



## BEYOND THE PRICE OF PARADISE: IS HAWAII BEING LEFT BEHIND?

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# UHERO

THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAI'I

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**Beyond the price of paradise: Is Hawai'i being left behind?**

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# Executive Summary

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Hawai'i is one of the most desirable—and most expensive—places to live in the world. But for 23 of the past 25 years, more residents have moved to other states than new arrivals have come to the islands. The phrase “priced out of paradise” captures the frustration of locals in a state where even middle-income families often struggle to make ends meet. Regional outmigration reflects a response to local economic distress. Yet the focus on Hawai'i's high cost of living tells only part of the story about the economic forces at play.

Across the country, rhetoric about outmigration often ties it to expensive places where otherwise thriving economies drive gentrification, rising prices, and inequality, pushing middle- and lower-income residents to leave. Hawai'i, however, has neither the high incomes nor the extreme inequality of those places. It's experience could more closely resemble economically distressed or “left-behind” regions—marked by stagnant productivity and limited opportunity, though typically with much lower costs of living. In Hawai'i's case, the high cost of living may even mask these structural weaknesses and the extent of its economic decline.

**So, is Hawai'i's economic distress really about its high cost of living? Or is Hawai'i more like left-behind regions with stagnant local economies?** Motivated by this puzzle, we re-examine Hawai'i's economic performance by adjusting measures of income, output, and productivity for its high cost of living, revealing a deeper perspective that casts the ‘*price of paradise*’ in a new light.

## ***Is outmigration related more to high prices or low incomes?***

We examine how changes in domestic migration rates relate to both prices and incomes. We can't say whether prices or incomes *cause* outmigration, but both are closely linked because together they determine real purchasing power. However, their relative importance differs across places. In many prosperous, high-cost cities where residents feel they are being “priced out,” outmigration reflects rising housing costs, gentrification, and inequality despite strong wage growth. In Hawai'i, by contrast, prices remain high while incomes lag, making it less clear which factor dominates.

At the metropolitan statistical area level (which includes ‘*Kahului–Wailuku–Lahaina*,’ and ‘*Urban Honolulu*’), we find that on Maui, high prices and low incomes account for similar levels of outmigration, while in Honolulu County, the price component is greater, but weak income growth shows the income component catching up. Crucially, the combination of high prices and low incomes predicts as much outmigration as in some of the nation's most struggling cities, where low costs of living typically cushion economic disadvantages. In short, Hawai'i's residents face a unique mix of high prices and low incomes that, together, match the economic pressures found in struggling regions more than in prosperous, high-cost cities.

## ***What happens when we adjust economic performance measures for local prices?***

Average incomes in Hawai'i are just below the US average, but Hawai'i's higher cost of living further erodes the purchasing power of those earnings. When GDP and income are adjusted for local prices to reflect purchasing power, Hawai'i's economy more closely resembles that of lower-income states, where low wages and weak productivity signal economic distress, even though lower living costs stretch incomes further. Moreover, Hawai'i's long-run trajectory shows that the gap between what people can earn and afford in Hawai'i and what they can earn and afford elsewhere in the US, continues to widen. This perspective again challenges the familiar “price of paradise” story. While high costs make life difficult, Hawai'i's cost-of-living-adjusted performance is comparable to that of the nation's most economically distressed regions, indicating that the state is steadily falling behind.

### ***When did Hawai'i start to fall behind?***

Per capita GDP shows that Hawai'i fell behind in the '90s as it was hard hit by the lost decade in Japan, the end of the Cold War, Hurricane Iniki, and other events. But the raw data show Hawai'i caught up before the Great Recession and generally stayed steady since then, just below the US average. However, once we account for differences in Hawai'i prices, that recovery weakens and long-run drag persists. Since 1990, Hawai'i's real per capita growth rate has stagnated at a compound annual rate of just 0.6 to 0.7%. More generally, the lost decade of the 1990s never really ended but rather it has persisted for 35 years.

### ***What can we do about it?***

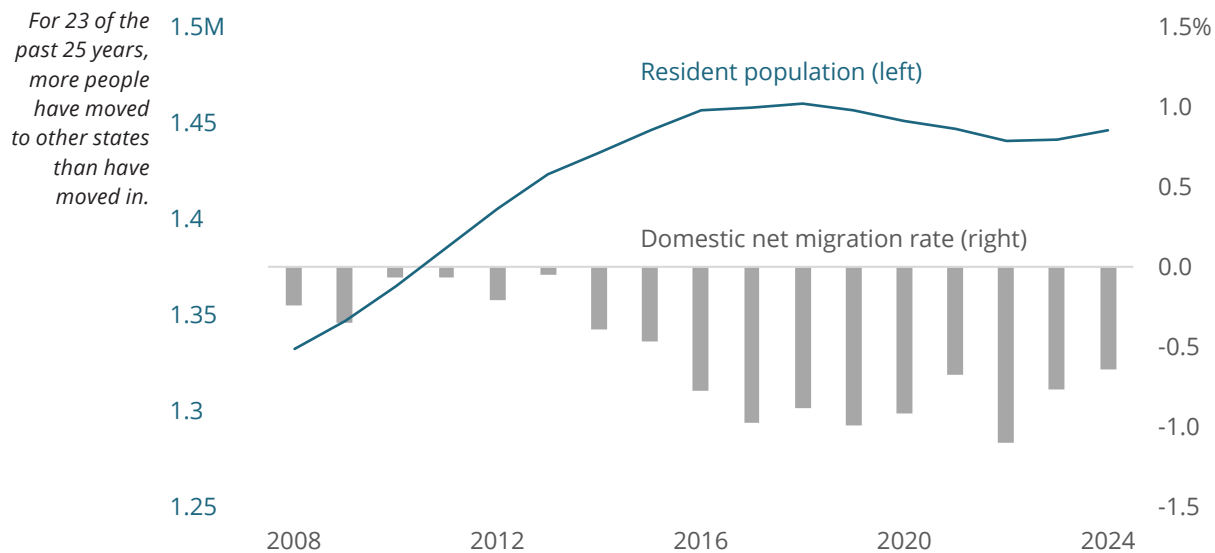
This decades-long regional development trap requires urgent attention and could be an even greater economic priority than addressing the cost of living. Reducing local consumer prices would certainly help residents, but this new perspective suggests that fixing the cost-of-living issue won't stop residents from leaving Hawai'i behind for opportunities outside the state. On its current trajectory, Hawai'i's economy will continue to fall further behind the rest of the nation. Revitalizing growth will require deliberate, well-designed policies that identify and remove barriers to diversification and innovation, supported by strong governance that emphasizes continuous monitoring, accountability, and adaptation.

# Introductions: Two Explanations

Hawai'i is one of the most desirable—and most expensive—places to live in the world. Yet longtime residents are steadily moving to other states, a trend that signals growing economic distress. Domestic net migration has been negative in 23 of the past 25 years, meaning more people have left Hawai'i for the mainland than have moved in. Since 2017, this outflow has accelerated, leading to population stagnation and, for a time, outright decline with seventeen consecutive quarters of population loss beginning in 2019. Although recent gains from international migration have stabilized the total population,<sup>1</sup> the underlying trend in domestic outmigration remains unchanged.

The phrase “priced out of paradise” captures the frustration of local residents in a state where even middle-income families often struggle to make ends meet. But persistent outmigration is not only about high prices: it reflects broader economic distress tied to both low income growth and high living costs. Population loss may also point to weak productivity, limited opportunity, and a long-run erosion of Hawai'i's economic competitiveness. The high cost of living tells only part of the story behind why residents are choosing to leave.

**Figure 1: Hawai'i resident population and the domestic net migration rate, 2008-2023**



Source: Author calculations from US Census Bureau data.

Outmigration is especially troubling for Kānaka Maoli, who face growing barriers to remaining in their ancestral homeland. The steady flow to the continent has reached a sobering milestone: more Native Hawaiians now live in the other 49 states than in Hawai'i itself. This shift has profound implications. Hawai'i's identity is deeply rooted in its Polynesian heritage—its language, culture, traditional values, and enduring connection to place.

Yet Hawai'i's social fabric is also shaped by its diverse kama'āina,<sup>2</sup> often with roots spanning many generations, and a blend of cultures woven into the everyday life, traditions, and histories of the islands. While it is unknown what share of multi-generational kama'āina have left for the continent, much of their social and cultural capital is also inherently place-based—rooted in Hawai'i's unique context and sustained by the people, places, and practices that give it meaning.

<sup>1</sup> It remains unclear whether the recent population decline has really come to an end. Recent revisions to population numbers reflect border crossings allocated to states on a historical basis. But if migrant destinations differ from the historical pattern, which is likely given Hawai'i's slow recovery after the pandemic, then Hawai'i likely received fewer recent arrivals than it did in the past, and its resident population may have continued to decline.

<sup>2</sup> Kama'āina refers to people with deep, long-standing ties to Hawai'i, regardless of ancestry. There is no strict definition, but common thresholds include living in Hawai'i for ten years, or half of one's life.

As outmigration erodes the presence of both Kānaka Maoli and multi-generational kama‘āina, it threatens not only cultural continuity but also the local networks and place-specific knowledge that have long underpinned the economy and community in Hawai‘i. As the economy adapts, Hawai‘i’s social fabric may shift, with weaker connections to the values, culture, relationships, and experiences that have long sustained the spirit—and soul—of Hawai‘i.

Making sense of why residents are finding it harder to stay in Hawai‘i raises a deeper question about the economic distress pushing them out and pulling them elsewhere. The high cost of living is the most commonly cited reason for leaving. But Hawai‘i’s economy has also started to lag behind the rest of the US. So, is affordability the core issue creating economic distress, or is it a symptom of deeper economic stagnation?

### **Priced out of paradise?**

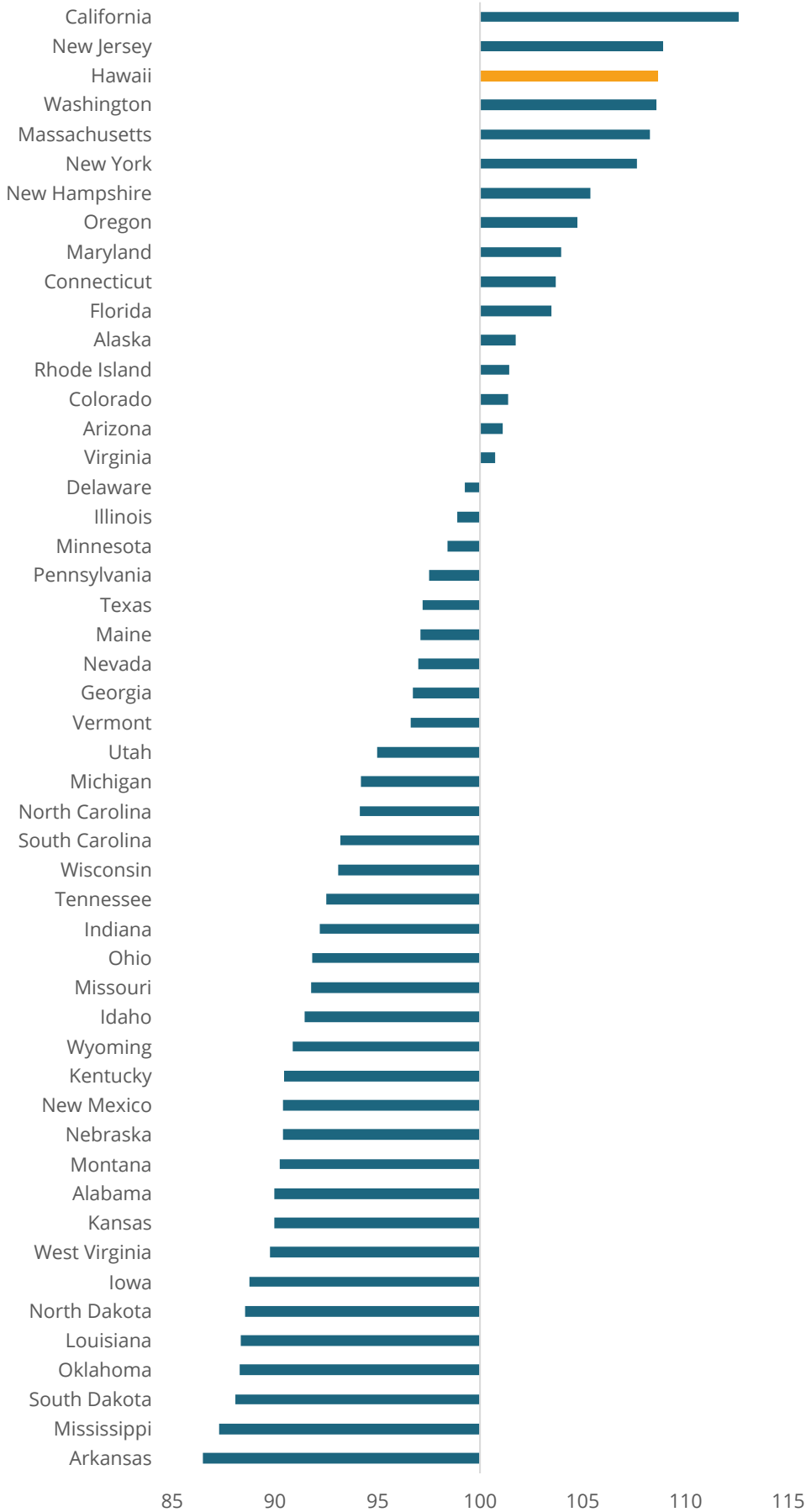
Hawai‘i has among the highest housing prices in the nation, and its geographic isolation drives up transportation and consumer costs. Overall, Hawai‘i is the third most expensive state, behind California and New Jersey (see Figure 2), but those states also have markedly higher incomes than Hawai‘i. A recent survey by the Holomua Collective (2025) found that 79% of workers reported having family members who left Hawai‘i due to the cost of living. Survey respondents particularly noted the cost of housing, food, and education as key factors. Hawai‘i residents frequently blame tourists for Hawai‘i’s high housing costs, especially with the increase in short-term rentals such as those listed on Airbnb. Still, tourists also lament the cost of a Hawai‘i vacation.

Addressing the cost of living has become a policy priority for all counties in Hawai‘i and the state government. Maui County recently passed a complete ban on short-term rentals in apartment districts (See Bonham et. al., (2025) for an analysis of the potential economic impact. In particular, housing affordability proposals have been pushed statewide. In the most recent legislative session, this included rent-supplement extensions for kūpuna, expanded rent- and income-targeted communal housing under the Kauhale Initiative, dedicated funding for mixed-income and supportive housing, incentives for transit-oriented development, streamlined disaster-recovery permits for affordable rentals, removal of construction-related school impact fees, and capping rent at 30% of Area Median Income (Le, 2025), amongst many other proposals. However, to date, such efforts have not appeared to improve the situation in general. Current discussions involve purchasing deed restrictions to limit occupancy to local workers.

If Hawai‘i residents are leaving primarily because of the cost of living, then the conclusions are intuitive. In this view, Hawai‘i’s challenges stem partly from its own success: a high-demand, high-cost place where everyday expenses overwhelm even solid incomes. The “priced out of paradise” hypothesis suggests that opportunity still exists, but the intense desire to live in Hawai‘i—or to own a vacation property here—has pushed costs so high that the price of staying has simply become too much for many kama‘āina. The implication is that well-targeted affordability policies—if effectively designed and implemented—could meaningfully reduce outmigration and restore a sense of economic possibility for kama‘āina. Before embracing that solution, however, we must also consider another possibility: that affordability isn’t the root problem, but a distraction from a deeper challenge—insufficient incomes and limited opportunity.

**Figure 2: Regional Price Parities by State, 2023**

*Hawai'i is among the most expensive states in the nation.*



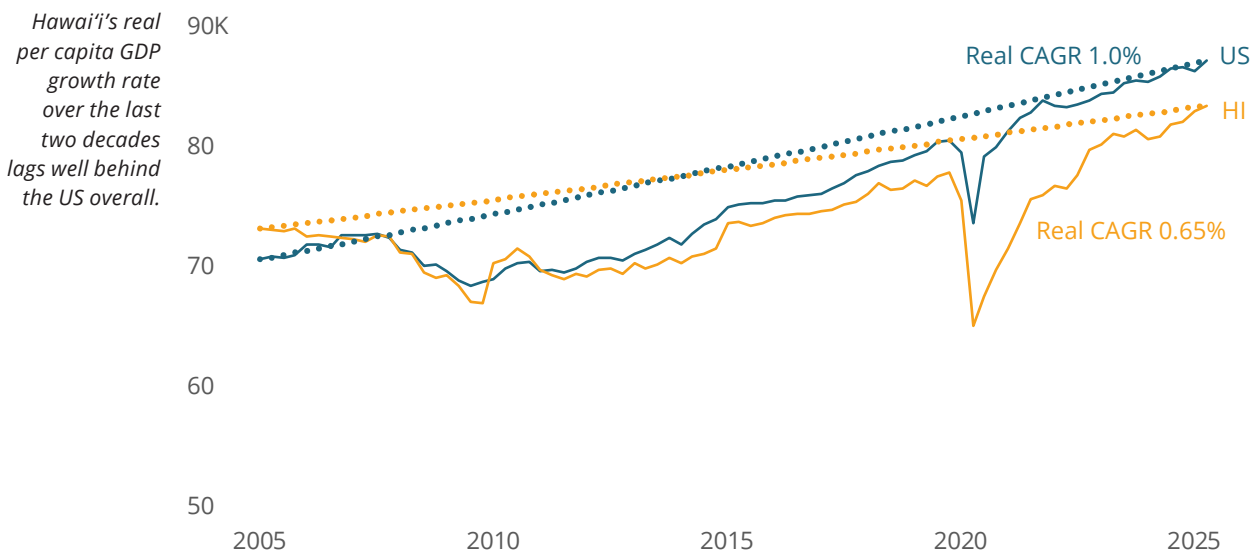
Source: Bureau of Economic Analysis (2024) "Real Personal Consumption Expenditures by State and Real Personal Income by State and Metropolitan Area, 2023", <https://www.bea.gov/news/2024/real-personal-consumption-expenditures-state-and-real-personal-income-state-and>.

## Or is Hawai'i being left behind?

Affordability is a major piece of the puzzle—but it is not the whole story. Even if residents could afford to stay, persistent economic underperformance may still drive them to leave. Hawai'i's *real* economic growth has been comparatively weaker than the US overall for the last two decades (See Figure 3). The state was hit harder by the Great Recession and COVID-19 pandemic, and was slower to recover than other states (Bond-Smith and Fuleky, 2022). While domestic “revenge travel” returned quickly after the pandemic, the recovery of international tourism lagged and still remains below pre-pandemic levels. The slow recovery from the Great Recession and the collapse in visitor spending and slow economic recovery after the pandemic have bumped Hawai'i's GDP per capita below the US average.

But this slowdown began even before COVID. Hawai'i's real GDP per capita declined in 2019, even prior to the pandemic. Hawai'i was also hit harder by the Great Recession, and in that case too, Hawai'i real GDP per capita was also already declining in 2005, well prior to the recession. Adjusted to real terms using Hawai'i's own inflation rate (as is standard when measuring local real growth), the state's long-run growth rate has lagged U.S. growth for the past two decades (see Figure 3).

**Figure 3: Real compound annual growth rates, adjusted for local inflation, Hawai'i and the US, 2005-2025 Q1**



Source: Author calculations using BEA data.

Notes: CAGR refers to Compound Annual Growth Rate. All values in 2024 dollars. Hawai'i GDP is adjusted using the Urban Hawai'i CPI; US GDP uses the US CPI. Because these indexes differ, dollar values between Hawai'i and the US are comparable only in the base year of 2024—comparisons should focus on trends and growth rates over time, not on dollar levels.

In a stagnant economy, job opportunities narrow and wage growth stalls. Although the unemployment rate is usually lower than the US overall, many residents may have struggled to find second or third jobs—which are common in the state—or left for the continent in search of better opportunities. As a result, the unemployment rate might not fairly capture weakness in the local labor market (Bonham et. al., 2020). That population loss then feeds back into the economy: a shrinking workforce makes it harder for businesses to find staff, deters new ventures, and may shift economic activity to other states.

Regardless of the cost of living, when economic opportunities are limited, outmigration becomes more likely. This pattern aligns with what researchers describe as “left-behind places”—regions marked by stagnation and diminished prospects (Hendrickson et al., 2018)—where people leave even when the cost of living is low. Such areas typically fall behind when broader economic trends shift against their core industries. In this view, Hawai'i's high prices are not the main driver of outmigration, but a symptom of a deeper malaise: an economy with weak growth, limited opportunity, and fading prospects that lead residents to pursue better futures elsewhere.

