UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAIʻI

UHERO FORECAST PROJECT

KAUAI ECONOMIC OUTLOOK SUMMARY
PREPARED FOR THE COUNTY OF KAUAI

SLOWING US ECONOMY TURNS KAUAI OUTLOOK NEGATIVE

MAY 19, 2025

UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAIʻI

KAUAI ECONOMIC OUTLOOK SUMMARY
PREPARED FOR THE COUNTY OF KAUAI

Carl S. Bonham, Ph.D.
Executive Director

Byron Gangnes, Ph.D.
Senior Research Fellow

Steven Bond-Smith, Ph.D.
Economist

Peter Fuleky, Ph.D.
Economist

Justin Tyndall, Ph.D.
Economist

Rachel Inafuku, Ph.D.
Research Economist

Hamza Essaidi
Graduate Research Assistant

Jae Anne Mae Cailao
Undergraduate Research Assistant

Victoria Rhinebolt
Graphic Design and Layout

2424 Maile Way, Room 540 • Honolulu, Hawaii 96822 • (808) 956-2325 • uhero@hawaii.edu

EXECUTIVE SUMMARY

Kauai's economic outlook has weakened, as national policy shifts and softening visitor demand converge to slow growth. Elevated inflation, high interest rates, and declining U.S. consumer confidence are weighing on Kauai's tourism-driven economy. With no strong alternative growth drivers, the drag on tourism will push Kauai's economy into a mild recession starting in late 2025 or early 2026.

National and State Context

Higher import tariffs and federal policy volatility have triggered declines in business and consumer confidence. Our U.S. GDP growth forecast has been revised down by over a percentage point, and Hawaii is now expected to enter a mild recession by late 2025. Slower income growth, job losses in tourism and government, and rising costs tied to federal policy changes will drive the downturn. Tax relief may help, but overall conditions remain uncertain.

Kauai Tourism Outlook

Early-year occupancy and timeshare performance were strong, but real visitor spending fell 4% in the first quarter. Total arrivals are expected to decline 3.5% over 2025–2026, with U.S. arrivals down more than 5%. Visitor spending is projected to fall by $1.6 billion. Kauai's large timeshare base may provide some stability, but demand is softening overall.

Labor Market and Inflation

Employment growth continued in early 2025, but job growth will slow and turn negative in 2026, with declines in accommodation, transportation, and government. Weak real income growth will add strain. Honolulu inflation is projected to exceed 4% in both 2025 and 2026, eroding household purchasing power.

Construction and Housing

Construction employment on Kauai is flat at around 2,100 jobs and is expected to decline gradually starting in 2027. Tariffs, high interest rates, and uncertainty will limit new development. Residential construction remains constrained by high costs and permitting challenges.

Policy Impacts

Proposed federal cuts to Medicaid, SNAP, and other safety net programs could reduce service access and increase local burdens. At the state level, the TAT increase is expected to raise revenue for climate-related infrastructure, but may dampen demand from price-sensitive visitors.

Forecast Risks

Kauai's economy is expected to stagnate, with no job growth in 2025 and a modest decline in 2026. Real income growth will remain below 1% through at least 2027. Major risks include prolonged tariffs, federal fiscal tightening, and weaker-than-expected domestic travel. More positive outcomes are possible if inflation eases and stimulus offsets some of the drag. But near-term prospects remain poor and uncertain.

KAUAI FORECAST

The Hawaii outlook has deteriorated in the most recent quarter, including a declining outlook for Kauai. This is primarily due to actual and threatened US tariff hikes that are much larger than anticipated, as well as the adverse effects of increased federal policy uncertainty around trade, immigration, spending, and tax cuts. These have caused a sharp decline in US consumer confidence, a pullback in stock prices, and increased business caution regarding capital investment. As a result, we now see US real gross domestic product rising by only about 1% this year and next.

Kauai is very exposed to US economic performance and uncertainties because of its strong reliance on domestic travel and tourism. Domestic tourism will take a hit from weaker consumer income and confidence, as well as reduced job security. While there exists unusually high uncertainty, we think the various effects of federal policies and their economic impacts will tip the local economy into a mild recession by the end of this year.

Massive tariffs upend US outlook

President Trump imposed large and widespread tariffs on imported goods on April 3. The President set a universal tariff of 10%, and large so-called "reciprocal tariffs" on many trade partners. Those tariffs were paused for 90 days to allow bilateral negotiations. China was the exception, where a tit-for-tat trade spat resulted in US tariffs as high as 145%, with 125% retaliatory Chinese levies. The three-month pause just announced will provide near-term relief, but base rates still remain elevated, and prospects for a permanent agreement uncertain. Canada and Mexico, our biggest trading partners, face tariffs of 25% on any goods not compliant with the USMCA.

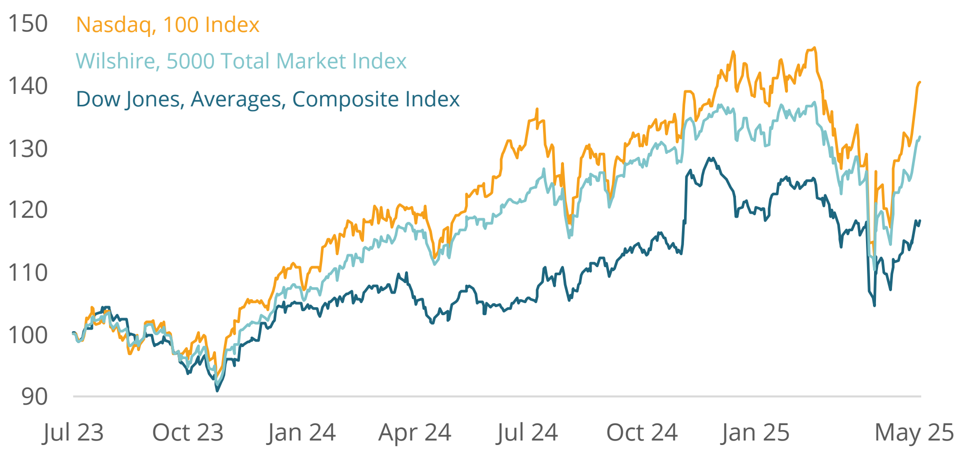
Even under the tariffs currently in place, the increase to about 18% in the overall effective tariff rate will act as a substantial tax on consumption and drag on economic activity. It will cause at least a one-time rise in inflation later this year. Foreign retaliation would hurt American exporters. At the same time, some bilateral deals that reduce tariffs are likely. Already, a trade deal with the United Kingdom has been announced that reduces tariffs on particular products, but the new baseline 10% tariff remains in place. This baseline tariff on all imports will likely remain in place at some level because the Trump Administration sees tariffs as a valuable revenue source.

US companies in many industries are beginning to feel the effects of tariffs on their access to parts and materials, the prices of those inputs, and the effect of necessary increases to their own sales prices. Financial markets appear to have shared these concerns. In the two-and-a-half days following the tariff announcements, US stock prices fell broadly, with both the S&P 500 and the broad market Wilshire 5,000 shedding more than 10%. While these losses have now been reversed, market values remain below their values prior to the inauguration, and these wealth losses will weigh on consumer spending in the months ahead.

