Rethinking the K-shaped economy

Why the K-shaped consumer is only part of the story—and what executives and investors should watch instead

Key takeaways

- The US consumer looks more like Pac-Man than a K. The gap reflects faster growth at the top, while spending at the bottom remains resilient.

- Value is becoming as important as premiumization. Consumers are still spending, but they are increasingly selective about where they spend and what they get in return.

- The opportunity extends beyond the affluent consumer. Companies and investors that can serve value-oriented demand at scale may find an underappreciated source of growth.

For much of the past three years, one phrase has dominated discussion of the US consumer: the K-shaped economy. Higher-income households, supported by asset gains and stronger balance sheets, keep spending. Lower- and middle-income households, squeezed by inflation and affordability pressures, may fall behind.

It is an intuitive framework, but an increasingly risky one. The K-shaped frame has moved from commentary into corporate strategy and investment theses, often pushing companies to over-index on premiumization and investors more likely to concentrate capital at the upper end of the income distribution.

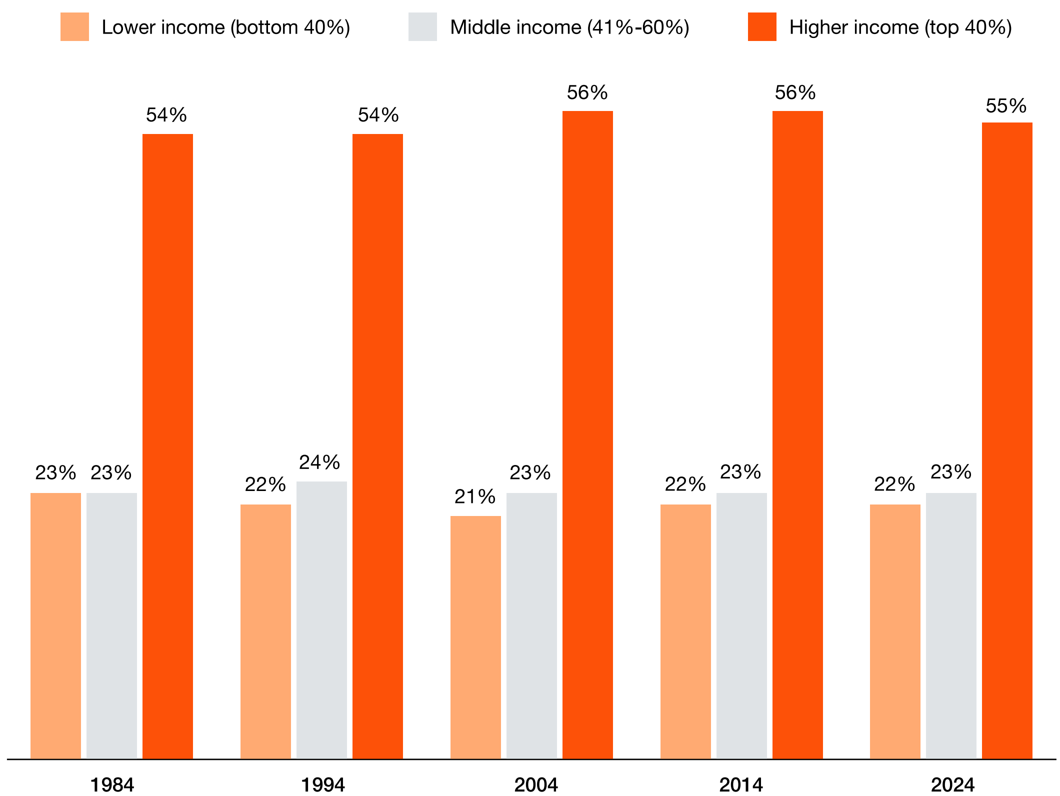
The shift is seen across sectors. Airlines are replacing standard economy seats with higher-margin business-class suites and premium-economy cabins.[1] Hotels are unbundling the stay, adding mandatory resort fees and charging more for upgraded views and lounge access. Capital is following the same logic, increasingly favoring luxury hospitality and the premium retail real estate it occupies.[2]

The data, however, points to a more nuanced consumer and one that is distinctly American.

