



2018–19

**INTERIM FISCAL
AND ECONOMIC UPDATE**



Introduction

The 2018–19 Interim Fiscal and Economic Update presents a discussion of current expectations for Yukon's finances and the economy, highlighting key changes from the forecast in April.

The latest fiscal outlook has changed little since the release of Budget 2018 in April. It still forecasts small deficits in 2018–19 and 2019–20, before a return to a surplus position in 2020–21. The goal has been and continues to be tabling a main estimates that accurately represents spending that will occur during the year. Supplementary estimates are sometimes necessary to capture unexpected events, new opportunities and a change in timing of some projects. The tabling of smaller and fewer supplementary estimates for the second year in a row affirms efforts to forecast needs more accurately at the beginning of the fiscal year.

These supplementary changes can and do have an impact on the government's financial position. The 2018–19 First Supplementary Estimates includes additional revenue offset by additional Operation and Maintenance (O&M) and Capital spending and reduced O&M recoveries. However, the overall financial impact for the 2018–19 fiscal year amounted to a higher annual deficit of only \$319,000 than that projected in April.

The medium-term economic outlook remains positive, with further growth in population, continued strength in the labour market, and a positive outlook for real gross domestic product (GDP).

Yukon's Finances

Fiscal Outlook

Consistent with 2017–18, the budget tabled in April 2018 took a more comprehensive view of Yukon's finances and information on government's planned capital investments over the next five years. The long-term capital plan allows Yukon Government to address planning, forecasting and timing of procurement for development and maintenance contractors. This approach attempts to limit funding requests made through supplementary budget exercises. Consequently, the 2018–19 Supplementary Estimates No. 1 represents an increase of less than 1% over the Main Estimates.

Changes to both operating and capital expenses are relatively minor, as departments are encouraged to manage new, unanticipated costs within existing budgets. As a result, only unexpected, unmanageable amounts have been included in the Supplementary Estimates.

Changes to the 2018–19 fiscal year include an increase in revenue of \$8.7 million. On the expenditure side the Supplementary Estimates include increases of \$4.8 million for operations and maintenance (O&M) expenditures and \$8.6 million for capital expenditures. O&M recoveries have decreased by more than \$6 million. These changes result in a forecasted annual deficit of \$4.86 million, just \$300,000 more than the deficit noted in the Main Estimates.

