

# A Rocky Road Ahead

The Northwest Territories' Outlook to 2045



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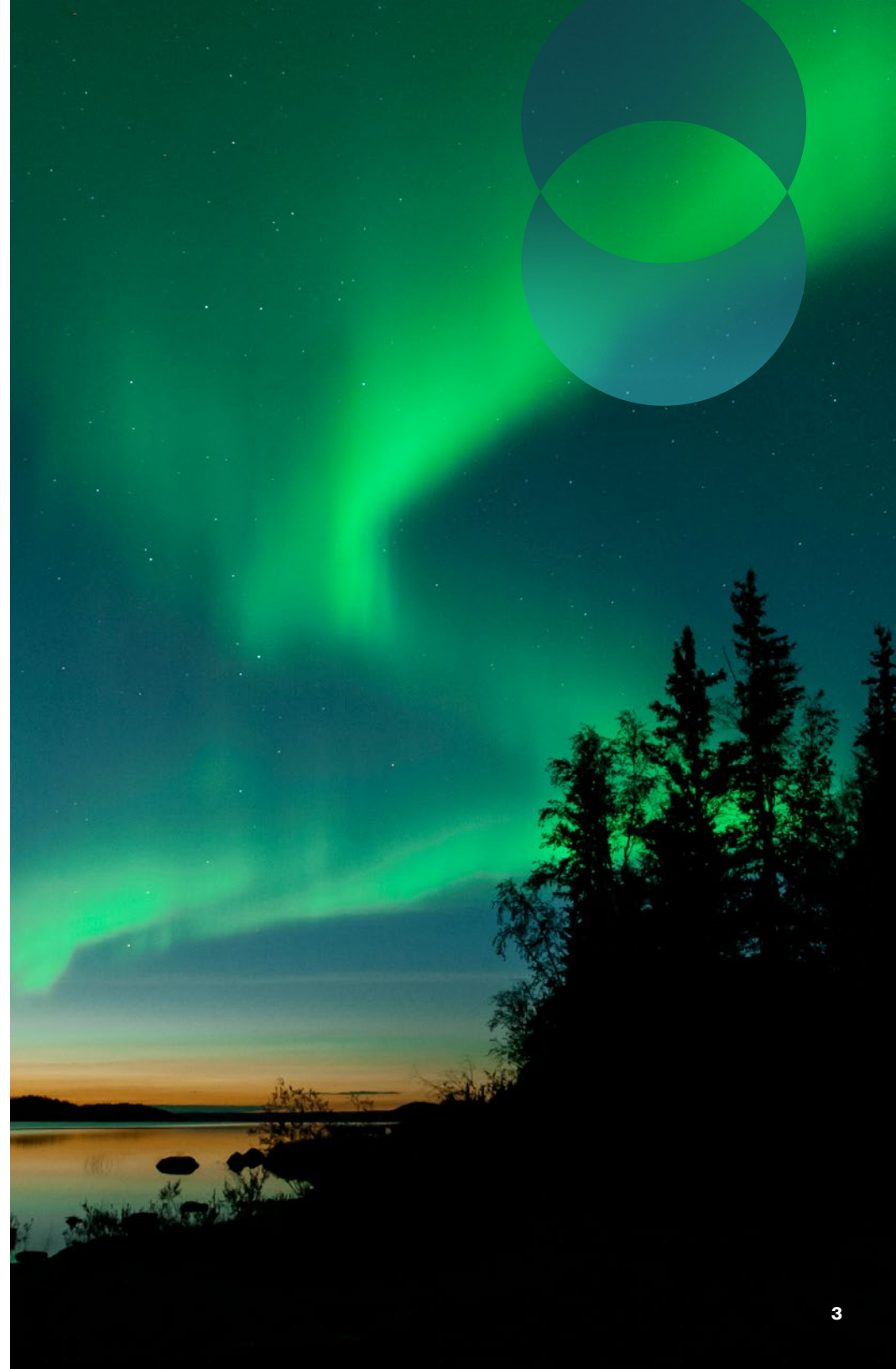
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# Key findings