Unlike in Europe, where households have generally responded to economic uncertainty with greater caution and a stronger propensity to save, US consumers have continued to spend at a remarkably resilient pace.[3] That makes the debate over who is driving consumption particularly important in the US: aggregate spending has held up even as affordability pressures have intensified and confidence has remained subdued.

More affluent consumers have been playing a large role in the US economy—as they should, given their greater share of the national income—but their contribution is not unusually outsized relative to prior periods.

Figure 1: Over the past 40 years, the distribution of spending across income cohorts has remained remarkably stable (% share of average spending by income group over decades)



Source: Bureau of Economic Analysis CES

Higher–income households continue to benefit disproportionately from asset-price appreciation and greater exposure to financial markets. But the bottom has not declined. As we shall see, income at the lower end of the distribution has improved, wealth has grown, and spending has held steadier than the conventional narrative implies.

A better metaphor is not a K. It is Pac-Man.

The problem with the “K-shaped economy” is that it assumes—by virtue of the letter’s shape—that the bottom of society is declining while the top is rising. In a Pac-Man economy, one side accelerates while the other holds its ground. The gap widens not because the bottom is falling away, but because the top is moving faster.

That distinction matters. It implies a different playbook for executives and asset allocators—one that rethinks growth, pricing, and customer segmentation—and suggests that lower-income households may represent one of the market's more underappreciated investment opportunities.

The bottom of the K isn't falling

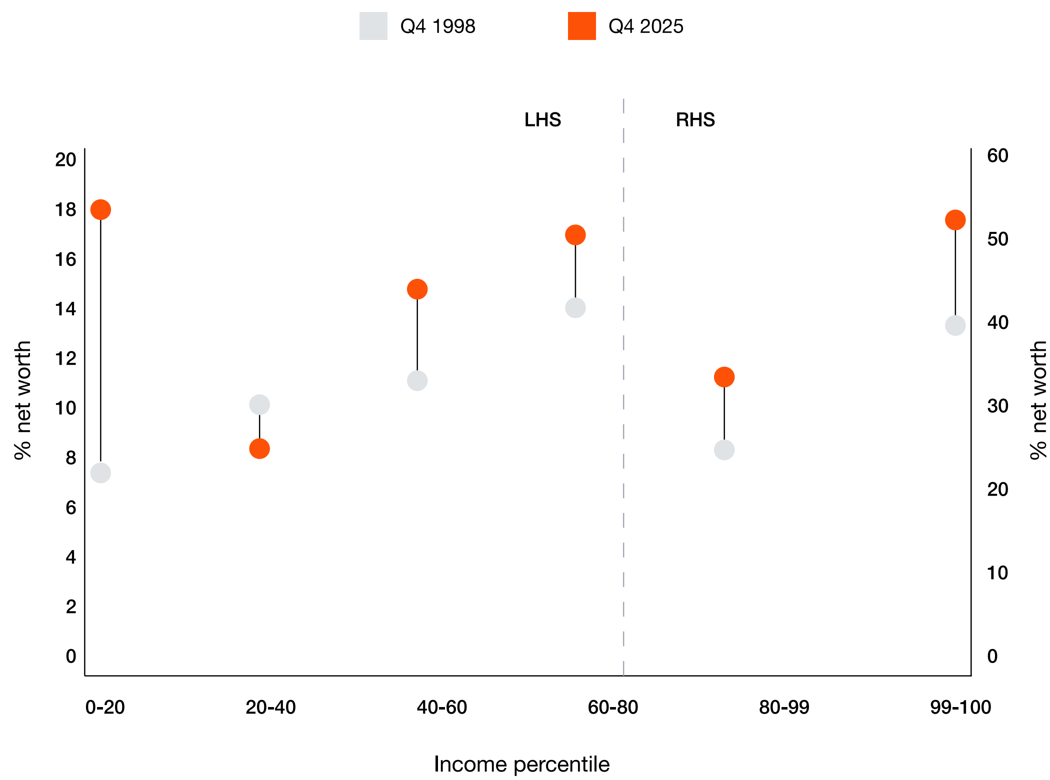
The K-shaped narrative depends on three claims about lower-income households. Each is overstated.

