UHERO
THE ECONOMIC RESEARCH ORGANIZATION
AT THE UNIVERSITY OF HAWAIʻI

UHERO FORECAST PROJECT

KAUAI ECONOMIC OUTLOOK SUMMARY
PREPARED FOR THE COUNTY OF KAUAI

OIL SHOCK CLOUDS OUTLOOK FOR KAUAI

MAY 29, 2026

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KAUAI ECONOMIC OUTLOOK SUMMARY
PREPARED FOR THE COUNTY OF KAUAI

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Executive Summary

Surging oil prices are eroding household budgets across the Islands. But for Kauai, it is also slowing the US economy that supplies nearly all of Kauai's leisure visitors and pushing up the cost for visitors getting to Kauai. This drag on both household budgets and Kauai's visitor industry will slow economic activity. While we do not see Kauai falling into outright contraction, the near-term path has materially worsened.

- Tourism, the backbone of the local economy, is now caught in a squeeze. Transpacific jet fuel prices have roughly doubled since the conflict began, and airlines are passing those costs through to travelers as fare hikes of 20–25%. As demand falls, some may pull back on capacity. Despite this, Kauai's strong first-quarter readings will carry the year, with total arrivals still up about 1.3% in 2026 before turning slightly negative in 2027. Average daily census will rise 0.8% as average trips shorten in duration on the back of cost increases.

- The labor market is holding ground but going nowhere. Nonfarm payrolls will rise just 0.1% this year, to about 33,100 jobs, with unemployment hovering near 2.4%. Construction and health care continue to add jobs. Wage gains will be roughly matched by price increases, leaving real labor income flat.

- The energy shock is reaching consumers from both directions. Kauai gasoline averaged $5.96 per gallon at the time of writing. On Kauai, KIUC raised electricity rates 13% in April—a softer hit than HECO's 20–30% pass-throughs, thanks to a larger share of fixed-price renewable generation in the co-op's portfolio. As a result, Kauai households will see around $100 per month in additional energy costs, though a smaller rise than on the other islands. Honolulu CPI, the only inflation gauge for the state, will average just over 4% for 2026, peaking near 4.8% mid-year.

- Construction is the standout, with Kauai payrolls growing more than 2% in 2026 to roughly 2,300 jobs, supported by infrastructure investment and steady private building. Tariff-driven materials inflation and the new energy shock will continue to weigh on costs.

- Housing on Kauai is expensive, thinly traded, and supply-constrained. The median single-family home sold for $1.1 million in 2025 and the median condominium for $833,000. Sales volumes are thin; just 423 single-family transactions in the last year. Homeowner insurance premiums, up 13.4% statewide in 2024, will likely climb further after the March storms.

- Kauai's real personal income will expand only 0.4% this year but grow 1.6% in 2027. The risk skew is to the downside: a more severe oil price path could push the state and Kauai into recession.

- Three supply-side shocks are now stacked on top of one another: the largest tariff increases in a century, ramped-up immigration enforcement, and the worst oil disruption in fifty years. The combined drag is substantial and the uncertainty around each is high.

Second Quarter Kauai Forecast

Kauai began 2026 well-positioned, with occupancy near the top of the county rankings and the labor market firmly anchored. Two large shocks have since compressed that picture. The March Kona Low storms disrupted travel to Hawaii and exposed residents across the state to a costly recovery. And, in late February, US and Israeli strikes on Iran sent oil prices climbing and the cost of transpacific air travel up sharply. These developments will weigh on the visitor industry, pull down income growth, and lift inflation more than we had projected just three months ago. A full contraction in local activity remains unlikely, but the cushion has thinned.

How much damage materializes depends on the path of oil prices, and that path remains highly uncertain. The end date of the conflict is unknown, as is how quickly global oil supplies and especially jet fuel can be restored. If oil sits higher for longer than our baseline assumes, the cost for visitors to get to Kauai stays elevated, household budgets stay squeezed, and a state recession becomes the likely outcome, including on Kauai.

War, oil, and a weaker US economy cloud the Kauai outlook

The external environment facing Kauai has deteriorated since our last report. The US and Israeli war on Iran has sent oil prices sharply higher, raising inflation and weighing on economic activity both at home and abroad. This comes on top of a US economy that was already slowing from the effects of last year's tariff hikes and federal policy uncertainty.

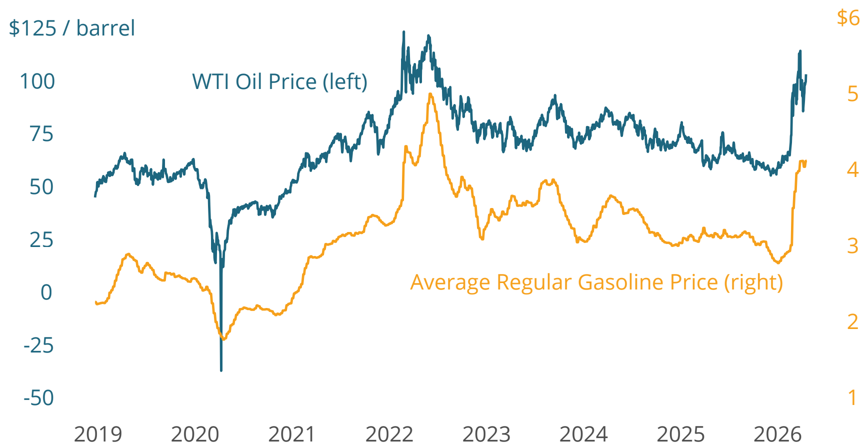
For Kauai, the most direct consequences are higher travel costs for visitors, weaker consumer spending power on the mainland, and slower growth in the North American markets that overwhelmingly drive the island's visitor industry. Kauai's visitor mix is almost entirely domestic: Visitors from North America (mostly US) have accounted for more than 90% of the average daily visitor census over the past three years. International markets from Asia and elsewhere have only a small presence on Kauai. That means conditions in the US economy are the primary external forces shaping Kauai's economic prospects.

A modestly improving US economy is threatened by the oil shock

The US economy had appeared to be on a modestly improving path entering 2026. Federal income tax cuts — many retroactive to 2025 — were expected to lift disposable income and support a return to healthier consumer spending, while business tax incentives were projected to boost investment. These supports arrived at an opportune time: household spending growth had largely stalled by the start of this year, and GDP growth had slowed to just 0.5% in the fourth quarter of last year, partly because of the government shutdown, but also reflecting genuine private-sector softness.

The first quarter showed some recovery. Real GDP expanded at a 2% annualized pace, fueled by a rebound in AI-related investment and the end of the shutdown. Consumer spending also firmed as the quarter progressed, rising at a 2.2% annualized rate for the three months ending in March, with solid gains in motor vehicles and other durable goods suggesting that households remain willing to make larger purchases. Nevertheless, the underpinning for spending is less solid than a year ago: outlays have depended disproportionately on higher-income households benefiting from

US OIL AND GASOLINE PRICES
The war-related oil price spikes are being felt at the pump.



stock market gains, and the overall savings rate has declined, leaving fewer resources to draw on going forward.

