

US Economic Viewpoint

K, but why? Five drivers of K-shaped spending

The two-pace economy

Clients have been focused on the divergence in consumer spending between lower- and higher-income households. According to BAC aggregated credit & debit card data, the “K” in spending opened up in late-’24/early-’25, has continued to date, and is most pronounced in discretionary sectors. In this report, we document five factors that have driven and will likely continue to exacerbate K-shaped spending dynamics. We’ll look at the economic and monetary/fiscal policy implications in a future report.

K-shaped balance sheets

The evolution of both sides of household balance sheets in recent years has favored higher-income cohorts. Equities account for more than half the \$42tn increase in total assets since 4Q 2022. Equity ownership is skewed toward high-income households, who remain in a strong position because stocks have made new all-time highs despite the Iran war. We think equities may have to go into a sustained bear market to slow higher-income spending. Meanwhile on the liabilities side, credit cards and auto loan delinquencies are elevated and still rising. This disproportionately hurts younger, lower-income households.

K-shaped housing market

Housing costs have reinforced this divergence. The homeownership rate for older, higher-income households has increased by roughly 10pp since the 1980s, while it has remained largely flat among younger households. And, rental inflation has risen far more sharply over the last few years than mortgage payments, since most homeowners are still locked into low fixed-rate pre-pandemic mortgages. Hence, housing-related costs have been borne disproportionately by renters who tend to have lower-income.

K-shaped labor market

Higher-income wage growth has been outpacing lower-income for over a year. This reflects i) low labor market turnover hurting younger, lower-income workers who switch/look for jobs more often, and ii) weaker junior hiring due to payback for post-pandemic over-hiring and AI adoption in some sectors. Hence, the unemployment rate rose faster among younger workers, peaking at nearly a 10-year high of 9.2% in 2H25. This exacerbated K-shaped spending dynamics because these workers rely more on labor income to fuel spending.

K-shaped stimulus

Consumer stimulus from the OBBBA will likely exacerbate K-shaped spending dynamics in coming months. We have estimated that the bill is most beneficial for middle- and higher-income households. The bottom two income quintiles will likely see only modest gains. That’s because most of the stimulus provisions are deductions, which lower tax bills more for households that face a higher marginal tax rate.

K-shaped affordability shock

Uneven exposure to the gas price shock from the Iran war is likely to widen the affordability gap across income groups. Energy goods make up only about 1.5% of the top income decile’s total outlays, while the bottom decile’s share is roughly 4%. Looking ahead, a food-price shock from higher fertilizer costs could further widen the K.

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U-rate: Unemployment Rate

LFPR: Labor Force Participation Rate

PCE: Personal Consumption
Expenditure

NFP: Nonfarm Payrolls

HH: Household

SA: Seasonally Adjusted

NSA: Non-Seasonally Adjusted

BLS Bureau of Labor Statistics

OBBBA: One Big Beautiful Bill Act

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A resilient consumer, but with a narrow foundation

US consumer spending has remained resilient in the last year despite a cooling labor market, a big tariff shock and elevated interest rates. However, this resilience has become increasingly concentrated among higher-income households. Lower-income spending is just treading water, resulting in “K-shaped” spending dynamics.

K-shaped spending reinforced by a K-shaped economy

Higher-income households have sustained consumption through stronger wealth effects from buoyant equities markets, stable housing costs, steadier labor market outcomes and greater insulation from higher interest rates, which has kept credit conditions healthier. Lower-income households, by contrast, have faced a combination of limited exposure to equity market gains, rising rents, slower job growth and elevated debt-servicing costs.

In the coming months, two factors are likely to reinforce this divergence. First, higher-income spending should get a bigger boost from tax-related OBBBA (One Big Beautiful Bill Act) stimulus. Second, the rise in energy prices due to the Iran war will almost certainly deliver an asymmetric shock to household purchasing power. Higher energy costs tend to function as a regressive tax, weighing more heavily on lower-income households that spend a larger share of their income on gasoline and other energy-intensive necessities. The resilience of the stock market in the last two months has also left higher-income households well positioned to absorb the energy price shock.

Discretionary spending underscores the “K”

Let’s start with some facts. Higher-income spending growth has been outpacing lower-income spending growth since late-’24/early-’25, according to BAC aggregated credit & debit card data. In the week ending May 2, higher-and lower-income spending were up 3.6% and 1.7% y/y, respectively. The gap is even larger if we: i) focus on the top 5% or the top 1% (Exhibit 1) or ii) exclude gas spending (Exhibit 3: 2.9% vs. 0.4%), confirming the notion that lower-income households are more exposed to the ongoing gas price surge (See the report [BofA on USA: Weekly spending update through May 2](#) for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data).

However, despite this divergence, overall consumer spending in the economy has been able to run at a steady pace. This is because the top 10% earners (by pre-tax income) contribute to about 22% of the consumption in the economy while the bottom 10% only have a 4% share (Exhibit 2).

Exhibit 1: The divergence in spending between higher- and lower-income cohorts persists in total card spending

Total card spending by income (y/y % change of the 7-day moving average of spending per household levels)

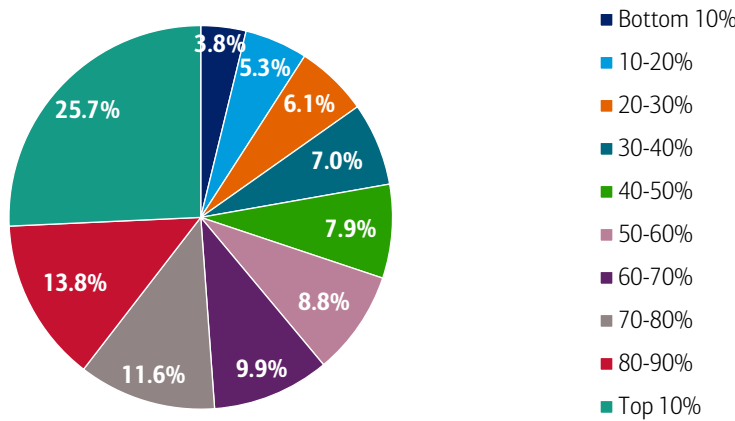
	5/2	4/25	4/18	4/11	4/4	3/28	3/21	3/14	3/7	2/28	2/21	2/14	2/7	1/31	1/24	1/17
Total card spending	2.7%	7.2%	3.3%	2.6%	6.5%	4.7%	4.4%	4.9%	4.6%	1.8%	4.1%	4.4%	3.4%	-3.2%	6.6%	3.3%
By income																
Lower income	1.7%	5.6%	1.2%	1.6%	4.8%	3.6%	3.0%	3.6%	3.0%	1.2%	3.9%	3.4%	1.9%	-5.2%	5.6%	1.5%
Middle income	2.4%	6.6%	1.8%	1.4%	5.5%	4.1%	3.8%	4.4%	3.9%	1.4%	3.6%	3.8%	2.4%	-4.3%	6.3%	2.5%
Higher income	3.6%	7.7%	4.7%	2.9%	7.2%	5.0%	5.0%	5.5%	5.7%	1.7%	3.7%	4.5%	4.3%	-1.9%	6.6%	4.2%
Top 5%	4.8%	9.1%	9.6%	5.9%	8.7%	6.2%	6.2%	7.3%	7.8%	3.1%	4.7%	5.9%	6.4%	0.6%	7.6%	7.3%
Top 1%	5.6%	9.1%	13.3%	6.7%	9.6%	5.7%	6.3%	8.0%	9.6%	3.2%	4.8%	5.6%	7.4%	1.1%	6.9%	10.6%

