IMPACT ECONOMICS

Eyes Wide Open

Starting a Conversation on the Effects of a Diminished Resource Sector in Yellowknife

Change is Coming in the Resource Sector

The NWT economy has included an active mining industry for over 90 years having produced gold and silver, lead and zinc, oil and gas, diamonds, uranium, tungsten, and rare earths.

A vibrant economy has grown up in the City to support and oversee this production.

- mine services, supplies, and logistics,
- transportation, trucking, and earth moving,
- administration, science, and engineering,
- regulatory, security, and environmental services and oversight, and, most recently,
- waste management and remediation.

Despite its long history, the future for mining in the NWT is unclear; not since the mid-1990s has the immediate outlook been quite so grim. In less than 10 years, it is conceivable that

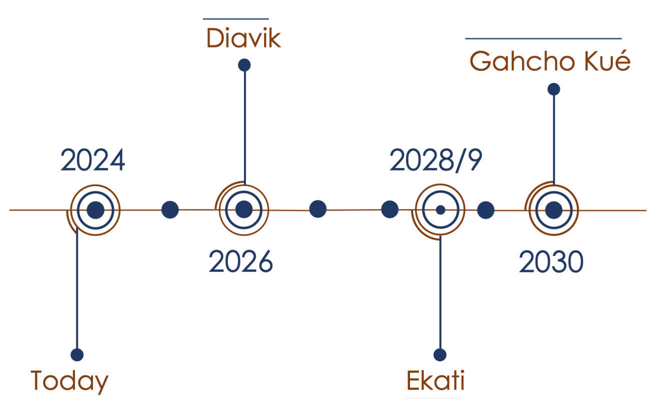
- all three diamond mines will be closed
- there will be no more oil production

Diavik will close in 2026, Ekati could close as early as 2028, Gahcho Kué could close as early as 2030.

The last barrel will be brought to surface in Norman Wells as early as 2026, some 35 years after peak production in 1991 and over 100 years since production first began.

NWT Resource Sector in 2019	
$2 billion	•value of production
$406 million	•direct labour income
3,460 jobs	•direct, indirect, and induced
$130 million	•consumer spending in NWT
$69 million	•tax revenues to GNWT

The resource sector has been a catalyst in growing the City's economy, workforce, commercial services, and tax base.



Current timeline for mine closures

What if?

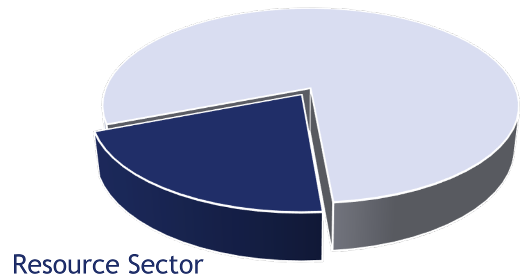
What would happen if the territory's resource sector were to disappear? Here at Impact Economics, we asked the question, ran the models, and observed the changes in the economy.

Appreciate that no one is predicting the complete collapse of the resource sector. However, one cannot write this scenario off as entirely academic either. Oil and diamond production could be at their end by 2030, and there doesn't seem to be any vision, consensus, or investment into what might come next.

What do we know about life after oil and diamonds?

- The economy will be smaller.
- There will be fewer jobs.
- There will be less disposable income.
- Government will have less revenue.
- There will be fewer people.

NWT Economy, 2019



The resource sector represented 21% of the territory's $4.3 billion economy in 2019 (in terms of real GDP); recent data reveal this percentage has fallen to 17% in 2022.

Yellowknife

- 1,305 jobs
- $173 million labour income
- 13.4% of income

Rest of NWT

- 575 jobs
- $73 million labour income
- 7.9% of income

Yellowknife was and remains the most impacted community

In 2019, across the territory, the resource sector's spending led to 1,880 jobs for NWT residents.

Wages from these jobs topped $245 million.

70% of the employment and income went to Yellowknifers.

How did this happen?

It is a valid question to ask how the territory found itself on an economic cliff, where the potential collapse of its largest private-sector employer is within sight, especially given evidence of this demise has been on clear display for more than a decade.