Figure 1: Government of Yukon financial framework

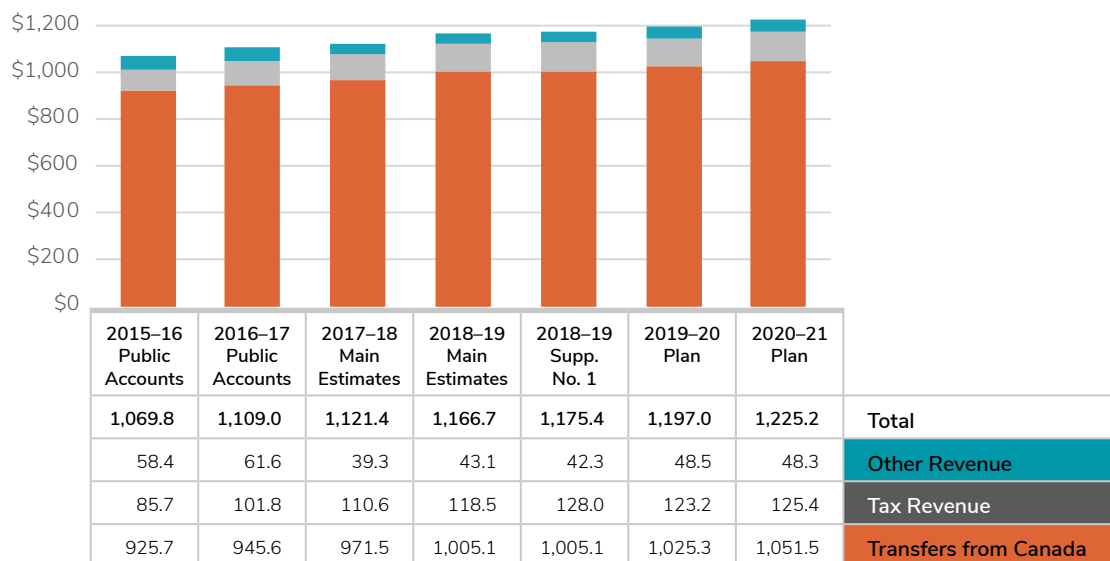
(All figures in millions of dollars)	2016-17	2017-18	2017-18	2018-19	2018-19	2019-20	2020-21
	Public Accounts	Main Estimates	Supplementary Estimates #2	Main Estimates	Supplementary Estimates #1	Plan	Plan
Revenue:							
Transfers from Canada	945.6	971.5	973.6	1,005.1	1,005.1	1,025.3	1,051.6
Yukon tax and general revenue	163.4	149.9	150.1	161.6	170.3	171.8	173.7
Total revenue (A)	1,109.0	1,121.4	1,123.7	1,166.7	1,175.4	1,197.1	1,225.3
Expenditures:							
Operation & Maintenance:							
Expenditures	1,080.2	1,132.5	1,184.3	1,191.9	1,196.6	1,223.8	1,230.0
Recoveries	(105.0)	(109.5)	(116.6)	(111.1)	(104.8)	(109.6)	(107.6)
Subtotal net operating (B)	975.2	1,023.0	1,067.7	1,080.8	1,091.8	1,114.2	1,122.4
Change (\$)					11.0	33.4	8.2
Change (%)					1.0%	3.1%	0.7%
Capital:							
Expenditures	245.8	307.2	278.6	280.1	288.7	288.3	293.4
Recoveries	(35.2)	(58.4)	(47.2)	(55.6)	(55.6)	(98.4)	(94.2)
Subtotal net capital (C)	210.6	248.8	231.4	224.5	233.1	189.9	199.2
Total expenditures net (B)+(C) = (D)	1,185.8	1,271.8	1,299.1	1,305.3	1,324.9	1,304.1	1,321.6
Revenue less expenditures (A)-(D) = (E)	(76.8)	(150.4)	(175.4)	(138.6)	(149.5)	(107.0)	(96.3)
Adjustments (F)	71.4	157.0	181.7	134.1	144.6	100.1	98.1
Annual surplus (deficit) (E)+(F) = (G)	(5.4)	6.6	6.3	(4.5)	(4.9)	(6.9)	1.8

Source: Government of Yukon Non-consolidated Financial Framework. 2017-18 Supplementary Estimates and 2018-19 through 2020-21

Revenue

Generally, revenues have increased by an average of 2% over the last couple of years. The forecast increase in revenue of \$8.8 million in 2018-19 is primarily related to residential lots sales at Whistle Bend generated from the April 2018 release of lots. Rising interest rates have also resulted in an additional \$118,000 in interest income on investments.

Figure 2: Revenue by source (\$M)



Source: Government of Yukon

Operation and Maintenance

Gross O&M expenditures are expected to increase by 0.4% or \$4.8 million over the 2018-19 Main Estimates. An anticipated reduction in O&M recoveries of \$6.2 million will result in an increase in net spending of \$11 million. Changes to spending include:

- higher than expected wildland fire expenses as a result of prolonged fire activity in southeastern Yukon and providing assistance to other jurisdictions;
- increased interest in the Media Development Incentive program;
- transfer of responsibility for remediation of the Faro Mine to the Government of Canada;
- additional funding for projects related to the Inuvialuit Final Agreement and the Climate Change Secretariat; and
- higher than anticipated costs for Employee Future Benefits as a result of the latest actuarial valuation.

Capital

There has been only a modest change in the five-year capital plan presented in the spring. The Supplementary Estimates reflect an increase in gross capital spending of \$8.6 million or approximately 3% of the Main Estimates.

Capital recoveries are unchanged from the amount reported in the Main Estimates.

Generally, the items outlined in the five-year capital plan are progressing as expected; however, the end of the construction season may signal changes to the plan.

