

Summary Economic Indicators: As at September 2007*

- The Consumer Price Index inflation averaged 3.5% as the food and household equipment indices continue to impact the overall index upwards.
- Work permits increased by 11.5%.
- Combined credit to businesses and households by the commercial banks rose by 13.1%
- Net foreign assets of the monetary and banking sector fell by 9.8% while net domestic assets rose by 13.8%.
- Average prime interest rate fell to 7.75% by the end of the period from 8.25% a year ago.
- Merchandise imports rose by 10.6%.
- Arrivals by air increased by 8.8% while cruise arrivals fell by 5.0%.
- Mutual funds grew by 16.0%.
- Banks and trusts registration fell by 3.1% while insurance increased by 3.3%.
- Stock exchange listings increased by 25.7% while stock market capitalization rose by US\$32.5 billion, an increase of 33.0%.
- New companies registration increased by 15.7%.
- The value of building permits dipped by 6.0%, while the value of project approvals plummeted by 22.0%.

*Comparative data over the first nine months of 2006.

1. Overview

The macroeconomic indicators suggest continued growth in 2007. However, the sector indicators suggest a mixed performance with the financial services sector and the stay-over tourism market showing positive growth, while the real estate and the cruise markets showed signs of further weakening.

Upside performance

Total imports for the period amounted to \$734.5 million, up by 10.6% from a year ago.

Total credit of the local commercial banks to the private sector rose by 13.1% as credit to households

expanded by 19.2% while credit to businesses increased by 22.0%.

Financial services for the off-shore market continued to expand despite growing instability in the major economies. In particular, mutual funds grew by 1,296 (or 16.0%) while new companies registration rose by 15.7%.

In tourism, air arrivals continued on an upward trajectory to grow by 8.8% as at September 2007. Meanwhile, cruise arrivals weakened following an abnormally high growth in 2006, falling by 5.0% over the comparative period.

The number of work permits rose by 11.5%. All industries recorded increases compared to a year ago.

Downside risk

The total value of building permits declined by 6.0% to settle at \$338.1 million. Similarly, other indicators fell: number of building permits (19.7%), the number of project approvals (10.4%), and value of projects (22.0%).

2. Inflation

Average inflation for the first nine months of 2007 stood at 3.5% which can be traced mainly to household equipment (up 8.5%), food (up 5.7%), personal goods and services (up 4.7%), and clothing (up 4.2%).

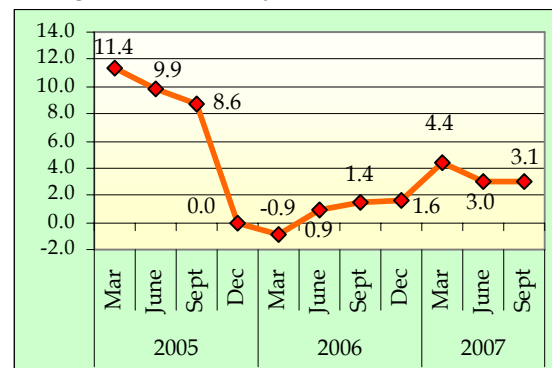
Table 2.1: Inflation by Category (in %) as at September 2006, 2007

Major Categories	2006	2007
Food	2.1	5.7
Tobacco & alcohol	2.4	2.5
Housing	-5.5	1.7
Clothing	3.8	4.2
Household equipment	-1.9	8.5
Transport & communication	4.2	3.5
Education & medical	1.8	1.5
Personal goods & services	5.9	4.7
All items	0.5	3.5

Source: Economics and Statistics Office

For the quarter ended September 2007, the Consumer Price Index (CPI) stood at 149.3, up by 3.1% from September 2006, mainly due to increasing price indices for household equipment, food and personal goods and services.

Figure 2.1: Quarterly Inflation Rates (in %)



Source: Economics and Statistics Office

The household equipment price index moved up by 14.7%, due mainly to increases in the average price of furniture and floor coverings and other household equipment.