The Republican-led Congress, having passed a Continuing Resolution to fund the government through September, is struggling within the caucus to agree on a long-term bill to reduce spending, extend the 2017 income tax cuts and implement new ones. The outcome of this struggle remains far from clear, including whether tax cut stimulus will exceed spending cut drag and the macroeconomic costs of tariffs.

US EQUITY PRICE INDEXES AS OF MAY 15, 2025 (JULY 1, 2025 = 100)

Growth concerns and volatile policy have caused a sharp fall in stock prices.



The Administration's aggressive plans to reduce the federal workforce have resulted in about 132,000 firings, voluntary retirements, and deferred resignations as of April 14, with another 146,000 planned. A further round of cuts is in the works. These have yet to show up as a significant increase in national unemployment claims, but expect that to increase substantially in coming months.

Real consumer spending soared in March, driven almost entirely by car buying in advance of tariffs. Similarly, first quarter real gross domestic product contracted as consumers and businesses purchased more imports and less domestic products. Businesses also built up inventories. This moving forward of spending may mean weakness in the months to come.

Inflationary impulse will likely slow Fed rate cuts

The Federal Reserve is now less likely to reduce interest rates in coming months because of the anticipated inflationary impact of the tariffs. Inflation has gradually improved over the past year but anticipated inflation has spiked recently even before tariff effects. In his recent comments, Chairman Jerome Powell noted that the larger scope and scale of planned tariffs now likely means higher inflation than previously anticipated and could slow growth. He has noted that, "We may find ourselves in the challenging scenario in which our dual-mandate goals [of full employment and stable prices] are in tension."

As a result of these developments, we have sharply lowered our forecast for US growth this year and next. We now see the US economy managing just 1% annual growth this year and a bit less than that in 2026. Growth will rise gradually to 2% by 2028-2029.

The US-instigated tariff war also reduces prospects for global growth. Because Kauai relies almost exclusively on mainland US visitors—they accounted for 90% of the average daily census last year—we will not go into detail about global prospects, except to note that about 3.6% of Kauai visitors came from Canada last year. Canada is among the most exposed countries to US tariffs. As a result, Canada is expected to grow just 1% this year. For the world overall, the IMF projects just 2.8% growth, among the slowest of recent decades.

Federal budget resolutions add to an uncertain funding environment

Congress's continuing resolution funds the government through September, largely preserving 2024 spending levels but cutting $13 billion in non-defense programs. It also gives the administration broad discretion over how funds are allocated, creating uncertainty for federally supported programs in Hawaii—with the largest job impacts centered on Oahu.

More consequential for Kauai and the state as a whole are the potential impacts of broader budget cuts under consideration in Congress. While it remains unclear which programs will be affected, the scale of proposed reductions imply likely cuts to safety net programs such as Medicaid and SNAP. Medicaid supports health care for up to 140,000 low-income Hawaii residents, and SNAP provides vital food assistance across the islands. Even without specifics, the risk of reduced federal support poses a challenge for household stability and local service delivery statewide, including on Kauai.

Tourism: Calm before the storm

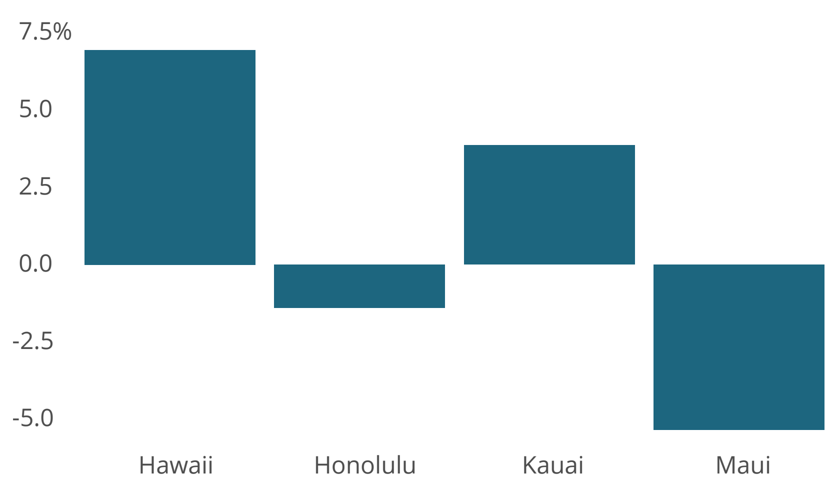
Despite growing concerns about looming challenges, Hawaii's tourism industry began 2025 on a positive note. The statewide visitor census was up 2% in the first two months of the year compared with 2024. Kauai and the Big Island have seen notable improvements in occupancy, with increases of 4 and 7 percentage points, respectively, over the past year. On both islands, roughly three-quarters of hotel rooms are now occupied.

Transient vacation rentals have experienced relatively stable conditions statewide, with occupancy rates in the low 60% range. However, rates are more than 10% higher than last year in all counties except Kauai, where they have risen by 6%. Timeshares—the most stable segment of the accommodation market—saw occupancy rise above 90% in all counties in the fourth quarter of last year, and levels are now comparable to those seen before the pandemic. This segment may play an important stabilizing role if tourism demand weakens as expected, given that demand from timeshare owners is likely less sensitive to economic conditions.

While the number of visitors to Kauai has increased slightly, the average length of a Kauai vacation has ticked down about 3% since the start of last year, with visitors staying an average 7.5 days on the Island. Inflation-adjusted visitor spending, both total and in per capita terms, fell 4% in the first quarter.

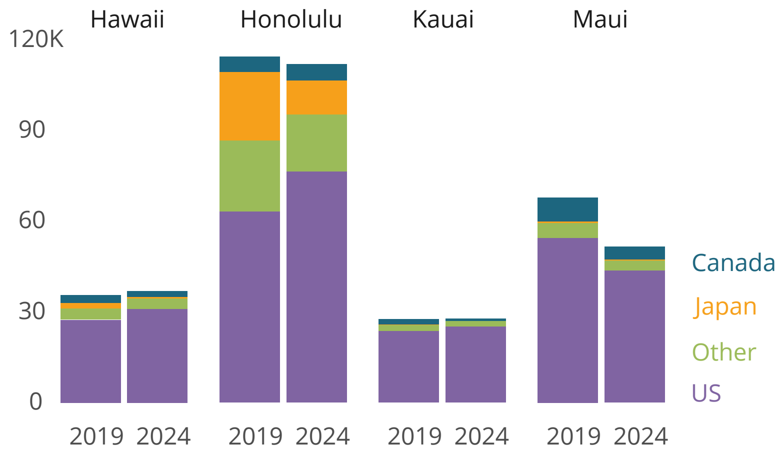
YEAR-TO-DATE CHANGE IN OCCUPANCY RATES BY COUNTY (PERCENTAGE POINTS)

Kauai occupancy rates strengthening.



