

# The economic state of Latinos in the US: Determined to thrive

November 2022



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# The economic state of Latinos in the US: Determined to thrive

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## Authors

Ana Paula Calvo  
Carolina Mazuera  
Jordan Morris  
Lucy Pérez  
Bernardo Sichel

# Preface

In December 2021, we published our inaugural report on Latino economic mobility, [The economic state of Latinos in America: The American dream deferred](#). It called attention to Latinos in the United States, highlighting their contributions as workers, business owners, consumers, and savers. The findings in this follow-up report, *The economic state of Latinos in the US: Determined to thrive*, provide an updated, multidimensional view of Latino economic life, with particular attention on Latino consumers, who represent a fast-growing segment underserved by existing offerings. Our framework is similar to that of last year's report but anchored by consumers, who fuel economic growth across the US. We have embedded examples of actions companies and nonprofits are already taking to support Latinos in the US, as thought starters and potential sources of inspiration.

Our goal for this report is to shed light on both the barriers and the enablers of economic mobility so that we continue building a stronger, more inclusive economy. Seven out of ten people across the world live in societies with growing inequality, and this is particularly true for Latinos, who have been disproportionately impacted by the COVID-19 pandemic and inflation.<sup>1</sup> As a firm, we are committed to enabling sustainable and inclusive growth. We have invested in over 23,000 Asian, Black, and Latino leaders through our Connected Leaders Academy to date, a program focused on capability-building and driving transformative personal and professional change. Additionally, we have helped launch Ownership Works, a new nonprofit aimed to create \$20 billion of wealth for working families.

The research was led by Ana Paula Calvo, who is a consultant in McKinsey's Miami office, where Carolina Mazuera is an associate partner; Lucy Pérez, who is a senior partner in the Boston office; and Bernardo Sichel, who is a partner in the Chicago office.

The project teams were led by Jordan Morris and included Anna Maria Gil, Valeria Zuniga, Miranda David, and José de Lapuerta. Maria Gutierrez and Margret-Ann Natsis led external outreach and the authors would like to thank them for their contributions and support.

We would especially like to thank the Aspen Institute's Latinos and Society program for their knowledge partnership and commitment to sharing this research externally.

We hope this report, together with our previous publication from 2021, will spur further action. This work is independent and reflects our own views.

## Lucy Pérez

Co-leader of McKinsey's North America Hispanic Latino Network  
Senior Partner, McKinsey & Company  
Boston

November 2022

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<sup>1</sup> Daniela Bas, Elliott Harris, and Wenyan Yang, "World Social Report 2020: Inequality in a rapidly changing world," UN Department of Economic and Social Affairs, 2020.





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# Executive summary

US Latinos account for the fastest-growing portion of US GDP. So much so, that if we considered US Latinos as their own country, it would be third only to the GDP growth rate of China and India in the past decade.<sup>2</sup> At a time of economic uncertainty with concerns about a possible recession growing, consumers are looking for additional support. Our research estimates that the Latino consumer base has unmet needs of more than \$100 billion currently, and this could grow six-fold to \$660 billion if we address the parity gap between Latinos and non-Latino Whites based on share of population.

## Latino consumers are driving growth while their needs go unmet

Over the past decade, Latinos have grown their household consumption to reach a cumulative \$1 trillion market in 2021—a 6 percent annual growth rate over the last decade. Their household spend is higher compared to other groups at similar income levels, and yet marketing spend directed at Latinos most likely does not reflect this.<sup>3</sup> Latinos are conscious of their impact, choosing brands that value the environment and their employees, all of which makes them more influential than their income levels would suggest.

However, Latino consumers are often highly dissatisfied with the products offered to them—especially compared to their non-Latino White counterparts. This dissatisfaction ranges across product categories, from food and beverages to financial products, which may point to unresolved needs that impact their daily life. If brands address the drivers of dissatisfaction in terms of access and value proposition, there is a collective \$109 billion of revenue at stake, when considering current spending and future potential should improved products be offered.

Latino voices remain underrepresented in the C-suites of corporate America where product offerings and capital allocation decisions are made, and this is particularly true of Latina women. As a result, Latino consumers are often overlooked by companies that do not recognize them as a priority demographic. Less than 5 percent of seats in Fortune 500 boards and in C-suites of corporate America are occupied by Latinos despite this community representing 19 percent of the US population.<sup>4</sup> Latina women hold 1 percent of seats in Fortune 500 boards, the smallest percentage of board seats compared to any racial or ethnic demographic in the US.<sup>5</sup> Furthermore, Latina women may be further marginalized at work as described in our latest [\*Women in the workplace\*](#) report.<sup>6</sup>

At the same time, Latinos have also been more heavily impacted by COVID-19 and inflation than other populations, and this has exposed their vulnerabilities. Consequently, Latinos are expected to change their consumer spending and take aggressive action to switch to brands that better meet their needs. Companies that support Latino consumers by optimizing value propositions and tailoring their marketing and sales strategies have a singular opportunity to capture the potential this growing market represents.

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<sup>2</sup> Dan Hamilton, et al., “2022 LDC US Latino GDP report,” Latino Donor Collaborative, September 2022.

<sup>3</sup> Jeremy Goldman and Daniel Konstantinovic, “Hispanic consumers remain an underserved demographic for many marketers,” Insider Intelligence, September 25, 2021.

<sup>4</sup> “Latino Board Monitor,” Latino Corporate Directors Association, August 2022.

<sup>5</sup> Ibid.

<sup>6</sup> Lareina Yee, et al., “Women in the workplace 2022,” McKinsey in partnership with LeanIn.org., October 18, 2022.

# 23%

of Latinos are considered financially healthy in 2022

## Closing the Latino wealth gap would strengthen the existing consumer opportunity by more than 500 percent

In a scenario in which Latinos match their spend to their share of population, Latino consumers would spend around \$554 billion more than today. Closing this gap would require addressing the underlying income and savings gaps between Latinos and non-Latino Whites. Employers and society at large have much to gain from providing Latinos with better jobs that also provide advancement and leadership opportunities.

In pursuing greater prosperity and fulfillment, Latinos increased their share of professional roles to 25 percent—a five percentage point gain over the past decade. However, Latinos still face barriers in the workplace, through discrimination, implicit biases, or a lack of opportunities for advancement in new roles. In fact, if Latinos were represented at job levels in line with their share of the population, and paid the same as non-Latino Whites, they would receive an additional \$281 billion in annual income that could be further deployed to drive economic growth.<sup>7</sup>

Latino savers have only a fifth of the median wealth of their non-Latino White counterparts, and their savings have been depleted; today, almost half of Latinos have little or no retirement savings. Only 23 percent of Latinos are considered financially healthy in 2022 compared to 35 percent of non-Latino Whites. Nevertheless, Latinos' net wealth is increasing at a faster rate (9 percent for Latinos, versus 4 percent for non-Latino Whites), narrowing—but not yet closing—the gap with non-Latino Whites. If the trend continues, Latino households could reach an average net worth of \$47,000 this year.

While Latinos have about half as much debt as non-Latino White counterparts, this may be because they find it difficult to access appropriate financial products. Latinos are 1.7 times more likely than non-Latino Whites to be turned down for a loan, and 30 percent are unbanked or underbanked compared to 12 percent of their non-Latino White counterparts.<sup>8</sup> For financial institutions, this is a significant opportunity to address an underserved consumer market.

## Investing in Latino entrepreneurs is a key part of the answer

Latinos are the most entrepreneurial group in the US economy, but they face significant barriers in access to capital—including lower approval rates than non-Latino White-owned businesses for bank loans, private-equity funding, and factoring. Less than 5 percent of venture capital is directed toward Latino entrepreneurs.<sup>9</sup> These obstacles, along with Latino businesses' lower representation in fast-growing economic sectors, limit their expansion and their opportunity to contribute to a more diversified product offering that meets the needs of American consumers.

If Latino businesses' access to capital were improved, and their representation in growing sectors increased, they would contribute an additional \$2.3 trillion in revenue to the economy and create 750,000 new employer firms, resulting in more than six million jobs.<sup>10</sup> Interventions to improve access to funding, both from financial institutions and procurement-led organizations, and investments in digital capabilities for Latino businesses can help realize this potential.

<sup>7</sup> McKinsey calculations using the "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>8</sup> "Economic well-being of US households in 2020," Federal Reserve, May 2021.

<sup>9</sup> Janice Bitters Turi, "VC funding to early-stage Latine-founded startups in the US has stalled. Here's why that matters," Crunchbase News, January 26, 2022.

<sup>10</sup> "Annual business survey 2019," US Census Bureau.

Exhibit E1  
**The economic state of Latinos in the US:**

Determined to thrive



● Gap increased from last year's report   ● Gap decreased from last year's report



**Workers**

**54%**

Of the wage gap can be explained by 4% of professions



**Savers and investors**

**\$47K**

Expected average household wealth based on historic growth compared with \$212k for White Americans

**\$77B**

Gap in aggregate disposable savings among Latino and White households



**Business owners**

**744K**

New businesses would be created if the Latino share of employer businesses matched its population share



**Consumers**

**8%**

Annual growth in Latino spending for the past nine years

**\$663B**

Gap in consumption, including to reach consumption parity and additional willingness to pay for better offerings

**\$281B**

Gap in annual income compared with non-Latino White Americans

**6.3M**

New jobs would be created as a result (average size of Latino-owned firms decreased from last year)

**Despite being disproportionately impacted by COVID-19, Latinos have demonstrated resilience and determination to thrive**

**~80%**

of Latino-owned firms had sales return to pre-pandemic levels by mid-2021

**~14%**

decrease in unemployment rate from pandemic high

**\$1.1T**

in aggregate annual spend, back to pre-pandemic level

## Latinos' proven resilience through the pandemic indicates strong fundamentals for economic mobility

Latinos play a crucial and growing role in the US economy and have demonstrated resourcefulness, hard work, and creativity—despite being challenged by lower-paying jobs, less education, and widespread bias. Over the past year, it has become clear that Latinos are also uniquely vulnerable to income disruption. When COVID-19-associated lockdowns began to be implemented, Latinos found themselves in a precarious position: they were more concentrated in low-wage occupations than non-Latino Whites.<sup>11</sup> As a result, almost 60 percent of Latinos—who are overrepresented in industries most impacted by COVID-19, such as hospitality—lost their jobs or had to take a pay cut, and they are now more vulnerable to high inflation than other groups.

The longer-term challenges Latinos face have been compounded recently by the triplicate effects of COVID-19, supply chain disruptions, and high inflation affecting Latino businesses' operations. Altogether, 60 percent of Latino-owned businesses had to reduce or modify their operations during the pandemic—to such a degree that some could not survive without government assistance. Fortunately, 80 percent of Latino businesses had stabilized their sales back to 2019 levels by the second half of 2021.

# 80%

of Latino businesses had stabilized their sales back to 2019 levels by the second half of 2021

Our latest findings point to other welcome signs of agility among economically active Latinos. Over the past year, they have increased their share in professional occupations, raised their net worth faster than their non-Latino White counterparts, and shown their mettle as the fastest-growing minority entrepreneurial group. As consumers, Latinos already represent a \$1 trillion market, and their spending power is rising (6 percent compounded annual growth in the last decade, compared to 3 percent for the non-Latino White population).<sup>12</sup>

Latinos have been making significant strides over the past decade, and even more recently in the aftermath of the disruption presented by the COVID-19 pandemic. Nevertheless, deliberate intervention is necessary to close the gap and fuel a stronger US economy. If companies, investors, nonprofits and philanthropists, and policymakers act now, they can address the barriers that hinder full economic participation by Latinos.

The right combination of structural and immediate interventions can accelerate Latino economic advancement and prosperity. Action is needed in several key areas: improving Latino representation and inclusion in decision-making bodies; expanding product portfolios, optimizing value propositions and targeting marketing and sales strategies for Latino consumers; increasing access to capital for Latino entrepreneurs; improving access to education, reskilling opportunities, and better jobs for Latino workers; and removing bias and discrimination.

Winning the US Latino consumer, worker, saver, and entrepreneur is an outside opportunity for organizations that act now and invest in the right people, processes, and systems to serve a market that has not been as visible as its numbers would foretell.

<sup>11</sup> "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>12</sup> "Consumer expenditure survey 2021," US Census Bureau, US Bureau of Labor Statistics.



## The journey continues

McKinsey's first report in this series, *The Economic State of Latinos in America: The American dream deferred*, was published in December 2021. It shone a spotlight on Latinos in the US—a rapidly growing population who make an outsized contribution as workers, entrepreneurs, consumers, and savers, but who remain economically well behind their non-Latino White counterparts.

### Highlights of the 2021 report:

- Latinos are a fast-growing population that will represent over 25 percent of the population by 2050 and a significant share of the US labor force. Latinos will make up nearly a quarter of the US labor force by 2030 and nearly a third by 2060.
- Latinos are concentrated in low-wage occupations, are less likely to have nonwage employer benefits, and are strikingly underrepresented in higher-paying occupations based on their share of the US labor force.
- Latinos are highly entrepreneurial but constrained by lower access to capital, which limits their abilities to start and scale their businesses.
- While Latino consumption is growing at a faster pace than that of non-Latino Whites, it still lags well behind Latinos' share of the US population, constrained by lower incomes and wealth.
- Latino wealth has grown at a rate more than twice that of non-Latino White wealth, given low participation in assets that accumulate wealth (for example, stock market) and a lower base (\$36,000 for Latinos versus \$188,000 for non-Latino Whites).<sup>1</sup>

<sup>1</sup> "2019 survey of consumer finances," Federal Reserve, 2020.

## Data sources

This research is based on both publicly available sources and proprietary McKinsey data, research, and tools. Data used in this report was drawn from multiple sources including the US Census Bureau, Stanford Graduate School of Business, the Bureau of Labor Statistics, and McKinsey consumer surveys. The primary external sources include the US Census Bureau's American Community Survey, the Fed's Small Business survey, Stanford's 2021 State of Latino Entrepreneurship, and the US Bureau of Labor Statistics' Consumer Expenditure Survey. We also designed and implemented a consumer survey (conducted August 2022, n = 4,400) to better understand Latino consumer preferences and dissatisfaction.

This survey also focused on understanding differences across Latino subgroups, including by place of birth and income bracket, amongst other dimensions.







# 1. Introduction

Latinos are a fast-growing population in the US, and their role is becoming more critical than ever—especially at a time when the broader economy is strained by inflationary headwinds. As consumers, Latinos already represent a \$1 trillion market, and their strength is increasing.<sup>13</sup> They increasingly occupy higher-skilled and professional roles as both workers and business owners. And, as savers, they are preparing their families for the future.

Yet, too often, Latinos find themselves stuck in low-wage jobs with limited prospects that do not reflect their full potential. They felt the economic impact of COVID-19 to a greater degree than non-Latino Whites.<sup>14</sup>

Similarly, Latinos have proven they are more vulnerable to the impact of high inflation. This makes it more urgent than ever to understand the role Latinos play in the US and to undertake far-reaching interventions that promote equitable advancement and opportunity—as discussed in last year’s report, *The economic state of Latinos in America: The American dream deferred*.