The outbreak of the Iran war has now changed the picture materially. Oil prices have surged, and consumer prices followed: the consumer price index rose a combined 1.5% in March and April alone, lifting year-over-year inflation to 3.8%, the highest in three years. Even before the war, inflation had been accelerating — on a three-month moving average basis, CPI inflation had risen from 2.2% in December to 3% in February. The Federal Reserve faces the uncomfortable prospect of inflation running well above its 2% target while growth risks are rising.

The US labor market remains relatively weak but stable. Job growth averaged just 10,000 per month for all of 2025, far below the pace of prior years. Preliminary March and April data showed much better performance, but whether that is sustained in revisions is uncertain. The unemployment rate holds at 4.3%, a generally healthy level but one that reflects in part a declining labor force. The weak labor force reflects the sharp reduction in immigration under Trump Administration policy and some decline in labor force participation. These factors mean that very little job creation is needed to keep unemployment steady, but also that business expansion will increasingly run into labor constraints.

Even in a relatively optimistic oil price scenario, UHERO estimates that the war will reduce US growth by somewhat less than half a percentage point this year. We now see the US economy growing around 1% in 2026, with a gradual recovery thereafter. That compares with the modest firming we had anticipated earlier this year.

International weakness adds to visitor market headwinds, even on Kauai

Canada, Kauai's most significant international market, accounting for 3-4% of visitors, faces a difficult environment. The economy was already weakened by last year's US tariffs, which caused a nearly 25% drop in Canadian exports to the US between March and June of 2025. Household spending remained soft through the end of last year and into early 2026. The oil shock from the Iran war adds a further complication, raising production and transportation costs across the Canadian economy.

Beyond the economic effects, there has been a pronounced reluctance among Canadians to travel to the United States in response to Trump Administration policies. Return trips by Canadian residents from the US fell 22% in January compared with a year earlier, with air travel down nearly 13%.

In contrast, Canadian trips to overseas destinations rose more than 10%. This behavioral shift compounds the economic headwinds and poses a meaningful risk for Kauai's Canadian visitor segment, even though it is a limited part of the industry.

And the global picture has worsened

The broader global economy has been set back by the war on Iran. The International Monetary Fund had already trimmed its global growth forecast in March; oil-price-driven inflation and production disruptions will weigh further on activity, particularly in Asia, which is heavily dependent on Middle Eastern oil imports. Japan and South Korea — each reliant on oil imports for a large share of their energy needs — face a direct hit to purchasing power and growth. These markets represent a small share of Kauai visitors but are meaningful for the state overall, and any further weakness in major economies could spill over to North American consumer health and sentiment that matter most for Kauai.

On balance, the external environment facing Kauai has shifted from cautiously stable to clearly challenging. A slower US economy, higher inflation and travel costs, softer Canadian demand, and the overhang of global uncertainty will all weigh on visitor demand in the near term. The degree of impact will depend importantly on how long the conflict persists and how quickly oil prices moderate once it ends.

Taken together, the global outlook has deteriorated in ways already visible in inflation and supply costs. The growth effects will take longer to come through.

Tourism uncertainty persists as new headwinds emerge

Going into the second quarter, Kauai's visitor sector faces a tougher external environment than in previous statewide forecasts. The industry came in strong in the first quarter; the question is whether that momentum can survive the oil-price drag on US incomes and the direct hit to airfares.

Reading the first-quarter data is harder than usual. January domestic arrivals statewide jumped 1.6% over December (and 14% year-over-year), which has no precedent in the past quarter-century. Domestic arrivals normally fall about 10% from December into January. Because that pattern looks anomalous, we have replaced the January US arrivals figure with the average of December and February for forecast purposes. With that adjustment, statewide US arrivals were still up about 2% in Q1, but considerably less impressive than the raw data suggest.

Hotel occupancy on Kauai held in the mid-to-upper 60s through much of 2025, running below the statewide 73–75% range, though ahead of Maui, where numbers continue to reflect the lingering drag from the 2023 wildfires. Statewide per-person daily spending grew toward the end of 2025 and into the first few months of 2026, sitting near $280, and Kauai tracked broadly with that pattern, running around $300. Some of that nominal strength reflects price pass-through on food, lodging, and ground transportation rather than underlying demand; real per-person spending growth in 2025 was much more modest once adjusted for inflation.

Statewide, luxury-class properties have captured a growing share of visitor spending. Hawaii luxury hotels posted January 2026 RevPAR of $538, up 4.4% year-over-year, while statewide RevPAR rose just 2.5% — affluent travelers continue to spend, while occupancy rates declined in classes below luxury. While businesses face rising costs from the oil shock, smaller restaurants and retailers, with less pricing power and a more cost-sensitive customer base, have continued to see closures, including Kauai Beer Company's restaurant in late 2025.

Transient vacation rentals are particularly squeezed: visitors are increasingly choosing hotels for the consistency of daily housekeeping and loyalty benefits over rentals with added cleaning fees. Kauai TVR occupancy sits around 55%, well below the mid 70% range at hotels, a gap that has been sustained for more than a year and may widen through the rest of the year.

Jet fuel prices and shortages threaten carriers and passengers

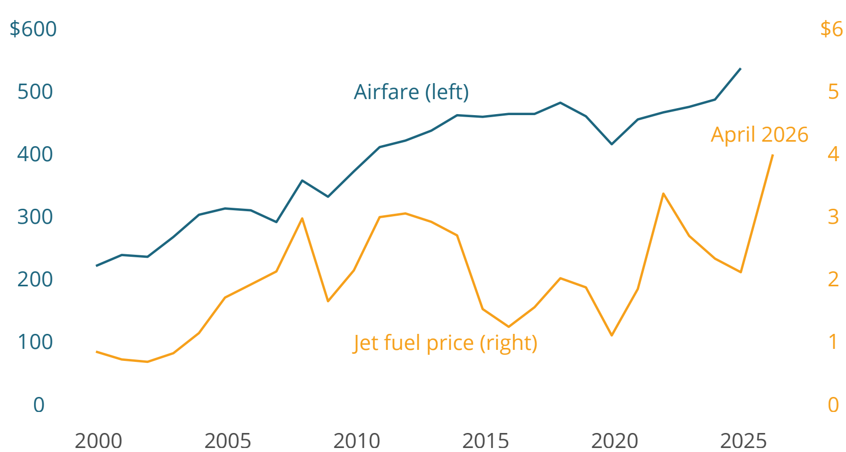
Before the Iran conflict, jet fuel typically ran 25–30% of airline operating costs, according to IATA. The closure of the Strait of Hormuz has upended that baseline. A gallon of jet fuel reached $4.90 in early April, up from $2.50 just weeks earlier. For some airlines, fuel's share of operating costs has shot up toward 45%. Because Hawaii routes are among the longest in US commercial aviation, the per-seat math is unforgiving: a $2.40-per-gallon increase translates to roughly $120–145 in extra fuel cost per round-trip economy seat from the West Coast, and $200-plus from the East Coast.

