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Middle Class Goes From Secure to Squeezed

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For the American middle class, it has been a summer of cooling confidence.

Consumer sentiment dropped nearly 6% in August, after trending up in June and July, according to a closely watched index from the University of Michigan. Pessimism about the job market increased, with more people surveyed saying they expect their income to decline, according to polling done by the think tank the Conference Board.

The middle class—generally considered to include households making roughly \$53,000 to \$161,000 a year—is playing an outsized role in that waning optimism. After months of tracking high-income earners' increasing confidence about the economy, households making between \$50,000 and \$100,000 made an abrupt about-face in June. They now more closely resemble low-income earners' gloomier views, according to surveys done by Morning Consult, a data-intelligence firm.

"There was a period of time, briefly, where the middle-income consumer looked like they were being dragged up by all that was going well in the world," said John Leer, chief economist at Morning Consult. "Then things fell off a cliff."

Evidence of a squeezed middle class is mounting. Several CEOs across the dining, retail, fashion and airline industries have said their middle-class customers are increasingly strapped, even as high earners keep on buying.

Walmart, which continues to dominate by offering deals to pinched consumers, said middle- and low-income shoppers are reining in spending and putting fewer discretionary items in their carts. Advance Auto Parts and O'Reilly Automotive both noted low-to-middle-income customers were feeling pressured, leading some car and truck owners to cut back on nonessential repairs. Discount retailer Dollar General said it is getting more business from midtier households looking for value.

At retailer Kohl's, customers are trading down for cheaper clothes and home goods. "Our lower-to-middle-income customers remain the most challenged," Kohl's Chief Executive Michael Bender said.

More Americans are turning to generic brands and stretching out perishable goods as economic concerns creep up the income ladder, Federal Reserve Bank of Atlanta President Raphael Bostic said. "Folks that are low and moderate income, they don't have any extra money anymore," Bostic told an audience at a recent town hall meeting in Red Bay, Ala.

Pew Research Center defines "middle class" as those earning from two-thirds to double the median household income, which is currently just shy of \$81,000 a year, according to federal data.

Mariadeliz Santiago started worrying in the spring when tariffs dominated the news. The 30-year-old beauty and fashion influencer in Brooklyn earns \$60,000 a year from her online posts. But her paid partnership deals are getting downsized as fewer cosmetic and skin-care brands spend on advertising in the face of higher tariffs.

"It almost feels like you have no control over what's happening right now," she said, adding that she's trading down anywhere she can to save money.

Instead of visiting the salon, Santiago is buying nail strips. She pared her weekly restaurant



Walmart says middle- and low-income shoppers are reining in spending. Mariadeliz Santiago, right, a beauty and fashion influencer, canceled a trip to Puerto Rico over financial concerns. FROM LEFT: LM OTERO/ ASSOCIATED PRESS, MARIADELIZ SANTIAGO

excursions to once or twice a month. In February, she booked a trip to Puerto Rico to see the rapper Bad Bunny in concert. By April, she decided the \$3,000 trip wasn't feasible. She sold the concert tickets and canceled the flights.

"I don't expect the economy to get better, unfortunately, for a while," she said.

In early June, people with incomes between \$50,000 and \$100,000 were feeling better about the economy than they had since before the pandemic, according to Morning Consult polling. Their optimism dropped in the following weeks, falling out of step with their wealthier counterparts, then flatlined in August. The gap in confidence between high- and low-earners is now the widest it has been in the seven years of tracking the data.

More U.S. consumers now say they are dialing down spending than when inflation spiked in 2022. Over 70% of people surveyed from May to July plan to tighten their budgets for items with large price increases in the year ahead, according to the University of Michigan's economic sentiment survey.

High earners were much more likely to keep spending as usual. Joanne Hsu, the Michigan survey's director, said in her analysis.

Executives at IHOP, McDonald's and Denny's have said their middle-class customers are increasingly strapped, while many lower-income diners are staying away altogether.

At IHOP, customers are choosing cheaper menu items and buying fewer drinks. Denny's data showed more people who make between \$50,000 and \$75,000 are coming in for promotions like its \$5 breakfast.

McDonald's reported in August that it is gaining more middle-class diners as they eschew pricier restaurant options, while lower-income customers are showing up less frequently. That divide is expected to continue, executives told investors and analysts on a call to discuss earnings.

Wealthy Americans are helping keep swaths of the economy in good stead as they continue to buy first-class plane tickets and high-end sneakers, while more Americans are clipping coupons and cutting back on nonessentials.

The company that makes On-brand running shoes, which start at \$160 a pair, raised its full-year sales outlook after its second-quarter revenue jumped 32%.

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