

Summary Economic Indicators: Half Year 2006*

- Consumer Price Index inflation averaged -0.5% mainly due to falling rental prices.
- Unemployment rate reached 2.6%.**
- Work permits increased by 10.9%
- The value of building permits spiked by 74.6%, while the value of project approvals dipped by 19%.
- Merchandise imports fell by 14.0%.
- Total visitor arrivals by air increased by 81% during the first half of 2006, while cruise arrivals rose by 2.3%.
- Mutual fund registrations increased by 20.6%.
- Bank and trust company registration fell by 5.8% while insurance licences increased by 3.5%.
- Stock exchange listings increased by 18% while stock market capitalization rose by US\$25.6 billion (40.2%).

*Comparative data over the first half of 2005.

**Based on Spring 2006 Labour Force Survey.

1. Overview

Indicators for the first half of 2006 (as summarized above) suggest the Cayman Islands economy is on a growth path to achieving real GDP growth of over 4%.

Upside performance

Inflation for the first half of 2006 averaged at -0.5% due to declines in housing costs.

Construction continues to be a key driver of the economic growth this year, evidenced by a 9.6% increase in project approvals and a 74.6% increase in the value of building permits issued.

The ongoing tourism sector recovery is expected to further bolster economic growth. Total visitor arrivals grew by 8.2% during the period mainly due to an 81.1% increase in stay-over visitors. Cruise visitor arrivals continued on its upward trajectory and grew by 2.3%.

Financial services remained upbeat. In particular, mutual fund registrations grew by 1,341 (or 20.6%), and new company registrations rose by 21.4%. Additionally, total insurance licences increased by 3.5% amidst a marginal decline in bank and trust company licences of 5.8%.

Downside risk

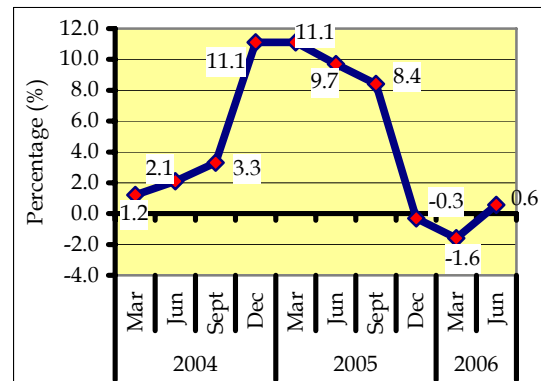
Prime interest rates increased during the period to average at 8.5% during the first half of 2006, as a result of increases in the US Federal Reserve Rates.

Total imports for the period amounted to CI\$454.9 million, down by 14.0% from the same period a year ago. This is evident of the stabilization of domestic demand after the upsurge in imports following Hurricane Ivan in the first half of 2005.

2. Inflation

As at June 2006, the Consumer Price Index (CPI) stood at 142.5, down by 0.6% from June 2005, on account mainly of increasing price indices for personal goods and services, clothing and transport and communication. Nonetheless, average inflation during the first two quarters reached -0.5% in view of the -1.6% recorded in March.

Figure 1.1: QTR 2 Inflation



Source: Economics and Statistics Office

During the second quarter of 2006, personal goods and services increased by 7.5%, emanating mainly from a 14.6% average increase in holiday-related prices, particularly accommodation.

The average price of clothing also increased in the second quarter by 6.9%. Other categories recording increases were transportation and communication (3.8%) and alcohol and tobacco (3.0%).

The average price index for housing fell by 5.3% due to declines in rental prices compared to the second quarter of 2005.

3. Labour Market

The labour force reached 35,959 persons as of April 2006, with 35,016 employed and 943 (2.6%) unemployed.

The majority of employment activity was noted within the construction industry (18.1%); other top employers were business services (12.7%), wholesale and retail (12.1%), restaurants and bars, hotels and condominiums (10.8%), and financial services (9.2%), respectively.

In terms of earnings, a total of 24,430 employed persons or (69.8%) were earning \$3,333 and below per month while 9,525 persons (or 27.2%) were earning above \$3,333 per month. The proportion of employed Caymanians earning above \$3,333 per month was 34.1% while the proportion of employed non-Caymanians earning above \$3,333 per month was estimated at 20.3%.

In terms of occupation classes, the top five classes were professionals, technicians and associate professionals – 23.9%; sales and services elementary occupations – 15.2%; legislators, senior officials and managers – 12.1%; craft and related workers – 12.0%; and personal and protective service workers - 11.9%.

