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Diversity & Inclusion Practice

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

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Preface

As the United States endures labor shortages and ongoing economic disruption amid an uneven recovery from the COVID-19 pandemic, one group has been notably neglected: Latino Americans. Latinos have long been regarded as the unofficial engine of the world's biggest economy, often taking jobs unwanted by others for lower pay and fewer benefits. Yet this critical population will account for more than one in five US workers by the end of the decade, making it all the more important to understand its members' current and potential contributions to the country.

This report aims to increase awareness of the barriers to and enablers of Latino economic mobility and outlines actions to build a more inclusive economic future for Latinos in the United States. Our framework is similar to that of a report released earlier this year by the McKinsey Institute for Black Economic Mobility and the McKinsey Global Institute, *The economic state of Black America: What is and what could be.*[1] Our work is anchored around four economic roles individuals play in the economy: as workers, business owners or entrepreneurs, consumers, and savers. While this framework allows us to explore the multiple economic realities for Latinos in the United States, we recognize these roles are not exhaustive and do not represent the totality of the way individuals move through society. After all, the Latino population in the United States is diverse—and this report seeks to examine differences based on origin, place of birth, and gender.

This report is the first comprehensive study on Latinos in the United States published by McKinsey, and is part of our Inclusive Economy initiative, which aims to help decision makers understand barriers to and enablers of economic mobility to help build a stronger, more inclusive economic future in the face of the COVID-19 crisis. We believe a more inclusive economy for minorities, including Latinos, will drive productivity, growth, and societal well-being. In fact, research suggests up to 40 percent of GDP growth in the US economy between 1960 and 2010 can be attributed to greater participation of women and minorities in the labor force.[2]

So why now? Like our research on the economic state of Black Americans, this work is driven by a sense of urgency. As discussed in our earlier report *US Hispanic and Latino lives and livelihoods in the recovery from COVID-19,*[3] the 60 million Latinos in the United States experienced a disproportionate share of the health and economic effects of the pandemic. At the same time, Latinos are a fast-growing population and represent the future of the world's biggest economy. Latinos will account for more than one in four people in the United States by 2050 and one in three of its workers by 2060. To fully harness the economic power and global competitiveness of the nation, we must remove the barriers that prevent Latinos in the United States from reaching their full potential.

1 Michael Chui, Vivian Hunt, JP Julien, James Manyika, Bob Sternfels, Shelley Stewart III, Jonathan Woetzel, and Haiyang Zhang, "The economic state of Black America: What is and what could be," June 17, 2021, McKinsey.com.
2 "About Inclusive Economy," COVID Response Center, McKinsey.com.
3 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.

The research was led by Lucy Pérez, a McKinsey senior partner in Boston; Bernardo Sichel, a partner in Chicago; and Michael Chui, an MGI partner based in San Francisco. Also providing guidance and insights were Asutosh Padhi, Liz Hilton Segel, Alfonso Pulido, Roberto Uchoa Paula, Harry Robinson, Shelley Stewart, André Dua, Alejandro Díaz, Steve Van Kuiken, Bertil Chappuis, Kweilin Ellingrud, Ramesh Srinivasan, James Manyika, and Katy George. The project teams were led by Ana Paula Calvo and included Jose Padilla, Alexander Pensler, Elizabeth Hubbard, Jigish Patel, Sulay Solis, Daniela Zamora, and Frida Herdan. The authors also wish to thank our economic research team, including Tim Bacon, Arthur Bianchi, Krzysztof Kwiatkowski, and Zooey Wilkinson, and our colleagues Maria Gutierrez and Margaret-Ann Natsis for their contributions and support.

We don't have all the answers, and while we offer some ideas for potential actions to be taken, much more needs to be done. But we hope this report, together with its next installment to be published in the second half of 2022, represents a call to action. This work is independent, reflects our own views, and has not been commissioned by any business, government, or other institute.

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Contents

In brief

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 it 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 occupations, an income gap affecting the ability of Latinos to spend, save, invest, and start businesses. Yet more than 60 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 the country.

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

Economic gaps persist in every element of Latinos' lives

Workers

50%
of the wage gap can be explained by 4% of professions

$288B
annual income gap compared with non-Latino White Americans

Savers and investors

$36K
in average household wealth, compared with $188K for White Americans

$380B
gap in annual wealth flows compared with White peers

Business owners

735K
new businesses would be created if the Latino share of employer businesses matched its population share

6.6M
new jobs would be created as a result

Consumers

6%
annual growth in Latino spending for the past eight years

$660B
in unmet demand each year

In a parity scenario

>35%
boost to aggregate wages

1.1M
more Latinos in the middle class

Executive summary

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 E1).[5]

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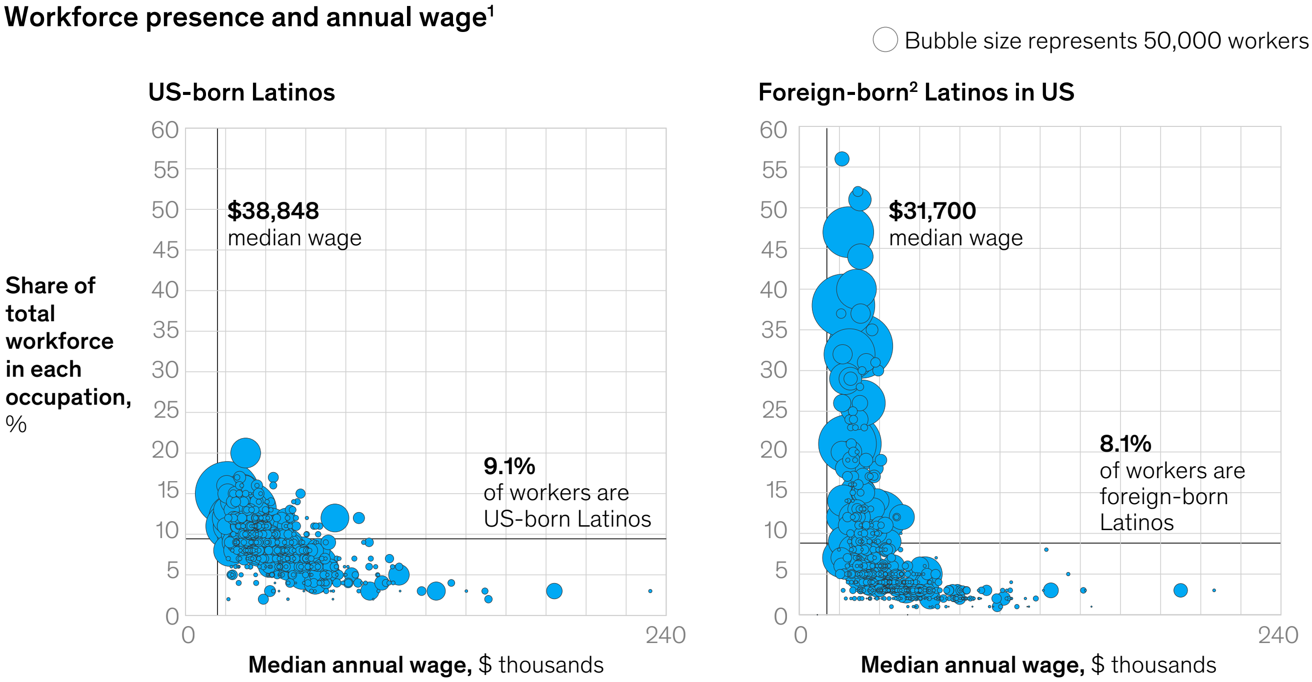
1 Mark Hugo Lopez, Ana Gonzalez-Barrera, and Jens Manuel Krogstad, "Latinos are more likely to believe in the American dream, but most say it is hard to achieve," Pew Research Center, September 11, 2018, pewresearch.org.
2 Ingrid Millán, Nick Noel, Lucy Pérez, and Alfonso Pulido, "US Hispanic and Latino lives and livelihoods in the recovery from COVID-19," September 2, 2020, McKinsey.com.
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.
4 American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, accessed July 2021, usa.ipums.org.
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 E1

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

Workforce presence and annual wage[1]



Note: Latino percentage of total US workers varies considerably at the state level. Occupations are defined using the Standard Occupational Classification (SOC) system.

[1]Based 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.

[2]The 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 E2).[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 populations[9]—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]

[6] "Race 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.

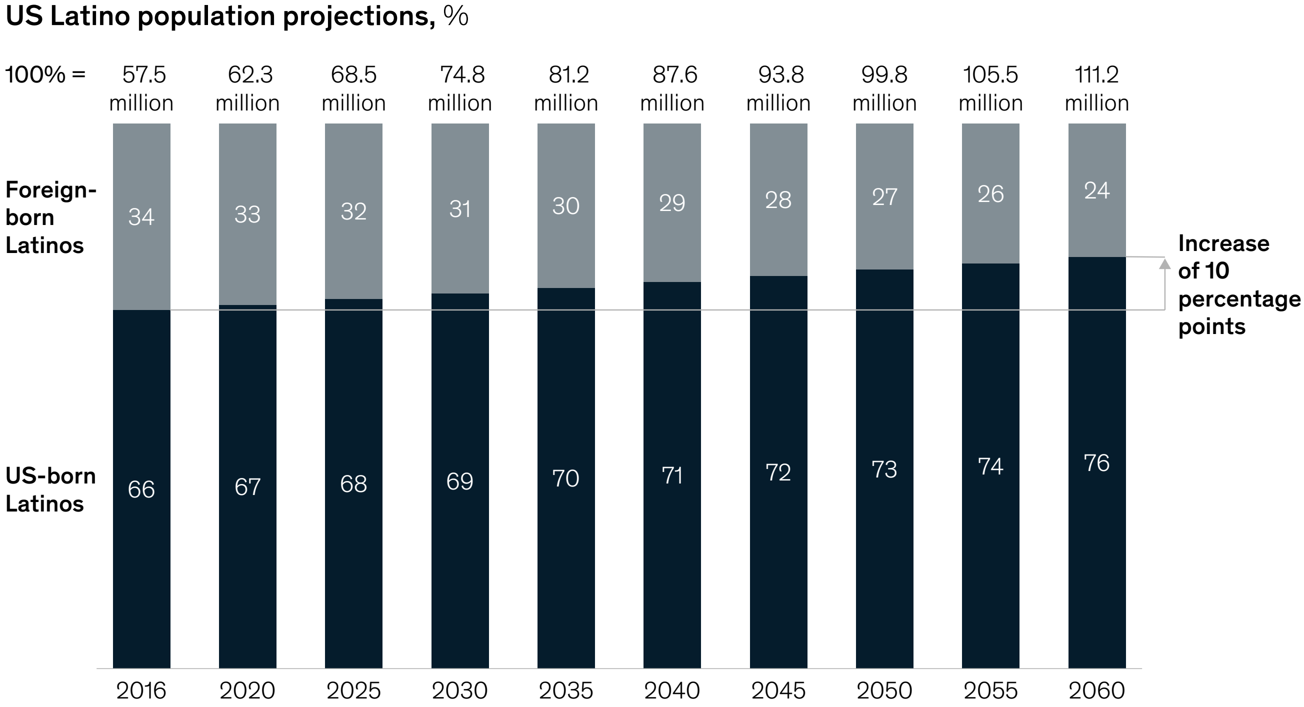
[8] Annual Business Survey 2017, US Census Bureau, census.gov; 2012 Survey of Business Owners, US Census Bureau, 2016, census.gov.

[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 E2

Latinos are increasingly born in the US.



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 E3).