Yukon's Economy

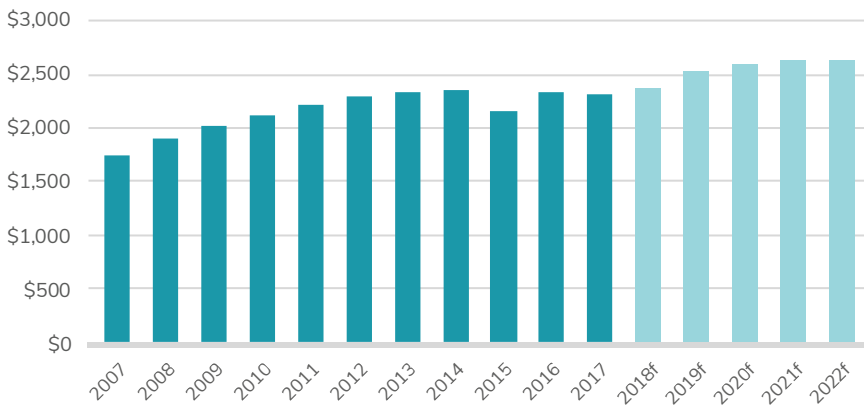
The medium-term economic outlook has not materially changed from what was presented in April, with Yukon's economy well positioned for further growth. Yukon's economy is one of the strongest in the country. A robust labour market, growing population and high levels of activity in the mining sector are just some of the factors supporting a positive outlook.

Key Indicators

Lower mine production weighs on otherwise robust real GDP growth

Preliminary data¹ released in May 2018 indicates that Yukon's real GDP contracted 1.4% in 2017, following robust growth of 8.3% the previous year. Swings in GDP in both years are related to mineral production, with a large increase in production from the Minto mine in 2016 supporting the strong GDP gains, and a subsequent decline in Minto production largely responsible for the 2017 contraction.

Figure 3: Real GDP by industry (\$M)



Sources: Statistics Canada (Table 36-10-0402-01), Government of Yukon Department of Finance

Despite Yukon's strong economy, the 2018 growth rate for real GDP has been revised down. Expectations for mineral production have been revised lower, impacting the outlook for real GDP for 2018. Even with lower-than-expected mineral production acting as a drag, continued strength in the remainder of the economy is expected to support real GDP growth of 2.5% in 2018.

Beyond 2018, key forecast assumptions are little changed from the previous forecast with Yukon's GDP to be supported by a healthy local economy and by activities related to the mining sector. The current outlook calls for positive real GDP gains in every year of the forecast, with mine development spending and the addition of production from new mines to make notable contributions over this period.

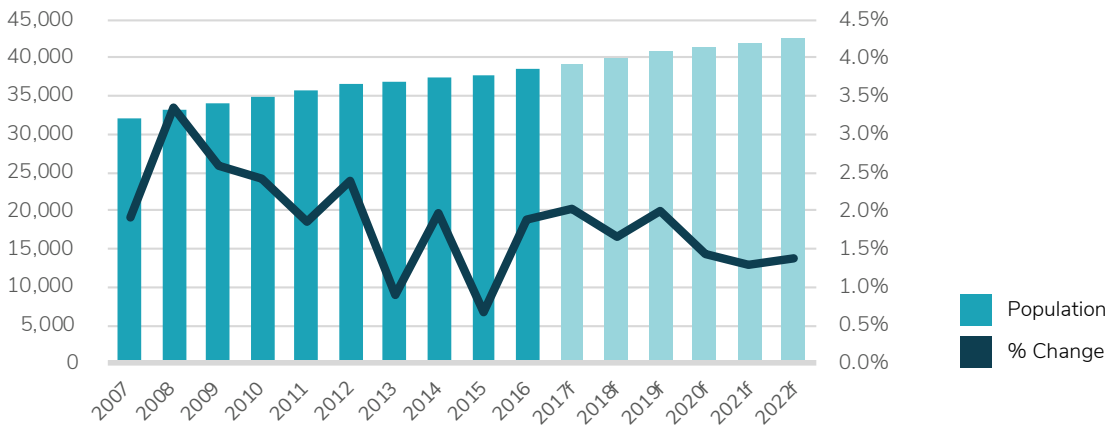
Population growth remains robust

Supported by a strong local labour market and positive economic conditions, Yukon's population² is expected to grow for a 15th consecutive year. The current forecast for 2018 has Yukon's population growing 1.7% to 39,925. The current growth forecast for 2018 is little changed from the Budget forecast of 2.0%.

¹ History has shown that preliminary GDP figures for Yukon are often amended when Statistics Canada releases revised GDP estimates later in the year.

