

### Summary Economic Indicators: First Quarter 2007\*

- The Consumer Price Index rose by 4.4%, mainly due to higher average prices of personal goods & services, household equipment and food.
- Work permits increased marginally by 0.2% to total 20,810.
- Money supply expanded by 29.4% due to strong growth in quasi money comprising primarily of the foreign currency deposits held by residents.
- Merchandise imports fell by 9.9% to register at \$206.2 million.
- Air arrivals grew by 13.3% while cruise passengers increased by 5.9%.
- Mutual funds increased by 1,054 (or 14.1%).
- Bank and trust company registrations declined by 5.1% while insurance licenses inched up by 1.7% to 758.
- Stock exchange listings increased by 287 stocks or 28% while stock market capitalization increased by US\$43.2 billion (or 54.1%).
- New company registrations increased by 16.7%.
- Building permits increased by 7.4% to reach 292, valued at \$108.5 million.
- The number of property transfers went up by 7.0%, while total value dipped by 11.2%.

\*Comparative data over the first quarter of 2006.

## 1. Overview

First quarter indicators (as summarized above) suggest that the Cayman Islands economy is on track to achieving the projected annual real GDP growth in 2007 of approximately 3.8%.

### Upside performance

Following the rebound of the tourism industry in 2006, visitor

arrivals further increased in the first quarter of 2007. Total visitor arrivals grew by 6.7% mainly due to a 13.3% increase in stay-over visitors. Similarly, cruise visitor arrivals continued to strengthen by 5.9%.

Economic growth in the first quarter of 2007 was financed by strong growth in the money supply. Credit to the private sector went up by 14.6%. Credit to households rose by 13.1% while credit to businesses increased by 18.7%.

Growth in construction activity was evidenced by a 7.4% increase in building permits. The value of building permits stood at \$108.5 million or 38.7% above the same quarter in 2006.

Financial services continued to be a driving force in the economy. During this period, mutual funds grew by 14.1%, trust companies went up by 5.4%, insurance licences by 1.7% and new companies by 16.7%.

Prime interest rates remained stable at 8.25% since June 2006.

**Downside risks**

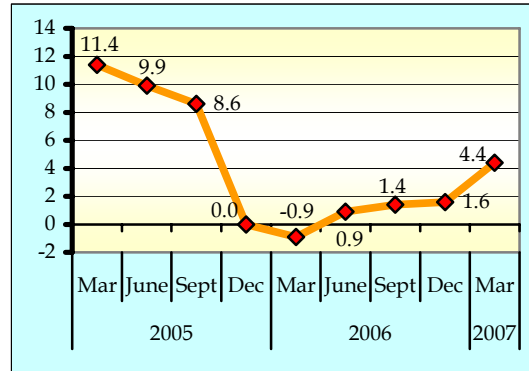
Inflation for the first quarter of 2007 continued the upward trend of the last four quarters as it reached 4.4%.

Total imports during the first quarter amounted to CI\$206.2 million, down by 9.9%.

**2. Inflation**

The Consumer Price Index (CPI) stood at 147.3 in the first quarter, up by 4.4% from March 2006, on account mainly of increasing price indices for personal goods and services (7.4%), household equipment (6.6%), food (4.6%) and housing (4.5%).

Figure 1: QTR 1 CPI and Inflation



Source: Economics and Statistics Office

The first quarter CPI also increased by 1.9% compared to the quarter ended December 2006 as a result of increasing price indices for personal goods and services, food, and alcohol and tobacco.

The increase in the price index for personal goods and services by 7.4% is mainly due to a 58.2% jump in the minimum rates for domestic services. Based on quotations from the Department of Employment Relations, the lowest rate for maid services rose from \$2.35 an hour in March 2006 to \$6.0 an hour, thus pulling up the average cost for domestic services by 58.2%. These movements may be explained by the lower supply of domestic services in the market as work permits for this type of services as of March 2007 fell by 8.6% compared to March 2006. In addition, price increases for personal goods (10.9%) and home entertainment (5.2%) fuelled the upward movement of the price index.

The price index for household equipment moved up by 6.6% due to increases in the average prices of household appliances, other household equipment and furniture and floor coverings.

The housing price index increased by 4.5% due to increases in the average cost of maintenance and insurance of houses, and the uptick in the average prices of utilities.