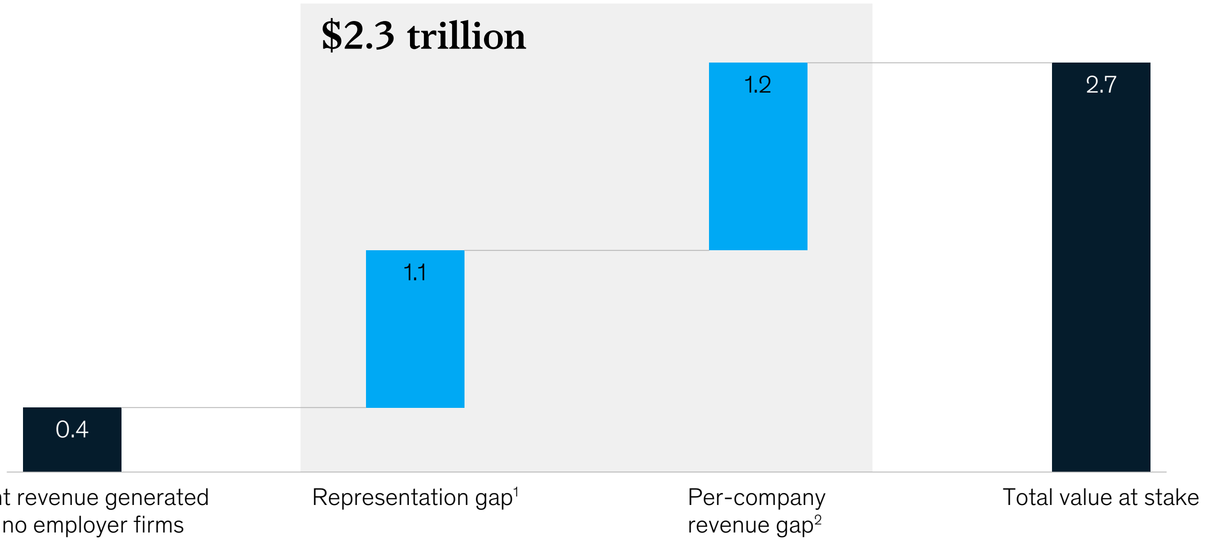
What barriers drive these gaps? First, while Latino owners of employer businesses have similar credit scores to their White counterparts,[17] they still face challenges securing financing. Latinos have the lowest rate of using bank and financial institution loans to start their businesses compared with other racial and ethnic groups—12 percent compared with

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 E3

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.
[1]Based 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.
[2]Based 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

17 percent of White employer businesses[18]—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 E4). 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]

26%

of Latinos believe their heritage limits their ability to access capital

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 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]

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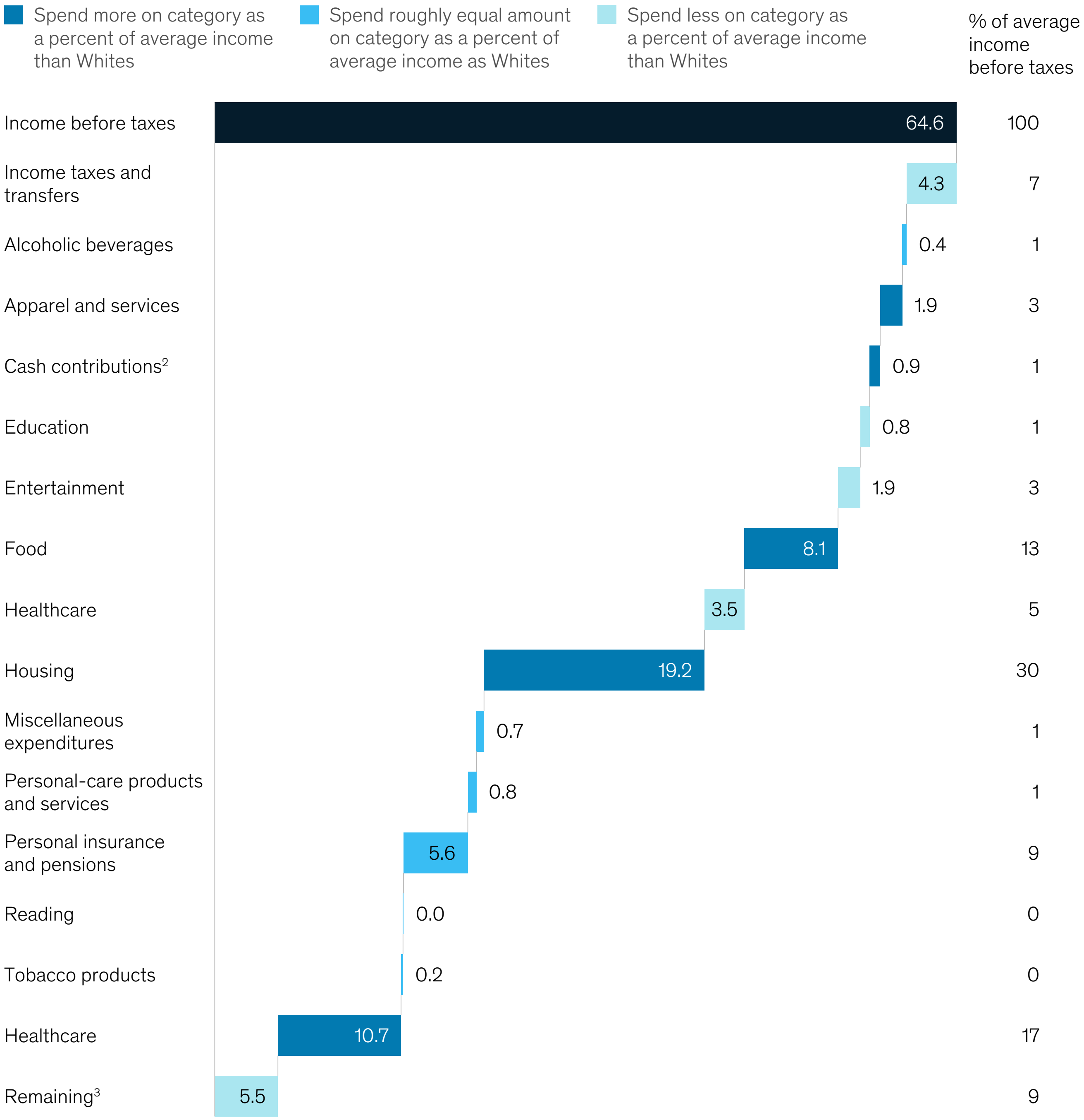
[18] 2018 Annual Survey of Entrepreneurs, US Census Bureau, census.gov.
[19] *Small Business Credit Survey: 2019 report on employer firms*, Federal Reserve Banks, 2019, fedsmallbusiness.org.
[20] Bank of America 2018 Hispanic Small Business Owner Spotlight survey, n=400, 2018, about.bankofamerica.com.
[21] *2020 State of Latino entrepreneurship.*
[22] *Crunchbase diversity spotlight 2020: Funding to Black & Latinx founders*, Crunchbase, October 2020, crunchbase.com.
[23] 2016 Annual Survey of Entrepreneurs, US Census Bureau, 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; *How America banks: Household use of banking and financial services*, Federal Deposit Insurance Corporation, October 2020, fdic.gov; "Form 477 Census Tract Data on Internet Access Services," Economics and Analytics, Federal Communications Commission, updated October 13, 2020, 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.
[27] Ibid.

Exhibit E4

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



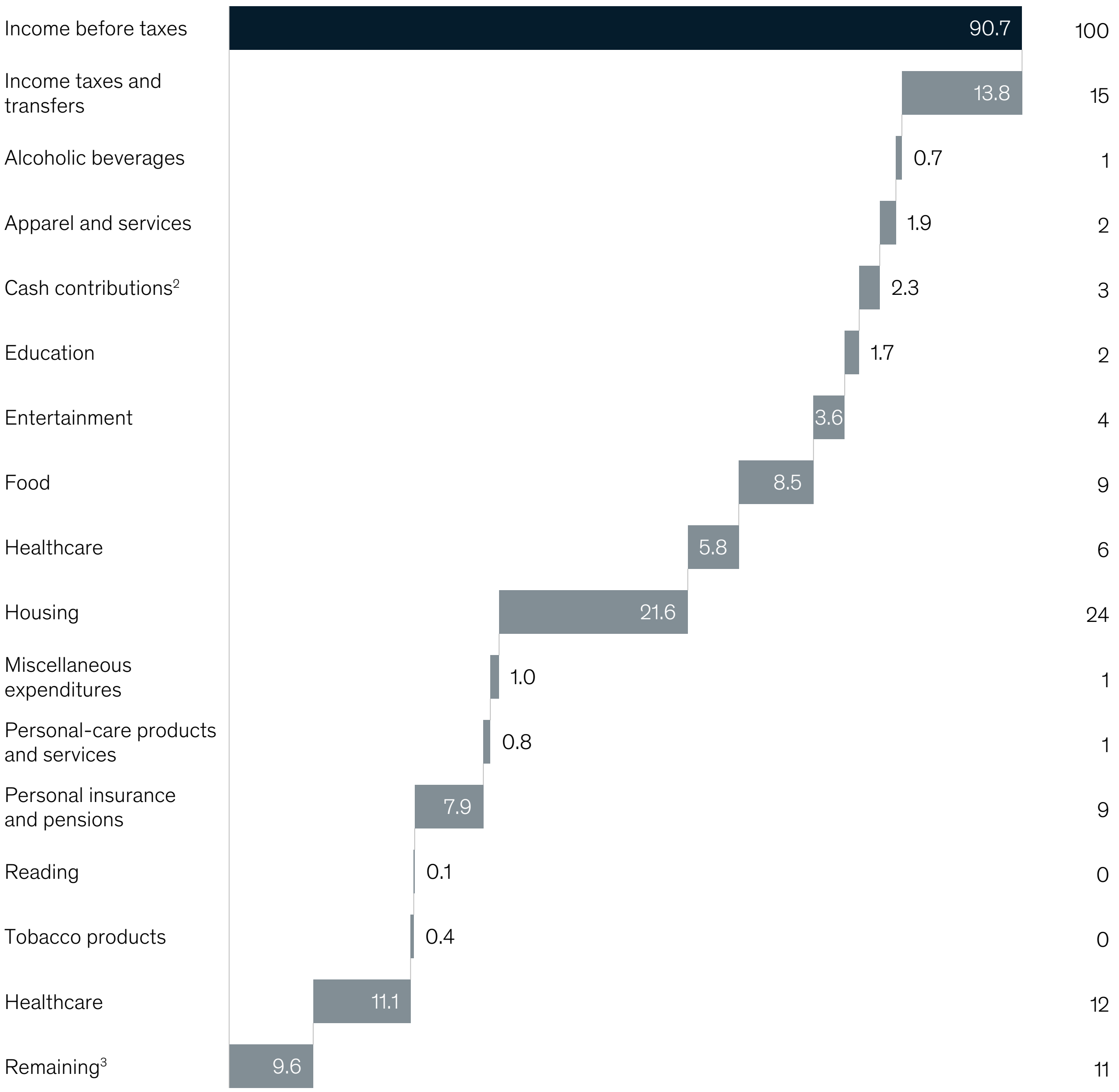
Note: Figures may not sum, because of rounding.

[1]Based on race and ethnicity of the reference person for the consumer unit.
[2]Per 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.”
[3]This 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 E4 (continued)

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

Non-Latino White households (including all other races)



Note: Figures may not sum, because of rounding.

[1]Based on race and ethnicity of the reference person for the consumer unit.
[2]Per 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."
[3]This 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

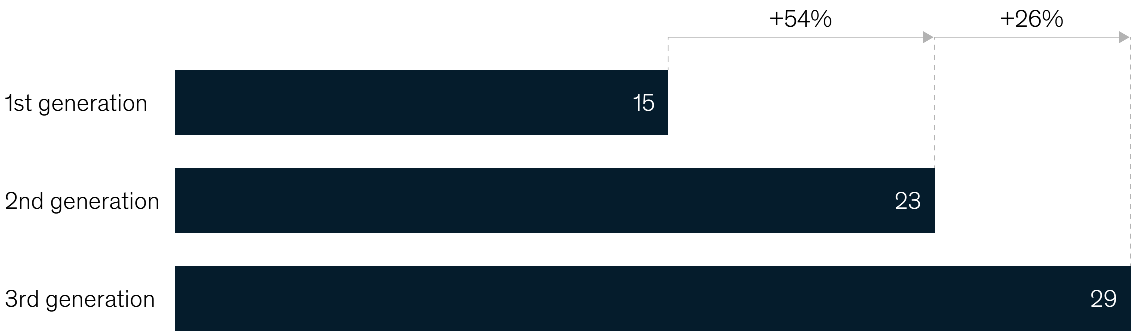
Latino savers and investors: Confronting the wealth gap

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 E5). In fact, children of foreign-born Latino immigrants experience higher economic mobility than their US-born peers.[29]

Exhibit E5

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



[1]Sum 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.
[2]Sum 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

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.

[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.

[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.

1. Introduction

The American dream is firmly woven into the fabric of the nation. At its heart is the belief anyone, no matter where they're born or what their circumstances are, can achieve their own version of prosperity and success. For millions of immigrants from countries throughout Latin America in recent decades, that dream persists: some come to the United States to flee conflict; all seek a better life for themselves and their families.

