



Hidden dimensions of the K-shaped economy

Detailing how income, lifestyle, and circumstance shape consumer stress and spending

Consumer Stress Index, Q4 2025 update

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The Kearney Consumer Institute (KCI), part of our Foresight network, examines today's business challenges and opportunities through the eyes of consumers. Through cutting-edge research and ongoing dialogue, we uncover the insights and attitudes that drive consumer behavior, empowering organizations to think and act consumer-first.

Economic models like the K economy can be great tools for simplifying and illustrating complex economic arguments. They can also limit our understanding of what is happening to consumers at all levels of the economies they are trying to describe. Getting at consumer motivations and a deeper understanding of consumer behaviors requires a much more nuanced approach than just pointing out asymmetry.

The K-shaped economy has been dominating the headlines in recent months, as an over-generalized way to try to explain the gap between consumer spending (good) and consumer sentiment (bad).

For those of you who have been living in a media-free zone for the past half decade, the K economy is a [model first developed in 2020 by Ivan the K](#)—the self-proclaimed “lead independent financial director of finance Twitter”—and popularized by Peter Atwater, an adjunct professor of economics at William and Mary and president of Financial Insyghts [sic].

The top diagonal stroke, or what typographers call the “arm” of the K, represents the more affluent and the “leg” or the bottom diagonal stroke represents lower-income individuals. The model is used to represent the growing divergence in post-COVID financial recoveries with the “arm” representing more and more economic wealth and the “leg” more and more people.

At its simplest level, K economics suggests “the rich get richer while the poor get poorer.” When you look at the history of free-market capitalism, the K economy seems easily empirically verifiable, but all models are subject to disruption and interpretation, and this one is no exception.

For example, the G.I. Bill of 1944 allowed legions of “leg consumers” to literally jump into the “arms” of the K. The tech boom of the 1990s had the same disruptive effect, as had the Industrial Revolution of the 18th and 19th centuries. But overall, the economy as a whole continued to divide asymmetrically.

The social component to the K economy model can mask what’s actually happening to consumers. Implicit in the model is a silent assumption of a structural social inequality based on class, race, and geography. There are social elements to the analysis that superficially reconcile simultaneous “splurge” and “scrimp” behaviors on the part of consumers.

K economy analytics tend to blend these divergent consumer behaviors together and then spread them like the data equivalent of peanut butter across a series of demographic cohorts, creating an “average” consumer who does not, in fact, actually exist. This helps explain why at a time when consumer sentiment is low, spending can appear healthy.

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The ongoing dialogue around the K economy sparks a few key questions critical to consumer-facing businesses:

- Are we thinking about the “K” correctly?
- Why do many consumers (on both sides of the K) feel like they are not living a “normal, comfortable” life?
- What does this mean for brands?

Like so many things these days, the answers to these apparently simple questions are, well, complicated. The model’s analytical “devils” are well-hidden in its lack of detail so, paradoxically, our analysis needs to add in additional layers of nuance to get at the real truth and/or lack of truth.

We are talking about a broad consumer universe made up of individuals with dramatically diverse financial, social, cultural, and personal backgrounds and circumstances. It’s critical to note that the same segmentation that is applied to the “arm” of the K is mirrored in the “leg.”

Let’s break down the K and take a better look at the nuances of the K economy model, as illustrated in figure 1.

Life on the arm of the K

Our approach divides those living on the arm of the K into three macro cohorts. At the very top are “comfortable” individuals whose names and faces include those who regularly appear in the media with super-high incomes, traced back in some cases to beneficiaries of generational wealth and, in others, to success at the top of the tech boom who have amassed extreme wealth over the past 20 to 40 years.

Slightly below them, but still well above everyone else, we find the “stable/responsible” consumers who are stable and getting by just fine. These are high-income individuals, who budget well, and perhaps live in lower cost of living (LCOL) areas.

At the bottom of the arm, dangling perilously close to the middle or leg of the K, we have the “on thin ice”—high earners whose lack of budgeting and profligate spending has them overleveraged and exposed. While they appear to be doing well from the outside, they are only a step away from real financial trouble.

Figure 1

Breaking down the K economy further helps to analyze and assess exposure



Sources: CE 2023 Expenditure, CPI Inflation Index, CNBC; Kearney analysis

Life on the leg of the K

Lower-income earners can also be divided into three segments, starting at the top of the “leg” with consumers who are “comfortable.” Their incomes technically put them in the bottom of the K, but their overall financial position is more secure on a day-to-day, year-to-year basis thanks to a variety of factors.

Next are those who are “stable/responsible,” relatively lower-income individuals who are constrained in their ability to spend but who have managed by choice and/or necessity to find ways to live within their means.

Toward the bottom of the leg, we find low- to no-income people who are truly “on thin ice.” These are folks struggling to pay their basic bills at the same time they are being crushed under a mountain of structural debt-promoting forces.

From income alone to lived reality

To better understand these cohorts, and the K economy overall, it’s necessary to expand beyond income and factor in lifestyle and circumstance.

