

### Summary Economic Indicators: First Quarter 2006\*

- Consumer Price Index fell by 1.6%, mainly due to falling rental prices.
- Work permits increased marginally by 0.68% to total 20,778.
- Building permits issued increased by 123 (45.2%) to reach 272, valued at \$78.2 million.
- Merchandise imports fell by 17.3% to register at \$228.0 million.
- Total visitor arrivals grew by 8.3%.
- Mutual fund registrations increased by 1,205 (19.2%).
- Bank and trust company registrations declined by 8.2% while insurance licenses jumped 4.8% to 759.
- Stock exchange listings increased by 143 stocks while stock market capitalization increased by US\$17.4 billion (27.8%).
- Company registrations increased by 22.5%.
- Average prime interest rate increased by 65 basis points to 7.5%.

\*Comparative data over the first quarter of 2005.

## 1. Overview

Real GDP growth for 2006 is projected to ease to approximately 4.2% for the year, down from 6.5% growth in 2005, as the economic recovery phase is almost completed after the exogenous shock in the latter half of 2004.

First quarter indicators (as summarized above) suggest the Cayman Islands economy is on track to achieving the projected annual real GDP growth.

### Upside performance

Economic expansion in 2006 will be bolstered by the continuing growth in construction activity facilitated through a spike in building permits. Building permits issued totalled 272 during the first three months of 2006, which was approximately 83% higher than building permits issued over the comparative period in 2005. The value of building permits also doubled in the same period over the same quarter in 2005.

Inflation for the first quarter of 2006 trended downwards (-1.6%), mainly due to declining housing costs and

drops in the price indices for education and medical services and household equipment. The lowering of the inflation rate is expected to facilitate the freeing of resources for boosting domestic consumer demand.

The economy is expected to gain further impetus from the recovery in the tourism sector. Total visitor arrivals grew by 8.3% during the period due to an 84.2% increase in stay-over visitors. Similarly, cruise visitor arrivals continued on its upward trajectory and grew by 3.2%.

Financial services continued to be a driving force in the economy. In particular, mutual fund registrations grew by 1,205 (or 19.2%), insurance licences by 4.8% and new company registrations rose by 22.5%.

**Downside risk**

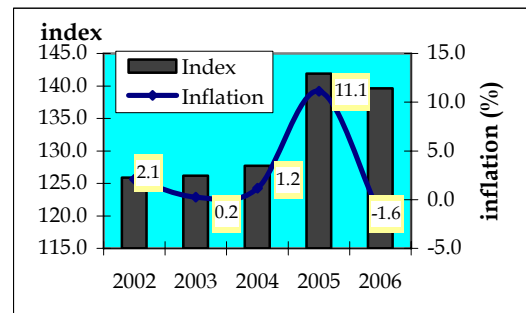
Prime interest rates increased on average by 65 basis points to 7.5% during the first three months of 2006, in view of increases in the US Federal Reserve Rates.

Total imports during the quarter amounted to CI\$228.0 million, down by 17.3%. This is evidence of the stabilization of domestic demand after the upsurge in imports just after Hurricane Ivan in the first quarter of 2005.

**2. Inflation**

The Consumer Price Index (CPI) stood at 139.6 in the first quarter, down by 1.6% from March 2005, on account mainly of declining price indices for housing, education and medical services and household equipment.

Figure 1: QTR 1 CPI and Inflation



Source: Economics and Statistics Office

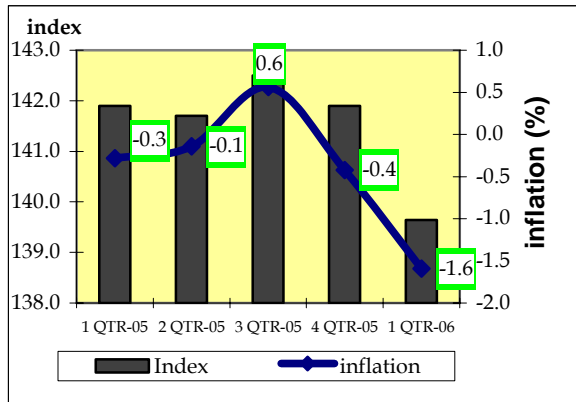
The first quarter CPI also fell by 1.6% compared to the quarter ended December 2005 as a result of declines in the price indices for housing, education and medical services, household equipment, personal goods and services, alcohol and tobacco.