Yet America's response is patchy. Latinos start more businesses than their non-Latino counterparts and have higher rates of intergenerational mobility, and their share of skilled and higher-paid occupations has increased in the past decade. But they have yet to overcome hurdles preventing them from fully participating in the world's biggest economy. In aggregate, Latino workers as a group receive just two-thirds of what they would in the parity scenario we've defined. They face discrimination when it comes to securing financing to start and scale businesses. Many Latinos struggle with access to food, housing, and other essentials. And their level of household wealth—which directly affects their ability to build wealth from generation to generation—is just one-fifth that of White Americans.

We've previously noted a fundamental change in the nature of economic growth in the United States.[1] In the decade since the Great Recession, existing fissures in the US economy have widened, with the wealthy benefiting disproportionately while the vast majority of Americans have stood still or fallen further behind. For Latinos, the COVID-19 crisis has shone an even brighter light on this inequality. While 89 percent of Latino workers are in sectors deemed essential during the pandemic, Latinos experienced disproportionate job losses during the pandemic, and a lower percentage were able to work from home compared with non-Latino White workers and Black workers. Because of that inability to work remotely—and the higher likelihood of stopping work or working less due to childcare or school disruptions compared with White mothers—Latina female workers exited the labor force at an even higher rate than Latino men (and all women) at the height of the pandemic.

Nevertheless, income, wealth, and intergenerational mobility are improving for Latinos through the generations, helping close the economic gap. But we know that isn't enough. This report examines the state of Latinos in America across four dimensions—workers, business owners, consumers, and savers and investors. Closing wage and representation gaps could provide a significant boost to the US economy, potentially pushing 1.1 million Latinos into the middle class.

[1] Michael Chui, Vivian Hunt, JP Julien, James Manyika, Bob Sternfels, Shelley Stewart III, Jonathan Woetzel, and Haiyang Zhang, "The economic state of Black America: What is and what could be," June 17, 2021, McKinsey.com.

2. Latino workers: Pursuing the American dream

What is the purpose of work? At its most transactional, it's to make a living; to pay the bills. Perhaps it's a chore to be endured, providing the means to pursue what someone really cares about. For others, work is what they really care about. For Latinos in the United States, the purpose of work may be all of those things, but it's often something larger and more meaningful: it represents opportunity. Work is the ladder to a better life. And while there is evidence that Latinos are on an upward trajectory in the United States—income, wealth, and intergenerational mobility are improving, especially for US-born Latinos—they are still constrained from achieving their full economic potential.

Latinos today represent more than 17.3 percent of the US labor force and are projected to reach 22.4 percent by 2030 and more than 30 percent by 2060. Some 46 percent of Latino workers and one-third of the overall Latino population are foreign born, many having arrived seeking better opportunities for themselves and their families. But the percentage of US-born Latinos is increasing, and is projected to reach more than three-quarters of the Latino population by 2060.

Foreign-born Latino workers are disproportionately concentrated in lower-wage occupations and, within these occupational categories, are paid 40 percent less on average than non-Latino White workers. Overall, the median annual wage for foreign-born Latino workers is $31,700, compared with $52,942 for non-Latino White workers. The median annual wage of US-born Latino workers is $38,848, more than 22 percent higher than that of foreign-born Latino workers.

76%

of Latinos will be US-born by 2060

If foreign-born Latino workers were paid the same as non-Latino White workers in the same occupational categories, they would collectively earn an additional $95 billion. If US-born Latino workers' representation in occupations matched their representation in the overall workforce (9.1 percent) and they were paid equal to non-Latino White workers, they would receive an additional $193 billion, or a 45 percent boost to their aggregate wages (Exhibit 1). In this parity scenario, there could be more than 1.1 million more Latinos in the middle class.

Yet despite the barriers Latinos face in terms of income and representation within occupations, they have rates of intergenerational mobility comparable to those of White Americans, moving up significantly in the income distribution across generations.[2] In fact, second-generation children of Latino immigrants experience higher economic mobility than their peers, and Latinos appear to be following the path of past US immigrant waves. They are seeing the fruits of their labor, with incomes rising from generation to generation.

[2] Raj Chetty et al, "Race and economic opportunity in the United States: An intergenerational perspective," *Quarterly Journal of Economics*, May 2020, Volume 135, Number 2, pp. 711–83, academic.oup.com. academic.oup.com.

Exhibit 1

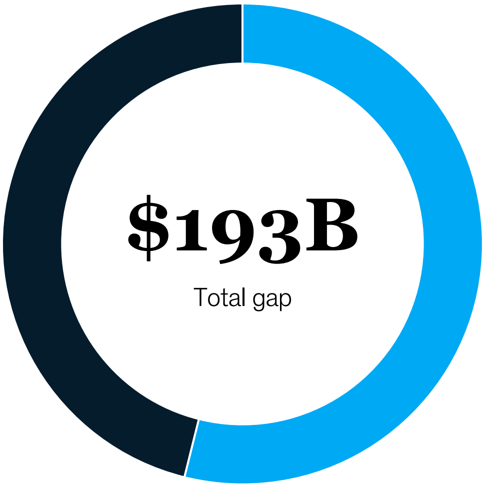
The wage gap is higher for foreign-born Latinos.

Workforce presence and annual wage[1]

US-born Latinos

$89B + **$104B**

Representation gap[1] Within-occupation wage gap[2]



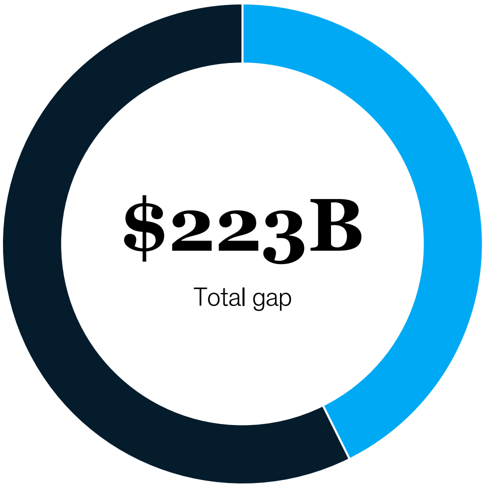
45%

Potential boost to aggregate wages of Latinos born in the US[3]

Foreign-born Latinos in the United States[4]

$128B + **$95B**

Representation gap[1] Within-occupation wage gap[2]



64%

Potential boost to aggregate wages of foreign-born Latinos[3]

[1] Based on adjusting the shares of Latinos born in the US/foreign-born Latinos within each occupation to match the respective shares of total US workers (9.1% and 8.1% respectively).
[2] Analysis based on 529 occupations in the American Community Survey (ACS) 2019.
[3] 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.
[4] The 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

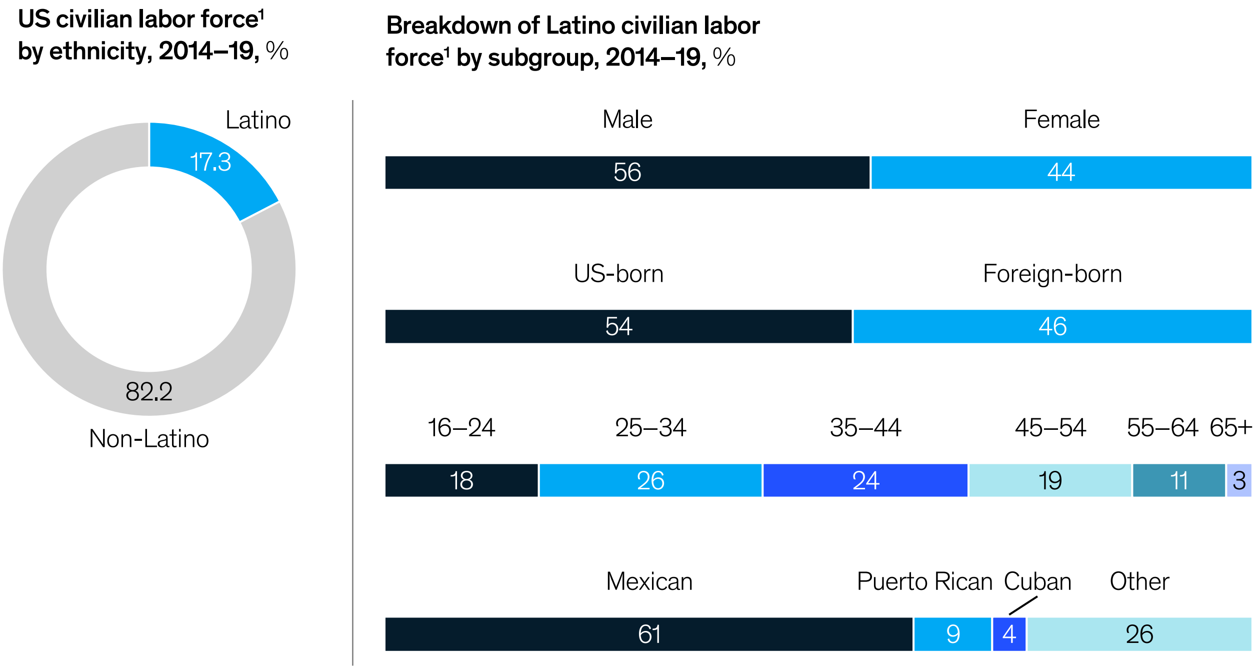
But the work of creating more economic opportunity for Latinos is far from done. In this chapter, we explore the experience of Latino workers and examine where they work, what they earn, and how they're treated. Because understanding problems is necessary to address them, we dive into issues around education, representation, and equal access to wage and non-wage benefits. We're optimistic, despite the challenges Latinos face. The share of Latinos in skilled and higher-paid occupations has increased almost 5 percent per year in the past decade, and US-born Latinos are more concentrated in higher-paying, higher-skilled occupations.

A vast, diverse, increasingly US-born workforce

The majority of the Latino labor force is of Mexican origin, male, US-born, and of prime working age (Exhibit 2). Workers of Mexican origin account for 61 percent of Latino workers in the United States, and their median annual wage of $33,374 is the lowest among Latino groups (more than 40 percent of workers of Mexican origin earn less than $30,000 a year). Fewer than one in ten Mexican immigrant workers have a bachelor's degree or higher, more than one in ten live below the poverty line, and only half have health insurance through employers or unions. Fewer than 2 percent of chief executives, legislators, lawyers, physicians, and software developers in the United States are of Mexican origin, and those that are earn on average 20 percent less than non-Latino Whites in the same occupations[3].

Exhibit 2

The majority of the Latino labor force is of Mexican origin, male, US-born, and of prime working age.



Note: Origin can be viewed as the heritage, nationality group, lineage, or country of birth of the person or of the person's parents or ancestors before their arrival in the United States. The "prime working age" population is defined as adults between the ages of 25 and 54. Figures may not sum to 100%, because of rounding.

[1] Noninstitutionalized population 16 years and older.
[2] The 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

[3] 2019 American Community Survey (ACS) five-year estimates.

Yet while many of the broad trends are similar, it's misleading to regard workers of Mexican origin as a proxy for all Latino workers. While Latinos of Mexican origin dominate the Latino workforce, 9 percent of the total are workers of Puerto Rican origin, 4 percent are from Cuba, and a further 26 percent originate or are descended from other countries. These groups differ in terms of where they live, what they do, how they're paid, and how they advance.