Change is possible, and a better, fairer, and more equitable society for Latinos can be created, strengthening and improving US society for all. In this report, we have identified practical, targeted interventions, with examples of corporate actions, that can address Latinos’ needs and could unleash trillions of dollars into the US economy. The structural and practical interventions proposed could support Latinos as they consolidate their economic significance in the US—closing the gaps in a move that will hold massive gains for society as a whole. And for millions of households and communities, this would mean better security, more prospects, and more financial freedom.

Box

## Latinos in the US

Latinos form a substantial and growing demographic, accounting for almost 19 percent of the US population today. On average, they are younger and increasingly more educated, as 70 percent have completed at least a high school education.<sup>1</sup> Over a third are immigrants and may be supporting family members elsewhere. They tend to be overrepresented in lower-paying occupations, face barriers accessing capital, and find it more difficult to save and invest in assets that accumulate wealth over time.

<sup>1</sup> “2020 5-Year estimates,” 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>13</sup> “Consumer expenditure survey 2021,” US Census Bureau, US Bureau of Labor Statistics.

<sup>14</sup> Anna Brown, Juliana Menasce Horowitz, and Rachel Minkin, “A year into the pandemic, long-term financial impact weighs heavily on many Americans,” Pew Research Center, March 5, 2021.



# 2. Latino consumers: Driving growth with conscious choices

Over the past decade, Latinos have grown their household consumption to reach a cumulative \$1 trillion market in 2021—a 6 percent annual growth rate over the past decade. Their household spend is higher compared to other groups at similar income levels given that Latino households are larger than those for non-Latino Whites. And Latinos are conscious of their impact, choosing brands that value the environment and their employees, all of which makes them more influential than their income levels would suggest.

However, Latino consumers are often highly dissatisfied with the products offered to them—especially compared to their non-Latino White counterparts. This dissatisfaction ranges across product categories, from food and beverages to financial products, which may point to unresolved needs that impact their daily life. If brands can address price and quality—the drivers of dissatisfaction—there is a potential \$109 billion in spending at stake for Latino consumers.

At the same time, Latinos have also been more heavily impacted by COVID-19 and inflation than other populations. They are likely to take aggressive action to save money and switch to brands that better meet their needs (Exhibit 1). Companies can support Latino consumers by optimizing value propositions, offering value product lines, and tailoring their marketing and sales strategies.

## Sidebar

### **The Latino consumer is younger, increasingly more educated, and with less income**

Latinos form a large and growing demographic within the US and account for an increasing share of total consumption, although there is a spending gap between them and others. Latinos are relatively young, with a median age of 30.5 years, and more than a third are immigrants, compared to under 5 percent among non-Latinos.<sup>16</sup> In terms of country of origin, Mexicans account for the largest group of immigrant Latinos, representing 62 percent of the total US Latino population, followed by Puerto Ricans (10 percent).

Latinos have lower incomes when compared to other groups: 37 percent of Latino households have an annual income of less than \$40,000 compared to 28 percent of non-Latino households. Their education levels are increasing—in 2014, 36 percent had not completed high school, but by 2020,

only 30 percent lacked a high-school diploma—but still lag other groups, with only 9 percent of non-Latino Whites not completing high school.<sup>17</sup> As a result, they earn less, are overrepresented in lower-paying occupations, and have fewer opportunities for advancement, as discussed in the previous chapter.

As a diverse demographic, despite certain generalities, they show correspondingly diverse behavior. Besides socio-economic differences, US-born Latinos show a higher level of acculturation, such as language use, and their preferences are closer to those of their non-Latino White counterparts than those of foreign-born Latinos. Latino consumers can be understood and segmented appropriately to address their differing needs.

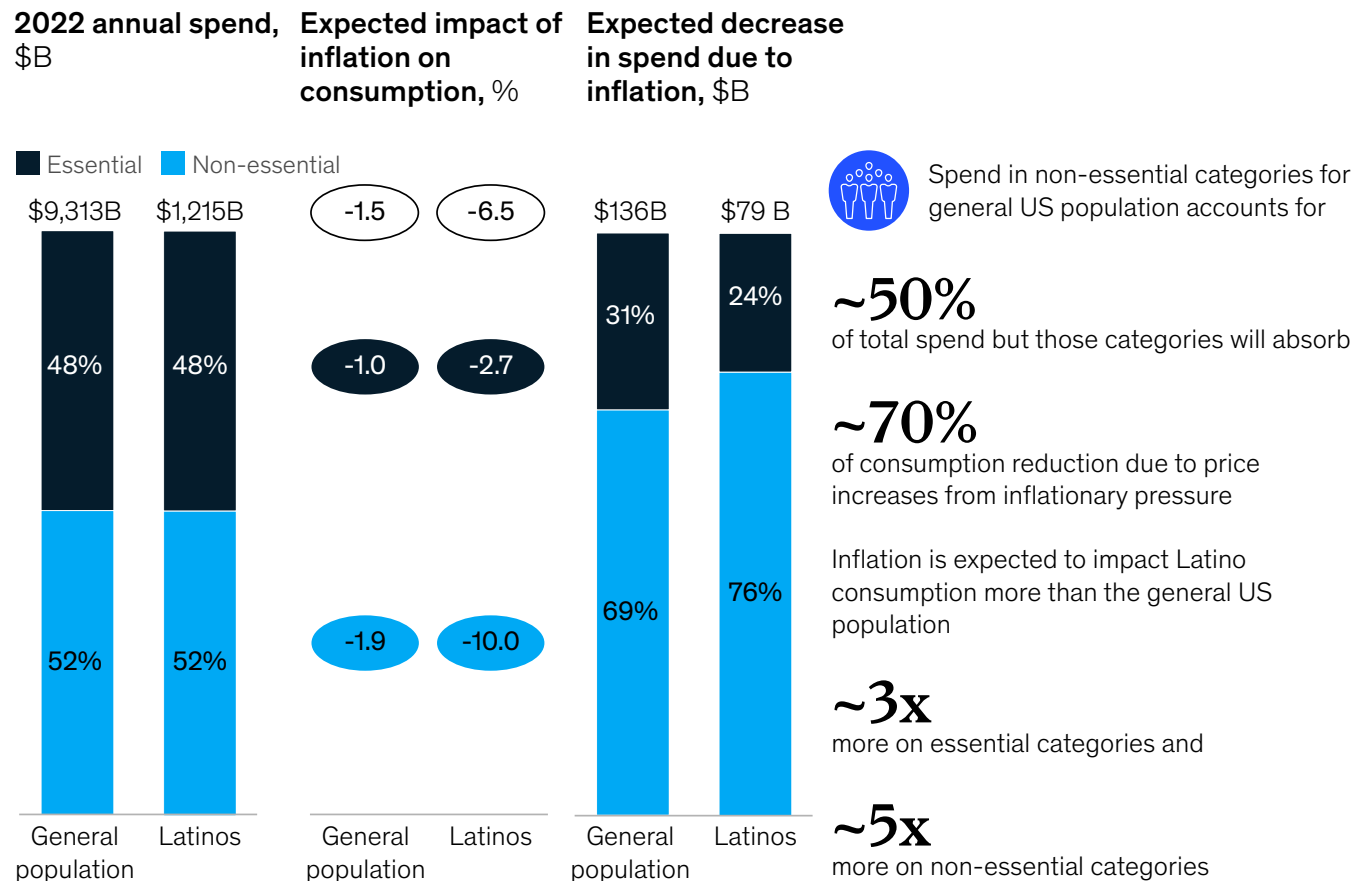
<sup>1</sup> "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>2</sup> Ibid.



Exhibit 1

## Affordability will become more important, as Latinos are planning to cut spend 4x more than the general population.



<sup>1</sup>Includes Food & Bev at home, Housing and Healthcare.  
Source: McKinsey consumer survey, August 2022 (n = 4,400)

### Latinos grow their spending, despite lower income levels

Latinos form a key consumer group in the US, with a market size of \$1 trillion per annum—despite a spending gap in part due to lower income levels. As a group, Latinos are growing their consumption faster than non-Latino Whites (Exhibit 2).

While Latinos' overall spend has increased significantly in the past decade, it still lags their share of population: Latinos account for 19 percent of the US population but drive only 13 percent of total household income, with more expenditure on essentials such as food at home, healthcare, and housing. While Latinos spend more than their population share in rental accommodation, men's and children's clothing, and footwear, there is still a \$554 billion gap in consumption that could be closed if Latinos' expenditure matched their share of the US population (Exhibit 3).<sup>15</sup>

Despite their lower average income levels, Latino households spend more than others at the same income level. Sixty percent of Latinos have a household income of under \$50,000, compared to 50 percent of non-Latino Whites. But Latinos in this demographic spend slightly more per household than non-Latino Whites in the same income bracket—\$21,300 per annum

<sup>15</sup> "2021 consumer expenditure survey," US Census Bureau, US Bureau of Labor Statistics, US Department of Labor.

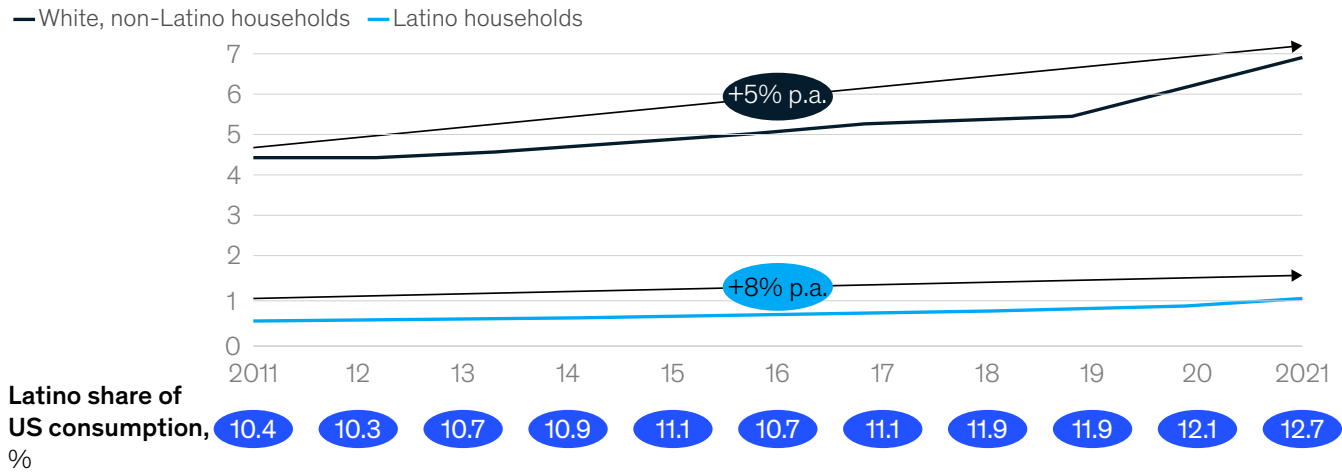


compared to \$20,900.<sup>16</sup> This is largely driven by higher spending on essentials, with half of Latino income, on average, going to food at home, housing, and healthcare. However, given that Latino households are larger than non-Latino White households (with an average of 3 people per household, compared to 2.3 for non-Latino Whites), the actual spend per consumer is slightly lower (\$7,100 for Latinos versus \$9,087 for non-Latino White counterparts).<sup>17</sup>

Exhibit 2

**While Latino consumption has grown, it still falls short of Latinos' share of the US population.**

**Total annual household consumption, \$T<sup>1</sup>**

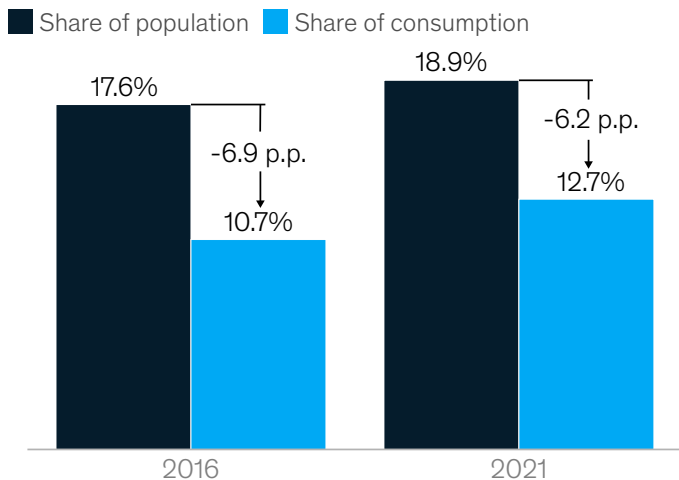


<sup>1</sup>Based on total aggregate expenditures from Consumer Expenditure Survey times share of aggregate.  
Source: US Census Bureau, Consumer Expenditure Surveys (<https://www.bls.gov/cex/>), and American Community Survey 2020 5-Year estimates

Exhibit 3

**The gap in Latino consumption based on their share of population has decreased in the past 5 years, but is still meaningful at \$554 billion.**

**Latino share of aggregate expenditure vs. share of population, %**



Aggregate expenditure for US households in 2021 was **\$8.937B**

Aggregate expenditure for Latino households in 2021 was **\$1.135B**

Representing a **\$554B** gap in consumption<sup>1</sup>, or 6.2pp difference with expected expenditure based on the Latino share of households

<sup>1</sup>Difference between total aggregate household expenditure times Latino share of population, and current Latino aggregate expenditure. From Consumer Expenditure Survey.  
Source: US Census Bureau, Consumer Expenditure Surveys (<https://www.bls.gov/cex/>) (2020)

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

## Latino consumer needs are not being met

Across all categories, Latinos are more dissatisfied with current offerings than their non-Latino White counterparts.<sup>18</sup> Twenty-eight percent of Latinos report being unhappy with current product offerings, compared to 21 percent of non-Latino Whites.<sup>19</sup> Dissatisfaction represents a missed opportunity for companies—Latino consumption could be significantly increased if their needs were met more effectively.

In some instances, Latinos may have a need for products in particular categories but are not purchasing, while in other instances, Latinos are buying products in categories even though they are not satisfied with the product choice, quality, or price.

Product penetration among Latinos can be low: a quarter of Latinos do not currently purchase in specific spending categories (such as makeup or full-service restaurants), despite being decision makers and having a need for the product, thus creating another significant opportunity for companies.

Consumer dissatisfaction varies extensively among Latino subgroups, driven by differences in education, income, background, and gender. Latinos who are less educated are unhappier with products. Their dissatisfaction scores are 14 percentage points higher than the average Latino. Those who have not completed high school are three times more dissatisfied than non-Latino Whites at the same educational level.<sup>20</sup> Latinos from lower-income backgrounds (less than \$50,000 per year) have an average dissatisfaction nine percentage points higher than the average for Latinos, at 37 percent. And first-generation immigrants are seven percentage points more dissatisfied than average. Latina women are ten percentage points more dissatisfied than Latino men, similar to the 12 percentage point difference seen between White men and women.

Latino dissatisfaction with current product offerings grew significantly between 2021 and 2022 across all categories, and they are consistently more dissatisfied than non-Latino Whites, even though non-Latino Whites are also more dissatisfied than previously. Beauty and personal care,

**A quarter of Latinos do not currently purchase in specific spending categories, despite being decision makers and having a need for the product, thus creating another significant opportunity for companies.**

---

<sup>18</sup> Dissatisfaction is measured by rating satisfaction levels between one and six on a ten-point scale.

