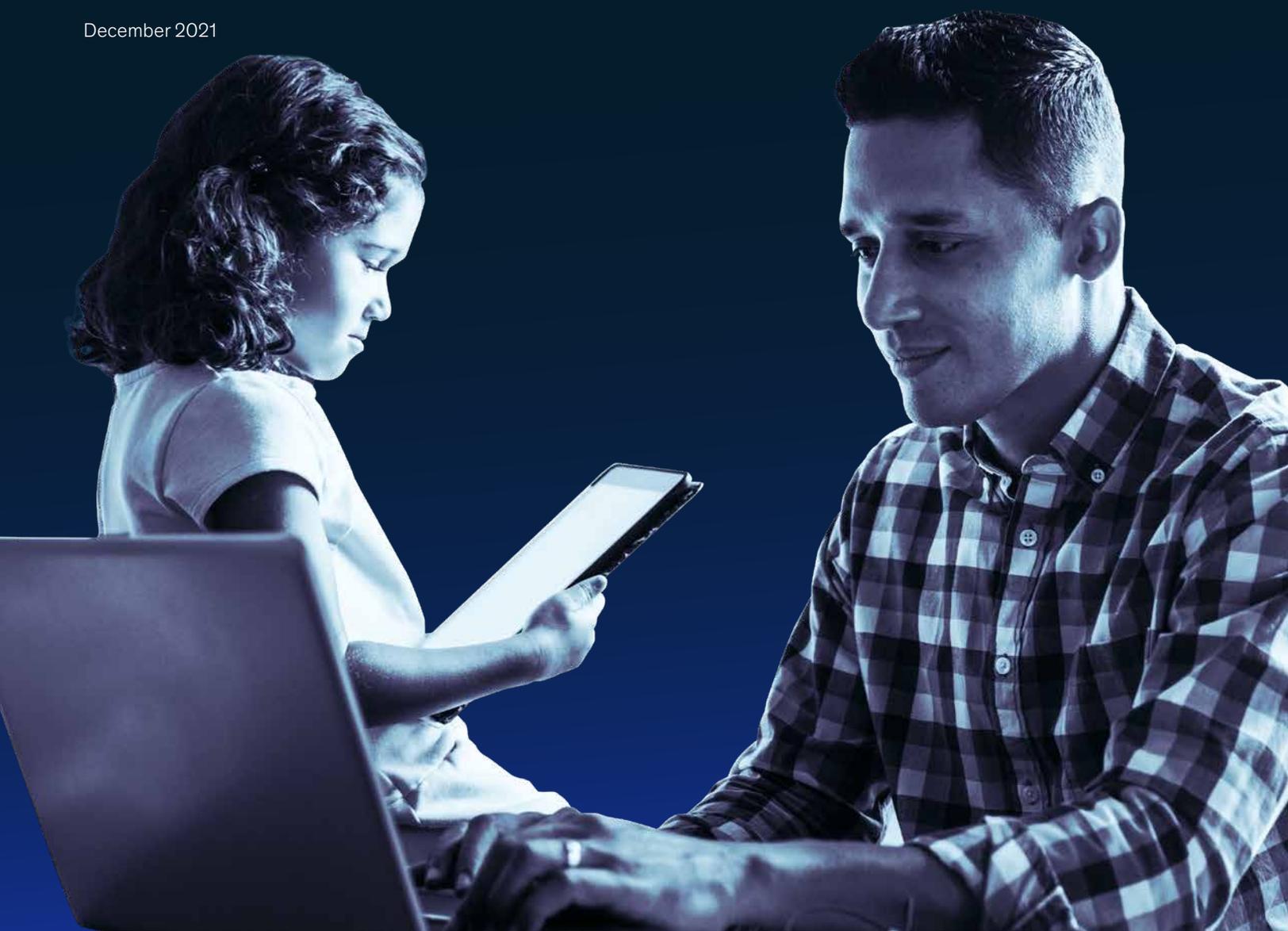


Executive summary

The economic state of Latinos in America: The American dream deferred

December 2021



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The economic state of Latinos in America: The American dream deferred

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The economic state of Latinos in America: The American dream deferred

Latino immigrants struggle to be fully embraced by the United States. And while Latinos born in the United States are in the process of being accepted as full participants in the world's largest economy, as a group they remain economically well behind non-Latino White Americans. Our research identifies critical challenges and gaps Latino Americans face across four segments: workers, business owners, consumers, and savers and investors. Addressing the barriers preventing Latinos from full economic participation could have a multitrillion-dollar impact, further unleashing their entrepreneurial spirit, creating millions of jobs, driving consumer spending, and building intergenerational wealth.

Workers: Wage and representation disparities across the US labor market result in a \$288 billion annual income gap

Latinos are concentrated in low-wage jobs, less likely to have nonwage employer benefits, and strikingly underrepresented in higher-paying occupations compared with their share of the US labor force. While US-born Latinos earn more than those born overseas, both groups earn significantly less on average than White workers in the same occupational categories, an income gap affecting the ability of Latinos to spend, save, invest, and start businesses. Yet more than 50 percent of the wage gap could be closed by improving representation in just 4 percent of professions: academia (such as teaching and education administration), management, professions requiring postgraduate degrees (such as the law and medicine), and STEM professions such as software development. In a scenario of parity, wages for Latino workers could be over 35 percent higher and 1.1 million more Latinos could move into the middle class.