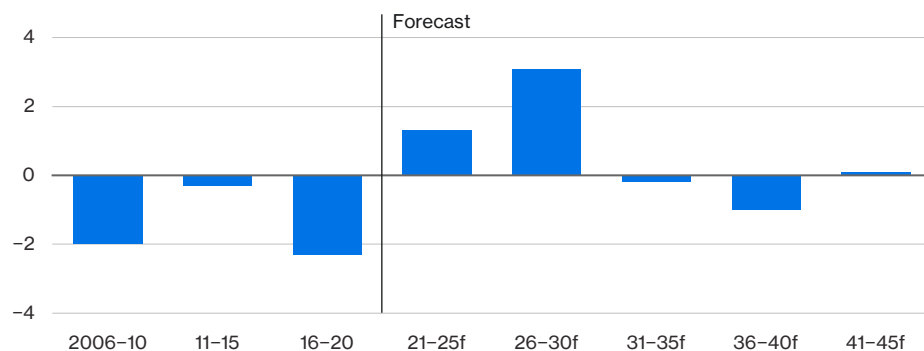
- Falling diamond production will undermine GDP growth in the years ahead despite mineral production from three new metal mines.
- Wildfires are a further setback for the Northwest Territories' tourism industry. The territory has struggled to mount a sustained recovery ever since pandemic restrictions were lifted.
- Low levels of private investment are a challenge to innovation and growth outside of the resource and public sectors.
- Interest in critical minerals – many of which are found in the N.W.T. – is growing. The sector offers the potential to further counterbalance the shift away from diamond production. However, gains from this burgeoning sector will be hard won.
- Stemming interprovincial outmigration and strengthening international migration are key to supporting population growth.



# Overview

The economic outlook for the Northwest Territories remains modest. Declining diamond production, an aging population and a lack of private investment are a challenge to future growth. New mining projects and a reorientation toward non-extractive industries offer an upside, but these benefits will take time to accrue. (See Chart 1.)

**Chart 1**  
The Northwest Territories' real GDP growth  
(annual average, percentage change)



f = forecast  
Sources: The Conference Board of Canada; Statistics Canada.

Preliminary estimates show that the N.W.T.'s real GDP growth slowed to 1.5 per cent in 2022. This is a sign of fading tailwinds after the easing of pandemic restrictions. In 2023, the territory is facing a new set of immediate challenges. This summer, in response to extreme wildfires, a territorial state of emergency was announced. The issuance of evacuation orders displaced more than half of the territory's population. Damaging property and businesses, the wildfires will have an economic cost besides the obvious risk to human life. The fires are an additional setback for the territory's tourism sector, still recovering from the impact of the pandemic. In 2023, we forecast GDP growth of just 0.4 per cent. In 2024, aided by rising activity in the construction sector, growth is expected to improve, increasing by 1.4 per cent.

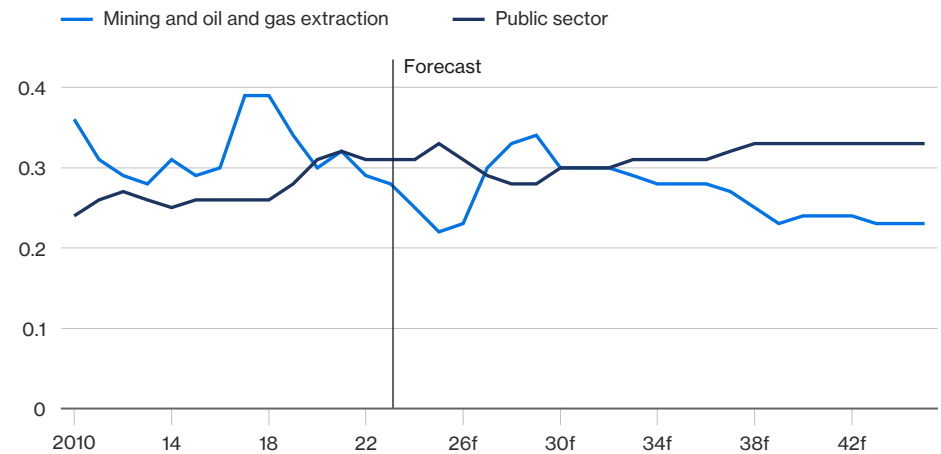
Despite the stormy conditions buffeting the N.W.T.'s economy, there are opportunities for growth on the horizon. These prospects will help to partially offset the losses incurred from lower diamond production. Three new metal mines are expected to begin production within the next five years. There is also potential for additional mineral development. And growing interest in critical minerals will play a central role in Canada's broader transition to a low-carbon economy. Many designated critical minerals are found in the Northwest Territories, and there is political ambition to strengthen Canada's position as a supplier of these minerals. Yet the idea of a new critical mineral-led renaissance in the N.W.T.'s resource sector must be tempered by the reality of mine development – a multi-year process subject to many regulatory hurdles. Mine development often requires major investment in infrastructure construction, such as roads and powerlines. Therefore, any gains are likely to be hard-won and slow to accrue.