## Two explanations

Both of these stories about Hawai'i's high cost of living and its lagging productivity growth are not new. In 1992, Randall Roth's book, "The Price of Paradise: Lucky we live Hawai'i," collated a series of chapters by various academics and experts, including some current UHERO fellows, examining the cost-of-living and other issues (Roth, 1992). Even without a declining population, Hawai'i residents lamented that family members would leave for the mainland. Randall Roth himself admits that he was unsure whether his children would stay living in Hawai'i, as their job prospects and ability to buy a home would be substantially better on the continent. All of the issues discussed in the book persist today, more than thirty years later, and remain difficult to solve, but a declining population is a relatively recent phenomenon.

The ongoing discussion of both of these issues for decades begs the question: "**Are Kama'āina being priced out of paradise? Or, is Hawai'i being left behind?**" This report considers both forces as contributors to economic distress and reassesses Hawai'i's performance in light of its persistent cost pressures and weak income growth. The goal is not simply to explain why people leave, but to understand the broader economic experiences that make life in Hawai'i increasingly difficult—and whether high costs or lagging productivity play the larger role.

## Priced Out of Paradise?

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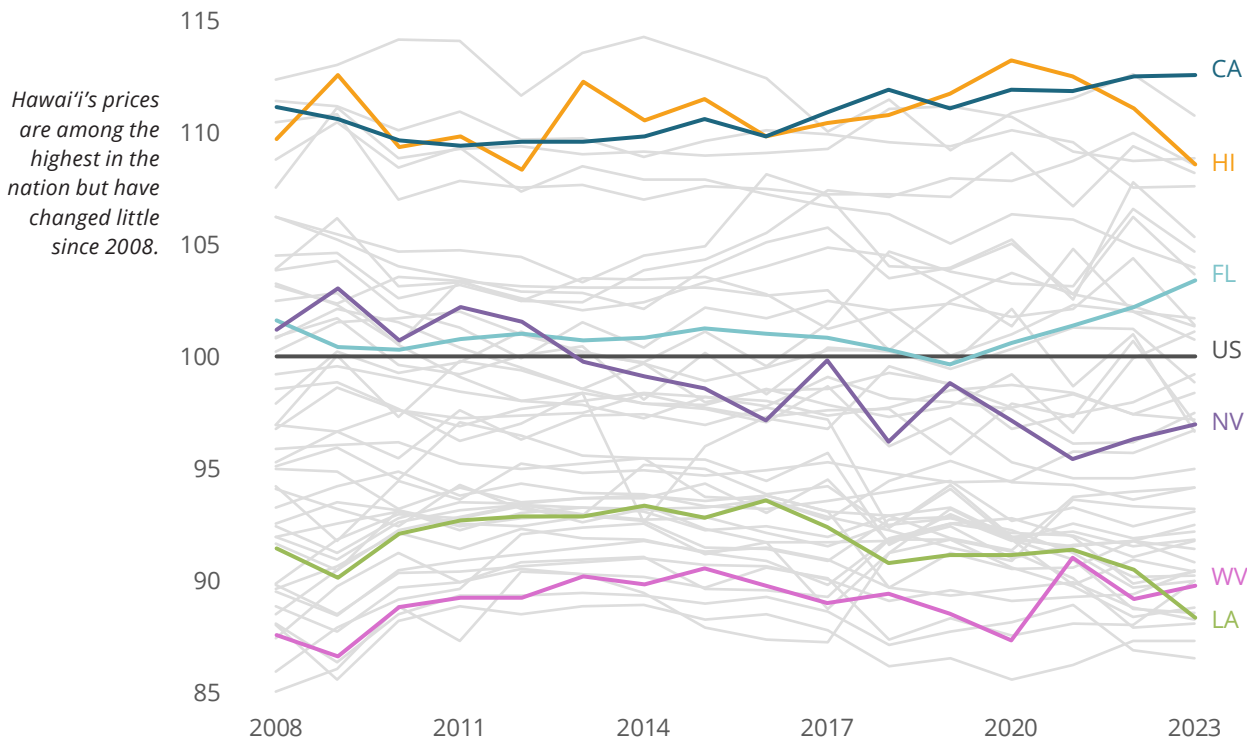
The most common explanation for outmigration from Hawai'i is that locals are being "priced out of paradise." This narrative mirrors trends in high-cost, high-demand regions like big cities in California, New York City, and Washington, D.C., where people leave not because opportunities have vanished, but because staying has become unaffordable. In this view, Hawai'i's exceptional quality of life and limited land supply attract buyers, migrants, and tourists—driving prices so high that even middle-income families feel squeezed out.

The logic is compelling. Housing in Hawai'i is among the most expensive in the nation, and geographic isolation and limited land availability inflate the cost of nearly all goods and services. For many long-time residents and kama'āina, living in Hawai'i has become unsustainable, with the continent offering the only realistic path to homeownership or financial security. In response, Hawai'i has prioritized affordability in state and county policy. But if weak economic growth is the deeper issue, such efforts will fall short (see Section 3). Still, if affordability is the primary driver, Hawai'i more closely resembles places like San Francisco or San Diego: high-cost places where expenses—not lack of opportunity—push people out. This section examines that possibility on its own.

## How does Hawai'i's cost of living compare?

The Bureau of Economic Analysis (BEA) publishes Regional Price Parities (RPPs) that capture relative differences in local prices compared to the US average (set to 100). Hawai'i's RPP of 108.6 in 2023 suggests that prices are 8.6% higher than the US average, which is indexed to 100 (See Figure 4).

Figure 4: State Level Regional Price Parities from 2008-2023



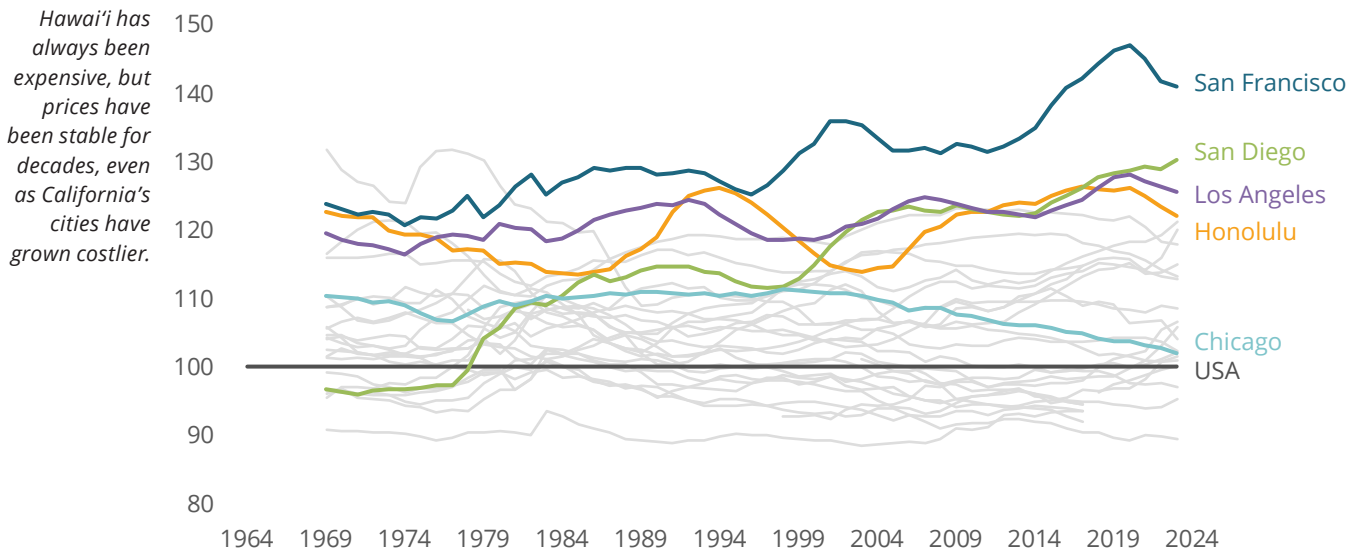
Source: Bureau of Economic Analysis, Regional Price Parities (RPP).

This currently places Hawai'i's cost of living just behind California and New Jersey. While this level might seem a little low to many residents in Hawai'i, the RPP is based on personal consumption expenditures (PCE), which captures all expenses, including those made on our behalf through taxes and insurance premiums. Similarly, it captures that some expenses don't apply to Hawai'i, such as heating and winter clothing. Many other indexes involve a neutral consumption basket that doesn't capture such nuances. As such, the BEA's RPP represents the gold standard for price or cost-of-living comparisons across places in the US.

Hawai'i's RPP hasn't changed much since 2008. In fact, the relative cost of living in Hawai'i declined slightly over the period that the population declined, as there was greater inflation in the rest of the US than in Hawai'i. In contrast, Nevada's cost of living has declined considerably since 2008, now below average, and is an attractive destination for Kama'āina leaving Hawai'i. While this comparison suggests that differences in living costs may help explain migration to Nevada, the same cannot be said for other popular destinations. In Washington state, prices rose by about 5% more than inflation over the same period, and California maintained even higher relative prices than Hawai'i. But both of these states experienced substantially stronger economic growth than Hawai'i, suggesting an alternative pull factor.

Hawai'i has long been known for its high cost of living, but the RPP index from the BEA only dates back to 2008. To consider a longer time period, UHERO examined changes in national and regional Consumer Price Indexes (CPIs) to develop a cost-of-living index for cities with CPIs recorded by the Bureau of Labor Statistics (Bond-Smith and Lee, 2025a). This index runs slightly higher than the BEA's RPP because the CPI gives greater weight to housing costs, which are especially high in Hawai'i. In this index, Honolulu's cost of living is about 20% higher than the US average (See Figure 5).

Figure 5: UHERO's CPI-based Regional Price Parity index, annual, 1969-present



Source: Bond-Smith and Lee (2025a) via <https://analytics.uhero.hawaii.edu/cpi-rpp>.

Since 2008, the CPI-based RPP index shows similar trends to the BEA RPP index, albeit for a smaller number of cities with local CPIs. But over the longer term, the index highlights the rise in relative living costs in many cities, particularly in California. For example, San Diego's cost of living was below average until the late 1970s but is now around 30% higher than the US average. Similarly, the RPP index for San Francisco grew from around 120 in the 1970s to well over 140 just prior to the pandemic. In contrast, Chicago's cost of living has declined over a few decades, partially mitigating its lower rate of economic growth.

However, Honolulu's cost of living has consistently been 15–25% higher than the US average, even during periods of rapid population growth prior to 1990. So, even if many cities in the US are experiencing a cost-of-living crisis—and the cost of living is certainly also a problem for Hawai'i residents—there is not a significant change in the cost of living in Honolulu as there was in some other cities like San Francisco and San Diego.

Despite these long-run patterns, mid-term price trends reveal important nuances. Honolulu's relative prices declined in the 1970s and 1980s, despite an economic boom. In the early 1990s, however, foreign investment suddenly stopped as Japan entered its 'lost decade,' and Hawai'i's economy was hit by the end of the Cold War, Hurricane Iniki, and other events, triggering a severe and prolonged recession. But prices continued to increase rapidly through the early 90s, even after the peak in tourism spending in 1989, after decades of gradual decline. As is typical during downturns, Honolulu's relative prices declined again, but the decline only occurred late in the downturn. In contrast, cities in California experienced price declines both during and after the 1991 recession. In Honolulu, the subsequent price decline persisted for much longer, until around 2005, before prices started rising again, just as the next crisis struck.

During the Great Recession, relative prices declined modestly in some high-cost mainland cities. In contrast, Honolulu's relative prices remained elevated and even rose slightly. This divergence is notable: while economic downturns often lead to softening relative prices in larger cities, Honolulu's prices remain stubbornly high. The persistence of high relative prices during the Great Recession and softening relative prices in other large cities may contribute to recent outmigration.

# Is Hawai'i Being *Left Behind*?

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Economists and geographers have long studied why some regions fall behind. Persistently stagnant areas are often labeled “left-behind places” or “economically distressed” (Hendrickson et al., 2018). The US Economic Development Administration (EDA) supports such regions through Economic Development District (EDD) designations, available where per capita income is below 80% of the national average or unemployment exceeds the national rate by one percentage point for 24 months. While only a few census tracts in Hawai'i meet those criteria, the federal government recently designated the entire state an EDD, recognizing the tight interdependence of Hawai'i's regions and reliance on Honolulu.

Stagnation often results from industrial decline, automation, offshoring, or the concentration of high-value jobs in large metro areas and rural decline. The Rust Belt shrank as factories moved south or abroad, trade-exposed regions were hit by China's rise (Autor et al., 2016), and coal towns in West Virginia struggled to adapt (Love, 2024). Meanwhile, growth in services and innovation has flowed disproportionately to big cities, bypassing production- and resource-based economies.

The effects of stagnation go beyond economics. Distressed areas often face lasting increases in mortality and substance abuse (Sullivan et al., 2009; Case and Deaton, 2015), and are more prone to anti-incumbent or extreme political shifts (Healy and Malhotra, 2013; Mian et al., 2014). These reactions contribute to a broader “geography of discontent” (McCann, 2019), where political backlash—what Rodríguez-Pose (2019) calls the “revenge of the left-behind places”—deepens inequality and obstructs recovery. Booms can crowd out other sectors, leaving regions exposed when growth fades (Sachs and Warner, 2001). Political responses often target the very forces that once drove prosperity (Rodríguez-Pose, 2019), reinforcing stagnation. In places with sharp boom-bust cycles, recovery is especially difficult (Black et al., 2002), and economies risk becoming stuck in prolonged low-growth traps (Diemer et al., 2022).

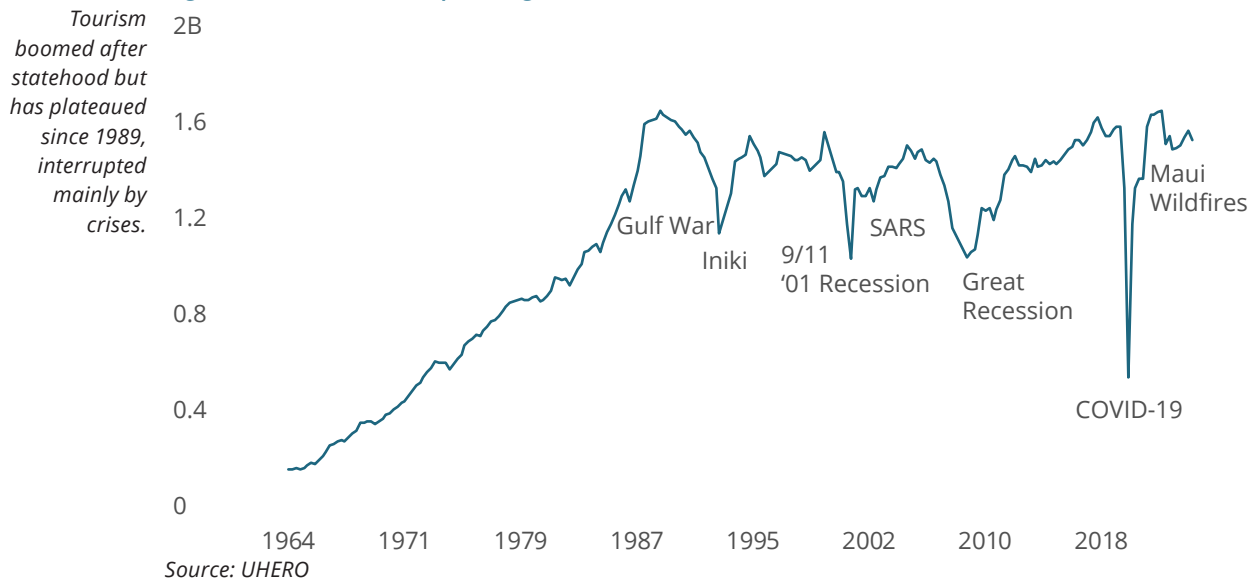
Hawai'i shows a few signs of this dynamic. During the 1970s and 80s, Hawai'i's tourism expansion created Dutch-disease conditions—where a booming sector crowds out the development of other activities. Regulatory and institutional constraints amplified this crowding-out, limiting diversification and contributing to long-run stagnation (Ravago et al., 2008). More recently, growth-oriented projects often face organized resistance—from the failed Superferry (Blair, 2018), which collapsed after legal challenges, to solar farms in South Maui stalled by permitting and community opposition (Dobbyn, 2023). These types of frictions contribute to Hawai'i being the most regulated housing market in the United States (Inafuku et al., 2022), as residents increasingly oppose new development. That pushback may be partly rooted in history: after the rapid growth during the 1970s and 80s, Hawai'i's prolonged stagnation in the 1990s left many residents skeptical that major projects will deliver broad local benefits.

Climbing out of the regional low-growth trap requires thoughtful policy and institutional designs—approaches that support development while limiting interference, favoritism, and rent-seeking. Poorly-crafted initiatives risk deepening discontent without addressing core challenges. If this explanation is the primary driver of Hawai'i residents' discontent and outmigration, it also means that easing the cost of living, while helpful, won't resolve the deeper forces pushing kama'āina to the continent.

## **How has Hawai'i's economy performed?**

Hawai'i, though mostly service-based, lacks the high-value services that power growth in global hubs (Bond-Smith, 2024). Honolulu hosts some professional services, but they primarily serve local businesses rather than generating valuable exports. Instead, Hawai'i relies heavily on tourism exports, and much of the other economic activity in Hawai'i supports tourism-related businesses. Unfortunately, real tourism spending has stagnated since 1989, despite considerable growth in overall tourist numbers since then.

Figure 6: Real Tourism Spending, 1964 to 2025 (constant 2024 dollars)



Hawai'i's dependence on tourism means visitor trends flow through to GDP (Bond-Smith and Fuleky, 2023). But with this narrow and stagnating economic base, the state increasingly resembles left-behind regions such as upstate New York, the Rust Belt, rural Mississippi and Alabama, and coal country. Such dependence on a low-productivity, stagnant industry is a defining feature of economically distressed places.

Research on island economies shows how tourism-led specialization can generate Dutch-disease dynamics—where a dominant industry crowds out other activities—and long-run stagnation, particularly when paired with institutional barriers that limit diversification (Ravago et. al., 2008). As a result, Hawai'i's per capita GDP has lagged behind the US for decades—certainly since the Great Recession, and arguably since the broader stagnation beginning in the early 1990s (Bond-Smith, 2024).

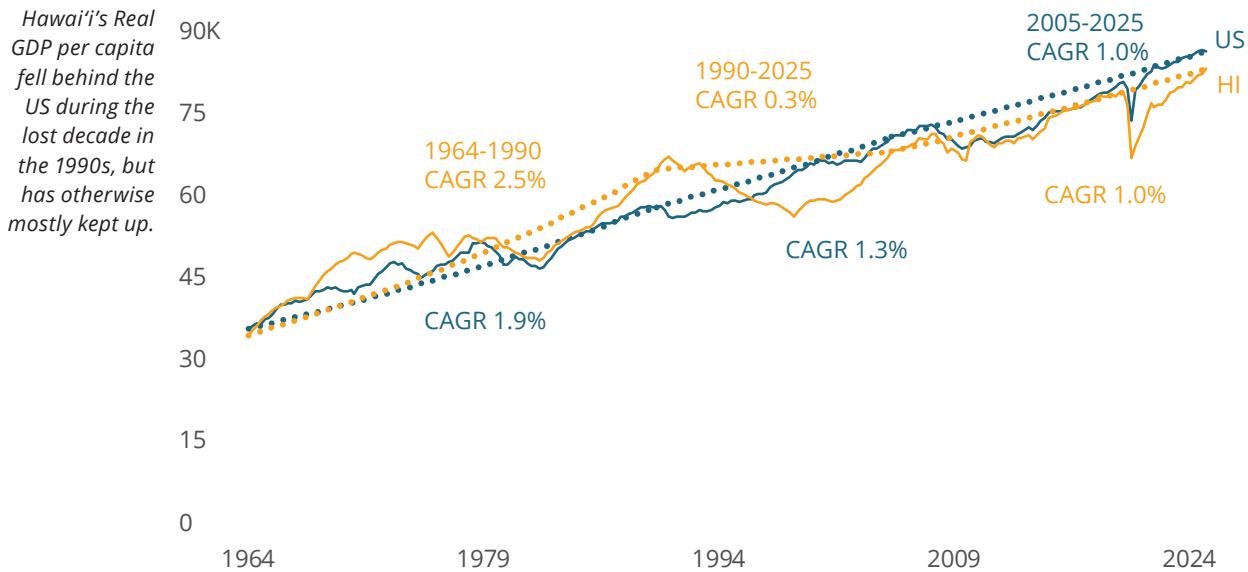
Examining growth over a long period requires inflating historical data to today's dollars, and comparing per capita GDP with the U.S. over time requires using a common deflator so that both are measured in the same units. Figure 7 examines Hawai'i and US GDP per capita in 2024 dollars, adjusting for national inflation using the US CPI.<sup>3</sup> Between 1964 and 1990, Hawai'i had a real per capita compound annual growth rate of 2.5% compared to 1.9% in the US. This was not simply catch-up growth. Hawai'i surged ahead in the 1980s. But it already had higher per capita GDP in the 1960s and 70s.