Business owners: The rate of Latino entrepreneurship is very high, but Latino-owned businesses have lower sales and profits than comparable White-owned firms, with limited access to capital stifling the ability to scale

Latinos start more businesses per capita than any other racial or ethnic group in the United States, and the number of Latino-owned employer firms has grown over the past five years at more than double the rate of White-owned employer firms. Yet while Latinos account for 18.4 percent of the US population, they only make up about 6 percent of employer firms and 14 percent of nonemployer firms. If the Latino share of employer business ownership reached parity with its population share, some 735,000 new businesses could be created along with 6.6 million new jobs. And if sales at those companies averaged the same as at non-Latino White-owned businesses, Latino-owned businesses could be generating \$2.3 trillion more in annual revenue.

Consumers: The combination of lower incomes and wealth and reduced access to goods and services creates \$660 billion in unmet demand each year

Latino consumption has grown by about 6 percent annually for the past eight years, roughly double the pace of spending growth among non-Latino Whites. Yet Latino spending—which accounts for about 11.4 percent of aggregate US consumer spending—lags well behind its share of the population. That's because consumption is constrained by depressed incomes and wealth. In addition, many Latinos live in consumer “deserts” lacking access to key goods and services, and many may be willing to spend more on offerings better suited to their needs. This unmet demand varies by country of origin across all segments in this report.

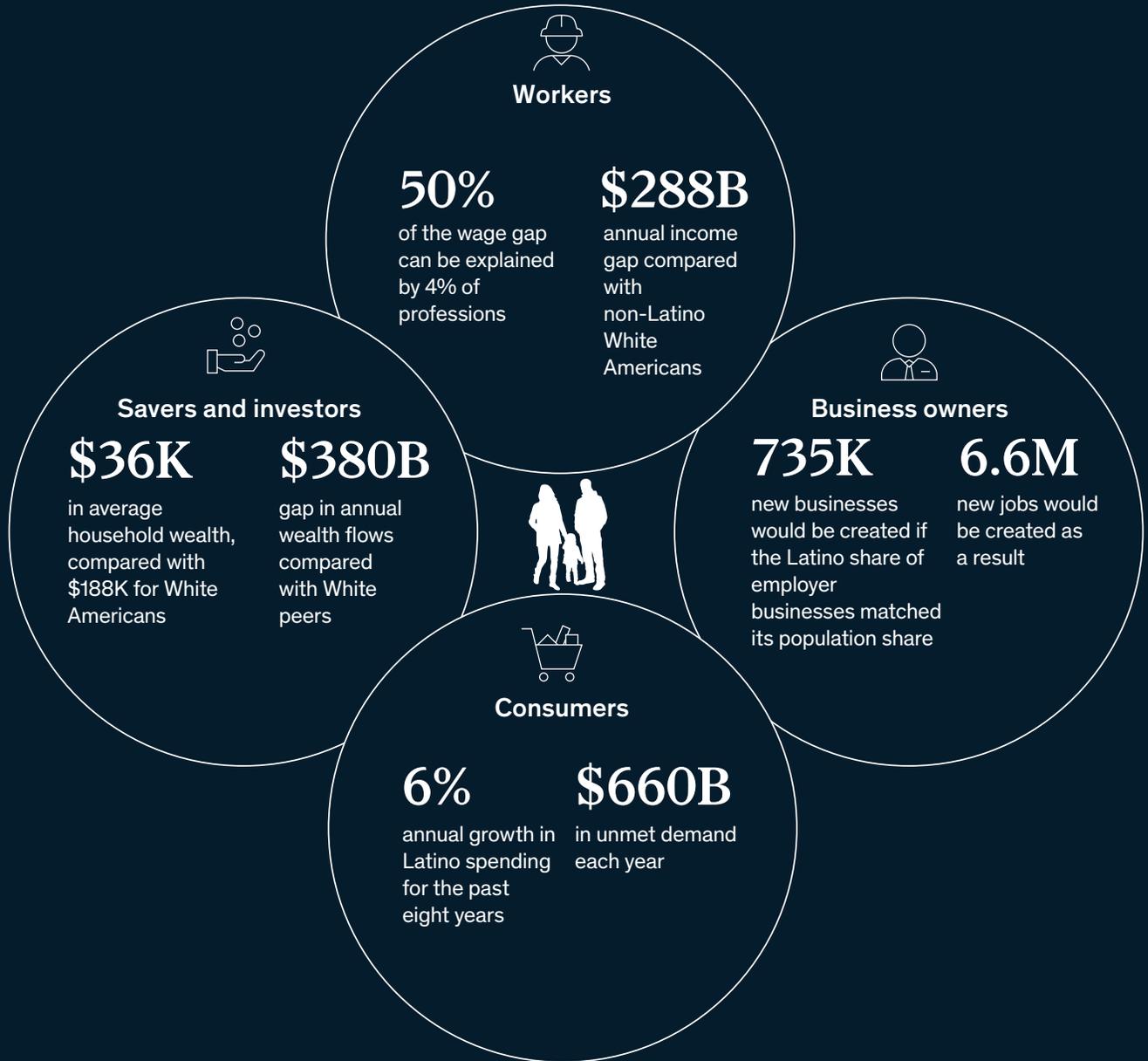
Savers and investors: Intergenerational disparities and continuing barriers to wealth generation result in a \$380 billion gap in the annual flow of net wealth compared with White Americans

Latino wealth has grown by an average of about 7 percent annually for the past 20 years, more than twice the rate of non-Latino White wealth. Wealth is also increasing by generation, especially from first to second generation, where Latino immigrants experience higher economic mobility than their US-born peers. But this growth comes from a low base: the median wealth of Latino households is about \$36,000, just one-fifth of the median \$188,200 held by non-Latino White Americans. While many Latinos save less because they are providing financial support to family abroad, they are also overall significantly less likely to have a will or living trust and to participate in retirement programs or stock and mutual funds. Addressing barriers constraining Latinos from saving and investing could boost median Latino household wealth by 66 percent, or \$24,000.