At the most basic level, there appears to be no clear, unified vision for the territory. The consequence is a lack of urgency that might have otherwise resulted in investments to revitalize the resource sector; or that gave way to a thorough exploration into whatever is to be the alternative.

In place of a clear vision and purpose-driven investments, the approach has been a passive one with the result being a rather dire and ambiguous economic outlook for the territory.

Implications for "Shop Local"

NWT residents earning income as a result of mining activity pay taxes, take vacations, import goods, and add to their savings, but they also shop local; to the tune of $100 million in 2019.

This spending will not fall to zero after oil and diamonds, but it will be affected.

Resource sector workers will receive severance packages, will qualify for employment insurance, and might even end up on income support. In all cases, they will still spend money locally, just in smaller amounts. Those who live in households with other sources of income (spouse, investments, etc) may continue spending in a similar way but cut out luxury goods, vacations, or savings.

But what happens if out-of-work resource sector workers decide to leave taking their families, severance pay, and consumer spending with them?

Where consumers spend their resource sector wages

- $9.8 million for groceries
- $4.5 million for restaurant meals
- $4.0 million for new and used cars and trucks
- $2.9 million for clothing
- $2.5 million for alcoholic beverages,
- $1.7 million for air transportation
- $1.2 million for alcoholic beverage services (bars and taverns)
- $890 thousand for furniture and furnishings
- $870 thousand for sports, camping and open-air recreation
- $727 thousand for AV and photographic equipment
- $860 thousand for outdoor recreation equipment
- $680 thousand for household appliances
- $606 thousand for recreation and sporting services
- $440 thousand for tools and equipment
- $370 thousand for pets and pet food
- $232 thousand for cultural activities and services

7,900 residents have left the NWT (on net) for other Canadian locations over the past 20 years while the economy was strong. How can the territory maintain its population during a period of economic decline?

Will they stay or will they go?

What will happen to the City's population if the resource sector is greatly diminished?

Some will stay and find other work in what remains of the resource sector or in other sectors of the economy. Giant Mine Remediation Project is an example. Others will leave.

A conservative estimate suggests the NWT will lose 1,100 residents as a direct result of a diminished resource sector. Yellowknife could experience anywhere from 50% to 70% of those losses.

There will be fewer departures if other sectors of the economy were growing, but more if there aren't enough opportunities that would make staying in the City and territory a viable option.

Government revenues will fall

Personal income tax	$11.5 million
Payroll tax	$7.1 million
Non-renewable resource revenues	$11.9 million
Carbon tax	$6.3 million
Fuel tax	$8.8 million
Bridge tolls	$2.3 million
Property tax	$23.4 million

A diminished resource sector will result in lower revenues for government. A conservative estimate based on the 2019 resource sector is $69 million in tax revenues.

The loss of 1,100 residents would lead to a $33 million reduction in federal government transfers, based on a per capita decline of $30,500.

This means government stands to lose over $100 million in revenues in a scenario where the resource sector disappears.

This number has been labelled "conservative" because it does not include a full accounting of lost revenues as a result of indirect and induced effects, or the possible cumulative effects of a smaller population on the GNWT's own-source revenue.

It is also worth noting that 2019 wasn't the best year for tax collections from the resource sector. By comparison, in 2023-24, the GNWT is predicting more revenue from royalties, a higher carbon tax, and a higher per capita transfer from the feds.

The higher revenues from these three sources alone bring the resource sector's contribution to government revenues to $150 million, assuming that all other sources of tax revenue from the resource sector remain the same.

Discussion should start now

Anyone who considers themselves a leader, whether elected or otherwise, needs to understand the implications of what might happen under this "What If" scenario and lead a discussion on what to do.

In truth, it's a conversation that should have started the day Ekati mine produced its first diamond 25 years age. Not having done so then is no reason to avoid it now.

Impact Economics is an economic research firm owned and operated by Mr. Graeme Clinton since January 2004. Mr. Clinton is a professional economist with 25 years of experience, is a recognized expert in the field, and is a regular contributor to the economic discourse in the Northwest Territories. The company is based in Yellowknife, Northwest Territories.