Airlines have begun pushing fares up by 20–25% to cover those costs, and ancillary fees are climbing too. Demand will inevitably soften under that kind of price hike. Capacity is already adjusting: United has trimmed roughly 5% of its planned flights system-wide, while Delta dropped its planned summer seat additions, leaving capacity about 3.5% below earlier schedules. For an island almost entirely reliant on transpacific lift, the combination of pricier seats and fewer of them is a serious threat. IATA's Willie Walsh has warned that even a Hormuz reopening would leave jet fuel supplies tight for months, suggesting elevated fares and constrained airlift may persist long past any ceasefire.

The energy shock arrives on top of damage already done by the March Kona Low storms, which knocked statewide March passenger counts down more than 5% year-over-year—a sharp break from the steady readings in January and February. Kauai escaped the worst of the direct damage but felt the indirect hit through statewide travel disruption. How much further the

AVERAGE "ALL-IN" DOMESTIC ROUND-TRIP AIRFARE TO HAWAII AND JET FUEL PRICE

The spike in jet fuel prices will push up airfares.



visitor numbers slip depends on how fast the Strait reopens, fuel supplies recover, and airlines reset capacity and pricing.

International markets face compounding pressures on top of oil. Japan's energy import bill has widened just as the yen has slipped to a multi-decade low, denting household purchasing power. Canadian visitor arrivals have been falling since the Maui wildfires and accelerated through 2025 amid trade tensions; the slide continued into Q1 2026, with arrivals down nearly 7% year-over-year statewide. Because Kauai's visitor base skews heavily domestic, these international weaknesses matter less for Kauai than for Oahu—but they remove what little upside might have come from a broader international rebound.

The forward-looking picture is less alarming than the price data would suggest. Scheduled second-quarter seats into Hawaii sit comfortably above year-ago levels, and domestic routes show healthy gains. The catch: those commitments predate the Iran conflict and booking windows on Kauai and across Hawaii have shortened materially in 2026. The traditional 8–10-week advance booking window for summer travel was largely compressed into the final month before stay dates, and the share of last-minute hotel bookings has risen across the US. Forward bookings softened further after the March Kona Low storms. If bookings don't materialize and oil prices remain high, airlines may end up flying fewer of those scheduled seats and offering fares that suppress demand.

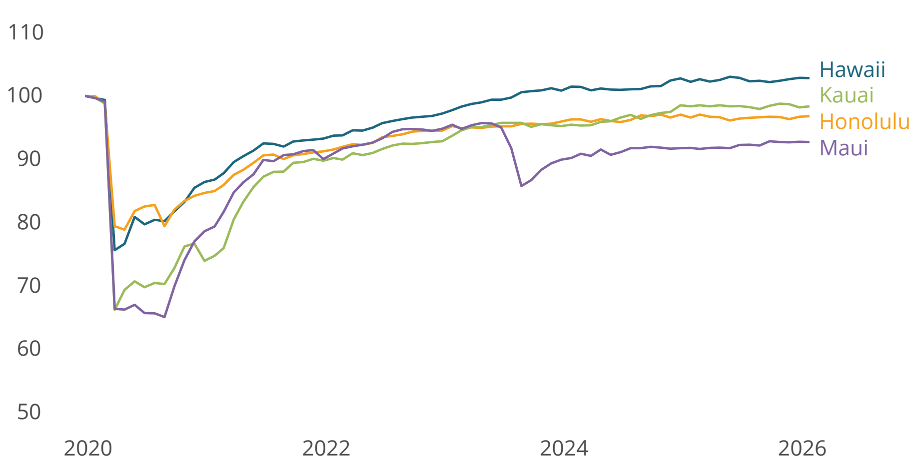
On balance, Kauai's visitor industry faces a tougher environment over the rest of the year. Softer domestic spending power, fragile international markets, the lingering effects of the Kona Lows, and now the airfare shock all point the same way. Kauai's timeshare base and stronger per-person spending offer resilience, but they are unlikely to be enough if oil stays elevated through mid-year. These pressures shape the forecast that follows.

Labor market soft but stable

Kauai's labor market has stopped expanding. Year-over-year payroll growth has been hovering near zero through February. Across the state, Maui County was the only county to clear 1%, and that reflects post-wildfire rebuilding more than broad expansion. On Kauai, gains in food service and accommodations have been roughly cancelled out by sharp losses in federal employment.

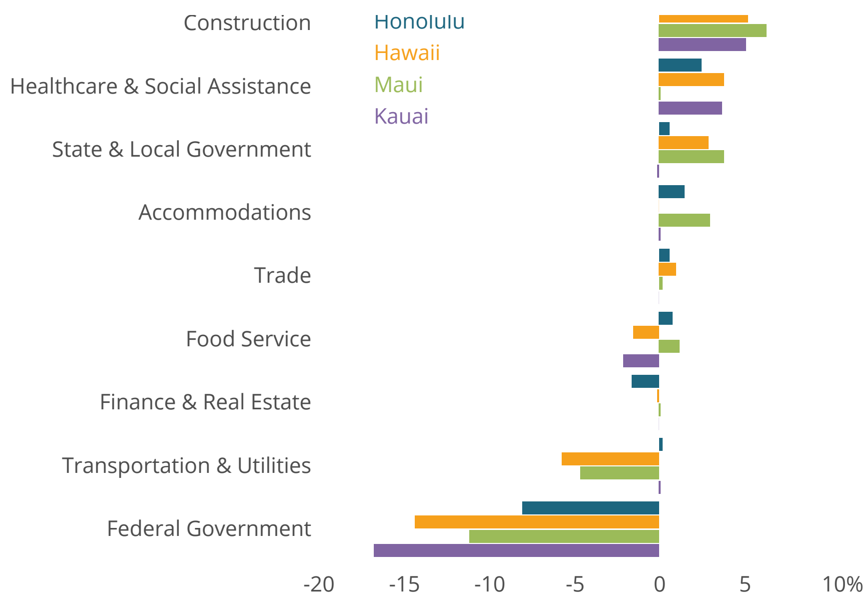
TOTAL NONFARM PAYROLLS BY COUNTY, INDEX (JANUARY 2020 = 100)

Kauai nonfarm payroll growth remained flat over the past year.



GROWTH IN PAYROLL JOBS, FEBRUARY 2025 TO FEBRUARY 2026

Construction and health care remain strong while federal government jobs have fallen sharply.