The average price of clothing increased, pushing this price index by 8.6% compared to September 2006.

Table 2.2: QTR 3 Inflation by Category (in %)

Major Categories	2006	2007
Food	3.2	5.3
Tobacco & alcohol	0.5	1.4
Housing	-3.3	0.8
Clothing	4.0	8.6
Household equipment	1.5	14.7
Transport & communication	6.4	4.2
Education & medical	1.1	1.5
Personal goods & services	4.2	1.6
All items	1.4	3.1

Source: Economics and Statistics Office

The price index for food rose by 5.3% from September 2006 due to price increases in meat & dairy products and eggs, non-alcoholic drinks and fish (see **Box 1.1** on page 4).

The transportation and communication index increased by 4.2%, attributed mainly to increases in the average cost of household vehicles.

The third quarter CPI also increased by 1.2% compared to the quarter ended June 2007 as a result of increasing price indices for household equipment (12.7%), food (3.5%) and clothing (2.9%) while personal goods declined by 4.7%.

3. Labour Market

Work permits increased by 11.5% from 22,206 in the third quarter 2006 to 24,770 in the same quarter of 2007.

Table 3.1: Work Permits

	Sep-06	Sep-07	% Change
Trades/Technical/Skilled	10,685	11,401	6.7
Unskilled	8,353	9,781	17.1
Professional	2,244	2,727	21.5
Admin/Managerial	924	861	-6.8
Total	22,206	24,770	11.5

Source: Immigration Department

Work permits rose in all classes, with the exception of 'Admin/Managerial' permits which decreased by 6.8% to 861.

The largest class, 'Trades/Technical/Skilled' increased by 6.7% from 10,685 in September 2006 to 11,401 this period.

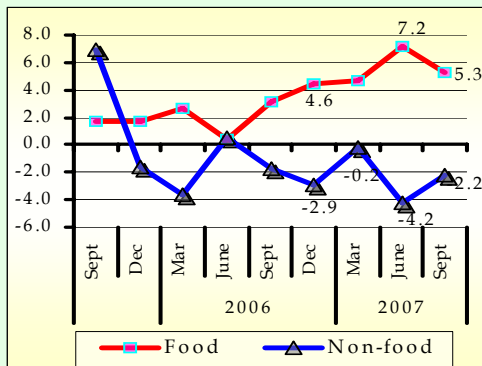
The 'Professional' category recorded the largest increase of 21.5% to 2,727, followed by the 'Unskilled' class which rose by 17.1% to 9,781.

By industry, construction accounts for the largest share of work permits (26.6%). Compared to a year ago, work permits in this industry rose by 10.2% to 6,586. This is however lower than the 6,900 work permits recorded for the same period in 2005.

Box 1.1: Higher Cost of Food

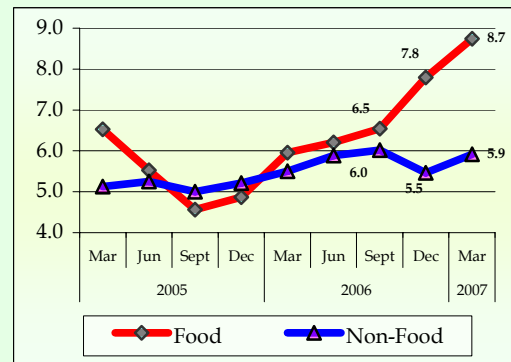
Disaggregating the Cayman Islands CPI inflation into food and non-food categories reveals food inflation increased by 5.3% while non-food declined by 2.2% as at September 2007 compared to a year ago. Beginning the third quarter of 2006, food inflation has trended upwards while the non-food continued to fall in the aftermath of Hurricane Ivan. Similarly, the rest of the world is also being affected by rising food prices.