Source: BAC internal data. Note: The 1-yr % change shows the change between the current date at the head of the table column and its comparable date a year ago. Total card spending includes total BAC card activity, which captures retail sales and services that are paid with cards. Does not include ACH payments. B&M (Brick & Mortar) retail means retail purchases at the store. Total online retail corresponds to purchases in which the card was not present. These are largely online purchases but could include purchases made over the phone. Gas includes some convenience store purchases at gas stations. See the report [BofA on USA: Weekly spending update through May 2](#) for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data.



Exhibit 2: Top 10% earners contribute to about 22% of the consumption in the economy while the bottom 10% only have a 4% share

Share of average annual expenditure by pre-tax income decile (%)



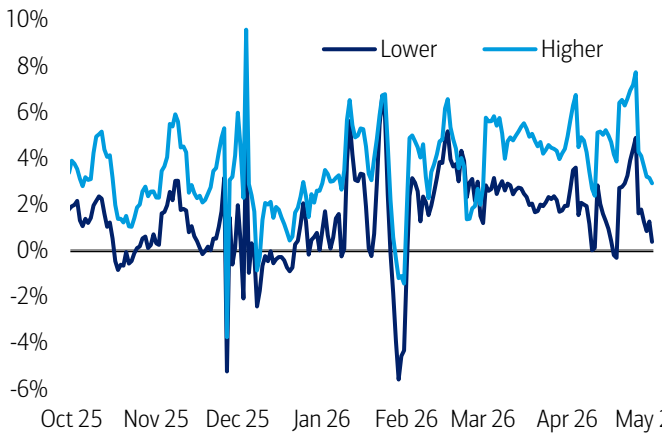
Source: BLS (CEX Survey), Haver Analytics

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More broadly, K-shaped spending dynamics are most evident in discretionary categories (Exhibit 4). In fact, the wallet share of discretionary items shrank slightly on a y/y basis for lower-income households in March but continued to expand for higher-income households.

Exhibit 3: Higher-income households continue to show stronger growth than lower income households even in total ex gas spending

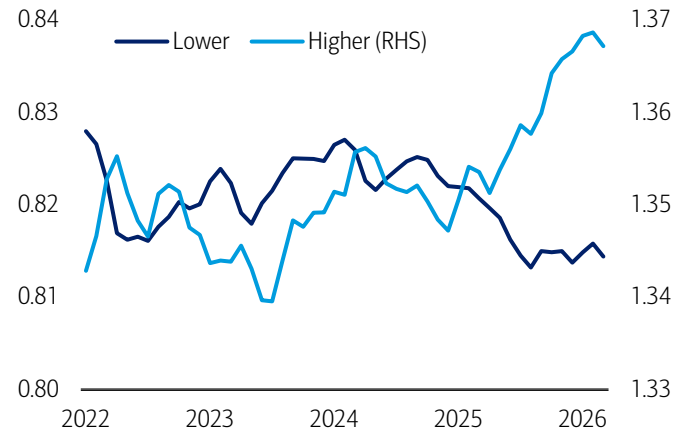
Daily total card ex gas spending per household by income group (y/y % change of the 7-day moving average of daily spending levels)



Source: BAC internal data. See the report [BofA on USA: Weekly spending update through May 2](#) for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data
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Exhibit 4: K-shaped spending dynamics are most pronounced in discretionary categories

Ratio of lower- and higher-income spending to middle-income discretionary spending (3m average of monthly levels, SA)



Source: BAC internal data. Discretionary spending is total spending excluding gas, groceries and utilities. See the report [BofA on USA: Mar retail sales: not yet out of gas](#) for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data.
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The Ks leading to K-shaped spending

In the sections below, we break down the key channels, each representing a distinct “K” in the economic landscape, through which post-pandemic shocks, recent policy dynamics and most recently the shock from the Iran war have translated into increasingly uneven consumer outcomes across the income distribution.



1. K-shaped balance sheets

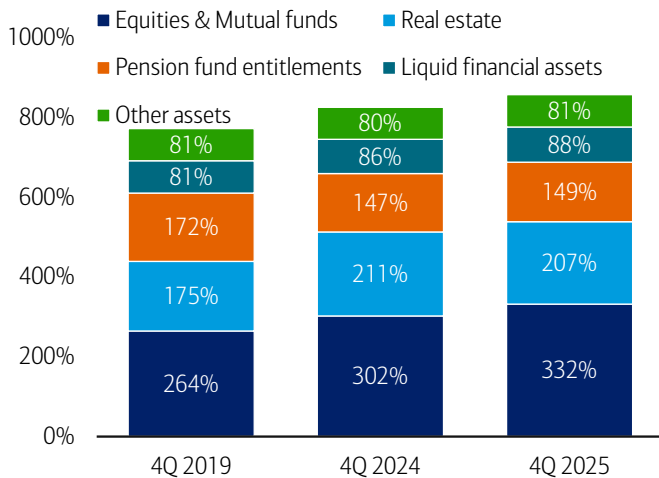
At the core of the K-shaped spending outcome is a growing divergence in household balance sheets. Asset exposure, leverage, and sensitivity to interest rates differ sharply across the income and age distribution, shaping how households have absorbed post-pandemic shocks, market performance, higher for longer rates, tighter financial conditions. These asymmetries show up most clearly in two dimensions: net worth accumulation and credit stress, which together anchor the balance-sheet “K” shaping consumer behavior.