The unemployment rate remains low at 2.4% on Kauai, reflecting the tight labor supply more than strong demand. Even with slow payroll growth, that tightness is visible on the ground: major construction projects, for one, often have to draw additional workers from off-island. Across sectors, rising costs from tariffs, materials inflation, and the recent fuel-price surge are adding uncertainty to business decisions and pricing.

The sectoral story is uneven. Construction continues to lead, with growth ranging from above 2% on Oahu to almost 6% in Maui County. Kauai's construction expansion has been more modest but solid. Health care and social assistance has added jobs across counties. The federal government, by contrast, has retrenched everywhere, and most sharply on Kauai, where federal payrolls are down roughly 17% year-over-year. Federal jobs are a small share of Kauai employment, but the absolute losses still subtract noticeably from headline growth. Transportation and utilities has also been weak on the island.

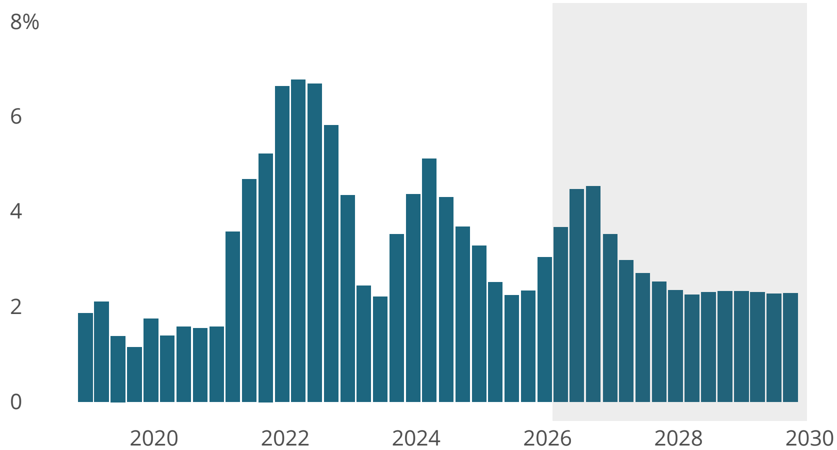
Oil-driven inflation is hitting Kauai households from two sides

The crude-price surge is feeding through to both the gas pump and electricity meters. AAA puts the Kauai average for regular gasoline at $5.96 a gallon as of writing, around a dollar more than a year ago. The burden falls hardest on lower-income households, where transportation is a larger share of the household budget.

Electricity is the other channel. Kauai's customer-owned KIUC raised rates 13% in April, a smaller jump than in other Hawaii counties that reflects the co-op's higher share of fixed-price renewable generation. Crucially, this is not a discretionary rate move; it is an automatic fuel-cost pass-through under the PUC-approved mechanism. For a typical Kauai household, higher pump prices and the electricity rate hike together add about $100 a month to the energy budget.

The March Honolulu CPI, the only Hawaii-specific inflation read, came in 3.7% above year-ago, running ahead of the 3.3% national rate. Energy prices in the CPI rose 3.3% over the year, reversing the slow decline seen through most of 2025. The real pass-through from utility-bill increases is still to come and will lift the headline rate further. A separate Kauai CPI does not exist, but the same forces apply to prices on Kauai. The smaller local energy

HONOLULU INFLATION RATE FORECAST, YEAR-OVER-YEAR CHANGE
Surging oil prices will lift local inflation by more than a percentage point this year.



cost increases are likely offset by larger price rises on other goods, where transportation costs make up a bigger share of Kauai prices, leaving overall inflation broadly similar.

State Legislature reaches deal to preserve household tax relief

Federal funding cuts and policy shifts in 2025 opened a sizable gap in State revenues, with more shortfalls projected through 2026 and beyond. To shore up the budget, lawmakers considered rolling back part of the income tax cuts scheduled for 2027–2031.

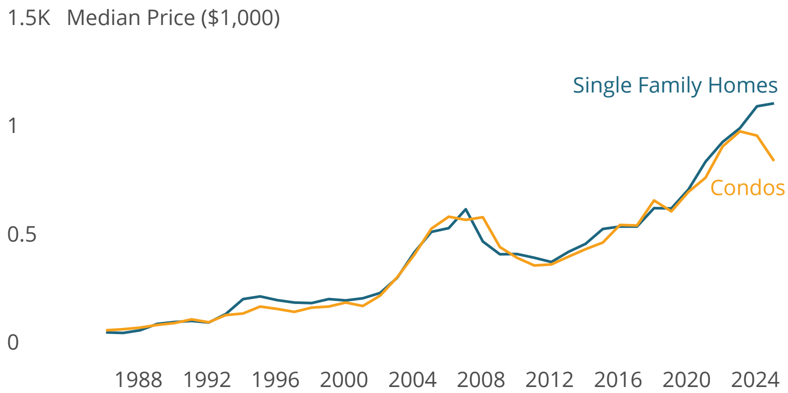
The Governor signed SB 3125 into law on May 21. Under the Act, the scheduled cuts survive for joint filers below $350,000, heads of household below $262,500, and single filers below $175,000. Bracket cuts above those income thresholds are paused. A new top bracket applies to incomes above $1 million (joint), $750,000 (head of household), and $500,000 (single). Seven commercial tax credits are also being phased out, projected to retain close to a billion dollars in State revenues.

The 2026 Legislature also approved roughly $10.9 million in Green Fee funding for water systems safety and preparedness on west Kauai, including emergency improvements to the Kokee Ditch Irrigation System and efficiency upgrades to the Kekaha reservoirs. The funding supports buffer storage for agricultural lands above Waimea and contributes to wildfire response capacity on a west side that has seen recent brush fires.

Housing affordability is still historically poor, though improving

Kauai's housing market is expensive, thinly traded, and tight on supply. The median single-family home sold for $1.1 million in 2025, just a little less than the median price in Maui County ($1.18 million) and Honolulu ($1.11 million), but the median condominium sold for $833,000, the highest condo price of any Hawaii county. The UHERO Repeat Sales Index for Kauai sits at 624, meaning prices have risen more than six-fold since 2000, a steeper trajectory than in any other county. Mortgage rates have eased back to the low 6% range, well below their mid-2025 levels, improving affordability slightly, but cheaper credit has not yet revived transaction volumes. However, inflationary pressures from the oil shock may keep mortgage rates higher for longer, as noted above in our discussion of external conditions, leaving transaction volumes constrained.

KAUAI MEDIAN HOME SALE PRICES
Kauai's single-family and condominium prices have climbed in parallel through the past decade.