The overall housing price index, which accounts for 1/3 of the entire CPI basket, settled at 138.1. This was 8.1% below the level in March 2005 mainly on account of falling rental prices. On average, rental prices fell by approximately CI\$365 over the one-year review period.

On the other hand, the price index for utilities rose by 13.3% during the

first quarter of 2006 compared to the same period of 2005. Electricity prices increased by 18.%, to reach CI\$55.58 per 200 kilowatt hours during the review period.

Figure 2: Quarterly CPI and Inflation



Source: Economics and Statistics Office

### 3. Labour Market

Work permits increased marginally by 0.68% from 20,637 in the first quarter of 2005, to 20,778 this period.

Table 1: Work Permits by Class

	Qtr 1 2005	Qtr 1 2006
<b>Total by Class</b>	<b>20,637</b>	<b>20,778</b>
Trades/Technical/Skilled	9,553	9,961
Unskilled	8,782	8,032
Professional	1,719	1,976
Administrative/Managerial	583	809

Source: Immigration Department

Increases occurred in all but one of the four classes of work permits, with only the 'Unskilled' category decreasing by 8.5% to 8,032.

The largest class, 'Trades/Technical/Skilled,' accounting for 48% of total work permits, increased by 4.3% from 9,553 in March 2005 to 9,961 this period.

In the 'Administrative/Managerial' category, work permit numbers rose by 38.8% to 809 while the 'Professional' category increased by 15% to 1,976.

Work permits for most industries all rose with the exception of construction, which fell by 19%. It is noted, however, that work permit numbers in construction for this quarter are still significantly above the first quarter 2004 level.

Among the construction occupations experiencing significant declines were carpenter (-25.4%), carpenter's helper (-31.1%), unskilled worker/helper (-56.1%), and manual and unskilled worker (-28.4%).

Work permits for financial services remained relatively flat at 776.

Work permits for restaurant and bars increased by 19% from 1,663 to 1,979.

**Figure 3: Work permits for All Industries**

	Mar-05	Mar-06
Construction	7,292	5,906
Financial Services	695	776
Restaurant & Bars	1,663	1,979
Business Services	3,053	3,382
Wholesale & Retail	2,226	2,445
Private Households w/ Employed People	3,504	3,638
Community, Social, & Personal Services	1,153	1,230
All Other Industries	1,051	1,422

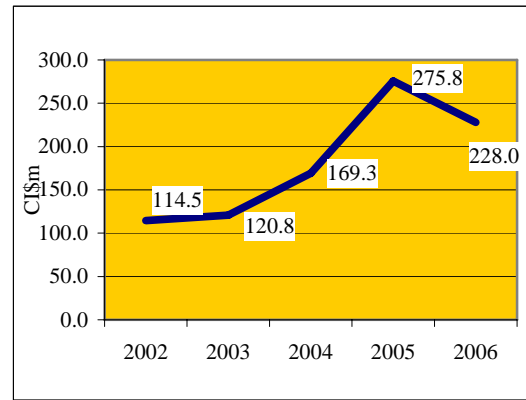
Source: Immigration Department and ESO

Business services industry work permits increased by 10.%; wholesale & retail by 9.%; private households with employed persons by 3.8%; and other community, social & personal services by 6.7%.

## 4. Trade

Preliminary data for the first quarter of 2006 indicated that merchandise imports fell by 17.3% to 228.0 million, compared to the comparative quarter in 2005.

Although imports fell compared to the previous quarter it still remained at least 34.5% above the first quarter imports of 2004.

**Figure 4: QTR 1 Merchandise Imports**


Source: Customs Department and ESO

## 5. Financial Services

Financial services continued to hold its upward trajectory with strong performance in mutual fund registrations. Insurance licences were stable while bank and trust company registrations declined.