Net worth

Household wealth has been surging. The gains since the start of the pandemic have been led by equities (Exhibit 5). Equities account for more than half the \$42tn increase in total assets since 4Q 2022. But the improvement has been highly uneven across the income distribution. Measures of household assets relative to liabilities show that gains have been far larger for households at the top of the income distribution than for those at the bottom (Exhibit 6), with equities accounting for most of the divergence (Exhibit 7).

Exhibit 5: Household wealth has been surging since the start of the pandemic, with gains being led by equities

Household assets as a share of disposable income (%)

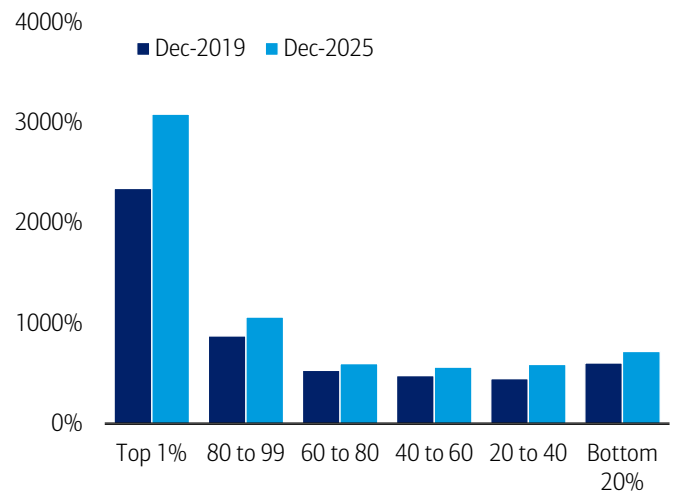


Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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Exhibit 6: Gains in household assets have been far larger for households at the top of the income distribution than for those at the bottom...

Household assets as a % of liabilities by income percentile (%)



Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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Strong equity market performance since the pandemic despite the uncertainty shock from higher tariffs last year has been a primary driver of this K-shaped pattern in net worth. Rising equity prices have boosted the financial wealth of households with meaningful market exposure, especially higher-income households where equity ownership is more concentrated.

Even since the beginning of the Iran war, one reason why we haven't seen pull back in total card ex gas spending for higher-income households in our BAC data is because the equity markets have made new all-time highs despite the Iran war. As of yesterday's close, the S&P 500 was up about 5.5% from its pre-war high in January. Based on the experience around Liberation Day – when the higher-income consumer held up remarkably well despite the stock sell-off – we think it could take a sustained bear market to meaningful close the “K” via negative wealth effects.

Generational dynamics further reinforce this divide. A recent NBER study using Survey of Consumer Finances data shows that older households, particularly those aged 75 and

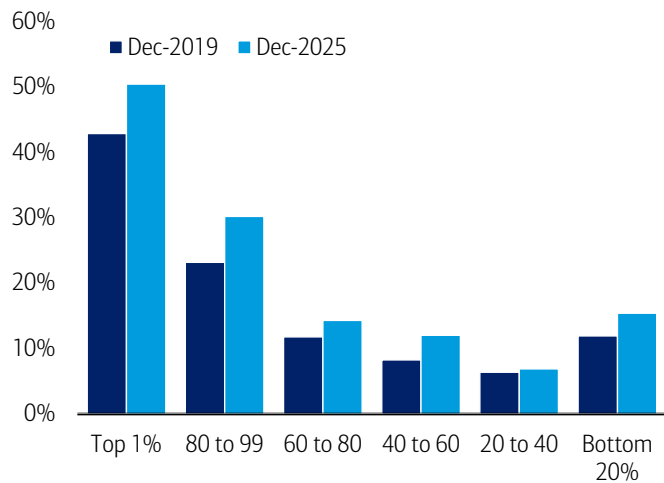


above have become increasingly wealthier over time, while younger households under the age of 35 haven't seen any improvement in net worth (Exhibit 8). Lower equity exposure and homeownership along with higher leverage among younger households are the primary reasons for the divide.

Together, concentrated equity ownership and strong market performance have led to a pronounced K-shape in household net worth since the pandemic, supporting spending at the top of the income distribution while constraining balance-sheet improvement elsewhere.

Exhibit 7: ...with equities accounting for most of this divergence

Equities as a % of household assets by income percentile (%)

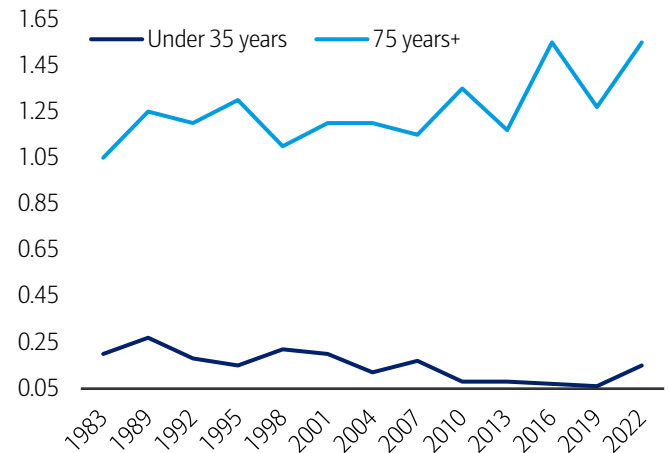


Source: Federal Reserve Board, Haver Analytics, BofA Global Research

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Exhibit 8: Older households (75+) have become wealthier over time, while younger households (under 35) haven't seen any improvement in net worth

Ratio of mean net worth of age group to overall mean net worth



Source: Wolff, "The extraordinary rise in the wealth of older American households", NBER Aug 2025. Note: We used CoPilot to read the data from the published chart to produce this exhibit

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Delinquencies

Since March 2022, as inflation surged, the Fed has raised rates by a net 350 bp. Even after cuts in 2024 and 2025, policy rates remain elevated at 3.50–3.75%, well above pre-pandemic lows. And in the coming month, the Fed is likely to remain in wait-and-watch mode as it assesses the impact of the Iran war on inflation and labor market conditions.

