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Analysis

# America's Economy Splinters Further as the Middle Falts

By Erik Sherman

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Bank of America economists say the American economy is no longer merely divided into two groups — the wealthy and everyone else — but split three ways. Using internal data, they have identified widening gaps in spending and wage growth that now separate higher, middle and lower-income households. Fortune has dubbed this the rise of the "E-shaped economy."

According to the Bank of America team, what once looked like a single bifurcation in spending power between affluent consumers and the rest has deepened into a "trifurcation." The economists wrote that "income-based divergence in spending and wage growth persists," expressing concern that a new K-shaped split is emerging between high and middle-income households, alongside the existing gap between middle and lower-income groups.

Their data found that spending growth among higher-income households reached its strongest point since 2022, rising 2.5% year-over-year on credit and debit card transactions. Middle-income spending was flat, while lower-income households saw only a 0.3% increase. Wage trends followed a similar pattern: overall growth reached 3.7% year-over-year in January,

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Though newly framed, the pattern has been visible for several years. The Federal Reserve Bank of Atlanta's wage growth tracker has shown widening disparities since at least 2021. In that time, top earners' pay has consistently outpaced others. In January 2021, wages for workers in the 75th percentile were up 14.6%, compared with a median increase of 3.4% and a decline of 2% for those in the 25th percentile. By December 2025, the upper tier's growth remained near 14.5%, while the lowest quarter slipped further to -2.2%.

Other data underscores how top earners increasingly drive the U.S. economy. In early 2025, Moody's Analytics found that households earning \$250,000 or more accounted for nearly half — 49.7% — of all consumer spending. Three decades ago, that share stood at 36%.

At the same time, household debt has climbed to historic levels. Federal Reserve Bank of New York figures show total debt reached \$18.77 trillion in the fourth quarter of 2025, up from \$18.04 trillion a year earlier. Housing debt rose from \$13 trillion to \$13.6 trillion, while non-housing obligations — such as credit cards and student loans — increased from \$5.04 trillion to \$5.17 trillion.

Wilbert van der Klaauw, economic research advisor at the New York Fed, noted that while mortgage delinquencies overall remain near historical norms, "the deterioration is concentrated in lower-income areas and in areas with declining home prices."

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