Food and Non-food Inflation (in %) In Cayman Islands



Source: Economics & Statistics Office

Inflation in Emerging Markets and Developing Countries (in %)



Source: International Monetary Fund (IMF)

Comparatively, inflation in emerging markets and developing countries trended upwards since the third quarter of 2006. Non-food inflation stood at 5.9% while food was 8.7% during the first quarter of 2007.

According to the IMF Chief Economist Chris Johnson, "...The increase in food prices is a shock that originates largely in rich and middle-income countries. For some time now, commodity prices have been increasing, and this has been particularly apparent in fuels and metals. A major driver of these increases has been high rates of global growth – the last half decade has seen the world's best run in growth rates since the 1960s. Of course, a big part of what has sustained global growth is the strong performance of emerging markets.....But more recently food prices have jumped sharply, at least in part because of an attempt to encourage the use of so-called bio-fuels in industrial countries..."

Source: IMF and ESO

In financial services, work permits rose largely because of increases for insurance.

Table 3.2: Work Permits for All Industries

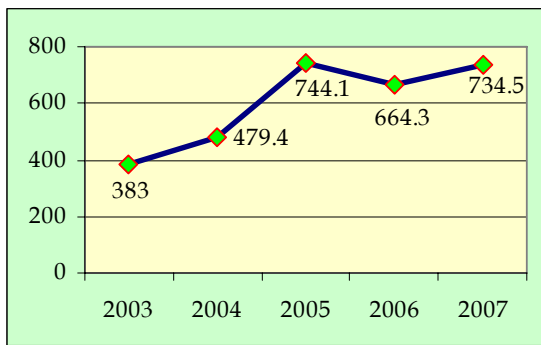
	Sep-06	Sep-07	% Change
Construction	5,974	6,586	10.2
Financial Services	1,929	2,225	15.3
Restaurant & Bars	2,250	2,510	11.6
Business Services	2,738	3,043	11.1
Wholesale & Retail	2,479	2,819	13.7
Private Households w/ Employed People	3,924	4,186	6.7
Community, Social & Personal Services	1,286	1,470	14.3
All Other Industries	1,626	1,931	18.8
Total	22,206	24,770	11.5

Source: Immigration Department & ESO

4. Trade

Preliminary data as at September 2007 showed total merchandise trade rose by 10.6% to settle at \$734.5 million as compared to the same period in 2006.

Figure 4.1: Merchandise Imports, Jan - Sept, 2007 (CI\$M)

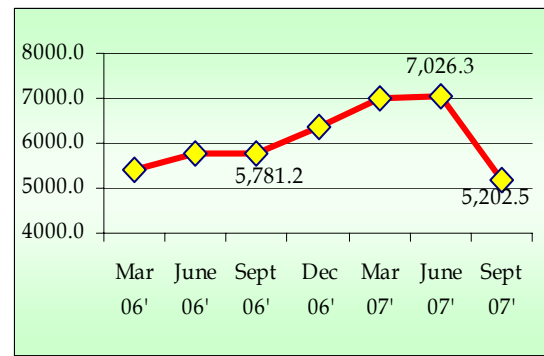


Source: Customs Department and ESO

5. Money & Banking

Total money supply (M2) in the Cayman Islands declined to CI\$5.2 billion (US\$6.2 billion) as at September 2007, a decrease of 10.0% in comparison to the same period in 2006 and reversing the upward trend for the last six quarters (see figure 5.1).

Figure 5.1: Total Money Supply (M2) (In CI\$M)



Source: Cayman Islands Monetary Authority & ESO

On the asset side of the balance sheet, the decline in money supply is associated with the reduction in net foreign assets of the monetary system as net domestic assets expanded.