Work permits increased by 10.9% from 19,176 as at the first half of 2005, to 21,272 this review period.

Table 1: Work Permits by Class

	Qtr 2 2005*	Qtr 2 2006*
Total by Class	19,176	21,272
Trades/Technical/ Skilled	8,993	10,322
Unskilled	7,934	8,068
Professional	1,687	2,024
Administrative/ Managerial	562	858

Source: Immigration Department and ESO
* as at end of period.

Increases occurred in all of the four classes of work permits, with the ‘Administrative/Managerial’ category experiencing the greatest increase of 52.7% to reach 858.

The largest class, ‘Trades/Technical/Skilled,’ accounting for 48.5% of total work permits, increased by 14.8% from 8,993 in June 2005 to 10,322 this period.

In the ‘Unskilled’ category, work permit numbers rose marginally by 1.7% to 8,068 while permits for the ‘Professional’ category expanded sharply by 20% to 2,024.

Work permits for all industries rose with the exception of construction which fell by 13%.

Among the construction occupations experiencing significant declines were carpenter’s helper (-29.1%), unskilled worker/ helper (-61.7%), manual and unskilled worker (-16.5%), and electrician (-17.2%).

Work permits for financial services experienced a significant increase of 60.6% from 635 in June 2005 to 1,020 this period.

Table 2: Work Permits by Industry

	Jun-05	Jun-06
Construction	6,900	6,001
Financial Services	635	1,020
Restaurant & Bars	1,489	2,054
Business Services	2,984	3,363
Wholesale & Retail	2,138	2,317
Private Households w/ Employed People	3,036	3,762
Community, Social & Personal Services	1,024	1,241
All Other Industries	970	1,514

Source: Immigration Department and ESO

Work permits for restaurant and bars increased by 37.9% from 1,489 to 2,054.

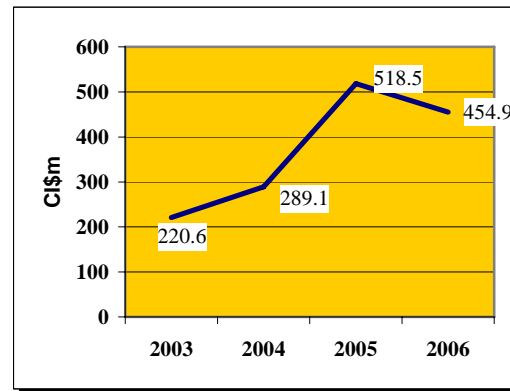
Business services industry work permits increased by 12.7%; wholesale & retail by 8.4%; private households with employed persons by 23.9%; and other community/social & personal services by 21.2%.

4. Trade

The total value of imports between January and June indicate that merchandise imports fell by 14.0% to \$454.9 million, compared to the comparative quarter in 2005. The decline was not unexpected considering the stabilization of demand for construction materials and vehicles relative to 2005.

Although imports fell compared to the previous year it still remained at least 57.4% above imports for the first half of 2004.

Figure 4.1: Merchandise Imports, Jan - June



Source: Customs Department and ESO

5. Financial Services

With the exception of banks and trust company licences, the financial services sector performed well overall in the first half of 2006. Increases were seen in insurance company licences, mutual fund registrations, stock exchange listings and capitalisation, and company registrations.

5.1 Banks & Trust Companies

Between June 2005 and June 2006, the total number of bank and trust company licences dropped by 18 (or 5.8%) to 295. Alternatively, pure trust companies increased modestly by 5.6%.

Table 3: Bank & Trust Company Licences

	Dec 04	Jun 05	Dec 05	Jun 06	% Change Jun 05-Jun 06
Bank & Trust	322	313	305	295	-5.8
Class "A"	23	22	21	19	-13.6
Class "B"	295	287	281	272	-5.2
Class "B" Restricted	4	4	3	4	0
Trust Companies	124	126	127	133	5.6
Restricted	75	78	77	81	3.8
Unrestricted	49	48	50	52	8.3

Source: Cayman Islands Monetary Authority

Class 'A' bank and trust company licences fell by 3 to 19, while Class 'B' licences moved down by 15, to 276, since June 2005. Restructuring and consolidation, along with globalization, have resulted in continued decreases in the number of bank licensees.