The nature of the mining sector is changing. Mines will increasingly need to operate within the confines of emission reduction targets. Access to clean energy will be vital, requiring significant investment and planning.

Declining output from the diamond mines of the N.W.T. has coincided with growth in the public sector. (See Chart 2.) Together, mining, and public services account for over 50 per cent of GDP. Overreliance on these two sectors reflects a lack of economic diversification in the Northwest Territories. This lack of diversity leaves the economy exposed to shocks such as mine closures and fluctuations in the demand for diamonds.

**Chart 2**

Natural resource sector contraction offset by public sector expansion  
(share of total GDP, percentage)



f = forecast

Sources: The Conference Board of Canada; Statistics Canada.

Outside of the mining sector, the territory will face challenges attracting private investment – an issue exacerbated by persistently tight labour supply. The past 18 months have seen multiple interest rate increases by the Bank of Canada ending the post-2008 era of cheap credit. This is another issue that will weigh on investment in the near term. The government is aiming to foster the emergence of a knowledge economy in the N.W.T. by recently releasing an Innovation Action Plan. Diversifying the economy by developing sectors such as manufacturing, research, and professional services will be vital to increase employment, productivity, living standards, and resilience in the years to come.

Many sectors in the N.W.T. will understandably face an additional setback in 2023 because of the extreme wildfires in the territory. Tourism-related services and retail trade will be among the sectors worst affected. While data limitations make it difficult at this early stage to quantify the economic impact of the fires, consumer spending and output will be weaker as a result.

Global factors are also a challenge. Economic headwinds in China and the United States are expected to stem the flow of visitors to the Northwest Territories. This will weigh on output in tourism-reliant sectors, including accommodation and food services as well as transportation.



# Declining diamonds exert pressure

Presently, three diamond mines operate in the Northwest Territories. Under our current assumptions, operations at the Diavik, Gahcho Kué, and Ekati mines will cease in 2026, 2029, and 2030, respectively. The possibility of developing additional resources confers an upside risk to the forecast. But, under our present assumptions, all diamond production in the N.W.T will end by 2031.

Our outlook assumes the arrival of three new metal mines within the next five years, bringing with them the production of gold, copper, zinc, lead cobalt, and bismuth. The Northwest Territories are also home to Canada's first rare earth elements mine. (See Chart 3.)