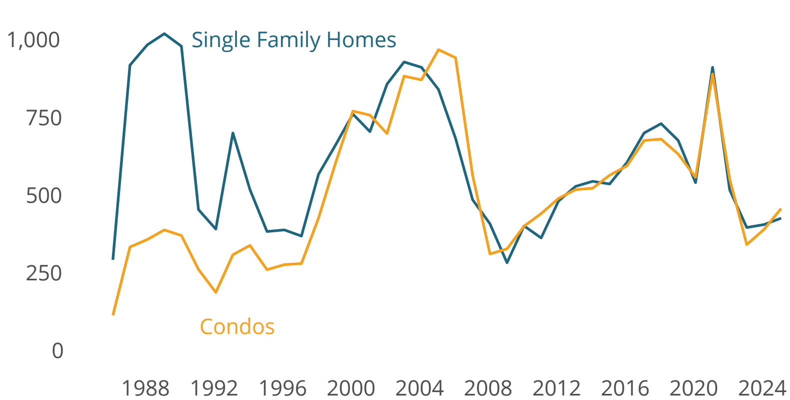


While improving, affordability remains far worse than historical norms. Affording the median single-family home on Kauai now requires a household income of about 215% of the county median, assuming a 20% down payment, a 30-year fixed-rate mortgage at 6%, and standard property tax and insurance costs, but HOA fees are not included in this estimate. Existing homeowners, most of whom bought at lower prices in the past, face median monthly costs of $2,772, or 26.1% of household income, the second-highest ownership cost burden of any Hawaii county.

Affordability has been squeezed by the rise in mortgage rates, which materially reduces what a household with a given income can afford to pay for a home. The adjustment so far has come more through reduced transaction volumes than through outright price declines. As a result, transactions on Kauai have collapsed since the pandemic peak. Single-family sales fell 45% from 2021 to 2025, to just 423 homes changing hands last year. Condominium transactions are similarly thin at 454. Princeville (96722) was the most expensive zip code in Hawaii in 2025, with a median single-family price of $2.3 million, and Koloa (96756) was the second-most expensive at $1.82 million.

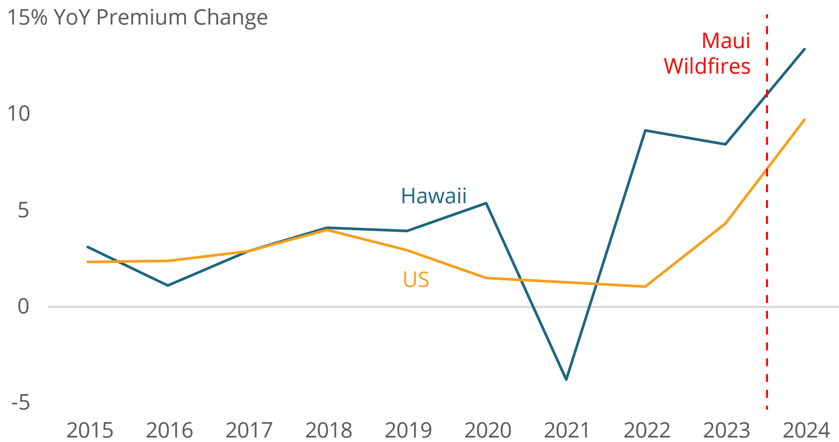
Over the past five years, Kauai's total housing stock contracted by a net 545 units even as population held roughly flat. New permitting has been thin, with 824 single-family homes and 97 multi-family developments permitted over that period. Median single-family permit processing time on Kauai is 252 days; multi-family approvals take 419 days. Short-term vacation rentals now make up 19.9% of Kauai's housing stock, the largest STR share of any Hawaii county and a structural constraint on long-term rental availability.

KAUAI HOME TRANSACTIONS
Home transactions on Kauai have fallen sharply from their post-pandemic peak.



PROPERTY INSURANCE PREMIUMS, YEAR-OVER-YEAR CHANGE

Hawaii property insurance premiums are now growing well above the national pace.



Property insurance has become a fast-rising component of housing costs. Aggregate Hawaii premiums grew 13.4% in 2024—the largest annual increase in at least a decade and well above the 9.7% national rate. That figure likely understates the rate increases facing individual policyholders, since homeowners who drop coverage when it becomes unaffordable are not picked up in the aggregate. The March Kona Low storms, with projected statewide losses exceeding $1 billion, could push premiums higher still. While Kauai was largely spared from direct damage, rate-setting decisions are made at the carrier level and will also reach the island.

Construction activity holds steady on Kauai

Kauai construction totaled $304 million in 2025, consistent with previous years. The composition has shifted notably toward multi-family construction, whose share of the Kauai market jumped from 9% in 2024 to 27% in 2025, and construction of healthcare and community facilities accounts for about 9% of Kauai's construction activity, up sharply from prior years. State and County infrastructure projects, many of them supported by federal grants, are driving a share of activity. These include the multi-year Lihue Airport Optimization Plan, ongoing road and utility upgrades, and the long-delayed Samuel Mahelona Hospital master-plan effort, which is finally moving forward after more than a decade.

Lima Ola Phase II, the next major County subdivision, is set to begin in early 2026 with roughly 175 affordable homes. Other notable projects include Uahi Ridge, a 154-unit low-income family rental project in Lihue, with the first building ready for move-in by summer 2026 and full completion by year-end. The Department of Hawaiian Home Lands' February 2026 purchase of 260 acres from Grove Farm is intended for roughly 1,100 homesteads near Wilcox Medical Center and the Lihue urban core. But today's mortgage rates could slow sales, which would push out the timing of future projects in the pipeline.

Nonetheless, across housing, healthcare, and infrastructure, the breadth of activity gives Kauai construction a more diversified base than in past cycles. Taken together, construction remains the bright spot of Kauai's (and the state's) economy in 2026.

The Kauai Outlook

The oil price spike from the Iran war will lift inflation on Kauai and slow growth, though the exact size of those effects remains uncertain. Most of the drag will come via the US economy and the resulting hit to Kauai tourism, but higher local household costs will also weigh on activity. Because the local economy was sturdy heading into 2026, we still expect to avoid an outright contraction. But the future path of oil prices is highly uncertain, and a more punishing path, with higher oil prices for longer, would mean stickier inflation, persistent jet fuel constraints, and a sharper hit to the visitor sector. In that case, a recession would be hard to avoid.

Oil prices mean a less favorable external economic environment

For Kauai, the dominant external risk runs through the US consumer. Higher oil prices are now expected to more than offset the boost from federal tax cuts, dragging US growth down. Without continued strength in AI-related investment, the slowdown would be deeper. As that investment continues and the oil shock partly fades, US growth should recover to 2.4% by 2028. Further out, slower and aging labor force growth will keep trend growth modest.

US inflation will run at 4% for 2026 as a whole, partly because of energy and partly because of tariff pass-through that was already underway pre-war. The Fed's room to cut rates is therefore tighter than it appeared a few months ago, though a new Fed Chair adds another source of uncertainty.