<sup>19</sup> "Consumer survey," McKinsey, August 2022 (n = 4,400).

<sup>20</sup> "Consumer survey," McKinsey, August 2022 (n = 4,400).

entertainment, hospitality and travel, vehicle purchases, housing, banking and financial services, and healthcare are all categories with higher-than-average Latino dissatisfaction.

Latinos are dissatisfied with current product offerings for several reasons, particularly price, lack of features, and lack of value for money. For both non-Latino Whites and Latinos, affordability and quality are the main decision drivers for purchases.

High prices are linked to dissatisfaction across categories, and, given low disposable income (as discussed in the previous chapter), remain a critical consideration. A shortage of quality products and poor value for money also lead to dissatisfaction (Exhibit 4). And, while less important than price, customers are disappointed with companies that are not committed to addressing social inequities.

### Opportunities to address dissatisfaction: A win-win situation

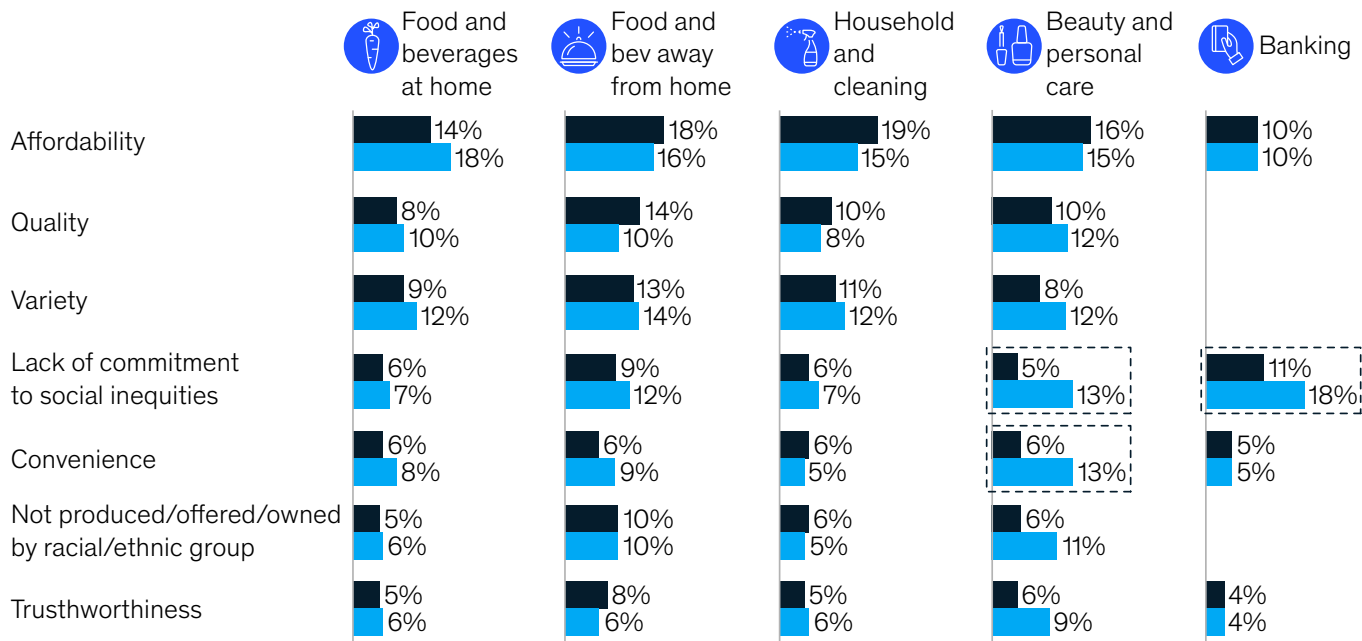
Addressing Latino consumers' dissatisfaction could benefit both companies and consumers. Latino buyers would be willing to increase their consumption by up to 25 percent if products were more affordable, of a higher quality, and healthier; they expressed willingness to pay 28 percent more if the top reasons for dissatisfaction were addressed. Altogether, they would be willing to spend a total of \$33 billion more per year across all categories if their needs were met (Exhibit 5). Even Latino consumers who are currently satisfied would be willing to pay more if product offerings were improved, with a total of \$76 billion of revenue at stake.<sup>21</sup> With \$109 billion in current and potential spending at stake, companies that address dissatisfaction may benefit from additional market support. However, this is unlikely to be incremental, as much of this would be due to potential shifts in spending from one product or service to another.

Exhibit 4

### Affordability and product quality are key drivers of dissatisfaction among Latinos.

#### Top reasons for Latino dissatisfaction across products and services, %<sup>1</sup>

>5 pp difference ■ Latino ■ White



<sup>1</sup>Each percentage is out of 100%, as question asks binary yes or no whether reason is tied to dissatisfaction. N/A if question was not asked regarding that category.

Source: McKinsey consumer survey, August 2022 (n = 4,400)

<sup>21</sup>“Consumer survey,” McKinsey, August 2022 (n = 4,400).

Exhibit 5

**Latino consumers would be willing to spend \$33 billion more if reasons for dissatisfaction were addressed**

	Share of Latino respondents expressing dissatisfaction with current offerings in category, %	Aggregate yearly spend for dissatisfied Latino households <sup>1</sup> , \$B	Additional WTP <sup>2</sup> for better products	Size of unmet demand, \$ billion
	Categories with greatest dissatisfaction			
Housing	37	145	7.4%	10,8
Hospitality and travel	29	43	12.1%	5,1
Vehicle purchases	32	34	11.1%	3,8
Food & beverages at home	24	29	12.8%	3,7
Food & beverages away from home	28	17	14.9%	2,6
Healthcare	30	21	9.5%	2,0
Apparel (incl. footwear)	27	12	10.5%	1,3
Telecom	32	10	10.8%	1,1
Entertainment	26	8	8.0%	0,6
Beauty & personal care products	25	4	16.3%	0,6
Household & cleaning	25	4	16.3%	0,6
Consumer electronics	25	5	10.8%	0,5
Education	28	3	12.4%	0,4
Banking & financial services	32	TBD	9.1%	TBD
<b>Total</b>		<b>335</b>		<b>33,1</b>

<sup>1</sup>Average yearly spend per household from consumer expenditure survey, times 19.7M Latino consumer units, times share of households dissatisfied.

<sup>2</sup>Expressed additional willingness to pay if reasons for dissatisfaction were addressed.

Source: McKinsey consumer survey 2022 (n=4,400)

## Latino consumption patterns: Strategic spenders, socially aware, and social media savvy

There is also a \$554 billion gap in Latino consumption based on the discrepancy between their total expenditure as a share of overall US spending and their share of population—and closing this gap would require improving Latino income levels. This is in addition to the \$109 billion of spending at stake that arises from Latino consumer needs going unmet, discussed above.

Understanding how Latinos consume, and how their behavior differs from non-Latinos, will allow society to close this gap and realize the benefits. Latinos tend to be careful and strategic spenders, and, despite having a lower average income than non-Latino Whites, are discerning consumers with a high level of attention for sustainability considerations when making a purchase.<sup>22</sup>

They are, overall, conservative and conscious spenders. Latinos spend a greater proportion of their income on essentials compared to their non-Latino White counterparts (40 percent compared to 33 percent). Survey data shows they tend to be more price-conscious than the general US population, feel more financial pressure, and actively look for savings and deals.<sup>23</sup> Almost half of Latinos are actively looking for ways to save money, above the national average of 44 percent. They are also more willing to switch to less-expensive products to save costs (34 percent compared to 27 percent of all consumers), and more than a third of Latinos actively research the best promotions when seeking to make purchases (35 percent compared to 29 percent of all consumers).

Moreover, this price-conscious behavior supports the finding that Latinos in lower-income households (representing the majority) tend to spend less per person than their non-Latino White counterparts. As a result, Latinos, like non-Latino Whites, are increasingly looking for ways to save money. They pay similar attention to prices when shopping compared to non-Latino Whites (47 percent compared to 45 percent). Latinos may be willing to spend more on products they care about, while finding cheaper alternatives for those they are less invested in. But Latinos may also be under more pressure to save money because of their larger average household size, which necessitates greater spending on essentials.

Latinos are comfortable shopping online and are engaged consumers. They are more conscious of sustainability considerations and are more likely to factor in such considerations when making purchases than the general population.<sup>24</sup> Social issues and organic products are particularly important to them compared to the general population (a 12 and 14 percentage point difference respectively). In total, 82 percent of Latinos report that they use omnichannel (online and in-store) and e-commerce platforms, compared to 80 percent of the overall population.<sup>25</sup>

Social media can be a powerful influence on consumer behavior and its effects are more pronounced in Latinos than in the overall US population. Latinos of all age groups are more likely to be influenced by social media when making a purchase, with 68 percent of them reporting that they are nudged toward certain brands by social media posts compared to 47 percent overall among US consumers.<sup>26</sup> Correspondingly, Latinos have a higher average level of social media engagement than non-Latinos across all major social media platforms. For instance, 89 percent of Latinos use YouTube at least weekly, compared to 75 percent overall.<sup>27</sup>

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<sup>22</sup> “Consumer survey,” McKinsey, August 2022 (n = 4,400).

<sup>23</sup> “Consumer sentiment survey,” McKinsey, 2021.

<sup>24</sup> “Consumer pulse survey: February 25 to March 1, 2022,” McKinsey, 2022 (n = 2,160; sampled to match US general population 18+ years).

<sup>25</sup> Ibid.

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

Across the board, the categories that see the largest influence from social media are appearance related, such as fitness and wellness services, skin care and makeup, and accessories and jewelry. However, among Latinos, influence from social media in consumer electronics and home decoration is felt significantly more strongly than in the overall population, with a 24 and 19 percentage point difference, respectively, in the percentage of respondents who were influenced by social media in purchases in these categories.<sup>28</sup>

Latino consumers are also much more likely to be influenced by brands and celebrities' posts on social media, and documentaries, compared to non-Latinos. Half of Latino consumers said they were inspired to purchase by these sources, compared to a quarter of non-Latinos.<sup>29</sup>

## Latino consumers are feeling the inflationary pinch

The COVID-19 pandemic hit Latinos hard and inflation is compounding the impact. In response, almost 80 percent of Latinos are taking action to manage their expenses due to inflationary pressures, compared to two-thirds of non-Latino consumers.<sup>30</sup> This may include reducing savings, increasing credit card balances, taking on more hours at work or a second job, and skipping bills or paying less than the minimum due.

Latinos' pre-existing price-conscious behavior has been exacerbated by high inflation. A fifth are planning to cut back on spending, compared to 14 percent of non-Latino Whites, while 82 percent are trading down across categories, compared to 74 percent of non-Latinos.<sup>31</sup> This includes adjusting the quantity or pack sizes purchased, delaying purchases, switching to a cheaper brand, and taking on more debt by using "buy-now, pay-later" services (a strategy that is more prevalent among Latinos than the general population by 11 percentage points).

Overall consumption is expected to fall across the board, with Latinos cutting back more than non-Latino Whites. Total consumption is predicted to drop by 7 percent among Latinos, compared to only 1 percent in non-Latino Whites.<sup>32</sup> The fall in Latino spending could account for an aggregate loss of \$80 billion, close to the expected effect of reduced consumption among non-Latino Whites, at \$100 billion—this despite non-Latino Whites having six times the aggregate consumption of Latinos.

Non-essential categories will be particularly hard hit, even after sustaining a drop in spending due to COVID-19. Although overall spending, which dipped in 2020, has now mainly returned to 2019 levels, essential goods account for a larger share than previously. Going forward, Latinos are predicted to reduce their spending at three times the rate of the general population for essential categories, and five times for non-essentials.<sup>33</sup> They are likely to pull back on non-essential spending by 10 percent but will only drop spending by 3 percent for essentials.<sup>34</sup>

To reduce their spending, consumers across the board are responding to inflation by choosing private brands across categories. Overall, 48 percent of customers who noticed inflation changed brands, and, of this, the switch was to private brands 38 percent of the time. Latinos reflect this general trend, with 47 percent switching brands and 36 percent switching to private brands.

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<sup>28</sup> Ibid.

<sup>29</sup> "Future of food survey 2022," McKinsey, December 2021.

<sup>30</sup> "Consumer pulse survey: June 7 to October 7, 2022," McKinsey, 2022.

<sup>31</sup> Ibid.

<sup>32</sup> "Consumer survey," McKinsey, August 2022 (n = 4,400).

<sup>33</sup> Housing, food and beverages at home, and healthcare are considered to be essential products or services.

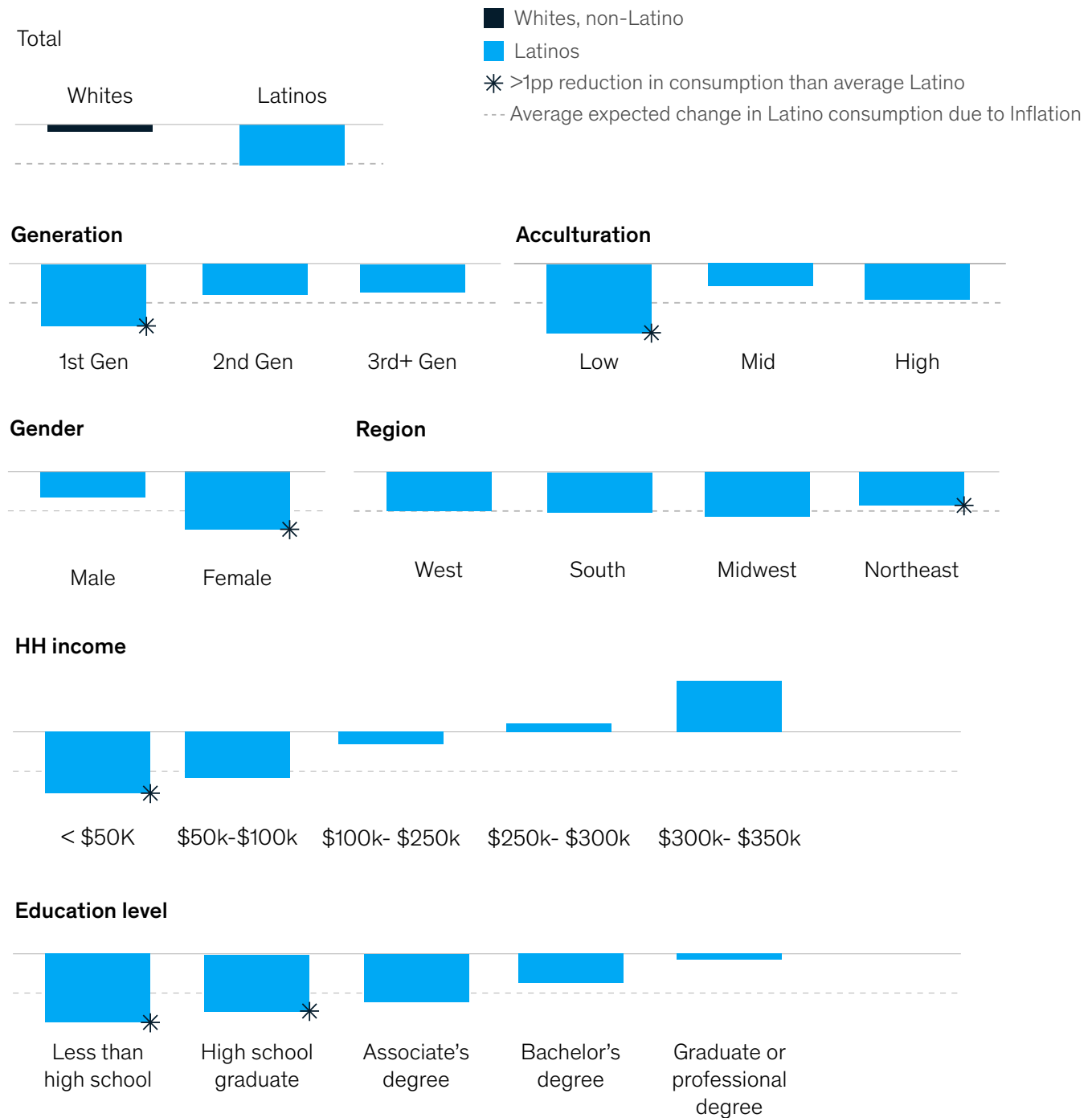
<sup>34</sup> "Consumer survey," McKinsey, August 2022 (n = 4,400).