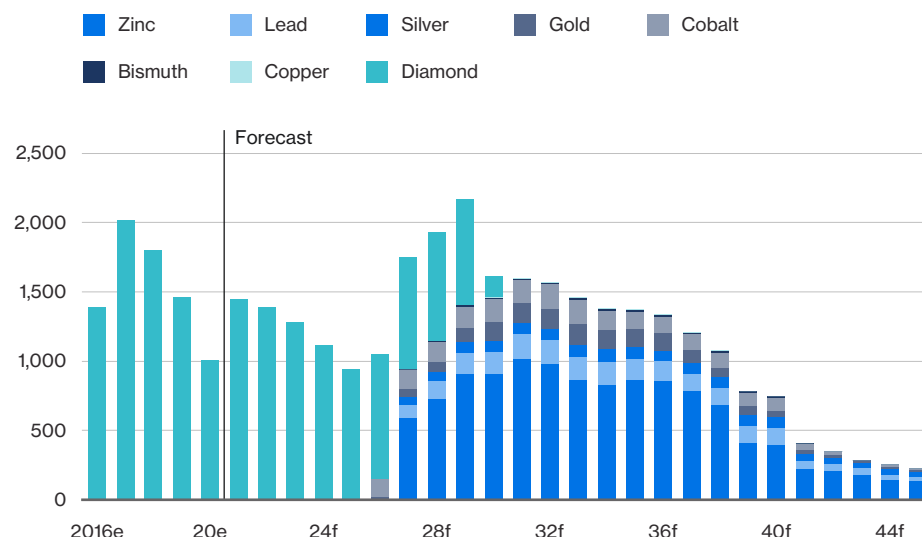
## Current mining operations

### Gahcho Kué

The Gahcho Kué mine produced 5.52 million carats in 2022, just shy of the company's guidance for production. Diamond production in the first half of 2023 rose by 9.0 per cent compared with the first half of 2022. Guidance remains unchanged at between 5.6 and 6.1 million carats. The company reports positive intercepts following drilling near Tuzo, the Hearne Deep, and the Northwest Extension that may eventually offer opportunities for mine life extension. The owners also note the potential for deeper drilling at Gahcho Kué as well as incorporating kimberlites from the nearby Kennedy North Project. A report on the next phase of the project is expected by the end of 2023.

**Chart 3**

Metal mining helps to offset falling diamond production  
(value of production, 2012 \$ millions chained)



f = forecast  
Sources: The Conference Board of Canada; Financial Reports.

## Diavik

Production at the Diavik mine fell by 10.0 per cent in the first half of 2023 compared with the same period in 2022. Nevertheless, full year guidance remains unchanged at 3.0 to 3.8 million carats. The owners, Rio Tinto, will invest \$40 million in underground mining below the existing A21 open pit. The extension is estimated to produce an extra 1.4 million diamonds and extend the life of the mine until at least early 2026. A second phase, subject to approval in 2024, would then add another 800,000 diamonds.

## Ekati

The Ekati mine, the first to begin operating in the territory, has a new owner. All assets of the previous owners (Arctic Diamond Company) have been sold to Burgandy Diamond Mines. The new owners are upbeat about a potential extension to the mine's life. Exploration using underwater mining technology began under the previous owners. Given the substantial uncertainty surrounding the prospect of a mine life extension, our assumption is that production will cease in 2029. The possibility of an extension offers upside risk to the outer years of the forecast.

## Nechalacho Mine

Nechalacho mine, the first rare earth element mine in Canada and owned by Vital minerals, has been producing in the N.W.T. since 2021. The owners are also working to build a processing plant in Saskatchewan. A combination of economic factors – including softer market conditions and elevated costs – have led the owners to scale back mining in 2023 and pause construction on the processing plant. The suspension of construction will delay ore processing. Once processing commences, the company will use already-mined ore through to the summer of 2024. Currently, the Nechalacho mine makes a relatively small contribution to overall GDP in the Northwest Territories.

## Developing mines

### Prairie Creek zinc-silver-lead mine

The Prairie Creek mine has taken another forward step after Phase 1 of the all-weather access road was completed in the spring of 2023. The road, linking to Liard Highway 7 to the Prairie Creek mine, will provide seasonal access to the mine. The second phase of construction will see bridges and culverts added to the road and is expected to commence in 2024. In addition, major permits for a 2,400 tonnes per day (tpd) mine expansion have been received. Transport Corridor Benefits Agreement have been signed with the Acho Dene Koe First Nation and an Environmental Agreement has been signed with Naha Dehe Dene Band and the Liidlii Kue First Nation Band. The owners of the mine have completed the purchase of the Wolverine Mill from the now defunct mine in Yukon for \$12 million. The mine is expected to begin commercial production in 2027 and will have a life of 20 years.

### Pine Point zinc-lead mine

This year, Osisko Metals signed a joint venture, worth \$100 million, with a private equity group, Appian Capital LLP. The deal includes \$75 million of investment over four years that hopefully will help to move the project to shovel-ready status. A feasibility study for the mine is expected to be launched this year. Our outlook assumes commercial production will begin in 2027 and continue for 12 years.



### NICO cobalt-gold-bismuth-copper mine

The NICO project owners, Fortune Minerals recently reported that discussions are under way with the Canadian, United States, and European governments in efforts to secure additional funding for the mine. If developed, the mine would be strategically valuable given the rising demand (largely dominated by China) for cobalt and bismuth. The owners have again extended the option to purchase a refinery site in Alberta to process concentrates produced at the mine. The refinery will allow the mine to become a vertically integrated producer of cobalt sulphate, which is used to produce lithium-ion batteries. Our outlook assumes that commercial production will begin in 2026 and run for 20 years.