The food price index increased by 4.6% compared to a year ago. Significant increases were noted for fish (8.3%), fruits and vegetables (7.8%) and bread and cereal (5.9%).

**Table 2: Quarter 1 Inflation by Categories**

CPI Major Categories	Inflation Rates (%)	
	2006	2007
Food	2.7	4.6
Alcohol & beverage	3.8	2.8
Housing	-8.1	4.5
Clothing	0.8	1.9
Household equipment	-4.7	6.6
Transport & communication	2.4	1.9
Education & medical	1.3	2.2
Personal goods & services	6.1	7.4
All items	-0.9	4.4

Source: Cayman Islands Government, Economics & Statistics Office

### 3. Labour Market

Work permits rose marginally to 20,810 in the first quarter compared to 20,778 a year ago.

**Table 3.1: Work Permits**

	Qtr 1 2006	Qtr 1 2007
<b>Total</b>	<b>20,778</b>	<b>20,810</b>
Trades/Technical/Skilled	9,961	10,271
Unskilled	8,032	7,447
Professional	1,976	2,240
Administrative/Managerial	809	852

Source: Immigration Department

Increases occurred in three of the four classes of work permits, with only the 'Unskilled' category decreasing by 7.3% to 7,447.

The largest class 'Trades/Technical/Skilled, accounting for 49.4% of total work permits, increased by 3.1%, from 9,961 in March 2006 to 10,271 this period.

In the 'Administrative/ Managerial' category, work permit numbers rose by 5.3% to 852, while the 'Professional' category increased by 13.4 % to 2,240.

By industry, 'construction' and 'private households with employed people' continued to record the largest number of work permits with 5,408 and 3,324 permits respectively. However, both categories fell compared to a year ago. Among the construction jobs experiencing significant declines were those for unskilled workers/helpers (-41.8%), manual and unskilled workers (-22.7%), carpenter's helper (-16.1%), and mason (-11%).

Work permits for financial services increased by 10.8% from 1,735 in March 2006 to 1,922 this period.

Work permits for restaurant and bars increased by 10.9% to reach 2,195.

**Table 3.2: Work Permits for All Industries**

	Mar-06	Mar-07
Construction	5,906	5,408
Financial Services	1,735	1,922
Restaurant & Bars	1,979	2,195
Business Services	2,630	2,672
Wholesale & Retail	2,238	2,416
Private Households w/ Employed People	3,638	3,324
Community, Social & Personal Services	1,226	1,231
All Other Industries	1,426	1,642
<b>Total</b>	<b>20,778</b>	<b>20,810</b>

Source: Immigration Department and ESO

In business services, work permits increased by 1.6%; wholesale & retail by 8%; and other community/social & personal services by 0.4%.

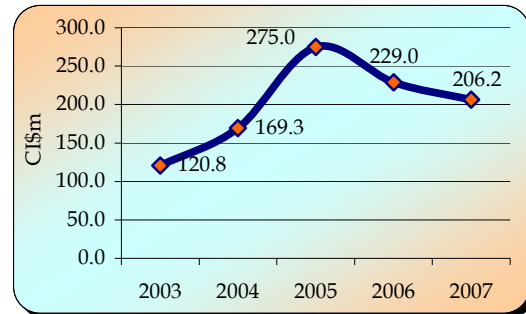
#### 4. Trade

Preliminary data for the first quarter of 2007 indicate that merchandise imports fell by 9.9% to \$206.2 million compared to the comparative quarter in 2006.

This suggests the continued stabilization of domestic demand for intermediate and capital goods after the completion of post Ivan reconstruction work. Nonetheless,

the first quarter imports in 2007 remained higher than the pre hurricane Ivan level.

**Figure 4: QTR 1 Merchandise Imports**

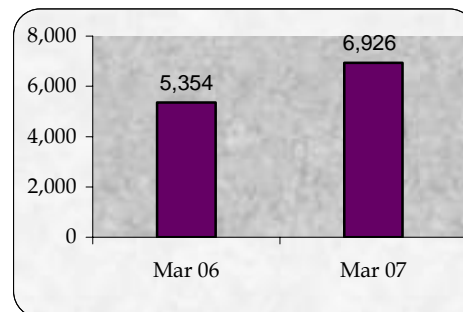


Source: Customs Department and ESO

#### 5. Money & Banking

Total money supply (M2) in the Cayman Islands reached CI\$6.9 billion (US\$8.3 billion) in March 2007, an increase of 29.4% over the comparative period in 2006.