More vulnerable cohorts are likely to be badly affected by inflation (Exhibit 6). Latinos with less acculturation, a low household income level, and those with little formal education are expected to reduce their consumption by around five percentage points more than the average for Latinos. First-generation Latino immigrants are also expected to be hard hit, reducing their consumption by an extra three percentage points. And gender is a significant factor—women are likely to reduce their consumption by a further three percentage points.

Exhibit 6

### Inflation will hit vulnerable Latinos particularly hard



Source: McKinsey consumer survey, August 2022 (n = 4,400)

## **Budget-conscious consumers want companies to meet them where they're at**

By addressing dissatisfaction and tailoring products accordingly, companies can retain their existing customer base and potentially grow their sales. Two broad categories of interventions could help Latino consumers close gaps.

More Latino customers are looking for better prices and promotions. **Optimizing products to offer more affordable lines, or bundling products together**, can mitigate the loss in customers' purchasing power and bring in new customers who are open to change.

**More granular segmentation** of Latino audiences, with **tailored marketing strategies**, can help ensure product features are aligned to consumer values. Latinos are far from monolithic, and companies that are aware of this diversity can provide appropriate products. Quality, health, and environmental and social benefits can be highlighted for greater appeal. For example, Pepsico aims to become the most-loved food and beverage company among Latinos—as a result, it has launched a Hispanic business unit as a cross-functional multidisciplinary group to improve its understanding of Latinos' attitudes and behaviors and how they change over time.

Last year's report found that 41 million Latinos live in consumer deserts without access to vital products and services.<sup>35</sup> As a result, many Latinos lack sufficient access to housing, food, banking, broadband, and consumer goods. While solving this issue will require commitment and concerted action from many players over the long term, it also points to the **need for optimizing retail locations** to enable Latinos to purchase products conveniently and easily.

**Latinos are far from monolithic, and companies that are aware of this diversity can provide appropriate products. Quality, health, and environmental and social benefits can be highlighted for greater appeal.**

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<sup>35</sup> Ana Paula Calvo, Michael Chui, Lucy Pérez, and Bernardo Sichel, "The economic state of Latinos in America: The American dream deferred," McKinsey, December 9, 2021.

## Beauty is in the eye of the Latino beholder: Advertising and marketing drive beauty and personal care

Beauty and personal care represent one of the most intimate categories for consumer spending, with close ties to identity, appearance, and dignity. But as Latinos watch their budgets, they are expected to cut their spending by 8 percent in this category. Companies that act on Latino preferences with targeted marketing and address reasons for dissatisfaction—such as availability and affordability—may find it easier to weather the consumer pullback.

Latinos currently account for around 13 percent of total spend in this category, or \$14 billion out of a total \$103 billion annually. Fragrances are particularly at risk, with an expected 12 percent drop in consumption, while facial care is likely to fall by 8 percent. By contrast, non-Latino White consumers are only expected to drop their spending in this category by 1 percent.

In keeping with their overall consumer behavior, Latinos spend carefully and strategically on beauty and personal care. Half of customers who notice inflation are switching personal-care brands, with 17 percent of Latinos looking for less-expensive beauty brands compared to 10 percent among the general population. A third of Latinos seek out private-label beauty products, four percentage points fewer than in other categories.

Latinos are conscious of their impact. Supporting the environment and using animal-friendly products remain key drivers for purchasing decisions in this category than elsewhere. For example, 17 percent of Latinos won't purchase hair-care products if companies are not supporting action on the environment and climate change, compared to only 8 percent of non-Latino Whites.

Using skin care as an example, Latino consumers are often interested in a category while simultaneously less likely to purchase or use it. Almost half say they consider advertising for the largest skin-care brands to be effective, compared to a quarter of non-Latino Whites. They are also less likely to consider skin-care brands to be too expensive (39 percent of Latinos against 46 percent of non-Latino Whites). Despite these positive signals, only 22 percent of Latinos buy these products compared to half of non-Latino Whites. Availability may be an issue. A third of Latinos found the largest skin-care brands were not easily available, but only a quarter of non-Latino Whites said the same.

Online and social media channels are becoming increasingly important, with 38 percent of cosmetics now bought online. More than half of Latinos are influenced by social media and recommendations from brands and celebrities when purchasing skin-care products and makeup, compared with less than half of non-Latinos.

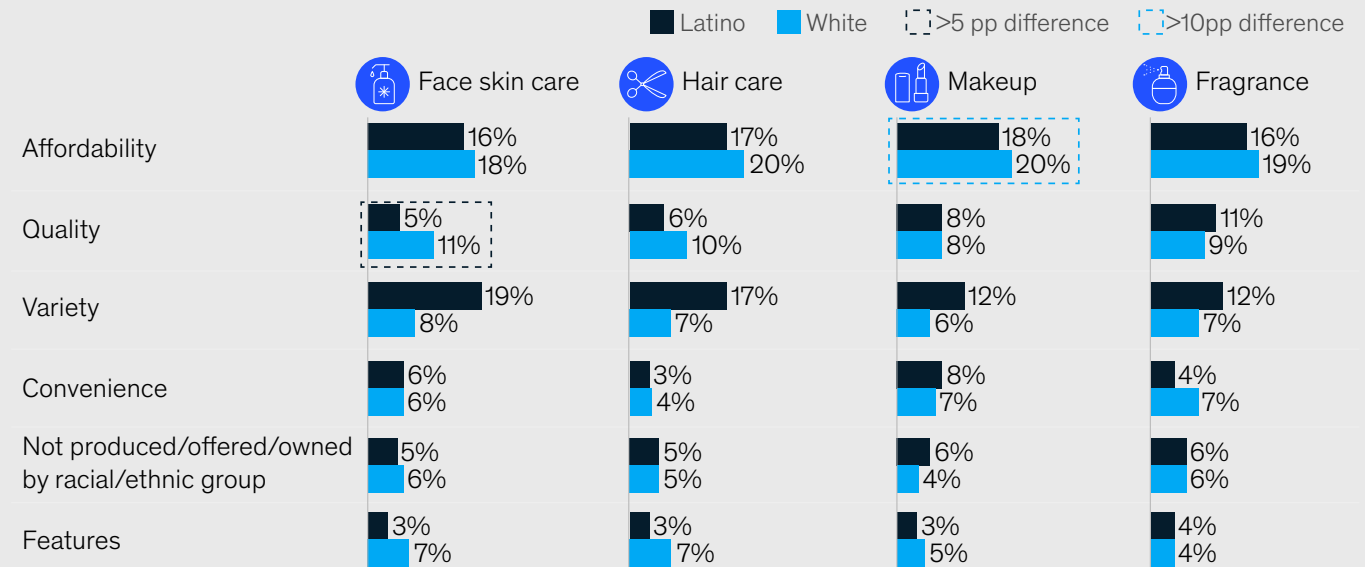
Despite a willingness to engage and purchase, Latino dissatisfaction is similar to that of non-Latino Whites, at 28 percent compared to 21 percent, but for different reasons. Latinos are especially worried about quality, price, and lack of value compared to non-Latino Whites (Exhibit 1). If these factors, together with availability, were improved, Latinos would be willing to spend up to 18 percent more—representing a total of \$400 million in additional revenue.<sup>1</sup> Even those customers who are already satisfied would be willing to pay an additional \$1.9 billion if product offerings were further improved in this category.

# More than half of Latinos are influenced by social media and recommendations from brands and celebrities when purchasing skin-care products and makeup, compared with less than half of non-Latinos.

<sup>1</sup> "Consumer survey," McKinsey, August 2022 (n = 4,400).

## High prices and low quality drive dissatisfaction in beauty and personal care.

Top reasons for Latino dissatisfaction across products and services, %<sup>1</sup>



<sup>1</sup>Each percentage is out of 100%, as question asks binary yes or no whether reason is tied to dissatisfaction. Source: McKinsey consumer survey, August 2022 (n = 4,400)

Companies could also consider wooing potential new customers who are disappointed by current product offerings. One out of four Latino consumers don't purchase in this category even though they may be interested in doing so, and report that they would be willing to spend a similar amount to current consumers—representing a potential opportunity of \$3.8 billion. These consumers say the beauty and personal-care category lacks value for money, with high prices and low quality, and companies do not support action on the environment or consider climate change (Exhibit 2).

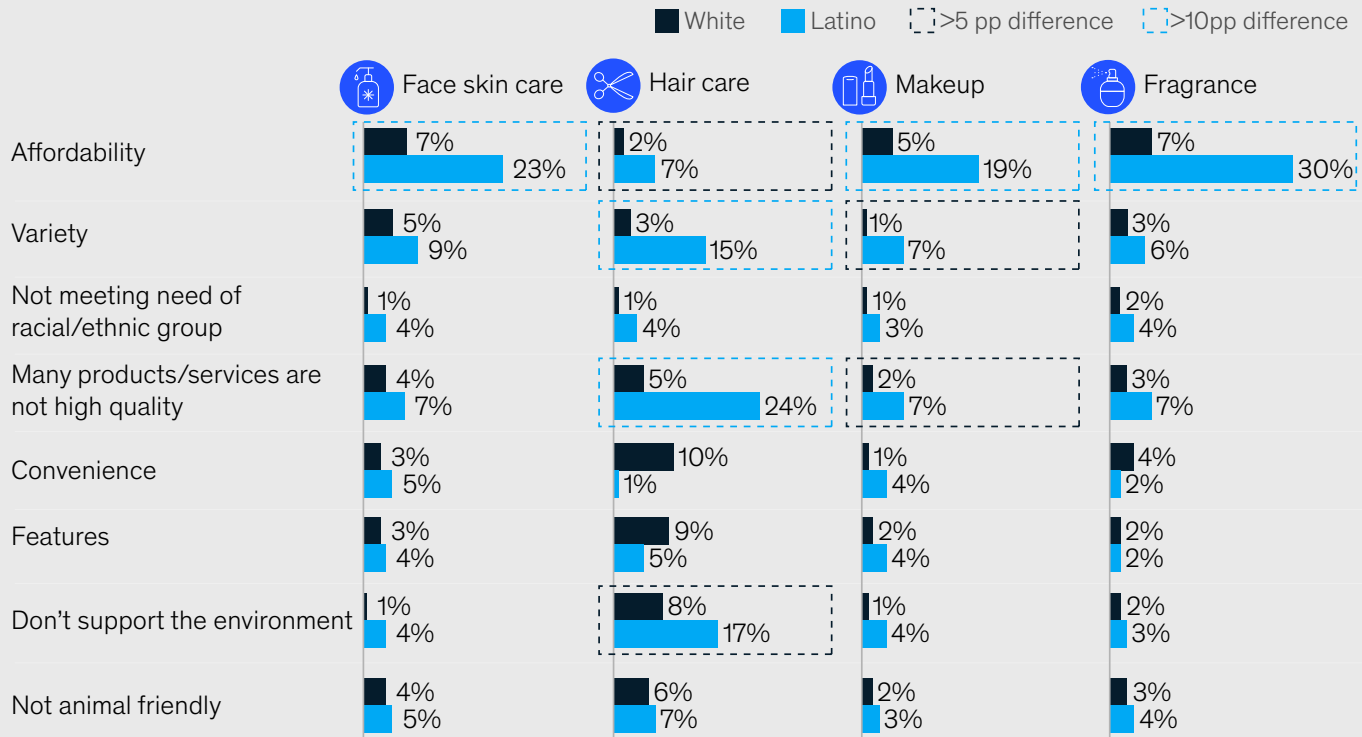
### Opportunities for action

Companies could benefit from investing in advertising that talks directly to Latinos, while also increasing availability and distribution, so that brands are more available on preferred channels.

Some sub-categories, such as skin care, are less impacted by price perceptions than others, like hair care. Offering value product lines could be more effective in those categories directly affected by such perceptions.

Price and poor value dissuade Latinos from purchasing in beauty and personal care.

Top reasons for Latinos not purchasing products, %<sup>1</sup>



<sup>1</sup>Each percentage is out of 100%, as question asks binary yes or no whether reason is tied to dissatisfaction.  
Source: McKinsey consumer survey, August 2022 (n = 4,400)







# 3. Poised for success: Latinos at work, in business, and in wealth creation

Latinos play a significant role in the US economy as workers, business owners, consumers, and savers or investors. However, they face many barriers to advancing, whether on an individual or business front, and would benefit from interventions to overcome these obstacles. The private sector can also play an important role as Latinos seek to reach their full potential.

## **Latino workers: A key pillar in the US workforce**

One in every five workers in the US is Latino, and the number is growing rapidly. They earn 12 percent of wages and represent 18 percent of the workforce, making Latino workers a key pillar in the US economy. Although the COVID-19 pandemic impacted them disproportionately and Latinos are feeling the effects of elevated US inflation acutely, Latinos' workforce share could increase to 23 percent in 2030.<sup>36</sup>

The Latino workforce has progressed over the past decade, increasing its share in higher-paying occupations by five percentage points. Yet Latinos still face steep barriers to mobility, including wage disparity, implicit biases, discrimination, and lack of additional training opportunities—all of which hinder Latinos from reaching their full potential. And, compared to non-Latino Whites, Latinos are primarily concentrated in low-wage occupations and are paid less than non-Latino White workers within the same occupations.

Overcoming these barriers could boost their annual income by more than \$281 billion, enhancing their well-being and the health of the overall US economy.<sup>37</sup>

## **Most are born in the USA—and are of prime working age**

The majority of the Latino workforce was born in the US and over 60 percent are of Mexican origin. Altogether, 43% of all Latinos are younger than 25. And 69% of those in the labor force are between the prime working ages of 25 and 54, compared to 64 percent of overall.<sup>38</sup>

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<sup>36</sup> "Current population survey, employment status of the Hispanic or Latino population," US Bureau of Labour Statistics. (Calculated based on a five-year CAGR for Latino population of 3 percent.)

