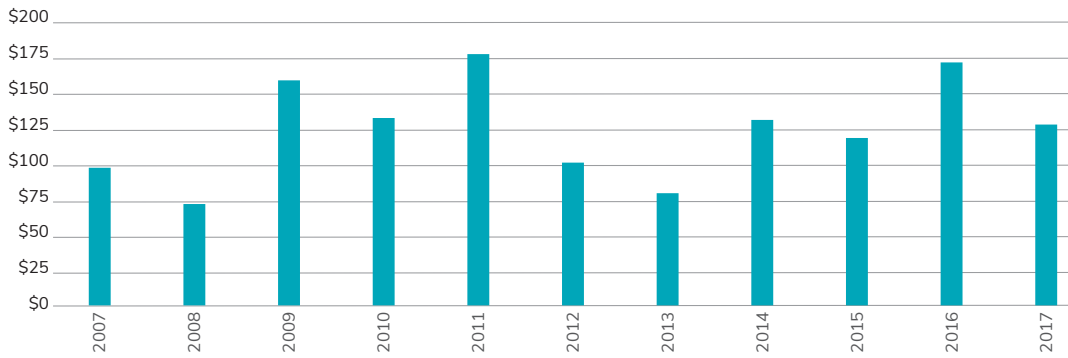
Construction activity to be supported by new mine development, public investment

Given the relatively small size of Yukon's economy, construction of a school or hospital, development of a new retail store or mine development activities can have a significant impact on the territory's GDP.

While not all construction activity requires a building permit, data associated with these permits can provide valuable information about the performance of the construction sector. In 2016, Yukon saw the value of building permits increase by more than 45% to almost \$171 million. This was driven largely by government/institutional permitting of projects such as the Whistle Bend Continuing Care Facility. Value of permits fell in 2017 by 25.6% to \$127.2 million, which is still higher than the 10-year average of just over \$123 million.

20. Mine would eventually employ 400 people. <http://whitehorsestar.com/News/mine-would-eventually-employ-400-people>

Figure 18: Yukon value of building permits (in millions of dollars)



Source: Yukon Bureau of Statistics, Department of Finance

Although permit value dropped, work continued over 2017 based on previously issued permits, lessening the impact on construction activity. In fact, the amount of investment reported by Statistics Canada showed that non-residential construction investment increased by 29% from 2016, with institutional and government investment rising 41%.

Figure 19: Residential and non-residential building permits in Yukon (in millions of dollars)



Source: Yukon Bureau of Statistics, Department of Finance

Public sector investment has historically been one of the leading drivers of construction activity, and investments in critical infrastructure are an important part of a strong economic foundation for Yukon. Gross capital expenditures by the territorial government are anticipated to be \$280 million in 2018-19, up from actual spending of \$246 million in 2016-17 (as reported in the Government of Yukon’s Public Accounts) and on par with projected spending for 2017-18 in the second Supplementary Estimates. This includes other items beyond construction projects, such as loans, equipment, and information technology. Most relevant for the projected performance of the construction sector are plans in 2018-19 for:

- \$89 million related to real property development and maintenance, scaled back to \$70 million in 2019-20 and \$71 million in 2020-21;
- \$65 million in transportation infrastructure, rising to \$75 million by 2020-21; and

- \$42 million for municipal and First Nations infrastructure, rising to more than \$50 million by 2020-21.

Full details of planned capital projects can be found in the *Five-Year Capital Plan*.

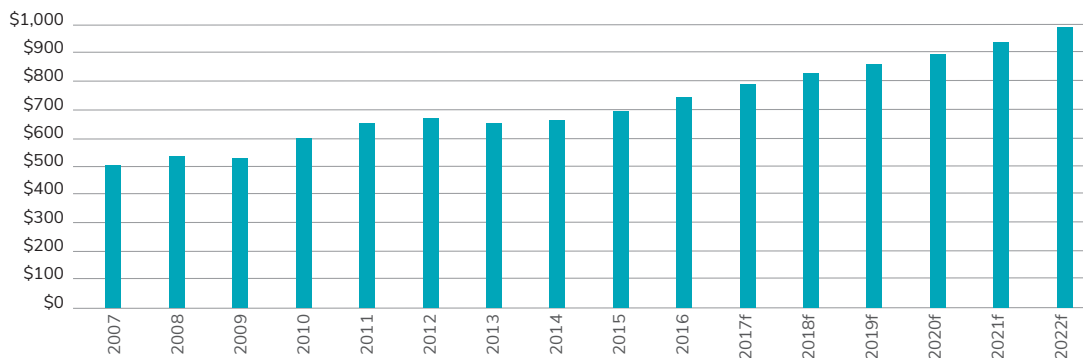
The local construction sector also benefits from the City of Whitehorse’s building consolidation project, to which the City has committed \$55 million over a three-year period. The project will result in the relocation and consolidation of nine downtown offices, freeing up real estate in the downtown and industrial areas ²¹.