On the liabilities side, since the onset of monetary tightening after the pandemic, transitions into serious delinquencies have been elevated and are still rising. They have disproportionately been led by younger, lower-income cohorts, particularly in credit card and auto loans (Exhibit 9 and Exhibit 10). This pattern points to more balance sheet stress among households with limited financial buffers and greater reliance on short term credit.

Credit card interest rates move closely with the federal funds rate and rose sharply during this tightening cycle. A Boston Fed note showed that a 1pp rise in the credit card APR reduced aggregate card spending by almost 9% in the next month.

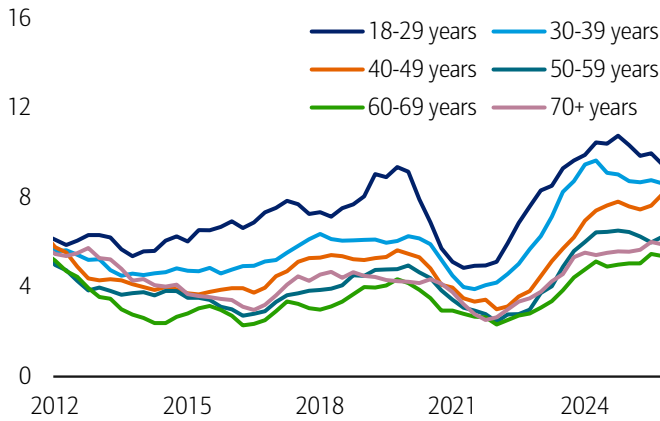
The reduction in spending was about twice as large among account holders who carry a balance on their card & with low credit scores, likely lower-income consumers. Spending among those who pay off their balance each month, as well as those with high credit scores, likely higher-income consumers were unaffected by the higher rates.

Together, elevated interest rates and greater balance-sheet sensitivity to higher debt-servicing costs have driven a larger increase in delinquencies among lower-income households. This has reinforced the K-shaped divergence in household financial health and consumer spending since the pandemic.



Exhibit 9: Transitions into serious delinquencies have been led by younger, lower-income cohorts for credit cards...

Transition to serious delinquencies (90 days +) for credit cards by age (four quarter moving sum, %)

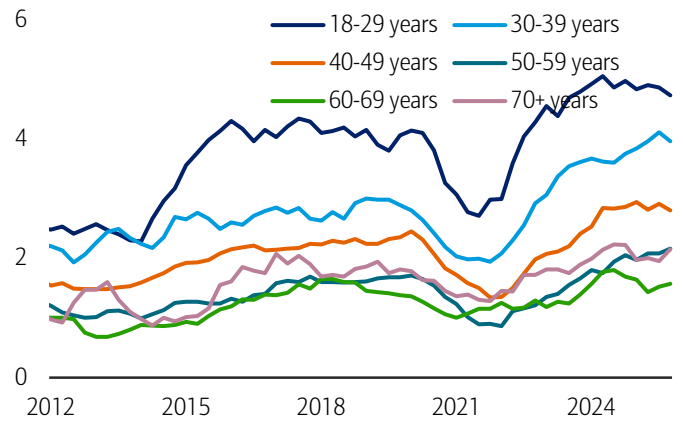


Source: Federal Reserve Board of New York, Equifax, Haver Analytics

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Exhibit 10: ...as well as auto loans

Transition to serious delinquencies (90 days +) for auto loans by age (four quarter moving sum, %)



Source: Federal Reserve Board of New York, Equifax, Haver Analytics

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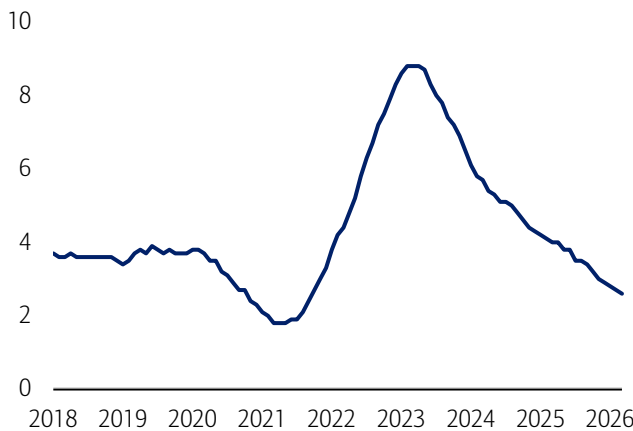
2.K-shaped housing market

Housing costs have been another important channel reinforcing divergence across income groups since the pandemic. Rental inflation rose far more sharply over this period than mortgage payments (Exhibit 11), reflecting the fact that many homeowners are still locked into their low fixed-rate mortgages from before the pandemic (Exhibit 12). As a result, housing related cost pressures have been borne disproportionately by renters.

Lower-income households are disproportionately renters (Exhibit 13), and increased rental costs constrain their ability to spend on discretionary items. Also, Exhibit 5 shows that outside of equities, real estate has been a big driver of increasing household wealth.

Exhibit 11: Rental inflation rose sharply after the pandemic...

CPI rent of primary residence (SA, y/y % change)

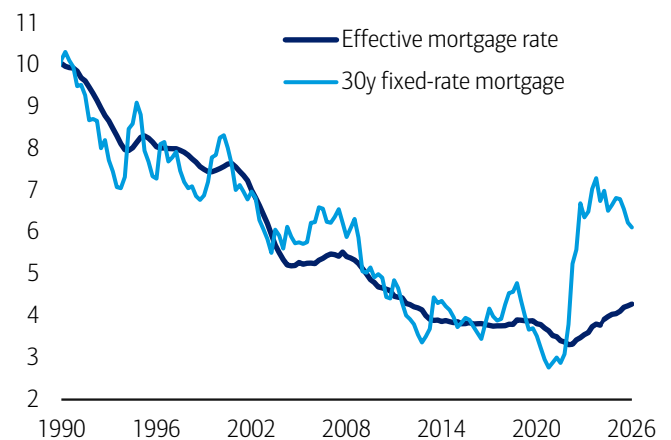


Source: Bureau of Labor Statistics, Haver Analytics

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Exhibit 12: ...while the effective mortgage rate has remained low as households stay locked into their low fixed rate mortgages

Effective mortgage rate and 30-year fixed rate mortgages (%)



Source: Bureau of Economic Activity, Federal Home Loan Mortgage Corporation, Haver Analytics