**Table 5.1: Total Money Supply (M2) in CI\$ millions**



Source: Cayman Islands Monetary Authority

From the asset side, the main source of the increase was the growth in net foreign assets of commercial banks; on the liabilities side, the main increase was seen in quasi-money

(primarily the foreign currency deposits held by residents).

**Table 5.2: Monetary and Banking Summary (CI\$ millions)**

	Mar-06	Mar-07	% Change
<b>Net Foreign Assets</b>	<b>4,096.7</b>	<b>5,567.4</b>	<b>35.9</b>
Monetary Authority	72.2	80.3	11.2
Commercial Banks	4,024.5	5,487.2	36.3
<b>Net Domestic Assets</b>	<b>1,802.3</b>	<b>2,061.7</b>	<b>14.4</b>
<b>Other Items</b>	<b>(545.0)</b>	<b>(703.6)</b>	<b>29.1</b>
<b>Monetary Liabilities (M2)</b>	<b>5,354.0</b>	<b>6,925.5</b>	<b>29.4</b>
Narrow Money	326.8	297.0	-9.1
Quasi Money	5,027.3	6,628.6	31.9

Source: Cayman Islands Monetary Authority

**Net foreign assets.** Net foreign assets of the Cayman Islands Monetary Authority and the local commercial banking sector increased by 35.9% over the review period. This was primarily due to the 31.8% rise in gross foreign assets of commercial banks, largely from the sector's balances with banks & branches, foreign investment, and loans to non-residents. Meanwhile, loans and advances to foreign banks and branches decreased significantly by 100.0%.

On the liabilities side, foreign deposits of non-residents decreased by 7.8%, while other foreign liabilities rose by 187.3% over the review period.

**Table 5.3: Net Foreign Assets (CI\$ millions)**

	Mar-06	Mar-07	% Change
<b>Net Foreign Assets</b>	<b>4,096.7</b>	<b>5,567.4</b>	<b>35.9</b>
<b>Monetary Authority</b>	<b>72.2</b>	<b>80.3</b>	<b>11.2</b>
<b>Commercial Banks</b>	<b>4,024.5</b>	<b>5,487.2</b>	<b>36.3</b>
<b>Foreign Assets</b>	<b>5,363.6</b>	<b>7,069.9</b>	<b>31.8</b>
Bal. with Banks & Branch.	1,904.1	4,175.8	119.3
Total Investment	664.2	1,487.1	123.9
Loans & Advances to Banks & Branch.	2,188.5	0.0	-100.0
Total Non-Resident Loans	606.9	1,406.9	131.8
<b>Foreign Liabilities</b>	<b>1,339.1</b>	<b>1,582.7</b>	<b>18.2</b>
Total Non-resident Deposit	1,160.5	1,069.7	-7.8
Other Liabilities	178.6	513.0	187.3

Source: Cayman Islands Monetary Authority

**Net domestic assets.** Total net domestic assets or domestic credit provided by the commercial banking sector increased by 14.4% since March 2006. Credit allocation to both the public and resident private sectors expanded by 11.6% and 14.6% respectively.

**Table 5.4: Net Domestic Assets (CI\$ millions)**

	Mar-06	Mar-07	% Change
<b>Net Domestic Assets</b>	<b>1,802.3</b>	<b>2,061.7</b>	<b>14.4</b>
Net Domestic Credit to Public Sector	127.8	142.5	11.6
Net Domestic Credit to Private Sector	1,674.6	1,919.2	14.6

Source: Cayman Islands Monetary Authority

Credit to households - which accounts for over 55.3% of total credit to the private sector- increased by 13.1% this period. Mortgage and other property loans continued to be the dominant type of household loans reaching \$968.4 million as at March 2007, a growth of 13.8%.

Loans for vehicles modestly grew by 1.0% during the period.

Lending to the business sector- which accounts for 38.3% of total credit to the private sector- rose considerably by 18.7% over the review period. Among the sharpest increases were: construction (108.8%), real estate business (18.0%) and the hospitality industry (10.9%). Meanwhile, credit to the utilities sector dropped by 53.9%.