Local construction activity will continue to be supported by public spending, particularly on key infrastructure such as highways, water and sewage services, hospitals and schools. The development of new mining projects, as noted in the discussion of mining, could also result in substantial levels of private sector spending locally and has the potential to positively impact Yukon’s construction industry in the medium-term.

Healthy labour market and incomes supporting retail trade

Yukon’s retail sales have been strong in recent years, with increasing population, robust employment numbers and growing household incomes contributing to higher sales. Retail sales for Yukon are estimated to have grown for a fourth consecutive year in 2017, with over \$722 million in sales over the first 11 months of the year, a 6.1% increase from \$681 million in the same period in 2016.

Figure 20: Yukon retail sales (in millions of dollars)



Source: Yukon Bureau of Statistics, Department of Finance

Gasoline stations have again accounted for a large portion of the increase, with a reported value of sales of \$126.4 million, a jump of 14.2% over the same period in 2016. Motor vehicle and parts dealers also reported a large increase of 6.5% in their year-to-date sales, bringing the total to about \$132 million. Gains were also seen in building material and garden equipment and supplies sales (up 10.1%) and health and personal care stores (up 1.7%).

Retail trade in 2017 is expected to total about \$790 million, the fourth consecutive year of growth. An increasing population and a positive forecast for tourism visitation are expected to support further growth with retail trade nearing \$830 million in 2018 (up 5%), and approaching \$1.0 billion by 2022.

21. City of Whitehorse Capital Budget Package (2018-2021). <http://www.whitehorse.ca/home/showdocument?id=9236>

Tourism continues to perform well

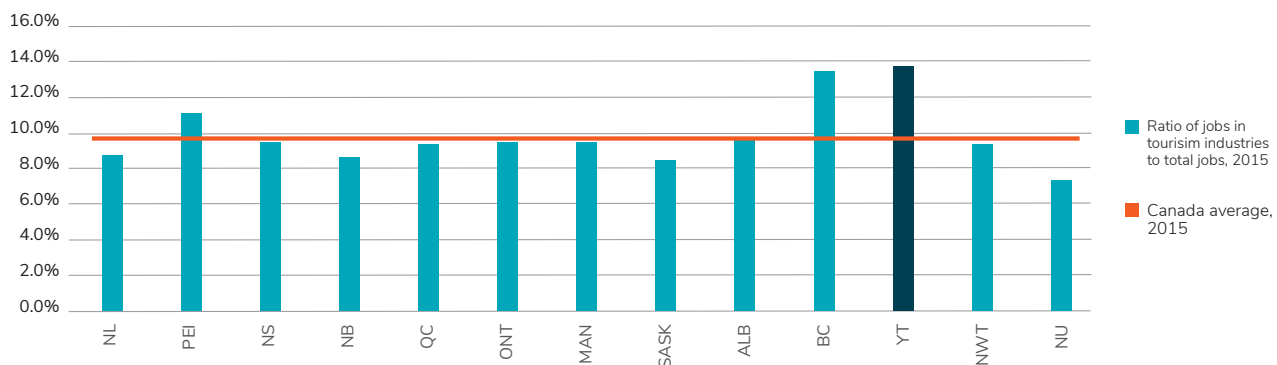
Tourism related activities add to the diversity of the local economy, help promote the territory, and support employment across a wide variety of local goods and services providers. Retailers, grocery stores, restaurants, accommodations providers, providers of sports and recreational activities and providers of arts and culture all benefit annually from the activities of visitors to Yukon.

Tourism activities overlap a number of industries, so it's difficult to calculate the overall economic contribution. In the 2015 Yukon Business Survey, Yukon businesses estimated that \$226.9 million of their gross revenue in 2014 was attributable to tourism. Based on these revenues, the total GDP contribution of tourism would be about \$96 million in 2014, or almost 4% of Yukon's total GDP²².

Tourism accounted for nearly 3,500 jobs in Yukon in 2015, up 4.7% from 2014²³. Job gains in Yukon were the strongest in the country and well above the national growth rate of 2.6%. Two-thirds of tourism jobs were full-time positions, and the tourism sector accounted for 13.5% of all jobs in the Yukon labour market in 2015. This was the highest of all the provinces and territories and above the national figure of 9.7%.

Although labour demand has risen, average hourly compensation²⁴ per job declined in Yukon for four consecutive years. In 2015, it was \$19.06, the fifth lowest in Canada and 8.5% below the national average of \$20.83. The lower average hourly compensation is attributable, in part, to a disproportionate growth in lower paying food and beverage service jobs in Yukon, relative to total jobs. However, total compensation paid to employees in Yukon tourism industries increased \$1.8 million, or 1.7%, compared with 2014.

Figure 21: Tourism, percentage share of total employment-by province/territory



Source: Statistics Canada, Yukon Bureau of Statistics, Department of Finance

Although an imperfect indicator, international border crossings have long been used as a performance measure for Yukon's tourism sector. Based on reporting from the Canada Border Services Agency (CBSA), Statistics Canada reports that total international travellers²⁵ to Yukon numbered over 433,000 in the first 11 months of 2017, an increase of 4.2% from the first 11 months of 2016. This is already well above the total of 419,244 reported for the full year in 2016, and 2017 will likely be the highest figure ever recorded.