Table 5.1: Monetary and Banking Summary Indicators (CI\$ M)

	Sep-06	Sep-07	% Change
Net Foreign Assets	4,092.8	3,690.9	-9.8
Monetary Authority	89.3	101.8	14.0
Commercial Banks	4,003.5	3,589.1	-10.4
Net Domestic Assets	1,947.7	2,216.0	13.8
Other Items	-259.3	-704.4	-171.6
Monetary Liabilities (M2)	5,781.2	5,202.5	-10.0
Narrow Money	293.1	311.5	6.3
Quasi Money	5,488.0	4,891.0	-10.9

Source: Cayman Islands Monetary Authority & ESO

Net foreign assets. The combined foreign assets of the Cayman Islands Monetary Authority and the local commercial banking sector fell by 9.8% over the review period. This was mainly attributed to near tripling of total non-resident deposits, resulting in a larger increase in foreign liabilities compared to the increase in foreign assets. (See Table 5.2 below).

Table 5.2: Net Foreign Assets (CI\$M)

	Sep-06	Sep-07	% Change
Net Foreign Assets	4,092.8	3,690.9	-9.8
Monetary Authority	89.3	101.8	14.1
Commercial Banks	4,003.5	3,589.1	-10.4
Foreign Assets	5,360.8	7,210.1	34.5
Bal. with Banks & Branches	3,416.9	3,971.4	16.2
Total Investment	646.7	1,815.9	180.8
Loans & Advances to Branches	2.7	0.0	-99.4
Total Non-Resident Loans	1,294.5	1,422.8	9.9
Foreign Liabilities	1,357.3	3,621.0	166.8
Total Non-Resident Deposits	1,099.5	3,126.4	184.4
Other Liabilities	257.9	494.7	91.8

Source: Cayman Islands Monetary Authority & ESO

Net domestic assets. Total net domestic assets or total net domestic credit provided by the commercial banking sector increased by 13.8% since September 2006. Credit allocation to both the public and private sectors expanded by 24.4% and 13.1% respectively.

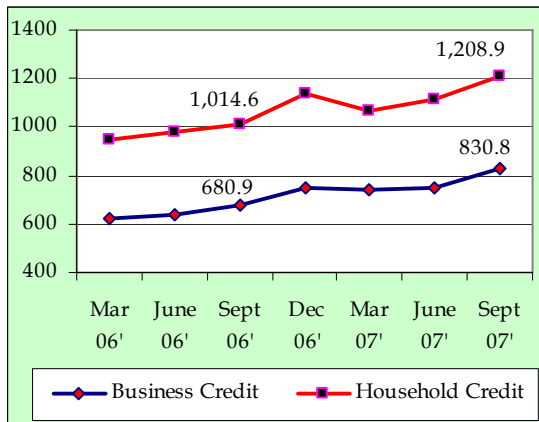
Table 5.3: Net Domestic Assets (CI\$M)

	Sep-06	Sep-07	% Change
Net Domestic Assets	1,947.7	2,216.0	13.8
Net Domestic Credit to Public Sector	124.9	155.3	24.4
Net Domestic Credit to Private Sector	1,822.8	2,060.7	13.1

Source: Cayman Islands Monetary Authority & ESO

Credit to households - which accounts for over 58.7% of total credit to the private sector- increased by 19.2% this period. Mortgages and other property loans continued to be the dominant type of household loans reaching \$1,029.1 million as at September 2007, a growth of 11.4%. Loans for vehicles grew considerably by 15.8% (CI\$7.3 million) compared to a year ago.

Figure 5.2: Credit to Private Sector (CI\$M)



Source: Cayman Islands Monetary Authority & ESO

Lending to the business sector (which accounted for 40.3% of total credit to the private sector) rose strongly by 22.0% over the review period. Among the sharpest increases were: construction (104.0%) and real estate business (38.1%). Meanwhile, credit to the utilities sector, trade & commerce and the hospitality industry dropped by 38.4%, 11.9% and 1.3% respectively.