VISITOR CENSUS BY MAJOR MARKET BY COUNTY

US visitors are important for Kauai.



While overall US arrivals have edged higher, the outlook for scheduled seats is weakening. The most immediate concerns involve international visitors—most of whom travel to Oahu, although a small share from Canada visit Kauai. A reported decline in Canadian travel to the US raises concerns for future Hawaii-bound trips. Industry surveys show that summer flight reservations and average booking lead times from Canada have dropped sharply compared to a year ago. In response to weak forward bookings, carriers have cut nearly 10% of their scheduled seats from Canada to Hawaii for the first half of the year, following a nearly 15% decline in lift between 2022 and 2024.

More critical for Kauai is US arrivals. Domestic arrivals have gradually declined since the post-pandemic travel surge in 2022. Now, tariffs and federal spending cuts are weighing on consumer confidence and discretionary spending, further dampening demand for Hawaii travel. The forecast section below explores how these federal policy shifts are expected to affect Kauai's tourism outlook.

"Green fee" coming in 2026

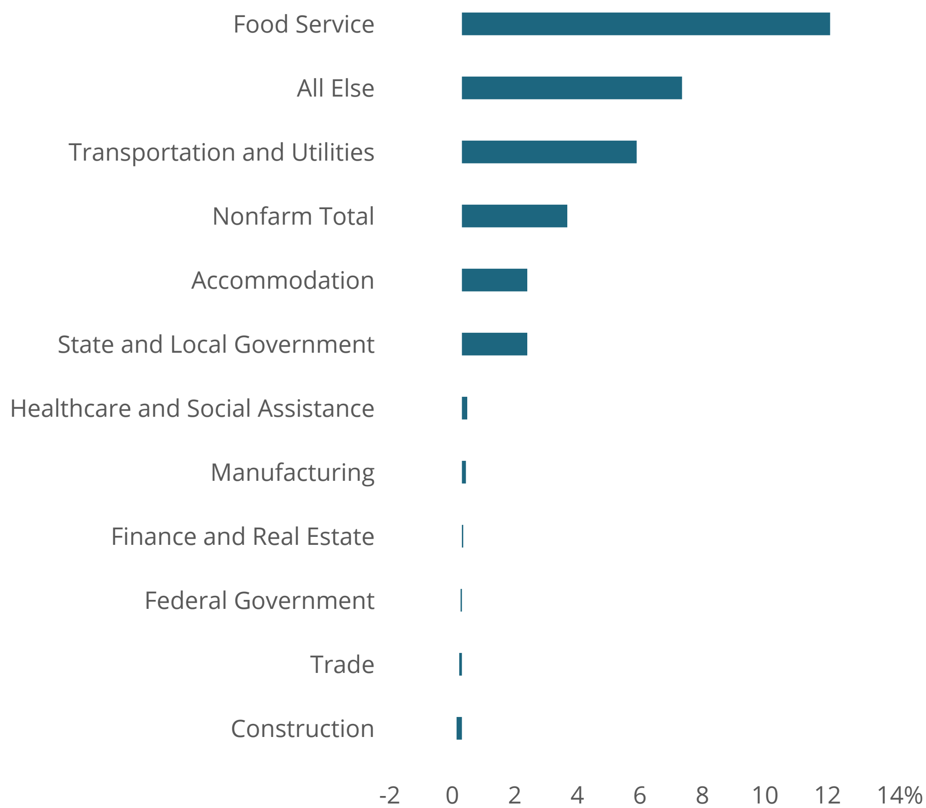
During his 2024 State of the State address, Governor Josh Green pushed for a Climate Impact Fee for visitors to Hawaii to contribute to funding environmental conservation efforts and climate change adaptation. That proposal has now been adopted via an increase in the state Transient Accommodations Tax (TAT) from 10.25% to 11%, effective January 1, 2026. The bill also extends the TAT to cruise ship passengers, prorated based on the number of nights ships are docked in Hawaii ports. The new revenue—expected to generate nearly $100 million annually—will support climate resilience projects, including beach restoration, wildfire prevention, and infrastructure upgrades. For Kauai, where tourism is central to the local economy, the funds could help sustain the natural and physical assets that support visitor activity. At the same time, further costs for tourists may slightly temper demand among more price-sensitive segments.

A healthy starting point as Hawaii awaits labor slowdown

Overall, Kauai's labor market remains healthy. Employment has nearly fully recovered from the pandemic, with the number of workers just 100 below its pre-pandemic peak, and the unemployment rate has held below 3% for the past six months. Job growth remains robust, with total nonfarm employment rising by more than 3% in the first three months of the year—outpacing the statewide growth rate by nearly two percentage points.

CHANGE IN JOBS ON KAUAI FROM MARCH 2024 TO MARCH 2025

Job growth has been concentrated in food services, transportation and utilities, and all other services.



Over the past year, job growth on Kauai has been strongest in food service, which expanded by 12%. Transportation and utilities also posted significant gains, with payrolls increasing by 6%. The "all else" sector—which includes a range of service industries—grew by a solid 7% over the same period. In contrast, most other sectors—healthcare and social assistance, manufacturing, finance and real estate, federal government, trade, and construction—have remained largely unchanged from a year ago.

Although Kauai has not yet seen any year-over-year declines in federal payrolls, the county is likely to experience some reduction in its federal workforce. However, most of the effects of ongoing and anticipated federal workforce cuts are yet to appear in the data. We expect these impacts to begin materializing over the next few months.

The Trump administration's wave of job cuts has caused considerable disruption across federal agencies, with about 280,000 planned layoffs of federal workers and contractors announced in the first quarter alone. Based on national figures, we estimate that federal payrolls in Hawaii could ultimately decline by 8%, or about 2,300 jobs.

Funding cuts are also likely to have employment effects. The most immediate impacts may be felt in federally funded state and county government positions. We assess job vulnerability in various state departments in the forecast section below.

Tariffs will add to building costs

Prices in the single-family home market continue to climb. The median price for the state overall rose 7% in the first quarter of 2025, reaching $1.05 million, the highest price ever, even when adjusting for inflation. The trend is similar on Kauai, with single-family home prices rising by 10% last year. Home appreciation in the condo market has been comparatively sluggish, with median prices down 1.5% in the first quarter state-wide, and down about 2% on Kauai. Limited price growth in the condo market can be partially explained by the condo insurance crisis, which has made it much more difficult for condo associations to acquire master policy insurance. Without full building insurance, banks will generally not issue a mortgage on a condo unit, which has weakened demand for condos.

Import tariffs on building supplies threaten to add to the barriers to housing production in Hawaii. The National Association of Home Builders estimates that 7% of construction materials are sourced internationally, and current tariff actions will raise the cost of building a new home by $7,500–$10,000. Global tariffs on U.S. steel imports have been set at 25%. These may be especially damaging in Hawaii, where single-family homes commonly use steel framing—unlike the continental U.S., where wood framing is more typical. If imposed, lumber tariffs would further increase building costs. In addition, appliances and fixtures needed for new home construction face steep cost pressures, as their production relies on complex global supply chains, including manufacturing in China.