While the increasing percentage of US-born Latinos will likely narrow these gaps over time, both the public and private sectors could adopt and implement interventions to more rapidly allow Latino workers, business owners, consumers, and savers and investors to fully participate in the US economy. Different choices made today could help drive a more dynamic future both for Latino Americans and for the country.

The economic state of Latinos in America: The American dream deferred

Economic gaps persist in every element of Latinos' lives



In a parity scenario

>35%

boost to aggregate wages

1.1M

more Latinos in the middle class



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Latinos make up 18.4 percent of the US population and 17.3 percent of the US labor force, a share forecast to rise more than 30 percent by 2060. Latinos start more businesses and have higher rates of intergenerational mobility, and their share of skilled and higher-paid occupations has increased in the past decade. As a population, they increasingly embody—in spirit and reality—the American dream that hard work pays off and each successive generation will be better off than the one before.¹

Yet America's contribution to that dream is uneven. Latinos born in the United States enjoy higher wages and intergenerational mobility than foreign-born Latinos—suggesting Latinos may overcome the hurdles to full participation in their adopted country over time. Yet both US- and foreign-born Latinos remain far from equal with non-Latino White Americans. Latino Americans make just 73 cents for every dollar earned by White Americans. They face discrimination when it comes to securing financing to start and scale businesses. Latinos struggle with access to food, housing, and other essentials. And their level of household wealth—which directly affects their ability to accumulate and pass on wealth from generation to generation—is just one-fifth that of White Americans. Furthermore, COVID-19 had a disproportionate impact on Latino lives and livelihoods.²

Our research finds Latinos are collectively underpaid by \$288 billion a year. In a situation of full parity, they could spend an extra \$660 billion annually. Latino businesses could generate an additional \$2.3 trillion in total revenue each year, and 735,000 new business could be created supporting 6.6 million new jobs. And Latinos' annual flow of net wealth from one generation to the next could be \$380 billion higher.

Latinos face barriers similar to those ultimately overcome by waves of immigrants before them. Income, wealth, and intergenerational mobility are improving for Latinos over the generations, helping close the economic gap. But that isn't enough. Policies and practices have led to Latinos being paid less than non-Latino White Americans within the same occupational categories—and even less for Latinos not born in the United States—and to having lower access to education, food, products, and services. But different choices can be made.

Latino workers: A striking generational gap

Latinos are projected to make up 22.4 percent of the US labor force by 2030 and more than 30 percent by 2060. Yet they remain concentrated in roles generally dismissed as “jobs no one else wants to do.”³ They are underpaid, less likely to have nonwage employer benefits, and disproportionately vulnerable to disruption. The \$288 billion annual gap in income compared with non-Latino White workers not only represents lost economic opportunity but has significant implications for Latinos' ability to start businesses, build wealth, and fully participate as consumers.⁴ In a scenario of parity, wages for Latino workers could be more than 35 percent higher and an additional 1.1 million Latinos could join the middle class.

The share of Latinos in skilled and higher-paid occupations has increased by almost five percentage points in the past decade. Yet Latino workers are overrepresented in lower-wage occupations, underrepresented in higher-wage occupations, and generally paid less than non-Latino White workers in the same occupational categories. And the annual median wage for foreign-born Latinos (\$31,700) is even lower than for US-born Latinos (\$38,848)—and both are significantly lower than the annual median wage of \$52,942 for non-Latino White workers (Exhibit 1).⁵

¹ Mark Hugo Lopez, Ana Gonzalez-Barrera, and Jens Manuel Krogstad, “Latinos are more likely to believe in the American dream, but most say it is hard to achieve,” Pew Research Center, September 11, 2018, [pewresearch.org](https://www.pewresearch.org).

² Ingrid Millán, Nick Noel, Lucy Pérez, and Alfonso Pulido, “US Hispanic and Latino lives and livelihoods in the recovery from COVID-19,” September 2, 2020, [McKinsey.com](https://www.mckinsey.com).

³ Jens Manuel Krogstad, Mark Hugo Lopez, and Jeffrey S. Passel, “A majority of Americans say immigrants mostly fill jobs U.S. citizens do not want,” Pew Research Center, June 10, 2020, [pewresearch.org](https://www.pewresearch.org).

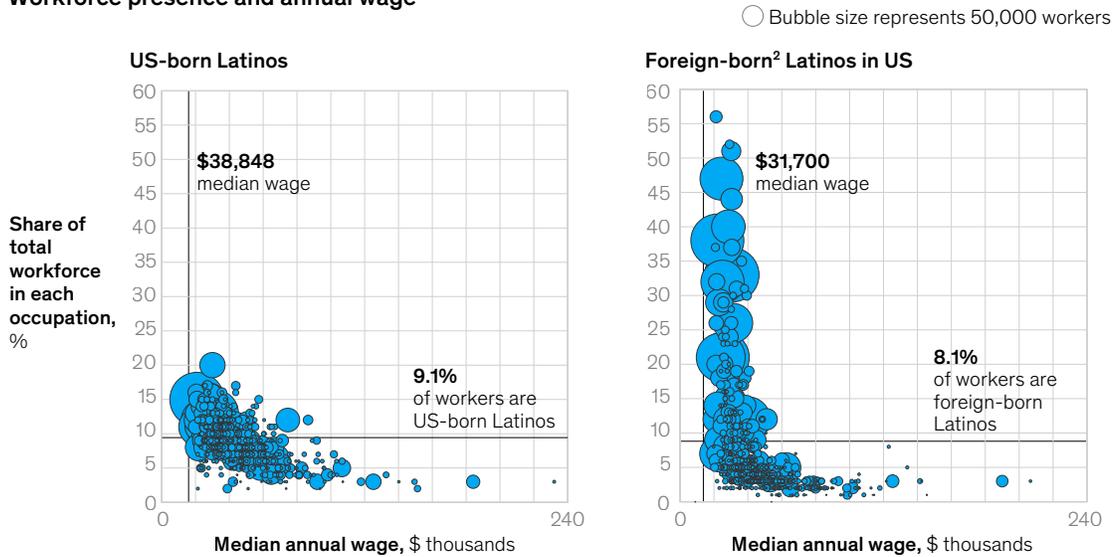
⁴ American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, accessed July 2021, [usa.ipeds.org](https://www.census.gov/ipeds/data/acs/).