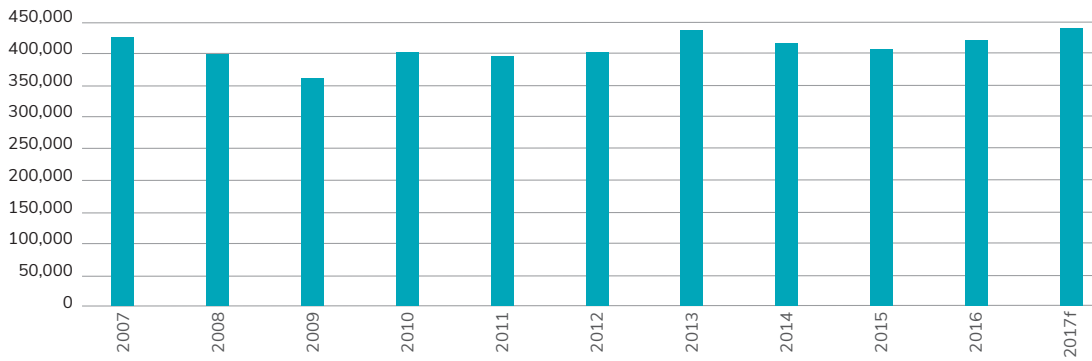
22. Yukon Business Survey 2015. Yukon Bureau of Statistics. http://www.eco.gov.yk.ca/stats/pdf/2015_Business_Survey_Report.pdf

23. Tourism Employment 2015. Yukon Bureau of Statistics. http://www.eco.gov.yk.ca/stats/pdf/pthrm_tourism_15.pdf

24. Hourly compensation includes: wages and salaries, (including tips and commissions); supplementary labour income (employer contributions to pension plans and social insurance and health plans); plus imputed labour income and income after expenses accruing to the self-employed.

25. Cansim Table 427-0001. Statistics Canada

Figure 22: Number of international travellers to Yukon



Source: Statistics Canada (CANSIM 427-0001), Department of Finance

To get a more complete picture of the performance of Yukon's tourism sector a variety of indicators and data sources can be used. Available data suggests another good year for Yukon's tourism sector in 2017:

- Air arrivals in Whitehorse in the first three quarters of 2017 were up 7% from the same period of 2016, and year-to-date arrivals in 2017 were 18% higher than the five-year average (2012-2016).²⁶
- Tourism spending in Yukon was up 5.1% and tourism sector revenues are estimated to have increased by 4.4% in the first six months of 2017.²⁷
- Estimated overnight visitation was 334,000 in 2017²⁸, up 2.5% from 2016, with increases from domestic visitors (up 3.6%), U.S. visitors (up 1.7%) and overseas visitors (up 5.6%).
- Related spending is estimated to have increased 6.4% to \$418 million, below gains noted in most provinces and below the Canadian growth rate of 7.5%.

The performance of Yukon's tourism sector can be impacted by a number of external factors, including exchange rates and fuel prices, as described in the *Assumptions and Risks* section.

Continued growth is expected in Yukon's tourism sector, evidenced by expectations for a number of indicators in the Canadian Tourism Research Institute (CTRI) latest *Travel Markets Outlook*:

- total overnight visits in 2018 increasing by 1.9% and spending by overnight visitors increasing by 6.0% in 2018;
- increased overnight visitation and associated expenditures in every year out to 2021; and
- growth in domestic, overseas and U.S. visitation, with the strongest gains noted in overseas visitation.

26. Department of Tourism and Culture.

27. Canadian Tourism Research Institute (CTRI)

28. *Travel Markets Outlook – National Focus* (Autumn 2017). Canadian Tourism Research Institute. Conference Board of Canada

External Environment

Yukon businesses compete in the global market, whether that is exporting minerals or attracting tourists to the territory. Global political and economic stability, world commodity prices, and exchange rates can directly impact the economic performance of Yukon. A summary of key variables in the global economic environment is provided in the table below, which feeds into the base assumptions for the development of Yukon's economic forecast. The Department of Finance reviews credible 3rd party forecasts to develop a consensus forecast for commodity prices, interest rates and exchange rates. Forecasts for economic output included below were published by the International Monetary Fund (IMF) in its January update to the *World Economic Outlook (WEO)*.