At present, more than half of Cayman's bank licensees originate from Europe and the USA region, accounting for 30% and 27% of total licensees respectively.

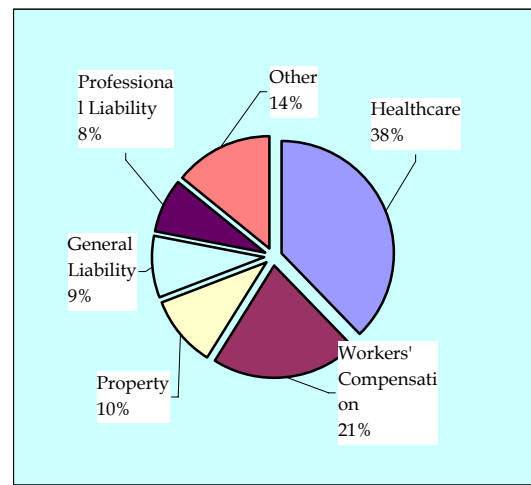
5.2 Insurance

The total number of insurance licences increased by 26 (or 3.5%) - from 739 in June 2005, to 765 as at the end of June 2006.

Class 'A' insurance licences decreased by 1 for a final tally of 28, while Class 'B' (captive) licences increased by 27 to register at 737.

Captive insurance licences continued to be dominated by the following primary classes of business: healthcare (38%), workers' compensation (21%), property (10%), general liability (9%), and professional liability (8%). North America maintained its rank as the largest risk location of total captive companies, comprising 89% of total companies.

Figure 5.1: Captive Insurance Licences by Primary Class of Business, as of June 2006



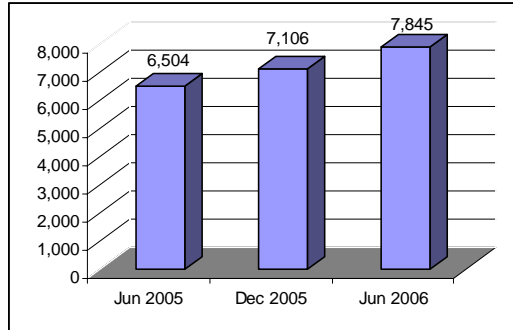
Source: Cayman Islands Monetary Authority

Captive insurance premiums increased by US\$1.2 billion, to register at US\$7.1 billion, as at the end of June 2006.

5.3 Mutual Funds

Mutual fund registrations continued to expand, recording a 20.6% increase since June 2005, to tally at 7,845 as at the end of June 2006.

Figure 5.2: Mutual Fund Registrations



Source: Cayman Islands Monetary Authority

5.4 Stock Exchange

During the review period, stock listings at the Cayman Islands Stock Exchange (CSX) increased by 163 (or 18%) to register at 1,064 by the end of June 2006. Stock market capitalisation totalled US\$89.3 billion, from US\$63.7 billion a year ago, an increase of US\$25.6 billion.

5.5 New Company Registrations

At the end of June 2006, registration of new companies totalled 6,218, a 21.4% increase over the comparative period in 2005. Exempt companies recorded a 26% increase to total 5,422 from 4,303 in June 2005, while foreign companies increased by 47.7% to 192 companies. However, both resident and non-resident companies fell by 13 and 11.6% respectively.

6. Tourism

Total visitor arrivals to the Cayman Islands thru June rose from 1,111,865

in 2005 to 1,203,317 in 2006—a change of 91,452 (or by 8.2%). The main impetus for this growth was air arrivals which increased by 81.1%. Similarly, cruise arrivals remained resilient with a modest increase of 2.3%.

6.1 Air Arrivals

Air arrivals expanded by 81.1% between January and June from 83,105 in 2005 to 150,486 this year.

This notable increase is traced to the upturn in the stay-over sector this year relative to last year's distinctively low numbers, following the aftermath of Hurricane Ivan.

Additionally, performance within the stay-over sector was stronger when compared to other key regional destinations such as the Dominican Republic (which grew by 11.4%).

The United States of America continued to be the major source of air arrival visitors to the Cayman Islands, contributing 81.5% of total arrivals in the first quarter of 2006. Other contributions emanated from Europe (6.3%), Canada (7.9%) and other countries (4.3%).