⁵ Based on wages of workers aged 18 to 65 who are currently employed; who worked at least 30 hours per week on average last year; who worked more than 40 weeks last year; and who are not in school, not self-employed, and noninstitutionalized. Based on 2019 ACS five-year estimates.

Exhibit 1

Foreign-born Latinos earn less on average than US-born Latinos.

Workforce presence and annual wage¹



Note: Latino percentage of total US workers varies considerably at the state level. Occupations are defined using the Standard Occupational Classification (SOC) system.
¹Based on workers aged 18 to 65 who are currently employed; who worked at least 30 hours per week on average last year; who worked more than 40 weeks last year; and who are not in school, not self-employed, and noninstitutionalized.
²The foreign-born population includes anyone who is not a US citizen at birth, including those who become US citizens through naturalization.
 Source: American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, retrieved via Integrated Public Use Microdata Series (IPUMS) USA

Foreign-born Latinos have historically accounted for a higher percentage of Latino workers in the United States than they do today (Exhibit 2).⁶ As more of the Latino population is US-born—the younger age profile of Latinos also contributes to higher birth rates—its percentage of the country’s workforce rises, and the economic gap with non-Latino White Americans will likely narrow.

Latino business owners: Thriving against the odds

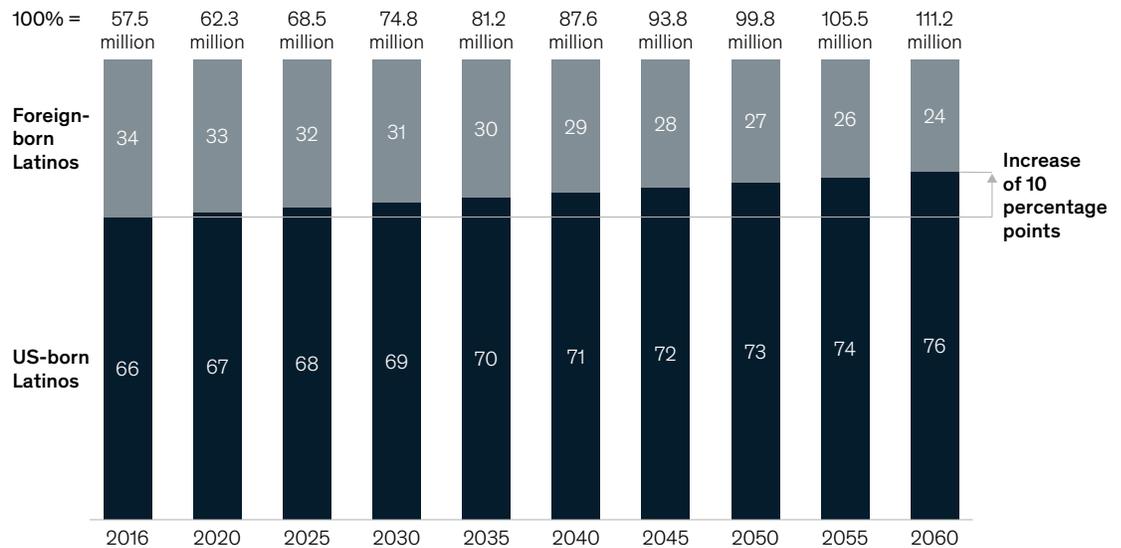
Latinos start more businesses per capita than any other racial or ethnic group in the United States. Over the past five years, one in 200 Latinos (0.5 percent) have started a new business every month, compared with 0.3 percent for the next highest groups (White and Asian).⁷ The number of Latino-owned employer firms has grown by 12.5 percent annually, compared with 5.3 percent for White-owned employer firms.⁸ And while Latino-owned employer businesses are concentrated in cities and states with large, dense Latino populations⁹—such as Los Angeles, Miami, and New York City—45 of 50 states saw an increase in Latino-owned businesses from 2012 to 2017.¹⁰

⁶Race and Hispanic Origin of the Native and Foreign Born: Projections for the United States: 2017-2060,” 2017 National Population Projections Tables: Main Series, US Census Bureau, 2018, census.gov.
⁷ Robert Fairlie and Sameeksha Desai, *National report on early-stage entrepreneurship in the United States: 2020*, Kauffman Indicators of Entrepreneurship, February 2021, indicators.kauffman.org; this rate measures the percentage of individuals (ages 20–64) who did not own a business in the first month of the Kauffman Foundation’s survey but started a business in the following month with 15 or more hours worked per week.
⁸ Annual Business Survey 2017, US Census Bureau, census.gov; 2012 Survey of Business Owners, US Census Bureau, 2016, census.gov.
⁹ Annual Business Survey 2017.
¹⁰ Marlene Orozco, Paul Oyer, Jerry I. Porras, and Inara Sunan Tarequem, *2020 State of Latino entrepreneurship*, Stanford Latino Entrepreneurship Initiative, January 2021, gsb.stanford.edu; Annual Business Survey 2018, US Census Bureau, census.gov; 2012 Survey of Business Owners.

Exhibit 2

The population of US-born Latinos is projected to grow by ten percentage points by 2060.