Table 5.4: Net Credit to the Private Sector (CI\$M)

	Sep-06	Sep-07	% Change
Total	1,822.8	2,060.7	13.1
Credit to Businesses	680.9	830.8	22.0
Of which			
Construction	96.0	195.8	104.0
Hotel, Restaurant and Bar	61.6	60.8	-1.3
Real Estate, Renting & Other	208.3	287.6	38.1
Utilities (Electricity, Gas & Water)	16.4	10.1	-38.4
Trade & Commerce	89.3	78.7	-11.9
Credit to Households	1,014.6	1,208.9	19.2
Domestic Property	924.2	1,029.1	11.4
Motor Vehicles	46.3	53.6	15.8
Education and Technology	2.2	4.4	100.0
Other	41.9	121.8	190.7
Other	127.3	20.9	-83.6

Source: Cayman Islands Monetary Authority & ESO

Money Supply. Total money supply (M2) declined over the period, due to a similar movement in quasi money¹, particularly foreign currency deposits.

Table 5.5: Monetary Liabilities (CI\$M)

	Sep-06	Sep-07	% Change
Monetary Liabilities (M2)	5,781.2	5,202.5	-10.0
Narrow Money (M1)	293.1	311.5	6.3
Currency with the Public	69.0	75.7	9.8
Total Demand Deposits	224.1	235.8	5.2
Quasi Money	5,488.0	4,891.0	-10.9
Savings Deposits	197.1	197.8	0.4
Fixed Deposits	403.5	460.2	14.1
Foreign Currency Deposits	4,887.4	4,233.0	-13.4

Source: Cayman Islands Monetary Authority & ESO

M1 or narrow money supply which is used mainly for transaction purposes, expanded by 6.3% to total \$311.5 million, precipitated by a 9.8% (CI\$6.7 million) increase in currency in circulation and a 5.2% rise in total demand deposits.

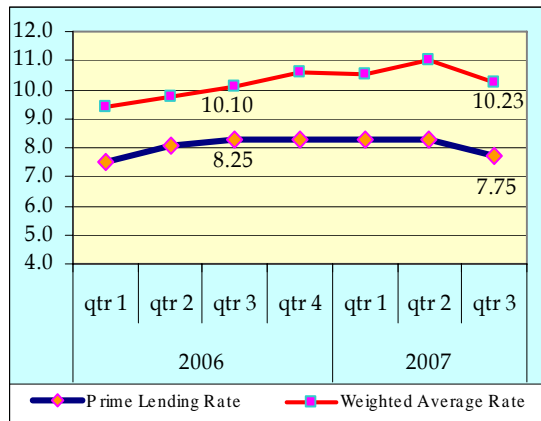
In contrast, quasi money fell by 10.9% (CI\$597.0 million) to \$4,891.0 million as at September 2007, due mainly to a significant drop in foreign currency deposits by 13.4%.

Interest Rates. The Cayman Islands' prime lending rate was constant since August 2006 until it fell by 0.5 percentage points (to 7.75%) in September 2007. The decline was in response to the decline in US Federal

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

Funds rate of equivalent magnitude² to 4.75%. The weighted average rate on outstanding loans stood at 10.23% as at the end of the quarter as compared to 10.1% a year ago.

Figure 5.3: Lending Rates (%) (End of period)



Source: Cayman Islands Monetary Authority & ESO

6. Financial Services

The main financial service indicators continued to grow robustly, except for bank and trust licences. Increases were seen in insurance company licences, mutual funds, stock exchange listings & market capitalisation, and company registrations.

6.1 Banks & Trust

As at September 2007, the total number of bank & trust licences stood at 284, a 3.1% decline compared to a year ago. Trust companies increased modestly by 4.5%.

² The federal funds rate target was lowered during the third quarter in response to the US sub-market mortgage crisis.

Table 6.1: Bank & Trust Companies

	Sept 06	Sept 07	% Change
Bank & Trust	293	284	(3.1)
Class "A"	19	19	0.0
Class "B"	274	265	(3.3)
<i>Of which: Class "B" Restricted</i>	<i>2</i>	<i>2</i>	<i>0.0</i>
Trust Companies	132	138	4.5
Restricted	81	86	6.2
Unrestricted	51	52	2.0

Source: Cayman Islands Monetary Authority

Class 'A' bank & trust licences remained unchanged at 19 over the one-year period, while Class 'B' licences declined by 3.3%, to settle at 265.

