



**2021-22**  
**INTERIM FISCAL**  
**AND ECONOMIC UPDATE**



## Introduction

As the Yukon continues to navigate the COVID-19 pandemic, the Government of Yukon continues to provide support to Yukoners to ensure their safety and well-being. Over the last six months, positive vaccination rates have allowed for some moderate return to normalcy and a gradual elimination of public health restrictions, however, there are still groups in the territory who continue to be impacted by the virus both directly and indirectly.

While the Government of Yukon has been able to conclude some of its successful economic support programs, some level of support is still required to ensure that sectors that have been disproportionately affected can continue to operate.

The 2021–22 *Interim Fiscal and Economic Update* presents an updated overview of current expectations for the Yukon's finances and its economy over the short and medium terms. It accounts for these continued supports to Yukoners and provides an update on the discussion presented in the *Fiscal and Economic Outlook* released in March 2021. It also includes new areas of needed support as the territory responded to one of its worst flooding events in recent history.

## Part 1: Yukon's Finances

The 2021–22 Budget forecast a \$6.6 million annual deficit for 2021–22. Overall, allocations included in the Supplementary Estimates would increase spending by \$72.2 million, or 4 per cent over the Main Estimates. This additional spending results in the projected deficit for 2021-22 rising to \$18.2 million.

Over \$20.9 million, or 28.9 per cent of this spending increase, is related to the COVID-19 pandemic. This is primarily driven by public health care measures, which makes up \$10.7 million in new spending – more than half – as well as economic and financial relief, which makes up \$9.2 million.

Over \$11 million, or 15.2 per cent, will be spent on flood mitigation and response efforts due to the record flooding in the territory this past summer. These costs were not included in the Main Estimates as it can be difficult to predict how climate change and other factors will affect the Yukon in any given season.

An additional \$9.9 million, or 13.7 per cent, will be directed towards the Early Learning and Child Care Funding Program. The Government of Yukon has made significant and ongoing financial investments in early learning and child care and has reached an agreement to access an additional \$54.3 million in federal funding over the next five years.

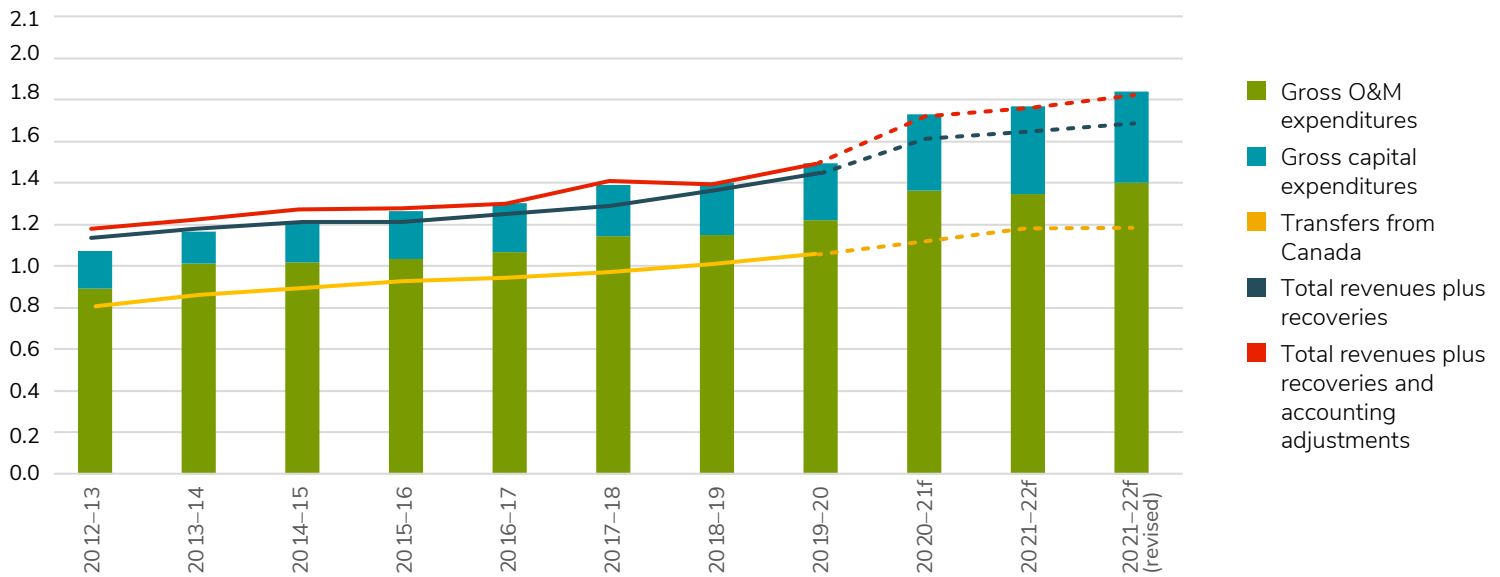
A capital spending increase of \$13.8 million is primarily related to projects already in progress. These changes ensure that the Government of Yukon can deliver on its strategic investments that support our growing economy and deliver valued government services.

The 2021–22 Main Estimates included a \$15 million COVID-19 contingency, which was reserved in the government's fiscal framework to fund further potential support without affecting the surplus/deficit position. The First Supplementary Estimates includes a reduction of \$4.5 million from the COVID-19 contingency so spending authority is in place to support the tourism sector, the COVID-19 call centre and additional cleaning requirements in buildings. A total of \$10.5 million remains for future potential expenditure requirements.

While the government anticipates an increase to the territorial deficit as a result of these new expenditures, the ability to work collaboratively with federal partners has served to limit this impact. The result is a revised deficit forecast of \$18.2 million and estimated net debt of \$183.1 million for 2021–22.

**Chart 1. Government of Yukon fiscal indicators<sup>1,2,3</sup>**

Expenditures and revenues (\$billions)



Source: Department of Finance

**Table 1. Fiscal summary<sup>4</sup>**

\$millions	2020-21	2021-22	2021-22
	Supplementary Estimates #2	Main Estimates	Supplementary Estimates #1
Revenue <sup>5</sup>	1,305.7	1,374.3	1,364.3
Expense <sup>6</sup>	(1,441.1)	(1,519.7)	(1,542.5)
COVID-19 contingency <sup>7</sup>	-	(15.0)	(10.5)
Accounting adjustments <sup>8</sup>	128.3	153.8	170.5
Surplus/deficit <sup>9</sup>	(7.0)	(6.6)	(18.2)
<b>Other key metrics</b>			
Net debt (end of year)	88.5	169.6	183.1

Source: Department of Finance. Numbers may not add due to rounding.

1 Fiscal years 2012-13 to 2019-20 represent actuals as reported in the Yukon Public Accounts. For comparability, forecasts for fiscal years 2020-21 and 2021-22 use the same methodology, which differs from the presentation in Table 1.

2 To align with presentation in the Yukon Public Accounts, revenues and recoveries do not include those collected by Yukon Housing Corporation, which are netted out of the gross expenditures presented in the chart.

3 For years 2020-21 and 2021-22 an "f" denotes a forecast.

4 To align with the presentation in the Yukon Public Accounts, revenues and recoveries do not include those collected by Yukon Housing Corporation, which are included in "Accounting adjustments" in this table.

5 Revenue is the sum of "Transfers from Canada", "Tax Revenue", and "Other Revenue" as found on Page S-4 of the 2021-22 Supplementary Estimates No. 1, and equivalent pages of budget documents for other periods.

6 Expense is "Total Appropriated Amounts" minus "Recoveries from Canada" and "Third-Party Recoveries" as found on Page S-5 of the 2021-22 Supplementary Estimates No. 1, and equivalent pages of budget documents for other periods.

7 Found on Page S-5 of the 2021-22 Supplementary Estimates No. 1.

8 Accounting adjustments are the sum of "Tangible Capital Assets (net)", "Investment in Land Development", "Expenditures on Loan Programs", and "Other Adjustments (net)", as found on Page S-5 of the 2021-22 Supplementary Estimates No. 1, and equivalent pages of budget documents for other periods.

9 Surplus/deficit is the sum of "Revenue", "Expense", "COVID-19 contingency", and "Accounting adjustments".

## Revenue

Total government revenue, excluding recoveries, is forecast to be \$1.36 billion in 2021–22. This represents a decrease of \$10 million, or 0.7 per cent, from the Main Estimates. This decrease is driven primarily by lower land sales of Whistle Bend lots and reflects the timing of release and sale of these lots. Other revenues expected to decrease include camping and hunting fees, which were impacted by reduced tourism activity in the territory as pandemic related restrictions were in place well into the fiscal year.

Table 2. Revenue by type<sup>10,11</sup>

\$millions	2020–21	2021–22	2021–22
	Supplementary Estimates #2	Main Estimates	Supplementary Estimates #1
Income taxes	101.0	94.0	94.0
Property tax	6.0	6.9	6.9
Fuel oil tax	7.4	8.6	8.6
Tobacco and alcohol taxes	17.7	18.3	18.4
Other taxes	3.8	6.4	6.4
Other revenue	53.0	56.8	46.6
<b>Total own-source revenue</b>	<b>189.0</b>	<b>191.0</b>	<b>181.0</b>
Federal transfers	1,116.7	1,183.3	1,183.3
<b>Total revenue</b>	<b>1,305.7</b>	<b>1,374.3</b>	<b>1,364.3</b>

Source: Department of Finance. Numbers may not add due to rounding.

## Operations and maintenance expense

Operations and maintenance (O&M) spending is forecast to increase by \$58.4 million, or 4.3 per cent, from the 2021–22 Main Estimates. More than \$20.9 million is related to the COVID-19 pandemic. The increase is primarily driven by public health measures, including continued vaccinations and potential surge support requirements.