US Latino population projections, %



Source: National Population Projection Tables: Main Series, race and Hispanic origin of the native and foreign born, US Census Bureau, 2017, census.gov

Yet the share and the performance of Latino-owned businesses fall well short of their potential. Despite accounting for about 18.4 percent of the US population, Latinos only own about 6 percent of employer firms and around 14 percent of nonemployer firms.¹¹ If Latinos’ share of employer business ownership reached parity with their share of the population, some 735,000 new enterprises could be added to the US economy, supporting 6.6 million new jobs.¹² And if the per-firm sales of those businesses were in line with those of non-Latino White-owned businesses,¹³ an additional \$2.3 trillion in total revenue could be generated.¹⁴

Even though Latinos have the highest rate of entrepreneurship, there are significant differences between Latino employer firms and non-Latino employer companies. Nearly 13 percent of Latino-owned firms close in their first year, compared with 10 percent for White-owned firms, and the gap persists over time.¹⁵ Latinos are also more likely to be sole proprietors: 92.5 percent of Latino-owned businesses are single-person firms, versus 83.1 percent of the total population on average.¹⁶ There are also gaps related to representation, revenue per firm, profitability, and the number of employer businesses (Exhibit 3).

What barriers drive these gaps? First, while Latino owners of employer businesses have similar credit scores to their White counterparts,¹⁷ they still face challenges securing financing. Latinos have the lowest rate of using bank and financial institution loans to start their businesses compared with other racial and

¹¹ Annual Business Survey 2017.

¹² Annual Business Survey 2017; based on the current average of 8.9 jobs supported by one Latino-owned business.

¹³ Based on the difference in average revenue between employer firms owned by Latinos and non-Latino Whites. In most industries, the revenues of Latino-owned firms are lower than those of non-Latino White-owned firms.

¹⁴ Analysis covers only racially classifiable, privately held employer firms. Includes sole proprietorships; publicly traded companies are excluded.

¹⁵ JP Morgan Chase & Co. Institute; Annual Business Survey 2017.

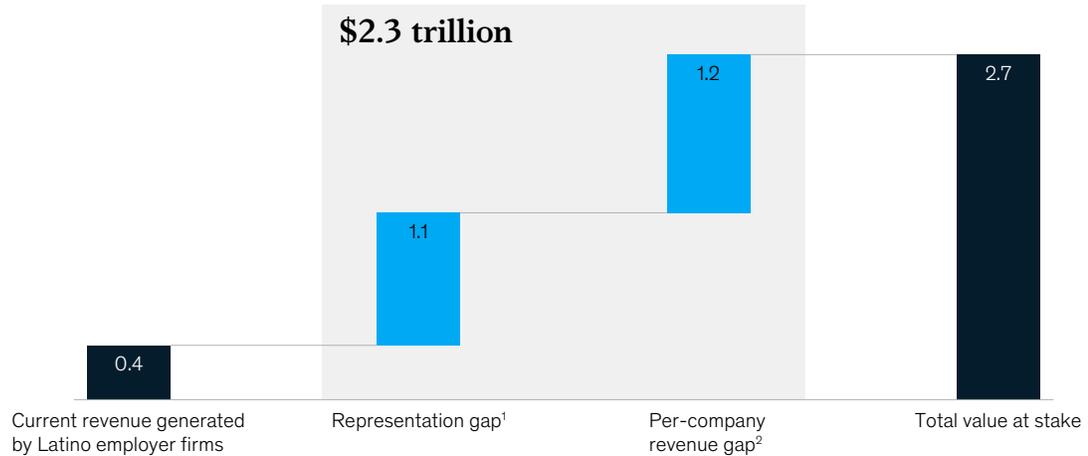
¹⁶ Annual Business Survey 2017; Nonemployer Statistics, US Census Bureau, accessed July 2021, census.gov.

¹⁷ 2020 State of Latino entrepreneurship.

Exhibit 3

Disparities between Latino- and White-owned businesses result in a \$2.3 trillion revenue shortfall for Latino-owned businesses.

Difference in annual revenue between Latino-owned and White-owned classifiable employer companies in the United States, \$ trillions



Note: Analysis covers only racially classifiable, privately held employer firms. This includes sole proprietorships; publicly traded companies are excluded.

¹Based on the difference in the share of Latino-owned employer firms in each industry and the Latino share of the US population, which is 18.4%. In every industry, current representation is well below this definition of parity.

²Based on the difference in average revenue between Latino and non-Latino White employer firms. In most industries, the revenues of Latino-owned firms are lower than those of non-Latino White-owned firms.

Source: McKinsey analysis

Latinos face barriers similar to those ultimately overcome by waves of immigrants before them. Income, wealth, and intergenerational mobility are improving for Latinos over the generations, helping close the economic gap. But that isn't enough.

1.1 million

Latinos could move into the middle class in a scenario of wage parity

ethnic groups—12 percent compared with 17 percent of White employer businesses¹⁸—and are less likely than White-owned employer businesses to receive all the funding they apply for.¹⁹ In addition, Latinos rely more on family savings, credit cards, and personal assets to start businesses, and are less likely to apply for additional funding because they don't think they will receive approval. Some 26 percent of Latino entrepreneurs believe their Latino heritage limits their ability to access capital.²⁰

Even once established, Latino-owned employer firms continue to depend on personal sources of funding, making them potentially vulnerable to personal financial risk. The top funding sources for Latino-owned employer businesses seeking more than \$100,000 tend toward personal savings, credit cards, and assets, while White-owned employer businesses look to secured loans from national or local banks.²¹ Accessing venture capital is also challenging: companies founded by Latino and Black owners represent around 2.5 percent of funding.²²

Second, Latino entrepreneurs are less likely than their White counterparts to seek support and mentoring from professional advisers and colleagues,²³ instead turning to family for support on running the business and making decisions. And, finally, Latino-owned employer businesses are less likely to have an online presence. About 93 percent of Latino-owned employer businesses have no e-commerce sales, compared with 89 percent for White-owned employer businesses, which may place them at a disadvantage as the world goes increasingly digital.²⁴

Latino consumers: America's growing domestic market

Latinos make up about 18 percent of the US population, but only account for 11.4 percent of aggregate consumer spending. While that amounts to around \$870 billion in consumer expenditure annually, it could be around \$500 billion higher if Latinos' expenditures matched their share of the US population. In addition, our research shows there's another \$159 billion in unsatisfied demand, because many Latinos would be willing to spend more on offerings better suited to their needs.