² Figures presented are for June of each year, as these estimates represent annual figures. Values for 2011-2017 have been revised as a result of calibration to a census-based estimate.

Figure 4: Annual Yukon population and percentage change³



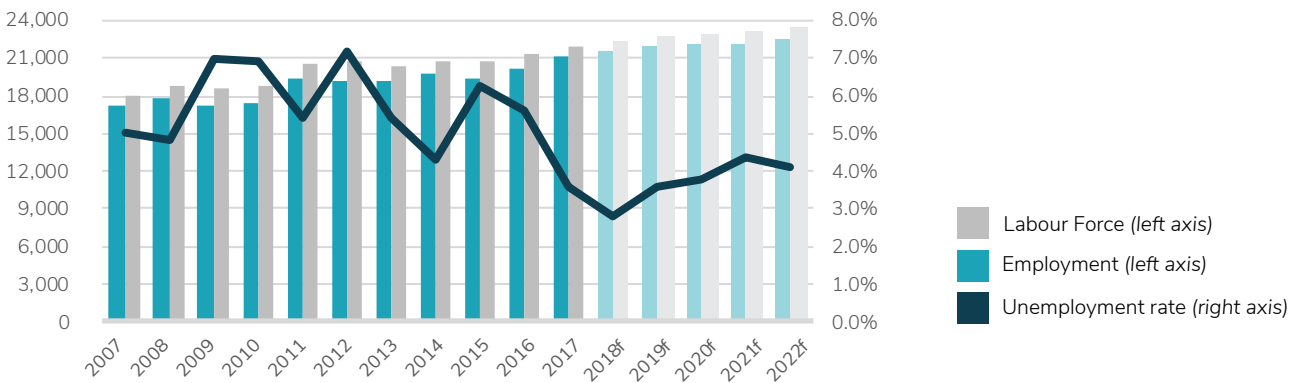
Source: Government of Yukon Department of Finance

A low unemployment rate and strong demand for labour from the mining sector is encouraging migration into Yukon, supporting the medium-term view that population will continue to rise. Beyond 2018, further gains are forecast for every year in the current outlook resulting in a population of over 42,400 by 2022.

Yukon’s labour market has continued its strong performance into 2018

In the first eight months of 2018, Yukon’s employment has averaged 21,400, up 1.4% from the same period in 2017. Strong job gains have caused the unemployment rate to fall to an all-time low. The unemployment rate has averaged 2.6% over the first eight months, the lowest rate in Canada over that period.

Figure 5: Labour force, employment and unemployment rate



Sources: Statistics Canada (Table 14-10-0292-01), Government of Yukon Department of Finance

Given the year-to-date performance, expectations are now that Yukon’s annual levels of employment and labour force will fall just below the Budget forecasts, but the unemployment rate will average 2.8% for the year, well below the previous forecast of 4.3%.

The medium-term outlook also remains positive for Yukon’s labour market. Employment gains are anticipated to be broad-based across a number of industries. By 2022, employment is projected to be near 22,500 with an associated labour force of about 23,500, resulting in a still low unemployment rate of 4.1%.

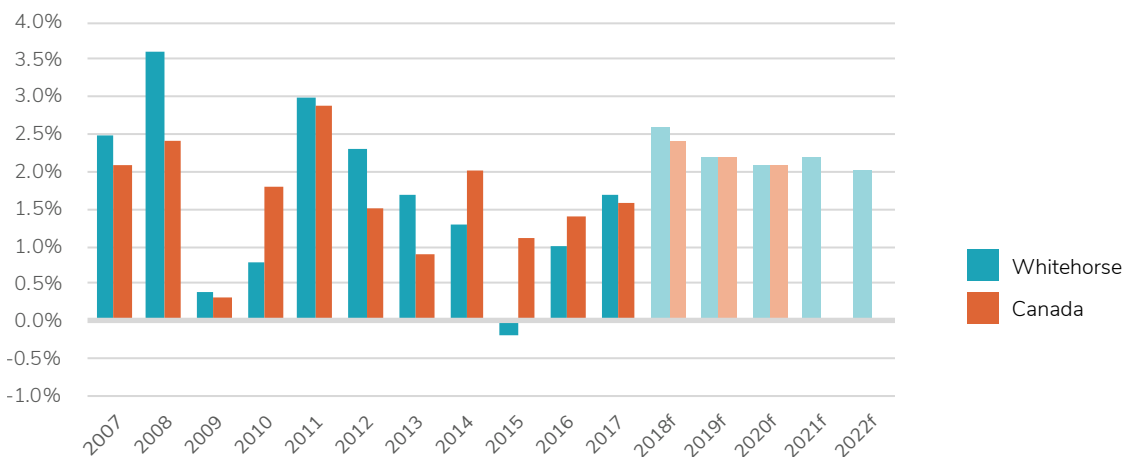
³ Population estimates adjusted for net census under-coverage at the Yukon level will be published by Statistics Canada on September 27, 2018. The Yukon Bureau of Statistics will publish their estimates based on the net census adjustment numbers by mid-October 2018.