### 5.1 Banks & Trust Companies

The number of bank licences declined by 26 (or 8.2%) during the first quarter of 2006 to 291, compared to the first quarter of 2005. Alternatively, pure trust companies increased by 10 (or 8.1%) from 123 in 2005.

Class 'A' bank licences moved down by 3 to 19 while Class 'B' slid by 23 during the quarter as opposed to the same period last year.

## 5.2 Insurance

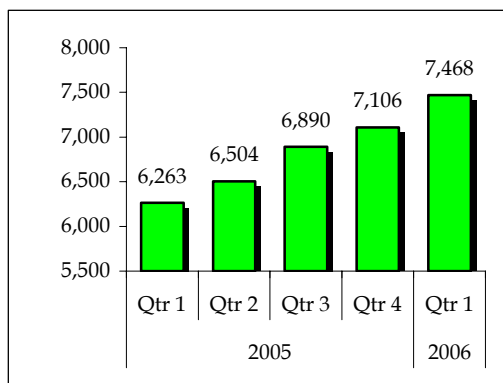
Between March 2005 and March 2006 the total number of insurance licences increased by 4.8%, to 759. Class 'A' insurance licences slid by 1 to 27 while Class 'B' jumped by 36 to settle at 732 at the end of this quarter.

Premiums for captive insurance rose by US\$1.3 billion since March 2005, to reach US\$7 billion this quarter.

## 5.3 Mutual Funds

The most significant increase was recorded in mutual funds, with an upward movement of 1,205 (or 19.2%) as depicted in figure 5 below.

Figure 5: Mutual Fund Registrations



Source: Cayman Islands Monetary Authority

## 5.4 Stock Exchange

During the quarter, stock listings at the Cayman Islands Stock Exchange (CSX) ameliorated by 143 stocks over a year ago to settle at 1,011, but declined by 4 from 1,015 last quarter.

Stock market capitalisation increased to US\$79.9 billion from US\$62.5 billion at the end of March 2005 despite the marginal decline experienced in stock listings over the previous quarter.

## 5.5 New Company Registrations

During the review period, registration of new companies jumped by 22.5% to 2,892 companies. Exempt companies recorded a 27.7% increase over the comparative quarter of 2005 while foreign companies increased by 50% to 84 companies. However, both resident and non-resident companies fell by 19.6 and 1.3% respectively.

## 6. Tourism

Total visitor arrivals for the first quarter of 2006 recorded an increase of 8.3% over the comparative period of 2005. During this period there was sharp recovery by 84.2% in air arrivals coupled with an 8.3% increase in cruise arrivals.

### 6.1 Air Arrivals

Air arrivals totalled 76,660 visitors which was 84.2% above the arrivals in the same quarter of 2005 but remains lower than 2004.

It is noted that additional capacity for air arrivals resulted through the

introduction of Spirit Airlines flights in February 2006.

The USA continued to be the major source of air arrivals, 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 2:  
First quarter air arrivals by country of origin

	2004	2005	2006
<b>Total</b>	94,959	41,613	76,660
<b>USA</b>	76,516	29,841	62,443
<b>Europe</b>	5,602	3,000	4,852
<b>Canada</b>	6,385	3,153	6,094
<b>Other</b>	6,456	5,619	3,271

Source: Department of Tourism

#### Accommodation

Hotel *occupancy* rates improved slightly from 68.4% in the first quarter of 2005 to 69.7% this year; however, occupancy levels for apartments fell from 55.8 to 51.4%.

Similarly, the *average length of stay* for last year hotels showed an increase from 4.5 days to 4.7 days; while the average length of stay at apartments declined modestly from 7.3 days to 7.1 days.

#### 6.2 Cruise Arrivals

During the first three months of 2006, cruise arrivals totalled 645,477 visitors, which is an increase of 3.2% over the first quarter of 2005.

The number of cruise ships calls to George Town port increased by 4.8% to 569 calls during the first quarter of 2006, but was 4.7% lower than the calls in 2004. Accordingly, cruise passengers per day averaged 7,172 persons, an increase of 225 visitors more than the first quarter of 2005.