First, lower-income households are not worse off than before the pandemic. Based on PwC analysis, real disposable income growth for the bottom 50% outpaced both the top 10% and the middle 40% from 2015 to 2025.[4] Lower-wage workers also saw the strongest post-pandemic wage gains, reversing part of the wage-inequality buildup from prior decades.

Second, wealth gains have not been limited to the top. Since the pandemic, two things have changed. First, lower-income households have become more exposed to financial markets. Second, asset prices have appreciated meaningfully. Higher-income households still own most financial assets, but the combination of broader ownership and rising asset values has allowed wealth to grow faster outside the top.

The ownership shift is visible in retail investing. From 2020 to 2024, the share of bottom-quintile individuals who started investing rose by 150%, versus roughly 50% among the highest-income quintile. Across the bottom three quintiles, the median investor allocated $2,650 to $7,640—about 2% of annual take-home pay and roughly 30% more, relative to income, than before the pandemic.[5]

Figure 2: US lower-income households have increased exposure to stocks since dot-com bust (% net worth by income percentile)

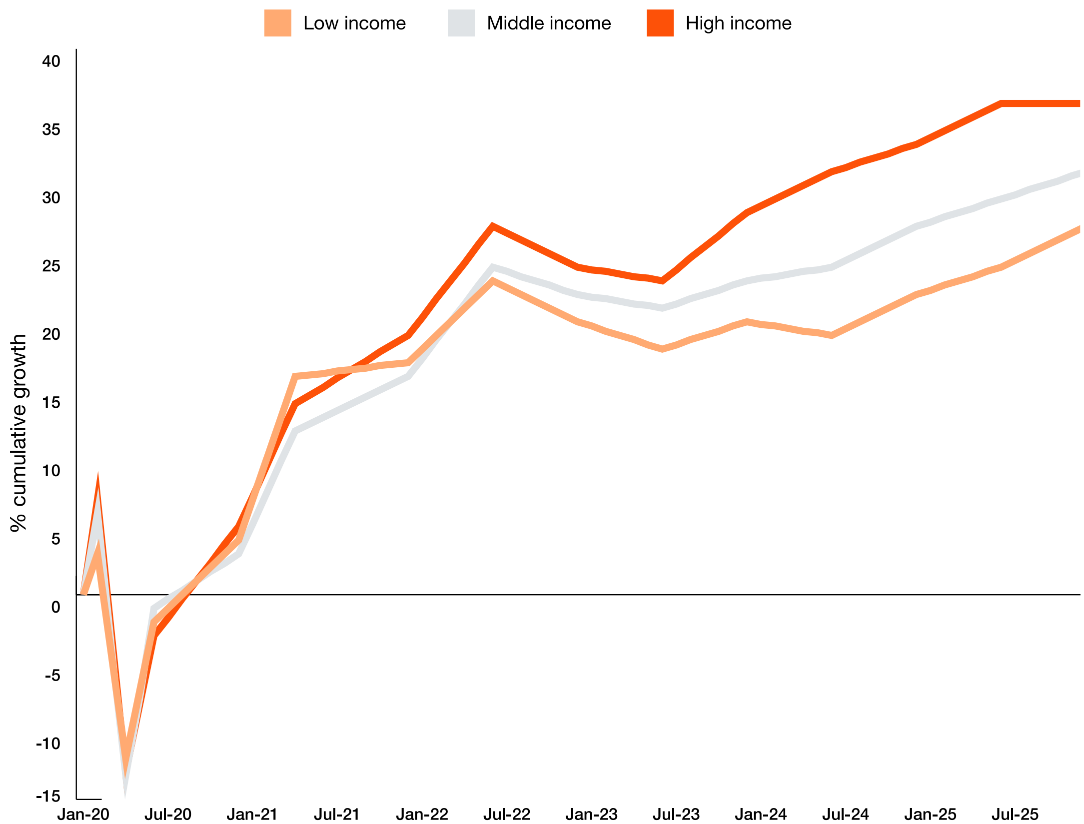


Source: Bank for International Settlements

Put simply, lower-income households have both more ownership than they did before and more exposure to assets that have risen in value.