### Diamond Prices

Since a scorching hot year for diamonds in 2022, prices for the stone have fallen sharply. Falling savings, high inflation, and a lacklustre economic recovery in China have all constrained demand and put downward pressure on prices. So far, the tightening of supply – due to import sanctions on Russian diamonds – has been muted, with the Russian company Alrosa posting strong sales in the first half of 2023. Plans to bolster sanctions on the supply of Russian diamonds should gradually tighten supply. However, soft demand is expected to be the dominate force, leading to a weaker price outlook.



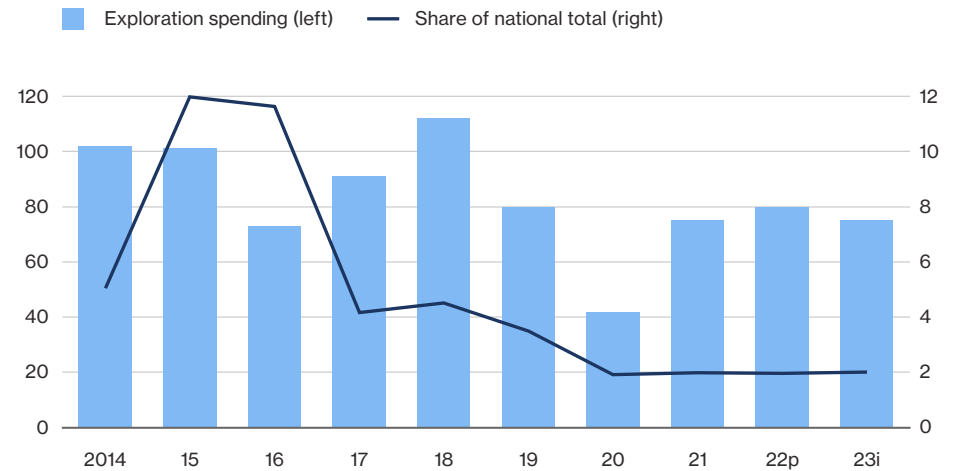
## Exploration

Spending intentions for mineral exploration in the N.W.T posted a small decrease in 2023. Since 2019, spending in the N.W.T has remained effectively flat, ranging between \$74 to 79 million per year. (See Chart 4.) Alongside exploration for the typical targets of diamond, precious metals, and base metals, rising demand for critical minerals is fuelling exploration. Dubbed the “White Gold Rush,” rising prices for lithium are spurring exploration activity in the Yellowknife Pegmatite Province and several companies are currently operating in the area. The territorial government continues to incentivize exploration through the Northwest Territories’ Mining Incentive Program. The program provides prospectors and mineral exploration companies with financial support.



**Chart 4**

Tepid performance on mineral exploration  
(\$ millions; percentage)



p = preliminary estimates  
i = spending intentions

Sources: Natural Resources Canada; The Conference Board of Canada.

# Construction

Construction output rose 20.4 per cent in 2022, supported by significant growth in infrastructure construction. Meanwhile residential building construction in the territory fell by 21.0 per cent. A combination of scarce labour, higher construction costs, and rising borrowing costs continue to weigh on the construction sector.

Core housing need among seniors in N.W.T. is already high and an aging population will further increase demand for appropriate housing in the years ahead. Our outlook for residential construction is weakened by relatively weak population growth, which will limit new household formation and create a drag on residential investment.

Besides mine construction, the years ahead will see the launch of several large infrastructure projects. Work on the Hay River Harbour Restoration Project is one such project. This will involve the removal of sediment that has accumulated in the harbour. Having recently issued a public tender, the project is expected to be split into two phases. Phase one, the creation of a navigation channel is expected to be completed this summer. The second phase is estimated to take up to four years and is in the preliminary planning stage.