This COVID-related increase also includes \$4 million in continued support for Yukon businesses and individuals through the Tourism Accommodation Sector Supplement and the Tourism Non-Accommodation Sector Supplement. These programs help visitor-dependent Yukon businesses through these challenging times by providing funding up to a point of breaking even.

As one of the major backbones of the Yukon's economy, the extension of these programs will ensure that tourism operators are here for visitors once travel returns to pre-pandemic levels.

Support is also being extended to the aviation sector by providing funding to air carriers in order to maintain essential air services to Yukon communities.

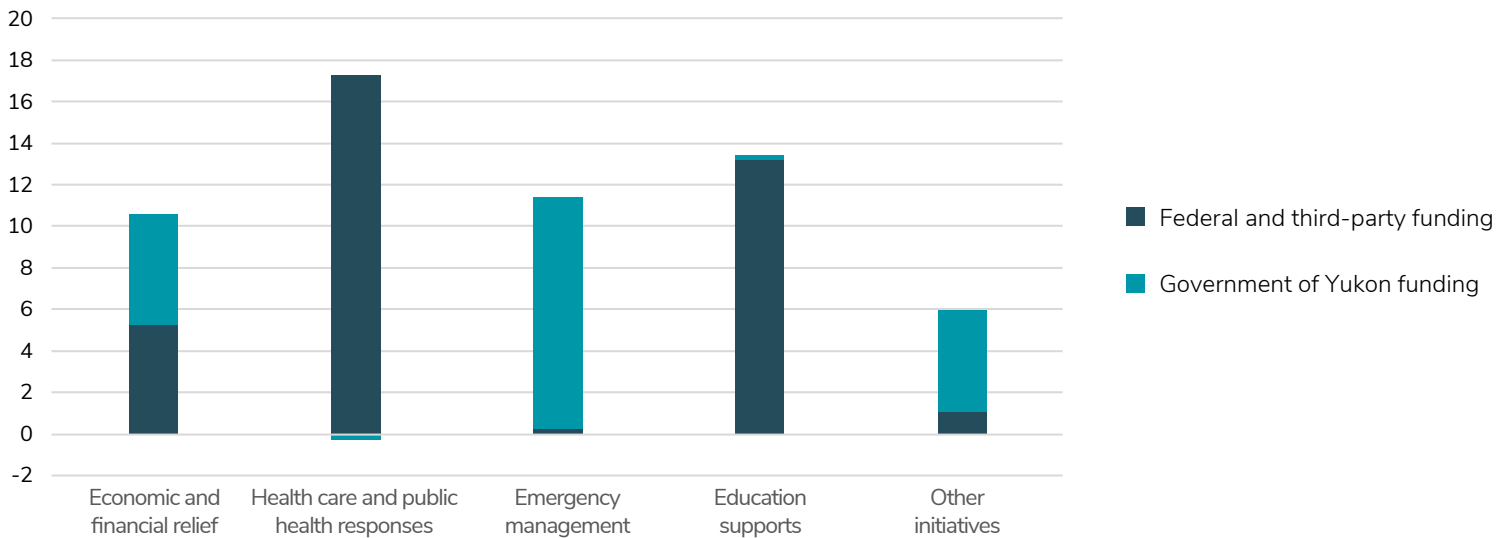
Over \$16.4 million of the \$20.9 million in pandemic-related spending increases are offset by new federal supports, representing a positive financial dividend of the collaborative approach between the federal government and the Government of Yukon.

<sup>10</sup> All revenue figures are found on Pages S-8 and S-9 of the 2021–22 Supplementary Estimates No. 1, and equivalent pages of budget documents for other periods.

<sup>11</sup> To align with the presentation in the Yukon Public Accounts, revenues do not include those collected by Yukon Housing Corporation.

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

Funding by category (\$millions)



Source: Department of Finance

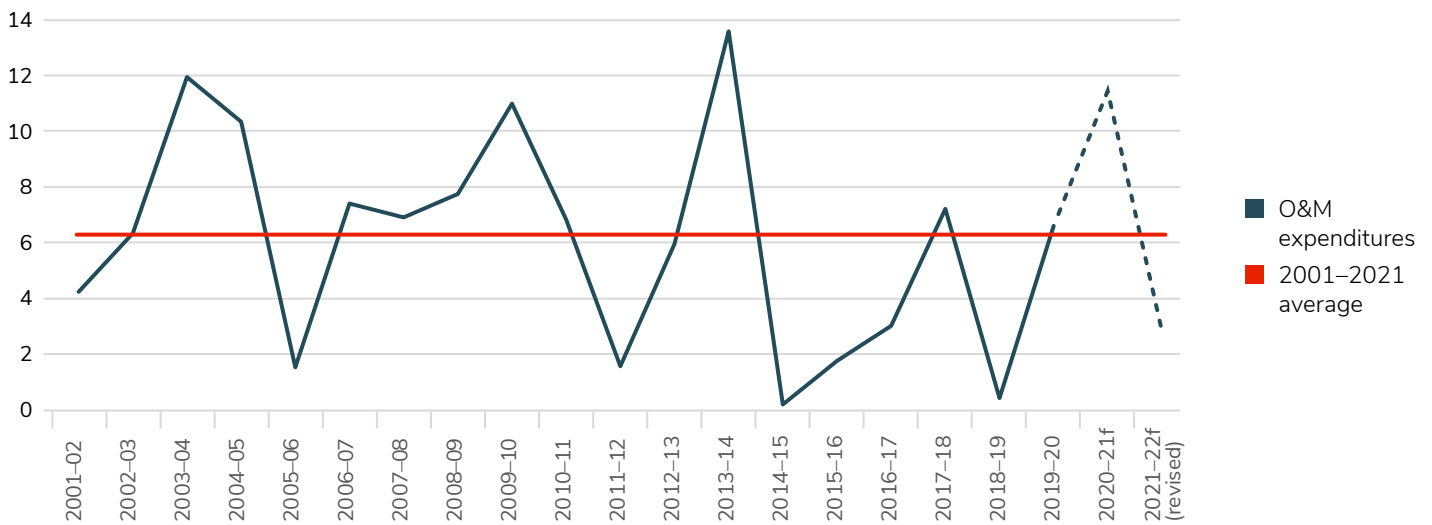
In addition to pandemic supports, there is new spending authority to support the initial response to this summer’s record-level flooding in the territory, as well as the ongoing flood recovery and clean-up.

Increased funding will also target universal early learning and child care programming, as well as recruitment and retention of early childhood educators. Ongoing work with our partners and investment from Canada will help build a community-based system that will provide access to high-quality, affordable, flexible and inclusive early learning and child care for Yukon families.

On a net basis, when all recoveries from Canada and third parties are considered, O&M expenditures are expected to increase by \$21.3 million, or 1.7 per cent, from the 2021–22 Main Estimates.

**Chart 3. Annual growth in O&M spending compared to 20-year average growth<sup>12,13</sup>**

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



Source: Department of Finance

The average annual growth in O&M spending between 2001-02 and 2020-21 was 6.3 per cent. Based on the 2020-21 and 2021-22 forecasts, the resulting spending increase for 2021-22 is 3.4 percentage points below that twenty-year average.

### Five-Year Capital Plan update

The Government of Yukon’s 2021-22 gross capital spending at the mid-point of the fiscal year is projected to increase by \$13.8 million, or 3.2 per cent from the 2021-22 Main Estimates. Ninety-five per cent of the budget increase is recoverable from Canada or third parties. Proposed changes to the capital plan are primarily linked to COVID-19 related cost increases, timing changes in project activity and cash flows, as well as changes to the scope of various projects.

The *Five-Year Capital Plan* identifies capital investments, both large and small, that address Yukoners’ service delivery priorities now and into the future. Federal infrastructure funding and government strategic plans – such as *Our Clean Future* and *Putting People First* – influence the size and composition of the capital plan, while COVID-19 continues to have an impact on its implementation. Notably, the pandemic is linked to building construction project cost increases as a result of volatility in the price of lumber, steel and labour. In some cases, labour constraints and supply chain disruptions have hampered or halted project work altogether as governments around the world work to minimize transmission of COVID-19.

Increased funding is proposed to support climate change, energy and green economy projects, including additional funding for Innovative Renewable Energy Initiative community projects, electric vehicle charging stations, and completion of Yukon Energy Corporation’s Mayo to McQuesten transmission line and Whitehorse grid-scale battery storage projects. Increases in building construction costs have impacted forecast spending for the Robert Service School modular classroom project as well as the 47-unit mixed-use housing project in Whitehorse.

<sup>12</sup> Fiscal years 2001-02 to 2019-20 represent actuals as reported in the Yukon Public Accounts. For comparability, forecasts for fiscal years 2020-21 and 2021-22 use the same methodology, which differs from the presentation in Table 1.

<sup>13</sup> For years 2020-21 and 2021-22 an “f” denotes a forecast.

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

\$millions	2021–22 plan	2021–22 Supplementary Estimates #1	2022–23	2023–24	2024–25	2025–26
Climate change, energy and green economy	50	57	48	29	26	26
Land development, social development, education and health	111	115	105	102	113	92
Community and First Nations infrastructure	97	96	93	100	100	98
Transportation infrastructure	101	101	159	161	155	116
Real property and asset management	37	36	40	45	57	31
Information technology	39	43	59	28	16	15
<b>Totals</b>	<b>435</b>	<b>448</b>	<b>504</b>	<b>465</b>	<b>466</b>	<b>379</b>

Source: Capital Planning Office. Numbers may not add due to rounding.

### **A push for enhanced evaluation and performance measurement**

Over the last four years, the Government of Yukon has made significant investments in its evaluation capacity by creating a permanent Evaluation Unit within the Department of Finance. This unit has been charged with providing better program evaluation and an improved focus on policy outcomes.