6.2 Insurance

The total number of insurance licences increased by 25 (or 3.3%) - from 759 in September 2006, to 784 as at the end of September 2007.

Table 6.2A: Insurance Companies

	Sept 2006	Sept 2007	% Change
Class 'A'	27	28	3.7
Class 'B'	732	756	3.3
Total	759	784	3.3

Source: Cayman Islands Monetary Authority

Class 'A' insurance licences increased by 1 for a final tally of 28, while Class 'B' (captive) licences increased by 24 to register at 756 over the review period.

Captive insurance licences continued to be dominated by the following primary classes of business: healthcare (36.6%), workers' compensation

(21.3%), property (10.6%), general liability (9.1%), and professional liability (8.1%). North America continues to maintain its rank as the largest risk location of total captive companies, comprising 90.1% of total companies.

Table 6.2B: Captive Insurance Licences by Primary Class of Business, September 2007

	Licences	%
Healthcare	276	36.6
Workers' Compensation	161	21.3
Property	80	10.6
General Liability	69	9.1
Professional Liability	61	8.1
Other	108	14.3
Total	755	100.0

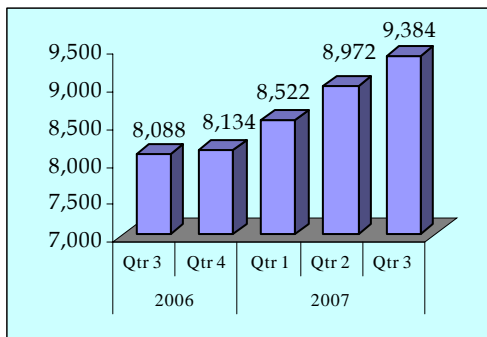
Source: Cayman Islands Monetary Authority

Captive insurance premiums increased by 2.5%, to register at US\$7.5 billion as at the end of September 2007.

6.3 Mutual Funds

Mutual fund registration rose by 16.0% since September 2006, to tally at 9,384 as at the end of September 2007.

Figure 6.3: Mutual Funds



Source: Cayman Islands Monetary Authority

6.4 Stock Exchange

During the review period, stock listings at the Cayman Islands Stock Exchange (CSX) increased by 290 (or 25.7%) to register at 1,420 by the end of September 2007. Stock market capitalisation totalled US\$131.1 billion, an increase of US\$32.5 billion, since September 2006.

Table 6.4: Market Capitalization by Instruments (US\$billion)

Instruments	2006	2007
Mutual Funds	78.3	90.1
Specialist Debt	12.6	27.1
Eurobond	5.5	11.8
International Equity	2.1	1.9
Domestic Equity	0.2	0.2
Total	98.6	131.1

Source: Cayman Islands Stock Exchange

6.5 Companies

At the end of September 2007, registration of new companies for the year totalled 10,746, a 15.7% increase over the comparative period in 2006. Exempt companies and foreign companies recorded an increase of 18.2% and 18.6% respectively. In contrast, registration of both resident and non-resident companies decreased by 12.5% and 2.8% respectively.

7. Tourism

Total visitor arrivals as at September 2007 fell by 3.3% in comparison to a year ago. While air arrivals rebounded by 8.8%, a decrease of 5.0% was noted for cruise arrivals.

7.1 Air Arrivals

In contrast to the 202,961 stay-over visitors registered in the first three quarters of 2006, air arrivals for the same period in 2007 totalled 220,919. Despite this improvement, however, this figure remains lower than 2004.

The USA continued to be the major source of stay-over visitors to the Cayman Islands, contributing 80.6% of total arrivals in the first three quarters of 2007. Other contributions emanated from Europe (6.7%), Canada (5.5%) and other countries (7.2%).