Figure 23: Key assumptions – external environment

Indicator	2017e	2018f	2019f	2020f	2021f	2022f
Economic Output						
Global-% change	3.7	3.9	3.9			
United States-% change	2.3	2.7	2.5			
China-% change	6.8	6.6	6.4			
Financial Markets						
Short-term interest rate	0.7%	1.5%	2.2%	2.4%	2.8%	3.0%
Canada/U.S. exchange rate	\$0.77	\$0.80	\$0.80	\$0.80	\$0.81	\$0.81
Commodity Prices						
Oil-WTI (\$US/barrel)	\$51.00	\$55.00	\$60.00	\$70.00	\$67.50	\$71.50
Natural Gas-Henry Hub (\$US/mmbtu)	\$3.00	\$3.10	\$3.25	\$3.75	\$4.40	\$4.35
Gold (\$US/troy ounce)	\$1,262	\$1,275	\$1,275	\$1,250	\$1,225	\$1,200
Silver (\$US/troy ounce)	\$17.00	\$17.90	\$18.00	\$17.90	\$17.00	\$17.00
Copper (\$US/lb)	\$2.77	\$2.90	\$3.00	\$3.05	\$2.90	\$2.95

e = estimate f = forecast

Improving outlook for global growth

The outlook for the global economy has been improving in recent months with economic data showing strong performance in a number of countries in 2017. Growth prospects for the near-term have also improved, with growth forecasts revised upward for many countries, including those that currently represent the world's largest economies.

The IMF's January update to its WEO ²⁹ presents an improved outlook for global growth. Following estimated growth of 3.7% in 2017, more growth is expected with stronger global gains of 3.9% in both 2018 and 2019, revised upward from its previous forecast. Stronger projections for 2018 and 2019 reflect increased momentum in global growth, and the expected impact of the recently approved tax policy changes in the

29. World Economic Outlook – Update (January 2018). International Monetary Fund.

U.S.³⁰ Growth in emerging and developing economies³¹ has continued to outpace gains in advanced economies³².

Much improved outlook for U.S. growth

The U.S. economy remains the largest in the world at about US\$19.4 trillion³³ in 2017, well ahead of the next largest (China) at \$11.9 trillion. As the world's largest economy, what is happening in the U.S. can have a major impact on global commodity prices, interest rates and exchange rates and on the Canadian economy. The close proximity of the U.S. to Canada and Yukon's border with Alaska also means that U.S. economy can have a very real effect on Yukon.

The IMF's outlook for U.S. growth improved in the January WEO, driven by expectations of increased demand for U.S. exports and the anticipated impact of recent tax changes, which are expected to stimulate investment. Because of the temporary nature of some of the provisions, the tax policy package is expected to weigh on growth for a few years from 2022 onward.³⁴

The Bank of Canada's January 2018 Monetary Policy Report (MPR) includes a similar outlook for the U.S. economy, with consumption expected to expand at a healthy pace and business investment to grow.³⁵ The Bank does note that the current forecast is subject to considerable uncertainty, and that more protectionist trade policies could result in weaker growth going forward.

Canadian economy close to capacity

How Canada's economy is performing impacts the performance of the Canadian dollar and key Canadian interest rates, both of which are important considerations for Yukon's economy. Following two years of relatively weak economic growth, the Canadian economy rebounded to grow by 3.0% in 2017, with the economy now close to capacity. Growth was supported by still-accommodative monetary policy and financial conditions as well as public infrastructure spending. Strength in the economy last year also meant that the national unemployment rate fell to historically low levels.

The IMF expects growth of 2.3% in 2018 and 2.0% in 2019, revised up from its October outlook. The Bank of Canada also expects gains for Canada's economy of 2.2% in 2018 and 1.6% in 2019, supported by rising foreign demand, firming of commodity prices, accommodative monetary and financial conditions, and public infrastructure spending³⁶. Consumption growth is anticipated to moderate and the savings rate increase in response to higher interest rates and slower growth in household disposable income.

30. World Economic Outlook – Update (January 2018). International Monetary Fund.

<http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

31. Includes countries such as Russia, China, India, as well as other Asian countries, emerging and developing Europe, Latin American and the Caribbean, Middle East countries and Africa.

32. Included the U.S.; Euro Area countries such as Germany, France, Italy and Spain; Japan; the United Kingdom; and Canada.

33. World Economic Outlook Database (October 2017). International Monetary Fund.

34. World Economic Outlook – Update (January 2018). International Monetary Fund.

<http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

35. Monetary Policy Report (January 2018). Bank of Canada. <http://www.bankofcanada.ca/wp-content/uploads/2018/01/mpr-2018-01-17.pdf>

36. Ibid.

Financial Markets

Interest rates expected to grow in response to inflationary pressures

Stronger economic growth has led to tightening monetary policy with further increases in interest rates expected. Before the Bank of Canada increased the overnight rate to 1.25% in January 2018, the rate had been 1.0% or lower since September 2010. The January increase was the third in less than a year, in response to improving economic performance for Canada and building inflationary pressures³⁷. Higher inflation expected in 2018 (2.0%) and 2019 (2.1%) puts upward pressure on interest rates to ensure inflation remains low. However, interest rates are expected to remain low by historical standards.

Higher interest rates could be a potential drag on consumer spending in Yukon, as the carrying cost of debt goes up. Higher rates could also be a drag on the housing market as higher interest rates now make home ownership more expensive.