Figure 2 demonstrates the “buffers” each cohort may be afforded that impact their circumstance. How the combination of these buffers play out in the commercial world helps us more accurately describe how we should be rethinking each group and how exposed they are to risk. These buffers can often be the source of significant upside for members within that cohort. However, they can also be hard to control or change, at least quickly. Consumers can move to lower cost of living areas, but that may mean making other sacrifices.

Figure 2

Any combination of “buffers” informs how consumers are categorized



Source: Kearney analysis

The nuances do not stop here. As shown in figure 3, these groups are also exposed to recent macroeconomic indicators in different ways. Consumers in the arm of the K “on thin ice” group may be highly exposed to housing and interest costs or stock market dips, while those in the leg of the K “comfortable” group are less at risk, despite being on the seemingly unfavorable side.

To illustrate further, think of identical twins raised similarly. Imagine the first one growing up to be highly status-driven who moves to New York City for a chance at wealth and fame. Let’s say he or she makes \$225,000 a year. Now imagine their twin as a minimalist, more at home in a cabin in a field in Arkansas, earning \$80,000 a year. The second twin is living within their means, less exposed to economic shifts, while the other twin will be barely keeping their head from sinking in the financial waters despite earning \$145,000 a year more.

Within these profiles often lie additional frustrations. For instance, many consumers on the leg of the K do not feel like they have benefited from economic growth in recent years, as they are often minimally invested in the stock market or major real estate holdings. Even when “net worth” looks good on paper, it’s often tied up in illiquid assets such as mortgages or retirement accounts, and is not being used to improve daily life.

And we always need to bear in mind that consumer behavior is never as rational or predictable as it seems when we study various economic and predictive models. Some consumers—and an increasing number at that—are forgoing long-term security (housing downpayment) for short-term satisfaction (booking a vacation).

This combination of income, lifestyle, and circumstance helps to better understand the K and consumers’ seemingly incongruous behaviors.

Figure 3

Each profile has different levels of risk and exposure to current macroeconomic indicators



Source: Kearney analysis

What is a comfortable life?

To try to further understand today's consumer is to understand why many people feel that they are not living "comfortably."

Consumer spend is often broken down into two rough categories: non-discretionary spend (housing, utilities, transportation, childcare, groceries, technology, healthcare) and discretionary spend (clothing and shoes, recreation, vacation, home décor, restaurants).

While on the surface these categories appear largely unchanged over time, the truth is they have all changed significantly since the 1960s as both norms and prices have expanded. This evolution represents what we can call the gentle tyranny of rising consumer expectations. It is often fueled by media and social media seemingly obsessed by the conspicuous consumption of goods broadly on mass display 24/7 and abetted by universal and ubiquitous access to "information"—both real and not (see figure 4).
















The "complete" middle-income home of the 1960s–1980s consisted of some basic furniture, probably a television, a wall or desk phone, a car or possibly two, and for the kids, community or school sports activities requiring limited capital outlay.

Today, a "basic" middle-income home has one cell phone and computer or tablet for every resident, Internet connectivity, multiple televisions and/or gaming consoles, and cars for every driver. If they are athletic, the kids are probably playing on travel teams whose "travel" may require air travel and hundreds or thousands of dollars in specialized equipment. In other words, it's more expensive to live a "basic" middle-income life—independent of overall cost-of-living or inflation.

So, what should consumer-facing businesses do?

Figure 4

For many consumers, a "normal, comfortable" life has ballooned in expectation and cost

Spend category	Example	1960s	1990s	2020s
Housing (norms shifted; prices shifted) <ul style="list-style-type: none"> Expectations for house size expanded despite family size shrinking. Ancillary spending on utilities, décor, furniture, and home contractors have increased to maintain "normal" life. 	1. Housing Average house size	 1,300 sq ft	 2,000 sq ft	 2,500 sq ft
Food in and out of home (norms shifted) <ul style="list-style-type: none"> Previous norms were eating dinner at home most nights of the week with family. Consumers today expect to be able to afford multiple restaurant meals a week. 	2. Food Proportion of food dollars spent away from home	 ~26%	 ~43%	 ~58%
Healthcare and childcare (price shifted; norm shifted) <ul style="list-style-type: none"> Healthcare costs continue to increase. Childcare needs and costs have grown as dual-income households became more common; childcare costs have risen >200% in the past three decades. 	3. Healthcare Total national health expenditures per capita	 ~\$2,000	 ~\$6,000	 ~\$15,000
Clothing (norms shifted/expanded) <ul style="list-style-type: none"> Consumers expect to own more items of clothing for reasons ranging from advent of fast fashion and media influence to changing workplace norms (e.g., business casual was a shift away from a handful of suits). 	4. Clothing Number of new items per person purchased annually	 25–30 items	 40–45 items	 70–80 items
Vacations (norms shifted; price shifted) <ul style="list-style-type: none"> Vacations used to be a road trip to a nearby state; now, international travel/trendy spots are "expected" by many (only 5% of consumers had a passport in 1990 vs. ~50% in 2024). 	5. Vacation Share of total air travel miles vs. all transportation	 2–3%	 8–10%	 13–15%

Note: approximate numbers

Sources: CE 2024, BLS 2023, AAFA, USDA ERS, US Census, BTS National Transportation, CPI Inflation, CMS NHE, Winston Pouty; Kearney analysis

Implications for consumer and retail brands

For consumer-facing businesses, the danger of relying on simplified models like the K economy is not that they are directionally wrong, but that they obscure risk and nuance. Income alone no longer predicts resilience, vulnerability, or willingness to spend. Two consumers with identical earnings can react in fundamentally different ways to the same price increase, promotion, or product launch.