This unit is working in concert with existing departments and bodies – including the Office of the Science Advisor and Internal Audit – to forge a coordinated, government-wide approach to standardize evidence and ensure accountability for the delivery of programs and projects.

The recent work of this group has focused on education and awareness building in the use of evaluation across government. The unit has also developed several interactive prototypes to better understand the needs of departments when it comes to evaluating their programs. While these tools currently work best for targeted, theme-specific projects and programs, work is underway to scale these prototypes so that they may serve entire departments.

As knowledge of evaluation practices increases across government, the unit will look to implement new evaluation initiatives beginning in the 2022–23 fiscal year. The scale and integration of these initiatives will increase gradually as government continues to improve evaluation development capacity and literacy.

Eventually, the approach and use of tools will be incorporated into a whole-of-government approach, which will help collect, process, and communicate financial and performance data. In turn, this will provide information for better, more informed decision-making, greater government transparency and accountability.

## Part 2: Economic overview

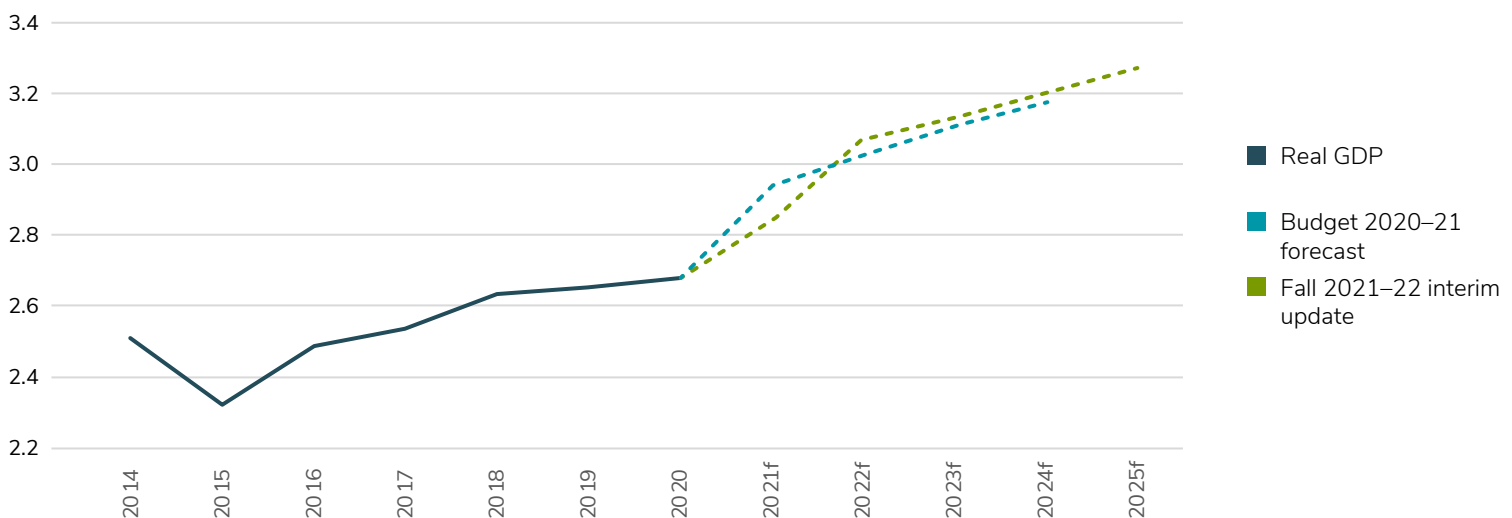
### The economic outlook is positive but concerns over COVID-19 linger

The outlook for the Yukon's economy continues to evolve in line with what was presented in March 2021. The territory has seen a successful rollout of vaccinations with the Yukon's vaccination rate leading the country.<sup>14</sup> Vaccines have replaced public health restrictions as the first line of defence against COVID-19. Most local COVID-19-related restrictions on capacity and social distancing ended along with the state of emergency in August. Self-isolation requirements after travel have been lifted, and international border restrictions have also been loosened.

While COVID-19 remains a consideration for Yukon's near-term economic outlook, the outlook is now less clouded by uncertainty. The Yukon's real Gross Domestic Product (GDP) is expected to grow by 6 per cent in 2021 and 8.1 percent in 2022. Growth is lower in 2021 and higher in 2022 than what was presented in March. Revisions to the forecast are primarily due to changes in mineral production expectations from local operating mines, with some production being shifted forward into 2022. The Yukon's GDP in 2022 is expected to exceed what was projected prior to the pandemic (Chart 4).

#### Chart 4. GDP outlook is returning to pre-pandemic trajectory<sup>15</sup>

Yukon real GDP (2012 \$billions)



Source: Statistics Canada, Department of Finance

### Tourism sector has started to recover

Canada's vaccination program has proceeded better than what was expected in March as supplies ramped up ahead of schedule.<sup>16</sup> The Yukon dropped self-isolation requirements for fully vaccinated travellers from other parts of the country at the end of May and opened the border to everyone regardless of vaccination status on August 4.

<sup>14</sup> As of September 14, 2021, 83 per cent of Yukoners aged 18+ and 73 per cent of Yukoners aged 12 to 17 years were fully vaccinated.

<sup>15</sup> For years 2021 through 2025 an "f" denotes a forecast.

<sup>16</sup> Canadian COVID-19 vaccination coverage report. (August 27, 2021). Public Health Agency of Canada.



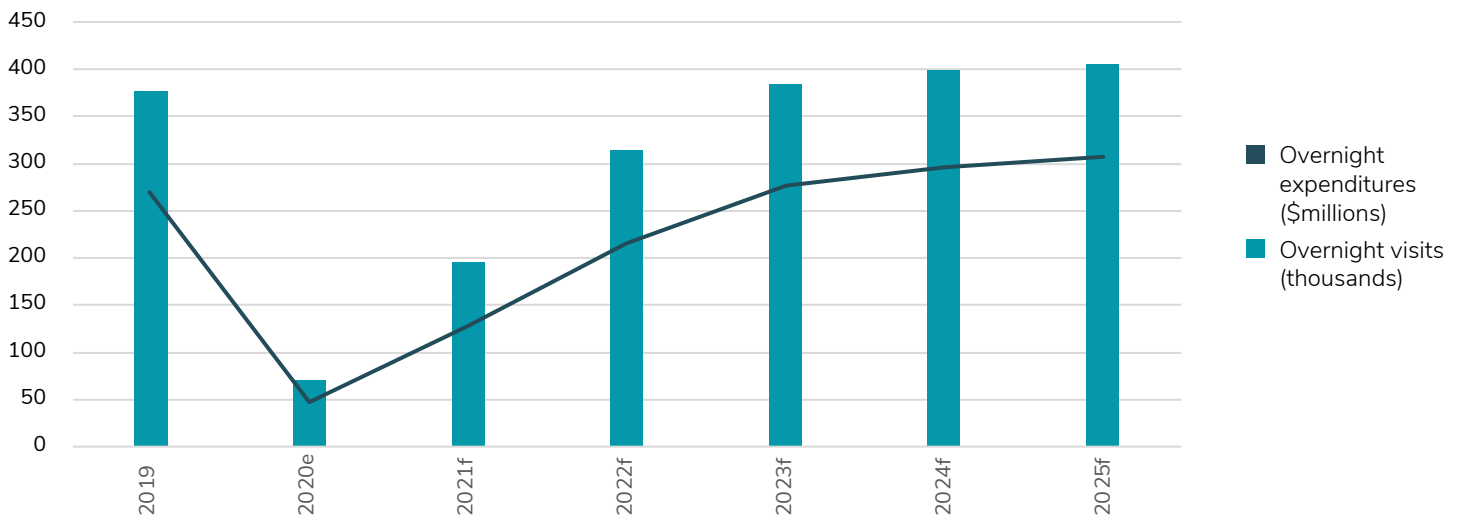
International border restrictions have also started to lift. Vaccinated U.S. residents have been allowed to travel to Canada without self-isolating since August 9 and Canada’s border opened to vaccinated international travellers on September 7. Travellers are still required to get tested for COVID-19 within 72 hours prior to arrival. The U.S. border remains closed to Canadians travelling to the U.S. by land regardless of vaccination status.

Tourism data had already started to show improvement before the start of reopening. Air arrivals at the Erik Nielsen Whitehorse International Airport picked up in the second quarter of 2021, but were still 77 per cent below the five-year average. Similarly, overnight visitation for international visitors in the second quarter started to improve, but remained 87 per cent below the five-year average. Border crossings also ticked up, but remained a small fraction of 2019 levels. Relaxed COVID-19 restrictions should help tourism activity in the second half of 2021, but the impact is expected to be mild with most of the rebound in tourism activity to come in 2022.

The Canadian Tourism Research Institute’s (CTRI) *Summer 2021 Travel Markets Outlook* forecasts visitation for the Yukon returning to 2019 levels in 2023 (Chart 5). The timing of the recovery is the same as what was presented in the March 2021 *Fiscal and Economic Outlook* and two years earlier than the CTRI’s 2020 outlook.