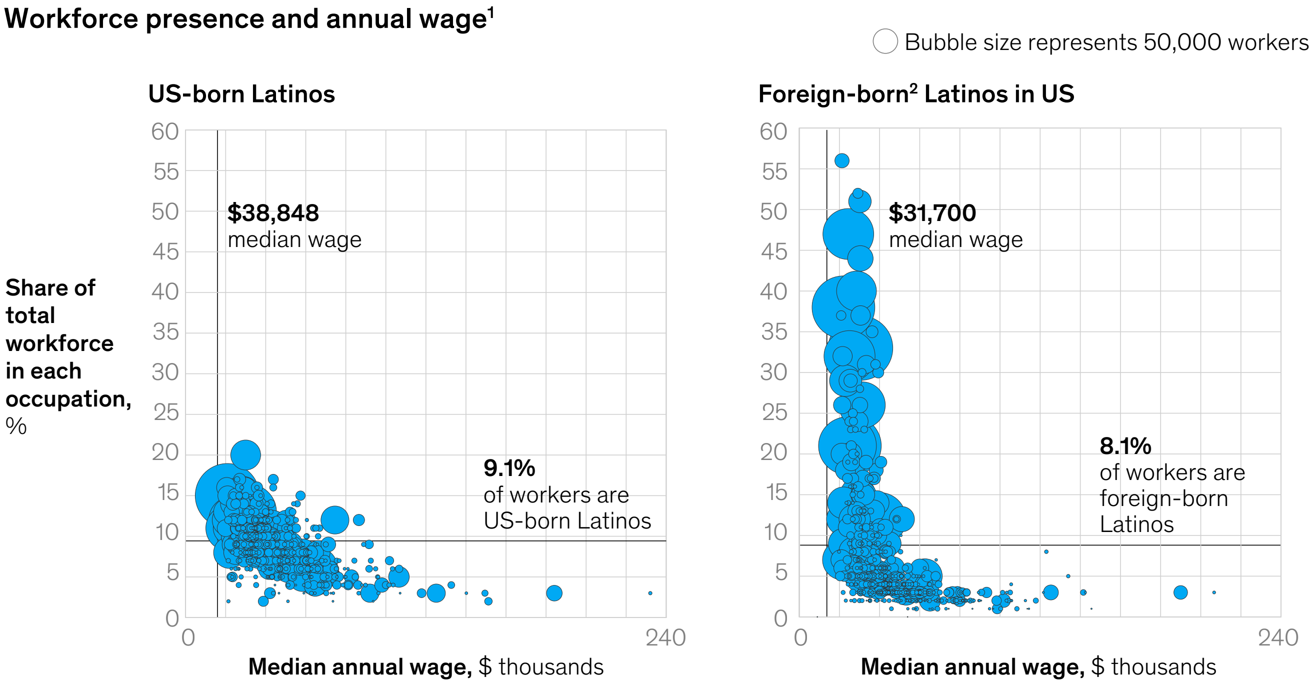
The big divide: Latinos born in the US versus overseas

There's a big difference between the annual median wages of foreign-born Latinos ($31,700) and US-born Latinos ($38,848)—but both groups have significantly lower wages than non-Latino White workers ($52,942). Both groups are also overrepresented in lower-wage occupations, underrepresented in higher-wage occupations, and generally paid less than non-Latino White workers in the same occupational categories (Exhibit 3).

Foreign- and US-born Latino workers also show differences in terms of the work they do. The top five occupational categories for foreign-born Latino workers are construction laborers, maids and household cleaners, janitors and building cleaners, cooks, and driver/sales workers and truck drivers, while the top five for US-born Latino workers are cashiers, retail salespersons, customer service representatives, drivers/sales workers and truck drivers, and first-line supervisors of frontline retail workers.[4] Indeed, 81 percent of Americans say Latinos born outside the United States fill jobs US citizens do not want, while just 16 percent say Latinos born outside the United States fill jobs US citizens would like to have.[5] The reality matches that rhetoric.

Exhibit 3

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



Note: Latino percentage of total US workers varies considerably at the state level. Occupations are defined using the Standard Occupational Classification (SOC) system.

[1]Based 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.

[2]The 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

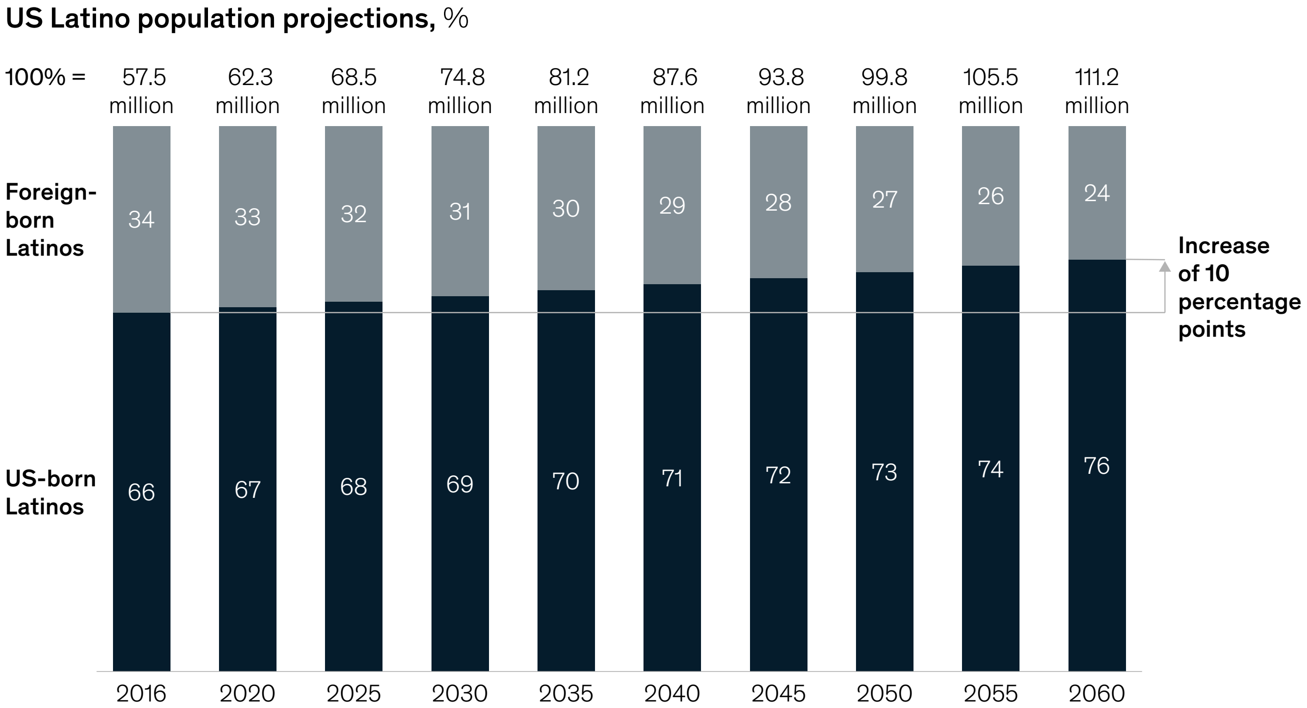
4 Based on wages of workers aged 18 to 65 who are currently employed; who worked at least 30 hours per week on average last year; who worked more than 40 weeks last year; and who are not in school, not self-employed, and noninstitutionalized. Based on 2019 ACS five-year estimates.

5 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.

Over time, the occupational outcomes of US-born Latino workers have generally been improving, even though they remain well behind parity with non-Latino White Americans. And while immigrants or foreign-born Latinos have historically accounted for the majority of Latino workers in the United States, the percentage is decreasing and is likely to keep falling (Exhibit 4),[6] which may over time further improve outcomes for the Latino population. In addition, the number of unauthorized Latino immigrants is declining: while Latinos still represent more than 75 percent of unauthorized immigrants in the United States, the total number fell by 14 percent between 2007 and 2017, driven by decreases from Mexico (a 29 percent decline) and South America (14 percent).[7]

Exhibit 4

Latinos are increasingly born in the US.



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

As more of the Latino population is born in the United States—the younger age profile of Latinos also contributes to higher birth rates—its percentage of the country's workforce rises. Latino workers today make up 17.3 percent of the United States labor force and are projected to reach 22.4 percent by 2030 and more than 30 percent by 2060. That share is likely aided by a high willingness to work: Latino labor-force participation is significantly greater than the White labor participation rate, driven by Latino men. While interventions are still required to address the wage and representation gaps experienced by Latino workers, this increasing percentage of US-born Latinos will likely contribute to narrowing those shortfalls given the higher incomes of US-born Latinos.

6 "Race 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 D'Vera Cohn and Jeffrey S. Passel, "Mexicans decline to less than half the U.S. unauthorized immigrant population for the first time," Pew Research Center, June 12, 2019, pewresearch.org. Note: census data is generally regarded as undercounting unauthorized immigrants due to challenges with self-selection (see Jeffrey S. Passel, "Measuring illegal immigration: How Pew Research Center counts unauthorized immigrants in the U.S.," Pew Research Center, July 12, 2019, pewresearch.org).

A far from homogenous population

65%

of Latino workers live in just six states

In this report, we use the term "Latino" to refer to the broad population of people living in the United States whose origin can be traced to Latin American countries. But we're fully aware this group is far from homogenous, and regarding it as such can complicate and confuse not only how the population is viewed, but the interventions that may help Latinos become more integrated into the broader US population. A case in point: Latinos of Cuban origin are, on average, better paid than Latinos of Puerto Rican origin, who are in turn better paid than Latinos of Mexican origin.[8] The differing nature of occupations and income means the potential boost to aggregate wages to reach parity with non-Latino Whites varies widely.

Yet the Latino population has some consistent features. First, Latino males have higher workforce representation than Latina females: men currently account for 56 percent of the Latino labor force. Second, Latino workers are concentrated geographically. More than 65 percent live in just six states: California, Texas, Florida, New York, Arizona, and Illinois. California and Texas combined have more than 60 percent of US workers of Mexican origin; California, New York, and Florida have more than 45 percent of other Latino workers; New York and Florida have around 40 percent of US workers of Puerto Rican origin; and Florida has more than two thirds of workers of Cuban origin.

Some 61 percent of Latino immigrants live in just four states: California (26 percent), Texas (16 percent), Florida (12 percent), and New York (7 percent). And the divide between lower- and higher-paying jobs manifests in each location. For example, foreign-born Latinos are concentrated in agriculture and construction-related occupations in California, while US-born Latinos are in higher-paying sales-related and administrative positions. In Texas and Florida, foreign-born Latinos dominate construction and landscaping; in New York, it's construction, food preparation, and cleaning.

Gaps in pay and representation

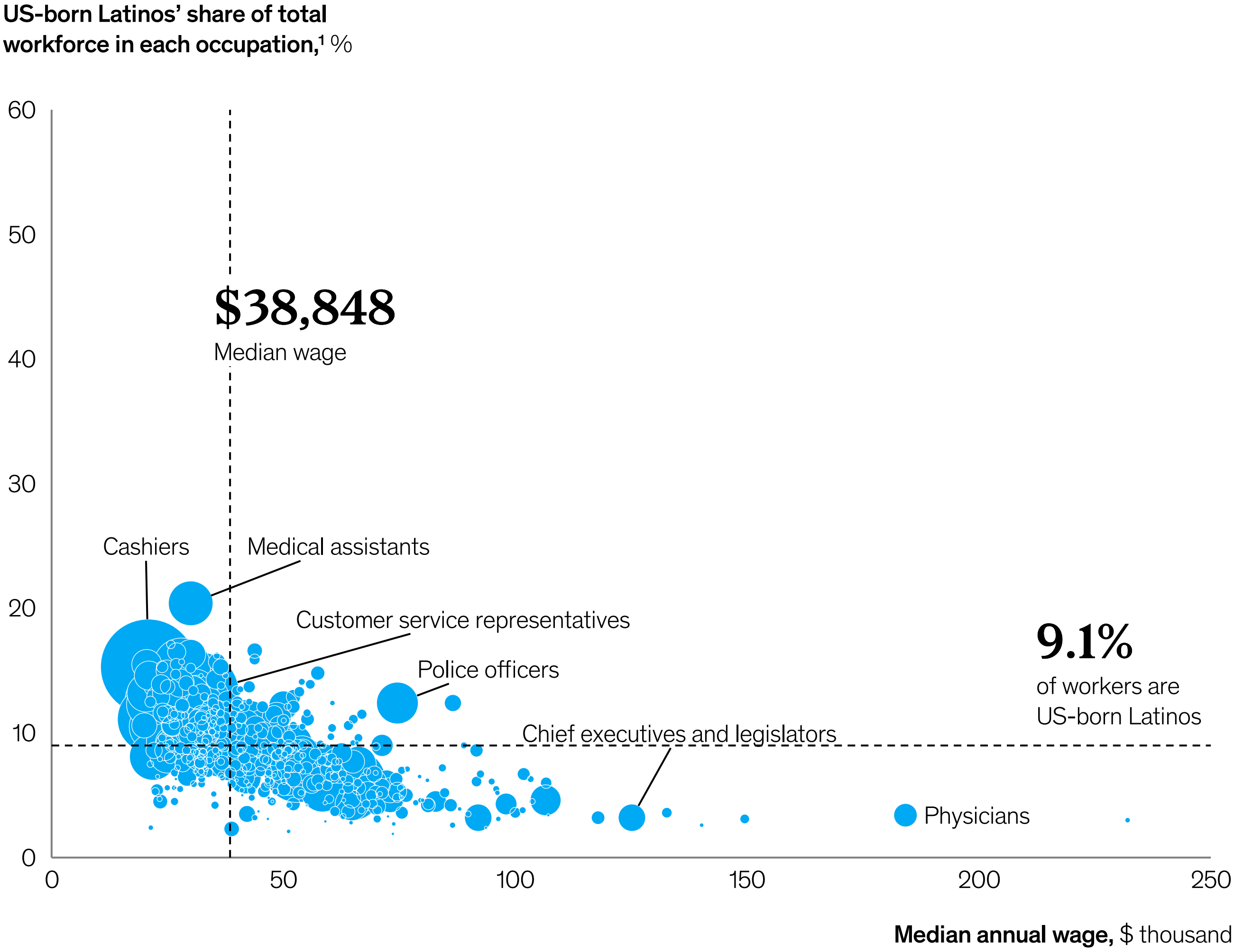
While the Latino share of the US labor force is increasing and will likely continue to rise, Latinos earn disproportionately lower wages. Roughly $199 billion of the aggregate wage gap is attributed to Latinos making less than their White counterparts within a given occupation. Disparities exist not only in wages. Latinos, particularly foreign-born, are less likely than non-Latinos to have access to employer-provided health insurance, and they have less access to paid leave than their White counterparts (this is consistent irrespective of the type of leave, from paid parental leave to sick leave, leave for childcare, or leave to help with sick or elderly family members). Another $89 billion of the aggregate wage gap can be attributed to US-born[9] Latino workers' overrepresentation in lower-wage occupations and underrepresentation in higher-wage occupations (Exhibit 5).