The 1990s reversed this trend as foreign capital investment and tourism spending stagnated during and since the lost decade. As a result, GDP per capita declined in Hawai'i throughout the 90s and only recovered after the 2001 recession. The combination of the decline during the lost decade and subsequent recovery meant Hawai'i's growth rate between 1990 and 2005 averaged only 0.3% while the US grew at a rate of 1.9%.

At this point, Hawai'i kept pace with the US until 2007. But Hawai'i was hit harder by both the Great Recession and the COVID-19 pandemic. Greater volatility is to be expected when the economy is more specialized, and tourism is possibly more vulnerable to both of these particular external shocks. Such shocks may have further contributed to outmigration during such crises. Yet overall, Hawai'i has kept pace with the US since 2005, both growing at an average rate of 1% per year, albeit with a gap that emerged after falling behind in the 1990s.

<sup>3</sup> US GDP is usually deflated by the GDP deflator (a basket of goods reflecting GDP rather than consumption), but we use the CPI, as it is consistent with the CPI-based Regional Price Parity index used later in this report.

**Figure 7: Real GDP Per Capita and Compound Annual Growth Rates, deflated by the US CPI, Hawai'i and the US, 1964-2024**



Notes: US and HI GDP adjusted for inflation using the US CPI. CAGR refers to Compound Annual Growth Rate. Source: Author calculations using BEA data from UHERO.

To compare Hawai'i to other states, we turn to per capita personal incomes, where state-level data are readily available with a long history. We specifically compare Hawai'i to California, Nevada, Florida, Louisiana, and West Virginia as well as the US average (labeled in Figure 8), but all other states are also included in our analysis (shown in the figure in gray). The labelled states were chosen to contrast Hawai'i with both high-income and low-income states, as well as states with significant tourism industries.

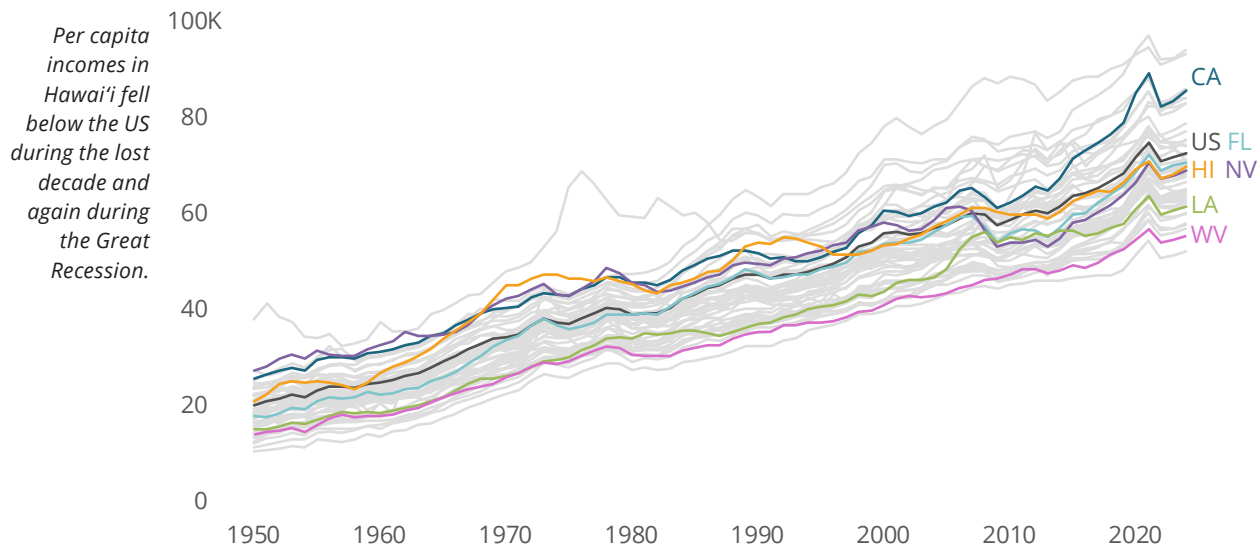
From 1969 to 1990, Hawai'i had some of the highest incomes in the US, at times surpassing incomes in California. However, sometime after 1990, Hawai'i's relative position began to fall rapidly and dropped below the US average around 2010. In 2024, incomes in Hawai'i are almost 5% below the US average, but they were about 30% higher than the US average in 1970. The relative decline has persisted for quite some time, while most other states sustained stable incomes relative to the national average.

Notably, Nevada follows a pattern very similar to Hawai'i, though its major decline occurred around the Great Recession, starting in 2008. Both states appear neck-and-neck over multiple decades. The similarity highlights the likely common factor contributing to the relative decline of both Hawai'i and Nevada: specialization in tourism. While Hawai'i benefited temporarily from foreign investment and a boom in Japan in the 1980s, both states suffered subsequent shocks and never recovered their relative positions.

This series of comparisons suggest that Hawai'i fell behind in the 1990s—during the “lost decade”—when foreign investment dropped rapidly and the state's tourism boom lost momentum, but no new industries emerged to take its place. Continued dependence on tourism also leaves the state highly vulnerable to external shocks. The decline slowed as US tourism numbers grew, especially since 2014, but stagnation in overall tourism spending means Hawai'i incomes have grown more slowly than US incomes, creating an income gap.

The decline in the 1990s created a lasting structural break in Hawai'i's economy, and the slow growth that followed, particularly after the Great Recession, now puts the state at risk of slipping into the ranks of lower-income, economically-distressed states. The gap between Hawai'i and the rest of the US may now be a central force driving residents to seek opportunities elsewhere.

Figure 8: Real per capita personal incomes, US states and US overall, 1950-2024, Real 2024 USD



Source: Bureau of Economic Analysis.

Note: Real per capita personal incomes deflated to 2024 dollars using the US CPI.

## Priced Out of Paradise, or Leaving Hawai'i Behind?

Hawai'i is expensive—and many residents are leaving. Similar patterns appear in other high-cost US cities, where even affluent metros have begun losing population as living costs strain households. Yet Hawai'i's dominant industry, tourism, has stagnated for decades, creating a situation that looks less like those booming, high-cost cities and more like “left-behind” regions, where people move not primarily because life is costly, but because economic opportunities have not kept pace.

**So, are Hawai'i residents being priced out of paradise like those in affluent, high-cost cities? Or is Hawai'i's experience closer to that of left-behind places, where residents leave because opportunity increasingly lies elsewhere?** To explore this question, this section examines how domestic migration relates to differences in local prices and incomes across US states and metropolitan areas. We then use these results to assess Hawai'i's situation.

### What predicts migration by state—prices or incomes?

To consider these drivers in a broader context, we first categorize states by combinations of income and prices, and how they align with domestic net migration. While of course both prices and incomes shape migration patterns, most states fall into easily identifiable groups in which one of these factors clearly shows the stronger association with in- or out-migration (see Figure 9 and Table 1):

- **Thriving:** High-income states attracting residents despite high prices—places where strong economies draw people in.
- **Priced Out:** High-income, high-cost states losing residents as affordability pressures push people out, despite higher incomes.
- **Left behind:** Low-income states with outmigration, reflecting limited economic opportunity.
- **Priced In:** Low-cost states gaining residents, where affordability outweighs lower incomes.

A few exceptions stand out. A small set of states combine high incomes with relatively low prices, attracting new residents through both opportunity and affordability; we label these **Thriving and priced In**. Minnesota and Nebraska lose residents despite high incomes and relative affordability, indicating that non-economic factors (such as climate, quality-of-life preferences, or fewer lifestyle amenities) may play a larger role; we label this group **Outmigration for non-economic reasons**. Arizona, Delaware, Florida, and Nevada attract newcomers even though they have higher-than-average prices and below-average incomes, suggesting migration driven by lifestyle or amenity preferences. Because these states sit close to the national average on both measures, we label them **Marginal**, as neither factor shows a clear association with domestic migration.

**Table 1: Domestic net migration, incomes, and prices, 2008-2023**

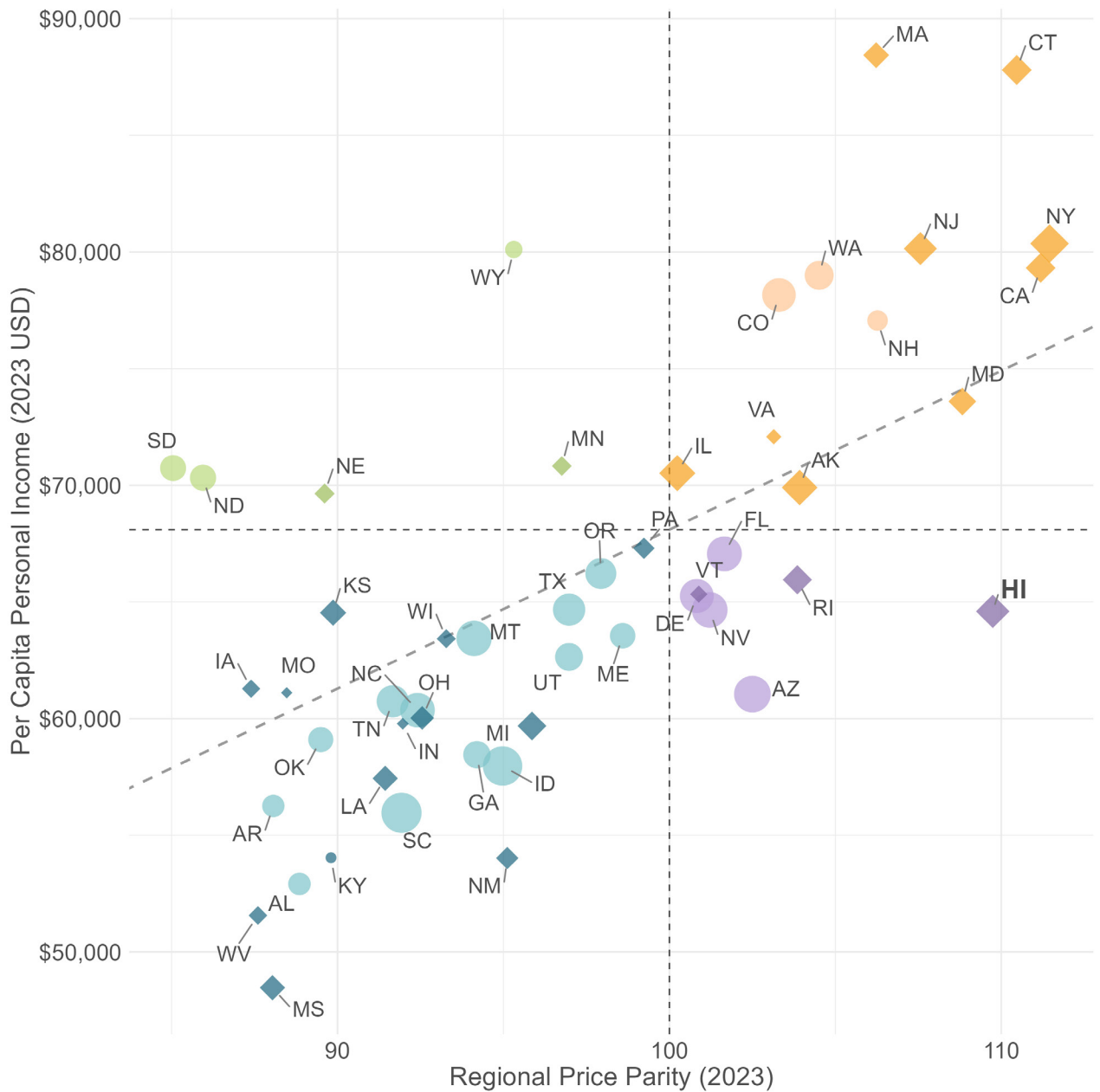
	<b>Below-average prices</b>	<b>Above-average prices</b>
Above-average income, below-average migration	<i>Thriving and priced in:</i> North Dakota, South Dakota, Wyoming	<i>Thriving:</i> Colorado, New Hampshire, Washington
Above-average income, below-average migration	<i>Outmigration for non-economic reasons:</i> Minnesota, Nebraska	<i>Priced out:</i> Alaska, California, Connecticut, Illinois, Maryland, Massachusetts, New Jersey, New York, Virginia
Below-average income, above-average migration	<i>Priced in:</i> Alabama, Arkansas, Georgia, Idaho, Oklahoma, Oregon, Maine, Montana, North Carolina, South Carolina, Tennessee, Texas, Utah	<i>Marginal:</i> Arizona, Delaware, Florida, Nevada
Below-average income, below-average migration	<i>Left behind:</i> Indiana, Iowa, Kansas, Kentucky, Louisiana, Michigan, Mississippi, Missouri, New Mexico, Ohio, Pennsylvania, West Virginia, Wisconsin	<i>Priced out and left behind:</i> <b>Hawai'i</b> , Rhode Island, Vermont

Source: Assigned categories using BEA data.

Hawai'i stands apart from other states. It falls into a very small group—alongside Rhode Island and Vermont—with both higher-than-average prices and below-average incomes. Yet Hawai'i is by far the most extreme case; the others sit much closer to national averages. This group reflects characteristics of being both **priced out and left behind**, but because both forces push migration in the same direction, it is difficult to determine whether Hawai'i's outmigration is more tied to affordability pressures or to weak economic performance—bringing us back to the core motivating puzzle.

**Figure 9: State Incomes and Prices (2023) and Domestic Migration (2008–2023)**

*Hawai'i stands out for its high prices, modest incomes, and persistent outmigration.*



Source: BEA data

## What predicts migration by city—prices or incomes?

To better understand domestic migration patterns, we look at how migration rates across 384 US metropolitan statistical areas differ in relation to local prices and incomes. By examining metropolitan area data, rather than states, we can also identify when cities move in opposite directions, within states, which would be hidden in the statewide totals above. We then use these results to shed light on migration patterns in Hawai'i.

In Hawai'i, the metropolitan areas include 'Urban Honolulu' and 'Kahului-Wailuku-Lahaina,' though these statistical area units are far larger than their names suggest, encompassing all of O'ahu and Maui County, respectively. The BEA's RPP data are available for metropolitan areas, but not rural and micropolitan regions, so Kaua'i and Hawai'i Island, could not be included. Even so, the patterns at the metropolitan area level still provide useful context for interpreting migration pressures on those islands.

Our statistical analysis does not identify *cause and effect*. Instead, they describe how migration is *associated* with differences in prices and incomes across cities. In other words, we cannot say that high prices or low incomes *caused* people to leave O'ahu or Maui—or any specific metro area—but we can estimate the degree to which migration tends to align with each factor.

Migration can also influence prices and incomes: places in high demand often see rising housing costs, and changes in the local labor supply can affect wages. To reduce these feedback effects, we compare migration to the previous year's prices and incomes. We also include metro and year indicators to account for persistent local characteristics—such as climate, geography, or industrial structure—and for nationwide trends over time. The model can be summarized as:<sup>4</sup>

$$\text{Net Migration}_{i,t} = y \text{Income}_{i,t-1} + p \text{RPP}_{i,t-1} + \text{local}_i + \text{time}_t + \text{residual}_{i,t}$$

Here,  $y$  and  $p$ , show how migration rates vary with income and prices. The *local* and *time* terms capture the metro-specific general trend patterns, while the *residual* reflects short-term, city-specific changes. Each city counts equally, so the results reflect cross-city comparisons, not individual relocation choices.

**Table 2: Predicted migration rate flows in 2023 by component, selected cities**

Metro Area	Income	Price	Local	Residual	Total
Urban Honolulu, HI	-0.01%	-0.26%	-0.94%	-0.22%	-1.09%
Kahului-Wailuku-Lahaina, HI	-0.14%	-0.18%	-0.07%	-0.53%	-0.57%
Las Vegas-Henderson-Paradise, NV	-0.15%	0.08%	0.65%	-0.68%	0.23%
San Francisco-Oakland-Berkeley, CA	0.98%	-0.35%	-1.14%	-1.01%	-1.19%
Los Angeles-Long Beach-Anaheim, CA	0.24%	-0.27%	-0.95%	-0.57%	-1.21%
San Diego-Chula Vista-Carlsbad, CA	0.19%	-0.29%	-0.43%	-0.75%	-0.94%
Orlando-Kissimmee-Sanford, FL	-0.30%	-0.01%	0.76%	-0.17%	0.62%
Seattle-Tacoma-Bellevue, WA	0.53%	-0.28%	-0.29%	-0.91%	-0.62%
Miami-Fort Lauderdale-Pompano Beach, FL	0.27%	-0.24%	-0.59%	-0.79%	-1.00%

*Note: Predicted flows based on regression results and income differences with the US per capita income. The "Time" effect reflects the national average shift (-0.34% in 2023), capturing broader migration trends between urban and rural areas and between cities of different sizes, leading to an average migration rate across all cities of -0.34%.*

<sup>4</sup> In the regression, incomes and prices are logged, while the migration rate is expressed as a share of each city's population. The resulting coefficients are semi-elasticities—they show how much the migration rate (in percentage points) changes for a 1% change in incomes or prices, holding other factors constant.

As expected, migration is associated with both prices and incomes. Higher local prices correspond to lower in-migration (or higher out-migration), consistent with people moving toward places with lower costs of living. In contrast, higher local incomes are associated with higher in-migration, reflecting the incentive to move toward stronger labor markets and away from areas with lower wages.

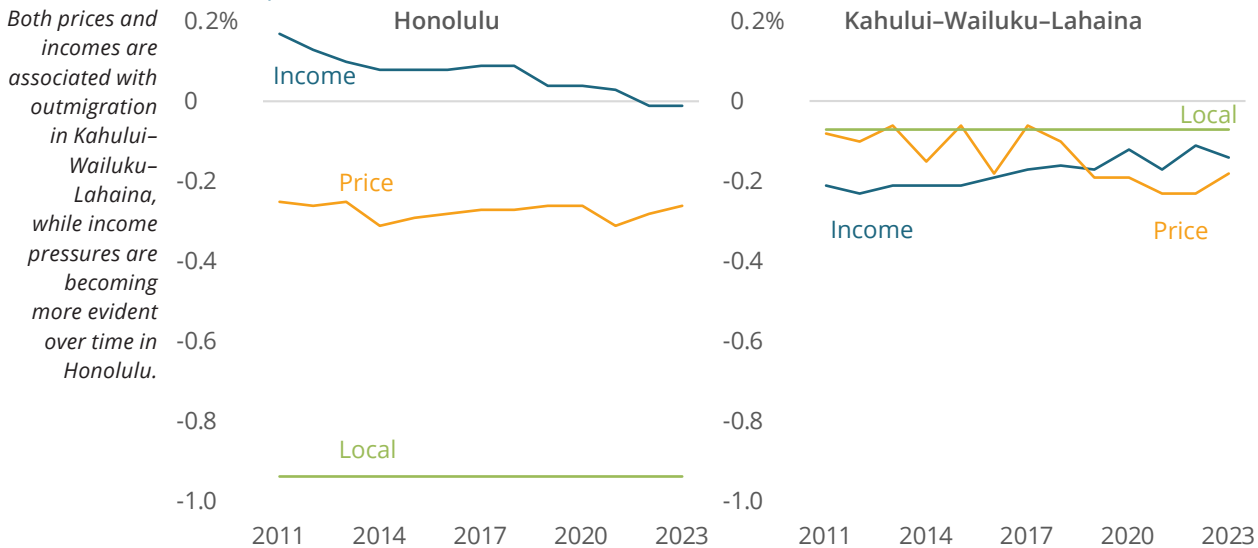
In the regression, a 10% higher price level is linked to a reduction in a city’s net domestic migration rate of about 0.21 percentage points, while a 10% higher income level is linked to an increase of about 0.16 percentage points. These estimates are modest but align with the idea that households respond to both cost-of-living differences and income opportunities. Both relationships are statistically strong.

At first glance, prices appear to have a somewhat larger association with migration than incomes, though the difference is not large. However, these estimates also need to be interpreted in the context of each city’s actual price and income levels. By applying the estimated coefficients to each metro area’s conditions, we can approximate how much of its migration rate is aligned with prices or incomes. This helps clarify the relative roles of affordability compared to earnings, or to other factors not captured directly in the regression (see Table 2).

Many mainland metros show offsetting forces. As with states, for most cities, one factor clearly dominates: either higher prices discouraging inflows or higher incomes drawing people in (or vice versa for low prices and low incomes). High-cost cities such as San Francisco and Los Angeles attract residents through higher incomes despite losing some to high prices. In contrast, metros such as Orlando and Las Vegas continue to attract people despite lower wages, driven by affordability or perceived opportunity.