**Chart 5. Visitation and spending expected to return to pre-pandemic levels by 2023<sup>17</sup>**

Overnight visits (thousands) and overnight expenditures (\$millions)



Source: The Canadian Tourism Research Institute, Department of Tourism & Culture

**Seasonal factors impacting labour market data**

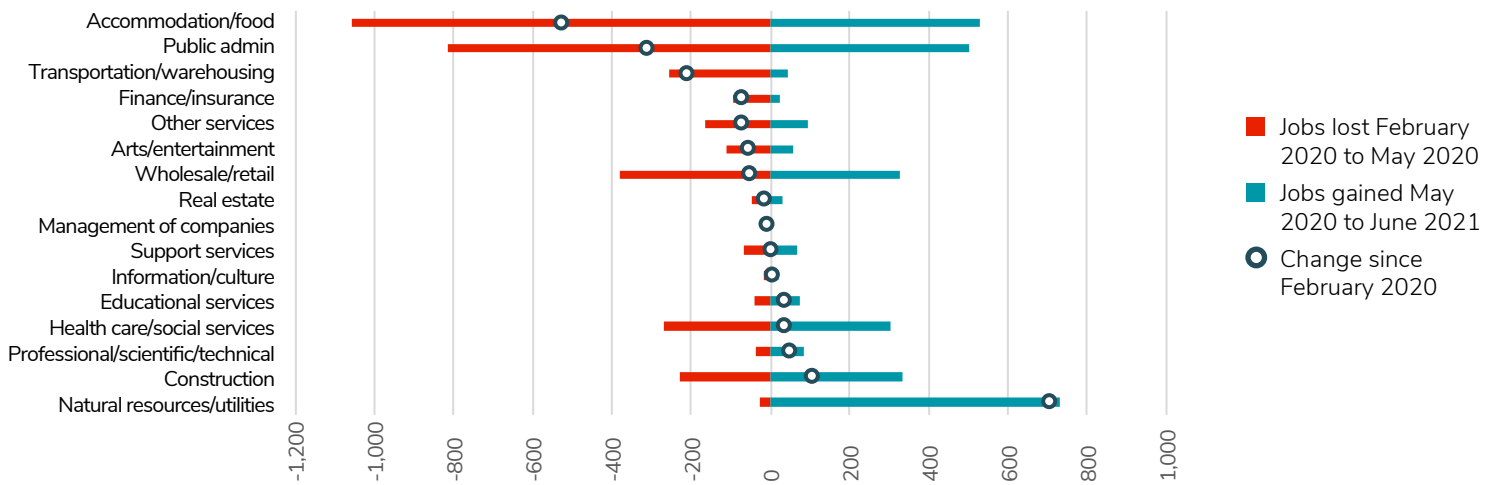
The current forecast has the Yukon’s unemployment rate averaging 6.2 per cent in 2021, up from 5.2 per cent in 2020. This is higher than the budget forecast of 5.7 per cent. The unemployment rate fell in August and further declines are expected as the seasonal effect from tourism subsidies. Job growth is also expected to be weaker at 1.4 per cent in 2021 versus 2.5 per cent expected in March. Employment growth is forecast to pick up next year along with the recovery in the tourism sector.

Data sources differ as to the extent of the recovery. According to the Labour Force Survey, the economy has recovered just half the jobs lost during the pandemic and is still shy 1,400 jobs of the February 2020 figure. The Survey of Employment Payrolls and Hours (SEPH) has shown much stronger job growth. As of June 2021, nearly 90 per cent of the early-2020 job losses have been recovered, though the recovery has been uneven across industries (Chart 6).

<sup>17</sup> For the year 2020 an “e” denotes an estimate. For years 2021 through 2025 an “f” denotes a forecast.

### Chart 6. Recovery of jobs continues, but it remains uneven across industries

Change in employment by industrial classification

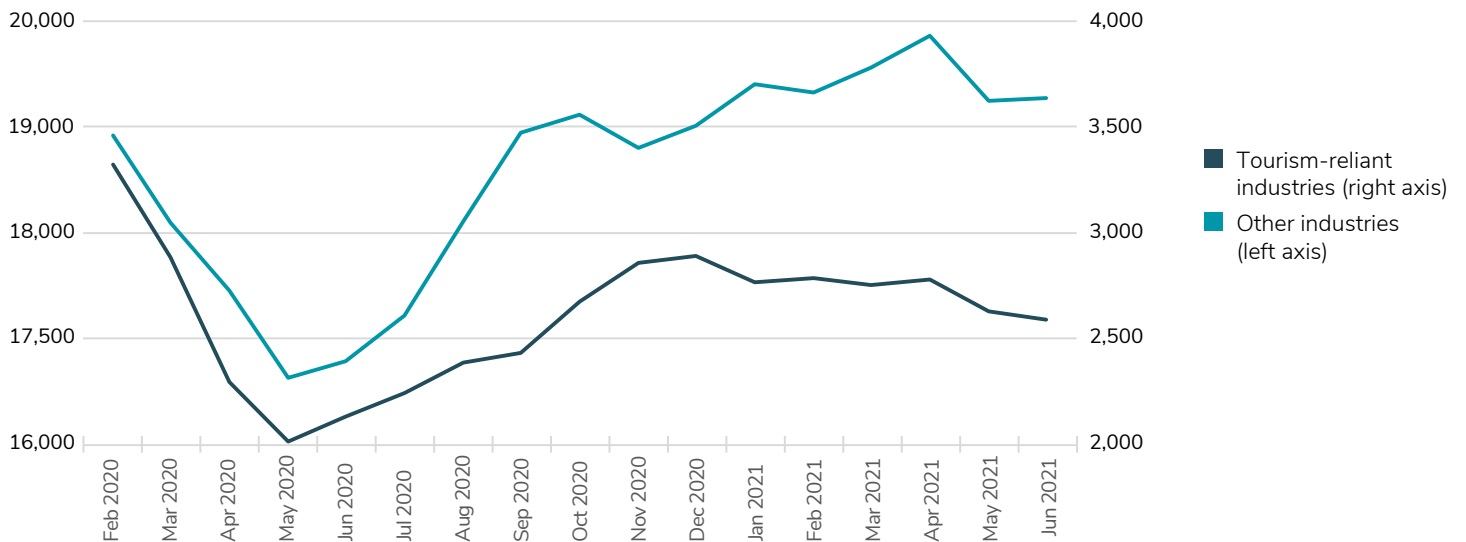


Source: Statistics Canada

Almost every industry has gained jobs since pandemic job losses peaked in May 2020, and most have either recovered or are well on their way to recovery. Job gains have been especially pronounced in goods producing sectors such as mining and construction. ‘Transportation and warehousing’ and ‘food and accommodation’ remain well below pre-pandemic levels as these tourism-reliant industries continued to be held back by pandemic restrictions (Chart 7). SEPH data do not yet reflect reopening and should start to recover later this year.

### Chart 7. Employment in tourism-reliant industries<sup>18</sup> remains below pre-pandemic levels

Cumulative change in the number of jobs since February 2020



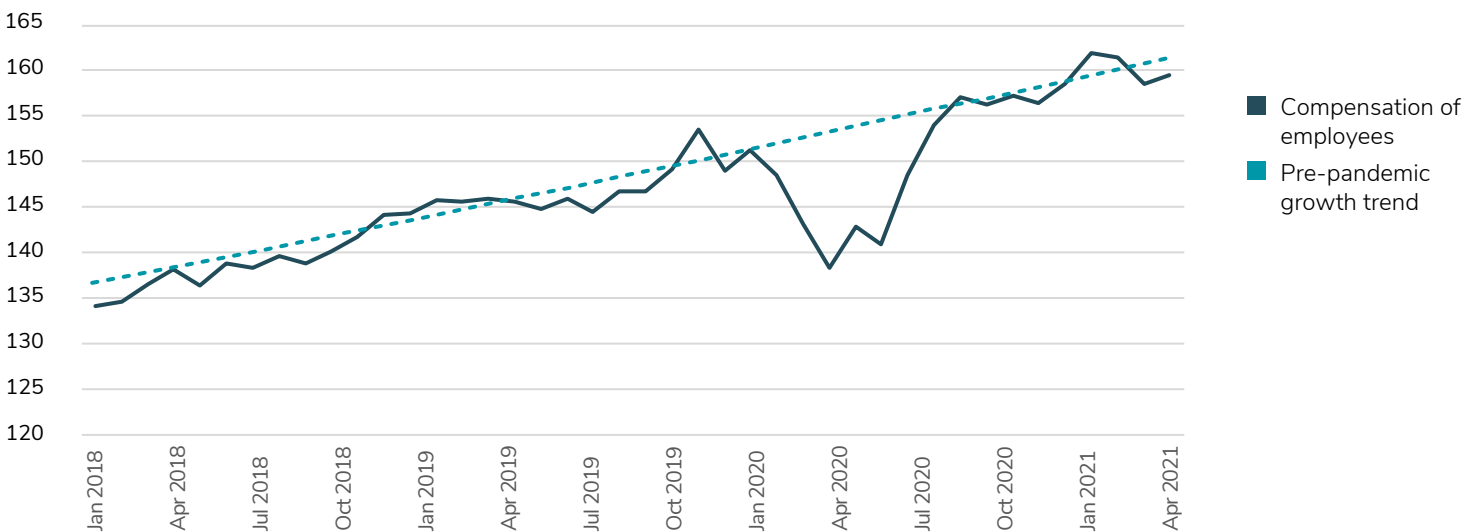
Source: Statistics Canada

<sup>18</sup> “Tourism-reliant industries” are represented in the chart as the combination of employment in ‘Transportation and Warehousing’ and ‘Food and Accommodation Services’.

## Household incomes boosted by rising labour income and pandemic supports

Even with a notable disruption in the Yukon's labour market over the last two years, earnings have continued to grow. Average weekly earnings rose to \$1,285 in June 2021, 1.4 per cent higher than June 2020. The value of employee compensation across all workers has more than recovered pandemic losses and is now back on the pre-pandemic trend (Chart 8).