Consumer price inflation has ticked up with energy prices

Consumer prices in Whitehorse⁴ increased by 2.4% in the first seven months of 2018. Year-to-date inflation was slightly higher than the overall Canadian inflation rate of 2.3% and the Budget forecast of 2.0%.

Higher fuel prices so far in 2018 have been reflected in the growth of major components of the Whitehorse consumer price index (CPI). Notable gains in transportation (+4.8%) and shelter (+4.2%) are in large part the result of strong year-to-date gains in the prices of gasoline (+9.4%), and fuel oil and other fuels (+22.6%).

Figure 6: Annual percentage change in CPI (Whitehorse and Canada)



Sources: Statistics Canada (Table 18-10-0004-01), Bank of Canada, Government of Yukon Department of Finance

The current outlook is for inflation of 2.6% in 2018, with CPI growth remaining fairly consistent over the next four years, averaging 2.1%. Inflation is supported by rising fuel prices along with tight competition for labour and other resources due to a generally positive economic outlook.

Sector Discussion

The mining sector is expected to be a prominent driver in the medium-term

Interest in Yukon's mineral potential remains strong. The latest estimates from Natural Resources Canada's (NRCAN) *Survey of Mineral Exploration, Deposit Appraisal and Mine Complex Development Expenditures* indicate that exploration spending in 2018 is expected to increase 4.4% to \$172.3 million. This spending represents 7.7% of total spending in Canada, behind only Quebec, Ontario and B.C. It is expected that when revisions for 2018 are released that estimates for Yukon will be revised upward.

After commencing in 2017, activity related to development of Victoria Gold Corp.'s Eagle Gold project is in full swing, with major earthworks well underway on the site. This includes work related to the crushing plant, gold recovery plant and heap leach facility, and expansion of the work camp from a 250 to a 450-bed capacity⁵.

The current medium-term outlook also includes the development of Goldcorp Inc.'s Coffee Gold project. The

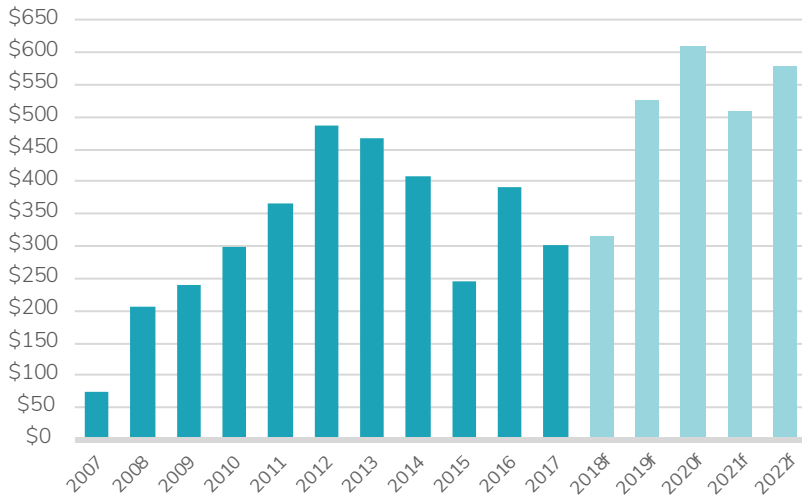
⁴ Note that there is no Yukon CPI available. Price changes of the Whitehorse CPI are reflective of price changes in Whitehorse only, not more generally within the territory.