**Table 5.5: Net Credit to the Private Sector (CI\$ millions)**

	Mar-06	Mar-07	% Change
<b>Total</b>	1674.6	1919.2	14.6
<b>Credit to Businesses</b>	620.3	736.0	18.7
Of which			
Construction	71.1	148.4	108.8
Hotel, Restaurant and Bar	59.1	65.6	10.9
Real Estate, Renting & Other	196.6	232.1	18.0
Utilities	16.2	7.5	-53.9
Trade & Commerce	90.2	90.4	0.2
<b>Credit to Households</b>	938.1	1060.7	13.1
Domestic Property	850.9	968.4	13.8
Motor Vehicles	43.9	44.4	1.0
Education and Technology	1.8	3.0	63.2
Other	41.5	44.9	8.2
<b>Other</b>	116.2	122.5	5.5

Source: Cayman Islands Monetary Authority

**Money Supply.** As mentioned earlier, total money supply (M2) increased over the period, due to the large increase in quasi money<sup>1</sup> which surpassed the decline seen in narrow money.

<sup>1</sup> Quasi money includes deposits of Cayman Islands residents in other currencies including US dollars.

M1 or narrow money supply which is used mainly for transaction purposes contracted by 9.1% to reach \$297 million as at March 2007. This drop was a direct result of the decrease in total demand deposits by 12.3% over the review period.

Currency in circulation increased by 5.6%, to register at \$61.6 million.

Meanwhile, quasi money surged by 31.9% to \$6.6 billion as at March 2007.

**Table 5.6: Money Supply (CI\$ millions)**

	Mar-06	Mar-07	% Change
<b>Monetary Liabilities (M2)</b>	5,354.0	6,925.5	29.4
<b>Narrow Money (M1)</b>	326.8	297.0	-9.1
Currency with public	58.3	61.6	5.6
Total demand deposits	268.5	235.4	-12.3
<b>Quasi Money</b>	5,027.3	6,628.6	31.9

Source: Cayman Islands Monetary Authority

## 6. Financial Services

With the exception of bank & trust licences, the financial services industry continued to move upward, with increases seen in insurance, mutual funds, stock exchange listings, and new companies.

### 6.1 Banks & Trust

Between March 2006 and March 2007, the total number of bank & trust licences dropped by 15 (or

5.1%) to 282. Trust companies increased modestly by 5.4%.

**Table 6.1: Bank & Trust Companies**

	March 06	March 07	% Change
<b>Bank &amp; Trust</b>	297	282	-5.1
Class "A"	19	18	-5.3
Class "B"	274	262	-4.4
Class "B" Restricted	4	2	-50
<b>Trust Companies</b>	129	136	5.4
Restricted	79	85	7.6
Unrestricted	50	51	2.0

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences fell by 1 to 18, while Class 'B' licences declined by 14 to 264 since March 2006.

## 6.2 Insurance

The total number of insurance licences increased by 13 (or 1.7%) - from 758 in March 2006, to 771 as at the end of March 2007.

Class 'A' insurance licences remained the same over the review period at 26, while Class 'B' (captive) licences increased by 13 to register at 745 over the review period.

Captive insurance licences continued to be dominated by the following primary classes of business: healthcare (37.3%), workers' compensation (21.5%), property (10.1%), general liability (9.0%), and professional liability (8.1%). North America continues to maintain its

rank as the largest risk location of total captive companies, comprising 90.0% of total companies.

**Table 6.2: Captive Insurance Licences by Primary Class of Business, March 2007**

	Licences	%
Healthcare	278	37.3
Workers' Compensation	160	21.5
Property	75	10.1
General Liability	67	9.0
Professional Liability	60	8.1
Other	105	14.1
<b>Total</b>	<b>745</b>	<b>100.0</b>

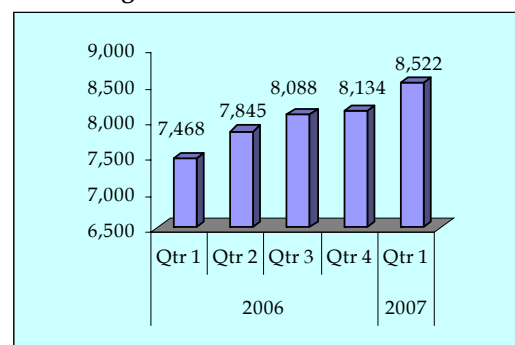
Source: Cayman Islands Monetary Authority

Captive insurance premiums increased by over US\$150 million, to register at US\$7 billion, as at the end of March 2007.