Canadian dollar to see modest gains

The stronger Canadian economy is also fueling expectations for a stronger Canadian dollar. An improved outlook for commodity prices, a strong labour market and an expectation of rising interest rates also support gains in the dollar over the medium-term. In Yukon, the value of the Canadian dollar can impact spending decisions by tourists and investment decisions by resource-based companies.

The Canadian dollar is expected to appreciate modestly against the U.S. dollar, at or above US\$0.80 for the forecast horizon and peaking at just over US\$0.81 in 2022. Potential negative impacts on tourism visitation and spending are expected to be small, and no significant impact on investment spending by mining companies is anticipated.

Firming commodity prices lifting the outlook for Canada and Yukon

Resource extraction activity is a big part of Canada's overall economic performance. Weaker economic performance in 2015 and 2016 in Canada was very much related to weak oil and natural gas prices, resulting in lower levels of investment in the resource sector as well lower levels of oil exports. Recent firming up of oil and natural gas prices and an improved price outlook bodes well for Canada's economic prospects.

After two years of falling crude prices, strong gains were seen in 2017, with the value of West Texas Intermediate (WTI)³⁸ up about 18% to US\$50.91 per barrel. This resulted from a number of factors including stronger global growth, the extension of OPEC agreements to limit production, geopolitical tensions and pipeline outages³⁹. Oil prices are expected to increase in both 2018 and 2019.

37. The Bank's mandate is to conduct monetary policy to promote the economic and financial well-being of Canadians. The Bank's experience has shown the best way to foster confidence in the value of money and to contribute to sustained economic growth, employment gains and improved living standards is by keeping inflation low, stable and predictable. At the heart of Canada's monetary policy framework is the inflation-control target. The target, as measured by the CPI, remains at the 2% midpoint of the control range of 1-3%.

38. West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content. It is the underlying commodity of New York Mercantile Exchange's oil futures contracts.

39. World Economic Outlook – Update (January 2018). International Monetary Fund.

<http://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018>

Changes in natural gas prices are tracking similar to that of oil prices. After two years of decline, the Henry Hub⁴⁰ price grew nearly 19% in 2017 to almost US\$3.00 per million British Thermal Units (MMBTU). The outlook is positive, with external forecasts expecting further gains to an average of US\$3.24/MMBTU in 2019.

For key minerals of interest to Yukon, prices picked up in 2017. Prices improved for key base metals such as copper, zinc, and nickel, with copper up 25% to US\$2.80 per pound, its highest level since 2014. Zinc prices were even more robust, gaining 37% to about US\$1.30 per pound, the highest level since 2007. Base metal prices are expected to remain higher than 2017 over the forecast horizon.

Gold and silver prices had mixed results in 2017. Gold neared US\$1,260 per ounce, its highest value since 2014, but gained only 0.7% in 2017. At US\$17.07, silver prices in 2017 were down slightly (0.5%) from 2016. Both gold and silver are expected to gain in 2018, with gold growing about 1.0% and silver about 5%. Further modest growth is expected for silver in 2019, with gold prices expected to remain flat.

Recent strong performance along with a robust outlook for copper prices is a key factor for the continued production of the Minto mine over the majority of the current forecast horizon. Yukon's economic forecast is also buoyed by the improved outlook for mineral prices as new mines are expected to come on stream with substantial levels of development spending and eventual mineral production.

Assumptions and risks

The outlook presented is based on the best information available at the time the forecast was completed. Assumptions such as the level and timing of mining developments, estimates of annual mineral production and estimates of construction spending, can all impact the forecast results, particularly for a small economy like Yukon's. As a result, there is some risk and uncertainty in the forecast presented here.

Improved economic performance – Yukon's economic performance is tied to the performance of national and global economies. Demand for Yukon goods and services, including minerals and local tourism activities, is dependent on what is happening elsewhere. This forecast for Yukon is built on expectations of improving performance in many of the world's larger economies and strong global performance overall, which bodes well for the future performance of Yukon's mining sector. Improving economic fundamentals in a number of countries, particularly the U.S., are also positive for the outlook for Yukon's tourism sector.

However, there is some uncertainty in the outlook for the world's largest economy (the U.S.), with the risk of more protectionist policies in trade and immigration, variability in timing and level of infrastructure spending, and the impact of recent major changes to tax policy.

If growth in key economies is more subdued than expected, this could lessen demand for resources such as metals and temper Yukon's outlook. Weaker than expected growth could also reduce demand in the tourism sector. Lower or higher than expected economic activity in Yukon could also have an impact on Yukon government revenues, in particular corporate income taxes.

Metal prices to be stronger in the medium-term – Key base metals such as copper, zinc and lead have seen strong gains in price, and levels for both gold and silver remain relatively high. With Yukon's substantial mineral resource potential, expected strength in mineral prices is fuelling activity in all areas of Yukon's mining sector. Metal prices are determined on the global market and can be volatile. If mineral prices vary significantly from forecasts, this could impact expected levels of exploration and development activity and spending, future mineral production and employment.