Some 40 percent of Latino workers are in occupations with median wages of $30,000 a year or less, compared with 13 percent of non-Latino White workers. Just 19 percent of Latino workers earn more than $50,000 a year, compared with 50 percent of non-Latino White workers. Across demographics, workers of Mexican origin have the lowest wages, while those of Cuban origin have the highest.

[8] 2019 American Community Survey (ACS) five-year estimates.
[9] We chose not to include the representation gaps between foreign-born Latino workers and non-Latino White workers, because the determinants of occupational pathways for immigrant workers are largely shaped by the countries from which they immigrated. This contrasts with the wage gaps between Latino workers, including foreign-born, and non-Latino White workers within the same occupational categories, which are largely a product of decisions made in the United States.

Exhibit 5

US-born Latinos are concentrated in low-wage roles and underrepresented in higher-wage roles.



Note: Latino percentage of the total US workers varies considerably at the state level. Occupations are defined using the Standard Occupational Classification (SOC) system.

[1] 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.

Source: American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, retrieved via Integrated Public Use Microdata Series (IPUMS) USA

Education, experience, immigration status, and discrimination

In addition to being underpaid, Latino workers are also underemployed, especially women: the Latina unemployment rate is around 1.4 times higher than the national average for all women, and around 1.2 times higher than the average for Latino men. Some of the overall gap for Latino workers—for both employment levels and representation in higher-wage jobs—may be attributable to socioeconomic and demographic characteristics such as education, experience, geographic concentration, and immigration status. Yet discrimination also plays a role: 78 percent of Latinos say they have fewer employment opportunities simply because they are Latino.[10] For instance, since 1989 White Americans have received, on average, 24 percent more job-interview callbacks than Latinos. That disparity means that Latinos have lower chances of finding jobs and being hired, fewer choices, and reduced leverage during hiring negotiations. Cumulatively, these reduced options make it harder to secure employment and build wealth, especially for underpaid workers.

Furthermore, foreign-born Latinos are more vulnerable to changes in the labor market and face hurdles to stable and consistent employment, often due to the nature of occupations, anti-immigrant sentiment, and hostile employment laws.[11] Cumulatively, these headwinds contribute not only to higher rates of unemployment for Latino workers but also to disproportionate underemployment: in one survey, around 50 percent of Latinos wanted to work or work more, compared with only around 27 percent of non-Hispanic White respondents.

Latino workers are over-represented in lower-paid occupations

While the share of Latino workers in skilled and higher-paid occupations has increased by almost five percentage points in the past decade, Latinos remain heavily overrepresented in low-paying jobs (Exhibit 6). In California, for example, Latinos make up almost 90 percent of total agricultural workers; in Texas, they account for almost all plasterers and stucco masons and more than 75 percent of construction laborers. Nationwide, more than 700,000 Latinos are maids or housekeepers—a job with a median wage of $22,000 a year.

Furthermore, Latino workers are paid less than White workers in the same occupational categories. A number of variables could explain these wage gaps within occupational categories, including differences in representation at a more granular level (such as those within specific healthcare specialties), tenure, hours worked, industry, firm size, regional difference, and discrimination.

[10] "Discrimination in America," Harvard T.H. Chan School of Public Health, National Public Radio (NPR), and Robert Wood Johnson Foundation, 2017, rwjf.org.

[11] Ryan Zamarripa, *Closing Latino labor market gap requires targeted policies to end discrimination,* Center for American Progress, October 21, 2020, americanprogress.org.

Exhibit 6

Latino workers are disproportionately represented in low-wage occupations.

Select occupations with high representation of Latino workers[1]	Median wage for a Latino worker, $ (n = x)	Latino worker representation in each occupation
Graders and sorters—agricultural products	21 (37,161)	68%
Plasterers and stucco masons	29 (19,016)	65%
Other agricultural workers	24 (457,868)	56%
Painters and paperhangers	29 (291,637)	49%
Maids and housekeeping cleaners	22 (706,889)	46%
Pressers, textile, garment, and related materials	21 (16,403)	45%
Hand packers and packagers	23 (219,401)	43%
Landscaping and groundskeeping workers	25 (500,923)	42%
Installation, maintenance, and repair workers	27 (8,861)	40%
Production workers	25 (20,949)	40%
Packaging- and filling-machine operators and tenders	26 (105,440)	39%
Helpers—construction trades	27 (16,287)	39%
Sewing-machine operators	22 (64,793)	38%
Tree trimmers and pruners	26 (34,087)	37%
Food-preparation and serving-related workers	25 (4,903)	35%
Butchers and other meat, poultry, and processing workers	30 (89,315)	35%
Laundry and dry-cleaning workers	22 (59,868)	35%
Other grounds-maintenance workers	26 (16,849)	34%
Cleaners of vehicles and equipment	25 (127,353)	34%
Dining room and cafeteria attendants and bartender helpers	22 (106,761)	33%

Note: Occupations are defined using the Standard Occupational Classification (SOC) system.

[1] 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 non-institutionalized.

Source: American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, retrieved via Integrated Public Use Microdata Series (IPUMS) USA

Underrepresentation in high-wage occupations

Improving representation and reducing within-occupation gaps—to the tune of $288 billion—appears daunting. Yet our analysis found around 50 percent of Latino workers' total aggregate wage shortfall could be closed by improving representation and within-occupation gaps in just 4 percent of industries: academia (for example, elementary and middle school teaching, postsecondary teaching, education and childcare administration), management (including first-line supervision, general and operations management), professions requiring postgraduate degrees (such as law and medicine), and STEM professions such as software development (Exhibit 7).

3.9×

How much less likely Latinos are to hold C-suite roles compared with non-Latino White Americans

While Latinos account for 17.3 percent of US workers, they represent fewer than 2.0 percent of Fortune 500 CEOs and fewer than 1.0 percent of Fortune 100 CEOs, and hold just 3.8 percent of Fortune 500 board seats. Among all US companies, Latinos hold about 6 percent of CEO positions compared with 83 percent for White workers, and are 3.9 times less likely to hold a C-suite position than their White counterparts. Elsewhere in the corporate hierarchy, Latinos are underrepresented across all management occupations, with the exception of food-service managers.

Roadblocks stand in the way of Latinos gaining a share of traditional professional fields, including a lack of inclusive work environments. We found 27 percent of Latinos don't believe they belong in the workplace, compared with 22 percent of White people, and 28 percent of Latinos believe their ethnicity makes it harder to achieve their career goals. About a third of Latinos said they had personally experienced discrimination because of their ethnicity in applying for jobs, being paid fairly, or being considered for promotion (Exhibit 8). In addition, lower-earning Latinos are twice as likely as their higher-earning peers to report personal experiences of such discrimination.[12]

There are also challenges within the career pipelines that lead to higher-wage occupations. Just 5 percent of physicians in the United States are Latino, and the critical bottleneck occurs at a single point: relatively few Latinos choose pre-med courses of study. The impact of this compounds over time, as even fewer Latinos apply to medical school, enroll, graduate, and practice medicine (Exhibit 9). What could be done? Increasing the number of Latino physicians requires introducing high school students to careers in medicine, counseling interested students, connecting prospective Latinos with established Latino physicians, and providing financial support to reduce the burden of student loans. It takes guidance, positive reinforcement, and role models, and the impact is about more than representation in skilled, high-wage professions: research suggests greater diversity among doctors is associated with improved access to care for racial and ethnic minority patients and greater patient choice and satisfaction.[13]

Similar challenges can be found in the pipelines for Latino lawyers and teachers. While the American Bar Association believes fair representation is critical to create confidence in the role of law and help eliminate the possibility of bias affecting final decisions,[14] there's a drop-off at every stage along the professional-development path until only 5 percent of lawyers are Latino. Among teachers, the steepest drop-off occurs with the share of Latinos being awarded bachelor's and then master's degrees, which feeds into an 8 percent share of graduates with a first or second major in education. Just 9 percent of those certified to teach are Latino, and only 5 percent of teachers in public schools (although 9 percent of public-school principals are Latino). Increasing the number of Latino teachers requires, at a minimum, introducing high school students to careers in education and supporting students financially. More broadly, addressing college completion for Latinos that enroll is a pressing concern: While Latino students make up 21 percent share of college enrollment, only 14 percent of graduates are Latino.

[12] "Discrimination in America," 2017.
[13] Elena Rios, "Why we need more Hispanic doctors," Josiah Macy Jr. Foundation, November 25, 2019, macyfoundation.org.
[14] "Diversity in law: Who cares?," American Bar Association, April 30, 2016, americanbar.org.

Exhibit 7

About 60 percent of the Latino wage gap stems from 4 percent of occupations.

Representation gap[1] | Within-occupation wage gap[2]

Occupational categories (ranked by aggregate value of closing representation and within-occupation wage gaps)	**Aggregate value of closing representation and within-occupation wage gaps**, $ billions: Representation gap[1]	Within-occupation wage gap[2]	$ billions
Other managers[3]	8	17	25
Chief executives and legislators	9	7	16
Physicians	10	4	13
Lawyers, judges, magistrates, and other judicial workers	5	5	11
Software developers	7	2	9
Registered nurses	8	1	9
Accountants and auditors	4	4	8
Sales representatives—wholesale and manufacturing	2	6	8
Postsecondary teachers	4	2	7
First-line supervisors of non-retail sales workers	1	5	7
Financial managers	1	5	6
Management analysts	3	2	5
Computer and information systems managers	3	1	4
Elementary and middle school teachers	4	0	4
Real estate brokers and sales agents	1	3	4
Construction managers	2	2	4
Project management specialists	2	2	4
Sales representatives of services, except advertising, insurance, financial services, and travel	0	3	3
Driver/sales workers and truck drivers	-1	4	3
General and operations managers	1	2	3
Subtotal			153
509 other occupational categories			134
Total			**288**

Note: Latino percentage of the total US workers varies considerably at the state level. Occupations are defined using the Standard Occupational Classification (SOC) system.