The spending gaps fundamentally stem from Latinos having lower incomes compared with non-Latino White Americans, with the net result that Latino households spend less, on average, in almost every product and service category (Exhibit 4). At similar income levels, Latino households spend a greater share on essentials compared with White households and are more likely to stick to a budget when shopping. In addition, many Latino communities have lower or inadequate access to key product and service categories, including food, housing, banking, broadband, healthcare, and consumer goods.²⁵ And there's unmet demand: Latinos are, on average, more dissatisfied with current product and service offerings than White consumers, especially in categories where they have limited access.²⁶

Yet despite these headwinds, Latino consumption is growing by 6 percent a year, steadily increasing the population's share of total US consumption by 3 percent annually for the past eight years. That growth has

¹⁸ 2018 Annual Survey of Entrepreneurs, US Census Bureau, [census.gov](https://www.census.gov).

¹⁹ *Small Business Credit Survey: 2019 report on employer firms*, Federal Reserve Banks, 2019, [fedsmb.org](https://www.fedsmb.org).

²⁰ Bank of America 2018 Hispanic Small Business Owner Spotlight survey, n=400, 2018, [about.bankofamerica.com](https://www.bankofamerica.com).

²¹ *2020 State of Latino entrepreneurship*.

²² *Crunchbase diversity spotlight 2020: Funding to Black & Latinx founders*, Crunchbase, October 2020, [crunchbase.com](https://www.crunchbase.com).

²³ 2016 Annual Survey of Entrepreneurs, US Census Bureau, [census.gov](https://www.census.gov).

²⁴ *Ibid.*

²⁵ "Food Access Research Atlas," Economic Research Service, US Department of Agriculture, 2019, ers.usda.gov; "Shortage Areas," Health Workforce, Health Resources & Services Administration, data.hrsa.gov; National Low Income Housing Coalition, [nlihc.org](https://www.nlihc.org); *How America banks: Household use of banking and financial services*, Federal Deposit Insurance Corporation, October 2020, [fdic.gov](https://www.fdic.gov); "Form 477 Census Tract Data on Internet Access Services," Economics and Analytics, Federal Communications Commission, updated October 13, 2020, [fcc.gov](https://www.fcc.gov); "Food Environment Atlas," Economic Research Service, US Department of Agriculture, ers.usda.gov.

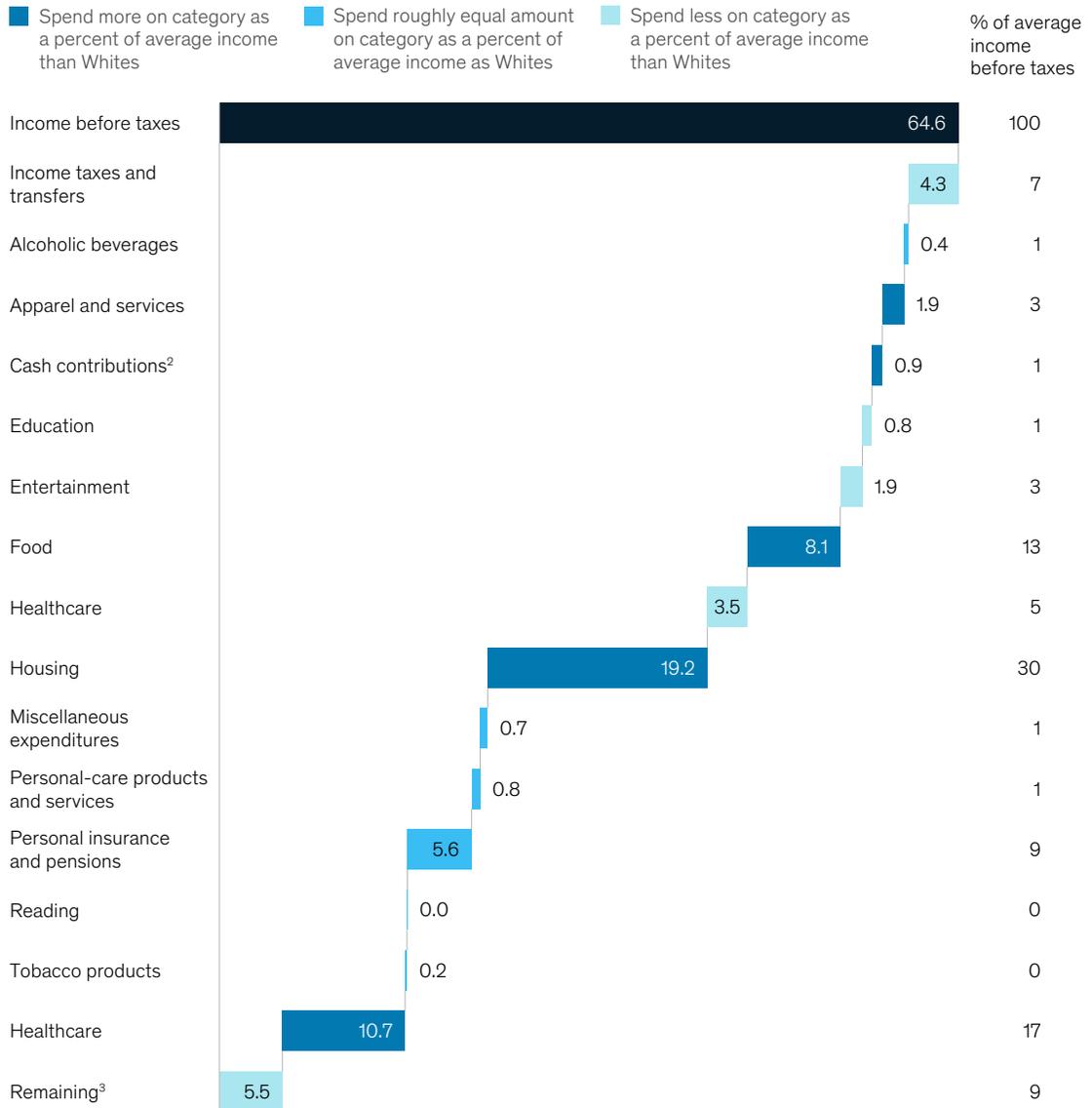
²⁶ McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Hispanic Economic Mobility analysis; BEM report.