Table 6.1: Semi-Annual Air Arrivals by Country

	2004	2005	2006
Total	181,255	83,105	150,485
USA	147,109	59,164	124,796
Europe	10,295	6,133	9,102
Canada	9,310	5,267	9,154
Other	14,541	12,541	7,433

Source: Department of Tourism

Between 2001 and 2004, US visitors to the Cayman Islands thru June averaged 82.6% of total air arrivals, which fell sharply to 71.2% in 2005 and rebounded to 82.9% in 2006. Dissecting US visitors by origin within the US revealed that all regions contributed to improvement in 2006 thus far, albeit arrivals are still lower compared to 2004, with the exception of the Southeast as depicted in Table 6.2.

Table 6.2: Semi-Annual Air Arrivals from US Regions

	2004	2005	2006
USA	147,109	59,164	124,796
Northwest	47,641	18,290	40,881
Midwest	41,973	14,264	30,262
Southeast	26,376	14,078	27,092
Southwest	21,546	8,568	18,012
West Coast	9,573	3,964	8,549

Source: Department of Tourism

Accommodation

Occupancy levels improved slightly from 55.8% in 2005 to 68.1% in 2006 for hotels, and 46.0 to 48.2% for apartments.

However, the average length of stay for hotels showed a decrease from 4.9 days to 4.5 days; while the average length of stay at apartments remained constant at 6.7 days.

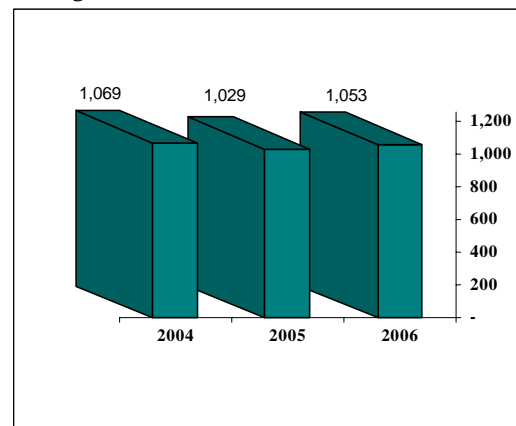
6.2 Cruise Arrivals

Cruise arrivals expanded slightly during the first half of the year. Whereas, 1,028,760 cruise passengers

visited in 2005, a total of 1,052,831 visitors were noted this year.

In June, the new Royal Caribbean’s Freedom of the Seas cruise ship (the world’s largest cruise vessel) made its inaugural visit to Cayman. This cruise ship has a carrying capacity of approximately 5,000 passengers.

Figure 6.1: Semi-Annual Cruise Arrivals



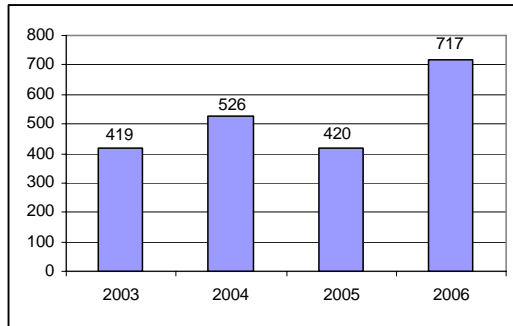
Source: Department of Tourism & ESO

As at June, the number of cruise ship calls to George Town port increased by 0.6% to 456 calls. (However, this figure was 4.6% lower than the calls in 2004). Accordingly, cruise passengers per day averaged 5,849 persons, an increase of 134 visitors per day more than first half 2005.

7. Construction

Construction continued its upward trajectory with building permits reaching 717 – 70.7% above the same period in 2005, while project approvals totalled 721 – 9.6% higher than a year ago.

Figure 7.1: Building Permits, 2003- 2006



Source: Planning Department

7.1 Building Permits

The total value of building permits rose by 74.6% to \$209.9 million from \$120.2 million in the first half of 2006.

Private residential construction continues to fuel the construction industry in the aftermath of Hurricane Ivan. Thus, residential permits led the way with an increase of 145.6%, settling at \$131.2 million in the first half of 2006. The growing popularity of multiple apartment units saw residential permits in this category rising by 168.9% to reach \$61.3. Building permits for houses also rose by 95.8% to total \$69.9 million.

However, the non-residential category remained virtually flat during the period. This category amassed \$59.8 million, up 1.5%, with commercial permits falling by 9.6% to \$51.6 million while industrial

permits jumped to \$8.0 million from \$1.9 million the previous year.