[1] Potential wages if Latino representation in this occupation equaled the Latino share of the labor force (17.3%).
[2] 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 non-institutionalized.
[3] All managers not listed separately. Illustrative examples include clerk of court, social science manager, and utilities manager.
Source: American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, retrieved via Integrated Public Use Microdata Series (IPUMS) USA

Exhibit 8

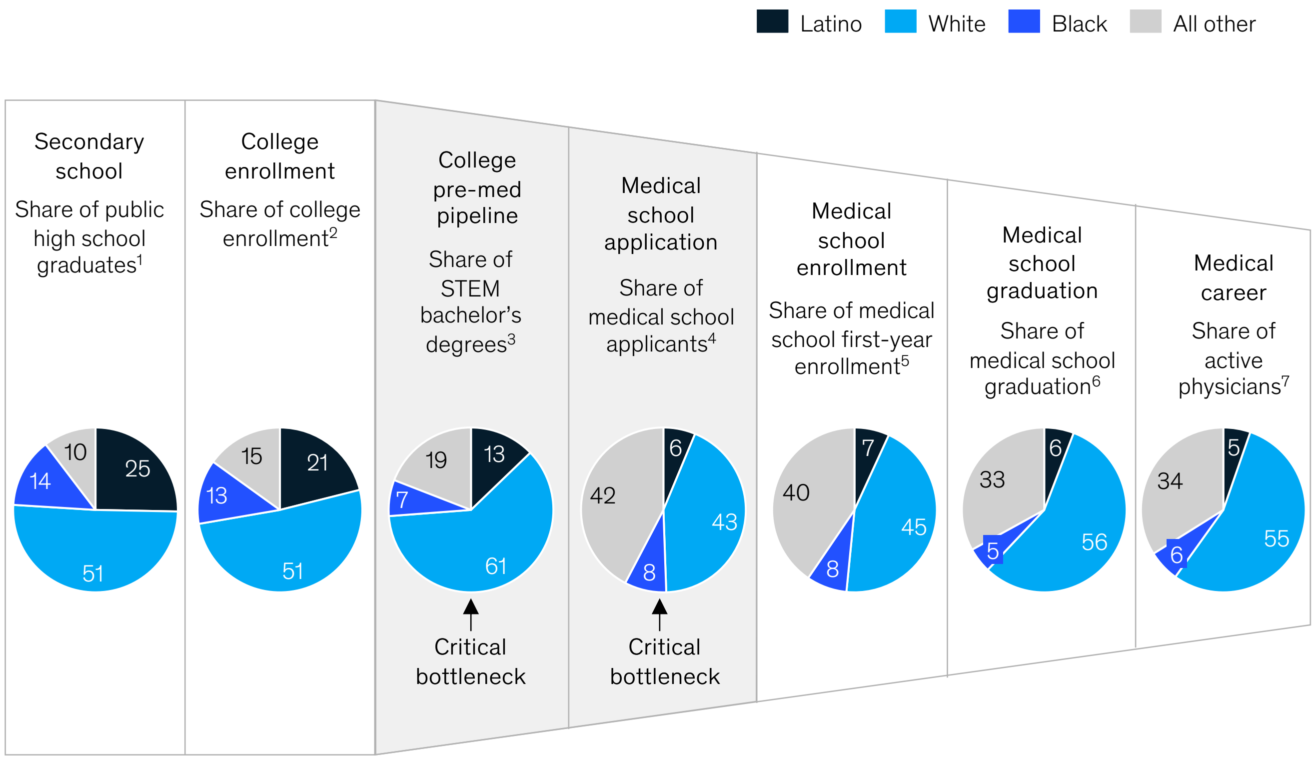
One-third of Latinos say that have personally experienced discrimination around jobs, pay, or being promoted.

Latinos reporting personal experience of discrimination because they are Latino, 2017, % of respondents

Exhibit 9

Just 6 percent of physicians are Latino, and the funnel narrows at every stage.

Racial representation at key points along the professional development pathway for physicians



[1] National Center for Education Statistics (NCES) public high school graduates (2019).
[2] NCES undergraduate enrollment (2019).
[3] NCES percentage of science, technology, engineering, and mathematics (STEM) bachelor's degrees conferred (2018).
[4] From Association of American Medical Colleges (AAMC) 2020–21 applications data.
[5] From AAMC 2020–21 matriculation data.
[6] From AAMC 2020–21 medical school graduation data.
[7] According to the AAMC, there are approximately 900,000 actively practicing physicians in the United States.

Source: Association of American Medical Colleges (AAMC); National Center for Education Statistics (NCES)

Uniquely vulnerable: COVID-19 and disruption

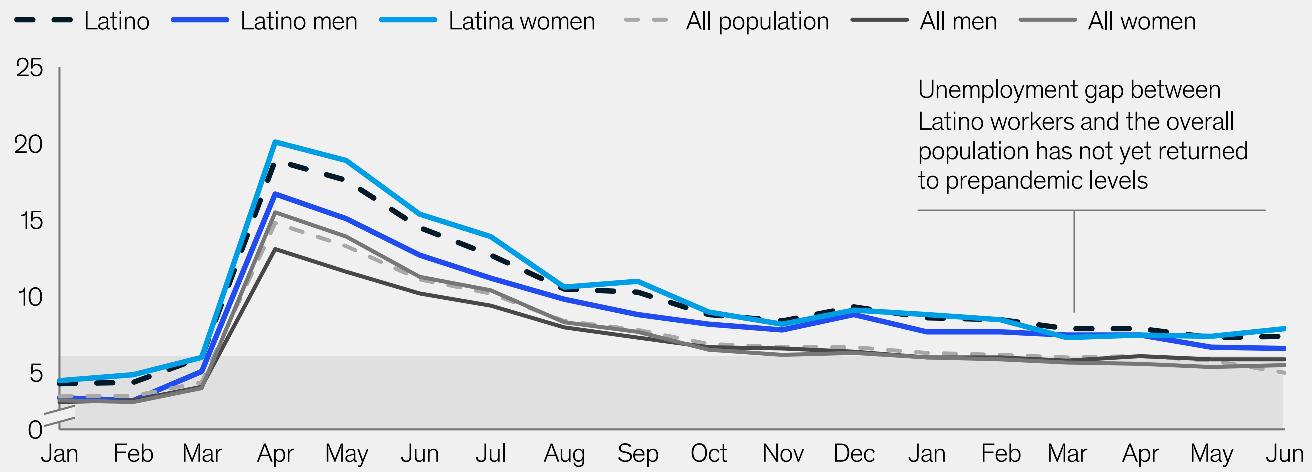
Latino workers have experienced disproportionate job losses during the COVID-19 pandemic, underscoring the population's vulnerability to shocks. From February to April 2020, the unemployment rate for Latinos increased by 15 percentage points.[1] While it has fallen to around 5 percent as of June 2021, it hasn't reached its prepandemic level of 3.5 percent. The high concentration of Latino workers in the services sector played a role in these disproportionate job losses. The fact that 89 percent of Latino workers are in sectors deemed essential during the pandemic—such as food and agriculture, healthcare, and transportation and logistics—could have been expected to mitigate job losses, but there appear to be deeper factors at work.

More than 20 percent of Black and Latino adults of prime working age were more likely to be laid off during the pandemic, compared with 14 percent of non-Latino White workers. Just 15 percent of Latino workers were able to work from home in that period,[2] compared with 20 percent of Black workers and 26 percent of non-Latino White workers. That inability to telework—and the higher likelihood of having to stop work or work less due to childcare or school disruptions compared with White mothers[3]—also explains why Latina female workers exited the labor force at a higher rate than Latino men and all women at the height of the pandemic (Exhibit 10).

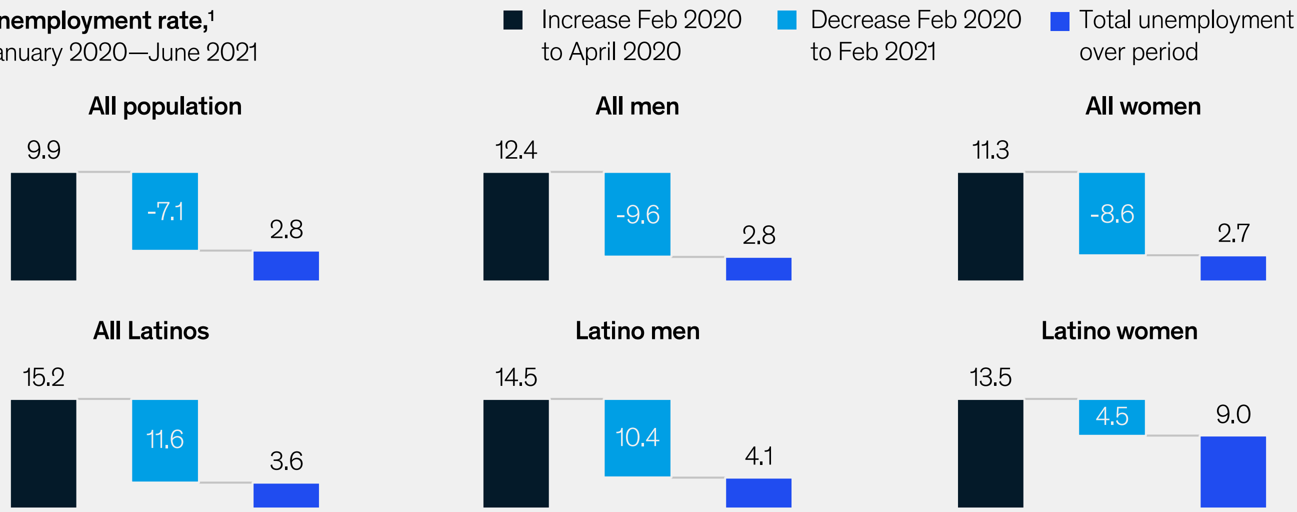
Exhibit 10

Latino workers, especially female workers, experienced a disproportionate number job losses during the peak of the pandemic.

Unemployment rate by gender,[1] January 2020—June 2021



Unemployment rate,[1]
January 2020—June 2021



[1] Unemployment rate for overall population applies to the population in the labor force 16 years and over, while the gender breakdown applies to the population in the labor force 20 years and over.
Source: Current Population Survey (CPS), US Bureau of Labor Statistics

[1] Current Population Survey, US Bureau of Labor Statistics, accessed July 2021, bls.gov.
[2] Ibid.
[3] Ibid.

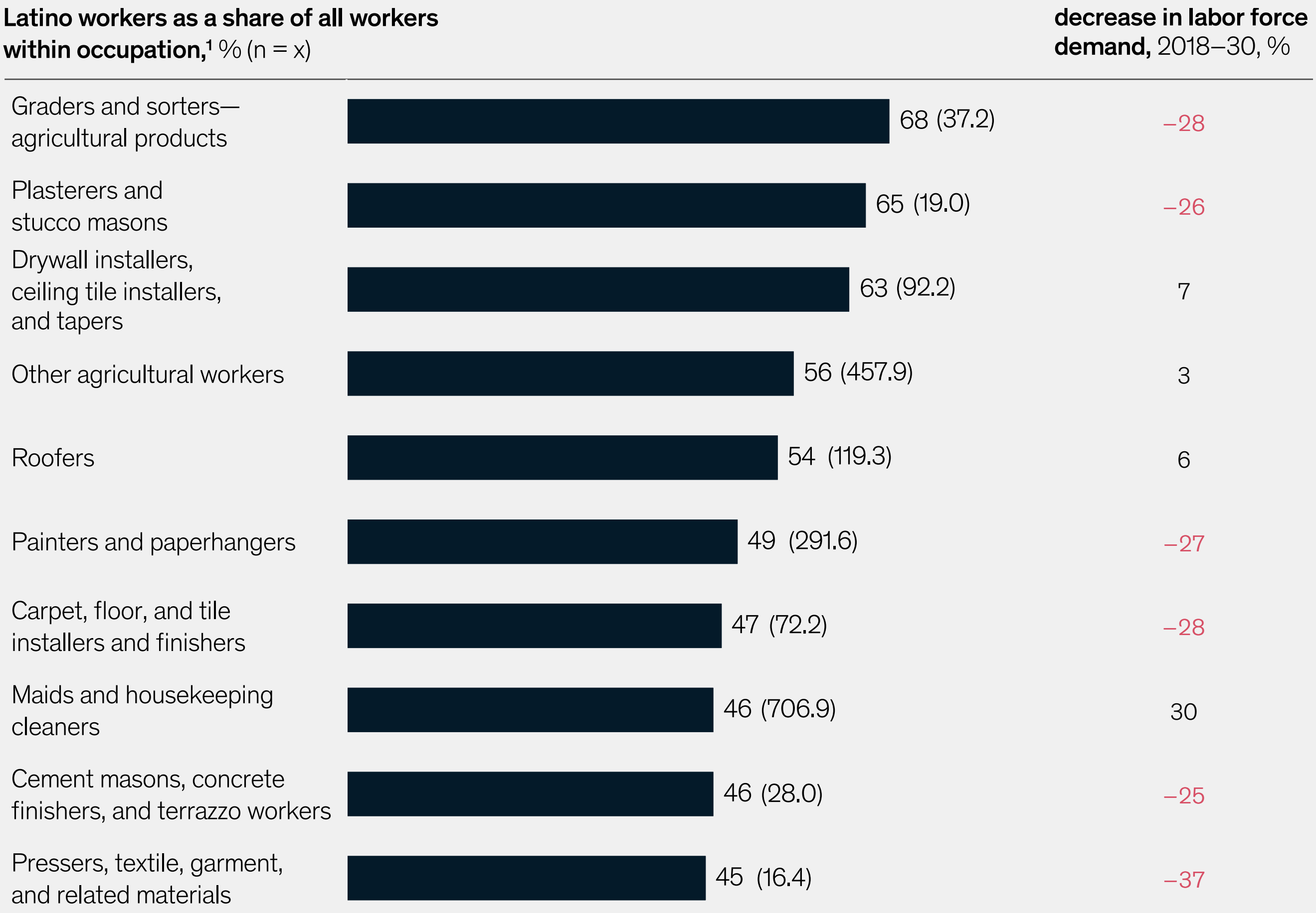
The ongoing risk of disruption

The disproportionate impact of the pandemic highlighted the vulnerability of Latino workers to disruption. Accelerating technological change adds another layer of urgency, and on a more permanent basis. The way Americans and companies work has changed, notably with the shift to more remote and hybrid work, the booming growth of e-commerce and delivery services, and the adoption of automation and artificial intelligence.[4] All of these trends existed before the COVID-19 crisis, but the pandemic accelerated their adoption and acceptance. And this will likely persist: automation will cause some occupations to shrink and others to grow, changing the skills and time required for many jobs. More jobs of the future will likely involve digital skills, human interaction, judgment, and creativity to handle tasks at which humans outperform machines.