Table 7.1: Air Arrivals by Country of Origin, Jan-Sept

	2004	2005	2006	2007
	In Thousands			
USA	193.9	83.8	167.6	178.1
Northeast	61.8	24.7	53.4	58.1
Midwest	49.6	18.1	36.8	38.2
Southeast	37.4	21.3	39.1	40.1
Southwest	31.2	13.5	26.4	27.9
West Coast	13.8	6.1	11.8	13.8
Europe	13.7	8.6	12.2	14.8
Canada	10.8	6.7	10.8	12.1
Others	24.1	21.0	12.4	15.8
Total	242.5	120.1	203.0	220.9
of Which: USA (%)	79.9	69.7	82.6	80.6

Source: Department of Tourism

Dissecting US visitors by origin within the US revealed that arrivals from all

regions in 2007 improved over 2006. However, with the exception of the Southeast and West Coast region, these figures still remain below the levels of the first three quarters of 2004, as depicted in Table 7.1.

Accommodation

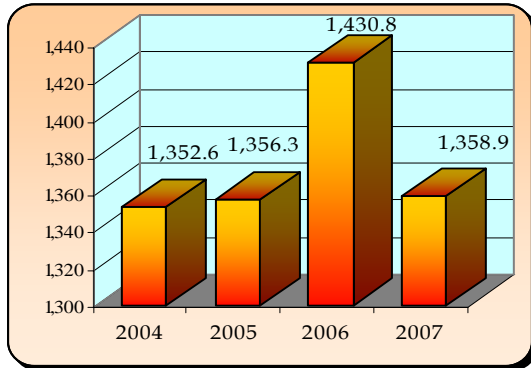
Occupancy levels at local hotels and apartments improved during the stated period. Between January and September, hotel occupancy rates rose slightly from 62.0% in 2006 to 63.2% in 2007, while occupancy levels for apartments strengthened from 42.1% to 42.6%.

Similarly, the *average length of stay* for hotels showed an increase from 4.5 days to 4.7 days during the period in review while the average length of stay at apartments rose slightly from 6.6 days to 6.7 days.

7.2 Cruise Arrivals

During the first three quarters of 2007, cruise arrivals totalled 1,358,872 visitors, a decrease of 5.0% over the comparative period in 2006. This contraction is largely owing to the stabilization of cruise calls arising from the return of vessels to restored Mexican ports that were previously impacted by Hurricane Wilma in 2005. Additionally, this reduction is also attributable to increased competition within the cruise market resulting from widening demand in both the Asian and European markets.

Figure 7.2: Cruise Arrivals, Jan-Sept, ('000)



Source: Department of Tourism & ESO

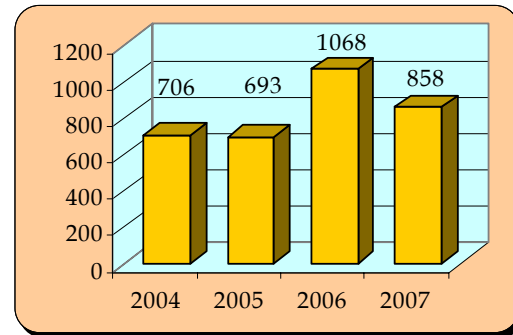
Between January and September 2007, the number of cruise ship calls to George Town port decreased by 14.7% to 504; a similar trend is noted when compared to calls in 2004 (with a fall of 13.2%). Accordingly, cruise passengers per day averaged 4,870 persons, a decrease of 429 visitors against the level in the first three quarters of 2006.

8. Construction

Building Permits

The number of building permits stood at 858 as at end September 2007 which was 19.7% lower than the same period last year. All categories of building permits registered double-digit declines.

Figure 8.1: Building Permits, Jan - Sept



Source: Planning Department & ESO

During the period in review, the total value of building permits fell by 6.0% (to \$338.1 million) compared to a year ago. This was mainly due to a 26.4% decline in the value of residential category (houses and apartments) from \$228.7 million in 2006 to \$168.4 million in 2007. The residential category also accounted for a lower share (49.8%) of total building permit values in 2007 as compared to 2006 (63.6%).