As already noted above, Hawai’i’s pattern is different. In both Honolulu and Kahului–Wailuku–Lahaina, prices and incomes point in the same direction, with high prices and comparatively low incomes each associated with outmigration. To better understand Hawai’i’s circumstances, we also examine how the model-predicted components of domestic migration evolve over time (see Figure 10). Unlike the table above, we do not plot residuals or total migration, focusing instead on the predicted income- and price-related components.

**Figure 10 Estimated domestic migration rate components in Honolulu and Kahului–Wailuku–Lahaina, 2011-2023**



Note: Predicted flows based on regression results and income differences with the US per capita income.

In Honolulu, the price component accounts for roughly half of Honolulu's predicted outmigration, while incomes contribute only slightly—and only in 2022 and 2023, when prior-year incomes fell below the U.S. average. But the negative trend for the income-predicted component may soon approach the strength of price pressures. For now, however, the estimates suggest residents are pushed out more by high prices than by low incomes.

Most outmigration from Honolulu, though, appears tied to persistent local factors. Honolulu's amenities coexist with structural constraints—limited new housing, chronic congestion, and concerns about K-12 schools and the narrow range of higher-education and career pathways. Changes in the US defense presence also matter: a steady decline in military dependents over the past 15 years has contributed to net population outflows. Altogether, these persistent local pressures predict nearly as much outmigration as actually occurs, indicating that many residents leave for reasons beyond the measurable economic tradeoffs of low incomes and high prices.

In Kahului–Wailuku–Lahaina, prices and incomes contribute roughly equally to predicted outmigration, but this impression is somewhat misleading. Before 2019, the income component contributed more than prices, but its influence weakened during the pandemic and the price component increased. Federal stimulus programs temporarily supported local incomes, and because Maui's economy contracted more sharply than most, these transfers had a proportionally larger impact on Maui. As a result, Kahului–Wailuku–Lahaina's incomes rose relative to the U.S. average during COVID-19, reducing predicted outmigration—even though underlying conditions had in fact worsened. Put simply, federal support seems to have *temporarily* reduced predicted outmigration pressures by strengthening household incomes.

With stimulus effects fading, the income gap widened again in 2023, and the model would predict greater outmigration in 2024. On top of wildfire-related outmigration from Maui, the 2023 wildfires will also likely intensify both income- and price-related pressures by reducing tourism employment and straining local housing.

Unlike Honolulu, Kahului–Wailuku–Lahaina's local effects are close to neutral—suggesting that the area's amenities and lifestyle advantages are roughly balanced by its disadvantages, producing little additional push or pull beyond what prices and incomes predict.

While Kaua'i and the Big Island were not included in the analysis because they are not classified as metropolitan areas, their likely patterns can still be inferred. Like Maui, Kaua'i combines high living costs with a dominant tourism industry, suggesting that price pressures would likely play a substantial role. On the Big Island, conditions likely diverge between Kona and Hilo: Kona's tourism-heavy economy may resemble Maui, whereas Hilo's lower living costs imply that income-related pressures would be the stronger force for outmigration there.

Taken together, these patterns show that Hawai'i's outmigration is far more complex than a simple story of being “priced out of paradise.” It reflects the combined influence of slow income growth, high living costs, and long-standing local constraints that shape opportunities and quality of life. These forces vary substantially across islands. Overall, price-related pressures appear to dominate in Honolulu, while income-related pressures represent a larger component of predicted outmigration in other counties—and are becoming increasingly important in Honolulu as well.

## What do price-adjusted incomes imply about domestic migration?

We also estimate a very similar model using incomes that are adjusted for local prices to capture the combined effect of income and cost of living on domestic migration rates. This specification does not distinguish whether prices or incomes matter more on their own, but it provides a useful summary measure of how differences in real purchasing power are associated with migration patterns. The model can be summarized as:<sup>5</sup>

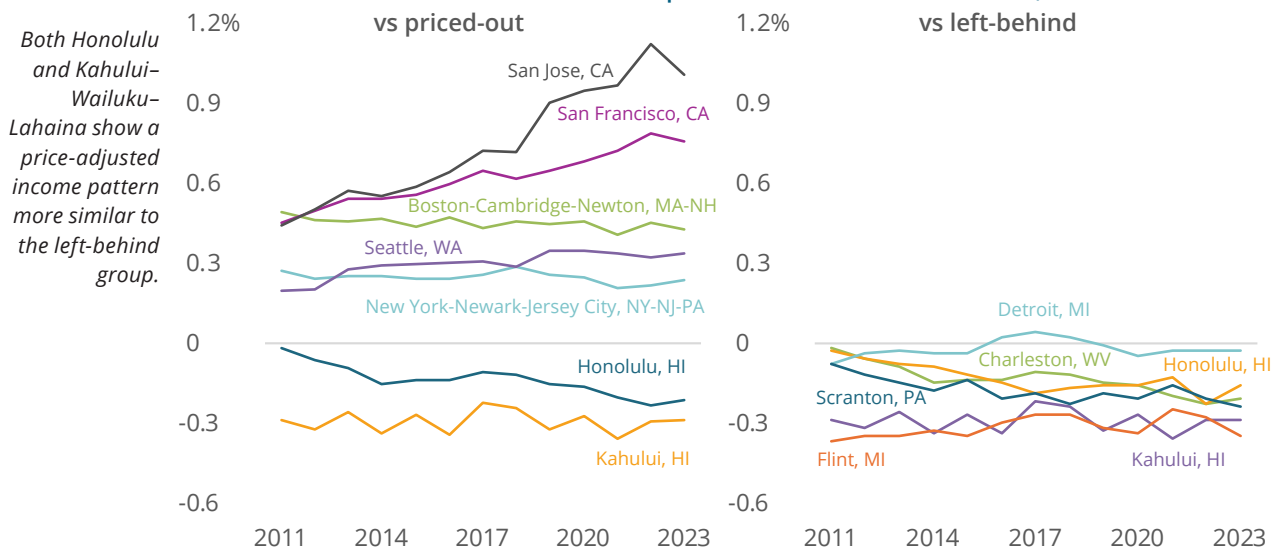
$$\text{Net Migration}_{i,t} = y_p \frac{\text{Income}_{i,t-1}}{\text{RPP}_{i,t-1}} + \text{local}_i + \text{time}_t + \text{residual}_{i,t}$$

where  $y_p$  measures how predicted migration rates vary with price-adjusted incomes. The results indicate that a 10% higher real income level is associated with roughly a 0.17-percentage-point increase in net in-migration—an effect similar in magnitude to the combined influence of prices and incomes in the earlier models.

We apply this estimate to each city to derive the price-adjusted-income component of local domestic migration. Figure 11 compares Honolulu and Kahului–Wailuku–Lahaina with metropolitan areas commonly described as “priced out” and others viewed as “left behind.” The priced-out metros are high-income, high-cost cities where rapid growth and rising housing costs reduce affordability. The left-behind metros, by contrast, experience weak income growth and limited opportunity, resulting in persistently low real incomes that coincide with outmigration.

Both Honolulu and Kahului–Wailuku–Lahaina exhibit a price-adjusted-income component that more closely resembles the left-behind group. In other words, although high prices contribute a substantial share of predicted outmigration from Hawai‘i, the overall pattern aligns more with economically distressed regions than with the classic high-income places where even middle-income residents are “priced out.” Taken together, these patterns position Honolulu and Kahului–Wailuku–Lahaina closer to the economic profile of left-behind metros than to high-income, high-cost regions. This motivates extending the price-adjusted approach to evaluate how Hawai‘i compares with the rest of the nation across broader measures of economic performance.

**Figure 11 Estimated price-adjusted-income component of domestic migration rate, Honolulu and Kahului–Wailuku–Lahaina vs selected priced-out and left-behind cities, 2011-2023**



Note: Predicted flows based on regression results and income differences with the US per capita income.

<sup>5</sup> Incomes are first adjusted for prices by RPP/100. As above, price-adjusted incomes are logged, while the migration rate is expressed as a share of each city’s population. The resulting coefficients are again semi-elasticities—they show how much the migration rate (in percentage points) changes for a 1% change in price-adjusted incomes (either a 1% change in prices, or a 1% change in incomes, or some combination of the two for a total change of 1%), holding other factors constant.

# Adjusting Economic Measures for Local Prices

Overall, outmigration appears to reflect the experience of residents in these, “left-behind” regions, even though we estimate prices to play the greater role. To further understand this dynamic, we need to consider both together. Nominal economic indicators often obscure Hawai‘i’s true conditions. Because prices are higher, each dollar earned buys less than it would elsewhere.

This raises a critical question: should Hawai‘i’s economic performance be evaluated in the same dollars as other states? Just as economists adjust for inflation to compare trends over time, it makes sense to adjust economic performance indicators for geographic price differences when comparing across places.<sup>6</sup> This approach allows us to examine affordability and economic performance together. This section re-examines Hawai‘i’s economic performance together in the context of its high cost of living. While both affordability and weak growth shape relocation decisions, combining these explanations allows us to see which trends truly dominate the narrative.

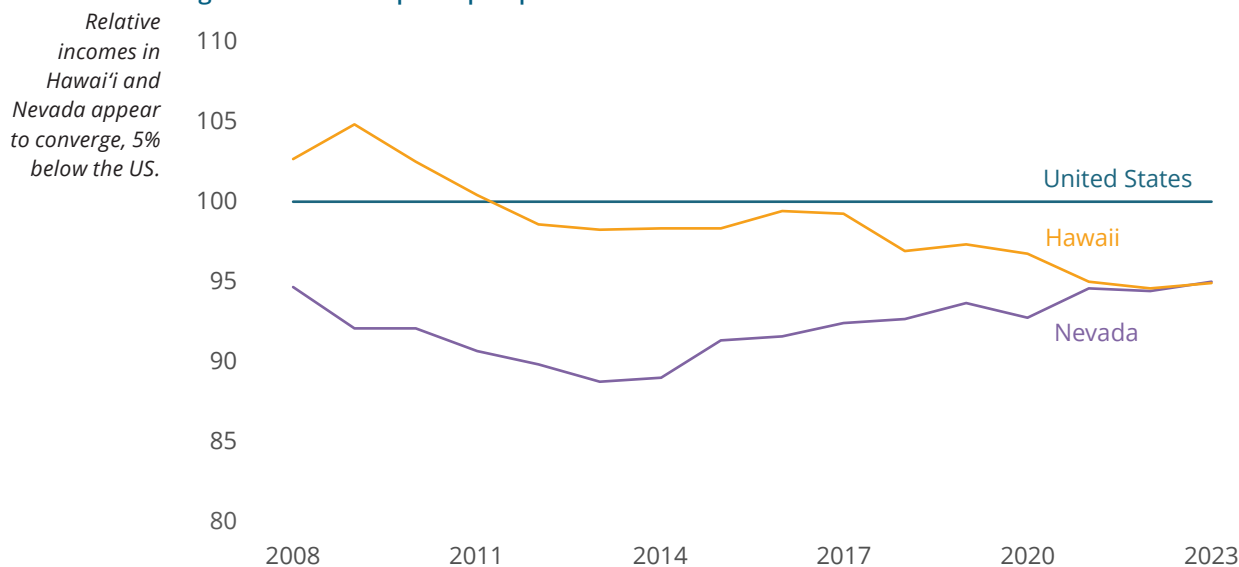
## Combined analysis of affordability and growth

The BEA now produces interstate comparisons using its Inter-regional Price Deflator (IRPD), which adjusts for both local inflation (via the US PCE Price Index) and regional price differences (via the BEA’s RPP index). We apply these same adjustments to a broader set of indicators. We also compare states relative to the national average to identify which are surging ahead—or falling behind.

First, to illustrate how these relative income and price adjustments work, the next figures compare only Hawai‘i and Nevada to the US before expanding to other states and measures of performance. Figure 12 shows per capita incomes relative to the US, at 100, so that the levels reflect relative income.

In 2023, both Hawai‘i and Nevada had per capita incomes about 5% below the US average. The chart suggests a converging trend between the two states: Hawai‘i’s relative income has declined steadily since 2008, while Nevada’s dropped sharply during the Great Recession but later recovered.

**Figure 12: Relative per capita personal income in Hawai‘i and Nevada 2008-2023**



Source: Author calculations with data from the Bureau of Economic Analysis.

<sup>6</sup> Other structural differences—such as household sizes and high rates of part-time employment—also affect headline indicators like income and unemployment, but are beyond the scope of this analysis.

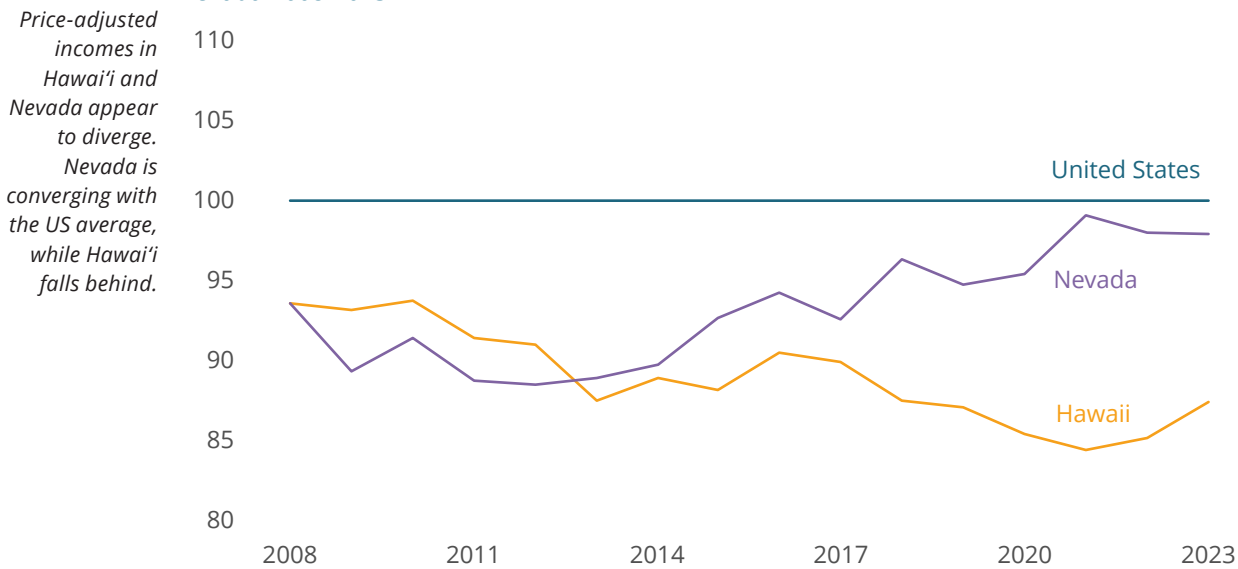
Figure 13 shows the same comparison after adjusting for local price levels using the BEA's RPP rates that measure differences in the prices of all consumption goods. The chart shows how the actual purchasing power of incomes in Hawai'i is 8-11% lower than nominal figures imply. In Nevada, however, the real purchasing power of incomes is slightly higher than nominal figures show in recent years, whereas before 2013 real purchasing power in Nevada was slightly less. This is because the relative cost of living in Nevada declined over this period, boosting growth in the purchasing power of incomes, in addition to nominal income growth. Hawai'i on the other hand has had relatively constant, but elevated price levels that reduce local purchasing power.

Adjusting for local prices reverses the earlier interpretation that Hawai'i and Nevada were converging. Hawai'i's RPP-adjusted income begins near 95% of the US average in 2008 and falls to around 85% by 2023. In contrast, Nevada's adjusted income rises from below 95% in 2008 to almost match the national average, reflecting a decline in its cost of living.

As such, adjusting for local prices can produce very different conclusions from the unadjusted data. While the adjustment mostly affects the *level* of each economic indicator, rather than its *growth rate*, it can alter growth trends when relative price levels also change. Because Nevada's cost of living declined over this period, adjusting for prices raises its real income growth. In contrast, Hawai'i's cost of living remained relatively stable, albeit high, so the growth trend is unchanged—but its real income level is significantly lower once adjusted for local prices.

Now we apply these adjustments to all states and examine per capita personal income, household income, per capita GDP, and labor productivity. In each of the subsections below, we first show the unadjusted relative level, and then the levels adjusted for local prices using the BEA's RPP rates. We also consider the geographic-price-adjusted levels in metropolitan areas, which in the State of Hawai'i includes Honolulu and Kahului-Wailuku-Lahaina, to show both that these conclusions also apply at the city level, and to reveal any regional nuances within Hawai'i. We also reexamine long-run economic growth rates after adjusting for local prices.

**Figure 13: Geographic-price-adjusted relative per capita personal income in Hawai'i and Nevada 2008-2023**

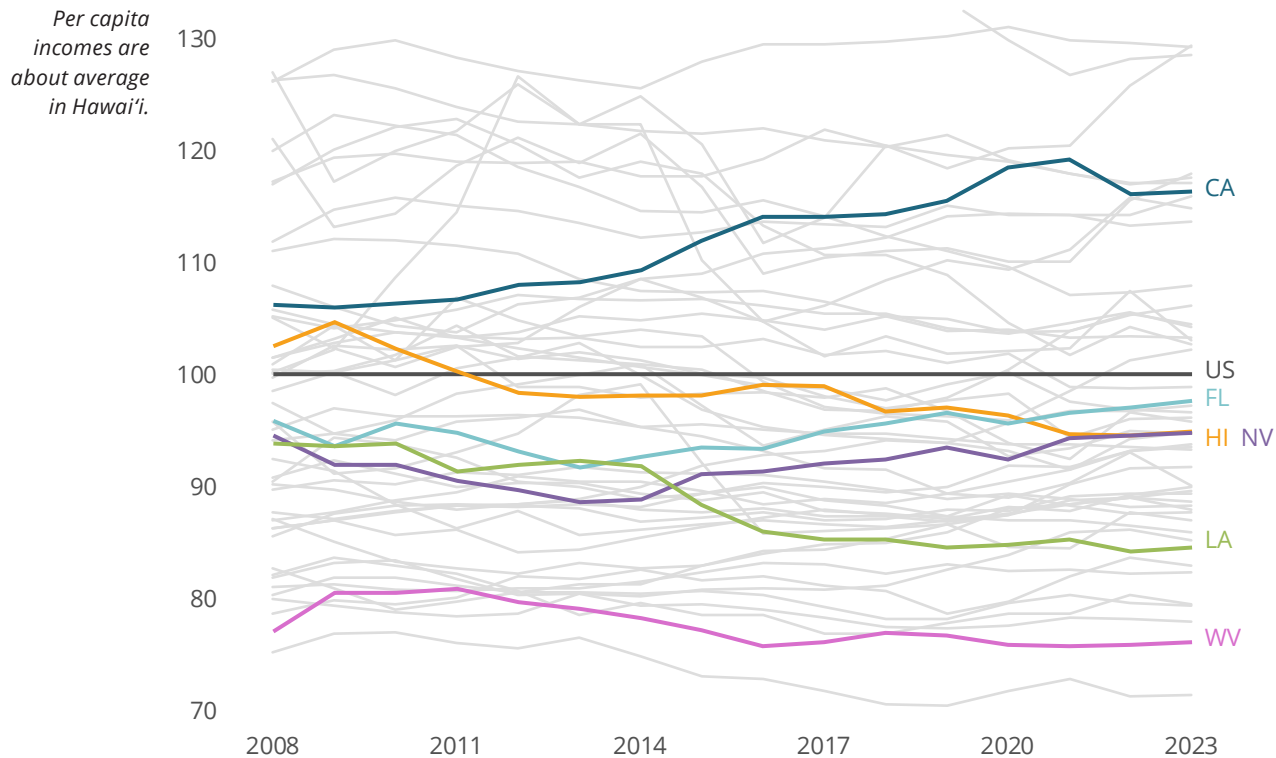


Source: Author calculations with data from the Bureau of Economic Analysis

## How do Hawai'i incomes compare?

Comparing Hawai'i's income levels to the US overall, and other states, shows that incomes have hovered around the national average since 2008 (See Figure 14), with some decline over time as Hawai'i recovered more slowly from the Great Recession and the COVID-19 pandemic. Interestingly, incomes actually spiked during both crises due to large federal support programs.

Figure 14: Relative per capita personal income by state, indexed to the US average, 2008-2023



Note: Real PCPI adjusted for inflation using the US CPI.