**Chart 8. Labour income earned in the territory has returned to the pre-pandemic trend**  
Compensation of employees in the Yukon (\$millions)



Source: Statistics Canada, Department of Finance

Federal supports effectively offset the overall decline in labour income last year. The Canada Emergency Relief Benefit was succeeded by enhanced employment insurance benefits, and a suite of supplemental supports for those that do not qualify for EI.<sup>19</sup> As labour incomes have improved, the number of Yukoners accessing these programs has waned. As of June, there were 2,775 Yukoners receiving either EI or one of the supplemental benefits, down from a peak of 3,600 in February.

## Strong growth in income bolsters consumer spending

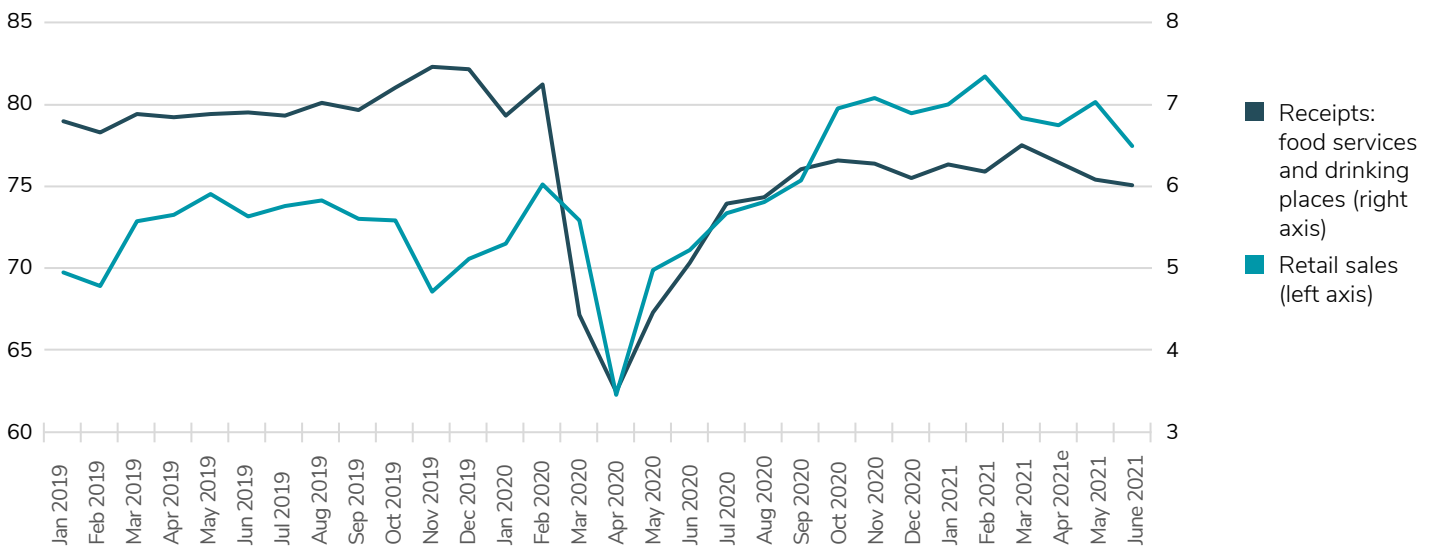
Strong growth in incomes should bolster consumer spending in 2021. Retail sales have completely recovered pandemic losses with 2021 on track to post another record level. Retail sales are now forecast at \$980 million for 2021, 8.9 per cent higher than the March forecast. This reflects stronger-than-expected sales to date as well as higher prices.

Sales at bars and restaurants have been flat since recovering over two-thirds of pandemic losses between May and October 2020 (Chart 9). The last available data are for June and do not yet reflect any impact from reopening, which should provide a boost in the second half of the year.

<sup>19</sup> The 'Canada Recovery Benefits', the 'Canada Recovery Sickness Benefit' and the 'Canada Recovery Caregivers Benefits'.

### Chart 9. Retail sales have fully recovered, but restaurant and bar sales have not<sup>20</sup>

Retail sales (\$millions) and receipts (\$millions)



Source: Statistics Canada

### Inflation has been elevated this year, but should moderate

As has been the case for most Canadian jurisdictions, the overall level of consumer prices in the Yukon has moved higher in 2021. Stories of the increasing cost of everything from building materials to chicken wings have been chronicled in recent months. High prices can become a burden for households as it makes it more difficult to make ends meet. Those on fixed incomes are especially vulnerable to price increases, particularly if they occur in necessities such as food, gasoline, or areas related to shelter such as heating fuels or electricity.

Inflation has been elevated throughout 2021 and has exceeded 3 per cent in all months from April to August, with growth of 5 per cent in August the highest growth in almost 30 years. The top three contributors to year-over-year price gains were: 'gasoline', 'purchase and leasing of passenger vehicles' and 'fuel oil and other fuels'.

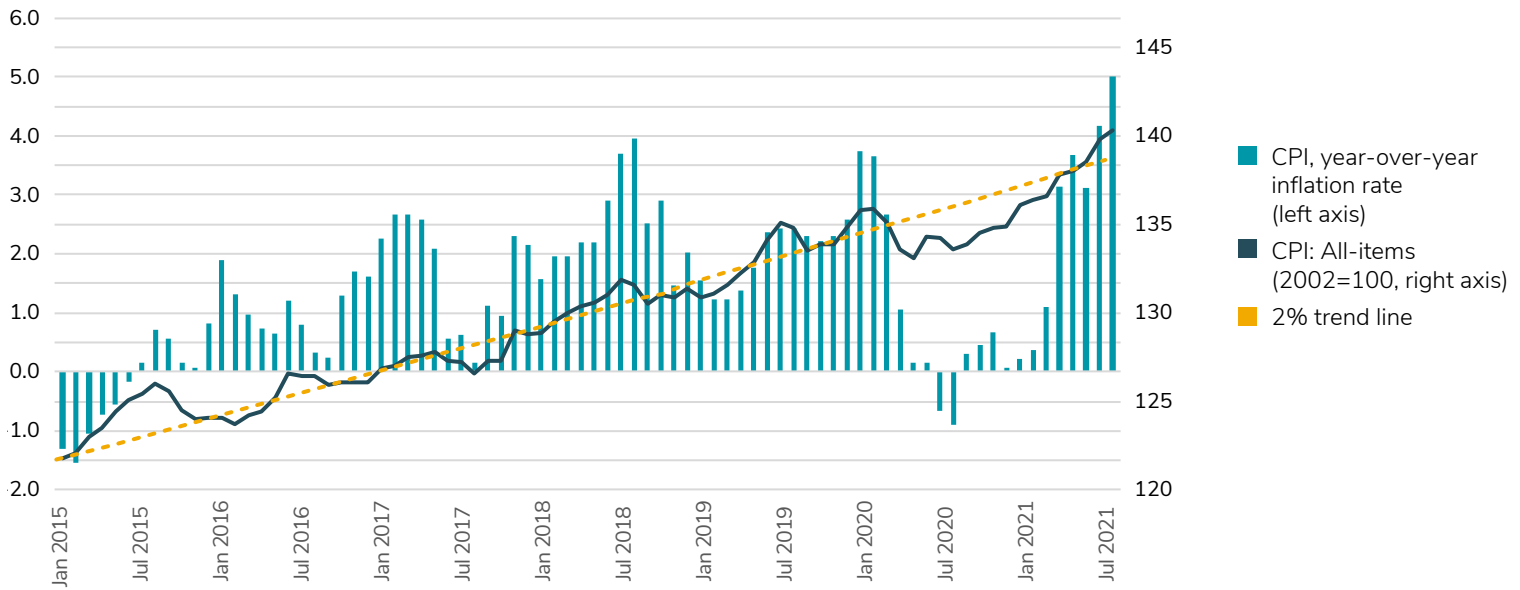
Higher inflation was expected this year as prices return to trend after low inflation last year (Chart 10). Prices fell by 0.9 per cent between August 2019 and August 2020, so 5 per cent growth was needed to bring the average over the last two years back to 2 per cent. August 2020 marked the low mark for inflation and so the transitory impact of low prices last year will begin to subside over the next few months.

Inflation will likely remain somewhat elevated even as the transitory impact of low prices last year subsides. For example, a shortage of microchips has led to shortage of new vehicles, driving up vehicle prices, and disruptions to resource extraction and manufacturing have led to an increase in the price of a wide variety of materials.

<sup>20</sup> For April 2021, an "e" denotes an estimate. Receipts for food services and drinking places was not published by Statistics Canada due to concerns regarding data quality.