While construction materials account for a relatively small share of a new home's final price, developers in Hawaii already contend with significant cost and regulatory hurdles. A $10,000 increase in materials costs per unit could deter some projects—unless developers expect to be able to pass those costs on to buyers through higher sale prices.

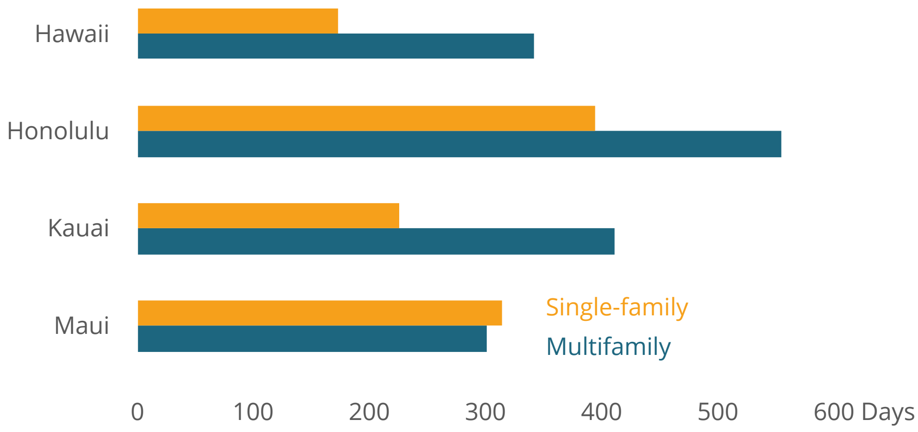
Slow permitting means long lead times

The impact on construction can happen immediately, since builders need to account for the projected future cost of materials when making current investment decisions. And permitting lead times are substantial. Single-family home permits often take a year or more to process, roughly triple the national average. Multifamily developments take longer, although construction on the latter often proceeds before all permits are issued. Price volatility in materials and the possibility of large price increases may push developers to cancel or delay planned construction until they have more certainty about tariffs.

Long permit times remain a challenge across the state. On Kauai, the median processing time for a single-family home permitted in 2024 was 225

MEDIAN PROCESSING TIME FOR PERMITS ISSUED IN 2024

Permit processing times are shown for each housing type in every county.



days, while the median delay for a multifamily project was 410 days. While Honolulu and Maui both saw permit times grow longer in 2024, delays in Kauai and Hawaii Counties remained very similar to 2023.

Changes to federal immigration policy are likely to further drive up building costs by reducing the supply of construction labor. The industry is among the highest employers of immigrant labor—both legal and unauthorized. Even if forced removals remain limited, there will be a chilling effect on immigrants who may opt for so-called “self deportations,” or who risk having their social security numbers invalidated. The resulting reductions in labor supply will raise homebuilding labor costs.

On the demand side of the housing market, the possibility of a US or global recession could lead to falling prices. Local job losses would reduce the pool of potential buyers, pushing down demand. A global downturn could reduce demand from out-of-state buyers. Offshore investment is an important driver of housing transactions, particularly for the Neighbor Island condo markets. Last year, out-of-state condo buyers accounted for 55% of the Kauai market, 59% on Maui and 68% on Big Island.

THE OUTLOOK FOR KAUAI

The economic outlook for Kauai has deteriorated since last year’s report. The slowing trend in visitor numbers and expenditures is now expected to worsen in 2025 and 2026. This is primarily due to the implementation—or threat—of significantly larger import tariffs than previously anticipated, along with the broader macroeconomic effects of increased uncertainty surrounding Trump Administration policies on immigration, federal spending, tax cuts, and other areas.

A sharp decline in U.S. consumer confidence was already evident in the first quarter, with GDP contracting as households curtailed spending on domestically produced goods in favor of imports, anticipating price increases tied to new tariffs. Business and investor sentiment also weakened, triggering a substantial pullback in stock prices. While we are not currently forecasting a U.S. recession, we have downgraded our U.S. real GDP growth forecast by 1.4 percentage points for 2025 and 1 percentage point for 2026. Global growth projections have also been revised downward.

Hawaii’s economy is particularly sensitive to changes in the US economy, given its heavy dependence on travel and tourism. The Neighbor Islands—and Kauai in particular—are even more vulnerable to changes in US visitor numbers. A sharp decline in foreign travel appears likely in the near term, driven by deteriorating global economic conditions, growing concerns over travel disruptions, and increasingly negative sentiment toward the U.S. government. But domestic tourism is also expected to weaken amid declining consumer income and confidence—pressures that will be felt acutely on Kauai, where the market is heavily reliant on U.S. visitors. With Hawaii’s low long-run growth rate, the cumulative macroeconomic effects of federal policy decisions are expected to tip Hawaii, and Kauai, into a mild recession by year-end.

To be fair, considerable uncertainty remains about the ultimate outcome of many executive policies and decisions. The administration's shifting positions have added to the lack of clarity about the direction of future policy. In addition, a significant number of actions could ultimately be reversed or blocked on legal or constitutional grounds. But these uncertainties are also a drag on the economy, as businesses, consumers, and investors delay decisions while awaiting greater clarity. Still, the Administration is moving forward with broad actions—including federal job cuts, cancellation of grants and contracts, mass deportations, and other measures. Taken together, the economic effects are likely to persist for some time, even if some elements are later modified or reversed.

Outlook undermined by aggressive tariff policies

In our First Quarter UHERO Forecast, we discussed in some detail the various avenues through which Trump Administration and Congressional actions were likely to impact the economy. In the sections below, we present our updated forecast for the Hawaii and Kauai economies, noting where appropriate how the recent development of federal policy actions, and the evolving economic landscape, affects these projections.

Tariffs will drive up consumer prices

As discussed above, the massive new tariffs imposed this quarter—including a 25% rate on most imports from Mexico and Canada (with exemptions for USMCA-compliant goods and a 10% rate on energy)—have prompted retaliation from Canada and countermeasures from Mexico. Tariffs on Chinese goods increased most sharply, with most products now facing a 145% combined rate and some—notably electric vehicles—as high as 245%. In response, China imposed tariffs of up to 125% on U.S. products. Although both countries have agreed to temporarily reduce tariffs for 90 days—to 30% on Chinese goods and 10% on U.S. goods—rates remain well above earlier levels, and trade policy uncertainty persists.