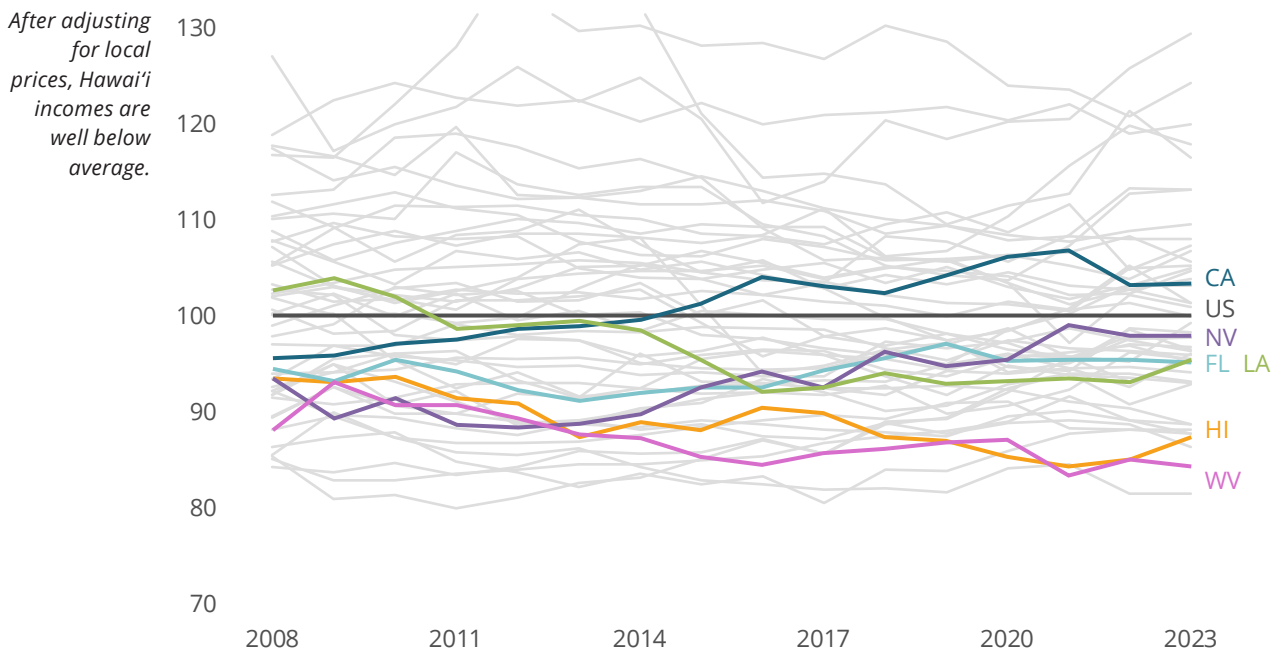
Source: Author calculations using BEA data.

But because we're comparing relative incomes across states, nationwide shocks don't tend to appear in relative income levels—furthermore, regions hit harder by income losses received more aid, offsetting the declines. As a result, divergences only emerge during the recovery periods, once income supports were withdrawn and underlying economic differences reasserted themselves.

When we adjust per capita personal income for local prices (measured by the BEA's RPP), Hawai'i falls well below the national average (see Figure 15). In contrast, many lower-income states, where goods and housing are far cheaper, move up in the rankings. As a result, Hawai'i now sits just above Alabama and West Virginia, meaning the average income in Hawai'i has roughly the same purchasing power as average incomes in those states.

Unlike other expensive states such as California, where high wages and strong productivity help offset living costs, Hawai'i combines high prices with below average nominal incomes. Since 2008, its relative position has gradually eroded while thriving places like California have surged ahead. Hawai'i's stagnant real income growth, coupled with a high cost of living, leaves residents with less purchasing power than nearly anywhere else in the country, a pattern that mirrors economically distressed states rather than thriving high-cost areas.

**Figure 15: Relative RPP-adjusted per capita personal income by state, indexed to the US average, 2008-2023**



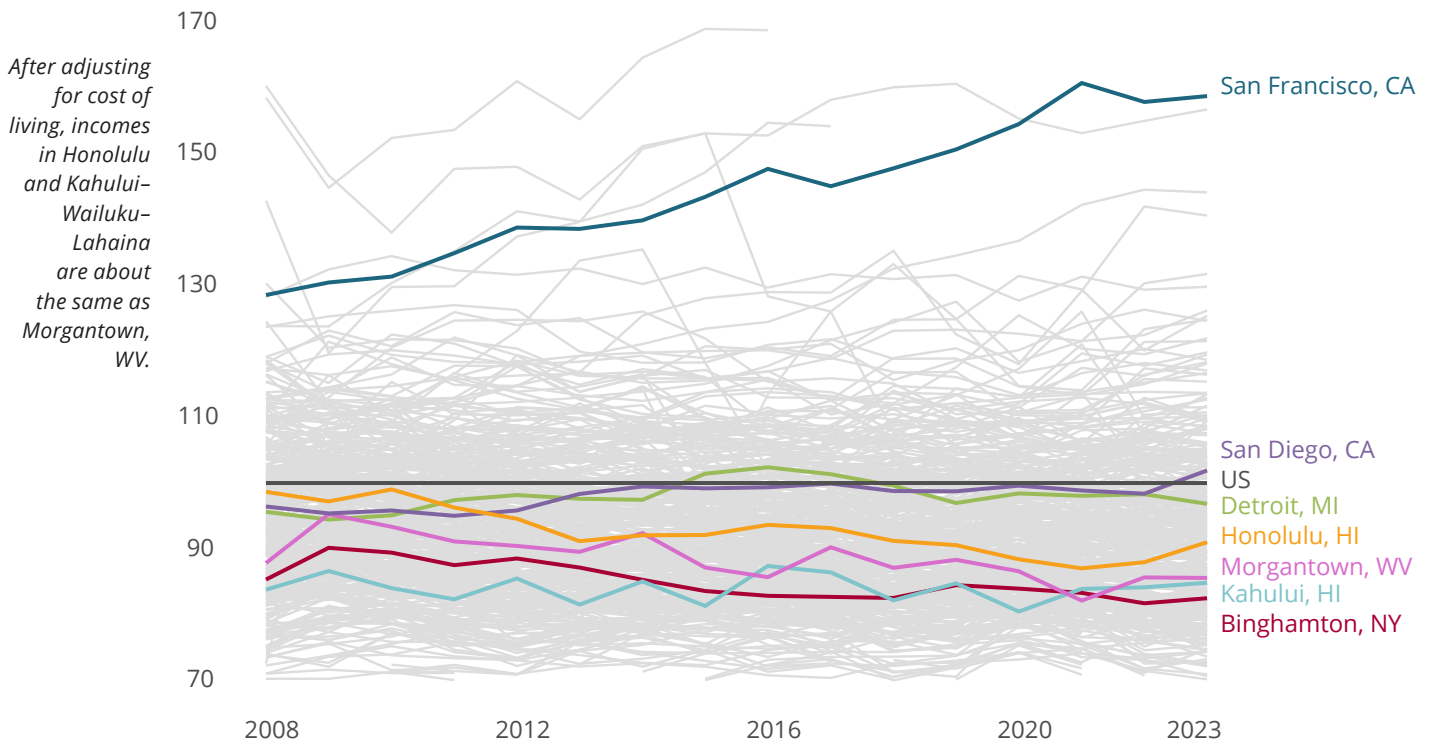
Note: Real PCPI adjusted for inflation using the US CPI.  
Source: Author calculations using BEA data.

Similar observations can be made about cities (See Figure 16). Average incomes in San Francisco are still about 60% higher than the US overall, even after accounting for its extraordinary cost of living. This is the usual pattern. Places with high incomes tend to have higher prices, and places with lower incomes tend to have lower prices, but adjusting for local prices compresses the range of incomes and doesn't fundamentally change the rank order of cities.

Hawai'i is a notable exception to the usual pattern. While nominal incomes in Honolulu and Kahului-Wailuku-Lahaina are around the national average, they fall well below it once adjusted for local prices—90% of US incomes in Honolulu and 83% in Kahului-Wailuku-Lahaina. These levels are comparable to places like Morgantown, West Virginia, where low prices elevate adjusted incomes despite modest wages. Honolulu and Kahului-Wailuku-Lahaina still rank slightly above more distressed cities such as Binghamton, New York, and Bangor, Maine. But among high-cost regions, Hawai'i's cities (and San Diego) stand out: its cities offer little wage premium to offset expenses, placing them firmly in the ranks of low-income areas once prices are factored in.

In sum, nominal incomes in Hawai'i are roughly at the US average, but once local prices are accounted for, the state ranks among the lowest states in the nation. Furthermore, from 2008 to 2023, Hawai'i also underperformed other states, particularly in recovering from the Great Recession and the COVID-19 pandemic. As a result, incomes trended downward and now sit well below average. Typically, high-cost regions offer higher wages to offset expenses, so adjusting for prices doesn't change their relative standing. Hawai'i offers no such tradeoff—high costs but average nominal incomes leave residents with less purchasing power than standard figures imply.

**Figure 16: Relative RPP-adjusted per capita personal income by MSA, indexed to the US average, 2008-2023**



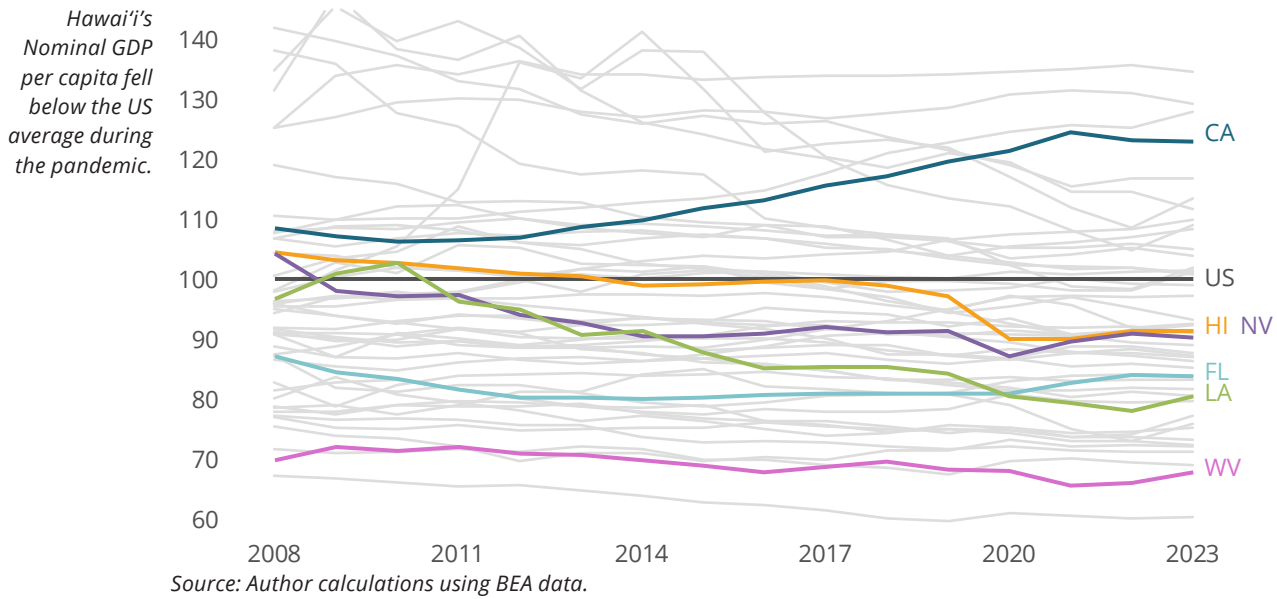
Note: Real PCPI adjusted for local price levels using the BEA's RPPs.  
 Source: Author calculations using BEA data.

### How does Hawai'i's GDP compare?

To assess economic performance, we next turn to Gross Domestic Product (GDP), the standard measure of overall economic activity. We compare GDP per capita across states, indexing each to the US average (=100), and then adjust for local price levels to capture real purchasing power. Finally, we examine outcomes at the metropolitan level.

Hawai'i's per capita GDP roughly tracked the US average from 2008 until the pandemic (See Figure 17). The sharp relative decline during COVID-19 reflects the pandemic's greater impact in Hawai'i, given its greater exposure to tourism, which collapsed whenever the virus spiked and when travel restrictions were imposed. Because the chart shows income relative to the US average, downturns only appear when a state's economy contracts more severely than the nation as a whole—as Hawai'i's did.

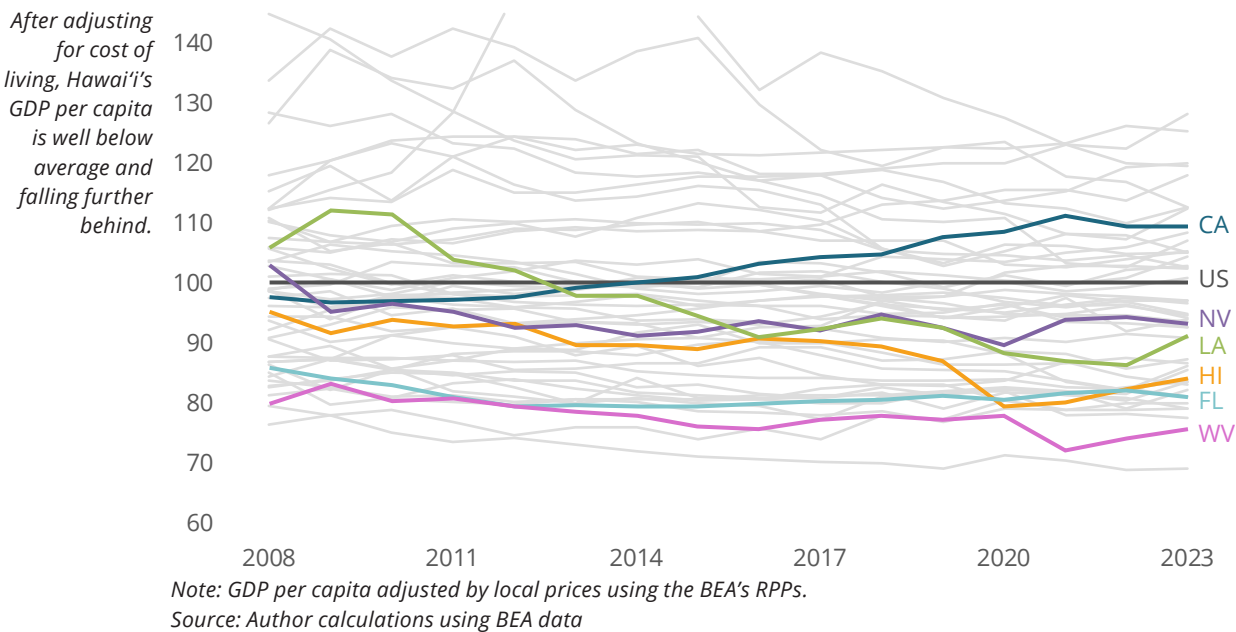
**Figure 17: Per capita GDP by state, relative to the US average, 2008-2023**



By contrast, Nevada’s relative decline followed the Great Recession, when its recovery lagged behind the rest of the country. Florida’s per capita GDP remains consistently lower than other states, in part due to its large retired population, while West Virginia continues to lag near the bottom of the distribution.

Adjusting for local prices compresses the differences between states (see Figure 18). High-cost states usually have higher nominal GDP, so price adjustments rarely change the rank order of states. California remains among the top performers and West Virginia among the lowest. Hawai’i, however, is one of the few states that again breaks this pattern—its real GDP per capita falls to well below average. The same decline appears beginning after the Great Recession and worsening after 2020, but now from an already much lower level. While Florida’s lower output partly reflects its large retiree population, Hawai’i’s weakness is more structural: even with a far higher nominal GDP per capita, its RPP-adjusted level now sits alongside New Mexico.

**Figure 18: RPP-adjusted per capita GDP by state, relative to the US average, 2008-2023**



The pandemic's impact is invisible in most of these charts because they show values relative to the US per-person average. Since GDP fell nationwide in 2020, and most states were affected similarly, those declines cancel out in the comparison. Likewise, most states rebounded at a pace close to the national recovery.

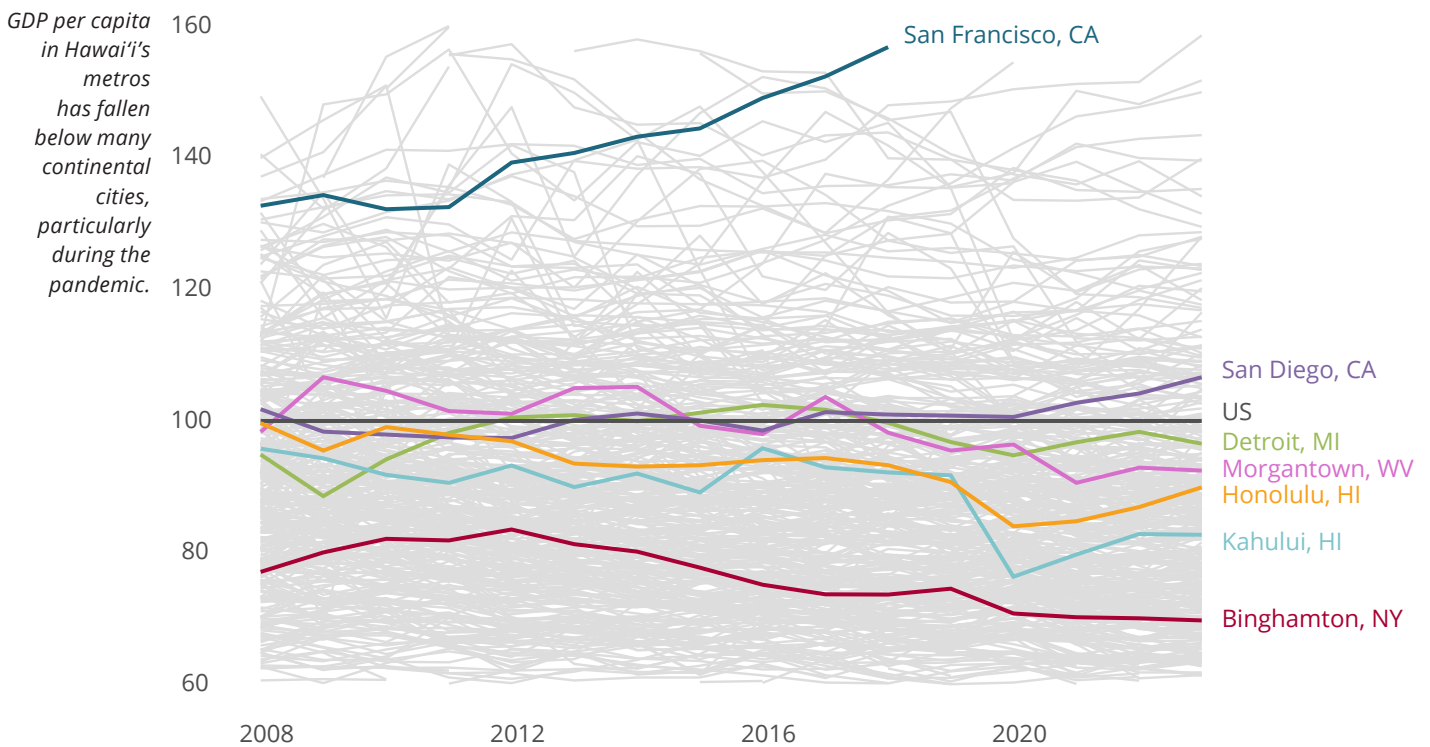
Hawai'i is an exception. The state's dependence on tourism led to a sharper downturn and a slower rebound. By 2023, Hawai'i's price-adjusted GDP per capita remained among the lowest in the country—below Nevada, which recovered faster in price-adjusted terms, partly because its cost of living fell. This pattern reinforces the earlier income comparison: once cost-of-living differences are taken into account, Hawai'i's economy looks more like that of struggling regions than of high-cost, high-income states.

Adjusting metropolitan-area per capita GDP for local prices (Figure 19) shows that both Honolulu and Kahului–Wailuku–Lahaina remain below the US average and continue to drift downward. Honolulu's decline has been gradual, reflecting long-term stagnation in productivity and rising living costs. Kahului–Wailuku–Lahaina follows a similar trend but experienced a sharp drop during the pandemic, which caused a deeper and more prolonged setback due to Maui's heavier reliance on tourism.

By 2023, Honolulu's adjusted GDP per capita had slipped below Detroit, Michigan, and Morgantown, West Virginia—two historically struggling cities, now showing modest recovery—while Kahului–Wailuku–Lahaina sits only slightly above Binghamton, New York, one of the most distressed metros in the country. Both Hawai'i metropolitan areas have lost significant ground relative to San Diego, California, which maintains higher productivity despite also facing high and increasing living costs.

Together, these patterns suggest that Hawai'i's economic challenges are not just about high prices, but also about weak productivity growth, driving a downward relative trend that leaves its major cities performing more like lagging inland metros than dynamic coastal economies.