**Chart 10. Recent high consumer price inflation is partially transitory**

Whitehorse CPI



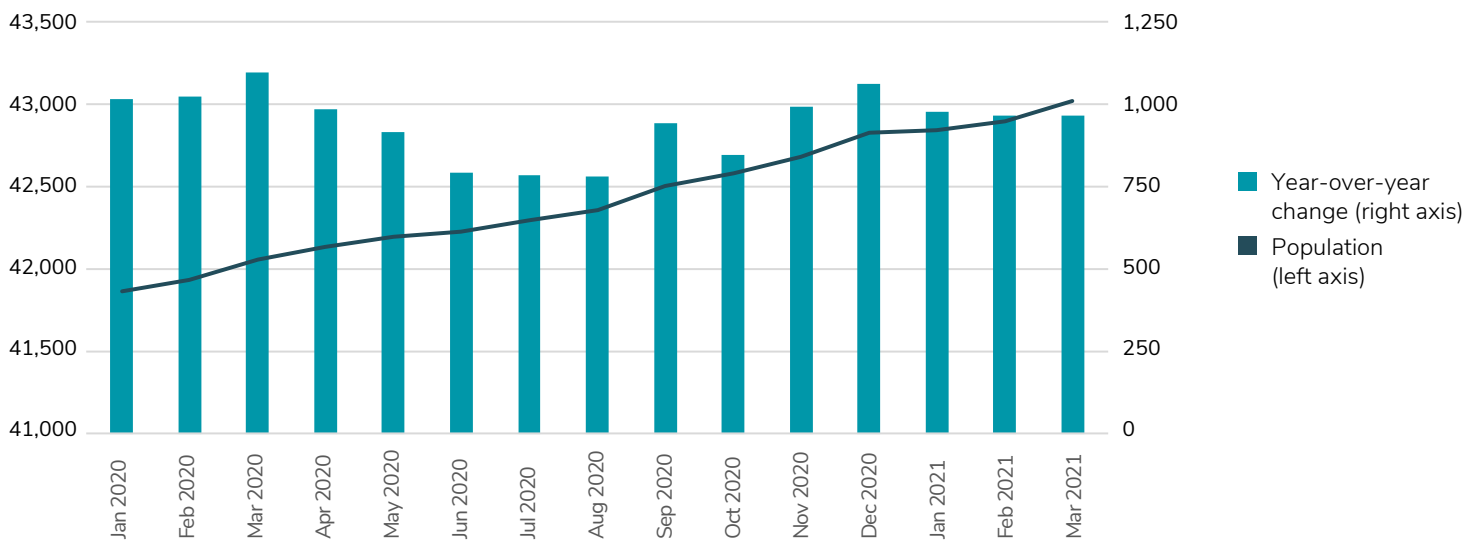
Source: Statistics Canada; Department of Finance

**Further population gains expected over the medium term**

The outlook for population growth remains unchanged from the March outlook. Overall, the territory’s generally strong economy and local labour market is expected to continue to be a draw for individuals and is expected to help fuel further growth over the medium term, with population in the territory forecast to exceed 46,000 in 2025. The first quarter of 2021 saw particularly strong net immigration of 140, the largest first quarter increase since 2010.<sup>21</sup>

**Chart 11. Population has continued to see gains throughout 2020 and into 2021**

Yukon monthly population and annual change (persons)



Source: Yukon Bureau of Statistics

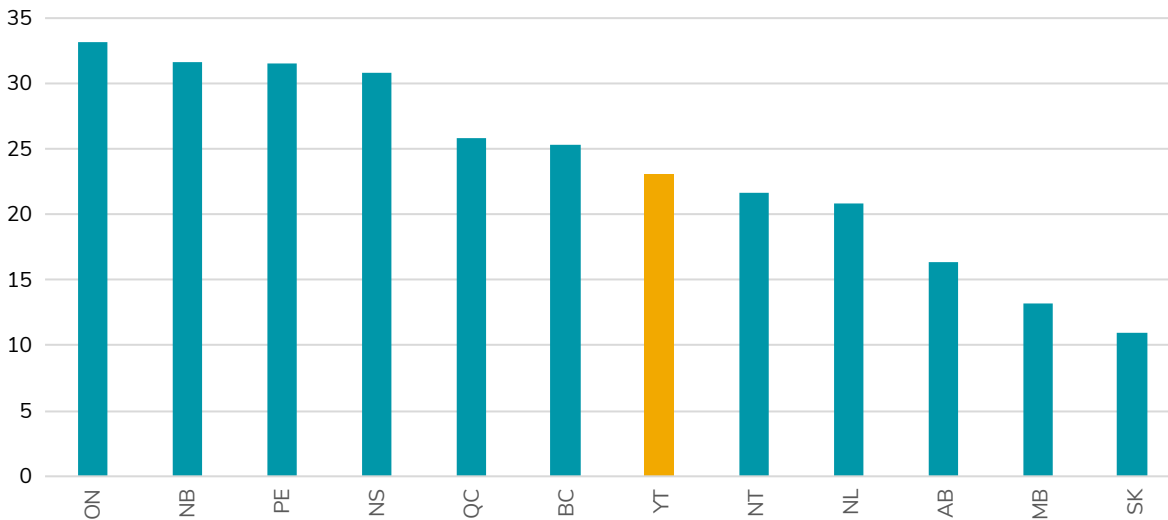
<sup>21</sup> Table 17-100040-01. Estimates of the components of international migration, quarterly. Statistics Canada.

## House prices continue to rise

The average sale price of a single-detached house in Whitehorse grew to a new record high of \$650,700 in the second quarter of 2021, up almost \$104,000 (19.0 per cent) from the second quarter of last year. Average sale prices for condos, mobile homes, and duplexes all saw strong year-over-year gains in the second quarter of 2021.

### Chart 12. House prices up across Canada<sup>22</sup>

Year-over-year increase in average home resale price for 2021 Q2 (per cent)



Source: The Canadian Real Estate Association

Rising house prices during the time of COVID-19 have not been unique to the Yukon. Average house prices are up across Canada by an average of 30 per cent over the last year, with every housing market in Canada seeing increases, even in areas that were especially hard hit by the pandemic.

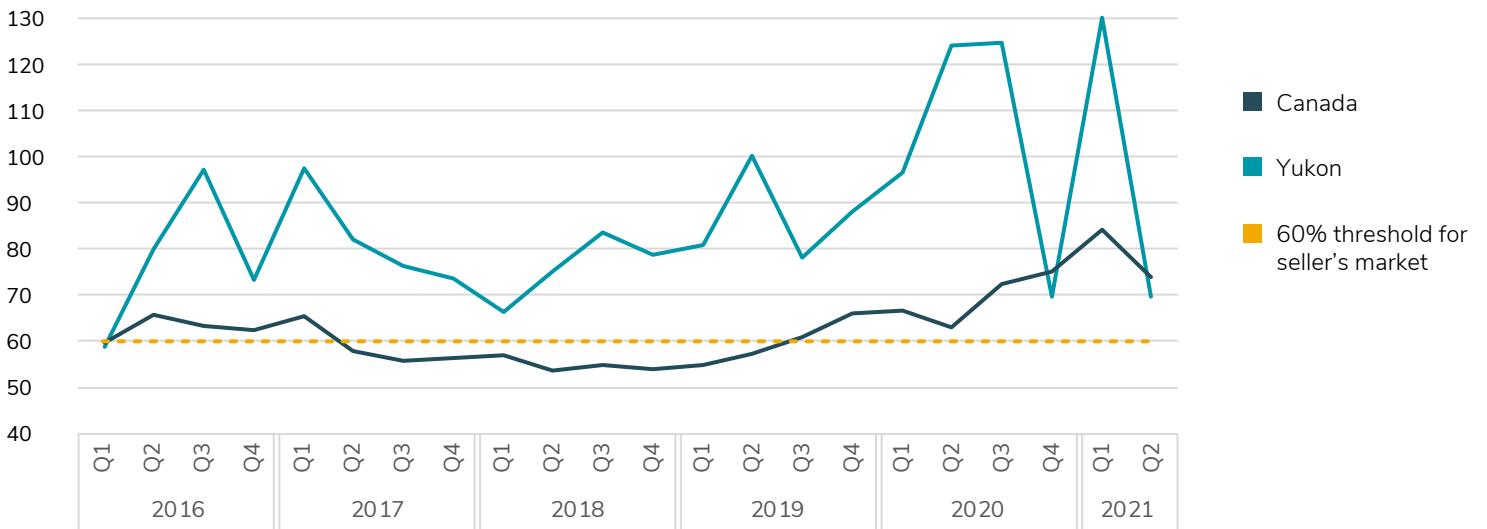
Low interest rates are part of the story, as are high household savings as money saved from disrupted spending, such as forgone travel, can be put towards a down payment. The pandemic has also had other impacts on housing. As people transitioned to working from home, workers in heavily populated urban areas were willing to move further from the centre. For example, Parry Sound, about two hours north of Toronto, saw house prices double over the last two years from about \$350,000 to over \$700,000.

The most recent increase in local house prices has been driven primarily by national factors, but the Yukon's housing market has been tight for many years. The ratio of housing sales to new listings is a measure of the tightness of the resale market. As a general rule, when the sales-to-new listings ratio is above 60 it is considered a "seller's market", because homes are sold soon after being listed. Chart 13 shows that Yukon's housing market has been a seller's market since early 2016. The average price of houses sold on the resale market in the Yukon increased by 60 per cent since then, with half of that increase occurring before the pandemic.

<sup>22</sup> CREA does not publish data for Nunavut.

### Chart 13. It continues to be a seller's market in the Yukon

Housing sales-to-new listings ratio, seasonally adjusted



Source: The Canadian Real Estate Association

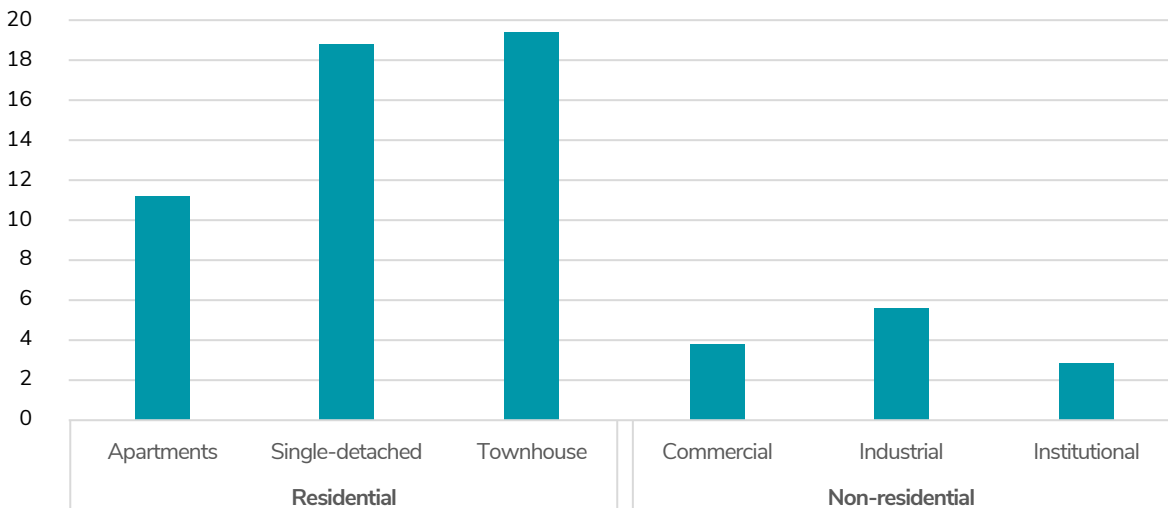
### Residential construction has ramped up

Residential construction is responding to higher prices. Year-to-date performance in 2021 has investment in residential building construction well on the way to surpassing the record posted just last year. Total residential investment of \$128.0 million in the first seven months of the year is up over 62 per cent from the same period in 2020. New construction investment has almost doubled from \$28.6 million to \$56.6 million. Investment in renovations also continues to be a major component of residential building investment, up nearly 50 per cent to \$66.6 million in the first seven months of the year.