In contrast, the total value of building permits for the combined industrial, commercial and government categories surged by 48.4% rising to \$163.6 million.

Table 8.1: Building Permits in CI\$M, Jan - Sept

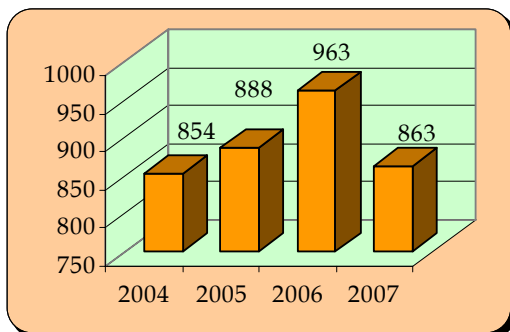
	2004	2005	2006	2007
Houses	65.0	59.3	98.4	76.8
Apartments	45.1	116.4	130.3	91.6
Commercial	7.5	72.6	91.7	129.5
Government	1.2	0.0	0.8	5.0
Industrial	6.2	2.3	17.6	29.1
Other	12.4	4.9	20.8	6.1
Total	137.4	255.5	359.6	338.1

Source: Planning Department & ESO

Project Approvals

Compared to a year ago, construction intentions weakened in the first three quarters of 2007 in terms of both number and value of all approved projects.

Figure 8.2: Project Approvals, Jan - Sept



Source: Planning Department & ESO

The number of approved projects fell to 863 (or by 10.4%). Meanwhile, total value of approvals also fell by 22.0% from \$441.1 million in 2006 to \$344.0 million in 2007.

Bucking the downtrend, single-family homes which accounted for 30.9% of total project approvals rose by 54.4% to \$106.4 million. These increases were mainly on account of expansion of the Frank Hall Homes developments.

In the apartment/condominium category, approval values plunged by 64.8% from \$209.1 million in 2006 to \$73.5 million in 2007.

Of the non-residential categories, only the government category rose during this period. Construction intentions of

new secondary schools saw this category rising sharply to \$54.2 million in 2007 when compared to a meagre \$0.7 million in 2006.

Table 8.2: Project Approvals in CI\$M, Jan-Sept

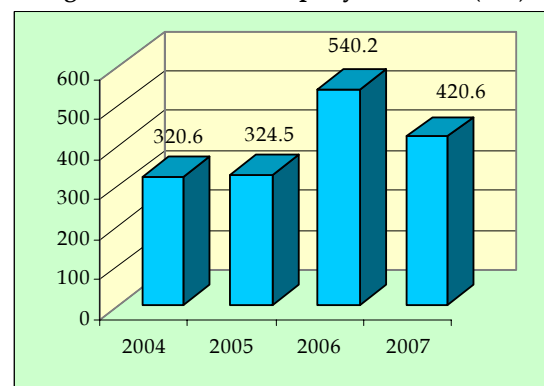
	2004	2005	2006	2007
Houses	63.9	66.6	68.9	106.4
Apartments	194.2	241.2	209.1	73.5
Commercial	80.7	69.1	77.2	61.6
Government	3.9	1.9	0.7	54.2
Industrial	6.2	16.5	31.6	6.2
Other	57.2	45.1	53.6	42.1
Total	406.1	440.4	441.1	344.0

Source: Planning Department & ESO

9. Real Estate

The real estate market continued its downward trend as at September 2007. The total value of transferred properties fell by 22.1% from \$540.2 million in the first three quarters of 2006 to \$420.6 million in the same period of 2007.

Figure 9.1: Value of Property Transfers (CI\$)



Source: Lands and Survey Department & ESO

ACKNOWLEDGMENT

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Cayman Islands Customs Department
Cayman Islands Monetary Authority
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Lands and Survey Department