The K-Shaped Recovery And An Economy Divided

By: Tony Waltrich

Inflation, debt, and income inequality are fueling a K-shaped, post-pandemic recovery, widening the gap between different economic segments and challenging lower-income households.

Inflation

Americans expect their financial situations to deteriorate in the the coming year. According to the New York Fed's Survey of Consumer Expectations, U.S households expect inflation to increase to 3.2% in the next year, with pricing on everyday essentials such as gas, food, and rent projected to increase 3.5%, 5.7%, and 7.2%, respectively. Medical care is forecast to jump 9.4%. Gloomier expectations can amplify a household's struggles, making them feel worse off.

Higher-Income Households

Lower-Income Households

Appreciating Assets

Higher-income households are more likely to own property and investments, which increase in value alongside prices and help households accumulate wealth despite inflation.

Essentials such as food and gas also comprise a smaller potion of wealthier households' budgets, making increases in these prices less painful.

Inflationary Struggles

Essential expenses make up more of the budget for lower-income households, so when food, gas, and rent rise, they have less money left for saving or investing.

Rising prices and tighter budgets put lower-income households at greater risk of debt traps, limiting their ability to save, invest, and build wealth.

Debt

According to the Household Debt and Credit Report by the New York Fed, total household debt increased by 1% in the third quarter of 2025 to reach $18.6 trillion. Mortgage debt totaling $13.1 trillion comprised the majority of this figure. HELOC balances rose for the 14th consecutive quarter to $422 billion. Credit card balances were up 5.8% year-over-year to $1.23 trillion. Auto loan balances, perhaps stifled by tariffs, held steady at $1.7 trillion.

Manageable Debt

Homeowners may turn to HELOCs to access credit at more favorable terms than a credit card provides. For households with higher incomes, a lower debt-to-income ratio makes debt repayment more manageable, leaving them less vulnerable to interest rate hikes and economic downturns.

Expensive Debt

Lower-income, asset-constrained households typically have less budgetary flexibility to cover unexpected or growing debt. As a result, they rely on expensive debt such as credit cards. Unfortunately, it can be difficult to completely pay off high-interest, revolving debt, creating a spiral that is difficult to escape.

Credit Divergence

In a sign of the hollowing out of middle class America, the share of both super prime and subprime consumers is growing. According to TransUnion's third quarter Credit Industry Insights Report, consumers in the low-risk super prime tier has grown 2.5 percentage points since 2021. The share in the high-risk subprime tier has grown, too, and is now back to pre-pandemic levels. This divergence is a clear sign of the K-shaped economy, where some are well-equipped to navigate the economic climate while others face serious financial strain.

Lower Rates, Higher Approvals, Larger Limits

Wealthier households are more likely have higher credit scores and qualify for super prime tiers. As such, they have an easier time securing approvals, pay less in interest, and enjoy higher lines of credit — whether for a credit card or personal loan — and lower down payments for larger purchases. This adds up to less financial stress and greater financial resilience.

High Rates, Restrictive Terms, More Fees

It's expensive to be poor. Households in the subprime tier are subject to higher rates, extra fees, and more frequent rejections. Subprime borrowers can pay 10%-15% more for a credit card or auto loan. The difference in mortgage rates tends to be smaller, but it still adds up over the life of a loan. And when rates do drop, it is often more difficult for these households to refinance and enjoy repayment relief.

K-Shaped Recovery. Credit Union Response.

The K-shaped recovery exacerbates financial inequality, demanding tailored support for struggling members and families. Credit unions can make a difference by providing financial support and education for vulnerable members.

CALLAHAN & ASSOCIATES
the credit union company