40. The Henry Hub is a distribution hub on the natural gas pipeline system in Erath, Louisiana. Due to its importance, it lends its name to the pricing point for natural gas futures contracts traded on the New York Mercantile Exchange and the OTC swaps traded on Intercontinental Exchange.

Mineral prices, the ability to successfully navigate the local permitting process, access to financing, and many other factors all play a role in determining when, or if, a project is developed. Best efforts are made to present a reasonable view of the mining sector, but there is always uncertainty in the timing of key projects and even whether these, or other projects, may move forward over the forecast horizon.

Canadian dollar expected to perform better against the U.S. dollar – The value of the Canadian dollar can impact spending decisions by tourists and also investment decisions by resource-based companies, although no significant negative impact is expected in this forecast. Over any forecast horizon (particularly multi-year), the actual trajectory of the Canadian dollar versus the U.S. dollar can be affected by global events and performance, the performance of metal prices, Canadian economic performance and U.S. economic performance. Weaker or stronger exchange rates than currently projected could certainly impact Yukon's performance in the tourism and mining sectors, and affect key economic indicators such as GDP, employment, and retail sales.

Following years of historically low levels, interest rates expected to grow – While expected to remain relatively low over the forecast period, the current outlook assumes further growth in interest rates. Higher interest rates may dampen investment and consumer spending, although recent and projected interest rate increases are not expected to create a significant drag on Yukon's economic performance. For the Yukon government, rising interest rates may mean relatively higher costs for servicing any new debt, but provide a small positive boost for existing investments it holds.

Stronger growth in the Canadian economy could put upward pressure on inflation, and lead the Bank of Canada to respond with further increases to interest rates⁴¹. If the Canadian economy falls short of expectations, rates may not increase as much as projected, or could even fall.

Capital expenditures to be a driver of economic activity, including development of new mines – Given Yukon's generally small economy, spending on large capital projects can have substantial impacts on Yukon's annual GDP. Best attempts are made to align this forecast with spending on planned upcoming projects in the public sector and the development of new mining operations. Spending on the Eagle Gold and Coffee Gold projects is estimated at almost \$700 million over the forecast period.

Any variation in the timing and/or level of spending could impact economic performance. Decisions about the development of new mining projects are driven by a number of factors that are largely outside Yukon's control, creating a degree of uncertainty in the overall forecast.

Public sector spending also has a significant economic impact in a small jurisdiction such as Yukon, so any changes in the rate of spending would likely have an impact on a number of economic indicators (including GDP). Investment in public infrastructure and services is also an important consideration in creating a solid economic foundation for Yukon's future prosperity.

Energy prices to be stronger over the medium-term – Oil and gas prices can influence local economic activity, in particular mining sector activity (fuel for project operations and equipment) and tourism (fuel for travelers' vehicles). Fuel prices also affect construction costs and the cost of local purchases, as most goods are transported in from outside Yukon. This forecast is built on the assumption of stronger energy prices in future years, but oil and natural gas prices can be very volatile. As a result, assumptions in this outlook for oil and gas could vary considerably from what ultimately unfolds over the medium-term for these commodities. This could impact local economic activity and the performance of key economic indicators such as GDP.

41. The Bank of Canada's mandate is to maintain a low rate of inflation (targeting a range of 1-3%), and its primary tool to tackle inflation is an adjustment to interest rates, which can help cool inflationary pressures.

Expectation that the proportion of resident/non-resident mine employment will remain stable – Labour market forecasts include the assumption that the proportion of fly-in/fly-out versus resident workers remains the same for future mining projects as in previous experience. However, as Yukon’s mining sector and economy matures and adapts, it is possible that the local economy could absorb more of the employment opportunities offered by the mining sector. Alternatively, as Yukon’s labour market has been relatively strong for a prolonged period, and is expected to remain strong, there is little slack present in the labour market that could capture some of these employment opportunities. If this proportion were to shift significantly (in either direction), there would be impacts felt within the economy, which would have an impact on the outlook, particularly for employment.

Strong labour market and population growth – Yukon’s labour market has proven to be robust over the last few years, with employment growth remaining strong and unemployment levels remaining relatively low, even as GDP contracted strongly in 2015. All signs point to a tight labour market in Yukon and that trend is expected to continue over the medium-term, which puts upward pressure on incomes and affects the ability of local firms to meet labour needs as demand for goods and services increases. Steady gains in population and continued strong performance of the labour market suggests strengthened revenue prospects for Yukon in some tax streams, particularly personal income taxes. If actual results differ from projections presented in this outlook, this could have an impact on Yukon’s ability to raise its own revenue.

Conclusion

Yukon’s fiscal plan is on track to support a growing economy and meet a rising demand for public services. Progress has been made in narrowing the gap between revenues and expenditures from last year’s Budget, but continued effort is needed to ensure that the government’s finances stay on course and return to fiscal sustainability. Economic prospects have picked up as the global economy recovers, and with strategic investments in public services and infrastructure, Yukon will have a solid foundation for future prosperity.