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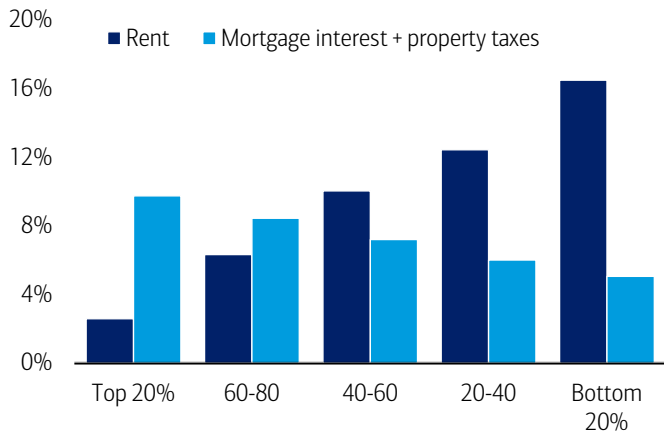
By contrast, higher-income households who are more likely to be homeowners (Exhibit 13) with locked in fixed-rate mortgages have seen relatively little pass through from higher interest rates into monthly housing payments (Exhibit 12). This asymmetry in



housing cost inflation has therefore contributed to widening differences in purchasing power across the income distribution.

Exhibit 13: Lower-income households are disproportionately renters, while higher-income households are homeowners

Rent vs. homeownership cost as a share of 2024 average annual expenditures, by income quintile (%)

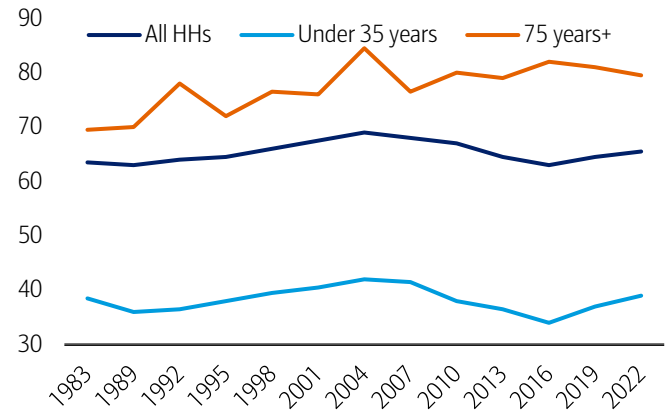


Source: BLS (Consumer Expenditure Survey), Haver Analytics

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Exhibit 14: Homeownership rate for older households has risen 10pp since the 1980s, while it has remained largely flat among younger households

Homeownership rate by age (%)



Source: Wolff, "The extraordinary rise in the wealth of older American households", NBER Aug 2025. Note: We used CoPilot to read the data from the published chart to produce this exhibit.

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Generational patterns further reinforce this divide as well. A recent NBER paper shows that the homeownership rate for older households has increased by roughly 10 percentage points since the 1980s, while homeownership among younger households has remained largely flat over the same period (Exhibit 14).

Together, elevated rent inflation and skewed homeownership patterns have added to the K-shaped nature of household balance sheets and spending since the pandemic.

3. K-shaped labor market

Divergence in consumer outcomes has also been reinforced through the labor market, where wage dynamics and employment prospects have become increasingly uneven across the income and age distribution. A prolonged low-turnover, low-hiring environment, combined with sectoral slowdowns and technological adjustment via AI, has altered who benefits from continued labor market resilience. These forces are most evident in the growing split between higher-and lower-income households along two dimensions: wage growth and unemployment-which together define the labor-market "K" shaping spending behavior.

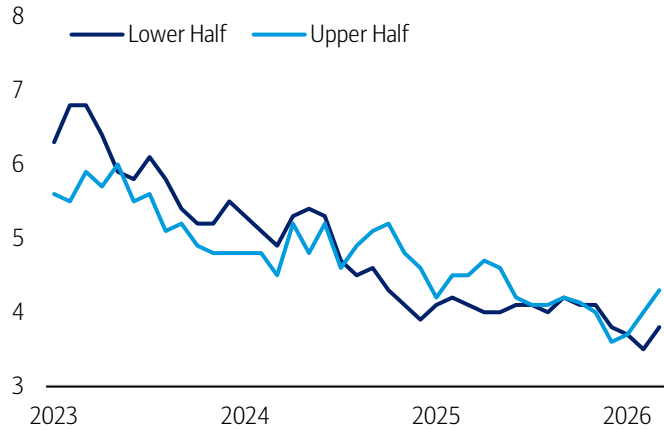
Wage growth

After running below lower-income wage growth for an extended period, higher-income wage growth has begun to outpace lower-income wage growth last year and that divergence has gotten amplified since then, as shown in both BAC card data and Atlanta Fed wage measures (Exhibit 15 and Exhibit 16).



Exhibit 15: After running below for a while, higher-income wage growth has begun to outpace lower-income in the Atlanta Fed data...

Atlanta Fed wage growth tracker: median wage growth by hourly wage (3 month moving average, NSA, y/y % change)

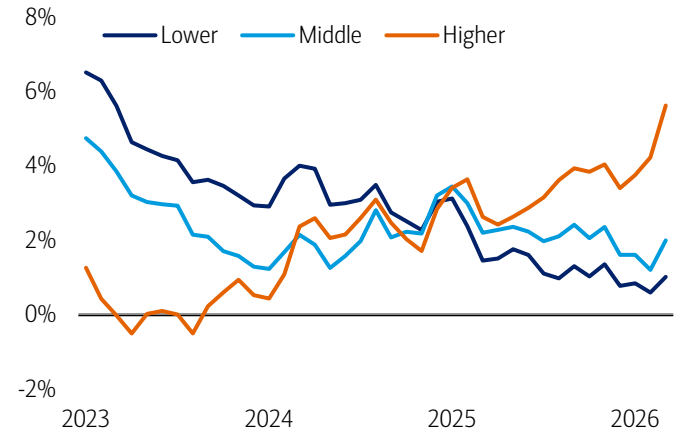


Source: Federal Reserve Board of Atlanta, Haver Analytics

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Exhibit 16: ...as well as in internal BAC data

After-tax wage and salary growth by household income terciles, based on Bank of America aggregated consumer deposit account data (3-month moving average, YoY%, SA)



Source: Bank of America internal data, Bank of America Institute

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One reason for this is that the labor market has been characterized by a low-hiring environment for some time now, even as firing rates have remained subdued. This low-hiring, low-firing dynamic likely disproportionately affects younger workers who are more likely to be in lower-income cohorts and actively searching for jobs relative to higher-income earners who tend to have more stable employment and job attachment.