Meanwhile, other permits moved from \$2.8 million to \$18.9 million. The jump emanated during the second quarter of 2006, moving from \$0.94 million to \$17.7 million.

Table 7.1: Value of Building Permits (\$M), First Half 2004- 2006

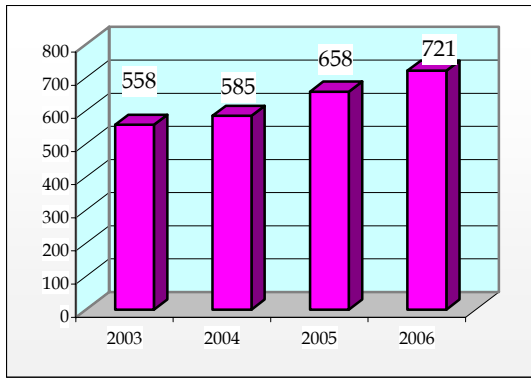
	2004	2005	2006
Houses	46.5	35.7	69.9
Apartments	24.9	22.8	61.3
Commercial	14.5	57.1	51.6
Hotel	-	-	0.3
Government	-	-	-
Industrial	-	1.9	8.0
Other	3.6	2.8	18.9
Total	89.5	120.2	209.9

Source: Planning Dept and ESO

7.2 Project Approvals

Construction intentions remained upbeat in the first half of 2006 as the number of project approvals reached 721, up 9.6% compared to the first half of 2005. However, total value of approvals plummeted by 19.0% to \$304.3 million.

Figure 7.2: Project Approvals, 2003- 2006



Source: Planning Department

Apartments/condominiums comprised more than half of approved projects. The value of project approvals in this segment declined significantly by 44.9% to \$154.7. New projects include a 74-unit condominium complex in the South Sound area and a 24-apartment complex off the West Bay Road.

Table 7.2: Semi-Annual Project Approvals 2004-2006 (\$M)

	2004	2005	2006
Houses	41.9	46.5	48.1
Apartments	125.2	215.9	154.7
Commercial	72.8	61.0	50.1
Government	1.4	1.4	5.0
Industrial	5.9	9.8	9.7
Other	47.2	41.3	36.7
Total	294.4	375.9	304.4

Source: Planning Department

The value of project approvals for single-family dwellings increased to \$48.1 million, a 3.3% increase.

The total value of project approvals in the commercial category declined

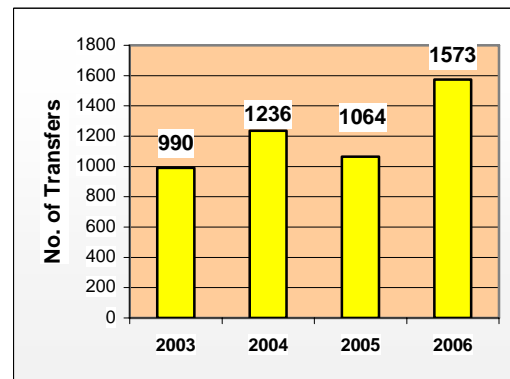
to \$50.1 million from \$61.0 million in 2005.

The expansion of Owen Roberts International Airport saw the value of project approvals in the Government category rising from \$1.4 million in the first half of 2005 to \$5.0 million this year.

8. Real Estate

A record number of properties changed hands in the first half of 2006. Compared to the same period last year, properties traded for profit increased by 509 or 47%.

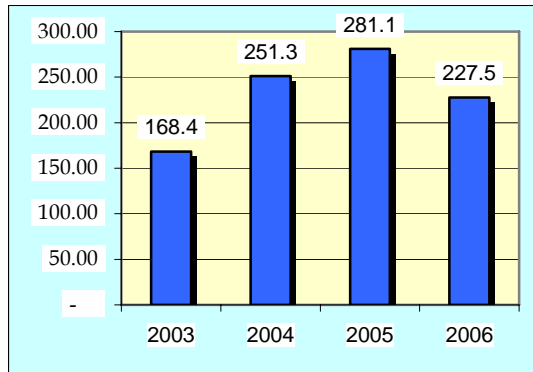
Figure 8.1: Number of Property Transfers, Semi-Annual 2003-2006



Source: Lands and Survey Department & ESO

However, the total value of transferred properties fell by 19.1% from \$281.1 million in the first half of 2005 to \$227.5.

Figure 8.2: Value of Property Transfers



Source: Lands and Survey Department & ESO

ACKNOWLEDGMENT

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