While Latino workers could regain prepandemic levels of employment in 2023—potentially ahead of White Workers—they are overrepresented in occupations vulnerable to disruption. Almost all labor demand growth in the next decade is forecast to be in high-wage occupations: in the United States, the share of employment in occupations with wages in the 70th percentile and above is expected to increase by three percentage points by 2030, while the share of jobs in the 31st to 70th percentile may fall by two percentage points (the share of low-wage occupations is forecast to be flat). Conversely, many occupations with the largest concentration of Latino workers could see decreases in demand of 25 percentage points or more in the coming decade (Exhibit 11).

Exhibit 11

Many jobs with large concentrations of Latino workers are highly vulnerable to disruption.



Note: Occupations initially filtered by share of Latino workers.
[1] 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 non-institutionalized.
[2] Post-COVID-19 scenario includes all prepandemic trends as well as accelerated automation, accelerated e-commerce, increased remote work, and reduced business travel.
Source: American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, retrieved via Integrated Public Use Microdata Series (IPUMS) USA; McKinsey Global Institute analysis

[4] For more, see *"The future of work after COVID-19,"* McKinsey Global Institute, February 2021, on McKinsey.com.

Four potential ways to help improve outcomes and expand opportunity for Latino workers

What's often lost in the discussion around the work Latinos do and what they earn is the fact they do, at least in part, live up to the American dream they've embraced. Latinos have rates of intergenerational mobility comparable to those of White Americans,[15] and second-generation children of Latino immigrants—irrespective of origin—experience higher economic mobility than their peers. That's not to say more can't be done. Latinos are achieving mobility despite the challenges they face, from overrepresentation in low-paying occupations to pay gaps within occupations and lack of opportunity. Employers, particularly, can play a central role in advancing interventions that could make a meaningful and lasting difference in the opportunities Latinos have, where they work, what they earn, and how they continue to advance both within and across generations.

Improve 'essential' jobs in which Latino workers are disproportionately over-represented

Latino workers are over-represented in occupations that were declared 'essential' during the pandemic, and yet many of these are low-paying and lack benefits and other protections. The public and private sectors can address issues such as the predictability of hours, living wages, workplace safety, sick leave, and benefits. As the labor market has tightened, some employers have raised wages and provided other benefits to attract workers such as retirement, paid holidays, and tuition support, as well as increased workplace flexibility. Continuing to improve the job quality of roles in which Latino workers are over-represented—in other words, treating essential workers as essential—is necessary in order to support continuing progress in economic mobility.

Create pathways from lower-paying occupations

It is possible to map pathways from the lower-wage jobs in which Latino workers are over-represented into higher-paying jobs based on the overlaps in skills and activities. With the right training and opportunities, workers could move into growing or higher-wage occupations. A mover/laborer, for example, could feasibly add the skills needed to move into higher-paying jobs operating heavy machinery and even become a technician servicing these machines. Helping workers better understand potential pathways to higher-paying jobs, and then providing access to training and job opportunities, can help them climb the income ladder.

15 "Race and economic opportunity in the United States," May 2020.

Unblock pipelines into higher-paying professions
As examples, our analysis examined pipelines into three professions that have traditionally been important cornerstones of upward mobility—law, teaching, and medicine—and found multiple obstacles for Latinos. More work needs to be done to discover why these pipelines narrow at various stages and how to deploy the most effective interventions to unblock obstacles, as well as the pipelines to other high-earning occupations such as software development. But we do know that increasing Latino representation, retention, and graduation in higher education is a critical step to closing these representation gaps. For instance, only 8 percent of Latinos of Mexican origin hold a bachelor's degree or higher, and 13 percent of the population lives below the poverty line. Conversely, some 27 percent of Latinos of Cuban origin hold a bachelor's degree or higher, and their rate of poverty is just 8 percent. Actions that could help more Latinos into higher education and enable them to complete a degree include the following:

a. Providing robust financial aid. For example, Bank of America has made a four-year, $1 billion commitment to help Black and Hispanic/Latino communities complete education and training.

b. Implementing programs to support housing, food security, healthcare, and other needs of students. City University of New York's Accelerated Study in Associate Programs initiative, for example, provides comprehensive support for associate-degree students in selected New York City boroughs, including financial resources, structured pathways to support academic momentum, and comprehensive direct-support services.

c. Endorsing community outreach programs targeting young people by sponsoring scholarships, internships, and other programs. For instance, the Hispanic Heritage Foundation's Code as a Second Language en Español initiative introduces children to computer programming and makes technical training and careers accessible to women and underrepresented minorities.

Support Latino recruiting, hiring, retention and advancement by employers
Business leaders have a key role to play in providing opportunities for Latino workers across the entire career lifecycle, from creating internships and other ways to provide Latinos with exposure to higher-paying careers, through promotion practices once Latinos are in the workforce. More broadly, we recommend three interventions to help strengthen employment trajectories for Latinos:

1. **Implement recruiting strategies targeting Latino talent.** It's one thing to have the education and drive to succeed in higher-paying roles. It's quite another to secure those jobs. Companies could pivot to recruit for skills rather than degrees as credentials, given the proportionally lower percentage of Latino college graduates. And that higher-education parity gap could be addressed using efforts such as that of automaker GM, which targets professional Hispanic organizations and Hispanic-serving institutions as part of its recruitment strategy. GM provides around $5.7 million in scholarships for Hispanic students in science, technology, engineering, and math fields.

2. **Promotion and advancement.** The actions companies could take to support the advancement and enhance the experience of Latino workers include:

   - *Understand your current state of diversity, equity, and inclusion.* Collect disaggregated statistics and enhance transparency.
   - *Define your internal and external aspiration for advancing Latino representation in the workplace,* using your purpose, values and strengths as inputs
   - *Commit to increasing representation in management and executive-level roles.* For instance, PepsiCo's Racial Equality Journey: Hispanic Initiative focuses on increasing Hispanic managerial representation in the company to 10 percent, including adding 50 Hispanic associates to its executive ranks.
   - *Execute on the basics of inclusion.* Companies must have the foundational policies, programs, and senior level support in place
   - *Empower and equip leaders to develop and advance Latino workers.* Companies can equip leaders—especially managers of entry level employees (note the presence of manager roles in the small number of occupations which could have a disproportionate impact in closing the aggregate Latino income gap)—to identify and support workers with the potential to move into more senior jobs. For example, companies should create incentives to encourage leaders to invest time in sponsoring and mentoring employees, as well as train these leaders in sponsorship and mentorship, with particular sensitivity to issues most relevant to Latino workers.
   - *Developing peer relationships.* Employee resource groups can be an effective tool for building community. Coca-Cola's Hispanic Leadership Business Resource Group, for example, is a network created to capture business opportunities related to the Hispanic market. Companies can also launch programs to address allyship.
   - *Track progress to increase accountability*—and share successes

The benefits of improving outcomes and expanding opportunity are relatively easy to visualize. Imagine a Latino worker in a relatively typical occupation: a fast-food cook. From that entry-level role—with an average annual wage of around $24,000—upskilling could provide paths of opportunity into higher-wage positions requiring complementary work activities, to the point where a six-figure salary could be the norm, not the exception.

Decisive, sustained action in both the public and private sectors could meaningfully alter the career trajectory for Latino workers. But there's a potential for interventions that seek to both help close the wage gap and improve Latino representation, delivering a more than 35 percent increase in aggregate wages and enabling $288 billion in additional annual income. It could also, in the process, help Latinos become more integrated into the country where they've chosen to pursue their dreams.

3. Latino business owners: Unleashing their entrepreneurial spirit

Latinos start more businesses per capita in the United States than any other racial or ethnic group. 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).[16] The number of Latino-owned employer firms has grown by 12.5 percent annually, compared with 5.3 percent for White-owned employer firms.[17] And while Latino-owned employer businesses are concentrated in cities and states with large, dense Latino populations[18]—such as Los Angeles, Miami, and New York City—45 of 50 states saw an increase in Latino-owned businesses from 2012 to 2017.[19]

Yet the share of Latino-owned businesses—and their performance—fall well short of their potential. While Latinos account for about 18.4 percent of the US population, they only make up about 6 percent of employer firms and around 14 percent of nonemployer firms.[20] 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 jobs.[21] And if the per-firm sales of those businesses were in line with non-Latino White-owned businesses,[22] Latino-owned businesses could generate an additional $2.3 trillion in annual revenue (Exhibit 12).[23]

735,000

enterprises could be created if Latinos' share of employer-business ownership matched their population share

This chapter explores Latino businesses in the United States, examining the current state of Latino-owned enterprises and the challenges Latino entrepreneurs face in growing and scaling their firms. The United States Federal Reserve states companies led by Latino and Black owners were already more likely to classified as "at-risk" or "distressed" prior to the COVID-19 crisis,[24] which had a negative impact on 86 percent of Latino-owned businesses. Yet there's an opportunity to further unleash the entrepreneurial spirit of Latino business owners, and we explore opportunities to help to close the gap between where things stand today and where they could be, if Latinos were able to participate equally in the US economy.

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16 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.

17 Annual Business Survey 2017, US Census Bureau, census.gov; 2012 Survey of Business Owners, US Census Bureau, 2016, census.gov.

18 Annual Business Survey 2017.

19 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.

20 Annual Business Survey 2017.

21 Ibid; based on the current average of 8.9 jobs supported by a Latino-owned business.

22 Based 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.

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

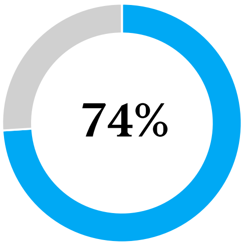
24 Financial-health assessment based on profitability, credit risk, and business funding. "Healthy" companies are profitable, have higher credit scores (low credit risk), and use retained business earnings to fund business. Companies that meet two of those criteria are "stable"; those that meet one of those criteria are "at risk"; and those that meet none of those criteria are "distressed." See "Can small firms weather the economic effects of COVID-19?," Federal Reserve Bank of New York, April 2020, fedsmallbusiness.org; *Small business credit survey: 2019 report on minority-owned firms,* Federal Reserve Bank of Atlanta, December 2019, fedsmallbusiness.org; André Dua, Deepa Mahajan, Ingrid Millán, and Shelley Stewart, "COVID-19's effect on minority-owned small businesses in the United States," May 27, 2020, McKinsey.com.

Exhibit 12

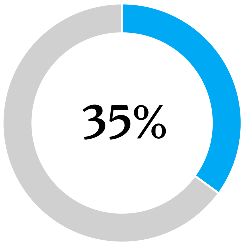
Latinos start more businesses than any other race but face funding barriers.