Additionally, this is also tied to the underlying labor market dynamics. Leisure and hospitality, a predominantly blue-collar sector was a key engine of job growth during the post-pandemic recovery. Over the past year, however, blue-collar sectors, including construction, manufacturing (amid tariff uncertainty), and leisure and hospitality which form a notable share of private sector employment (Exhibit 17) have increasingly driven the slowdown in job growth (Exhibit 18).

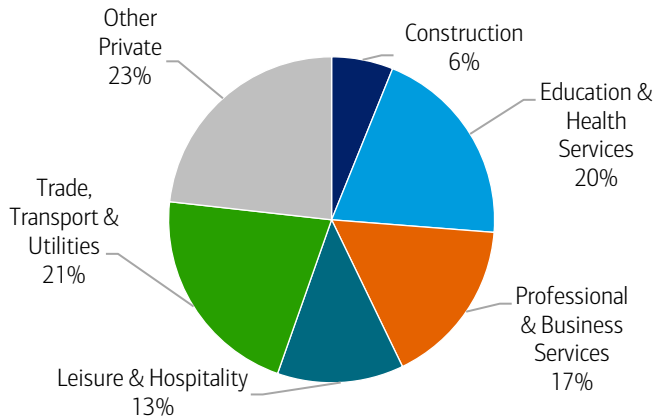
In addition, professional and business services, another important source of private sector jobs (Exhibit 17) have likely experienced layoffs (Exhibit 18) associated with faster AI adoption and normalization from post-pandemic over hiring. Although, in our view, the former has likely contributed to the layoffs to a more limited extent (see our report [Morning Market Tidbits: Youth unemployment: entry-level relief but early-career strain](#)). This has also been documented in a recent NY Fed conference on K-shaped spending. Overall, adjustments appear to have fallen more heavily on junior, lower-paid workers than on senior, higher-paid employees, reinforcing income-based divergence and contributing to the recent slowdown in lower-income wage growth.

Together, a prolonged low-hiring labor market, slowing job growth in blue-collar sectors, post pandemic normalization and AI-related adjustment in professional services have weighed disproportionately on junior, lower-paid workers, leading higher-income wage growth to outpace lower-income wage growth since last year.



Exhibit 17: Blue collar sectors like leisure & hosp. and construction with prof. & biz services form a notable share of private sector jobs

Sector employment share (% of private sector SA employment)

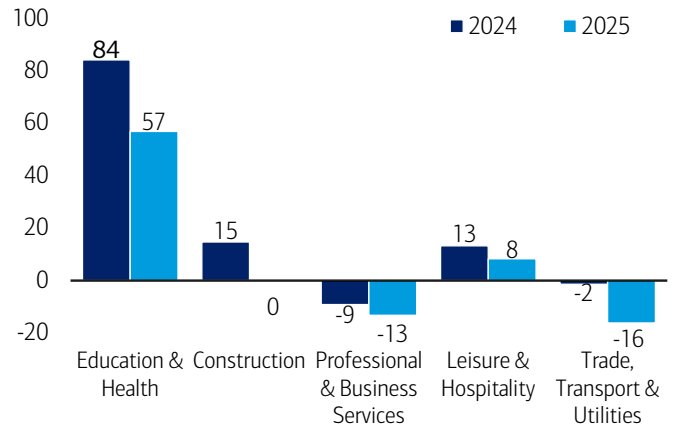


Source: BLS, Haver, BofA Global Research, Note: We have used 2025 yearly average to calculate sector shares.

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Exhibit 18: Professional & business services, construction and leisure & hospitality saw a slowdown in job growth last year

Monthly job growth by sector (yearly average, SA, thous)



Source: BLS, Haver Analytics

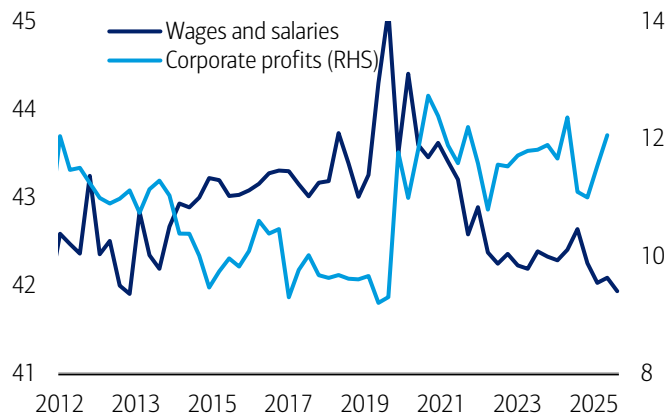
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Rising corporate profits also fuel a K-shaped economy

Since the pandemic, national accounts data have been pointing to a sustained increase in productivity. If anything, that productivity boost seems to be piling as corporate profits, as labor income has been steadily falling as a share of US GDP. It remains to be seen whether wages and salaries recoup some of their lost ground relative to corporate profits. But for now, higher profits relative to wages which also lead to higher stock prices are yet another driver of a K-shaped economy. This is because higher-income consumers tend to be more exposed to higher profits through bonuses, stock-based compensation (Exhibit 19).

Exhibit 19: A rising share of corporate profits vs labor income is yet another driver of the K-shaped economy

Wages and salaries and corporate profits as a share of GDP (%)



Source: FRED, BofA Global Research

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Unemployment rate

Labor market outcomes have also diverged across age and income groups. Unemployment for younger workers had been increasing more noticeably than for older cohorts, weighing disproportionately on spending at the lower end of the income distribution. Although, it looks like it has peaked (Exhibit 20). Younger workers are more



likely to be concentrated in lower-income brackets and to rely more heavily on labor income to support consumption, making them more sensitive to changes in employment conditions.

In a low-turnover labor market, firms tend to slow hiring at the entry level. This dynamic limits job opportunities for younger, lower-income workers who tend to switch jobs more often, including college-educated ones who are looking for jobs, even as aggregate employment remains relatively stable and workers aren't getting fired.

In addition, AI-related efficiency gains in some sectors like professional & business services likely reduced demand for junior roles or have made businesses cautious of hiring at the entry level until there is more clarity on AI efficiency, further constraining employment prospects at the lower end of the wage distribution. The unemployment rate for 20-24-year-olds peaked to decade-high levels of 9.2% in 2H25 (Exhibit 21).