Some of the recent increases seen in residential investment numbers are related to higher building material costs. Increased demand has driven some of the increases. Housing starts in Canada during the first half of 2021 were about 40 per cent higher than normal. At the same time, pandemic-related supply disruptions have also pushed up the prices of key inputs.

### Chart 14. Higher building costs in 2021

Canadian building construction costs, Jan-June 2021 change from Jan-June 2020 (per cent)



Source: Statistics Canada

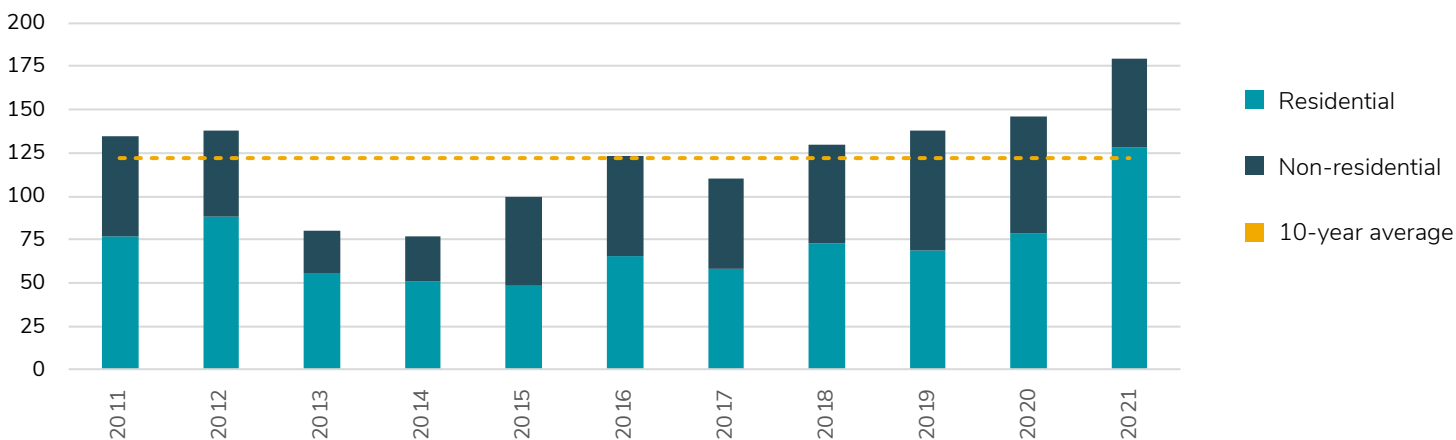
Lumber prices in May were more than double what they were a year earlier. Prices have come down substantially since that time, as more supply was brought online and builders substituted for other inputs, but they remain above pre-pandemic levels. The effect has not been limited to lumber prices, with numerous other industrial commodities seeing sizeable price increases including energy products, metals and chemical products. Not surprisingly, these increases have been reflected in higher construction costs in Canada, especially on the residential side (Chart 14). Goods prices should start to fall back to more normal levels over the next few years as manufacturing and resource extraction capacity is restored and inventories are rebuilt.

### Construction activity supported by residential investment

The construction sector has continued to operate successfully in the time of COVID-19. Overall, investment in building construction is up 22.9 per cent to \$179.2 million in the first seven months of the year. As noted above, residential construction has been very strong, with growth on the residential side accounting for all the gains so far in 2021. Weaker non-residential investment in the first seven months of 2021, down 23.6 per cent to \$51.2 million, has countered some of the gains seen on the residential side.

### Chart 15. Robust investment in building construction in the first seven months

Investment in building construction, January to July (\$millions)



Source: Statistics Canada



Residential investment is expected to remain strong for the remainder of 2021, and there is an expectation that the numbers for non-residential investment could improve as data for peak construction months become available.

Over the remainder of the medium-term forecast, residential development and work related to public sector projects are expected to be prominent contributors to construction activity. The Five-Year Capital Plan<sup>23</sup> projects average annual spending of \$450 million, or \$2.25 billion over five years, which will support construction activity over the coming years.

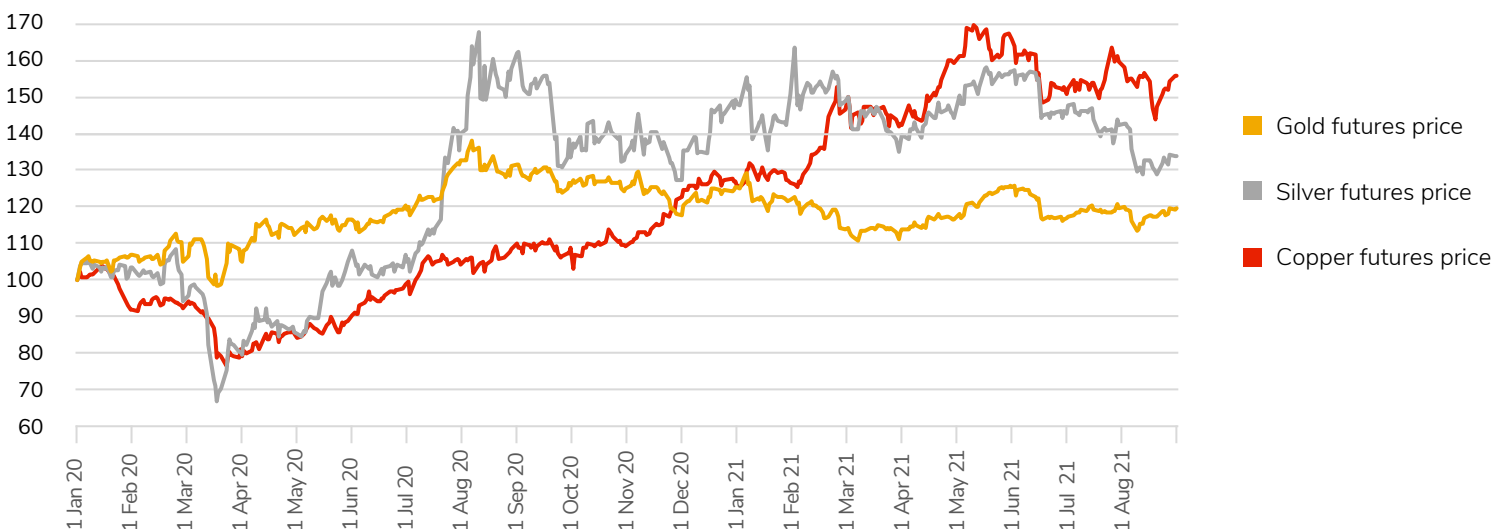
### Mining sector continues to perform well despite the pandemic

Measures taken by operators to ensure the health of employees, such as adjusting rotational work plans and requiring fly-in workers to self-isolate before beginning work, have helped to avoid significant COVID-19 outbreaks on mine sites. While the impacts of the virus have been limited, efforts to address COVID-19 have added to operational costs for both producers and those engaged in mineral exploration. Representatives of Alexco Resource Corp. have suggested that complying with COVID-19 requirements has created staffing challenges and hampered their ramp up to full production in 2021.<sup>24</sup> On the exploration side, some operators have pointed to difficulties finding drillers, noting that they have had drills on site but no staff to run them.

A positive for the local mining sector continues to be a supportive pricing environment. After a strong run-up early in the pandemic, gold prices have mostly held ground in 2021, averaging USD1,807/t oz over the first eight months of the year, 3.5 per cent higher than in the same period of 2020. Silver prices have seen even higher gains on a percentage basis in 2021, averaging USD26.15/t oz so far this year, up almost 38 per cent from last year.

**Chart 16. Strong price environment remains a positive for the mining sector**

Metal prices (Index; January 1, 2020 = 100)



Source: Investing.com, Department of Finance

Copper prices have also been very strong in 2021 (Chart 16), which is particularly beneficial for the operators of the Minto mine. Prices climbed to near USD4.80/lb in early May, beating the previous record from 2011. Over the first eight months of 2021, copper prices averaged almost USD4.20/lb, up 58 per cent from USD2.64/lb in the same period of 2020.<sup>25</sup>

<sup>23</sup> For more details on the Five-Year Capital Plan, please refer to the fiscal discussion of this report.

<sup>24</sup> News release: Alexco announces first quarter 2021 results (May 12, 2021)

<sup>25</sup> Metal prices sourced from Investing.com.