**Figure 19: Relative RPP-adjusted per capita GDP by MSA, indexed to the US average, 2008-2023**



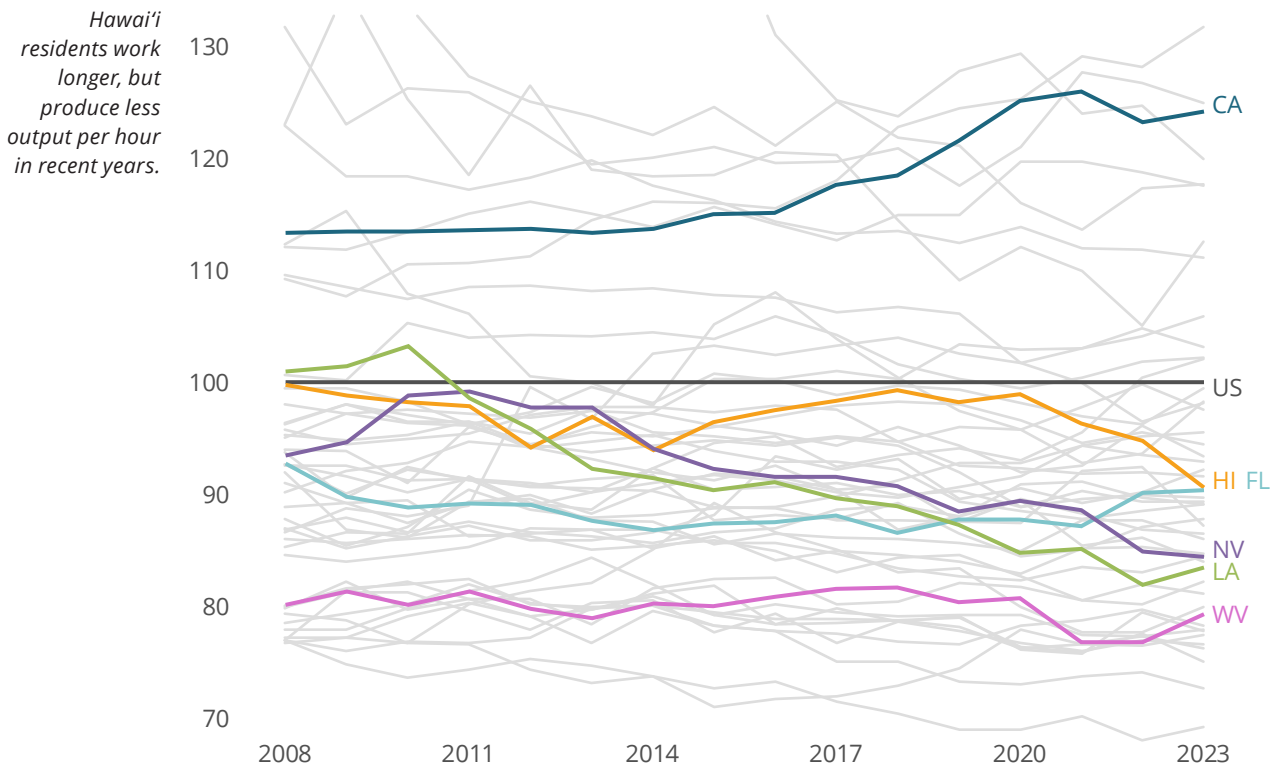
## How does Hawai'i's labor productivity compare?

Both incomes and GDP per capita capture economic performance. Still, when prices are high and incomes are low, people in Hawai'i often respond by working more hours, for example, by taking a second or even third job. This boosts incomes and output, but these measures do not capture the extra effort and stress of working longer hours. Labor productivity—output per hour worked—describes how efficiently an economy turns work into value. Productivity is a fundamental driver of wages, competitiveness, and long-term growth. If Hawai'i struggles to produce enough value per hour worked, it is difficult to lift wages. We compare Hawai'i's labor productivity with that of other states, using both nominal and price-adjusted measures, to gauge how effectively Hawai'i's workforce converts effort into output.

In relative nominal terms, Hawai'i ranks slightly lower on GDP per hour worked (See Figure 20) than on GDP per capita. Even before adjusting for prices, Hawai'i's output per hour worked sits around 10% below the US and has trended downward over time. This reflects a key structural feature of the state's economy: residents work more hours, often in multiple jobs, to offset high living costs, yet those additional hours generate relatively modest output. The outcome is an economy where extra work compensates for high prices, rather than reflecting stronger productivity.

Relative productivity in Hawai'i declined after the Great Recession, recovered modestly, and declined again after 2020—dropping to around 90% of the national level by 2023. This weaker performance following both downturns reflects a mix of cyclical shocks and deeper structural constraints. Hawai'i's core industries—tourism, retail, and accommodation—are labor-intensive and generate relatively lower value added per hour compared with higher-productivity sectors like technology, advanced manufacturing, or financial services that drive growth elsewhere. Tourism is also highly sensitive to fluctuating demand, as seen during the Great Recession and the COVID-19 pandemic.

**Figure 20: Private GDP per hour worked by state, relative to the US average, 2008-2023**



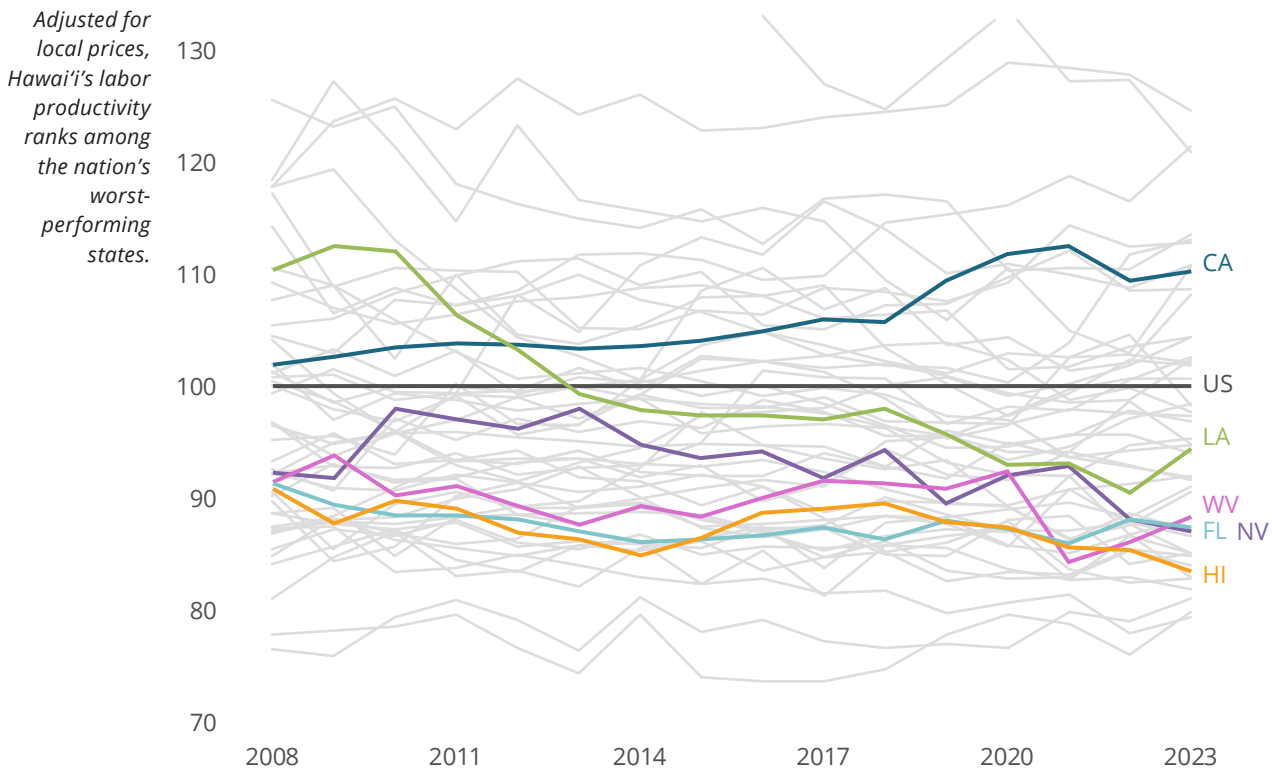
Source: Author calculations using BEA data

Even so, Hawai'i still ranks above Nevada, Louisiana, and West Virginia—but those states have far lower living costs. Hawai'i's productivity is roughly comparable to Florida's, which is unaffected by its large retiree population since this measure accounts only for hours worked.

After accounting for local prices, Hawai'i's relative position again falls to be among the worst-performing states (See Figure 21), alongside Kentucky and Tennessee. In low-income or economically distressed states like West Virginia or Mississippi, low productivity also results in fewer jobs and fewer hours worked. Their output per hour is not as weak as GDP per capita or incomes imply; for those states' incomes and GDP are dragged down by the lack of opportunity. But the lower cost of living means people can get by despite fewer hours, lifting their price-adjusted output. Unfortunately, hours worked data were unavailable for metropolitan areas, so we could not repeat the analysis for cities as we did with the other measures above.

In contrast, Hawai'i combines similarly weak productivity with much higher costs, so economic strain appears less as unemployment or shorter hours, and more as outmigration or the need to work multiple jobs just to get by. The output per hour worked in Hawai'i is comparable to that of West Virginia, but the burden is heavier for unemployed residents facing higher living costs. This pattern highlights how low productivity—especially in a service-heavy, tourism-dependent economy—amplifies the pressures behind outmigration: if people can earn similar incomes or work fewer hours on the continent, leaving becomes an increasingly attractive proposition.

**Figure 21: Relative RPP-adjusted Private GDP per hour worked by state, indexed to the US average, 2008-2023**



Note: GDP per hour worked adjusted by local prices using the BEA's RPPs.  
Source: Author calculations using BEA data

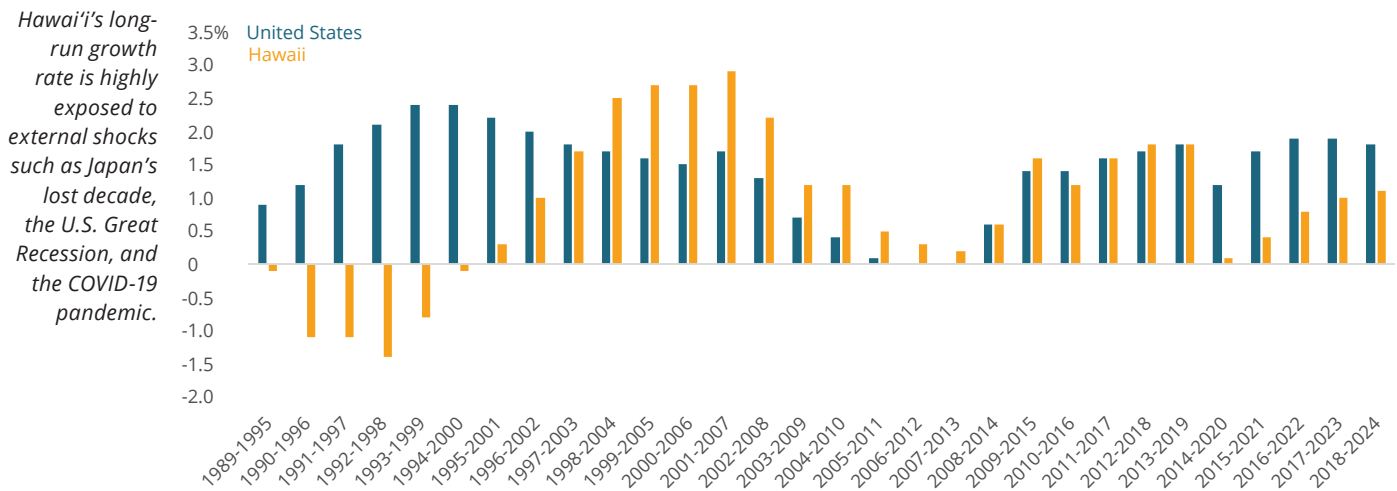
## How does Hawai'i's long-run growth rate compare?

Adjusting for local prices not only shows that Hawai'i lags other states in income, output, and productivity, but also reveals the relative trend in economic performance over time. To examine this further, we compare Hawai'i's *long-run* per capita economic growth rate, measured over rolling seven-year periods, with that of other states and the US overall between 1989 and 2024. Seven-year periods strike a balance between short-term volatility and longer-run structural shifts, making them a meaningful window for assessing sustained economic performance. Using a *rolling average* avoids arbitrary time-frame selection and helps reveal persistent patterns.

Compared to the US as a whole, Hawai'i's seven-year average per capita growth rate was consistently lower than the US during the 1990s and any period that included the COVID shock (Figure 22). Most notably, real long-run growth rates turned negative for the seven-year periods from 1989-1995 and through 1994-2000. While this can be linked to the fallout from Japan's "lost decade," the Asian financial crisis, Hurricane Iniki, and other events in the '90s, these long-run growth rates suggest that the state endured a second lost decade from 2005 to 2014, albeit not as severe as the former one, and this time driven by US weakness.

While Hawai'i experienced stronger growth than the rest of the country in the recovery period that followed the 2001 recession, this was after falling significantly behind during the lost decade. In each case, an external shock—the collapse of Japan's economy, recessions, Hurricane Iniki, and the COVID-19 pandemic—erased years of gains.

**Figure 22: Long run average real growth rates, Hawai'i and US, Rolling 7-year periods, 1989-2024**



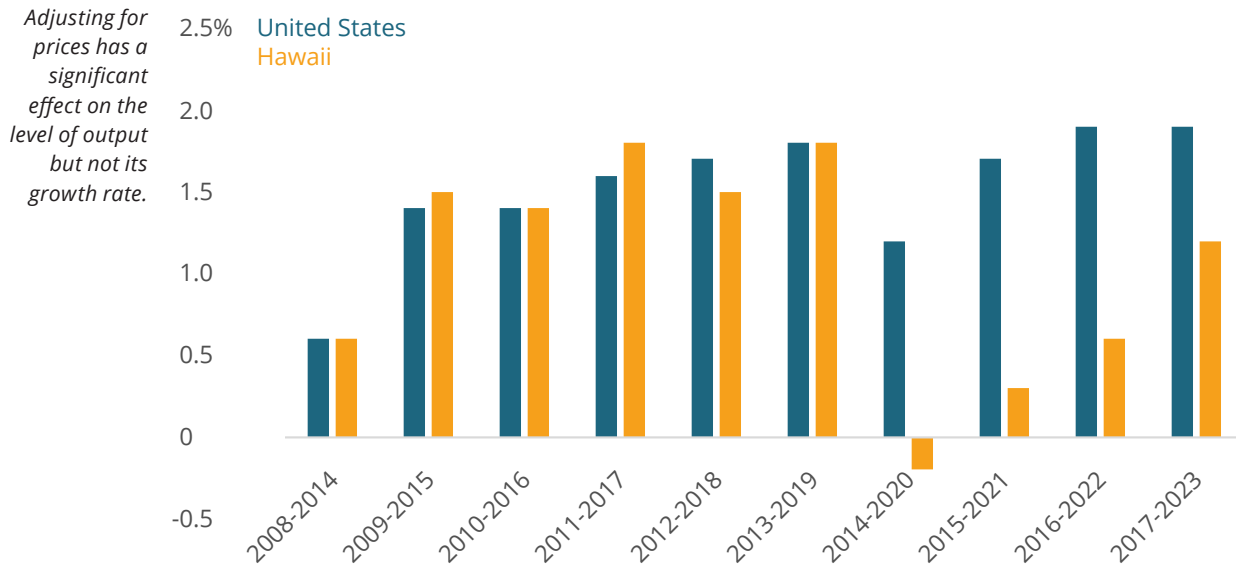
Notes: U.S. and Hawai'i per capita GDP are adjusted for inflation using the U.S. PCE Price Index. "Average" refers to the seven-year compound annual growth rate (CAGR).

Source: Author calculations using BEA data.

The seven-year windows overlapping the pandemic are also severe, with COVID-related losses dragging Hawai'i's compound annual per capita growth rate 1 to 1.5 percentage points below the US average. While shocks are usually associated with short-run fluctuations that shouldn't appear in long rolling averages, this comparison suggests that long run growth in Hawai'i is also exposed to external shocks.

When adjusting for local prices, the analysis covers the shorter period we considered earlier, as the BEA's index begins only in 2008 (see Figure 23). Adjusting for local prices has a significant effect on the *level* of output but not its growth rate—unless relative prices are also changing. Over this period, relative prices remained stable, such that Hawai'i's inflation mostly tracked the national average. As a result, growth rates are generally unaffected by the adjustment for local prices.

**Figure 23: RPP-adjusted long run average growth rates adjusted for local price levels, US and Hawai'i, Rolling 7-year periods, 2008-2024**



*Notes: U.S. and Hawai'i per capita GDP are adjusted for inflation using the U.S. PCE Price Index. Hawai'i per capita GDP also adjusted for local prices and differences in local inflation using the HI BEA RPP index.*

*Source: Author calculations using BEA data.*

Comparing seven-year growth rates across states (not shown) offers a more nuanced perspective, allowing direct comparison between Hawai'i and both underperforming and high-growth states. While Hawai'i is not always the weakest-performing state, as other states drop below Hawai'i, state growth rates tend to fluctuate as states often experience strong recoveries after downturns. Hawai'i, by contrast, frequently fails to recover the ground it lost relative to the rest of the nation.

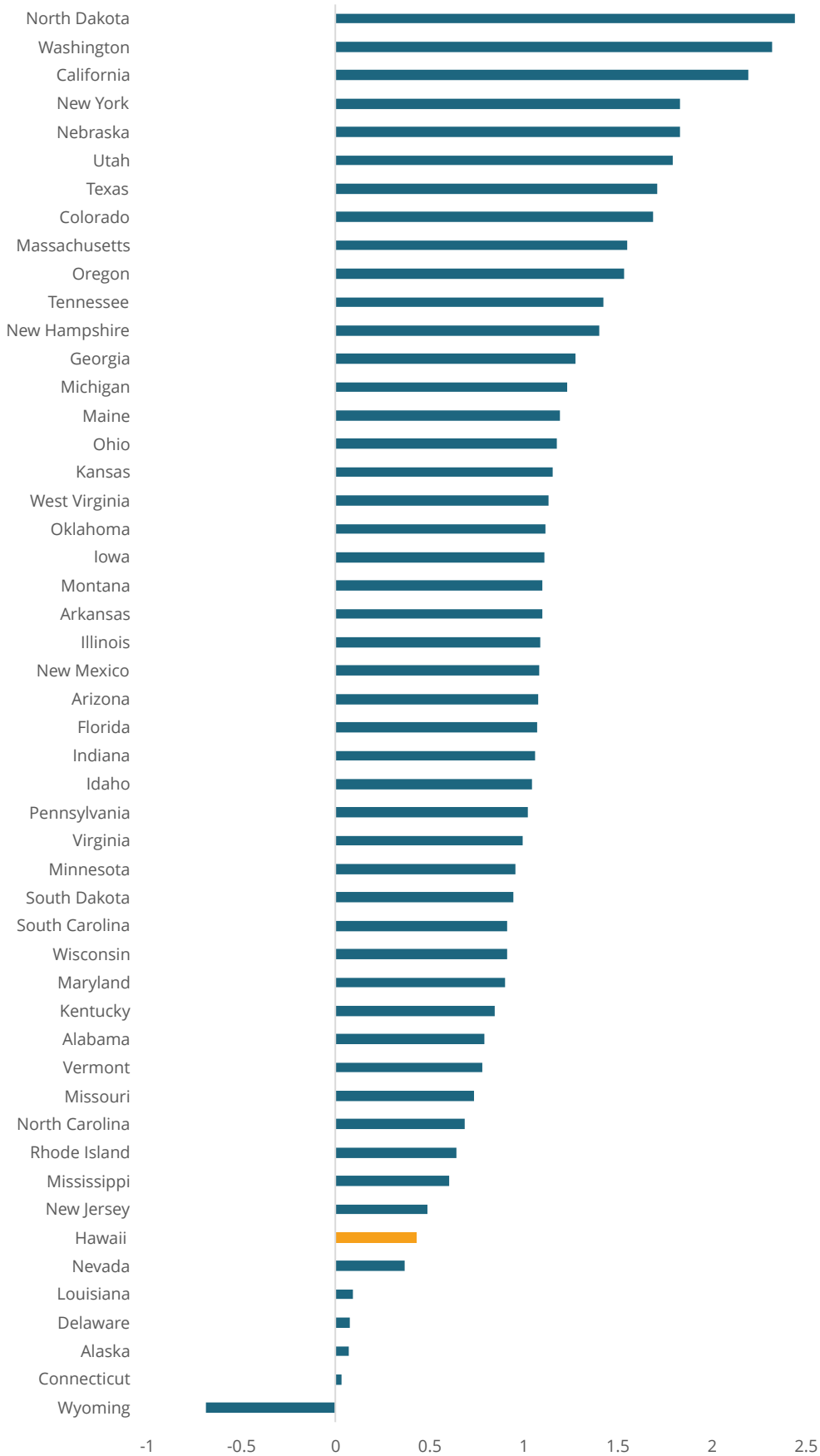
As with the comparison to the US, when we adjust for local prices over the shorter 15-year period, Hawai'i's relative performance remains largely unchanged from the unadjusted case. Rather than showing each state's growth rate for every period, we rank states by their average compound annual growth rate from 2008 to 2023 (see Figure 24). On this measure, Hawai'i ranks among the weakest performers.