But the good news is that since then, it looks like the unemployment rate is past its peak, suggesting the worst of the pressure on this group linked to AI uptake & weak hiring has likely passed. This moderation is also seen in the 20-24-year-olds with a bachelor's degree or higher, where the unemployment rate has also eased from recent highs (Exhibit 21).

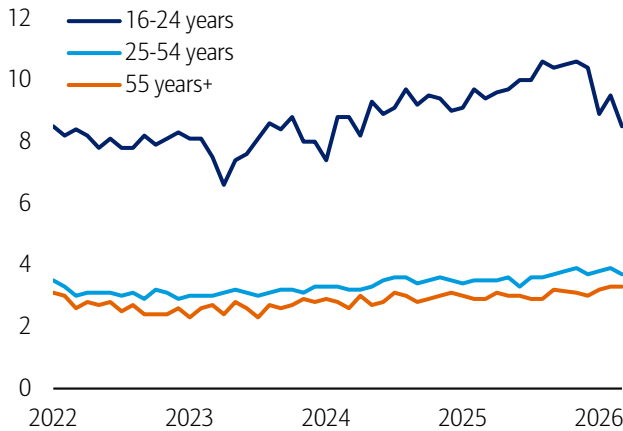
However, the 25-34 years cohort remains under pressure. Unemployment rates are still elevated, including for college-educated workers (Exhibit 21), reflecting softer demand for early-to-mid-career roles. This is where AI-driven efficiency gains, alongside an overall low-hiring labor market, may be playing a more meaningful role.

Together, a low-hiring labor market and reduced entry-level hiring for a prolonged period of time have led to a disproportionate rise in unemployment among younger workers. This has reinforced income-based divergence and is weighing on lower-income consumption, exacerbating K-shaped spending dynamics since lower-income rely more on labor income to fuel consumption.



Exhibit 20: Unemployment for younger workers had been increasing more noticeably than for older cohorts. But it looks like it has peaked.

Unemployment rate by age (SA, %)

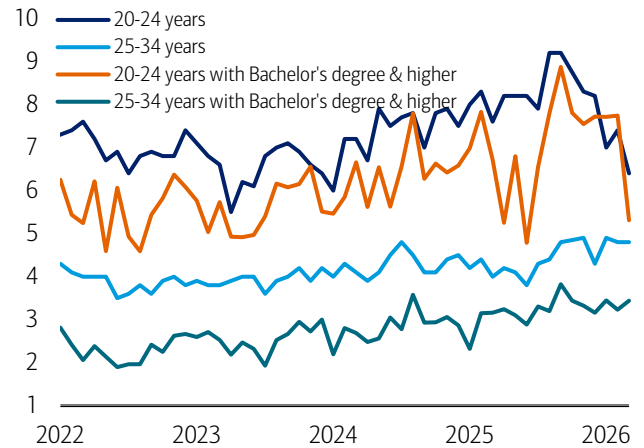


Source: Bureau of Labor Statistics, Haver Analytics

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Exhibit 21: Entry level unemployment is showing signs of stabilization from 2H25 highs, but early careers workers face persistent pressure

Unemployment rate by age and education (SA, %)



Source: BLS, Haver Analytics. Note: We have used the seasonal adjustment function in Haver for NSA unemployment rate with education & age.

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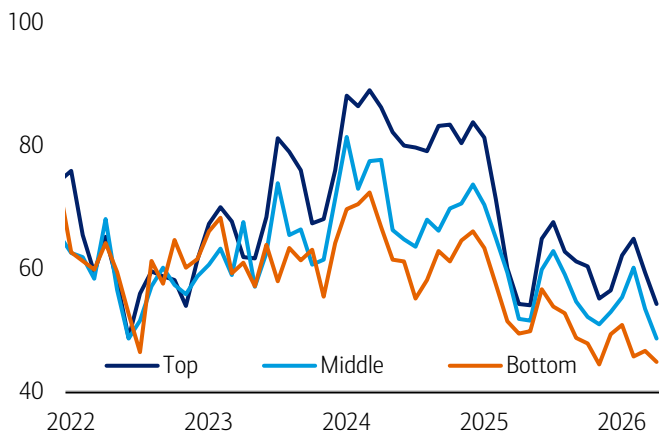
Sentiment

While sentiment does not always translate one-for-one into spending, persistently stronger confidence among higher-income households could reinforce discretionary consumption, particularly in periods when wealth effects play a central role. By contrast, weaker sentiment among lower-income households can amplify caution and restraint in spending, even in the absence of acute labor market deterioration.

Together, wealth effects, balance-sheet strength and income-based differences in labor market conditions have likely driven a wider gap in consumer sentiment (Exhibit 22), which has potentially to some extent supported discretionary spending at the top of the income distribution while limiting the recovery in spending elsewhere.

Exhibit 22: Consumer sentiment has remained stronger for higher-income cohorts

University of Michigan consumer sentiment by income tercile (Q1-66=100)



Source: University of Michigan, Haver Analytics

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4.K-shaped stimulus



More recently, fiscal policy will likely exacerbate K-shaped spending dynamics in coming months. The passage of the OBBBA last year relied heavily on deductions and tax-base adjustments, making its benefits more valuable for households with higher taxable income and marginal tax rates.

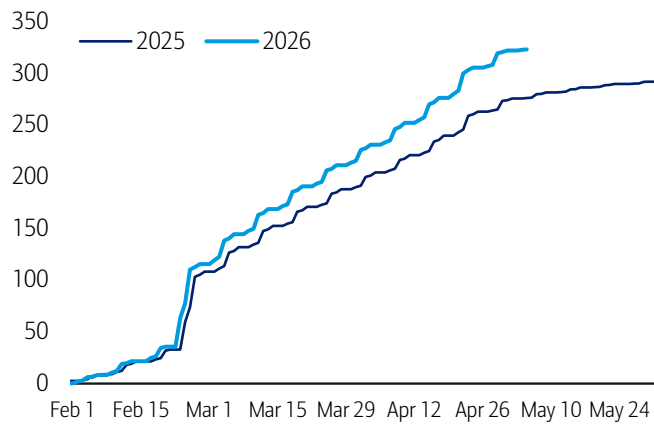
We have estimated that the bill is most beneficial for middle- and higher-income households. The bottom two income quintiles will likely see only modest gains. That’s because most of the stimulus provisions are deductions, which lower tax bills more for households that have a higher marginal tax rate. Estimates from the Yale Budget Lab suggest that the fourth income quintile (roughly \$75k–\$140k) will receive the largest refund boost relative to income, followed by the third (\$45k–\$75k) and top (> \$140k) quintiles.

