SOCIOECONOMIC BARBELL:

The phrase **socioeconomic barbell** describes a structure where there is a pronounced and increasing number of members of society at the ends of the economic spectrum: the high and the low income, combined with a diminishing middle class. This term is metaphorically derived from a barbell used in weightlifting, which has heavy weights on both ends with a lighter bar connecting them in the middle.[1] [2]

CAUSES:

Many factors contribute to the formation of a socioeconomic barbell, including:

- **Globalization**: The integration of global markets often leads to economic gains for high-skilled workers, while low-skilled workers may face job displacement and wage stagnation.[3]
- **Technological Advancements**: Automation and advancements in technology have disproportionately benefited those with higher education and specialized skills, while reducing the demand for low-skilled labor[4]
- **Policy Decisions**: Aggressive taxes relating to income, consumption and capital may exacerbate the socioeconomic barbell[5]
- **Stagflation**: Stagflationary macro conditions tend to disproportionately put pressure on middle-income earners and tend to increase both the relative proportion of bottom and top earning cohorts.
- **Persistent Current Account Deficits:** A country which is consuming more than it is producing and saving tends to see a reduction in future earning power, particularly of the middle class.
- **Persistent Capital Outflows:** A country with consistent net capital outflows tends to see a reduction in earning power, particularly of the middle class, over time as investments in labour productivity decline per capita.

ECONOMIC RAMIFICATIONS:

The socioeconomic barbell has implications for investment strategies. A polarized economy may lead to reduced consumer spending in aggregate as a growing portion of the population struggles to make ends meet,[6] In addition, the increasing bifurcation of wealth and income may require new asset allocation approaches, including more segmentation in target markets as growth becomes much less uniform across income cohorts – for example:

- **Retail Sector**: With a shrinking middle class, companies may need to refocus their product offerings on either high-end luxury goods and services or low-cost, essential items. We believe the bifurcation in consumer markets should make investors consider the need to re-orient their portfolios towards industries and companies that cater to these distinct and more rapidly growing segments.
- **Real Estate**: The demand for housing may vary between the high income and the low income. Investors might see opportunities in luxury real estate markets in affluent areas while affordable housing projects may attract investments aiming to capitalize on the growing need for lower-cost solutions.
- **Financial Services**: Wealth management and financial planning services are likely to see growth among the high-income population, while payday lenders and microfinance institutions might find a growing customer base among lower-income individuals.
- **Auto Sector**: Economic pressure on the middle class boosts the auto maintenance sector while acting as a drag on the new car production ecosystem. Middle-class consumers tend to delay new car purchases, leading to more aging cars on the road. Older cars require more frequent repairs, increasing demand for maintenance services and after-market parts.

CASE STUDIES:

The following are some case studies that illustrate the socioeconomic barbell:

- **Canada:** In Canada, the socioeconomic barbell is marked by a widening gap in both income and wealth distribution, with the wealthiest 20% of households holding over 67% of total wealth, while the bottom 40% own less than 3%. Income inequality has been driven by several factors, including wage stagnation in lower-paying sectors and rising costs in urban centers. According to Statistics Canada, the Gini coefficient, a common measure of inequality, has hovered around 0.31 in recent years, indicating moderate inequality but with a slight upward trend. The middle class has been particularly affected, with rising costs in housing and essentials outpacing wage growth. For instance, housing prices surged 88% nationally from 2015 to 2022, outstripping income growth, especially in cities like Toronto and Vancouver. The proportion of Canadians living in middle-income households has declined. In the 1970s, around 60% of Canadian households were middle income, but recent data shows this has dropped to approximately 47%.

- **United States:** In the United States, there is a growing income gap between the wealthy and the poor. The middle class has been proportionally shrinking due to, in part, rising living costs and the loss of well-paid manufacturing jobs. High-income earners in technology and finance have seen significant real income growth, while low-income workers in service industries have tended not to keep pace with inflation. According to Pew Research Center, the share of adults living in middle-income households fell from 61% in 1971 to 51% in 2019.[7]

- **China:** China presents a unique case where rapid economic growth has lifted millions out of poverty yet has also resulted in significant wealth disparities. The coastal urban regions have seen rapid economic development, creating a wealthy elite, while rural areas lag, contributing to the "barbell" effect. According to the World Bank, the Gini coefficient for China increased from 0.30 in 1980 to 0.48 in 2019, indicating rising income inequality.[8]

- **Mexico:** Mexico's wealth is concentrated among a small elite, with the top 10% of the population holding nearly 60% of the nation's wealth, while the bottom 50% own just 5%.

CONCLUSION:

The socioeconomic barbell is a useful concept for navigating a developing dynamic of developed economies. Understanding the socioeconomic barbell and its impact on different market segments may provide investors with insights into emerging trends and accordingly, capital deployment opportunities.

SOURCES:

1. Pew Research - "The State of the American Middle Class"
2. Omnigence, "Preparing for Stagflation and the "Socioeconomic Barbell" - https://omnigenceam.com/wp-content/uploads/2024/02/Omnigence-Investing-in-Canadian-Stagflation-Feb-2024-FINAL.pdf
3. Brookings Institute - "Globalization and Inequality "
4. McKinsey - "What the Future of Work Will Mean for Jobs Skills and Wages"
5. OECD - "Inequality and Income Distribution"
6. IMF - "Inequality and Unsustainable Growth"
7. Pew Research - "The State of the American Middle Class"
8. World Bank - "Development Indicators"
9. Data Review Mexico

Omnigence

Toronto Office:
TD Canada Trust Tower, 161 Bay St.
27th Floor, P.O. Box 508
Toronto, ON, M5J 2S1

Calgary Office:
Suite 300, 4954 Richard Road SW
Calgary, AB, T3E 6L1

www.omnigenceam.com

DISCLAIMER

Our reports, including this paper, express our opinions which have been based, in part, upon generally available public information and research as well as upon inferences and deductions made through our due diligence, research and analytical process. The information contained in this paper includes information from, or data derived from, public third-party sources including industry publications, reports and research papers. Although this third-party information and data is believed to be reliable, neither Omnigence Asset Management nor its agents (collectively "Omnigence") have independently verified the accuracy, currency or completeness of any of the information and data contained in this paper which is derived from such third party sources and, therefore, there is no assurance or guarantee as to the accuracy or completeness of such included information and data. Omnigence and its agents hereby disclaim any liability whatsoever in respect of any third-party information or data, and the results derived from our utilization of that data in our analysis. While we have a good-faith belief in the accuracy of what we write, all such information is presented "as is," without warranty of any kind, whether express or implied. The use made of the information and conclusions set forth in this paper is solely at the risk of the user of this information. This paper is intended only as general information presented for the convenience of the reader and should not in any way be construed as investment or other advice whatsoever. Omnigence is not registered as an investment dealer or advisor in any jurisdiction and this report does not represent investment advice of any kind. The reader should seek the advice of relevant professionals (including a registered investment professional) before making any investment decisions. The opinions and views expressed in this paper are subject to change or modification without notice, and Omnigence does not undertake to update or supplement this or any other of its reports or papers as a result of a change in opinion stated herein or otherwise.