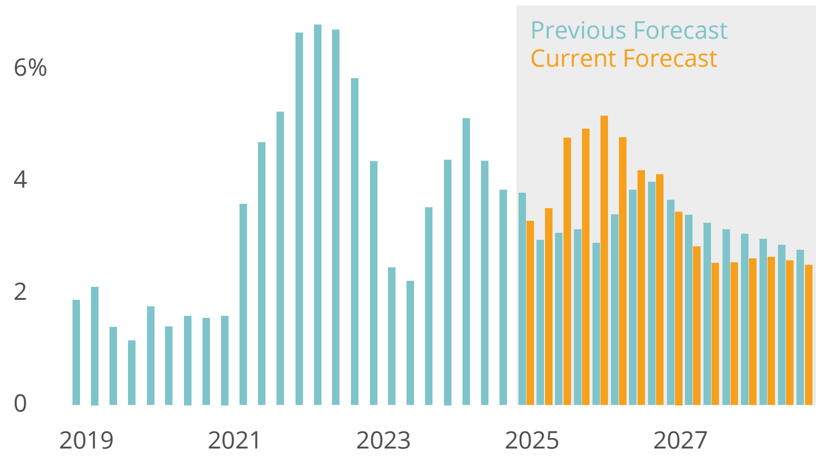
High tariffs directly raise costs for U.S. consumers. While Hawaii's reliance on imports has drawn media attention, only goods originating outside the U.S. are subject to tariffs. In this respect, Hawaii is no different from other states. Tariffs are paid by importers, and much of the cost is passed on to consumers. In extreme cases—such as a return to steep tariffs on Chinese goods—imports may halt entirely, reducing availability and further raising prices. While inflation data have not yet fully captured these effects, upward price pressure is clearly building.

Consumers and businesses may try to shift to U.S. suppliers, but alternative domestic suppliers are often more expensive—and many U.S. producers rely on imported materials that are also subject to tariffs. Restructuring supply chains takes time and adds costs, much of which are ultimately borne by consumers. Even for those trying to avoid tariffed products, overall price impacts will be difficult to escape.

The most affected goods will be those commonly sourced from China. While some suppliers have stockpiled inventory, recent trade developments may still disrupt supply chains in the coming weeks. Key categories include consumer electronics (some temporarily exempt), toys and games, furniture, clothing and footwear, and everyday household items like canned food and condiments. These are widely purchased by consumers and businesses on

HONOLULU CONSUMER PRICE INFLATION

Large and widespread tariffs will drive Honolulu inflation higher.



Kauai—especially in the visitor sector, where many small operators depend on imported fixtures, linens, and specialty goods with few local alternatives.

It is difficult to determine whether Hawaii will be affected more or less than other states. International imports—direct or indirect—make up a smaller share of total consumption here than in many mainland states, partly due to Hawaii's limited manufacturing base. The state's high cost of living is driven more by housing and transportation than goods prices, which may soften some inflationary effects. Declining oil prices—down more than $10 per barrel since early April—may also help offset some upward pressure by reducing energy and shipping costs. In more remote areas like Kauai, where retail options are limited and most goods must be shipped in, consumers may feel supply disruptions more acutely. Businesses may have fewer options for suppliers, making them more vulnerable to delays, cost spikes, or shortages.

What does this mean for consumer prices in Hawaii? We now expect a more pronounced spike in inflation this year and next than projected in our first-quarter report. Honolulu inflation averaged 4.4% in 2024, above the national average due to a delayed surge in shelter costs. We now forecast inflation to exceed 4% in both 2025 and 2026, up from the roughly 3.4% pace anticipated earlier. For Kauai, rising prices for goods and business inputs could further compress business margins and deepen affordability challenges for residents. (Note that a separate Kauai consumer price index is not available.)

The inflationary effects of tariffs and immigration policy shifts could also have broader macroeconomic consequences. Higher inflation may prompt the Federal Reserve to delay planned interest rate cuts. If federal budget policy contributes to larger deficits, long-term interest rates could rise independently of Fed action. Higher borrowing costs would strain household finances and weigh on investment.

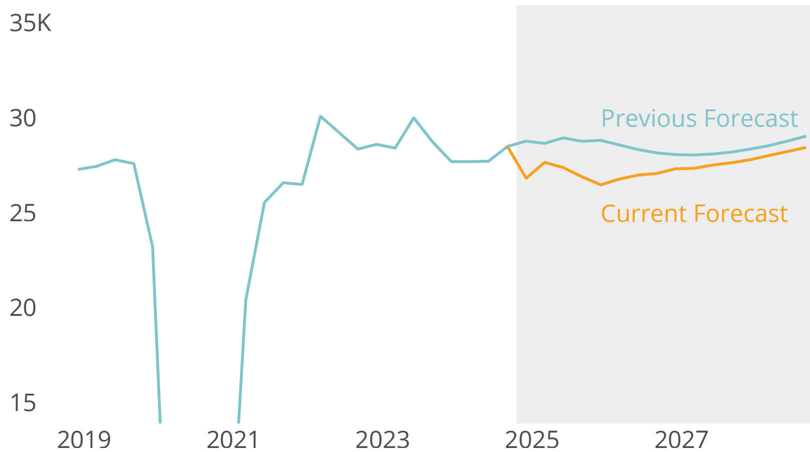
In Hawaii, this would further slow an already weak housing market. Furthermore, elevated financing and construction costs could delay or cancel new housing projects, deepening existing supply constraints.

Domestic Travel Weakness Hits Kauai Hardest

The most damaging effects of aggressive U.S. tariff policy on Kauai may ultimately fall on the visitor industry. Kauai does not export many goods that would be subject to retaliatory tariffs; instead, it primarily trades in tourism services. This limits the island's exposure to the direct effects of trade measures. However, foreign tourists—though a smaller share of Kauai's market—also face headwinds. Canada may already be in recession,

KAUAI VISITOR CENSUS

Kauai's main export will be hit due to the indirect effects of tariffs.



and diplomatic tensions and travel advisories have weakened demand from several international markets.

Kauai relies heavily on U.S. leisure visitors, and trips to the island—often viewed as discretionary—are among the first to be cut when household budgets tighten. The combination of softer U.S. consumer demand and policy-driven uncertainty may weigh disproportionately on Kauai's visitor economy in the months ahead. Federal stimulus—through tax cuts or new spending—could help offset some of this drag, but with Congress having extended funding only through September, meaningful relief remains uncertain.

Given these pressures, we have significantly reduced our tourism forecast. We now expect total arrivals to fall 3.5% from 2024 to 2026—a decline of 48,000 visitors. This compares with 3% growth projected earlier this year. The average daily census will decline further, with growth not expected to resume until 2027.

Although the largest declines will be among international visitors, their small footprint on Kauai provides some insulation. Still, all counties will be affected. Kauai will be hit hardest by the slowdown in domestic travel as the U.S. economy weakens. Statewide, visitor arrivals are not expected to exceed 2024 levels until 2028.

Real visitor spending on Kauai is projected to fall by $1.6 billion over 2025–2026, following a nearly $1 billion decline in 2024. Spending is not expected to fully recover until the end of the forecast period.