As with GDP, income, and productivity, adjusting for local prices compresses differences across states—since higher prices generally accompany higher incomes—but unlike the level-based indicators, Hawai'i's relative growth ranking changes little (see Figure 25).

Examining price-adjusted per capita GDP growth rates in cities gives much the same conclusion. Figure 26 shows average growth rates for the 50 largest metropolitan areas in the US, including Honolulu. Like the state comparisons, Honolulu ranks similarly, amongst the worst-performing large cities, whether or not we adjust for local prices. Along with Las Vegas, Honolulu ranks below Birmingham, AL, Fresno, CA, and Rochester, NY.

Figure 24: Real per capita compound annual growth rate by state, 2008-2023

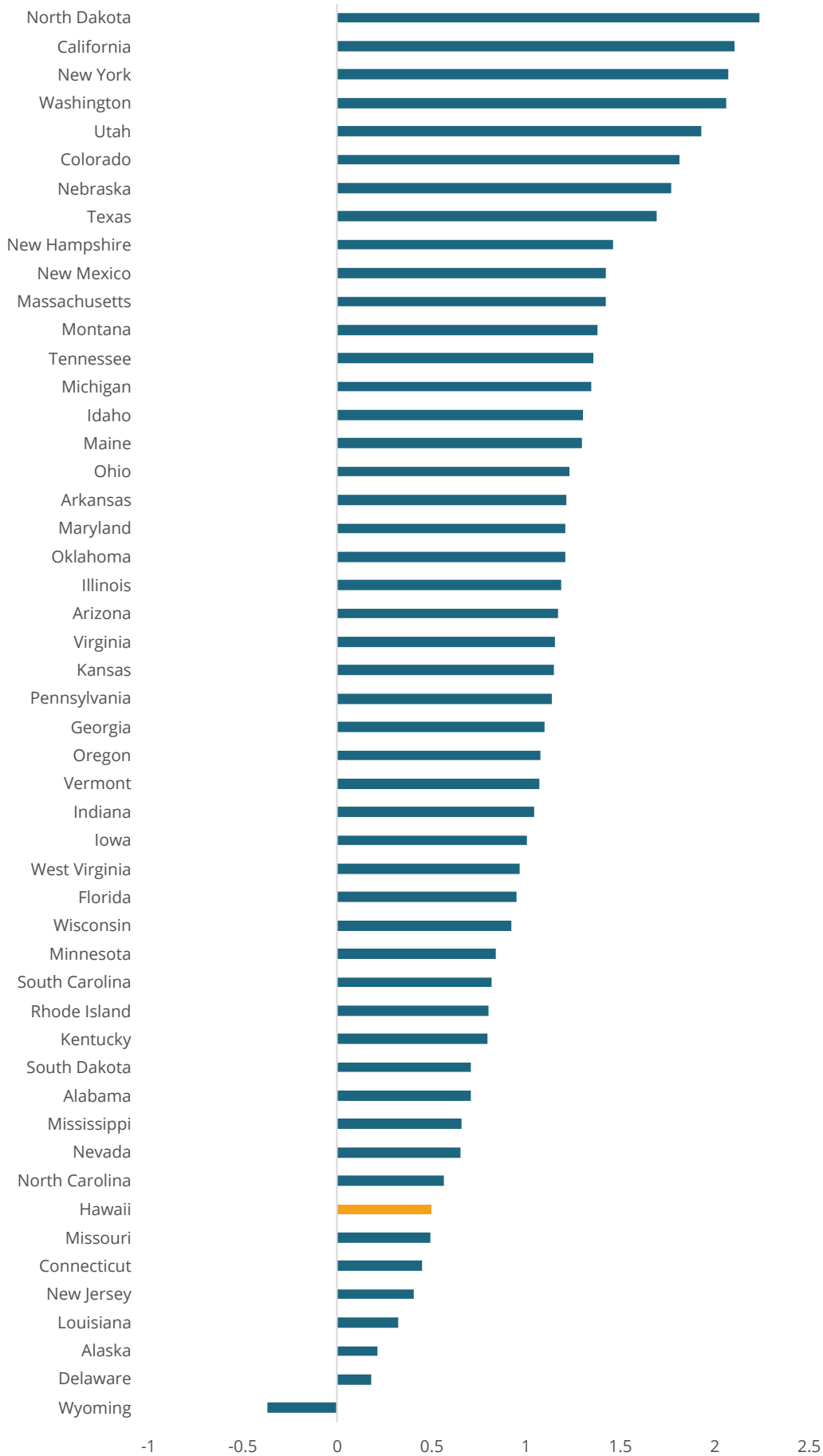
Long-run  
Hawai'i growth  
is far below  
US average  
and among  
the worst-  
performing  
states.



Source: Author calculations using BEA data

Figure 25: RPP-adjusted per capita compound annual growth rate by state, 2008-2023

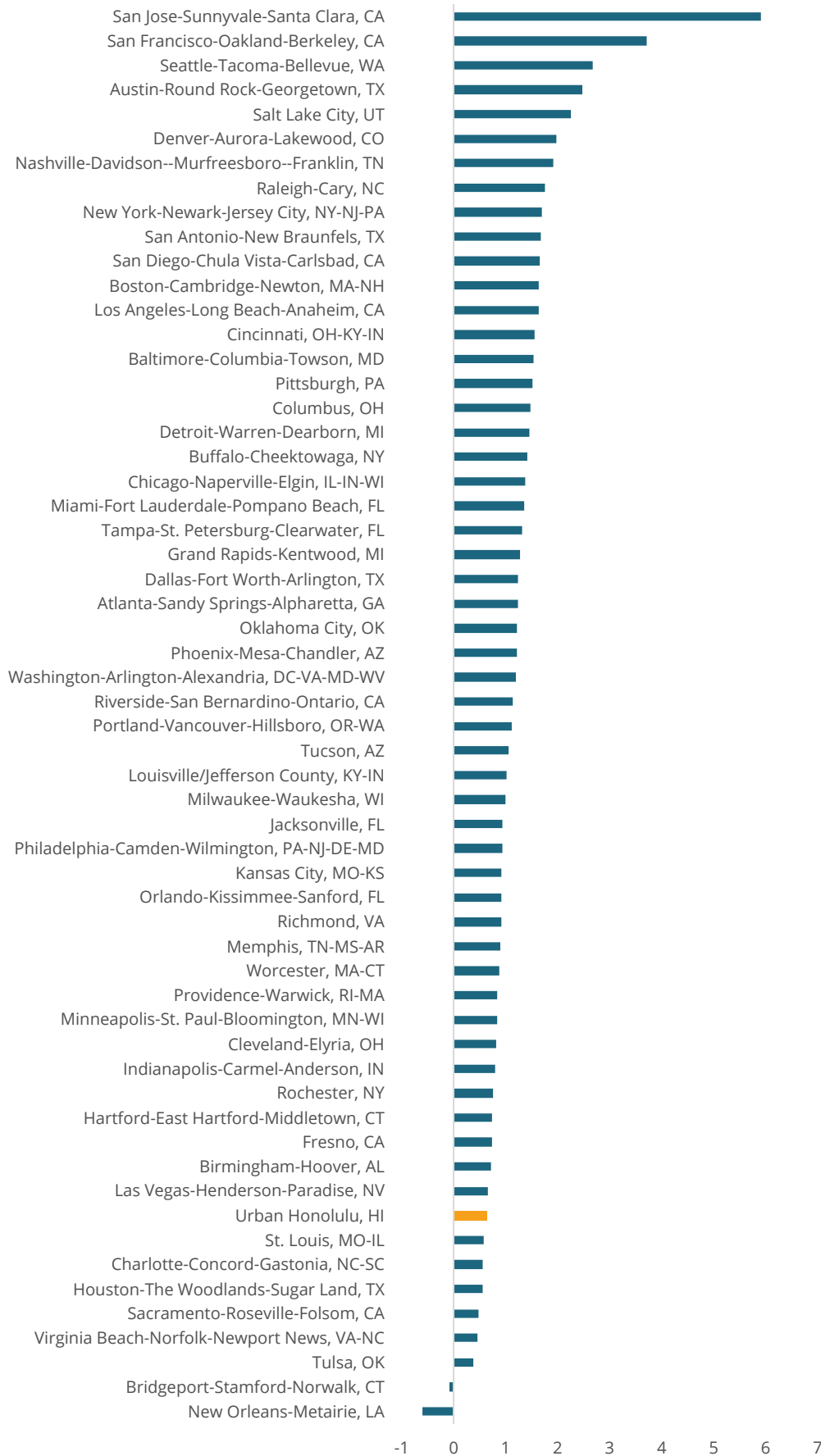
*Adjusting for local prices doesn't affect Hawaii's relative growth ranking, since relative prices are mostly stable.*



Author calculations using BEA data.

**Figure 26: RPP-adjusted average annual real per capita growth rate by MSA, 50 largest cities, 2008-2023**

*Honolulu incomes underperform most of America's large metropolitan areas.*



Note: Chart includes the 50 largest metropolitan statistical areas in the US.  
 Source: Author calculations with BEA data.

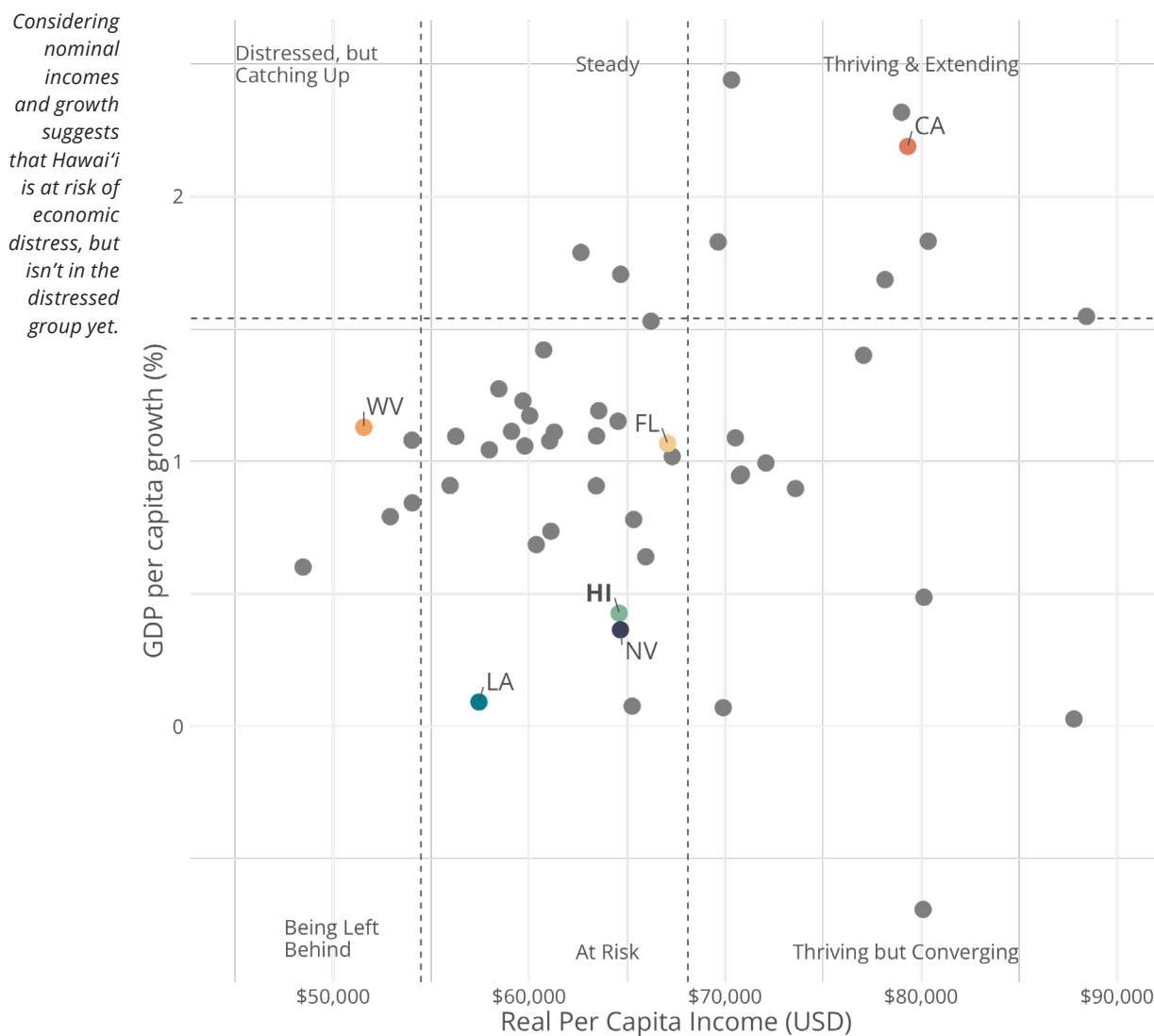
## How does Hawai'i's long-run economic trajectory compare?

Because cost-of-living differences mainly affect levels rather than growth, it is more informative to assess incomes and growth in tandem. Examining growth rates alongside economic performance levels highlights the broader trajectory of state and regional economies.

### Economic distress and growth

To better understand how states' economic trajectories compare, we classify them into six categories based on both relative per capita income levels in 2023 and relative average long-run growth rates from 2008 to 2023 (See Figure 27). States are described as “Thriving and extending” if they have above-average per capita incomes with above-average per capita growth rates. If these higher-than-average income states have less than average growth, we describe them as “thriving and converging”. States with moderate incomes—between 80 and 100 percent of the US average—are divided into “steady” (those growing faster than average) and “at risk” (those growing more slowly). States with incomes below 80 percent of the national average are considered “distressed but catching up” if their per capita growth rate exceeds the average, or “being left behind” when their per capita growth rate is below average. We use the 80 percent income threshold because it aligns with the EDA’s definition of economically distressed regions and its criteria for designating Economic Development Districts.

Figure 27: Real GDP growth by state, indexed to the US average 2008-2023, and incomes 2023

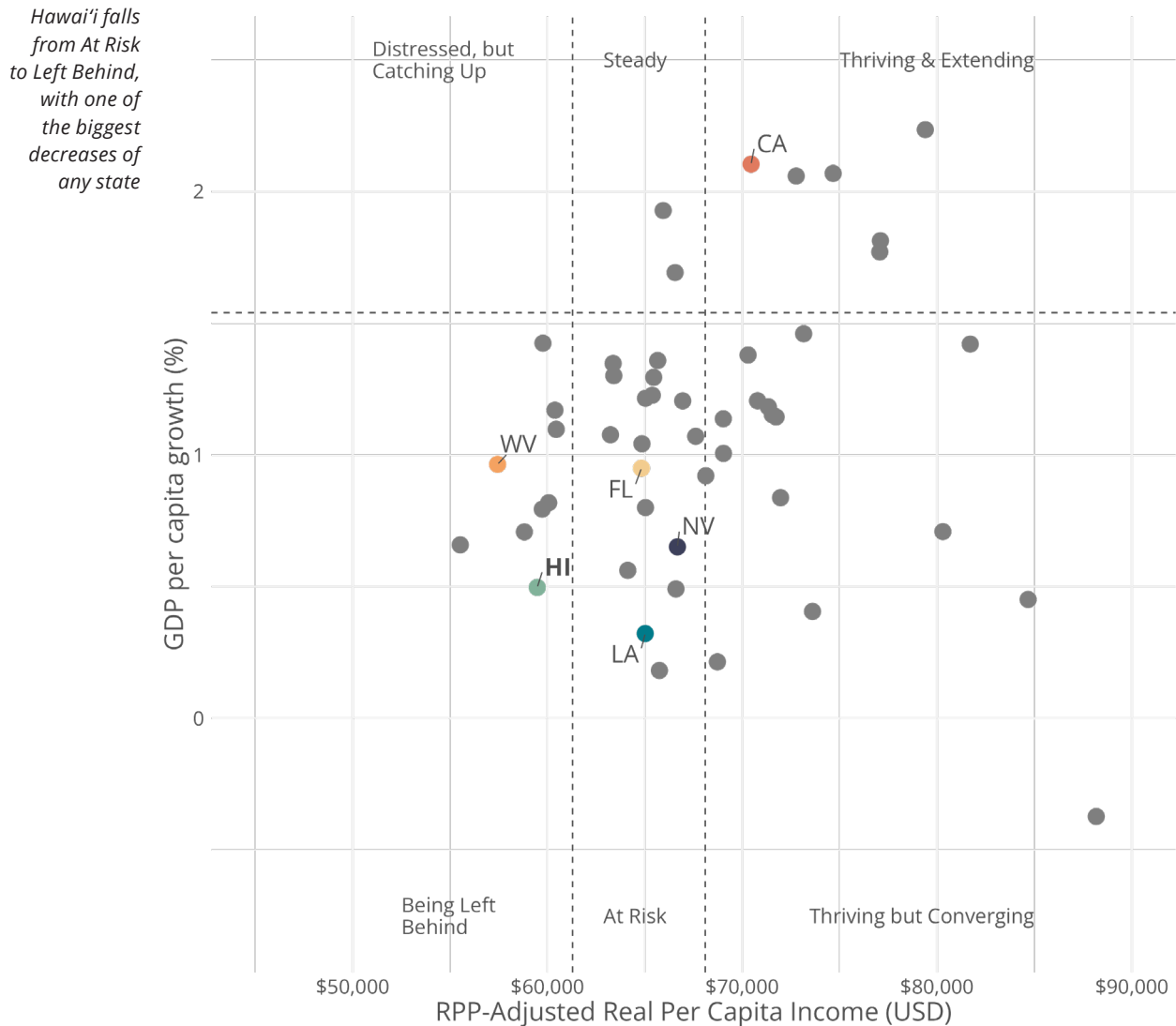


Source: Author calculations using BEA data

Under this allocation, Hawai'i falls into the “at-risk” group—states with below-average incomes and slower-than-average growth, making them vulnerable to slipping into the distressed or left-behind categories. Hawai'i is not alone: roughly half of all US states fall into this at-risk group. The left-behind states include Alabama, Kentucky, New Mexico, and Mississippi. None of the economically-distressed states are catching up when growth is measured over 2008-2023, though some may have experienced short-term catch-up during specific intervals.

When we repeat the classification after adjusting for local prices, we also adjust the distress threshold (See Figure 28). If we take the EDA’s definition of economic distress as a reasonable benchmark based on nominal incomes, the same states should still appear “distressed” even after adjusting for prices. However, because the overall range between states becomes smaller, we also raise the distress threshold—from 80% to 90% of the US average—to reflect this compression.<sup>7</sup>

**Figure 28: Compound average real GDP growth rate by state, 2008-2023, and per capita incomes 2023**



Hawai'i falls from At Risk to Left Behind, with one of the biggest decreases of any state

Source: Author calculations using BEA data

After adjusting for prices, GDP per capita improves in many “distressed” states because lower living costs stretch purchasing power—but since we also lifted the threshold for distress, most distressed states retain that classification. Similarly, high-performing regions are often expensive and have rising prices, so adjusting for local prices reduces the purchasing power of their higher

<sup>7</sup> In a separate paper (currently in progress), we estimate empirically that the price-adjusted threshold for economic distress is approximately 94.6%. Using a 90% cutoff here is therefore a conservative adjustment.

incomes and dampens growth—but these places are usually thriving enough to overcome the drag of high prices. In general, adjusting for local prices compresses the range of both income levels and growth rates, but it doesn't usually change each state's assigned category.

There are a few exceptions to this observation, including Hawai'i. Hawai'i's growth rate barely changes with this adjustment, but its classification shifts from “at risk” to “being left behind” due to the combined effect of local price adjustment on GDP per capita and on the distress threshold. In the unadjusted data, Hawai'i sat alongside Nevada, but after adjusting for local prices, it becomes one of the weaker-performing states in the nation.

Adjusting the distress threshold for prices also places Arizona, Georgia, South Carolina, and West Virginia in the “being left behind” category, while New Mexico moves into the “distressed but catching up” group as falling prices there lift its inflation-adjusted growth rate above average. Overall, these shifts underscore that local price differences can mislead our understanding of economic health: high-cost states are often less prosperous than they appear—and in a few cases, including Hawai'i, face levels of economic distress comparable to the nation's poorest states.

## Club convergence

There are alternative, data-driven ways to group states by economic performance, rather than relying on policy thresholds that determine economic distress. In a recent UHERO study, we analyzed regional “club convergence”—the idea that groups of similar states, or “clubs,” tend to move toward comparable income levels over time, even if those levels differ between groups (Bond-Smith and Lee, 2025b). That is, the method assumes that high-income, high-growth states tend to converge toward a shared higher level of income because they share conditions that foster productivity and innovation, while low-income, low-growth states cluster together because they lack the factors needed to sustain faster growth. The approach tracks how each state's per-person income evolves to identify which ones follow similar long-term economic paths, and determines how many different clubs emerge.