<sup>37</sup> McKinsey calculations using "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>38</sup> "Current population survey 2021," US Census Bureau. (Employment status of the Hispanic or Latino population by age and sex.)

As highlighted in our 2021 report, *The economic state of Latinos in America: The American dream deferred*, during the COVID-19 pandemic, the number of Latinas in the labor force decreased as they lost their jobs at higher rates, sometimes to take up caregiving responsibilities. Today, two out of every three Latino workers are male.

Despite striving for upward mobility, Latinos are primarily overrepresented in frontline jobs and earn lower wages than their non-Latino White counterparts. They fill 16 percent of frontline-hourly and 9 percent of frontline-salaried roles in the US, compared to only 4 percent of executive and 3 percent of board positions (Exhibit 7).

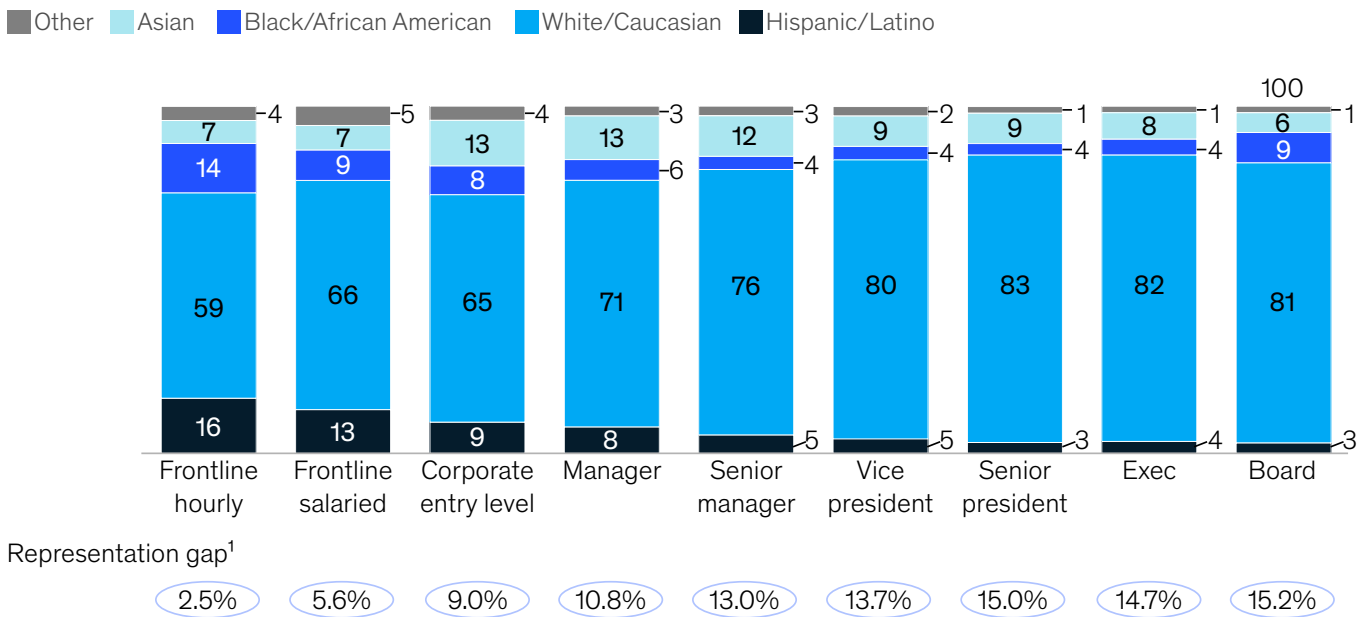
**The labor pool runs deep**

Latinos have a higher proportion of immigrants than the rest of the US population. Foreign-born Latinos comprise 38 percent of the overall Latino population, three times higher than the 14 percent share of immigrants in the general US population. Among Latino workers, almost half (45 percent) are immigrants. The Latino labor-force participation in September 2022—at 67 percent—remains the highest amongst all ethnicities in the US. In the last decade, their participation has remained above average.

The share of Latinos in management, professional, and related occupations has increased five percentage points in the last decade, reaching 25 percent. However, representation in sales and office roles decreased by 3 percent during the COVID-19 pandemic. And despite moving into more professional occupations, Latinos are still far behind when comparing their average median wage in these new roles to that of the overall US population.<sup>39</sup>

Exhibit 7

**Latinos are overrepresented in frontlines and underrepresented in senior management+ roles.**



Position hierarchy

<sup>1</sup>Compared to 18.3% Latino share of workforce.

Source: McKinsey, Women in the Workplace 2021 Talent Pipeline analysis; 423 participating companies

<sup>39</sup> "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

### COVID-19 dramatically affected the cost of living

Latinos experienced economic turbulence during the COVID-19 pandemic. Almost 60 percent said someone in their household was laid off or took a pay cut. Altogether, 44 percent of all Latino adults said their household lost some or all income during the pandemic (Exhibit 8).

Companies changed practices that promoted diversity, equity, and inclusivity (DEI) during the pandemic slowdown, affecting Latino recruitment. These changes led to decreases in internship programs, in the number of companies partnering with organizations to recruit Latino talent, and in companies leveraging employee resource groups (ERGs).

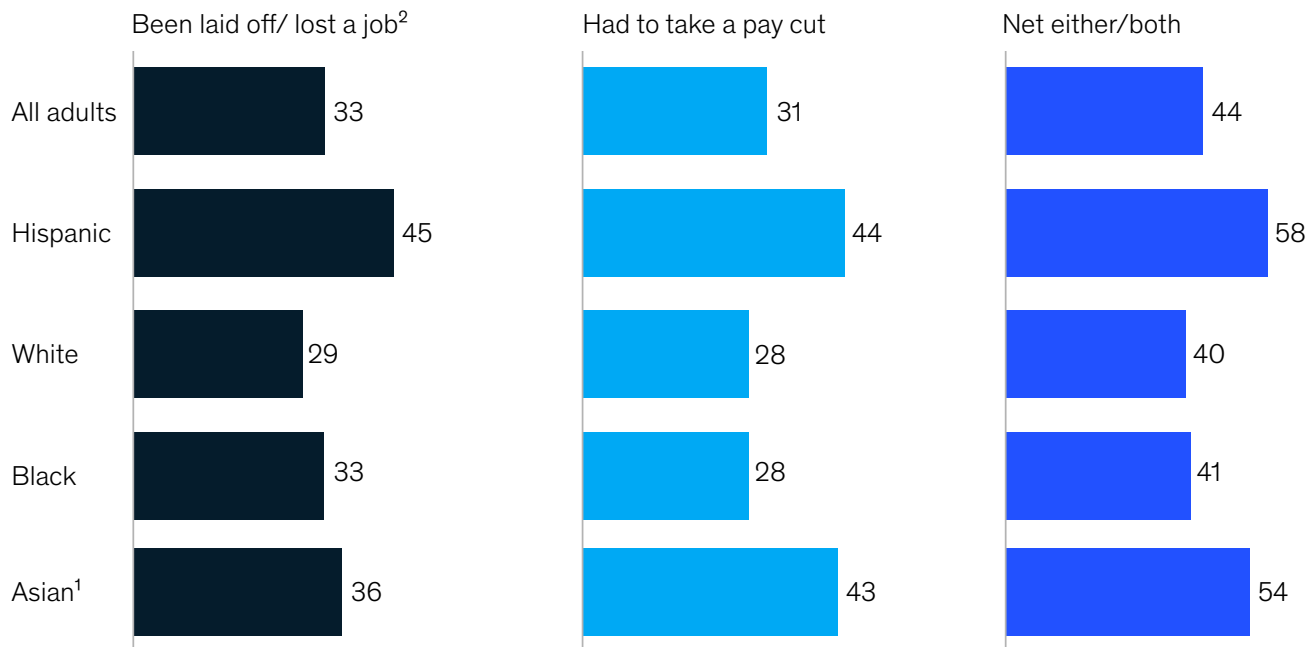
Latinos also experienced less flexibility in choosing where to work during and after the pandemic compared to the US average. By February 2022, US workers averaged 3.1 days working from their job site, while Latinos averaged 3.4 days.

However, this varied by income level, with higher-paid workers having more flexibility, and low-wage workers having less. Altogether, 69 percent of high-income Latinos could work from home by February 2022, compared to 66 percent of their non-Latino counterparts. Only 48 percent of lower-income Latinos could work from home, making it harder for them to juggle caring responsibilities while working. They also had to deal with increased transportation costs.

Exhibit 8

### More than half of Latinos said they or someone in their household was either laid off or took a pay cut since the start of the Covid-19 pandemic

**% saying each of the following happened to them or someone in their household since the coronavirus outbreak began in February 2020**



<sup>1</sup>Asian adults were interviewed in English only.

<sup>2</sup>Includes those who say they or someone in their household has been laid off or furloughed since the coronavirus outbreak began.

Source: Pew Research Center Survey of US adults conducted Jan 19-24, 2021. "A year into the pandemic, long-term financial impact weighs heavily on many Americans"

### Corporate ladder's broken rungs

Latinos experienced economic turbulence during the COVID-19 pandemic. Latinos remain underrepresented in leadership and senior roles, but over-represented in entry-level and frontline positions. Around half of Latino professionals believe companies are not taking action on diversity, and over 40 percent complain of discrimination.

In total, 44 percent of Latino professionals have faced blatant discrimination and/or microaggressions at work. Similarly, 54 percent of these professionals believe there is a lot of talk in the workplace about diversity but no policy change to make it a reality.<sup>40</sup> For those Latinos who have moved into professional roles, further challenges—such as discrimination and lack of support for advancement—hinder their upward mobility.

And many feel that they have been overlooked for career advancement because of their race. In total, 60 percent of Latino professionals between the ages of 18 and 34 years believe that race plays a role, while 54 percent are considering resigning due to a lack of growth or promotion opportunities. While 85 percent of frontline workers wanted to further their careers, only 55 percent actually received career opportunities—a 30 percentage point difference.<sup>41</sup> Latinos across all levels in the workplace are also less likely to have sponsors or mentors.

Latina women are further disadvantaged by their gender, as McKinsey's *Women in the workplace* report makes clear. For every 100 men promoted from entry-level to manager positions, only 75 Latina women are similarly promoted. Latinas and Black women are less likely than women of other races and ethnicities to say their manager shows interest in their career development. They also tend to feel less psychological safety—for example, less than half of Latinas and Black women say people on their team aren't penalized for mistakes. Just 27 percent of Latinas say a senior coworker has advocated for a raise for them.<sup>42</sup>

In addition, Latinos tend to lose representation in job levels that require greater soft skills, such as sales, negotiation, and management. Narrow and inconsistent definitions of interpersonal skills, as well as possible cultural and language differences and workplace biases, could be hindering their progress. Research has found that many employers consider Latinos to be lacking in interpersonal skills compared to their peers.<sup>43</sup>

Despite increased calls for board diversity and a strong case for the business value of diversity, less than 5 percent of board seats in Fortune 500 companies and C-suite positions are occupied by Latinos.<sup>44</sup> In order for their leadership representation to match their share of population, this number should be four times higher.

### Targeted interventions could close the gap and ease hardships

Altogether, 54 percent of the wage gap exists in only 4 percent of occupations, compared to 60 percent of the wage gap in 2020, including both the gap in representation as well as pay disparity within occupations between Latino and non-Latino White workers. These range from sales managers, first-line supervisors, engineers, information technology managers to financial managers, accountants, physicians, and software developers—all predominately professional roles that require a degree.<sup>45</sup> This representation gap decreased by 23 percent compared to

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<sup>40</sup> Illiana Acosta, "Dismantling barriers to career advancement for Latinos," LinkedIn, September 16, 2021.

<sup>41</sup> Chris Copeland, et al., "Race in the workplace: The frontline experience," McKinsey, July 30, 2022.

<sup>42</sup> Lareina Yee, et al., "Women in the workplace 2022," McKinsey in partnership with LeanIn.org., October 18, 2022.

<sup>43</sup> Mariña Fernández-Reino and Ruta Yemane, "Latinos in the United States and in Spain: The impact of ethnic group stereotypes on labour market outcomes," *Journal of Ethnic and Migration Studies*, 2021, Volume 47, Number 6.

<sup>44</sup> Sundiatu Dixon-Fyle, Kevin Dolan, Dame Vivian Hunt, and Sara Prince, "Diversity win: How inclusion matters," McKinsey, May 19, 2020.

<sup>45</sup> McKinsey calculations using "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

2019 but the wage gap between Latino and non-Latino workers in similar occupations increased by 7 percent during the pandemic. More Latino workers were hired into these roles, but there was also greater wage disparity between Latino and non-Latino workers.<sup>46</sup>

The gap needs to be closed: by breaching the gap in Latino representation and wages due to occupational mix and wage disparity, \$281 billion per year in additional income could be enabled, boosting Latino workers' annual aggregate income by 34 percent.<sup>47</sup> Latinos who reskill and receive support in applying for better-paying jobs may be able to advance more rapidly, invest for the future, and increase their resilience to absorb future economic shocks.

### **Latino workers take control of their careers**

Although Latino workers face barriers that non-Latino Whites do not, they can take actions to advance despite these obstacles. Latino workers often have a narrower professional network, and rely more heavily on close friends and family. By seeking out mentors and sponsors within their industry and across industries, they can benefit from guidance and coaching. Such mentors could include people who have enjoyed career success, and ideally they would make mentees aware of scholarships and other opportunities that can reduce the financial burden for advanced degrees such as law and medicine. By joining employee resource groups and professional associations, Latinos can also benefit from career development and skills training programs. Companies can also play a role, by offering mentorship and reskilling programs, and by ensuring employee resource groups include professional development in their initiatives. Finally, Latinos can commit to mentoring and sponsoring the next generation, passing on their advice and helping others succeed.

### **Latinos are looking for opportunities to make their mark**

Latinos are eager to advance in their careers and are looking for opportunities to make their mark. Organizations and firms with a long-term vision and commitment to growth, backed by proactive, deliberate, and sustainable actions, are helping them close these gaps. We have outlined four broad opportunities where companies are already taking action.

#### **Corporations and Latino-focused institutions are partnering to support Latino talent**

**attraction.** For example, the Association of Latino Professionals for America (ALPFA) partners with corporations and hosts an annual career convention. This organization, established in 1972, was the first national professional body for Latinos and offers educational support programs, workforce development, and leadership skills development and opportunities.<sup>48</sup> According to its website, the ALPFA has more than 100,000 professional and student members across the US, who have access to more than 50,000 paid summer internships via hundreds of Fortune 1000 corporate partners.

Latinos are looking to re-skill to advance in their careers. Organizations are offering **renewed educational programs** with a strong focus on digital and analytics. The Latino Center of the Midlands' educational initiatives, such as English-language learning, Spanish literacy, technology basics, and US citizenship preparation, is one such organization that supports Latino workers to land better-paying jobs.<sup>49</sup>

**Institutions are also partnering** with universities and Hispanic-serving institutions **to build a Latino talent pipeline.** Google has partnered with the Hispanic Association of Colleges and Universities (HACU) career readiness initiative. The \$2 million investment aims to help Hispanic-serving institutions train 200,000 Latino students in digital skills by 2025 by offering

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<sup>46</sup> McKinsey calculations using ACS data survey. This finding may be affected by calculations, which looked at only US-born Latinos and did not consider immigrants.