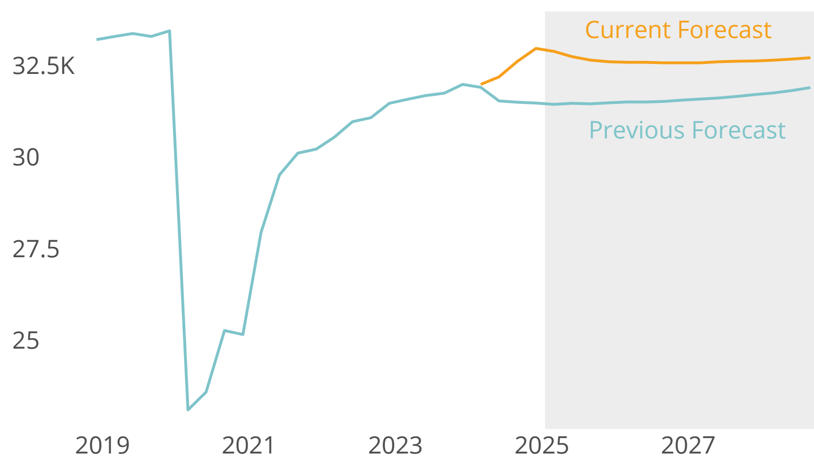
Occupancy rates, still below pre-pandemic levels and their 2022 post-COVID peak, will fall further. Rates will hold steady on Maui, where they have already declined, but will drop in all other counties. Statewide, the average occupancy rate is not expected to exceed 70% until 2028.

A Shifting Labor Market Outlook on Kauai

Every March, the US Bureau of Labor Statistics revises its estimate of nonfarm payrolls based on information collected from businesses during the course of the prior year. This benchmark revision resulted in 1,200 more jobs recorded on Kauai last December than previously estimated. Kauai's labor market has continued its post-pandemic rebound into early 2025, with nonfarm payrolls expected to rise 1.9% for the year. However, as economic conditions soften and the effects of federal policy changes take hold, job growth is projected to reverse. Total nonfarm employment is forecast to decline by 0.7% in 2026, returning essentially to its 2024 level. Over the two-

KAUAI NONFARM PAYROLL JOBS

After a benchmark revision bump, widespread economic slowdown will weigh on the labor market.



year period, this pattern of moderate growth followed by mild contraction will leave employment just 1.2% higher than in 2024.

Sector-specific declines are more visible. Employment in accommodation and food services—a major source of jobs on Kauai—is expected to fall 1% in 2026 after two years of expansion. While still about 2% above 2024 levels, the momentum is clearly fading as tourism demand slows. The federal workforce is projected to shrink 3.3%, while state and local government jobs will decline by about 1%, erasing prior-year gains.

Other key sectors will also see stagnation or contraction. Trade employment is forecast to fall 0.4% in 2026, following a 0.7% decline the year before, leaving it more than 2% below its 2024 level. Transportation and utilities will decline nearly 2% in 2026, though will remain modestly above 2024 levels due to strong prior growth. The broader services sector is expected to contract slightly in 2026, with total jobs ending up just 1.7% above their 2024 level.

Taken together, these trends suggest that while Kauai will avoid steep job losses, but employment growth will stall across most industries. With tourism softening and no clear engine for job creation, the island faces a period of labor market stagnation through at least 2026.

Kauai construction holds steady—for now

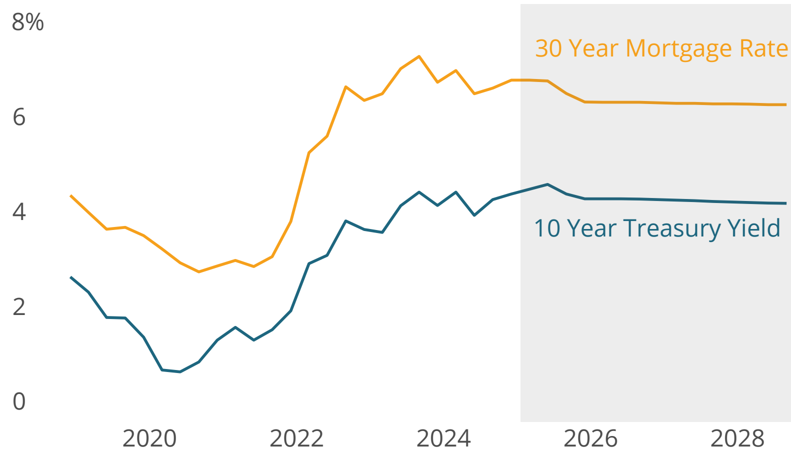
Statewide, construction remains in a cyclical upswing, fueled by public infrastructure. But activity is expected to peak in 2026 and decline gradually thereafter, pressured by higher input costs—especially if tariffs extend to materials like Canadian lumber—and a reduction in new government contracts. Despite continued support from Hawaii's housing shortage, the total value of building permits is projected to fall by about $1.5 billion through 2029.

On Kauai, where large-scale projects are less common, the sector is already flat. So rather than a peak, we see steady activity in the near term, followed by a mild but sustained downturn. Construction jobs are expected to hold steady at roughly 2,100 through 2026, then decline by just over 2% annually through 2029.

Persistently high interest rates will also weigh on the outlook. Although long-term rates have edged down slightly in recent months, mortgage rates remain elevated, averaging just over 6.8% in late April. Our forecast assumes a gradual decline, with 30-year mortgage rates falling to about 6.3% by 2026.

PROJECTED YIELD ON 10-YEAR TREASURY BONDS AND CONVENTIONAL 30-YEAR MORTGAGE RATE

Inflation and budget deficits will likely keep mortgage rates high.



Still, borrowing costs will remain high by historical standards, limiting resale activity and dampening new building.

Kauai Braces for Statewide Slowdown

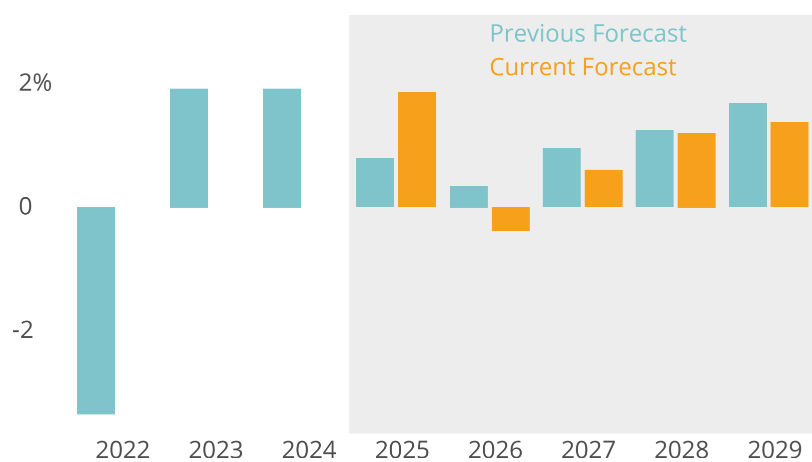
Kauai's economy saw modest gains in 2024. Nonfarm payrolls increased by 1.7%, and real personal income rose by 2.6%. These improvements lifted household purchasing power and extended the island's post-pandemic recovery. However, growth is expected to stall over the next two years. While measured employment for 2024 was revised upward, it will begin to decline this year. Real income gains will slow sharply in 2026 under the weight of weakening tourism, policy uncertainty, and rising costs.