Early strength in 2026 means healthy annual numbers before 2027 dip

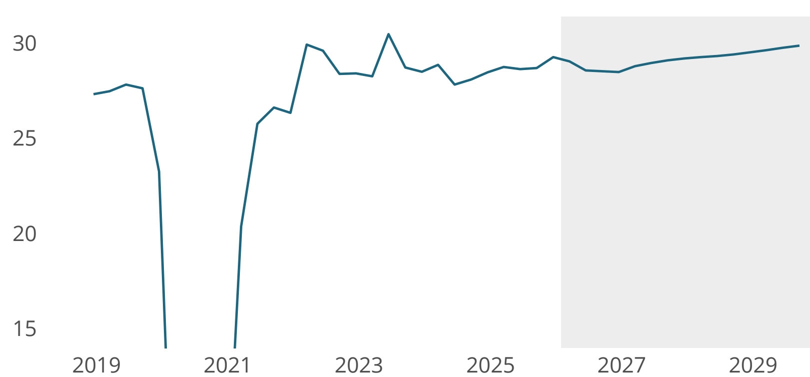
Kauai's visitor industry began 2026 with solid year-over-year US growth. That early momentum will carry the headline numbers for 2026, but the oil shock will erode them throughout the rest of the year.

Kauai's total arrivals will rise about 1.3% in 2026 on the strength of the first months of the year so far. Average daily census, which weights for length of stay, will grow 0.8% after two consecutive years of decline, but that also implies visitors are coming on shorter trips.

As airfare and macro pressures bite, arrivals will fall back over the remainder of 2026 and into early 2027 below their early-2026 starting point. Recovery

AVERAGE DAILY VISITOR CENSUS ON KAUAI

Early-year gains in Kauai's average daily visitor census in 2026 will erode through the rest of the year.



will be underway by then, but annual growth will stay weak through 2028. Kauai's visitor census is unlikely to revisit its mid-2022 post-pandemic peak until late in the decade.

At roughly 90% of its average daily census last year, Kauai's heavy reliance on US leisure travel cuts both ways. Discretionary trips will be first on the chopping block when household budgets tighten. But the island's substantial timeshare base offers some partial resilience: timeshare-driven demand is less sensitive to cyclical conditions than pure discretionary leisure travel.

Uncertainty around the Iran conflict and the resulting oil price path keeps the range of likely outcomes for Kauai unusually wide. Our baseline may even lean optimistic. In the statewide second-quarter report, we lay out a more pessimistic alternative in the box: "Sky-high oil prices would make a Hawaii downturn inevitable."

Sustained US macroeconomic strength has supported a healthy US visitor market for several years now. Once the oil-price lull passes, we expect that performance to resume through the end of the decade. Over the longer run, further gains will be modest, reflecting slower US trend growth and competition from international markets as they recover.

Real visitor spending on Kauai grew at a moderate pace in 2025 but will slow this year and dip in 2027. As is typical, inflation-adjusted spending will trail average daily census growth over the medium term.

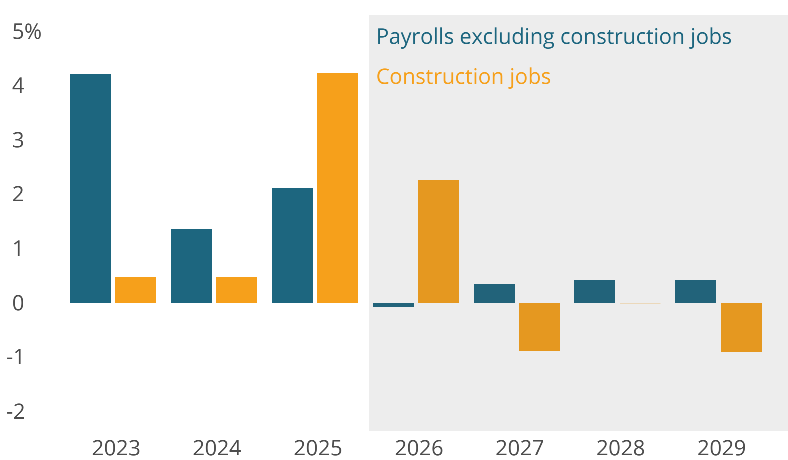
The four counties' visitor sectors will not move in lock-step. Kauai held its US market share last year and that carries into a solid 2026, even if the average length of stay declines. But weakness builds through the year, leading to flat-to-negative tourism growth in 2027.

Construction strength continues to support Kauai

The construction industry has been one of Hawaii's main growth contributors recently, backed by an unusually heavy pipeline of federally- and locally-funded public projects, including on Kauai.

We expect construction payrolls on the island to grow more than 2% in 2026 to about 2,300 jobs, then ease back gradually. High mortgage rates will continue to weigh on private homebuilding. Tariff-driven materials inflation and the new energy shock will keep cost pressures elevated, and labor availability will remain a binding constraint.

PAYROLL JOBS IN CONSTRUCTION AND OTHER INDUSTRIES
Construction will carry Kauai's job growth in 2026 while broader payrolls stall.



Oil prices will add to inflation burden

US inflation has already responded to the oil-price surge. Hawaii will follow soon. On top of ongoing tariff pass-through and immigration-related cost pressures, there is now considerable inflationary pressure in the pipeline.

Hawaii inflation has tracked the US fairly closely, with Honolulu averaging 2.6% in 2025 versus 2.7% nationally. Local price growth had begun reaccelerating before the war, and the US PCE data showed a sharp March jump after the oil shock. Honolulu CPI also stepped up in March to 3.7% year-over-year, though that increase came primarily from shelter—likely reflecting higher insurance premiums—rather than from energy itself. The energy-side pass-through is still working through to the local CPI.

In our first-quarter report, we put 2025 Hawaii inflation just below 3% on tariff effects. The oil shock now adds roughly another percentage point on top of that for 2026. Honolulu inflation will average just over 4% this year, easing to 3% by 2027, and then dipping a bit below its 2.5% long-run path for a few years on softer demand. Kauai households will see the same broad pattern, though with a small electricity-side cushion from KIUC's smaller April rate increase.

Kauai labor market growth will be marginal

Higher oil prices will weigh on consumer demand and production costs, pulling Kauai job growth down slightly from our first-quarter forecast. Total nonfarm payrolls will rise just 0.1% in 2026 to about 33,100 jobs—effectively no change. The markdown from our previous forecast would have been larger except that pre-war construction and healthcare hiring came in stronger than expected.

Visitor industry employment will benefit early in the year from the strong first-quarter start, but shorter length of stay means average daily census will rise by less than arrivals. Total visitor spending should still post a small gain, providing a partial offset to oil-related employment drag. As the year develops and arrivals slow, that support will dissipate, leading to a real spending decline in 2027.