<sup>47</sup> McKinsey calculations using "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>48</sup> "Connecting Latino Leaders for impact," Association for Latino Professionals for America (ALPFA).

<sup>49</sup> "Cultivating a generation of engaged, thriving Latinos," Latino Center of the Midlands.



a semester-long, in-person and online digital skills program to help students get career-ready.<sup>50</sup> And Coca-Cola has long partnered with the Hispanic Scholarship Fund to create scholarships, support educational advancement, and promote higher education.<sup>52</sup>

Vulnerable workers can benefit from partnerships and **initiatives to minimize the impact of economic downturns**. United Way of King County in partnership with the Homeless Employment program at Casa Latina is a non-profit organization advancing the power and well-being of Latino immigrants through employment, education, and community organizing. Jobseekers are put in touch with employers through temporary work, and are often able to graduate to full-time, permanent employment.<sup>53</sup>

## **Latino business owners: Flexing their entrepreneurial muscle**

Latinos are one of the fastest-growing entrepreneurial groups in the US, despite owning a smaller percentage of US businesses. They are also resilient, demonstrating the ability to recover from disruptions like COVID-19. Latino entrepreneurs have deep family roots, with a quarter saying they started a business to provide a legacy for their families. However, they experience lower levels of sales and profitability than their non-Latino White counterparts, and receive less funding.

Access to capital and better representation in growing sectors remain some of their main challenges—72 percent of business owners rely on personal savings, family, and friends for funding.<sup>53</sup> A change in the status quo would be greatly beneficial: if Latino businesses could access capital and expand into lucrative sectors, \$2.3 trillion in revenues and more than 6.3 million jobs could be added to the economy.<sup>54</sup>

### **The Latino business owner: an entrepreneur at heart**

Over the past two decades, Latinos have become the most entrepreneurial group in the US, with the number of new Latino entrepreneurs increasing by of 3.1 percent every year since 2001—1.6 times the rate of new entrepreneurs compared to non-Latino Whites. This is equivalent to an 86 percent increase in the rate of new entrepreneurs between 2001 and 2021.<sup>55</sup>

Yet this entrepreneurial spark is not necessarily reflected in business ownership statistics. While Latinos make up 19 percent of the population, they own only 6 percent of the approximately 5.8 million employer firms in the US, and 15 percent of the 26 million non-employer firms or sole proprietors. An accurate demographic representation would see Latinos owning at least three times the number of current firms and creating about 750,000 new employer firms.<sup>56</sup>

### **Latino businesses are predominately in lower-growth industries**

Since 2007 there has been a reasonably stable share of Latino-owned firms across sectors, with growing representation in the construction, accommodation, food services, professional, scientific and technical services, administration, support and waste management, and finance and insurance industries.<sup>57</sup> New Latino-owned firms, however, are overrepresented

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<sup>50</sup> "Grow with Google," Hispanic Association of Colleges and Universities (HACU).

<sup>51</sup> "Coca-Cola," Hispanic Scholarship Fund (HSF).

<sup>52</sup> For further information see Casa Latina website.

<sup>53</sup> Ingrid Millán, Nick Noel, Lucy Pérez, and Alfonso Pulido, "US Hispanic and Latino lives and livelihoods in the recovery from COVID-19," McKinsey, September 2, 2020.

<sup>54</sup> McKinsey analysis using "Annual business survey 2019," US Census Bureau.

<sup>55</sup> "Current population survey," US Bureau of Labor Statistics, April 2022.

<sup>56</sup> McKinsey analysis using "Annual business survey 2019," US Census Bureau.

<sup>57</sup> "Survey of business owners 2012," US Census Bureau; "Annual business survey 2018," US Census Bureau; "Annual business survey 2019," US Census Bureau.

in lower-growth industries (such as construction, accommodation, and food services) and underrepresented in high-GDP sectors such as real estate, rental and leasing, manufacturing, finance, and insurance.<sup>58</sup>

In addition to the disparity in revenue, Latino employer firms are on average less profitable than their non-Latino White counterpart firms, experiencing lower profitability of six percentage points over the past two years. However, this gap is closing and is down from nine percentage points in 2020. Similarly, the gap between Latino and non-Latino White firms that sustained losses also shrank from 8 percent in 2020 to 5 percent in 2021.<sup>59</sup>

### Limited access to capital for business growth

Latino businesses face obstacles to growth, with lower approval rates for formal funding, leading 42 percent of Latino business owners to rely on personal savings, family, and friends (Exhibit 9). Latinos also use more credit cards, bank loans, and grants than non-Latino White-owned businesses.<sup>60</sup>

Only 2 percent of venture capital goes to Latino entrepreneurs, although interest is slowly increasing. Investment rates for Latino-founded companies rose only 0.4 percentage points from 2020 to 2021. The total invested venture capital in Latino-owner businesses is 2.4 times what it was in 2020.<sup>61</sup>

Exhibit 9

## 42% of Latinos rely on personal savings, family and friends for funding businesses.

### Funding used to start employer businesses<sup>1</sup>

Financing types	Latino-owned business	White-owned business
Personal and family savings	31%	24%
Business credit card	26%	22%
Personal credit card	21%	20%
National bank loan/PPP	16%	12%
Family and friends	11%	9%
Home equity loan	10%	7%
Grants	8%	7%
Economic injury disaster loan (EIDL)	6%	7%
VCs	6%	3%
Local bank loan	4%	3%
Angel investors	4%	2%
Private equity	4%	3%
Other government-guaranteed loan	3%	4%

<sup>1</sup>Top sources of financing sought in the last 12 months, a business can use different sources.  
Source: Stanford Graduate School of Business, "2021 State of Latino Entrepreneurship"

<sup>58</sup> "Annual business survey 2019," US Census Bureau; "Gross domestic product by industry group: Level and change from preceding period," US Bureau of Economic Analysis, 2022.

<sup>59</sup> Marlene Orozco et al., "2021 state of Latino entrepreneurship," Stanford Latino Entrepreneurship Initiative, Stanford Graduate School of Business, January 2022.

<sup>60</sup> Ibid.

<sup>61</sup> Janice Bitters Turi, "VC funding to early-stage Latine-founded startups in the US has stalled. Here's why that matters," Crunchbase News, January 26, 2022.

When Latinos do look for funding, they primarily do so to expand their businesses, pursue new opportunities, or acquire capital assets. This occurs more often than their non-Latino White counterparts (57 percent of Latinos compared to 38 percent of non-Latino Whites).<sup>62</sup>

Generally, 46 percent of Latino entrepreneurs decline to apply for further funding (compared to 34 percent of non-Latino Whites), potentially driven by Latino business owners being more averse to debt and discouraged by prior negative experiences.<sup>63</sup> This has resulted in lower levels of debt, with 71 percent of Latino-owned firms shouldering less than \$100,000 debt.<sup>64</sup>

Nonetheless, Latinos are approved for funding less often than non-Latino Whites. They are particularly penalized in most traditional funding types. Their approval rates are 25 percentage points below those of non-Latino Whites in factoring, 15 percentage points in local banks, and nine percentage points in private equity.<sup>65</sup>

### **Weathering the COVID-19 storm: Resilience during the pandemic**

The COVID-19 pandemic impacted businesses across the world, and Latino-owned firms were no exception. More than 60 percent of Latino-owned businesses had to reduce or modify their business operations during the pandemic. Of these, 60 percent saw total sales drop by more than a quarter for 2020. Moreover, 30 percent of them were unlikely to survive without additional government assistance. Other minority-owned businesses had a similar experience, with 65 percent of Black-owned and 69 percent of Asian-owned businesses losing sales at the same rate, and 35 percent of Asian businesses requiring additional government support.

Despite the hardships, Latino businesses have shown signs of resilience, with 42 percent expected to have returned to sales levels of 2019 in the second half of 2021, and another 22 percent expecting to do so during 2022 or later (Exhibit 10).<sup>66</sup>

### **Closing the gaps: An opportunity to add trillions of dollars in revenue and create millions of jobs**

Latino employer firms are fewer in number and smaller in size than those of non-Latino Whites, resulting in a \$2.3 trillion revenue gap and the opportunity to generate 6.3 million jobs.<sup>67</sup> They earn \$450 billion, about half the revenue of non-Latino White firms. Based on Latinos' share of the population (19 percent), there should be three times as many Latino business owners. Instead, Latino-owned businesses make up only 6 percent of the total. Currently, Latino employer firms generate on average only \$1.6 million in revenue per firm.

Their relative underperformance results from a greater concentration in lower-growth industries and less revenue generation, with less profitability than non-Latino White-owned peers. Just four industries—wholesale and retail trades, manufacturing, and construction—account for almost two-thirds (\$1.2 trillion) of the revenue gap between Latino and non-Latino White businesses, or \$794 billion per firm. If this gap were closed, there would be an extra 750,000 businesses, and overall, Latino firms would be stronger, more resilient, and would create millions more jobs.<sup>68</sup>

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<sup>62</sup> Ibid.

<sup>63</sup> "Small business credit survey 2021," Fed Small Business, 2021.

<sup>64</sup> Ibid.

<sup>65</sup> Marlene Orozco et al., "2021 State of Latino entrepreneurship," Stanford Latino Entrepreneurship Initiative, Stanford Graduate School of Business, January 2022.

<sup>66</sup> "Small business credit survey 2021," Fed Small Business, 2021.

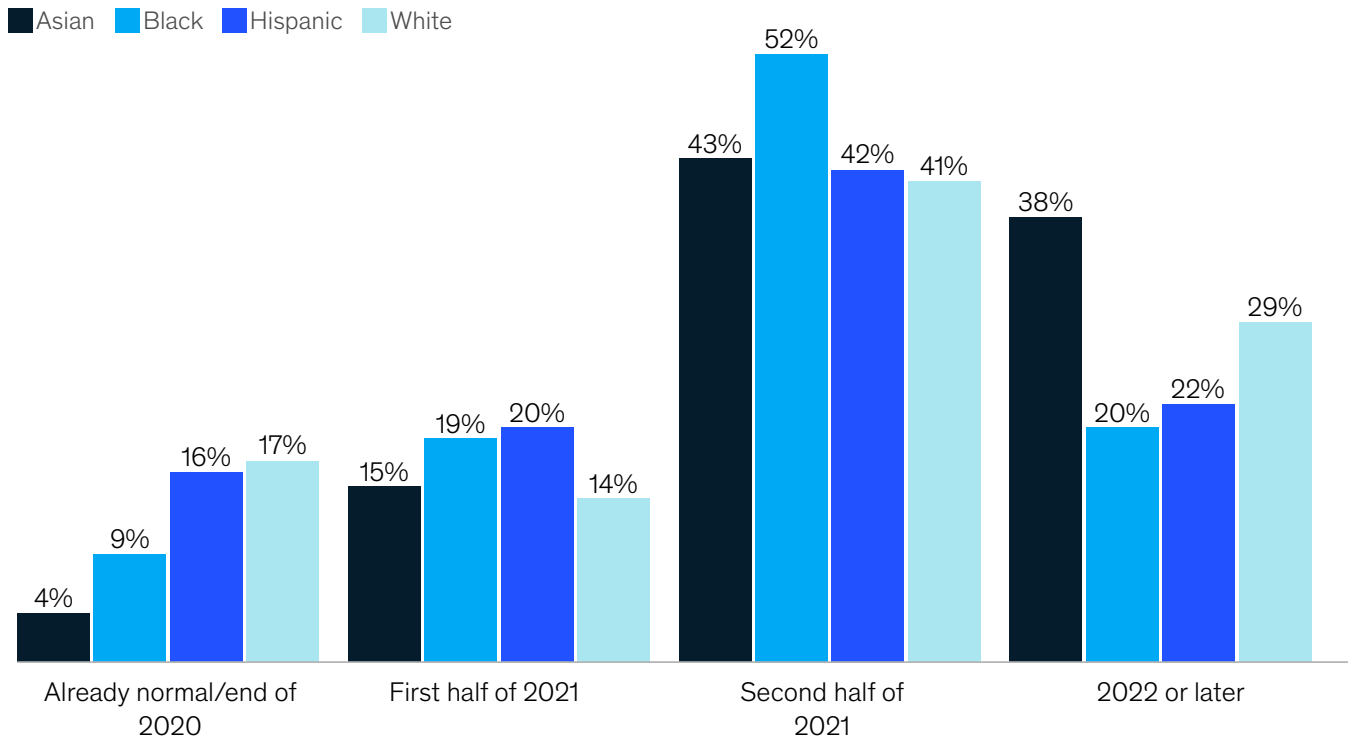
<sup>67</sup> McKinsey analysis using "Annual business survey 2019," US Census Bureau.

<sup>68</sup> McKinsey analysis using "Annual business survey 2019," US Census Bureau.

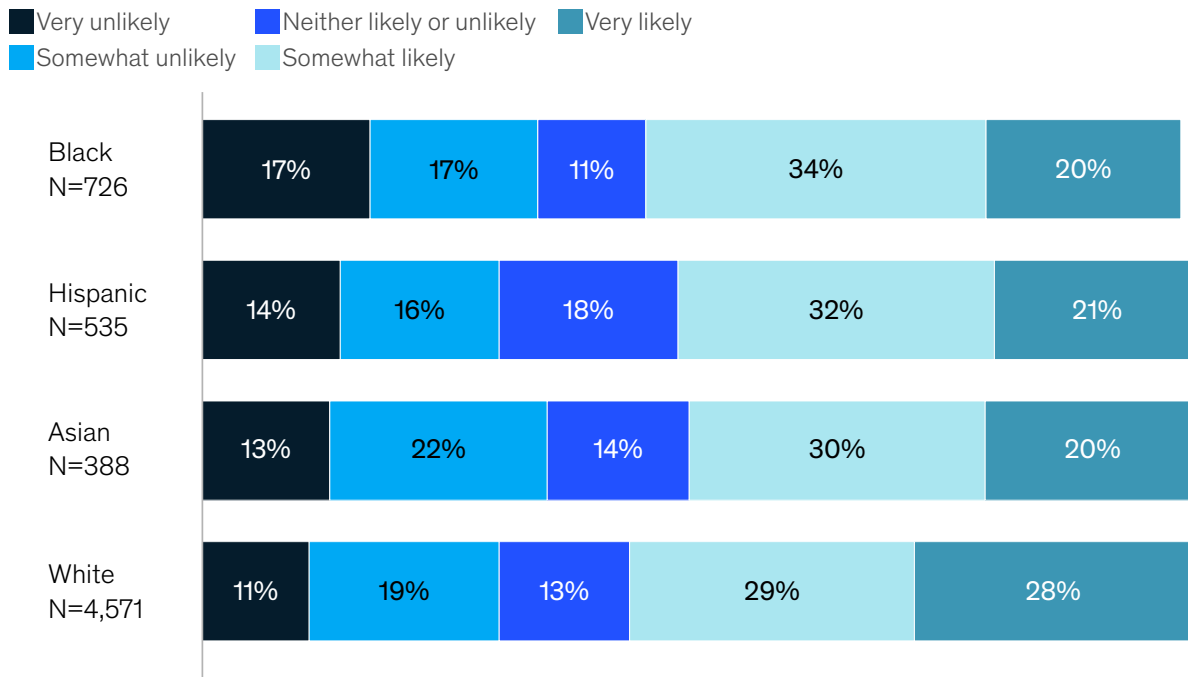
Exhibit 10

**While Latino-owned firms were impacted by the pandemic in line with other minority firms, ¾ had their sales back to normal by mid 2021.**

**Expected timing of sales' return to "normal" (i.e. 2019 levels)<sup>1,2,3</sup>, (% of employer firms)**



**Likelihood firms will survive without additional government assistance until sales return to normal<sup>1,2</sup>, % of employer firms for which sales had not yet returned to normal**



<sup>1</sup>Percentages may not sum to 100 due to rounding.