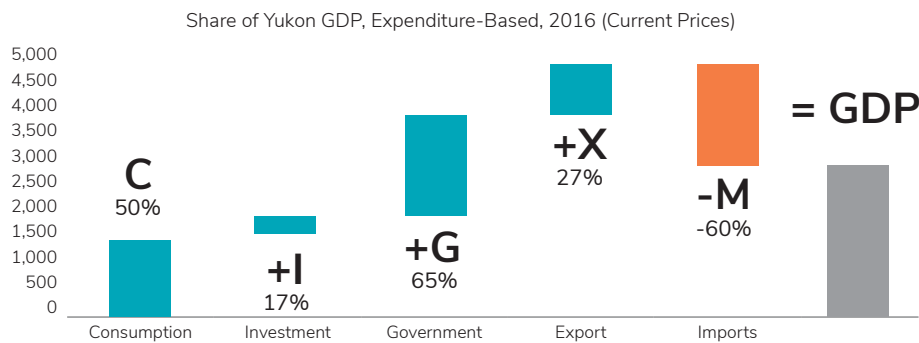
Did you know: More about Yukon's GDP

Gross domestic product (GDP) is defined as the output of the domestic economy (the unduplicated value of all final goods and services produced in an economy). It's calculated by this equation:

C – Consumption	+ I – Investment	+ G – Government	+ X – Exports	– M – Imports
Consumer spending	Spending on assets with useful lives > 1 year (e.g. real estate)	Spending by all levels of government, including capital	Good/services sent to other parts of Canada or to other countries	Goods and services from 'outside' (not produced locally)

As a small, open economy with significant imports from outside the territory and a small population, Yukon's GDP is highly influenced by government spending, the value of exports (primarily mineral production), and the value of goods and services brought into the territory. With limited production in the territory, about \$1.7 billion worth of goods and services were imported from other jurisdictions in 2016, the value of which is subtracted from Yukon's GDP.

Figure 24: Breakdown of 2016 nominal GDP, expenditure-based (millions, current dollars)



Source: CANSIM 384-0038, Current Prices

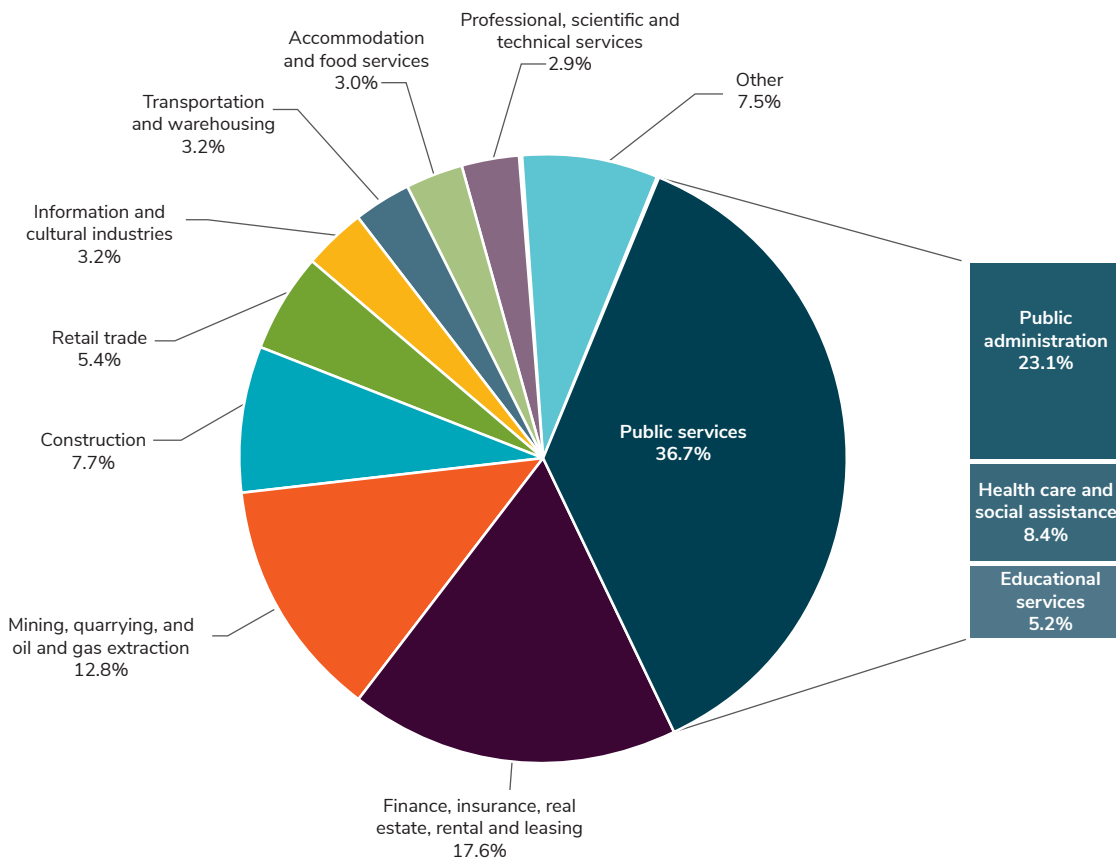
Figure 24 above shows the relative shares of the components of GDP by expenditure for Yukon for the year 2016. While these shares fluctuate from year to year, the consumption and government components are generally the largest contributors. The export component is volatile and strongly influenced by the performance of the mining sector. Yukon's heavy reliance on outside goods and services is reflected in the large import component.