⁵ News release: Victoria Gold provides Eagle Development Update, Yukon Territory. (May 24, 2018). [Victoria Gold Corp.](#)

project is now in the public comment period of the assessment, which is expected to be concluded by the end of October. Goldcorp Inc. has indicated that it is aiming for construction to begin in 2020⁶.

Yukon’s mineral production currently includes output from Capstone Mining Corp.’s Minto mine and placer gold operators. Capstone Mining Corp.’s production guidance for 2018 calls for an increase in copper and silver production and a slight decline in gold production. In the first six months of 2018, Minto production is reported as being down, the result of plant modifications. Copper and silver production are down about one-third, and gold is down over 60% from the first six months of 2017. With lower than expected production from the Minto mine in the first half of year, the outlook for 2018 production has been revised downward.

Figure 7: Yukon mineral production (\$M)



Sources: Natural Resources Canada, Government of Yukon Department of Finance

Placer gold production in 2018 is expected to remain near the 2017 level, with production of about 72,000 crude ounces. Still favourable gold prices and Canada-U.S. exchange rate are also helping to support placer gold operators.

Beyond 2018, even with an expectation that Minto will cease production in mid-2021, the anticipated start of operations of the Eagle Gold and Coffee mines would boost Yukon’s mineral production in the medium-term. While remaining relatively high, recent declines in gold prices, adds uncertainty to the outlook, with a prolonged period of price weakness having the potential to lower the value of production and reduce interest for the exploration and development of Yukon’s mineral resources.

Tourism remains a source of strength

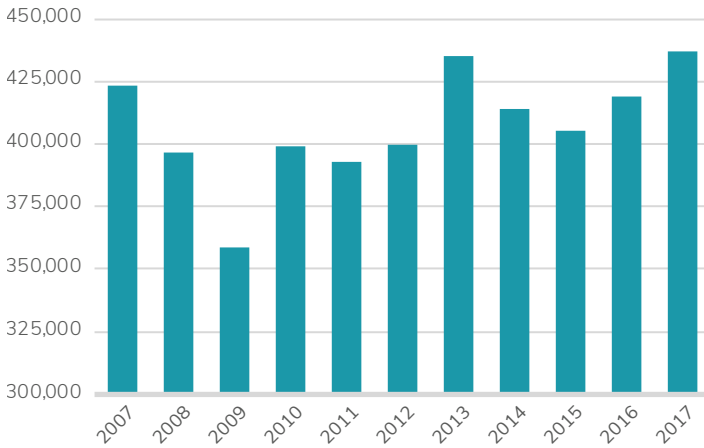
Momentum from a record year in 2017 has continued into 2018 with year-to-date gains in key tourism metrics supported by positive feedback from local tourism operators.

Visitation⁷ for the first six months of 2018 totalled over 183,000, up 16.1% from the same period of 2017. Strong gains are noted in U.S. visitation, up 20% to about 131,000, and other foreign visitation, up 12% to over 18,800.

6 Goldcorp hopes to produce at Coffee by late 2021. (September 12, 2018). [Whitehorse Star](#).

7 Table: 24-10-0041-01. International travellers entering or returning to Canada, by type of transport. [Statistics Canada](#).

Figure 8: Number of international travellers to Yukon



Source: Statistics Canada (Table 24-10-0041-01)

Air arrivals data also provides support for a strong 2018 with arrivals in the first six months up about 4% from the same period of 2017. Second quarter arrivals are also 18% higher than the five-year average (2013-2017).

The Canadian Tourism Research Institute's (CTRI) *Spring 2018 Travel Markets Outlook* notes that overnight travel in 2018 will continue to benefit from the increasing popularity of outdoor activities as well as strong growth in overseas markets. Overnight visits in 2018 are expected to grow 4.6% to about 355,000 supported by gains in overnight visits from the U.S. (up 3.8% to 247,000) and from overseas (up 11.0% to 35,000). Domestic overnight stays are also noted as increasing 4.2% to 74,000. Tourism-related expenditures are forecast at \$337 million in 2018, up 6.0% from 2017. Expenditures of \$324 million associated with overnight visits represent the vast majority of tourism-related spending.

CTRI has overnight visitation and overnight expenditures growing in every year of the current outlook, with overnight visitation totalling 400,000 by 2021 with associated expenditures of \$401 million.