Using nominal per capita incomes, the analysis identified three broad trajectories:

1. High-income, high-growth states;
2. Middle-income, moderate-growth states; and
3. Low-income, low-growth states.

Hawai'i was placed in the middle group, performing close to the national average, though still currently in a downward trend within that group (See column 2 in Table 3). At first glance, that might suggest Hawai'i's economy is simply average—consistent with the view that prices, not productivity or income levels, are the main issue. But as with earlier analysis, Hawai'i's apparent stability in nominal terms conceals deeper structural weaknesses.

When incomes are adjusted for geographic price differences using the BEA's Regional Price Parities (RPP), a fourth ultra-low income and growth group emerges (See column 3 in Table 3). Some states shift categories as their real purchasing power of incomes rises or falls when we account for local prices—high-cost states and those with rising prices move downward, and low-cost states and those with falling prices move upward—but most maintain roughly the same long-run growth category. The pattern underscores that local prices partly reflect income levels, compressing the distribution but not erasing the underlying income and growth trends that determine group assignments. When states are reallocated, typically, lower-income lower-cost states move from the low-income group into the middle tier as their low cost of living increases the purchasing power of incomes and declining prices boost real growth. Similarly, several high-cost states—Hawai'i among them—slide downward, reflecting the lower purchasing power of incomes in high-cost places.

But Hawai'i falls further than most other high-priced states, sliding into the ultra-low-income and low-growth group because its weak growth trajectory places it among the nation's worst performers—again alongside West Virginia. This reassessment of Hawai'i's income path—now accounting for its higher cost of living—places its trajectory squarely alongside those long recognized as the most economically distressed states in the US. While this partly reflects Hawai'i's higher cost of living, the adjustment shifts emphasis on its nominal income level to its relatively lower growth path. Rather than confirming the priced out of paradise hypothesis, it underscores that slow growth is at least as important as high prices in shaping Hawai'i's economic reality.

**Table 3: Club assignments by income 2008-2023**

Club	Unadjusted incomes	Incomes adjusted for local prices
High Income High Growth	California, Colorado, Connecticut, Massachusetts, New Hampshire, New Jersey, New York, Oregon, Washington, Wyoming	California, Colorado, Connecticut, Massachusetts, New York, South Dakota, Utah, Wyoming
Average Income Average Growth	Alaska, Arizona, Arkansas, Delaware, Florida, Georgia, <b>Hawai'i</b> , Idaho, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Utah, Vermont, Virginia, Wisconsin	Arizona, Arkansas, Florida, Idaho, Illinois, Indiana, Iowa, Kansas, Maryland, Minnesota, Montana, Nebraska, Nevada, New Hampshire, New Jersey, North Dakota, Pennsylvania, Tennessee, Virginia, Washington, Wisconsin
Low Income Low Growth	Alabama, Kentucky, Louisiana, New Mexico, Oklahoma, West Virginia	Alabama, Alaska, Delaware, Georgia, Kentucky, Louisiana, Maine, Michigan, Missouri, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Rhode Island, South Carolina, Texas, Vermont
Ultra-low Income and Growth		<b>Hawai'i</b> , West Virginia
Divergent	Mississippi	Mississippi

*Adjusting for prices demotes Hawai'i into the ultra-low income and growth club, on a trajectory similar to West Virginia.*

*Source: Bond-Smith and Lee (2025b).*

### When did Hawai'i fall behind?

With incomes adjusted for geographic price differences using the BEA's RPP index, Hawai'i's economy now clearly sits well below the national average and appears on a trajectory that remains there. But when did this decline—after accounting for local prices—actually begin? The BEA's RPP data only extend back to 2008, limiting our ability to observe longer-run trends. To look further back, we use UHERO's CPI-based RPP, which links the BEA's RPP with Bureau of Labor Statistics city-level CPI data (Bond-Smith and Lee, 2025a), to capture cost-of-living differences over a much longer period.

Although this index captures prices only in major cities with published CPI data, it allows us to track Honolulu's performance relative to other CPI-covered cities. While not a perfect deflator, we also apply the Honolulu CPI-based RPP to adjust Hawai'i's economic trajectory relative to the US average across several decades.

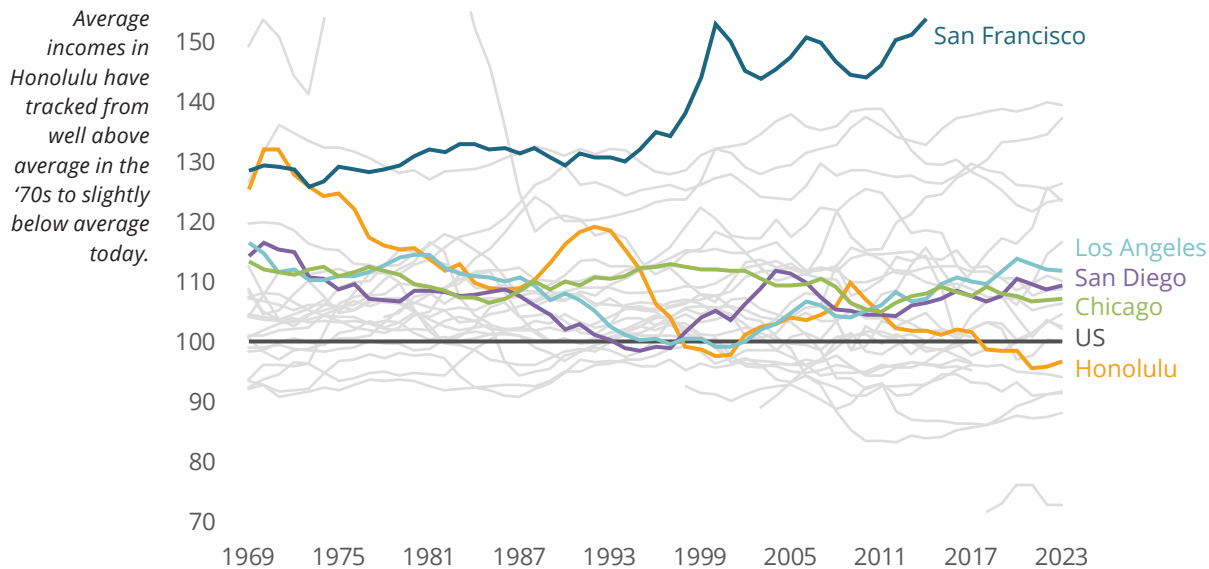
## Honolulu

Examining per capita income trends from 1969 onward—before adjusting for local prices—shows that Honolulu’s relative decline reflects both the “lost decade” of the 1990s and a more recent slowdown since the Great Recession (see Figure 29). Honolulu maintained substantially higher incomes through the 1970s and 1980s, peaking around 32% above the US average in 1970 and 16% higher in 1992. Growth picked up again after the 2001 recession, and by 2008 incomes were still about 5% higher than the US average. Since the Great Recession, however, Honolulu’s relative position has again slipped below the national level.

Adjusting Honolulu incomes for the CPI-based RPP shows an estimate of the real purchasing power of incomes over time relative to the US overall (See Figure 30). This adjustment significantly reduces incomes in high-income cities like San Francisco, where both incomes and the cost of living have skyrocketed, though income usually still remains above average in these high-income places. San Diego’s trajectory is pulled down drastically, pushing it below average. In Chicago, where the cost of living has decreased recently, its growth trajectory improves considerably.

In this cost-of-living-adjusted trajectory, Honolulu incomes had above average purchasing power in the ‘70s and about average purchasing power in the early ‘80s. Only San Diego’s decline is comparable, but its decline is entirely driven by large increases in the cost of living. Real incomes at comparable prices in Honolulu dramatically fell behind during the lost decade because of lagging per capita growth, more than a decade before the slow recovery from the Great Recession. Other cities in Hawai‘i would likely have a similar result, or possibly worse, since the cost of living in much of Hawai‘i is comparable to Honolulu, even when local economies do not offer the high-income services typically found in larger cities like Honolulu.

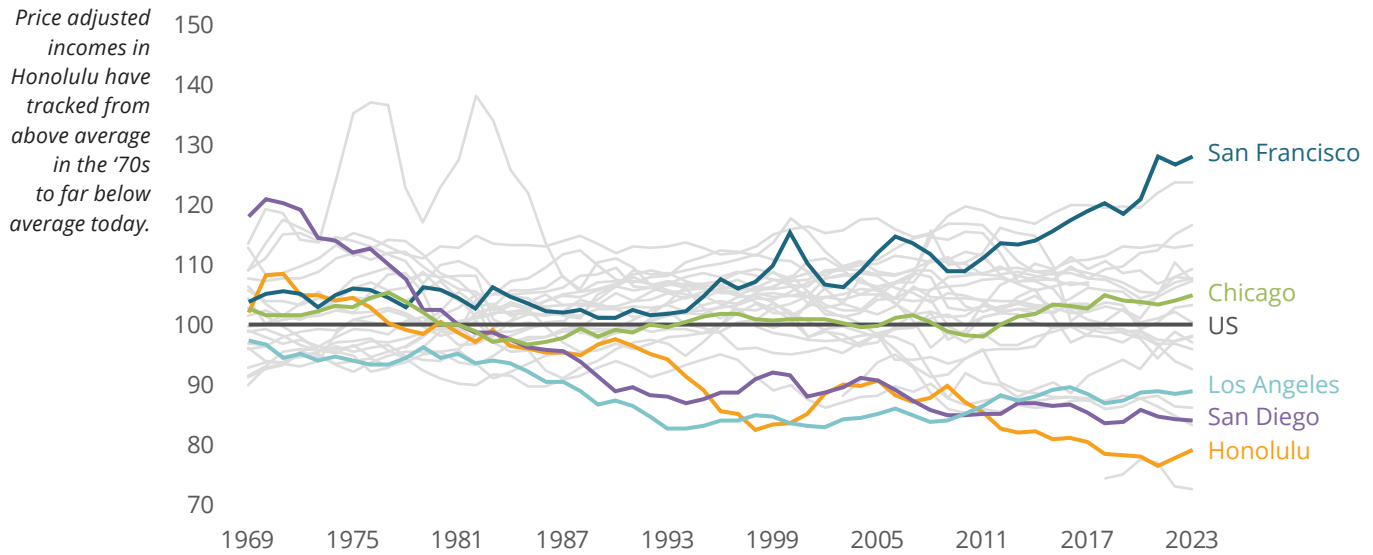
**Figure 29: Real per capita income, Honolulu and other major cities compared to the US (indexed to 100), 1969-2023**



Source: Author calculations from BEA data.

Note: San Francisco is off the chart, but we limit the axis to max 150 because our focus is on Honolulu.

**Figure 30: Real per capita income adjusted for geographic price differences, Honolulu and other major cities compared to the US (indexed to 100), 1969-2023**



Source: Author calculations from BEA data, adjusted for local prices using the CPI-based RPP (Bond-Smith and Lee, 2025a).

### Hawai'i

We also use the Honolulu CPI-based RPP to re-examine Hawai'i's long-run GDP and growth rates (see Figure 31). While this adjusts Hawai'i economic performance for Honolulu prices, this is the only local price index available for such a long period. The chart in Figure 31 is a price-adjusted version of Figure 7—previously adjusted only for national inflation—that now also accounts for local inflation and regional price differences. In Honolulu, periods of rapid growth generally coincided with rising prices, while downturns saw prices fall. Incorporating these local price shifts smooths both booms and declines, moderating the highs and lows of Hawai'i's growth cycle.

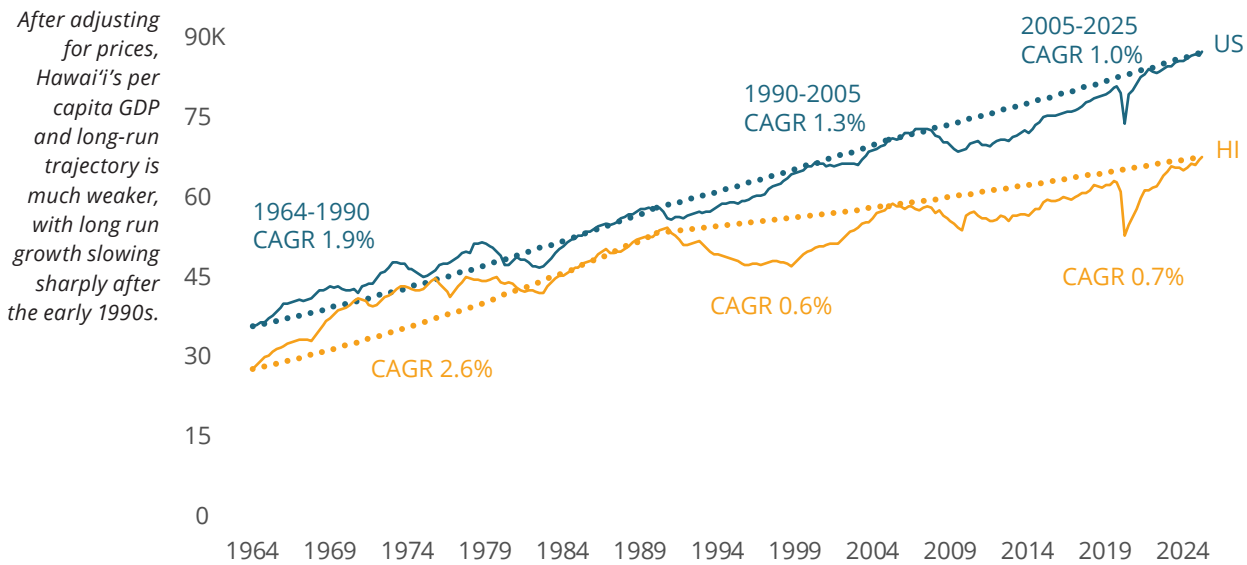
During the long tourism boom of the 1970s and 1980s, Honolulu's cost of living gradually declined. Adjusting Hawai'i's per capita GDP for Honolulu prices therefore increases the growth rate slightly—from 2.5% to 2.6%. Although this adjustment shifts Hawai'i's level of income below the US average, it was catching up gradually over this period, as US real per capita growth averaged only 1.9% through 1990.

In the years just prior to Hawai'i's "lost decade," prices in Honolulu rose, partially muting the benefit of rapid growth in the late 1980s. From 1990 to 2005, local prices generally fell, partially offsetting the downturn. Therefore, when adjusting for local prices rather than just national inflation, Hawai'i's per capita growth rate from 1990–2005 improves from 0.3% to 0.6%. Still, this remained well below the US real growth rate of 1.3%, widening Hawai'i's long-term gap with the rest of the country.

During the Great Recession, Honolulu prices rose slightly, even as the economic recovery remained weak, amplifying the downturn and further slowing the long recovery. So, adjusting for prices reduces Hawai'i's estimated long-run growth rate from 1.0% to 0.7% between 2005 and the start of 2025, compared to the US growth rate of 1.0%. The result is that the gap between the US and Hawai'i continues to widen.

Adjusting for prices makes the pattern crystal clear: Hawai'i began to lose ground in the early 1990s and has struggled to recover ever since. Price adjustments reveal that this divergence is not simply a matter of higher living costs or just a remnant of the lost decade—it reflects nearly four decades of weaker *real* productivity growth and slow *real* income growth. Taken together, these trends suggest that Hawai'i's challenges run deeper than high costs: they reflect a long-term productivity slowdown that has eroded competitiveness and left the state falling behind.

Figure 31: CPI-based RPP-adjusted Real GDP Per Capita, Hawai'i and the US, 1964-2024



Notes: US and HI GDP adjusted for inflation using the US CPI. HI GDP per capita adjusted for local prices using the CPI-based RPP (Bond-Smith and Lee, 2025a). CAGR refers to Compound Annual Growth Rate.

Source: Author calculations using BEA data.

## What can we do about it?

Hawai'i's economic distress is less about the "price of paradise" and more about an economy that has fallen behind. The key factor shaping our conclusion is that Hawai'i has always been expensive—but only recently has it started losing residents. UHERO's CPI-based RPP index (Figure 5) shows that Honolulu's cost of living has remained 15–25% above the US average for decades. What changed is the state's economic performance. Since the 1990s, incomes and productivity have grown much more slowly than in the rest of the country. The resulting gap between what people can afford in Hawai'i and what they can afford elsewhere has widened steadily—not because costs have surged, but because Hawai'i's economy has struggled to keep up.

In short, kama'āina haven't suddenly discovered that Hawai'i is expensive because it always was; they've realized that the economy no longer keeps up with the lifestyle they can afford somewhere else. Rather than being "priced out of paradise," Hawai'i is being *left behind* because its economy hasn't grown fast enough to sustain the standard of living that Hawai'i's residents can aspire to elsewhere. Similar pressures exist in resort destinations like Aspen, Sedona, Palm Springs, Jackson Hole, and Key West, where local workers struggle with affordability. However, Hawai'i stands out because economic strain extends statewide and reflects weak income growth rather than recent price increases.

The new designation of the entire state of Hawai'i as an Economic Development District (EDD) by the US Economic Development Administration marks an important acknowledgment of the state's structural economic challenges. While the interdependence of Hawai'i's regions helped to justify this classification as 'a special need,' this report shows that adjusting for local prices provides an even stronger rationale. The EDD status strengthens Hawai'i's ability to compete for federal grants that support infrastructure, diversification, and resilience—resources that can help address long-term economic weaknesses.

While federal recognition and funding helps, lifting local incomes will require local initiative: confronting barriers to diversification, investing in productivity, and rebuilding a stronger foundation for innovation. Two priorities stand out.

## 1. Tourism is here to stay—how do we increase its value?

Tourism will likely remain the backbone of Hawai'i's economy for decades, offering more stability than past commodity-based industries. Yet its dominance poses two challenges. First, tourism is a mature industry with limited productivity growth, so economic gains tend to plateau. Second, its scale and profitability can crowd out alternative export industries by drawing resources, labor, and political focus away from diversification. As a result, Hawai'i has few remaining avenues for productivity growth unless value within tourism itself can rise.

Boosting that value will require deliberate action. The tourism industry can generate greater returns from both existing visitors and new segments. Sports and event tourism—such as the Kona Ironman, The Sentry, or the Aloha Bowl—can attract high-spending visitors, especially if timed for the shoulder seasons. Investments that expand or modernize the tourism capital stock can raise local value added and strengthen linkages to local suppliers. Finally, new forms of tourism, including business travel and entertainment-based offerings, could open new opportunities if carefully managed to align with local values, minimize harms, and overcome regulatory barriers.

## 2. How do we diversify the economy?

Achieving long-term resilience will mean identifying and removing the structural and regulatory constraints that hold back new industries. Revitalization will depend on strategic investment in infrastructure—broadly defined to include not just physical assets, but also digital connectivity, human capital, research and innovation capacity, and institutional support systems that enable new industries to emerge. For example, finding ways to navigate state and federal regulations more efficiently for small aquaculture businesses could usher in a wave of new investment.

But new industries also branch out from the existing activities in Hawai'i, so many such opportunities will naturally be related to the productive capabilities used by the tourism industry (Bond-Smith and Ilamkar, 2025). We don't diversify our economy by hindering tourism, but by branching out from it. If such opportunities offer higher value than tourism, this will also lift wages and productivity in tourism as operators have to match their employees' alternative options.

Local businesses and philanthropic partners can also play a vital role in addressing these barriers and strengthening the foundations for productivity and shared prosperity. While federal assistance provides an important foundation, Hawai'i's long-term success will ultimately depend on its own capacity to foster a more dynamic and resilient economy.

## Policy design is crucial

Both of these strategies—raising productivity within tourism and diversifying beyond it—will require policy designs that are deliberate, transparent, and resilient to political capture. Effective implementation depends on governance structures that support implementation rather than rhetoric, and adapt to results, minimize the risks of rent-seeking, and ensure accountability for measurable actions and outcomes. Success will rely on institutions that can coordinate across government, business, and community sectors, balancing efficiency with fairness.

At the same time, bold action requires a tolerance for failure. There is an inevitable risk in trying new things. So, effective governance and monitoring should not aim to prevent underperformance or failure, but to recognize and respond quickly—adapting initiatives, adjusting targets, or ending unsuccessful efforts before they become too costly. In other words, the program can be seen as successful if it abandons failures in an efficient manner. In this way, a system that learns from failure can deliver more successes over time than one that avoids risk altogether.

Ultimately, the goal is not merely to restore growth, but to make it self-sustaining—grounded in higher productivity, broader opportunity, and shared prosperity. Hawai'i's economic challenges are deep but not irreversible. Addressing the cost of living remains essential, but without meaningful improvements in productivity and real income growth, the same economic pressures driving outmigration today will persist and intensify over time. With thoughtful, locally driven policy and a renewed commitment to long-term value creation, Hawai'i can move from being “left behind” toward building a more dynamic and resilient future.

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