Many brands have responded to perceived pressure by racing to the bottom on price or quietly degrading quality. Others have doubled down on premiumization, assuming insulation at the top of the K. Both approaches miss the same reality: consumers across the spectrum are increasingly sensitive to value mismatches, not just price points.

Understanding today's consumer requires moving beyond labels and averages to the lived realities that shape how people decide, defer, and splurge.

How to factor the K into brand planning:

- 1. Segment by exposure, not income.** Understanding where consumers sit in terms of liquidity, flexibility, and downside risk better informs behavior than analyzing by income alone.
- 2. Design for trade-offs, not tiers.** Consumers are not uniformly trading down or trading up; they are selectively reallocating. Winning brands make it easier to justify meaningful spend where it makes sense rather than asking for loyalty everywhere.
- 3. Re-establish what "normal" feels like.** In an environment where the definition of a "comfortable life" keeps moving, brands that reduce cognitive and emotional friction, such as through clarity, durability, and honest value, earn increasingly elusive loyalty.

Lastly, a select macroeconomic indicator could have heavy impacts across the K. The "ones to watch" are:

- AI's impact on jobs and the stock market
- Housing market
- Inflation and tariffs

As AI replaces white-collar jobs, professionals at the bottom of the top of the K, those near the vertex, could be heavily impacted. If the AI "bubble" bursts and the stock market crashes, those at the top of the arm of the K could be devastated. And the job losses associated with a "bubble burst" could also create problems at the middle of the leg of the K.

If the housing market softens significantly, previously stable groups (say the "comfortable" on the leg of the K whose home is their single largest asset) will suffer a drastic reduction in their net worth. If tariffs continue to impact inflation and change prices, ordinary life gets less and less comfortable on the leg of the K.

Understanding today's consumer requires moving beyond labels and averages to the lived realities that shape how people decide, defer, and splurge. Brands that can do that will be better prepared not just for volatility, but for whatever version of "normal" comes next.

This report represents Kearney's Consumer Stress Index quarterly update for data from Q4 2025.

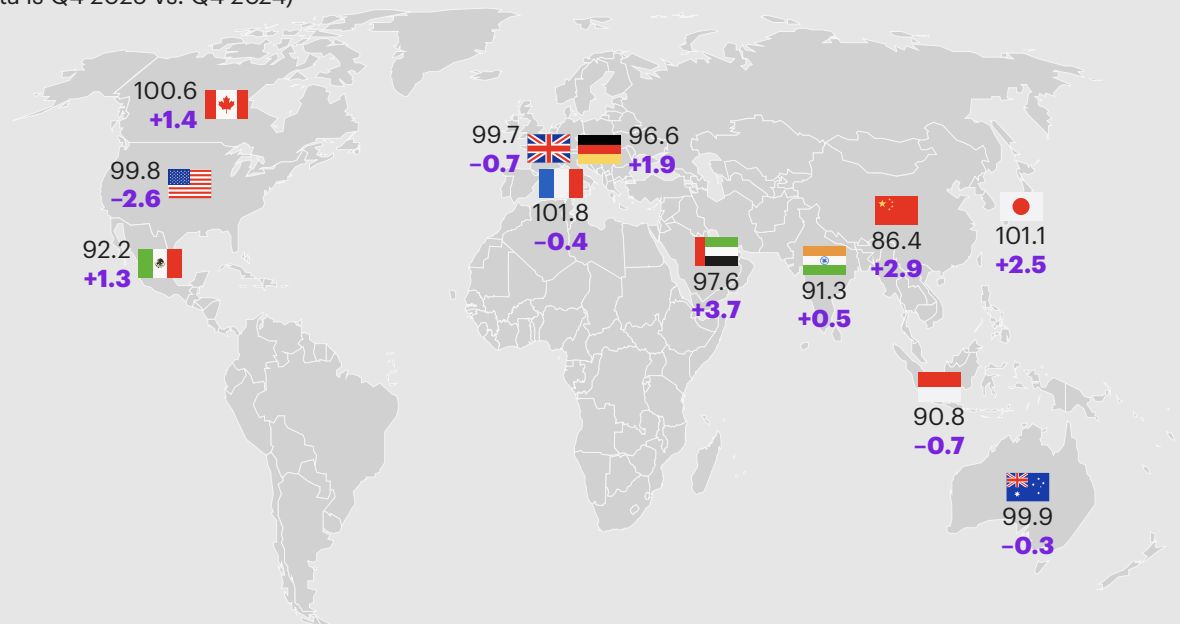
Figure 5 shows index results across surveyed countries.

Figure 5

Consumer stress persists across geographies

Consumer Stress Index: score by country

(Delta is Q4 2025 vs. Q4 2024)



Source: Kearney analysis

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