<sup>2</sup>Data on sales recovery and firm survival expectations were drawn from questions in the optional end-of-survey module (completed by approximately 80% of respondents). This subset of respondents is re-weighted to be reflective of the overall small-firm population.

<sup>3</sup>At time of survey, September through October 2020.

Source: "Small business credit survey 2021," Fed Small Business, 2021



### Taking Latino businesses to the next level

Latino entrepreneurs can unlock even more potential with targeted structural interventions that are accessible and appropriate, such as the three listed below.

PepsiCo is **accelerating Latino business growth** through a \$50 million program. Juntos Creemos aims to boost Latino-owned businesses over the next five years through donations, tailored curricula, and support. PepsiCo also launched the Impacto Hispanic Business Accelerator, which provides \$10 million in funding to help 500 Latino small-food and beverage business owners recover from COVID-19.<sup>69</sup>

Telecommunications giant T-Mobile partnered with non-profit advocacy group UnidosUS to launch a digital literacy and job readiness toolkit to address the increase in online shopping. The kit helps Latino entrepreneurs **harness the power of digital technologies to run their small businesses** more effectively.<sup>70</sup>

Further focusing on technology, Google and the United States Hispanic Chamber of Commerce are **highlighting Latino entrepreneurial excellence**. The two organizations joined forces to create a Latino-owned attribute available across Google Search, Maps, and Shopping, as well as financial support and skills training for business owners. Latino-owned businesses on Google are now identifiable as such, which encourages people to support them.<sup>71</sup>

Retailers have recognized the value of this tailored approach—Target celebrated Latino heritage month with the launch of its Más Que collection, which featured more than 90 products, mostly created by Latino companies and designers, that pay homage to the rich heritage and diversity of Latino culture.<sup>72</sup> Coca-Cola has also supported Latino heritage, this year announcing a \$150,000 donation to the Hispanic Heritage Fund in partnership with iHeartMedia to create year-round programs promoting Latino culture and accomplishments.<sup>73</sup> The company has also donated \$2 million in support of The Smithsonian's National Museum of the American Latino and Molina Family Latino Gallery in Washington, DC. This is The Smithsonian's first gallery dedicated to Latino contributions to the US, and will preview the National Museum of the American Latino, which will explore Latino achievements in art, history, culture and science.<sup>74</sup>

# Latino entrepreneurs can unlock even more potential with targeted structural interventions that are accessible and appropriate, such as the three listed below.

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<sup>69</sup> "PepsiCo launches \$50 million Juntos Creemos platform to support Hispanic-owned businesses across the US," PRNewswire, August 2021.

<sup>70</sup> "T-Mobile enhances partnerships with LULAC and UnidosUS to bring digital literacy resources to Hispanic communities," T-Mobile, August 2021.

<sup>71</sup> Ramiro Cavazos, "Abriendo caminos: New pathways for Latino-owned businesses," Google, September 2021.

<sup>72</sup> "Celebrating the creators, artists, and founders behind Target's 2022 Latino heritage month collection," AzFa, September 2022.

<sup>73</sup> "The Coca-Cola Company and iHeartMedia announce a \$150,000 donation to Hispanic Heritage Foundation in support of Latino culture and youth programs," Hispanic Heritage Foundation, September 22, 2022.

<sup>74</sup> "The Coca-Cola Company donates \$2 million to National Museum of the American Latino," Coca-Cola, May 2, 2022.

## Latino savers: Slowly shifting from surviving to thriving

While Latinos' share of the population and workforce continues to grow, their financial safety is not keeping pace—current high inflation, coupled with the impact of the COVID-19 pandemic, has exposed their vulnerabilities. Latino savers have only a fifth of the median wealth of their non-Latino White counterparts, their savings have been depleted, and their purchasing power has dropped. Their participation in assets that accumulate wealth is also lagging, particularly in real estate and retirement savings. In fact, almost half of Latinos have no retirement savings.<sup>75</sup> It is no surprise that only 23 percent of Latinos are considered financially healthy in 2022 compared to 35 percent of non-Latino Whites.<sup>76</sup>

Nevertheless, signs are encouraging as Latinos' net wealth is increasing at a faster rate, from 14 percent (2013-2016) to 21 percent (2016-2019), narrowing—but not yet closing—the gap with non-Latino Whites.<sup>77</sup> If the trend continues, Latino households could reach an average net worth of \$47,000 this year. However, tight budgets and greater exposure to inflation, with first-generation savers particularly vulnerable, present serious challenges.

While Latinos have about half as much debt as non-Latino White counterparts, this may be because they find it difficult to access appropriate financial products.<sup>78</sup> Latinos are 1.7 times more likely than non-Latino Whites to be turned down for a loan, and 30 percent are unbanked or underbanked compared to their non-Latino White counterparts.<sup>79</sup>

### Steady household wealth off a low base

Latino household wealth represents only 3 percent of total US household wealth, at \$3.9 trillion out of \$134 trillion. This lower share is driven by lower participation in assets that accumulate wealth over time, particularly real estate and the stock market. However, it has seen high growth over the past decade.<sup>80</sup>

COVID-19 and recent inflationary pressures have hit Latino families hard, but first-generation ones have been more affected than those of US-born Latinos. Altogether, immigrants suffered a significant decrease in wealth since last year, potentially due to job loss or higher pay cuts, which decreased their assets and increased debt. In contrast, the assets of third-generation Latinos increased by 21 percent in 2021.<sup>81</sup>

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<sup>75</sup> "2021 retirement confidence survey," Employee Benefit Research Institute, 2021.

<sup>76</sup> Wanjira Chege, Necati Celik, Andrew Dunn, and Andrew Warren, "Financial health pulse: 2022 trend report," Financial Health Network, 2022.

<sup>77</sup> "Consumer finances survey 2019," Federal Reserve, 2019 (median net worth).

<sup>78</sup> "Consumer finances survey 2019," Federal Reserve, 2019 (assets and liabilities).

<sup>79</sup> "Economic well-being of US households in 2020," Federal Reserve, May 2021.

<sup>80</sup> "Consumer finances survey 2019," Federal Reserve, 2019.

<sup>81</sup> "Consumer survey," McKinsey, August 2022 (n = 4,400); McKinsey Global Institute analysis; McKinsey Institute for Latino Economic Mobility analysis.

Latinos' relatively low asset value, lower incomes, and tighter budgets may indicate greater financial strain, which leads them to prioritize immediate needs over savings (Exhibit 11). In fact, 47 percent of Latinos consider helping friends and family more important than saving for retirement (compared to 35 percent of non-Latino Whites). Overall, 47 percent of Latinos have no savings compared to 38 percent of non-Latino Whites—translating into an approximate \$77 billion gap in aggregated disposable savings between Latinos and non-Latino White households.<sup>82</sup>

### **COVID-19 and inflation have eaten into savings**

The future looks uncertain: a quarter of Latinos depleted their savings during the COVID-19 pandemic, leaving 27 percent of households with nothing to fall back on. The disproportional impact of inflation added to the inability to save, and strongly affected prices in categories that make up the most significant share of expenses, such as transport, housing, and food.<sup>83</sup>

Higher inflation has also resulted in Latinos decreasing their contribution to assets and liabilities. Having used up their savings during the pandemic—perhaps to keep businesses afloat—Latinos are expected to contribute 3 percent less to assets in the coming years than they used to; unlike non-Latino White counterparts who do not expect to reduce their contributions. The most significant trade-down will be an 8 percent reduction in Latinos' investments in cryptocurrency and 6 percent in checking and savings accounts. Furthermore, Latinos plan to reduce their debt payments by 4 percent and personal loans by 9 percent—reducing day-to-day expenditure but keeping them in debt for longer.<sup>84</sup> And with 60 percent of Latinos having no retirement accounts because of a shortage of savings, they face an unsure future.<sup>85</sup>

## Higher inflation has also resulted in Latinos decreasing their contribution to assets and liabilities.

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<sup>82</sup> "Consumer expenditure survey 2021," US Census Bureau, US Bureau of Labor Statistics.

<sup>83</sup> "Consumer price index—September 2022," Bureau of Labor Statistics, US Department of Labor, October 13, 2022..

<sup>84</sup> "Consumer survey," McKinsey, August 2022; McKinsey Global Institute analysis; McKinsey Institute for Latino Economic Mobility analysis.

<sup>85</sup> "Consumer survey," McKinsey, August 2022; McKinsey Global Institute analysis; McKinsey Institute for Latino Economic Mobility analysis.

### Fewer places to put their money

Limited access to financial products further hinders Latinos' financial health. They face a significant gap in asset diversity and total value compared to their non-Latino White counterparts, exacerbated by their lower income levels (Exhibit 11) and lower rates of home ownership.<sup>86</sup>

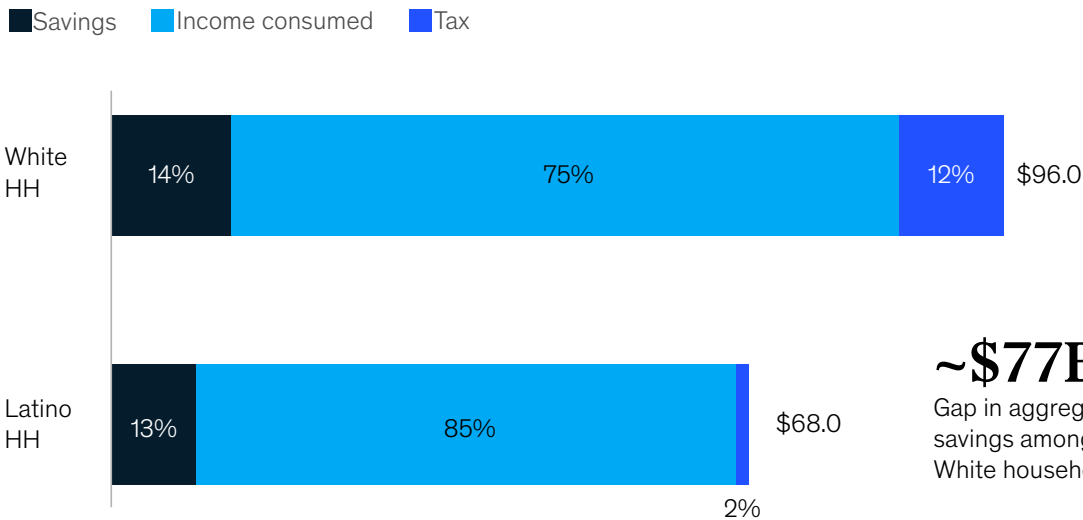
Latino adults remain underserved by financial products—they are three times more likely not to have bank accounts, and they are 2.3 times more likely to be underbanked than their non-Latino White counterparts, relying on alternative financial services such as payday loans, money orders, and pawn shops.<sup>87</sup> Affordability, lack of service, and poorly targeted advertising are all reasons why Latinos might not have bank accounts.<sup>88</sup> In addition, those who do have bank accounts are slightly less satisfied with their products compared to non-Latino Whites, facing greater difficulty accessing the features they need and finding branches with convenient opening hours.

Financial institutions can do more to educate potential investors and savers. The proportion of Latino investors in stocks and bonds is increasing, but remains small. While a third said they couldn't afford to invest in bonds, stocks, mutual funds, or exchange-traded funds, more than half of Latinos said they didn't know what these products were, didn't know how to invest in them, or had not considered these investments. Currently, just over a third of Latinos hold investment products, from 20 percent in 2021. These figures suggest that financial services companies could benefit from tailoring their products to Latinos.

Exhibit 11

### Low participation in wealth accumulating assets for Latino households is driven by lower incomes and tighter budgets.

#### Average annual household income vs. consumption, \$k



<sup>1</sup>9.7M Latino consumer units (Consumer Expenditure Survey 2021) x (\$4k difference in savings of a White household vs a Latino household). Source: "Consumer expenditure survey 2021," US Census Bureau, US Bureau of Labor Statistics

<sup>86</sup> "Consumer finances survey 2019," Federal Reserve.

<sup>87</sup> "Economic well-being of US households in 2020," Federal Reserve, May 2021.

<sup>88</sup> Ibid.



However, Latino investors show a higher preference for cryptocurrency than the general US population, possibly due to the high adoption of cryptocurrency in Latin American countries or a lack of trust in traditional financial systems.<sup>89</sup> One in four cryptocurrency owners is Latino, and 21 percent reported that they have invested in, traded in, or used this currency.

### Less debt, fewer credit options, and higher costs

As shown in Exhibit 12, Latinos have half as much debt as non-Latino Whites do but, as is the case with Latino business owners, are almost twice as likely to be turned down for credit. They have fewer mortgages and student, or similar, personal loans, but more credit cards. Latinos generally have fewer outstanding personal loans by income bracket than non-Latino Whites, either because they had not considered applying, or because interest rates were too high.<sup>90</sup> Their median debt amount is \$40,000 and is primarily concentrated in mortgages.

Latinos are less likely to own a home.<sup>91</sup> Their median household income (\$55,000) is 20 percent lower than the minimum salary (\$68,008) needed to afford median-priced homes.<sup>92</sup> As a result, they have high costs for housing, but less opportunity to build their wealth, and experience twice as many mortgage denials as non-Latino Whites.<sup>93</sup>

However, those who do have mortgages show different payment patterns to non-Latino Whites. In 2021, Latinos paid 5 percent more of their outstanding mortgage balances than their non-Latino White counterparts. Thirty-four percent of Latino home borrowers use alternative financing with higher costs, such as personal property loans or rent-to-own, compared to

Exhibit 12

## Latino families' asset participation and value is lower than that of non-Latino White families.

	Families holding asset (%)		Median value of asset (\$k)	
	Latino	White	Latino	White
Mortgages	32	44	131	138
Student loans	14	20	18	23
Credit card	50	45	2	3
Personal loans <sup>3</sup>	52	51	17	18
Total liabilities <sup>4</sup>	72	78	40	79
Housing assets	48	74	200	230
Transaction accounts	96	99	2	8
Retirement accounts	26	57	31	80
Life insurance <sup>2</sup>	6	21	8	10
Stock holdings	24	61	15	51
Total assets <sup>1</sup>	99	100	72	306

<sup>1</sup>Median total asset value is not the sum of the median value of each asset category.