What makes up Yukon GDP?

GDP is the most commonly used measure to assess the size and performance of an economy, and may be presented in nominal terms (at current price levels) or in real terms (adjusted to remove the effect of price).

Real GDP is more commonly used to allow for a better year-over-year comparison of changes in activity, and is discussed in the following section. However, the method of calculating real GDP is not additive. That is, the individual components cannot be added up to get to the total for real GDP, because of the nature of both chaining and the Fisher formula itself. Each component is calculated separately from the aggregate number for real GDP in this method, which is a standard approach. It does not mean that data or calculations are low quality. But it does mean that it's more difficult to get an accurate picture of the relative contributions of the various industries. For that comparison, nominal GDP can help, and the structure of Yukon's economy by industry by share of nominal GDP is shown below.

Figure 25: 2016 nominal GDP—percentage share by industry



Source: Department of Finance, Statistics Canada

Yukon's small population means that spending on public services is higher per capita than in larger southern jurisdictions, and thus contributes a significant share (just over one-third) of overall GDP. Finance, insurance, real estate, rental and leasing made up the largest private sector share of GDP in 2016 at almost 18% (about 14% from real estate, rental and leasing) followed by mining, quarrying, and oil and gas extraction at about 13%.

Appendix A: Key economic indicators

Indicator	2017	2018f	2019f	2020f	2021f	2022f
Economic Output (Real GDP)						
Annual percent change	0.9% (f)	4.4%	7.3%	2.1%	1.0%	3.2%
Population						
Population	38,455	39,200	39,900	40,400	40,800	41,500
Annual percent change	1.6%	2.0%	1.7%	1.2%	1.1%	1.7%
Labour market†						
Labour force	22,000	22,600	23,000	23,000	23,200	23,500
Employment	21,200	21,700	21,900	22,100	22,300	22,400
Unemployment rate	3.6%	4.3%	4.6%	4.1%	4.0%	4.8%
CPI (Annual percent change)^	1.7%	2.0%	2.2%	2.3%	2.3%	2.3%
Commodity Prices~						
Gold (\$US/troy ounce)	\$1,262	\$1,275	\$1,275	\$1,250	\$1,225	\$1,200
Silver (\$US/troy ounce)	\$17.00	\$17.90	\$18.00	\$17.90	\$17.00	\$17.00
Copper (\$US/pound)	\$2.77	\$2.90	\$3.00	\$3.05	\$2.90	\$2.95
Zinc (\$US/pound)	\$1.30	\$1.43	\$1.41	\$1.25	\$1.25	\$1.20
Oil-WTI (\$US/barrel)	\$51.00	\$55.00	\$60.00	\$70.00	\$67.50	\$71.50
Natural Gas-Henry Hub (\$US/MMBTU)	\$3.00	\$3.10	\$3.25	\$3.75	\$4.40	\$4.35
Key Rates						
Three month Treasury Bill rate	0.70%	1.50%	2.2%	2.4%	2.8%	3.0%
Canada/U.S. exchange rate	\$0.77	\$0.80	\$0.80	\$0.80	\$0.81	\$0.81
Mining						
Mineral production (\$ millions)	\$290.0	\$315.0	\$525.0	\$610.0	\$510.0	\$580.0
Exploration expenditures (\$ millions)	\$190.0	\$170.0	--	--	--	--
Development expenditures (\$ millions)	\$68.4	\$230.0	\$80.0	\$110.0	\$235.0	\$50.0
Retail Trade						
Value of retail sales (\$ millions)	\$791.0	\$830.0	\$860.0	\$900.0	\$940.0	\$990.0

f = forecast; -- = not available

^CPI increase for Whitehorse only

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

~Annual averages

Appendix B: Data sources

Indicator	Source
Economic Output (Real GDP)	Statistics Canada, Yukon Department of Finance
Population	Yukon Bureau of Statistics
Labour Force Indicators	Statistics Canada, Yukon Labour Force Survey, Yukon Department of Finance
Commodity Prices	Average of Public Forecasts, Yukon Department of Finance
Interest Rates	Average of Public Forecasts, Yukon Department of Finance
Exchange Rates	Average of Public Forecasts, Yukon Department of Finance
Value of Mineral Production	Natural Resources Canada, Yukon Department of Finance
Mineral Exploration Expenditures	Natural Resources Canada, Yukon Department of Finance
Mineral Development Expenditures	Natural Resources Canada, Yukon Department of Finance
Permitted Building Construction	Yukon Bureau of Statistics, Yukon Department of Finance
Retail Trade	Statistics Canada, Yukon Department of Finance