The sectors most exposed to the oil shock are tourism-adjacent. Kauai accommodation and food services payrolls will be essentially flat in 2026 after two years of expansion. Transportation and utilities will shrink about half a percent. Trade will edge up while finance, insurance and real estate stay roughly flat.

While federal jobs are a relatively small share of county employment, the job losses on Kauai have been bigger than initially anticipated and will continue, with a further year-over-year decline of almost 10% in 2026 on top of last year's contraction. State and local government employment continues to grow, but at just over 1%.

Health care should continue posting moderate gains, and construction will lead all sectors for one more year before easing. The unemployment rate sits at 2.4% in February and should stay near that level over the forecast period, kept low by slow labor force growth rather than strong hiring.

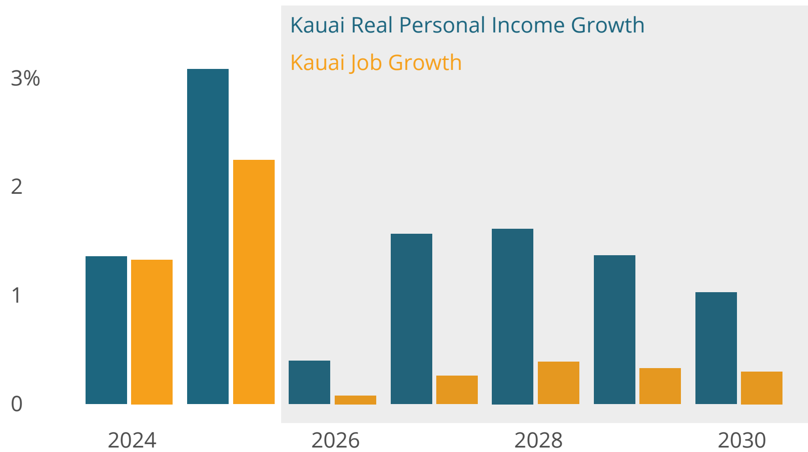
Performance varies across the counties. Honolulu and Kauai will see job growth near the statewide 0.1% average; Maui will outperform, helped by ongoing rebuilding; Hawaii County will register a net job decline for 2026 overall, reflecting tourism-sector losses that occurred late last year.

A poorer aggregate growth forecast

The oil-shock-induced macro softening will show up in weaker income growth on Kauai. Federal income tax cuts and especially business tax incentives will lean against that weakness, though cuts to federally funded support programs will hurt lower-income households.

KAUAI REAL PERSONAL INCOME AND PAYROLL JOB GROWTH

The oil shock will cause a pullback in income growth, as job gains converge to a low trend rate.



The weaker employment picture is reflected in sector-level income forecasts. Industry labor income generally tracks payroll job growth, with some idiosyncratic variation. Transportation and utilities and federal government will drag. Accommodations and food service income growth will be softer. But construction and health care will push the other way. On net, real labor income on Kauai will be essentially unchanged in 2026, as a price shock outpaces wage gains that were largely set before the war.

The Kauai income picture

Kauai real personal income will grow 0.4% in 2026, with modest gains in transfer payments (2.4%) and dividends, interest and rent, offset by softer labor and proprietors' income. Real per-capita income on Kauai will tick up to $71,700, a gain of about half a percent. Beyond 2026, growth should moderate back to a roughly 1.4% trend through 2030. With population essentially flat, per-capita income will improve gradually.

And the hits just keep coming

Kauai entered the oil crisis on relatively solid ground. Occupancy held in the mid-to-upper 60s through 2025, visitor spending was firm, construction was adding jobs, and unemployment stayed low.

But the oil shock follows on from two earlier supply-side shocks in quick succession — the largest tariff increases in a century, then a sharp tightening of immigration enforcement. Each channel matters for Kauai in different ways: tariffs raise construction and grocery costs, immigration constraints tighten construction labor supply, and the oil shock affects both the cost of getting to the island and the disposable income of mainland households who visit.

The uncertainty around each of these shocks is itself a further drag on the economy. Tariffs come on and off; the deportation timetable is unpredictable; the horizon for normalizing oil flows is anyone's guess. We have considered both a baseline oil price path and a more pessimistic scenario in our statewide report. Higher oil for longer would mean more Kauai inflation and a weaker near-term growth path; under the pessimistic case, an outright contraction.

But these near-term challenges do not change Kauai's longer-run growth story. Trend growth continues to be lackluster. The population is essentially flat and the working-age share is shrinking, which will keep labor force growth slow and constrain both private expansion and County revenue growth. AI-driven productivity gains may eventually help Kauai as elsewhere, but Hawaii's slower trend in per-capita income growth relative to the mainland appears likely to persist.

Against that longer-run backdrop, Kauai's growth trajectory will increasingly depend on sustained local capital reinvestment. Such investments help across the scale, from smaller projects like road resurfacing or the private restoration of the Aloha Theater into a boutique hotel, to larger private investments like the 210-room Curio Collection by Hilton opening at Hokuala this year. These complement the federal- and County-backed infrastructure pipeline. Continued investment in product and infrastructure is one of the levers Kauai itself controls in shaping the path ahead.

TABLE 1: MAJOR ECONOMIC INDICATORS

	2024	2025	2026	2027	2028	2029	2030
MAJOR INDICATORS							
Nonfarm Payrolls (Thou)	32.4	33.1	**33.1**	33.2	33.4	33.5	33.6
% Change	1.3	2.2	**0.1**	0.3	0.4	0.3	0.3
Unemployment Rate (%)	2.4	2.1	**2.4**	2.5	2.5	2.5	2.5
Population (Thou)	73.4	73.4	**73.4**	73.5	73.5	73.7	73.8
% Change	−0.3	−0.1	**0.0**	0.1	0.1	0.1	0.2
Nominal Personal Income (Mil $)	4,959.9	5,246.0	**5,484.6**	5,735.4	5,960.9	6,178.0	6,386.5
% Change	5.8	5.8	**4.5**	4.6	3.9	3.6	3.4
Inflation Rate, Honolulu MSA (%)	4.4	2.6	**4.1**	3.0	2.3	2.2	2.3
Real Personal Income (Mil 2025$)	5,088.6	5,246.0	**5,267.3**	5,349.9	5,436.6	5,511.2	5,568.2
% Change	1.4	3.1	**0.4**	1.6	1.6	1.4	1.0
Real Per Capita Income (Thou 2025$)	69.3	71.5	**71.7**	72.8	73.9	74.8	75.5
% Change	1.7	3.1	**0.4**	1.5	1.6	1.2	0.8
TOURISM SECTOR DETAIL							
Total Visitor Arrivals by Air (Thou)	1,391.3	1,427.4	**1,446.0**	1,443.0	1,459.6	1,472.9	1,489.6
% Change	−1.9	2.6	**1.3**	−0.2	1.1	0.9	1.1
U.S. Visitors	1,229.9	1,257.5	**1,273.4**	1,267.1	1,277.7	1,284.8	1,296.1
% Change	−1.5	2.2	**1.3**	−0.5	0.8	0.6	0.9
Japanese Visitors	6.8	6.8	**6.8**	7.8	9.1	10.3	11.2
% Change	15.9	0.5	**−0.4**	14.9	16.0	12.8	8.8
Other Visitors	154.6	163.0	**165.7**	168.0	172.8	177.8	182.4
% Change	−6.0	5.4	**1.7**	1.3	2.9	2.9	2.6
Average Daily Census (Thou)	28.4	28.7	**28.9**	28.9	29.3	29.7	30.2
% Change	−2.2	1.1	**0.8**	−0.1	1.6	1.4	1.4
Occupancy Rate (%)	62.9	64.7	**66.1**	65.1	65.6	66.0	66.6