## 6.3 Mutual Funds

Mutual funds rose by 14.1% since March 2006, to tally at 8,522 as at the end of March 2007.

**Figure 6.1: Total Mutual Funds**



Source: Cayman Islands Monetary Authority

## 6.4 Stock Exchange

During the review period, stock listings at the Cayman Islands Stock Exchange increased by 287 (or 28%) to register at 1,298 by the end of March 2007. Stock market capitalisation totalled US\$123.1 billion, an increase of US\$43.2 billion since March 2006.

## 6.5 New Companies

At the end of March 2007, registrations of new companies totalled 3,388, a 16.7% increase over the comparative period in 2006. Exempt companies recorded a 19.5% increase to total 3,004 from 2,514 in March 2006. The remaining categories of companies experienced marginal decreases over the review period. Foreign companies decreased by 1.2% to 84 companies, while the registration of both resident and non-resident companies fell by 1.9% and 1.3% respectively.

## 7. Tourism

Total visitor arrivals for the first quarter of 2007 recorded an increase of 6.7% over the comparative period of 2006. During this period, there was a healthy growth of 13.3% in air arrivals, while cruise arrivals strengthened by 5.9%.

## 7.1 Air Arrivals

Air arrivals totalled 86,819 visitors, which was 13.3% above arrival figures noted in the same quarter of 2006.

The USA continued to be the major source of air arrivals, contributing 81.6% of total arrivals in the first quarter of 2007. Other contributions emanated from Europe (6.7%), Canada (7.7%) and other countries (4.1%).

**Table 7.1: First Quarter Air Arrivals by Country of Origin, 2005-2007**

	2005	2006	2007
In Thousands			
<b>USA</b>	<b>29.8</b>	<b>62.4</b>	<b>70.8</b>
Northeast	10.5	22.0	25.4
Midwest	8.4	18.7	20.4
Southeast	6.0	11.1	12.0
Southwest	3.5	7.3	8.5
West Coast	1.4	3.4	4.4
<b>Europe</b>	<b>3.0</b>	<b>5.1</b>	<b>5.8</b>
<b>Canada</b>	<b>3.2</b>	<b>6.1</b>	<b>6.7</b>
<b>Other</b>	<b>5.6</b>	<b>3.0</b>	<b>3.6</b>
<b>Total</b>	<b>41.6</b>	<b>76.7</b>	<b>86.8</b>
<i>of which: USA (%)</i>	<b>71.7</b>	<b>81.5</b>	<b>81.6</b>

Source: Cayman Islands Department of Tourism

In March, Cayman Airways announced plans to resume service to New York by June of this year. With more than 30% of all US air arrival visitors originating from the tri-state area, this new route will serve as a replacement for current service provided to the Fort Lauderdale and Boston regions. It is estimated that service to these areas will end in May 2007.



### Accommodation

Hotel *occupancy* rates improved slightly from 55.8% in the first quarter of 2006 to 59.4% this year; however, occupancy levels for apartments fell from 46.0% to 40.7%.

### 7.2 Cruise Arrivals

During the first three months of 2007, cruise arrivals totalled 683,361, which is an increase of 5.9% over the first quarter of 2006.

The number of cruise ship calls to George Town port decreased by 6.6% to 270 calls during the period under review. Accordingly, cruise passengers per day averaged 7,593 persons, an increase of 420 visitors per day compared to first quarter of 2006.

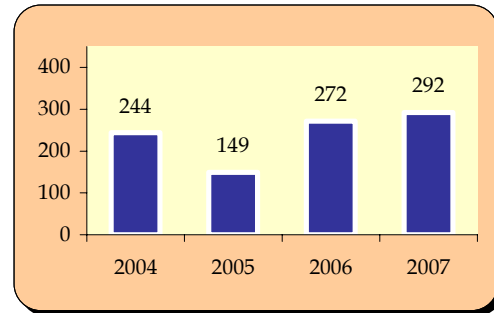
In January, the luxury vessel, *Europa*, visited Cayman Brac with a total number of 350 passengers. This was the first cruise ship call to the Sister Islands since April 2001.

## 8. Construction

### Building Permits

The number of building permits stood at 292, or 7.4% higher than in the same period of 2006.