Third, spending growth has not sharply bifurcated. Higher-income households have experienced faster spending growth, but as Figure 3, shows the gap is less dramatic than the K-shaped story suggests. Most divergence appeared in 2023 and has since stabilized. Lower-income spending has also held up this year, helped in part by positive wealth effects from capital gains, which lower-wealth households are more likely to convert into consumption.

Figure 3: Retail spending by household income (cumulative growth since 2020)



Source: Federal Reserve Bank of New York

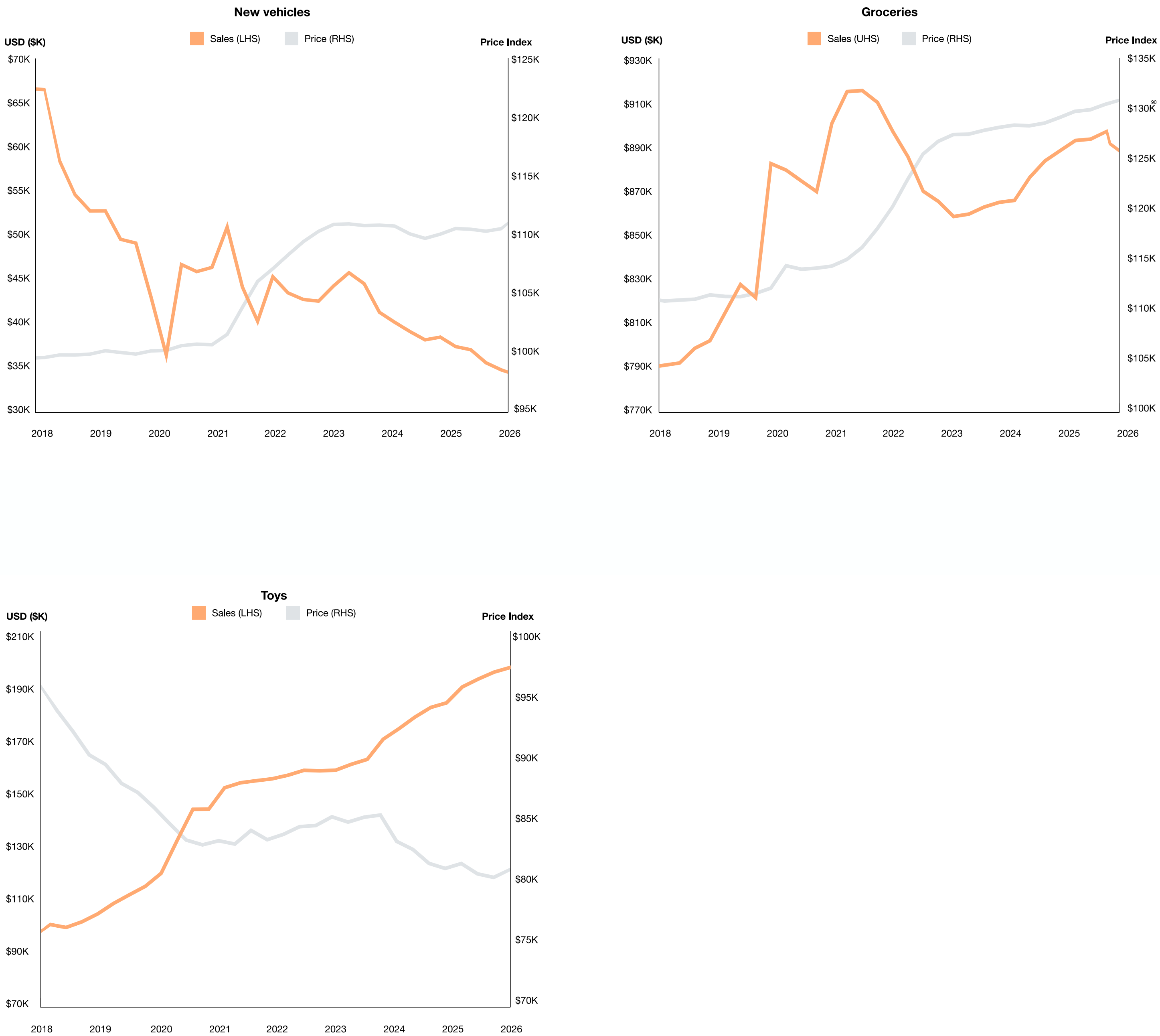
Instead of K, executives and investors should focus on V