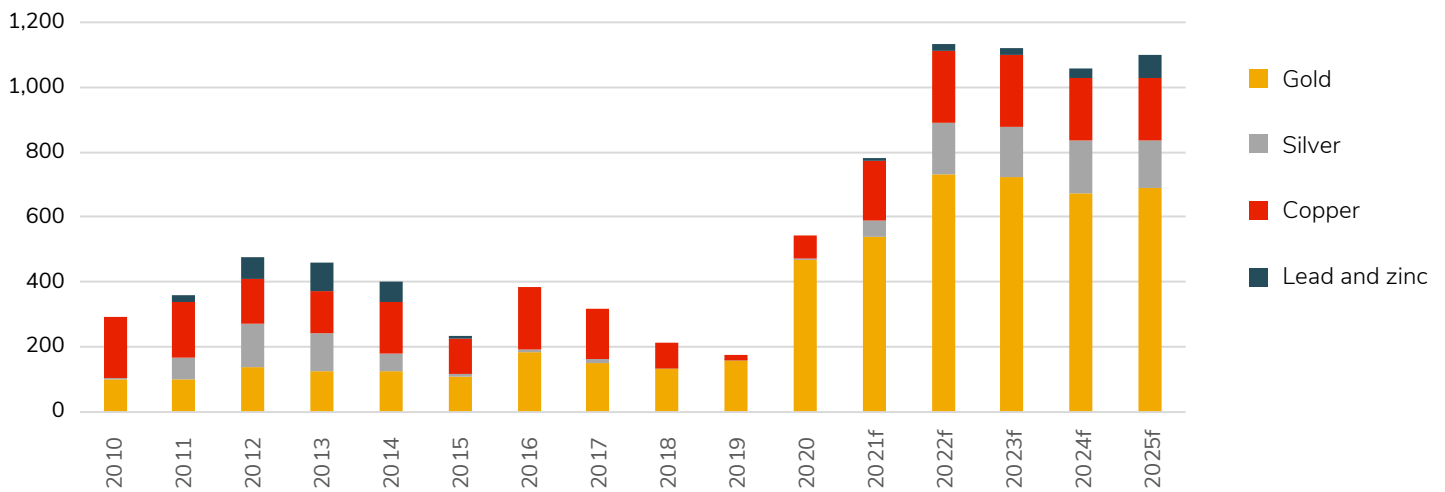
Private sector forecasts have prices of gold, silver and copper remaining elevated for the remainder of 2021. As noted in the summary table at the end of this document, prices are expected to fall in 2022 but remain well above pre-pandemic levels.

### Production to increase over the medium term

Increased production from the Eagle Gold mine along with production from Alexco Resource Corp.'s Keno Hill project will be primary drivers of growth in mineral production over the medium term. While increased output from both mines is contributing to production this year, production for both projects is now forecast to fall below expectations from the March forecast. This is partially offset by stronger-than-expected production at the Minto mine. Expectations for placer gold production of 84,000 crude ounces are unchanged from the previous forecast. The current forecast has the overall value of mineral production in 2021 at \$780 million, up \$240 million from 2020 but below the March forecast figure of \$900 million. Beyond 2021, the outlook for mineral production value is strong, with annual totals forecast to exceed \$1 billion in all years out to 2025.

**Chart 17. Strong prices and increased production contributing to a positive outlook<sup>26,27</sup>**

Value of metal production in the Yukon (\$millions)



Source: Natural Resources Canada, Department of Finance

### Exploration activity outperformed the worst pandemic fears

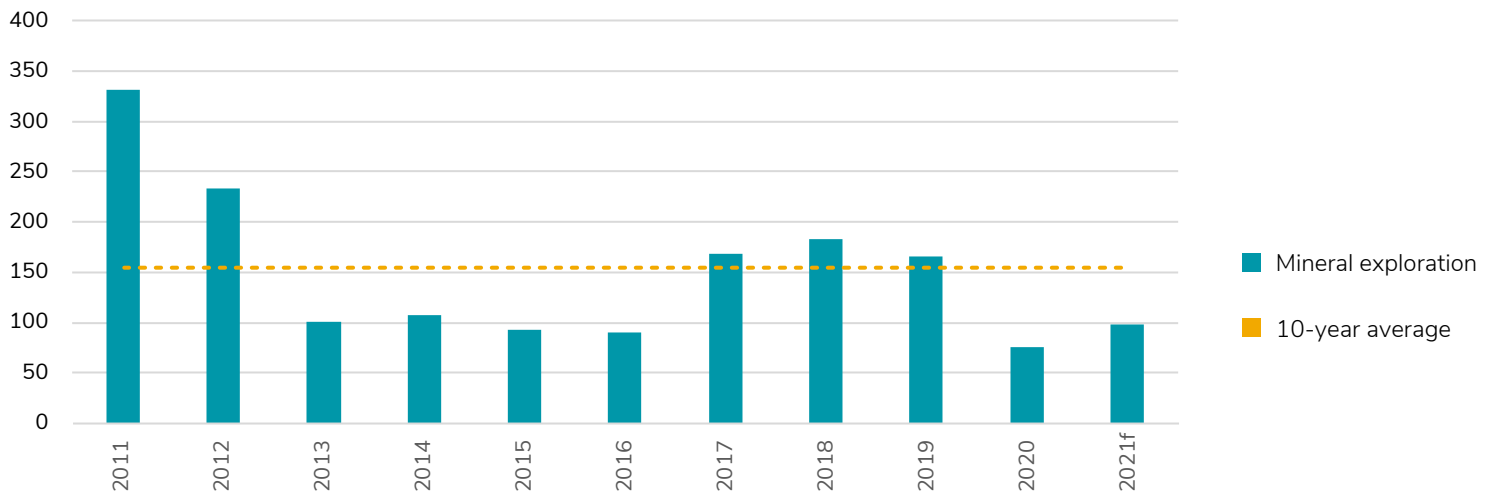
Concerns about the ability to undertake exploration work, in a time of travel and work restrictions due to COVID-19, weighed heavily on exploration activity in 2020 with spending estimated to have fallen nearly \$100 million to about \$76 million. Natural Resources Canada (NRCan) estimates preliminary spending intentions of over \$98 million for 2021, much improved from 2020. Internal estimates by the Yukon Department of Energy, Mines & Resources suggest that spending in 2021 may come in about 10 per cent lower than the NRCan estimates, partly due to COVID-19 protocols preventing explorers from bringing in foreign drillers.

26 For years 2021 through 2025 an “f” denotes a forecast.

27 Internal estimates have been substituted for the official statistics from Statistics Canada for 2019 and 2020 due to concerns about data quality issues with the official estimates.

**Chart 18. Stronger exploration spending in 2021, but it remains below the ten-year average<sup>28</sup>**

Value of mineral exploration and deposit appraisal (\$millions)



Source: Natural Resources Canada

## Conclusion

Even with the significant challenges in 2020 and 2021, the Yukon's economy has performed better than many might have expected. Efforts to tackle the unprecedented COVID-19 outbreak, both in terms of health and safety of Yukoners as well as on the economic front, have set the stage for further gains over the medium term.

<sup>28</sup> For the year 2021 an "f" denotes a forecast.

## Appendix A: Key economic indicators

INDICATOR	2019	2020	2021f	2022f	2023f	2024f	2025f
<b>Gross Domestic Product (GDP)</b>							
Real GDP by Industry (2012 \$millions)	2,651	2,679	2,840	3,072	3,130	3,203	3,269
Per cent change	0.7	1.1	6.0	8.1	1.9	2.3	2.1
Nominal GDP (\$millions)	3,157	3,315e	3,577	3,964	4,188	4,377	4,574
Per cent change	3.3	5.0	7.9	10.8	5.6	4.5	4.5
<b>Mineral Production</b>							
Metal production (\$millions)	170	540	780	1,140	1,120	1,060	1,100
<b>Labour market<sup>†</sup></b>							
Labour force	24,100	22,900	23,500	24,100	24,700	25,100	25,600
Employment	23,200	21,700	22,000	22,900	23,300	23,900	24,100
Unemployment rate	3.7	5.2	6.2	4.8	5.3	5.1	5.7
Participation Rate	76.0	70.9	71.9	72.5	72.7	72.7	72.3
<b>Income</b>							
Household Income (\$millions)	2,204	2,130e	2,219	2,380	2,458	2,571	2,654
Per cent change	6.3	-3.4	4.2	7.3	3.3	4.6	3.2
<b>Consumers</b>							
Consumer Price Inflation <sup>^</sup>	2.0	0.9	3.2	1.7	2.1	1.9	1.9
Retail sales (\$millions)	865	885	980	1,050	1,100	1,160	1,210
<b>Population<sup>†</sup></b>							
Population	41,436	42,230	43,000	43,900	44,800	45,700	46,400
Per cent change	2.0	1.9	1.8	2.2	1.9	2.0	1.6
<b>Key Assumptions</b>							
Gold (USD/t oz)	1,392	1,770	1,804	1,729	1,625	1,525	1,500
Silver (USD/t oz)	16.21	20.50	26.89	26.06	24.00	22.00	20.00
Copper (USD/lb)	2.73	2.80	4.06	3.77	3.84	3.45	3.48
Zinc (USD/lb)	1.16	1.03	1.26	1.17	1.15	1.10	1.10
Lead (USD/lb)	0.91	0.83	0.88	0.86	0.87	0.87	0.88
Three-month T-bill rate	1.6	0.4	0.1	0.4	1.3	1.2	1.2
Can/US exchange rate	0.75	0.75	0.80	0.80	0.78	0.78	0.78

f = forecast

† = Rounded to the nearest 100. Totals may not add due to rounding.

e = estimate

^ = CPI available only for Whitehorse, annual average

Source: Statistics Canada, Bank of Canada, Yukon Bureau of Statistics, IMF

Population projections are produced by Yukon Bureau of Statistics. All other forecasts are produced by the Department of Finance's Economic Research branch based on data available as of September 15, 2021.