Figure 8.1: Building Permits, First Quarter 2004 - 2007



Source: Cayman Islands Government, Planning Dept

The total value of building permits increased sharply by 38.7%, from \$78.2 million in the first quarter of 2006 to \$108.5 million this year. This was mainly due to a 100.4% upshot in the combined industrial and commercial categories. These two accounted for 51.2% of the total value of building permits thus surpassing the combined residential categories (houses and apartments) which have historically dominated this indicator. Nonetheless demand for houses remained upbeat as it further rose in nominal value by 7.2%.

Table 8.1: Building Permits (CI\$M) First Quarter 2004-2007

	2004	2005	2006	2007
Houses	20.7	9.3	23.7	25.4
Apartments	9.1	11.5	25.3	24.2
Commercial	7.4	14.3	24.7	34.1
Government	0.0	0.0	0.3	0.6
Industrial	0.0	0.9	3.0	21.4
Other	1.6	1.9	1.3	2.8
<b>Total</b>	<b>38.7</b>	<b>37.9</b>	<b>78.2</b>	<b>108.5</b>

Source: Cayman Islands Government, Planning Dept

### Project Approvals

Construction intentions remained healthy in the first quarter. Overall, the number of approved applications reached 337, which surpassed the total of 276 a year ago. However, the total value of approved projects contracted by 37.2% to register at \$114.4 million.

In terms of value, the majority of approved projects comprised of apartments. However, the value of project approvals in this segment fell by 60.2% contracting from \$108.4 million in the first quarter of 2006 to \$43.1 million this year.

Table 8.2: Project Approval Values (CI\$M)

	2004	2005	2006	2007
Houses	15.5	19.7	21.8	33.9
Apartments	17.5	46.4	108.4	43.1
Commercial	13.2	2.8	21.4	8.1
Government	1.2	0.8	4.5	3.3
Industrial	1.2	2.8	0.3	0.0
Other	30.3	25.8	25.9	26.0
<b>Total</b>	<b>79.0</b>	<b>98.2</b>	<b>182.3</b>	<b>114.4</b>

Source: Planning Department

The value of project approvals for single-family dwellings rose by 55.5% to record at \$33.9 million.

Total value of project approvals in the commercial category plummeted to \$8.1 million from \$21.4 million in 2006.

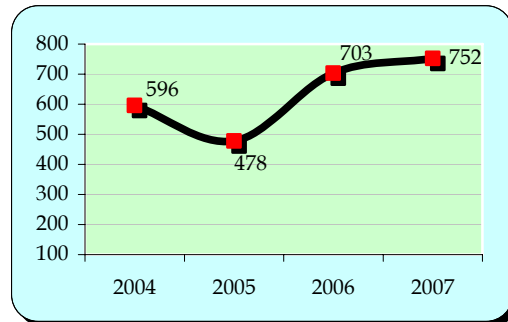
Although the value of project approvals in the Government category fell from \$4.5 million to \$3.3 million this year, it remained above previous years' average of around

\$1.0 million. This was mainly due to planned expansions of government facilities including renovations to the Owen Roberts International Airport.

## 9. Real Estate

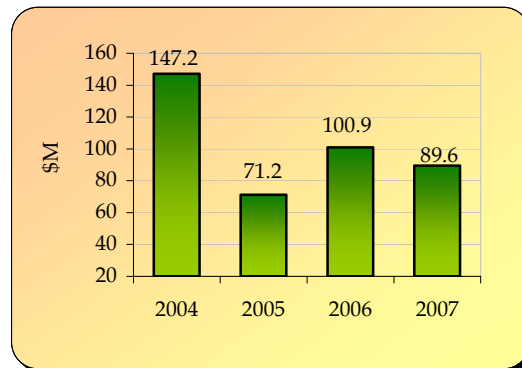
The real estate market had mixed indicators during the first quarter of 2007. While the volume of transfers rose to 752 from 703 a year ago, the total value of those transfers actually dipped by 11.2% to settle at \$89.6 million.

Figure 9.1: Number of Property Transfers: First Quarter 2004-2007



Source: Lands and Survey Department & ESO

Figure 9.2: Value of Property Transfers: First Quarter 2004-2007



Source: Lands and Survey Department & ESO

## ACKNOWLEDGMENT

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Planning Department**