Statewide, a wide range of federal policy shifts—outlined throughout this report—will weigh heavily on growth. Job creation is expected to halt over the next three years, and real GDP is forecast to rise just over 1% in 2025 before declining modestly in 2026, signaling a mild Hawaii recession. On average, real GDP growth will remain below 0.6% annually through 2027.

For Kauai, the slowdown will be most visible in a stagnating labor market and softer tourism demand, which will weigh on household incomes and strain small business margins. Sectors such as accommodation and food services, central to local employment, are forecast to contract slightly. While total job losses will remain modest, the absence of new opportunities will affect job seekers and younger workers disproportionately.

KAUAI REAL INCOME GROWTH

Kauai started this year in a stronger position than initially expected, but aggressive tariff policies have reduced our forecast beyond 2025.



Personal income will benefit from state and federal tax relief, but broader economic weakness will limit real gains. With population growth flat, real per capita income is expected to show minimal improvement, compounding affordability pressures for Kauai households.

Beyond these short-term challenges, long-term headwinds persist. With an aging population and a shrinking workforce, Kauai's growth potential is constrained. These demographic pressures will continue to challenge local hiring, business expansion, and county fiscal stability in the years ahead.

Forecasting in a Time of Extreme Uncertainty

Recent economic developments have introduced a new level of uncertainty to the outlook for Kauai. Sharply higher import tariffs, an uncertain policy outlook, and increased volatility in capital markets have weighed on U.S. consumer and business confidence. These national shifts are already filtering into the local economy, contributing to a weaker environment for visitor spending and household demand. Over the longer horizon, forecasting is unusually difficult. The current outlook reflects our best judgment about the likely path forward, but actual outcomes could easily turn out either better or worse.

The downside risks are substantial. Sustained high tariffs could dampen investment, raise costs, and limit the Federal Reserve's ability to cut interest rates aggressively if the economy weakens further. For Kauai, that could mean slower job growth in the visitor sector, reduced income gains, and a more challenging climate for small businesses and families already stretched by high living costs.

Still, more positive outcomes remain possible. U.S. consumers have shown resilience, and businesses may respond quickly if policy conditions stabilize. A more favorable inflation outlook would allow for earlier rate cuts, and additional federal stimulus—such as tax relief or targeted spending—could help support household income, including on Kauai.

The expected pullback in leisure travel may also prove less severe than forecasted. Our tourism projections rely in part on early indicators like bookings and survey data, which are subject to change. Some travelers may continue to see Kauai as a uniquely appealing destination, somewhat distinct from broader national trends. If so, the impact on the local visitor economy may be smaller than currently projected. Kauai's relatively large share of visitors staying in timeshares may also help insulate the island from declining numbers.

Finally, we should acknowledge the risk of federal program disruptions that go beyond what standard economic models can capture. Cuts to services such as Medicaid or delays in accessing Social Security, Medicare, or VA benefits could have very real effects on Kauai households. These disruptions may not appear in GDP statistics, but they would add meaningful stress to many families across the island.

As always, we will continue to track these developments closely. The coming year is likely to bring both challenges and opportunities, and we hope to return with a clearer and more stable picture in next year's report.

TABLE 1: MAJOR ECONOMIC INDICATORS

KAUAI COUNTY FORECAST

	2022	2023	2024	2025	2026	2027
MAJOR INDICATORS						
Nonfarm Payrolls (Thou)	30.8	31.7	32.2	**32.9**	32.6	32.6
% Change	8.9	3.1	1.7	**1.9**	−0.7	0.0
Unemployment Rate (%)	3.4	2.6	2.6	**3.0**	3.8	3.9
Population (Thou)	73.8	74.2	74.6	**74.7**	74.7	74.7
% Change	0.0	0.5	0.6	**0.1**	0.0	0.0
Nominal Personal Income (Mil $)	4,304.1	4,523.9	4,846.3	**5,140.1**	5,353.9	5,538.8
% Change	2.9	5.1	7.1	**6.1**	4.2	3.5
Inflation Rate, Honolulu MSA (%)	6.5	3.1	4.4	**4.1**	4.6	2.8
Real Personal Income (Mil 2024$)	4,632.6	4,721.6	4,846.3	**4,936.2**	4,917.4	4,947.0
% Change	−3.4	1.9	2.6	**1.9**	−0.4	0.6
Real Per Capita Income (Thou 2024$)	62.8	63.7	65.0	**66.1**	65.8	66.2
% Change	−3.3	1.4	2.1	**1.7**	−0.4	0.6
TOURISM SECTOR DETAIL						
Total Visitor Arrivals by Air (Thou)	1,345.6	1,418.7	1,370.4	**1,354.2**	1,322.4	1,352.5
% Change	65.4	5.4	−3.4	**−1.2**	−2.4	2.3
U.S. Visitors	1,207.3	1,248.4	1,207.8	**1,193.1**	1,161.3	1,184.4
% Change	53.9	3.4	−3.2	**−1.2**	−2.7	2.0
Japanese Visitors	3.0	5.9	7.2	**6.8**	7.5	8.7
% Change	647.5	98.8	22.5	**−6.0**	10.8	16.4
Other Visitors	135.3	164.4	155.4	**154.4**	153.5	159.4
% Change	372.5	21.5	−5.5	**−0.7**	−0.5	3.8
Average Daily Census (Thou)	28.6	29.0	28.0	**27.2**	26.9	27.5
% Change	49.0	1.4	−3.6	**−2.5**	−1.3	2.3
Occupancy Rate (%)	79.1	74.0	71.1	**69.9**	68.9	70.4

Note: Source is UHERO. Income figures for 2024 are UHERO estimates. Occupancy rate includes UHERO's estimate of TVR occupancy. Figures for 2025-2027 are forecasts.