Broad-based growth in construction activity

Construction activity has been strong so far in 2018. Public sector investment will continue to be a driver of local construction activity in 2018. Supplementary estimates of territorial gross capital expenditures⁸ for 2018–19 total almost \$289 million, up from about \$280 million noted in the Budget Main Estimates and up from actual spending of \$246 million in 2016–17.

Spending related to completion of the Whistle Bend Continuing Care Facility is supporting activity in 2018 as is work associated with the City of Whitehorse's building consolidation project, to which the City has committed \$55 million⁹ over a three-year period.

Private sector spending is further supporting the construction sector in 2018, particularly in the areas of residential construction and development of the Eagle Gold mine. Strong year-to-date growth in residential building permits is reflective of a high level of activity in terms of new builds, with significant development occurring in the Whitehorse's Whistle Bend sub-division.

⁸ Spending figures noted include expenditures on other items not related to construction, such as loans, equipment and information technology. Spending figures are rounded to the nearest one million.

⁹ Capital Budget Package 2018-2021, [City of Whitehorse](#).

Over the medium-term construction activity will be supported by public spending on infrastructure as well as spending by the private sector on mine development. Upside to the construction outlook comes from the announcements of over \$360 million in combined federal and territorial funding for improving road access in the Dawson Range and the Nahanni Range Road, as well as almost \$600 million for various other infrastructure projects¹⁰.

Retail Sales have been higher than expected this year

Yukon’s retail sales have performed well in recent years, with population gains, robust employment numbers and growing household incomes contributing to increased sales.

Following a record \$799.5 million in retail sales in 2017, further gains have been registered in the first half of 2018, with sales up 6.6% versus the same period of 2017. Most of the growth is associated with gains in sales at motor vehicle and parts dealers (up 8.5%) and gasoline stations (up 14.0%). Sales from these two categories rose almost \$15 million in the first half of 2018, accounting for 61% of the overall year-to-date increase in retail sales.

Figure 9: Yukon retail sales (\$M)



Source: Government of Yukon Department of Finance

Retail sales in 2018 is now forecast to grow 6.6% to over \$850 million. This is stronger than the Budget forecast of 4.9% growth. Over the medium-term, momentum is expected to persist with increases in every year of the forecast period.

External Environment

Yukon competes in the global market, whether exporting minerals or attracting tourists. A variety of factors, such as political and economic stability of larger economies, world commodity prices, and exchange rates can impact the territory’s economic performance.

¹⁰ Potential infrastructure projects include those related to green, culture and recreation, rural and northern communities and Whitehorse public transit.

Global Performance

The International Monetary Fund's (IMF) July 2018 World Economic Outlook Update includes a global growth projection of 3.9% for both 2018 and 2019, following growth of 3.7% in 2017. While projections are unchanged from its April forecast, the IMF does note that risks have shifted further to the downside, primarily due to recently announced and anticipated tariff increases by the U.S. and retaliatory measures by its trading partners.

U.S. continues to see robust economic growth

Following growth of 2.3% in 2017, high levels of government investment, strong demand for goods and services and a healthy labour market support IMF's forecast of stronger gains of 2.9% in 2018 and 2.7% in 2019. The U.S. labour market, in particular, is expected to perform well, with the national unemployment rate forecast to fall to the lowest level in 50 years.

Real GDP growth in Canada has moderated

Following robust real GDP growth of 3.0% in 2017, the IMF is projecting Canadian growth to moderate to about 2.0% in 2018 and 2019. Canada's strong labour market and positive trade performance are noted as key drivers of the outlook, but uncertainty around U.S. tariffs on aluminum and steel products, the impacts of Canada's retaliatory trade action, and possible further trade action are noted as potentially dampening near-term growth.

Interest rates to rise gradually

A healthy Canadian economy and building inflationary pressure has been a contributing factor to the Bank of Canada's recent tightening of monetary policy. While remaining low, the July increase in the overnight target rate to 1.5% was the fourth increase in a 12-month period.

Private sector forecasters are calling for further growth in the overnight rate, with most projecting rates in excess of 2.0% by the end of 2019. Rates are anticipated to grow gradually and remain relatively low over the medium-term, and given the strong fundamentals of the local economy, higher rates should not have a dramatic negative impact on economic activity in Yukon.