In the last couple of months, we have been seeing that OBBBA-related tax refunds during the tax season have been running above last year’s level, albeit slightly lesser than initial expectations (Exhibit 23). But the largest incremental boost has likely been accruing to higher-income households, as expected. Indeed, this is evident in BAC data, which show that year-to-date 2026 tax refund growth has been stronger for higher-income households than for lower-income households, reversing last year’s pattern (Exhibit 24).

Together, the structure of OBBBA related tax relief and timing of it will disproportionately boost after-tax income and spending power for higher-income households. This will add to the K-shaped divergence in consumer spending in the coming months as consumers deal with the shock from the Iran war.

Exhibit 23: As of May 6, tax refunds were running nearly \$47bn (16.9%) above last year’s level

Cumulative tax refunds by year (\$bn)

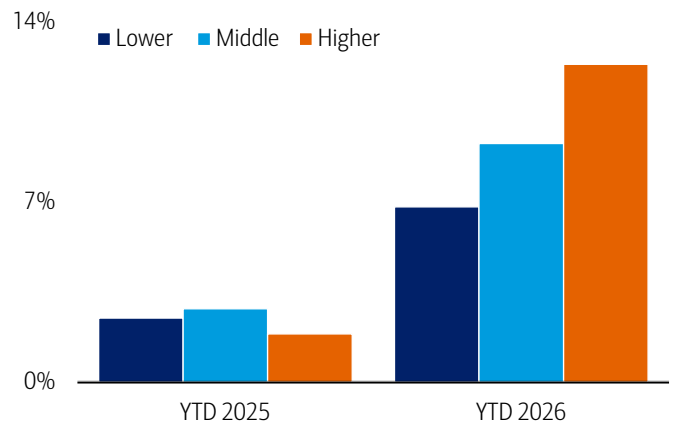


Source: US Treasury Department, Haver Analytics.

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Exhibit 24: BAC data show that the pickup in YTD '26 tax refunds has been stronger among higher-income households than lower-income

Y/y % change in YTD BAC internal data tax refunds through first Saturday of April (weekday aligned), by income category



Source: BAC internal data.

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5.K-shaped affordability shock

Uneven exposure to the energy shock from the Iran war will also probably widen the affordability gap between income cohorts. Gasoline spending has risen sharply since the start of the Iran war on account of higher gas prices (Exhibit 25). While energy’s share of total spending has declined over time, standing near 4% as of January as compared to 5.6% before Iraq invaded Kuwait in 1990 (Exhibit 26), it remains higher for lower-income households.

Gas and other energy goods make up only about 1.5% of the top income decile’s total outlays. The corresponding figure for the bottom decile is nearly 4%. This disparity



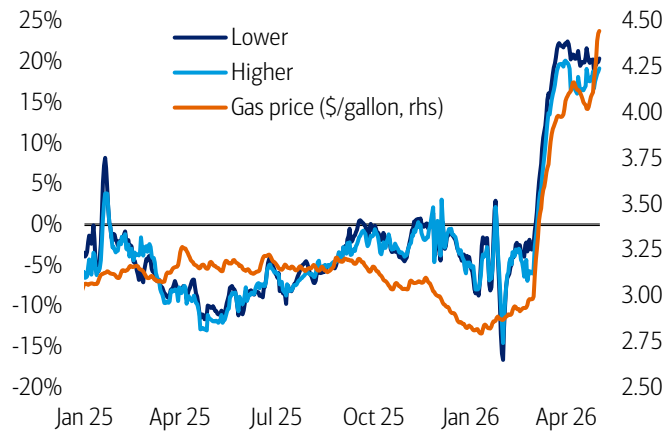
would be even larger if we compare energy spending to income, since higher-income households also save more.

Accordingly, y/y gasoline spending in BAC data has risen slightly more among lower-income households (Exhibit 25). By contrast, higher-income households have continued to post faster growth in total spending excluding gasoline, supported by limited equity market fallout, stronger tax refunds, and lower exposure to energy costs (Exhibit 3), further reinforcing the K-shaped pattern in consumer spending.

Together, higher effective exposure to energy price shocks among lower-income households and continued strength in discretionary spending at the top supported by the limited sell-off in the equity market from the Iran war as well as the OBBBA stimulus have further reinforced the K-shaped pattern in consumer spending in recent months and can likely continue doing so. Looking ahead, we're concerned that a food shock due to higher fertilizer prices could further widen the disparity between higher- and lower-income spending.

Exhibit 25: Gas spending has surged since the start of the conflict, slightly more so among lower-income households

Gas spending per household by income group vs. retail gas price per gallon (y/y % change of the 7-day MA of spending levels)

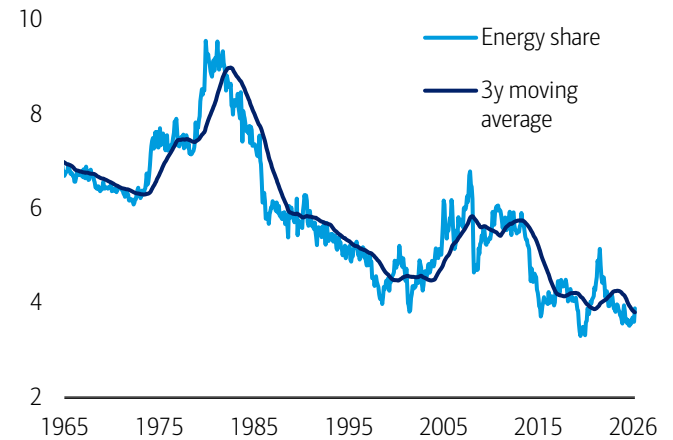


Source: BAC internal data, Bloomberg, American Automobile Association. Note: Gas includes some convenience store purchases at gas stations. See the report [BofA on USA: Mar retail sales: not yet out of gas](#) for methodology, limitations, and disclaimers related to BAC aggregated credit and debit card data.

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Exhibit 26: Energy's share in consumer spending has fallen steadily over time

Share of energy goods & services in consumer spending (%)



Source: Bureau of Economic Analysis, Haver

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