#### 6.3 Visitors' Expenditure

Meanwhile, total visitors' expenditure in 2005 plummeted to US\$353.1 million, which represented a 31.9% fall-off from the expenditures in 2004.

Stay-over visitors' expenditure reached US\$174.8 million in 2005, down from US\$333 in 2004. This can be directly correlated to the 35.4% decline in stay-over arrivals.

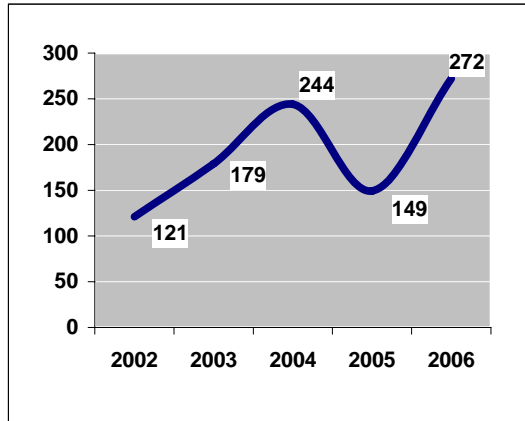
Cruise visitors registered a total expenditure of US\$178.3 million, down by 4.4% compared to 2004. The fall-off in cruise expenditure manifested amidst the 6.2% growth in visitors, implying that, average cruise visitor expenditure fell in 2005 by 9.3% compared to 2004.

#### 7. Construction

First quarter construction activity hit a five-year high in 2006. Building permits peaked to 272, well above the 149 recorded in 2005, and exceeding the previous peak of 244 set in 2004.



Figure 7: Building Permits, First Quarter 2002- 2006

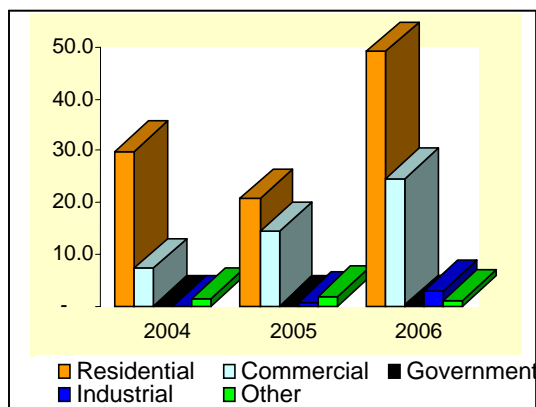


Source: Immigration Dept and ESO

### 7.1 Building Permits

The total value of building permits doubled from \$37.9 million in the first quarter of 2005 to \$78.2 million this year.

Figure 8: Building Permits, First Quarter 2004-2006



Source: Planning Department

Private residential construction continues to be the main driver in construction, accounting for 63% of the value of total permits. Rebounding demand for single-

family dwellings saw building permits for houses rising from \$9.3 million in 2005 to \$23.7 million in the first quarter this year.

Table 3: First Quarter Building Permit Values (\$M)

	2004	2005	2006
Houses	20.7	9.3	23.7
Apartments	9.1	11.5	25.3
Commercial	7.4	14.3	24.7
Government	0.0	0.0	0.3
Industrial	0.0	0.9	3.0
Other	1.6	1.9	1.3
<b>Total</b>	<b>38.7</b>	<b>37.9</b>	<b>78.2</b>

Source: Planning Dept and ESO

The growing popularity of multiple apartment units saw the increase in total value from \$11.5 million to \$25.3 million of the apartment/condominium segment. The new developments, typically on the smaller scale, are largely concentrated on the outskirts of George Town.

In the commercial category, a mushrooming business sector saw an additional 274,729 sq ft of new commercial space under construction. Building permits in this category increased by 72.1% to \$24.7 million in the first quarter.

Camana Bay, the biggest development in Cayman's history, will be adding 45,773 sq ft of commercial space with construction of a multiplex cinema, retail and office space. In central George Town, an additional 54,687 sq ft is

set to come online with the completion of Phase IV of Cricket Square development.