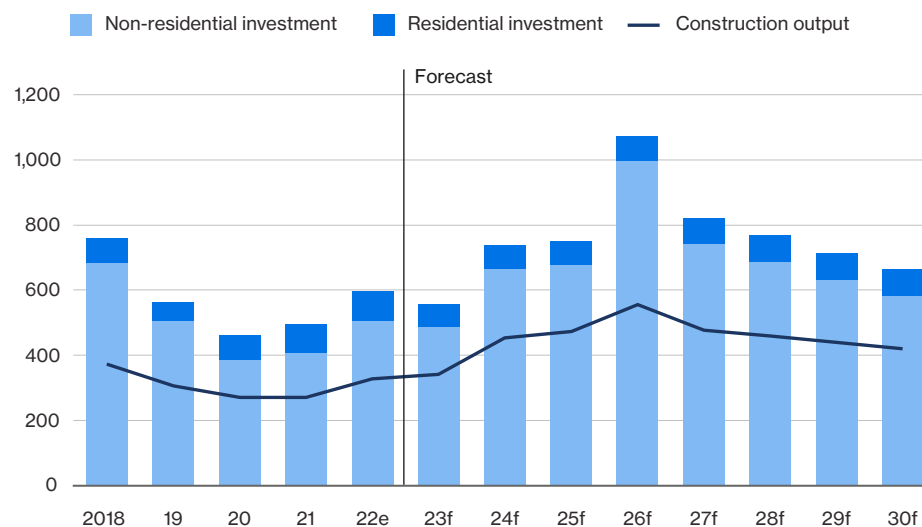
Construction is under way on the first phase of the Prohibition Creek Access Road, which is expected to be completed in the latter half of 2023. The \$25.5-million access road will be funded jointly by the federal and territorial governments. Other Mackenzie Valley Highway projects, including the Oscar Creek Bridge relocation, the Great Bear River Bridge, and the Mount Gaudet Access Road, are scheduled to begin in the coming years. According to government officials, the construction of the Great River Bridge has been delayed by a year. This means that the completion date has now been pushed back to 2029. Rising costs have been blamed for the delay.

Costs have increased for the project to replace the Frank Channel Bridge to the tune of \$20 million, Construction was initially scheduled to be completed by 2024 but is now expected to run until 2026.

Our forecast for the construction sector is positive with output growth expected to average 7.8 per cent annually over the next five years. Slower economic growth is likely to constrain government spending on large infrastructure expenditures. Therefore, our outlook for the construction sector grows weaker toward the end of the current decade. (See Chart 5.)

**Chart 5**

Construction outlook buoyed by government infrastructure projects and new mine construction  
(\$ 2012 millions)



e = estimate

f = forecast

Sources: The Conference Board of Canada

# Demographics

The Northwest territories is forecast to post population growth of 0.6 per cent in 2023. A net loss through interprovincial migration will be outweighed by gains from international migration and natural increase (births minus deaths). (See Chart 6.)

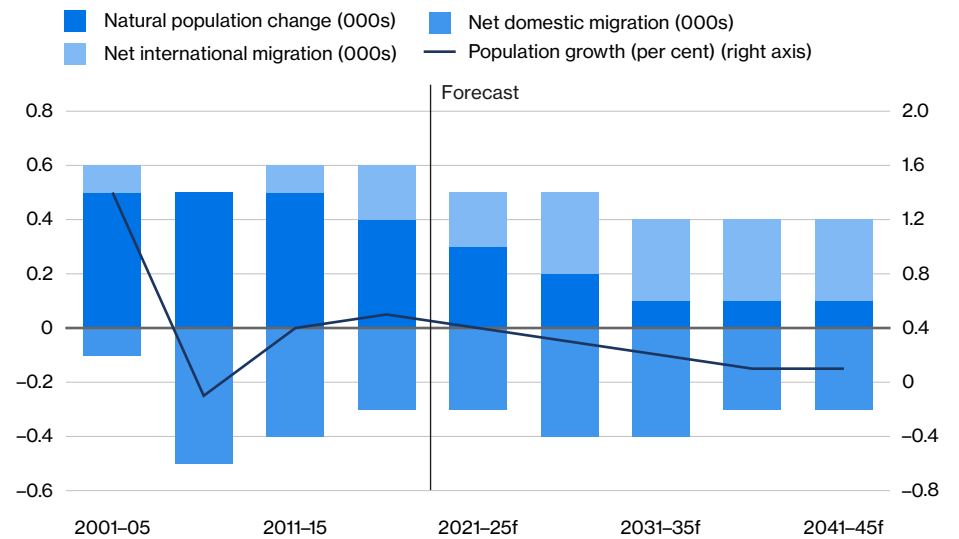
In the years ahead, the territory is projected to experience continued net negative interprovincial migration as the high cost of living and weaker economic outlook fuel departures from the territory. The threat of extreme weather, as manifest in this summer's wildfires, may weigh on the decision of prospective interprovincial migrants to the Northwest Territories.