Canadian dollar expected to strengthen

While the Canadian dollar has been weaker in recent months, forecast is for the Canadian dollar to appreciate modestly versus the U.S. dollar from U.S.\$0.78/C\$ in 2018 to just over U.S.\$0.80/C\$ in 2022.

The value of the Canadian dollar is a consideration to the forecast primarily because of its importance in terms of spending in the tourism and mining sectors.

For tourism, appreciation of the Canadian dollar can increase the relative costs of local goods and services to visitors to the territory. At the same time a stronger Canadian dollar means a reduction in the relative costs of goods and services for Canadians that are travelling to the U.S.

For the mining sector, machinery and equipment purchases are often made in U.S. dollars, so an appreciating dollar can be beneficial to companies operating in Yukon. For local operators, whose output is sold in U.S. dollars, an appreciating Canadian dollar can be a negative as they now receive relatively less in Canadian dollars from their sales.

Given that the appreciation of the dollar is forecast to be modest it is expected to have little impact on the performance of the tourism and mining sectors.

Commodity prices have been weaker in recent months

Metal, oil and many other commodity prices are determined on the global market and are subject to significant volatility.

Prices for metals of interest to Yukon, such as gold, silver and copper, have been weaker in recent months, but expectations are for year-over-year gains in 2018 and 2019. Beyond 2019, the forecast is mixed and it is generally expected that copper will perform the best. The outlook for prices supports the current outlook for mining sector activity, but if mineral prices were to vary significantly from current forecasts, it could impact expected levels of exploration and development activity and spending, mineral production and employment.

Mining (project operations and equipment) and tourism (travelers' vehicles) activities are impacted by the cost of fuel. Fuel prices also influence the cost of construction activities and the cost of local goods purchased, as most goods are transported in from outside Yukon.

The current forecast notes appreciation in both oil and natural gas prices, but natural gas is expected to see far more robust gains than oil. Increasing oil and natural gas prices will likely be reflected in higher fuel prices which has the potential to weigh on activity in Yukon's tourism and mining sectors.

Appendix A: Key Economic Indicators

INDICATOR	2017	2018f	2019f	2020f	2021f	2022f
Economic Output (Real GDP)						
Annual percent change	(1.4%)	2.5%	6.5%	2.4%	1.5%	0.2%
Population						
Population	39,269	39,925	40,725	41,310	41,845	42,425
Annual percent change	2.0%	1.7%	2.0%	1.4%	1.3%	1.4%
Labour market[†]						
Labour force	22,000	22,300	22,700	23,000	23,200	23,500
Employment	21,200	21,600	21,900	22,100	22,200	22,500
Unemployment rate	3.6%	2.8%	3.6%	3.8%	4.4%	4.1%
CPI[^]						
Annual percent change	1.7%	2.6%	2.2%	2.1%	2.2%	2.0%
Commodity Prices[*]						
Gold (\$US/troy ounce)	\$1,257	\$1,300	\$1,304	\$1,264	\$1,225	\$1,200
Silver (\$US/troy ounce)	\$17.06	\$16.97	\$17.79	\$16.80	\$17.00	\$17.00
Copper (\$US/pound)	\$2.80	\$3.08	\$3.14	\$3.19	\$3.19	\$2.90
Zinc (\$US/pound)	\$1.31	\$1.47	\$1.42	\$1.30	\$1.30	\$1.26
Oil – WTI (\$US/barrel)	\$50.75	\$63.97	\$63.76	\$65.12	\$65.83	\$68.46
Natural Gas – Henry Hub (\$US/MMBTU)	\$3.00	\$2.96	\$3.09	\$3.47	\$3.61	\$3.72
Key Rates						
Three month T-bill rate	0.72%	1.4%	2.1%	2.4%	2.8%	3.0%
Canada/U.S. exchange rate	\$0.78	\$0.78	\$0.79	\$0.79	\$0.80	\$0.80
Mining						
Mineral production (\$M)	\$300.9	\$240	\$545	\$615	\$500	\$575
Retail Trade						
Value of retail sales (\$M)	\$799.5	\$850	\$910	\$960	\$1,005	\$1,050

f forecast

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

[^] CPI increase for Whitehorse only

* 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 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
Retail Trade	Statistics Canada, Government of Yukon Department of Finance