### 7.2 Project Approvals

Construction intentions remained healthy in the first quarter. The number of approved applications reached 276, which was almost the same as the total a year ago (277). More significantly, the total value of approved projects rose by 85.6% to \$182.3 million.

More than half of approved property comprised of apartments. The value of project approvals in this segment shot up by 133.6% rising from \$46.4 million in the first quarter of 2005 to \$108.4 million this year. New projects include a 74-unit condominium complex in the South Sound area and a 24-apartment complex off the West Bay Road.

Table 4: First Quarter Project Approval (\$M)

	2004	2005	2006
Houses	15.5	19.7	21.8
Apartments	17.5	46.4	108.4
Commercial	13.2	2.8	21.4
Government	1.2	0.8	4.5
Industrial	1.2	2.8	0.3
Other	30.3	25.8	25.9
<b>Total</b>	<b>79.0</b>	<b>98.2</b>	<b>182.3</b>

Source: Planning Department

The value of project approvals for single-family dwellings increased to \$21.8 million, a 10.8% increase. However, for the first time in four years, the number of single-family

dwelling approvals declined, possibly indicating a cooling down.

Total value of project approvals in the commercial category jumped to \$21.4 million from the \$2.8 million in 2005.

Expansion of Owen Roberts International Airport saw the value of project approvals in the Government category rising from \$0.8 million in the first quarter of 2005 to \$4.5 million this year.

## 8. Real Estate

A record number of properties changed hands in the first quarter of 2006. Compared to the similar period last year, an additional 225 properties were traded for profit bringing the total to 703. Approximately, 41.6% or 293 of these transactions occurred in January.

Figure 9: Number of Property Transfers: First Quarter 2004- 2006



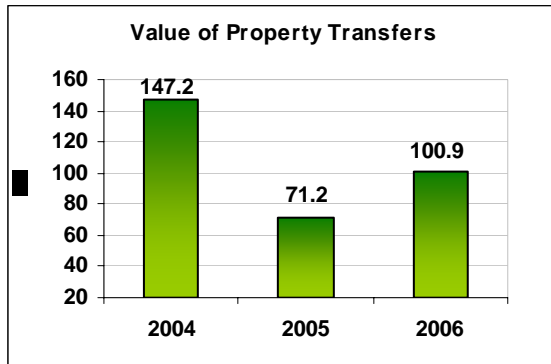
Source: Lands and Survey Department & ESO

The total value of properties transferred also increased, rising by



41.7% from \$71.2 million in the first quarter of 2005 to \$100.9 million this year.

Figure 10: Value of Property Transfers: First Quarter 2004–2006



Source: Lands and Survey Department & ESO

## 9. Utilities

### 9.1 Electricity

Total electricity consumption through March rose from 85.3 million megawatt hours (MWH) in 2005 to 107.4 million MWH in 2006 or by 25.9%. Of the total consumption recorded this year, commercial usage represented the largest share, averaging 59.1 million MWH, followed by residential usage, which registered 47.0 million MWH and public lighting with 1.3 million MWH.

Consistent with the increase in overall consumption, commercial usage grew by 25.1% from the 47.2 million MWH noted last year. Residential usage expanded by 27.3% rising from 36.9 million MWH

in 2005; and public lighting grew by 7.9% from 1.2 million MWH.

Since the last quarter of 2005, the number of electricity subscribers grew by 211 registering at 20,919 as at March 2006.

### 9.2 Water

As recorded by the Water Authority, water consumption expanded by 16.2% from 193.0 million gallons in the first quarter of 2005 to 224.2 million gallons during the first quarter of 2006.

Additional figures on the level of consumption (as estimated by the other local supplier, Consolidated Water Company) were unavailable at the time of this report.

## ACKNOWLEDGMENT

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**Caribbean Utilities Company**  
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**General Registry**  
**Health Services Authority**  
**Immigration Department**  
**Information and Communications Technology Authority**  
**Lands and Survey Department**  
**Planning Department**  
**Treasury Department**  
**Water Authority**