Note: Source is UHERO. Income figures for 2025 are UHERO estimates. Occupancy rate includes UHERO's estimate of TVR occupancy. Figures for 2026-2030 are forecasts.

TABLE 2: JOBS BY INDUSTRY

	2024	2025	2026	2027	2028	2029	2030
Nonfarm Payrolls (Thou)	32.4	33.1	**33.1**	33.2	33.4	33.5	33.6
% Change	1.3	2.2	**0.1**	0.3	0.4	0.3	0.3
Construction and Mining	2.1	2.2	**2.3**	2.2	2.2	2.2	2.2
% Change	0.4	4.3	**2.3**	−0.7	−0.3	−0.5	−0.8
Manufacturing	0.5	0.6	**0.6**	0.6	0.6	0.6	0.6
% Change	−11.4	12.9	**−0.6**	0.5	1.1	1.2	1.0
Trade	4.3	4.3	**4.3**	4.3	4.3	4.3	4.3
% Change	−1.7	−0.4	**1.0**	−0.3	0.0	−0.1	0.0
Transportation and Utilities	1.9	1.8	**1.8**	1.8	1.8	1.8	1.8
% Change	3.2	−2.7	**−0.6**	0.4	−0.1	−0.4	0.1
Finance, Insurance and Real Estate	1.1	1.1	**1.1**	1.1	1.1	1.1	1.1
% Change	0.0	0.0	**0.1**	0.4	0.7	0.6	0.5
Services	17.6	17.9	**17.9**	18.1	18.1	18.2	18.3
% Change	2.4	1.8	**0.4**	0.6	0.6	0.5	0.4
Health Care and Soc. Assistance	2.7	2.7	**2.8**	2.8	2.8	2.8	2.8
% Change	0.0	1.5	**0.8**	0.3	0.7	0.8	0.7
Accommodation and Food	9.1	9.3	**9.3**	9.4	9.4	9.5	9.5
% Change	4.1	2.5	**0.1**	0.8	0.7	0.5	0.3
Other	5.8	5.8	**5.9**	5.9	5.9	5.9	6.0
% Change	0.9	0.7	**0.6**	0.2	0.3	0.5	0.5
Government	5.0	5.1	**5.1**	5.1	5.1	5.2	5.2
% Change	2.2	1.8	**−0.1**	0.0	0.4	0.5	0.5
Federal Government	0.6	0.6	**0.5**	0.5	0.5	0.6	0.6
% Change	0.0	−4.2	**−9.8**	1.6	2.1	1.4	2.4
State and Local Government	4.4	4.5	**4.6**	4.6	4.6	4.6	4.6
% Change	2.5	2.6	**1.1**	−0.2	0.2	0.4	0.3

Note: Source is UHERO. Figures for 2026-2030 are forecasts.

TABLE 3: PERSONAL INCOME BY INDUSTRY

	2024	2025	2026	2027	2028	2029	2030
Real Personal Income (Mil 2025$)	5,088.6	5,246.0	**5,267.3**	5,349.9	5,436.6	5,511.2	5,568.2
% Change	1.4	3.1	**0.4**	1.6	1.6	1.4	1.0
Labor & Proprietors' Income	3,306.1	3,426.5	**3,422.8**	3,445.6	3,486.7	3,521.6	3,551.3
% Change	1.7	3.6	**−0.1**	0.7	1.2	1.0	0.8
Construction and Mining	—	—	**—**	—	—	—	—
% Change	—	—	**—**	—	—	—	—
Manufacturing	—	—	**—**	—	—	—	—
% Change	—	—	**—**	—	—	—	—
Trade	—	—	**—**	—	—	—	—
% Change	—	—	**—**	—	—	—	—
Transportation and Utilities	—	—	**—**	—	—	—	—
% Change	—	—	**—**	—	—	—	—
Finance, Insurance & Real Estate	—	—	**—**	—	—	—	—
% Change	—	—	**—**	—	—	—	—
Services	—	—	**—**	—	—	—	—
% Change	—	—	**—**	—	—	—	—
Health Care & Soc. Assist. (% ch.)	—	—	**—**	—	—	—	—
Accommodation & Food (% ch.)	—	—	**—**	—	—	—	—
Other (% ch.)	—	—	**—**	—	—	—	—
Government	546.1	580.7	**566.6**	573.6	586.1	595.2	602.0
% Change	3.2	6.3	**−2.4**	1.2	2.2	1.6	1.1
Federal, civilian (% ch.)	−1.3	−2.5	**−2.8**	0.8	1.6	1.8	2.0
State & Local (% ch.)	4.1	8.2	**−2.9**	1.3	2.3	1.5	1.0
Less Social Security Taxes (-)	398.0	416.7	**416.0**	418.9	424.0	428.3	431.9
% Change	−0.9	4.7	**−0.2**	0.7	1.2	1.0	0.8
Transfer Payments	1,033.2	1,074.2	**1,099.5**	1,120.1	1,139.6	1,159.7	1,179.3
% Change	−1.6	4.0	**2.4**	1.9	1.7	1.8	1.7
Dividends, Interest and Rent	1,160.2	1,162.6	**1,169.5**	1,204.8	1,239.1	1,268.6	1,283.6
% Change	2.4	0.2	**0.6**	3.0	2.9	2.4	1.2
Population (Thou)	73.4	73.4	**73.4**	73.5	73.5	73.7	73.8
% Change	−0.3	−0.1	**0.0**	0.1	0.1	0.1	0.2
Real Per Capita Income (Thou 2025$)	69.3	71.5	**71.7**	72.8	73.9	74.8	75.5
% Change	1.7	3.1	**0.4**	1.5	1.6	1.2	0.8
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% Change	5.8	5.8	**4.5**	4.6	3.9	3.6	3.4

Note: Source is UHERO. Income figures for 2025 are UHERO estimates. Figures for 2026-2030 are forecasts. Because of data disclosure rules, industry-level income is not available for some sectors.

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