<sup>2</sup>Cash value.

<sup>3</sup>Includes installment loans of all types.

<sup>4</sup>Median total liability value is not the sum of the median value of each liability category.

Source: "Consumer finances survey 2019," Federal Reserve

<sup>89</sup> "Consumer survey," McKinsey, August 2022; McKinsey Global Institute analysis; McKinsey Institute for Latino Economic Mobility analysis.

<sup>90</sup> "Consumer survey," McKinsey, August 2022; McKinsey Global Institute analysis; McKinsey Institute for Latino Economic Mobility analysis.

<sup>91</sup> "Consumer finances survey 2019," Federal Reserve.

<sup>92</sup> Ibid.

<sup>93</sup> "Homeownership rate in the United States," US Census Bureau, FRED, Federal Reserve Bank of St Louis, October 16, 2022.

19 percent of non-Latino Whites, and pay on average 30 percent more for home purchase loans.<sup>94</sup>

Healthier debt profiles may count against Latinos, as a lower penetration of financial products lowers their credit rating. In total, 16 percent of Latinos are credit invisible as they have no credit history or accounts to calculate a credit score.<sup>95</sup> They could be further disadvantaged by a lack of financial literacy, debt-to-income ratio, and lack of collateral. As a result, they have significant personal finance needs that are going unmet, and financial institutions with tailored products may be able to better meet the needs of Latinos. Latinos have the lowest educational attainment of all major racial/ethnic groups in the US population, and therefore have less student debt—14 percent of Latino families have educational installment loans versus 20 percent of non-Latino White families. Those who do take out loans apply for lower amounts (\$18,000 compared to the \$27,000 median student loan). In a survey of students who did not complete college, almost half of Latinos dropped out to avoid more debt (compared to about 40 percent of non-Latino Whites).<sup>96</sup>

Altogether, 20 percent of Latinos expressed their dissatisfaction with current financial or savings product offerings. Some of the main reasons they gave for this include: prices being too high (26 percent); not having enough money to invest (23 percent); and feeling that companies are not committed to addressing social inequities (13 percent). Despite being severely impacted by the economic downturn, Latinos indicate that they would pay approximately 16 percent more on average for better offerings. Satisfying their needs could increase their \$208 billion balance by about \$21 billion.<sup>97</sup>

#### **Promoting resilience with financially inclusive interventions: What organizations are doing**

Latinos are looking for financially inclusive solutions that allow them to invest effectively and ensure a stable future. Three interventions can support them to meet this need.

Credit unions **focusing on the financial needs of Latinos** and immigrants, such as **Juntos Avanzamos**, present in 26 states, provide a valuable service. Juntos Avanzamos based its financial products and services on their Latino customers' needs. Customers learn to navigate the US financial system and have the tools they need to reach their savings goals, such as financial literacy and taxpayer identification tools.<sup>98</sup>

**Predatory lending education and financial planning resources can support Latinos to smooth out income volatility.** For example, Latinos using the bilingual digital platform **FinHabits** can access wealth-building tools, savings, and investments, and are offered long-term financial planning. The online investing service is designed for first-time savers, focusing on simplicity and access.<sup>99</sup>

**Retirement benefits could be provided to more workers.** The Latinos for a Secure Retirement coalition aims to empower Latino communities to become economically secure. They provide the tools, resources, and advocacy to improve retirement security for current retirees and ensure retirement security for both this and future generations.<sup>100</sup>

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<sup>94</sup> "Millions of Americans have used risky financing arrangements to buy homes," The Pew, May 23, 2022.

<sup>95</sup> Mike Hepinstall, et al., "Financial inclusion and access to credit," Oliver Wyman, January 12, 2022.

<sup>96</sup> Robert Agans, Jess Dorrance, and Kate Salosky Elengold, "Debt, doubt and dreams: Understanding the Latino college completion gap," University of North Carolina and Unidos, November 2020.

<sup>97</sup> "Consumer survey," McKinsey, August 2022; McKinsey Global Institute analysis; McKinsey Institute for Latino Economic Mobility analysis.

<sup>98</sup> "Helping you reach your financial goals," Juntos Avanzamos.

<sup>99</sup> "Here's what every Latino should know about investing," FinHabits.

<sup>100</sup> For more information, see Latinos for a Secure Retirement website.







# 4. Actions to support Latino economic mobility

Latinos play a crucial role in the US economy and currently account for a \$1 trillion market, despite being challenged by lower-paying jobs, less education, and the bias they face from neighbors, co-workers, and employers. Over the past year, it has become clear that Latinos, for various reasons, are also uniquely vulnerable to income disruption and predatory lending and are likely to curtail their spending more sharply than other groups. By acting now, Latinos can be supported through instability while building their resilience to deal with future shocks. They have already demonstrated resourcefulness, hard work, and creativity; now, by acting in their favor, companies can remove barriers to full economic participation.

Two types of actions are needed. Committing to structural interventions that allow Latinos to compete on a more even field would build a fairer and more prosperous economy to help them close the gap in income and consumption levels. But at the same time, immediate, tactical interventions are needed now to protect Latinos as they manage tighter budgets and resources.

Our previous report, published last year, remains relevant as it highlighted a large and growing minority who in many ways embody the American dream of equal opportunity, rewards for hard work, and rising prosperity over generations, but for whom that dream was deferred. Since then, for many Latinos, the situation has worsened as the impact of inflation further strains resources and budgets. Issues such as wage disparity, lower representation in higher-paid positions, access to capital for business owners, and a lack of willingness to invest in these businesses continue to headline in the 2022 report. As a result, the structural recommendations we proposed in 2021, such as better compensation and reskilling for workers, increasing access to capital, and financial inclusion to boost Latinos' wealth-building, are more urgent than ever. These should be coupled with short-term interventions that respond to the current economic instability.

**By acting now, Latinos can be supported through instability while building their resilience to deal with future shocks.**



Box

## The cumulative cost of hardship

Over the course of the report, we have identified sizeable gaps in opportunity, revenue, and spending between Latinos and non-Latino Whites, which together impact the wealth of Latino savers. Less money in means less money out.

Latino workers receive \$281 billion less than non-Latino Whites, as they are more likely to work in lower-paid jobs and be paid less than non-Latino White peers.<sup>1</sup> Latino businesses make half as much revenue as non-Latino White businesses—again, as they are concentrated in lower-performing industries, with less access to capital, and are smaller in size. Additionally, there are fewer Latino-owned businesses than would be expected based on their share of population, which deepens the divide and results in a revenue gap of \$2.3 trillion.<sup>2</sup>

This lower income relative to population, among other reasons, results in a consumption gap of \$554 billion between Latino households and non-Latino White counterparts. However, despite this lower overall consumption, Latinos are a formidable force in the marketplace. Latino households spend more than their non-Latino White counterparts at the same income level, yet their needs are not being met by brands to the same extent as non-Latino White households.

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<sup>1</sup> McKinsey calculations using "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>2</sup> "Annual business survey 2019," US Census Bureau.

## Mind the gaps: Six ways to boost Latino prospects

Across the four lenses of Latinos—workers, savers, business owners, and consumers—the right combination of structural and immediate interventions could help Latinos on the path to economic advancement and prosperity; actions that will hugely benefit the country.

These interventions were explored in our 2021 report and included improving access to education, creating targeted products and service offerings, increasing access to capital, and reducing and mitigating biases.<sup>101</sup> By building on these interventions, and by addressing the need for improved representation across society, it is possible to find ways to kickstart Latinos' journey to prosperity.

### Representation: unlocking decision-making power

Latinos remain underrepresented in the boardrooms and C-suites of the most powerful companies in the US, making it more likely that decisions around product development, marketing, and supply chains overlook the needs of this key population.

- Companies who are serious about more representative leadership can **set targets for inclusion** with strategic interventions to develop a pipeline of Latino talent.
- Gender inclusion programs **designed with intersectionality** in mind will help ensure Latina and Black women are not left behind in the efforts to advance female leadership.
- Building more representative leadership also requires **more inclusive workplaces**; to that end, the interventions aimed at promoting Latino workers are also needed to achieve this goal.

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<sup>101</sup> Ana Paula Calvo, Michael Chui, Lucy Pérez, and Bernardo Sichel, "The economic state of Latinos in America: The American dream deferred," McKinsey, December 9, 2021.

## Education and re-skilling: the key to workers' progress

Latinos are already at a disadvantage with lower education levels than other groups. They can raise their incomes and flatten structural hurdles with greater access to education. Workers can seek out opportunities to learn new skills and access mentorship and apprenticeship to support their career development. Structural interventions could include:

- **Supporting Latinos to re-skill into higher-paid occupations.**
- Providing resources to build strong Latino affinity or networking groups that create **mentorship and sponsorship** for Latino workers.
- Other actions include **increasing Latino access** to higher education and digital technologies, identifying and solving potential skills gaps, and focusing on **recruiting more Latino talent**.
- **Committing to more diverse representation** in leadership and at work, including greater Latino representation, allows for richer experiences and more inclusive decision-making within companies, which ultimately impacts the range of goods and services offered to consumers.

Rapid remedies, mainly focusing on the impact of COVID-19 and inflation, could include:

- Augmenting structural interventions with **shorter-term and affordable reskilling and education programs** to help Latinos embrace new careers in digitalization, food, goods delivery, or logistics, including resources for the changing professional needs due to inflation and COVID-19. Stakeholders could also explore how to invest in giving Latinos access to digital technologies.
- **Partnering with universities** and Latino-serving institutions to strengthen a pipeline for Latino talent.
- Designing programs that minimize vulnerabilities, such as **free capability-building programs, to reskill workers** in professions affected by COVID-19

## Building a future: Providing relevant financial products and services

Latinos have tighter household budgets, struggle to save for retirement and improve their asset base and have had to dip into savings to a greater extent than their peers. Designing and delivering products that meet their needs for value, flexibility, and cost will support their financial health. Structural interventions to improve products and services could include:

- Offering **flexible investment and saving products** that will address Latinos' immediate needs as well as their future prosperity. Retirement and other financial benefits could be added to work plans to entice savers.

## Potential rapid remedies to protect against income volatility could include:

- **Saving strategies and programs aimed at Latino students** would support them to make prudent financial decisions as they enter the workforce.
- Providing **financial education** on credit scores, retirement opportunities, investment, and budgeting to ignite savings and investment. Latinos could protect themselves against **predatory lending** and high interest rates with such programs.
- **Reworking financial institutions' footprints to ensure consumers retain access even in banking deserts.**<sup>102</sup>

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<sup>102</sup> Banking deserts are defined as census tracts in states that have an above-average proportion of unbanked individuals, as measured by the Federal Deposit Insurance Corporation. Source: Donald P Morgan, Maxim L Pinkovsky, and Bryan Yang, "Banking deserts, branch closings, and soft information," New York Federal Reserve, March 7, 2016.

### **Value and quality: The new gold standard for Latino consumers**

Latino consumers are unhappy with the products offered to them, with affordability, value, and quality being the main drivers of this dissatisfaction. By addressing the reasons for dissatisfaction, companies can support their needs and potentially increase their own market share as consumers are more likely to switch brands during this time. Companies that look to add or retain new potential customers changing their behavior could consider a price-first or value-driven marketing strategy, including the following:

- **Optimizing value propositions**, including private-label goods, that would help retain customers severely hit by the economic downturn.
- **Investing in a better understanding of Latino customers and their preferences.** Companies that invest in understanding the Latino consumer can develop segmented product marketing strategies and ensure that their products are appealing, with high-quality, health, and sustainability differentiators. In many cases, this could mean modifying existing products to appeal to Latinos. Using channels Latinos prefer and designing policies to shield the consumer from rising prices, especially on basic or essential products, could also help meet their needs.
- Investing in **tailored offerings such as food with flavors from Latin American countries and makeup with a range of tones that match the diversity of Latino population, among others**, to meet the shifting needs and preferences of Latino consumers.

Organizations can also support the most vulnerable consumers by **catering to previously underserved populations in the channels they prefer, and by shielding consumers from price increases** on basic products.

### **Money matters: Increasing access to capital and opening business opportunities**

While Latino-owned businesses have shown relative resilience, many could do with additional support. Key opportunities in this area point to improved access to capital, business expansion, and support through uncertainty. Latino business owners themselves can also seek out opportunities for mentorship and skills training.

Our 2021 report looked at ways to boost access to capital for Latino business owners by:

- **Setting aside funding** and ensuring **equal access** to funds, while connecting Latino-owned businesses with sources of capital.
- **Providing bias training and standardized methodologies to funders** to minimize differences in approval rates.

However, Latino-owned businesses remain underrepresented in the most attractive sectors. Opportunities exist here to:

- **Create formal mentorship, sponsorship, and allyship programs**, network entrepreneurs with industry experts and professionals, and support businesses in setting up an online presence.
- **Enable access to broadband**, particularly for underserved communities, to increase entrepreneurship.

## Stopping the skew: Reducing bias

Latinos continue to face bias, discrimination, and prejudice, adding a further layer of disadvantage they must negotiate. Structural interventions to remove or reduce bias are needed, such as:

- Providing **bias training** to creditors, recruiting, and educational professionals, and developing standards for approvals that minimize bias.
- Promoting **supplier diversity and buying from Latino-owned businesses** by using minority certificates and being active in the community.
- Publicly disclosing demographic information and providing **transparency** on compensation, **advancement, and retention**.
- Increasing Latino representation on boards and in corporate C-suites.

### Sidebar

## How companies can step up

Change requires commitment, and by implementing tangible actions that meet the needs of Latino consumers, these companies are taking steps to support their customers at critical moments and celebrate their identity.

### Bank of America

Latinos are less likely to own property than their non-Latino White counterparts due to affordability issues, which in turn impacts their ability to build wealth. Bank of America offers mortgage options with zero down payments and zero closing payments for certain Black and Latino neighborhoods. It also actively recruits diverse talent and has partnered with 200 external organizations to do so. Bank of America serves 300,000 Hispanic-owned small businesses, and offers Spanish-language capabilities across 2,000 financial centers and on mobile channels. The annual Hispanic Small Business Owner Spotlight report is conducted to improve the bank's services to this community.

### JLo Beauty

Companies that proactively ask for customer feedback and tailor their products accordingly can win support from the discerning Latino client base. JLo Beauty organizes community forums where the brand listens to customer requests and tests new ideas. It maintains authentic social media engagement with Jennifer Lopez, the face of the brand, and offers a newsletter with an exclusive view into her life. Tailored beauty products, such as "Overnight Hustle", are made with Latinas' unique skin-care requirements in mind. Since its launch in January 2021, JLO Beauty has tripled in size and gained over 1 percent market share.

### Target

While niche brands often identify a target market segment to win over, large organizations can also show that they are responsive to customer needs. Diversified retailer Target has executed a dedicated Latino strategy for more than five years. It offers curated products made by Latino businesses, shares stories, and celebrates the contributions of Latino guests, entrepreneurs, and Target team members. It regularly carries more than 60 Latino-owned brands. For the past two decades, Target has supported a Hispanic scholarship fund.



The economic state of Latinos in the US: Determined to thrive By McKinsey  
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