Exhibit 4

Latino household income lags that of non-Latino White households, depressing consumer spending.

National average annual consumption by category and race,¹ 2019, \$ thousands

Latino households



Note: Figures may not sum, because of rounding.

¹Based on race and ethnicity of the reference person for the consumer unit.

²Per the Bureau of Labor Statistics (BLS), "Cash contributions includes cash contributed to persons or organizations outside the consumer unit, including alimony and child support payments; care of students away from home; and contributions to religious, educational, charitable, or political organizations."

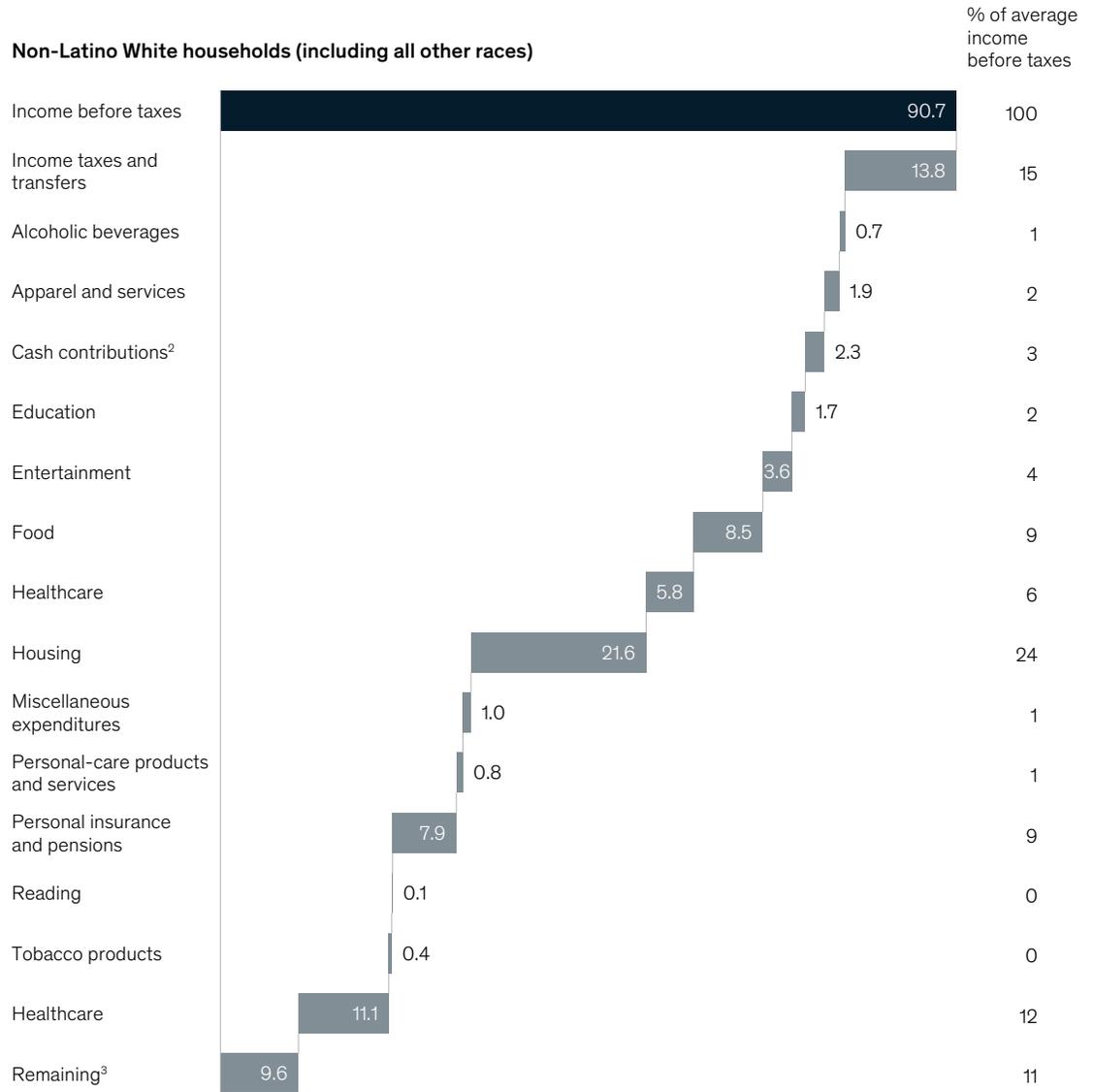
³This amount is a calculated amount based on post-tax income minus total expenditures; "remaining" does not necessarily correspond to liquid savings (eg, there could be unreported expenditures).