The biggest mistake executives may be making today is interpreting slower spending growth as evidence of consumer weakness. Today, household balance sheets remain relatively healthy. What has changed is consumers' perception of value.

In other words, many categories are facing a value problem, not a spending problem. Consumers are still spending on essentials, but tariffs and rising energy costs have left them cost fatigued when it comes to discretionary spending. That is forcing consumers, especially at the lower end of the income distribution, to deploy their purchasing power more consciously, whether that means trading down from premium national brands to store brands or using technology to make sure they are getting the most favorable price.

The pattern is increasingly clear across sectors. Categories that maintain a compelling value proposition continue to grow, while those reliant on cumulative price increases are facing greater resistance.

Figure 4: Consumers are responding to higher prices by buying less and trading toward value



Source: Bureau of Economic Analysis, PwC analysis

The data reinforces this point. As we can see in Figure 4, new vehicle prices surged between 2021 and 2023 amid supply constraints and strong demand, but volumes weakened as affordability deteriorated. Even in relatively inelastic categories such as groceries, repeated price increases have prompted consumers to pull back, with sales growth leveling off.

By contrast, demand for toys and games accelerated as prices declined. The category benefited not only from post-pandemic demand patterns but also from an improving value proposition.

This is also consistent with the structural shift toward circular commerce and secondhand buying. Resale is projected to grow two to three times faster than global e-commerce, driven by value-seeking behavior and the maturation of online resale platforms.[6]

The bottom line for executives and investors

The core takeaway is that today's US consumer economy is not defined by collapse at the bottom. It is defined by acceleration at the top and greater selectivity everywhere else.

Premiumization still matters. Higher-income demand is real, and in many categories, it will likely remain an important source of margin growth. But it is not the whole story. Value-oriented consumers are still participating in the economy; they are simply more disciplined about where they spend and more demanding about what they get in return.

That calls for a more nuanced understanding of the US consumer. Income still matters, but it is not enough. Businesses and investors also need to understand a consumer's exposure to asset appreciation, age cohort, recurring cost sensitivity, and access to credit. Two households with the same income can have very different balance sheets, spending capacity, and willingness to pay.

For investors, lower-income households remain an underappreciated opportunity. Markets have spent years rewarding exposure to the affluent consumer, but differentiated growth may increasingly come from companies that can serve value-oriented demand at scale.

The expansion of value retailers' brick-and-mortar footprints is an early signal that consumers are still spending,[7] but they are looking for reliability, affordability, and clear value. That opportunity should become even more salient as affordability moves to the center of electoral debate and public policy.[8] Presuming the US government responds to cost-of-living pressures and the potential labor market effects of AI, policies aimed at supporting household balance sheets and expanding economic opportunity are likely to become more prominent.

For executives, the challenge is not choosing between premium and value. It is knowing where each customer sits in this landscape, how that position may change, and what proposition will likely earn the next dollar of spending. Some markets will keep premiumizing. Others will become more value-oriented. Most will require serving both, without assuming the lower end is simply falling away.

Notes

[1] The travel industry's 'premium creep' is costing you more

[2] Where to Invest $1 Million Right Now

[3] US Consumer Spending Picks Up as Inflation Hits Three-Year High

[4] Realtime Inequality (Blanchet, Mouillet, Saez & Zucman)

[5] A decade in the market: How retail investing behavior has shifted since 2015

[6] US resale market expected to surpass $78B by 2030 | Retail Dive

[7] Retailers Are Making Expensive Bets That Shoppers Still Want to Go to Stores

[8] Republicans seize on Michigan progressives' wins, but party is split on socialism message

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