TABLE 2: JOBS BY INDUSTRY

KAUAI COUNTY FORECAST

	2022	2023	2024	2025	2026	2027
Nonfarm Payrolls (Thou)	30.8	31.7	32.2	**32.9**	32.6	32.6
% Change	8.9	3.1	1.7	**1.9**	−0.7	0.0
Construction and Mining	2.1	2.1	2.1	**2.1**	2.1	2.1
% Change	−0.4	0.8	0.4	**0.2**	0.3	−2.4
Manufacturing	0.6	0.6	0.5	**0.5**	0.5	0.5
% Change	19.6	4.5	−10.0	**2.5**	0.7	0.3
Trade	4.3	4.4	4.3	**4.3**	4.3	4.3
% Change	6.2	1.9	−1.9	**−0.7**	−0.4	0.3
Transportation and Utilities	1.7	1.8	1.9	**1.9**	1.9	1.9
% Change	16.8	5.5	5.2	**2.7**	−1.8	−0.1
Finance, Insurance and Real Estate	1.1	1.1	1.1	**1.1**	1.1	1.1
% Change	12.8	0.0	0.0	**0.5**	0.1	0.2
Services	16.1	17.1	17.4	**17.8**	17.7	17.8
% Change	13.4	6.4	2.1	**2.3**	−0.7	0.3
Health Care and Soc. Assistance	2.6	2.7	2.7	**2.7**	2.7	2.7
% Change	−6.0	2.9	0.0	**−1.4**	0.3	1.4
Accommodation and Food	7.9	8.7	9.1	**9.3**	9.2	9.2
% Change	25.7	9.9	4.3	**2.5**	−1.0	0.4
Other	5.5	5.7	5.7	**5.9**	5.8	5.8
% Change	8.9	3.2	−0.3	**3.8**	−0.6	−0.4
Government	4.9	4.9	5.0	**5.0**	5.0	5.0
% Change	−1.5	−0.5	2.2	**0.5**	−1.3	−0.1
Federal Government	0.6	0.6	0.6	**0.6**	0.6	0.6
% Change	0.0	0.0	0.0	**−3.3**	−2.8	−0.7
State and Local Government	4.3	4.3	4.4	**4.5**	4.4	4.4
% Change	−1.7	−0.6	2.5	**1.0**	−1.1	−0.1

Note: Source is UHERO. Figures for 2025-2027 are forecasts.

TABLE 3: PERSONAL INCOME BY INDUSTRY

KAUAI COUNTY FORECAST

	2022	2023	2024	2025	2026	2027
Real Personal Income (Mil 2024$)	4,632.6	4,721.6	4,846.3	**4,936.2**	4,917.4	4,947.0
% Change	−3.4	1.9	2.6	**1.9**	−0.4	0.6
Labor & Proprietors' Income	2,956.4	3,074.7	3,210.1	**3,274.5**	3,242.3	3,240.9
% Change	3.4	4.0	4.4	**2.0**	−1.0	0.0
Construction	—	—	—	—	—	—
% Change	—	—	—	—	—	—
Manufacturing	—	—	—	—	—	—
% Change	—	—	—	—	—	—
Trade	—	—	—	—	—	—
% Change	—	—	—	—	—	—
Transportation and Utilities	—	—	—	—	—	—
% Change	—	—	—	—	—	—
Finance, Insurance & Real Estate	—	—	—	—	—	—
% Change	—	—	—	—	—	—
Services	—	—	—	—	—	—
% Change	—	—	—	—	—	—
Health Care & Soc. Assist. (% ch.)	—	—	—	—	—	—
Accommodation & Food (% ch.)	—	—	—	—	—	—
Other (% ch.)	—	—	—	—	—	—
Government	534.4	517.8	558.0	**571.1**	557.1	552.6
% Change	−7.4	−3.1	7.8	**2.4**	−2.5	−0.8
Federal, civilian (% ch.)	−1.8	0.8	−0.1	**−0.3**	−3.1	−1.4
State & Local (% ch.)	−8.6	−4.5	9.9	**2.7**	−2.6	−0.8
Less Social Security Taxes (-)	354.1	386.8	378.5	**387.9**	384.8	385.2
% Change	6.3	9.2	−2.1	**2.5**	−0.8	0.1
Transfer Payments	1,078.3	1,028.8	1,032.8	**1,046.1**	1,068.8	1,092.4
% Change	−21.4	−4.6	0.4	**1.3**	2.2	2.2
Dividends, Interest and Rent	963.6	1,016.8	1,007.5	**1,005.5**	1,000.0	1,004.5
% Change	6.4	5.5	−0.9	**−0.2**	−0.6	0.5
Population (Thou)	73.8	74.2	74.6	**74.7**	74.7	74.7
% Change	0.0	0.5	0.6	**0.1**	0.0	0.0
Real Per Capita Income (Thou 2024$)	62.8	63.7	65.0	**66.1**	65.8	66.2
% Change	−3.3	1.4	2.1	**1.7**	−0.4	0.6
Inflation Rate, Honolulu MSA (%)	6.5	3.1	4.4	**4.1**	4.6	2.8
Nominal Personal Income (Mil $)	4,304.1	4,523.9	4,846.3	**5,140.1**	5,353.9	5,538.8
% Change	2.9	5.1	7.1	**6.1**	4.2	3.5

Note: Source is UHERO. Income figures for 2024 are UHERO estimates. Figures for 2025-2027 are forecasts. Because of data disclosure rules, industry-level income is not available for some sectors.

UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAIʻI

UHERO THANKS THE FOLLOWING SUPPORTERS:

KA WĒKIU - THE TOPMOST SUMMIT

Bank of Hawaii
DGM Group
First Hawaiian Bank
Hawaii Business Roundtable
Hawaii Community Foundation
HMSA
Kaiser Permanente Hawaiʻi
Kamehameha Schools
The Learning Coalition
Queen's Health Systems

KILOHANA - A LOOKOUT, HIGH POINT

Alaska Airlines
American Savings Bank
Benjamin Godsey
Castle Foundation
Central Pacific Bank Foundation
DR Horton
First Insurance Company of Hawaii, Ltd.
Hawaii Pacific Health
Hawaiian Electric Industries
Matson
Title Guaranty
Tradewind Group

KUAHIWI - A HIGH HILL, MOUNTAIN

Alexander & Baldwin
Better Homes and Gardens Real Estate Advantage Realty
Castle & Cooke Hawaii
Chamber of Commerce
Halekulani Corporation
Hawaii Gas
Hawaii Hotel Alliance
Hawaiian Dredging Construction Company
HGEA
Honolulu Board of Realtors
Honolulu Board of Water Supply
The Howard Hughes Corporation
HPM Building Supply
James Campbell Company
Kyo-ya Hotels & Resots, LP
Maui Land & Pineapple Company
Nordic PCL Construction
Servco Pacific, Inc.
Stanford Carr Development
United Public Workers

ADDITIONAL SUPPORTERS

Architects Hawaii, Ltd.
Charles Wathen Company (Pier Investments)
Chartwell Financial Advisory
Finance Factors
The Hawaii Laborers & Employers Cooperation
and Education Trust Fund
Hawaii Tourism Authority
HC&D, LLC
The Natural Energy Laboratory of Hawaii Authority
Pacific Cost Engineering
The Pacific Resource Partnership
Trinity Investments

Kūlia i Ka Nu'u (literally "Strive for the summit") is the value of achievement, those who pursue personal excellence. This was the motto of Hawaii's Queen Kapiolani. Supporters help UHERO to continually reach for excellence as the premier organization dedicated to rigorous, independent economic and policy research on issues that are both central to Hawaiʻi and globally relevant.

Over its more than twenty year history, UHERO research has informed decision making on some of the most important issues facing our community, including the ever-changing economic outlook, challenges to our environment, and policies affecting water, housing, energy, and many other areas.

Contributions from generous supporters like you make it possible for UHERO to fulfill this mission. Your financial commitment also allows us to distribute UHERO forecast reports to all Hawaii stakeholders.