Source: Consumer Expenditure Surveys, US Census Bureau, 2019, census.gov

Exhibit 4 (continued)

Latino household income lags that of non-Latino White households, depressing consumer spending.

National average annual consumption by category and race,¹ 2019, \$ thousands



Note: Figures may not sum, because of rounding.

¹Based on race and ethnicity of the reference person for the consumer unit.

²Per the Bureau of Labor Statistics (BLS), "Cash contributions includes cash contributed to persons or organizations outside the consumer unit, including alimony and child support payments; care of students away from home; and contributions to religious, educational, charitable, or political organizations."

³This amount is a calculated amount based on post-tax income minus total expenditures; "remaining" does not necessarily correspond to liquid savings (eg, there could be unreported expenditures).

Source: Consumer Expenditure Surveys, US Census Bureau, 2019, census.gov

Exhibit 5

Our survey results suggest that Latino wealth grows from one generation to the next, with the biggest increase from the first to the second generation.

Median value of net worth for individual Latinos in the United States, by generation, \$ thousands



¹Sum of bank accounts inside or outside the United States; retirement accounts; certificates of deposits and bonds; investments in stocks, mutual funds, and exchange-traded funds (ETFs); life insurance; homes inside or outside the United States; vehicles inside or outside the United States; and inheritance.

²Sum of personal loans, student loans, mortgages, auto loans, credit card debt, payday loans, and other loans.

Source: McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Latino Economic Mobility analysis

26%

of Latinos believe their heritage limits their ability to access capital

been propelled by an increase in the number of high-income Latino households: households with income of more than \$75,000 have grown at a compound annual rate of 6.6 percent over the past decade. And Latinos are likely willing to pay an average of 18 percent more—or 1.18 times the existing level of unsatisfied demand—for products and services that better meet their needs.²⁷

Latino savers and investors: Confronting the wealth gap

Latino wealth has grown by an average of around 7 percent annually for the past 20 years, more than twice the rate of non-Latino White wealth.²⁸ Wealth is also increasing by generation, especially from the first generation to the second (Exhibit 5). In fact, children of foreign-born Latino immigrants experience higher economic mobility than their US-born peers.²⁹

Yet while Latino wealth is on an upward trajectory, it's far from equal to that of non-Latino Whites. The median wealth of Latino households in 2019 was about \$36,000, just one-fifth of the median \$188,200 held by their White peers.³⁰ Latino families are also significantly more likely to have a zero or negative net worth: in fact, 34 percent of Latino families are worth less than \$10,000 (compared with 16 percent of non-Latino White families), while only around 3 percent of Latino families are worth more than \$1 million, compared with 16 percent of White households.³¹

The problem is that while Latinos have higher rates of intergenerational mobility, they start from a much smaller base: our analysis finds the annual flow of net wealth for Latinos is about \$380 billion lower than in a per capita parity scenario with their White peers. A lack of accumulated family wealth drives this gap in the annual flow of net wealth. Two-thirds of the gap—some \$255 billion—is attributable to intergenerational transfers, such as inheritances. The balance of the gap is split almost evenly between lower rates of saving and lower participation and allocation in retirement programs, stock and mutual funds, and the like.

²⁷ Ibid.

²⁸ 2019 Survey of Consumer Finances, Federal Reserve, 2020, federalreserve.gov.

²⁹ Ibid.

³⁰ Ibid.

³¹ Ibid.

About 17 percent—or \$65 billion—of the gap in the annual flow of net wealth between Latino and White households is attributable to savings. When we compared average annual pre-tax income and consumption, we found White households had “income not consumed” averaging \$9,600 annually, compared with \$5,500 for Latino households,³² largely the result of lower Latino household incomes.

There are two other major differences between Latinos and non-Latino White households that may affect wealth, both related to family. Latinos are more likely to support family members in the United States when they have disposable income—44 percent report using extra money to invest to help out a family member—and Latino millennials are significantly more likely than their non-Latino counterparts to provide financial support to family (72 percent versus 53 percent).³³ Second, 32 percent of Latinos send remittances to family outside the United States,³⁴ with more than two-thirds of those sending up to 30 percent of their income abroad.³⁵ These remittances deplete savings, to the tune of an estimated \$50 billion to \$60 billion annually—and account for a third of all remittances sent from the United States to other countries (Exhibit 7).³⁶ Latino household wealth could be about \$18,000 higher if Latinos instead invested 40 percent of the average annual remittance value over ten years.³⁷

There’s no doubt Latinos are slowly being more fully integrated into the US economy. Yet there’s also no doubt there’s a long way to go, especially for first-generation Latino immigrants. Addressing the barriers preventing Latinos from fully participating not only is morally right—and in keeping with the essence of the American dream—but presents an opportunity to make the economy more robust for everyone. We’re not suggesting the gaps we’ve identified can be addressed easily or quickly, or that we have all the answers. But we hope this work provides a starting point for enhancing the dynamism of the economy for all Americans.

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³² 2019 Consumer Expenditures Surveys, US Bureau of Labor Statistics, 2020, bls.gov; Bank of America, “Disparities in Minority Retirement Savings Behavior.”

³³ *2020 State of Hispanic wealth report*, Hispanic Wealth Project, 2020, hispanicwealthproject.org; *Hispanic millennials’ financial experiences, challenges & the path forward*, Bank of America, 2021.

³⁴ McKinsey Consumer Survey, August 2021; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis.

³⁵ Ibid.

³⁶ Luis Noe-Bustamante, “Amid COVID-19, remittances to some Latin American nations fell sharply in April, then rebounded,” Pew Research Center, August 31, 2020, pewresearch.org.

³⁷ McKinsey Consumer Survey, August 2021; McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis.

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