Given the important role of immigrants in supporting population and labour force growth, the government is working to support international migration to the Northwest Territories. The Northwest Territories Nominee Program is the territory's only immigration project. It aims to provide a pathway to permanent residency in the N.W.T. for foreign nationals with the prerequisite skills. Ambitious national immigration targets, set out in Canada's Immigration Levels Plan 2023–25, should help to support immigration to the N.W.T. in the years ahead. Over the next five years, we forecast that net international migration – combining immigrants, emigrants, and the net change in non-permanent residents – will average an additional 290 persons annually.

The population of the Northwest Territories is aging, with the proportion of seniors rising steadily over the last two decades. This process will continue over the forecast period. As a result, fewer births and more deaths will cause the natural rate of increase to decline.

Taken together, migration dynamics and a slowing rate of natural increase will result in relatively weak population growth. Population growth in the territory is forecast to average 0.3 per cent annually over the next 10 years compared with 1.4 per cent at the national level.

**Chart 6**  
Northwest Territories' population growth  
(contribution to population growth, annual average)



f = forecast  
Sources: The Conference Board of Canada; Statistics Canada.

# Labour markets

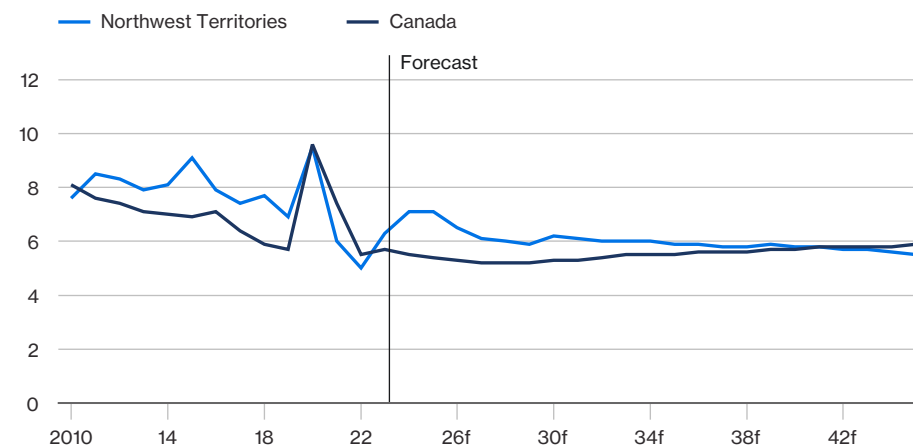
The strength that characterized the labour market of N.W.T. in 2022 is fading in 2023. A rise in the unemployment rate and fall in labour participation aligns with the emerging national picture. The pandemic reopening led job vacancies to rise sharply, creating pressure on labour supply. These pressures are easing as firms respond to weakening demand in the economy by reducing labour demand. Beyond the near-term volatility, demographics will place downward pressure on the unemployment rate over the next decade. (See Chart 7.)

Employment gains in the years ahead will be constrained by low labour force growth. Job growth will be rooted in the public sector, construction, and commercial services amid weak growth in mining, wholesale trade, and transportation and warehousing.

As the median age of the territory rises, labour force participation will fall. This decline, combined with weak population growth, means labour scarcity will remain a challenge. An implication of labour scarcity is a persistent reliance on workers flown in from outside the territory.

Relatively tight labour market conditions over the forecast period will sustain upward pressure on wages, where the average offered hourly wage is among the highest in the country.

**Chart 7**  
Unemployment rate rising  
(per cent)



f = forecast  
Sources: The Conference Board of Canada; Statistics Canada.

## Methodology

This briefing examines the long-term economic outlook for the Northwest Territories. The outlook is based on detailed analysis of local and regional conditions, combined with The Conference Board of Canada's proprietary macroeconomic model of the territorial economies. The model contains over 1,200 variables and equations structured uniquely to each of the territories. Inputs and outputs include components of gross domestic product, the interaction of industry sectors, detailed population and labour force conditions by age group, interprovincial trade, and pricing and investment activity.

## Acknowledgements

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## **A Rocky Road Ahead: The Northwest Territories' Outlook to 2045**

The Conference Board of Canada

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