$2.3 trillion

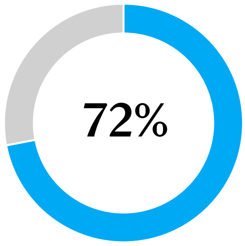
Aggregate revenue opportunity



of the representation and per-firm revenue gap is concentrated in 6 industries[1]



of Latino business owners are approved for all requested funding (vs 49% of White business owners)



of Latinos use personal family savings to start their businesses

[1] Wholesale trade; retail trade; manufacturing; construction; professional, scientific, and technical services; and healthcare and social assistance.
Source: McKinsey Global Institute analysis

A snapshot of Latino entrepreneurship

The United States has long been regarded as a land of opportunity, and that appears to hold true for Latinos when it comes to starting businesses. Latinos own 322,000 businesses in the United States, collectively employing 2.9 million people, and the number of Latino-owned businesses is growing rapidly (Exhibit 13). In addition, the majority of Latino entrepreneurs (85 percent) say they start businesses out of opportunity rather than necessity, comparable to their non-Latino White counterparts (85 percent).[25]

The distribution of Latino-owned firms across industries has been fairly stable for the past 15 years. Newly created Latino-owned employer firms are concentrated in industries such as construction and hospitality (accommodation and food services).[26] There are a lower percentage of new firms in the industries with the highest forward-looking growth rates than for non-Latino White-owned businesses[27]: for example, the information industry has the highest growth rate at 18 percent, but just 1 percent of newly created Latino employer firms are in this industry. Conversely, 22 percent of new Latino-owned employer firms are in construction, which has the lowest growth rate at 4 percent (Exhibit 14).

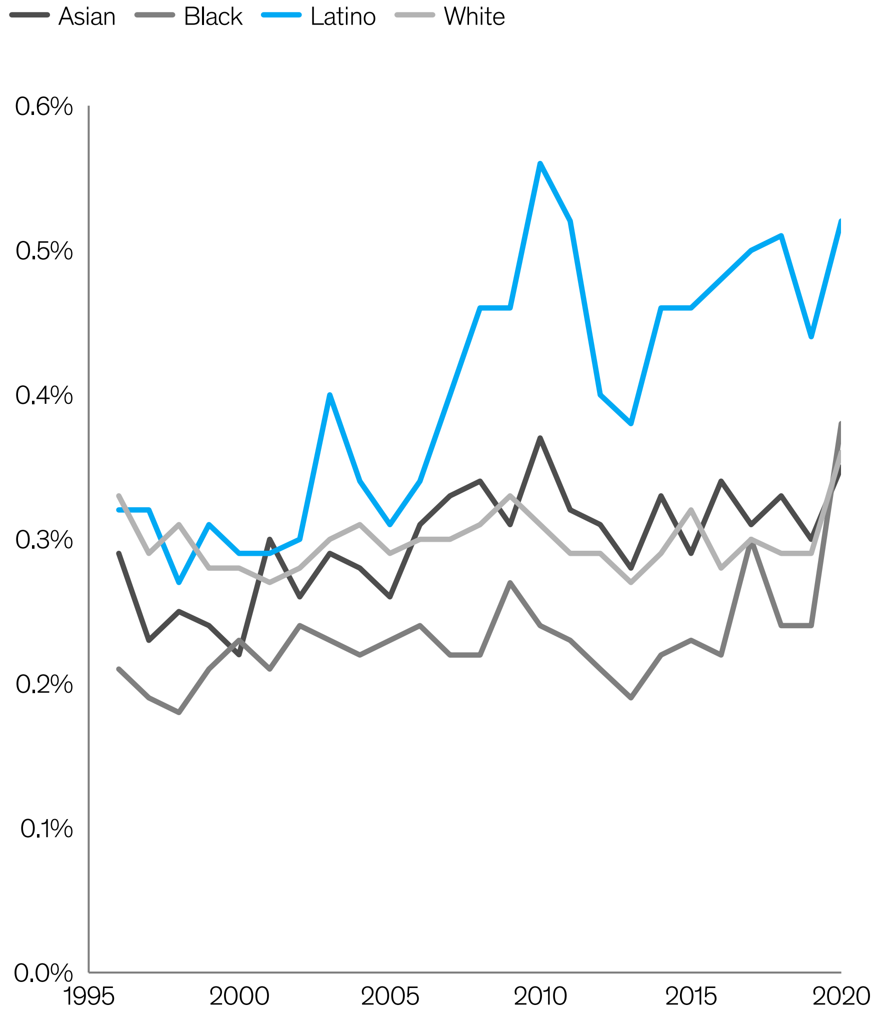
Geographically, nearly a third of Latino-owned businesses are in cities with large Latino populations: there are around 45,000 Latino-owned businesses in Miami, around 30,000 in New York City, and about 28,000 in Los Angeles. An additional seven metropolitan areas also have large representation—Chicago; Houston; Riverside, California; Dallas; San Diego; Washington, DC; and San Antonio—meaning ten areas in the US are home to 55 percent of Latino-owned employer firms.[28] Chicago and Miami saw the largest increase in net new Latino-owned employer firms from 2012 to 2017, adding 2,019 and 2,001 companies respectively.[29]

[25] Robert Fairlie and Sameeksha Desai, *2019 early-stage entrepreneurship in the United States: National and state report,* Kauffman Indicators of Entrepreneurship, June 2020, indicators.kauffman.org; Marlene Orozco, Paul Oyer, Jerry I. Porras, and Inara Sunan Tarequem, *2019 State of Latino entrepreneurship,* Stanford Latino Entrepreneurship Initiative, January 2020, gsb.stanford.edu.
[26] Survey of Business Owners 2007, 2012; Annual Business Survey 2018.
[27] Annual Business Survey 2017; Survey of Business Owners 2012.
[28] Annual Business Survey 2017.
[29] Ibid; Survey of Business Owners 2012.

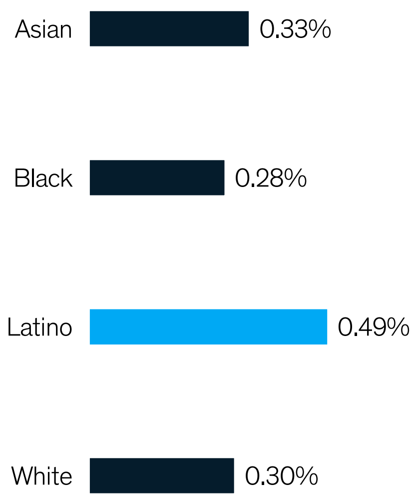
Exhibit 13

Latinos have the highest entrepreneurship rate of any race.

Rate of new entrepreneurs by race,[1] %



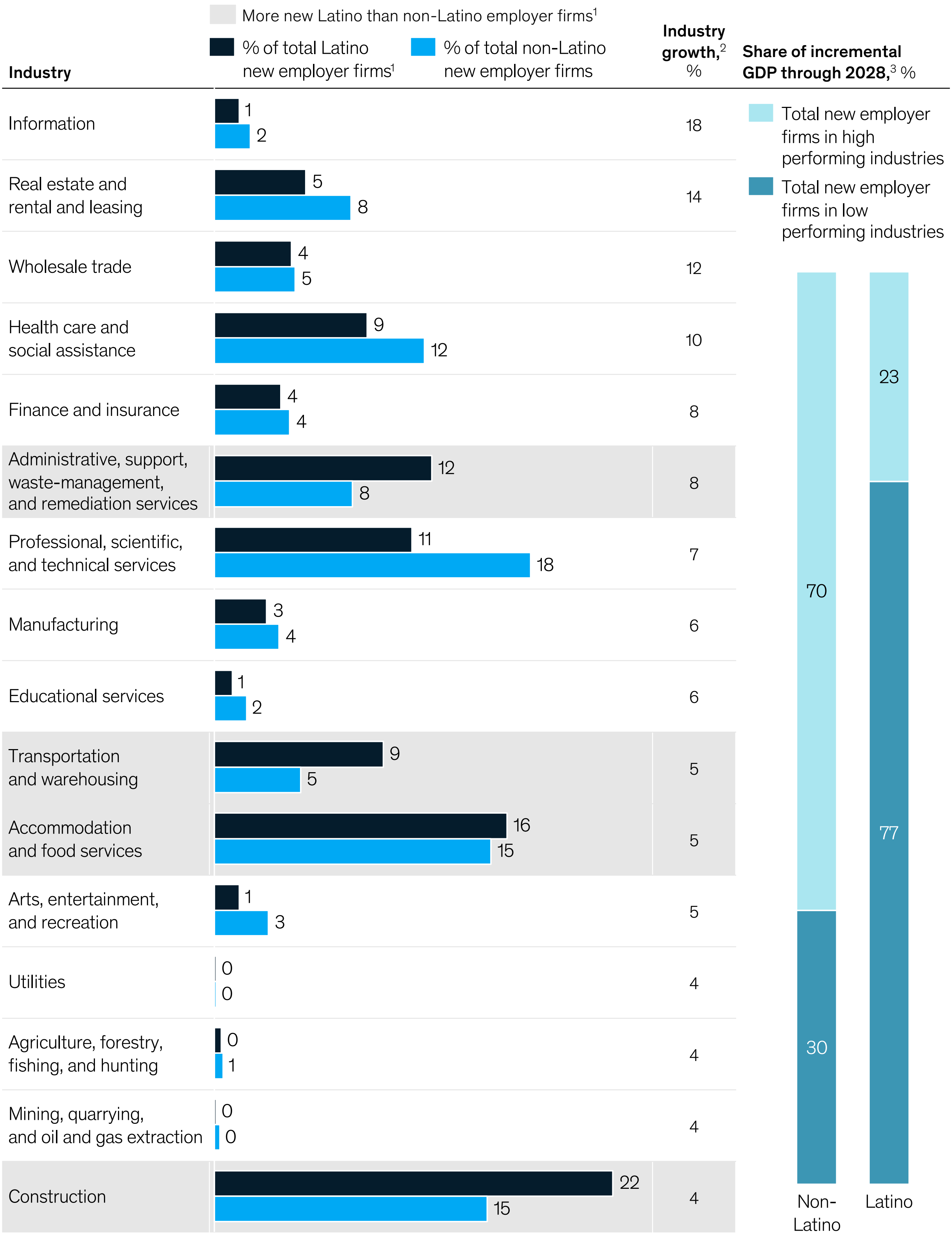
Average rate of new entrepreneurs by race and ethnicity, 2016–20, %



[1] This rate measures the percentage of individuals ages 20–64 who did not own a business in the first month of the survey but started a business in the following month with 15 or more hours worked per week.
Source: *National report on early-stage entrepreneurship in the United States: 2020,* Kauffman Indicators of Entrepreneurship, February 2021, indicators.kauffman.org

Exhibit 14

Newly created Latino-owned employer firms are concentrated in lower-growth industries.



Note: Nonexhaustive. Does not include industries that are nonclassified, other, or management of companies and enterprises.
[1] Firms less than 2 years in business.
[2] Growth rates based on 10-year forward CAGR for value add to the economy.
[3] Based on contribution to 10-year incremental GDP between 2019 and 2028 projection.
Source: US Census Annual Business Survey, 2017; US Census Survey of Business Owners, 2012

Closing the gaps: Challenges for Latino-owned businesses

Even though Latinos have the highest rate of entrepreneurship, there are significant differences between Latino 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, a gap that persists over time.[30] 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.[31] There are also gaps related to:

2%

of venture-capital-backed companies were founded by Latinos or Black Americans

— Representation, or the difference between the share of Latino-owned employer firms in each industry and the Latino share of the US population. Even though Latinos make up 18.4 percent of the population, Latino-owned businesses only make up 6 percent of employer firms[32]. If the Latino share of employer business ownership reached parity with the Latino share of the US population, there would be 735,000 new enterprises and 1.06 million in total[33]

— Per-firm revenue, or the difference between average sales of Latino- and White-owned employer companies. Latino-owned employer firms average $1.3 million in annual sales compared with $2.5 million for non-Latino White-owned employer firms.[34]

It's these gaps that collectively add up to a $2.3 trillion opportunity for Latino-owned employer firms (Exhibit 15).

Exhibit 15

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

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

[1]Sum 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.
[2]Sum 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

Understanding representation and size gaps

Nearly three-quarters—74 percent—of the representation and size gaps between Latino-owned employer companies and White-owned firms is concentrated in six industries: wholesale trade; retail trade; manufacturing; construction; professional, scientific, and technical services; and healthcare and social assistance.[35]

30 Annual Business Survey 2017; *Small business owner race, liquidity, and survival,* JPMorgan Chase & Co. Institute, July 2020, jpmorganchase.com.
31 Annual Business Survey 2017; Nonemployer Statistics, US Census Bureau, census.gov.
32 US Census Annual Business Survey 2017.
33 This is based on the current average of 8.9 jobs supported by a Latino owned business. US Census Annual Business Survey 201.
34 Ibid.
35 Ibid.

In terms of representation—the percentage of Latino-owned employer firms compared with the Latino share of the US population—there's a gap that corresponds to potential revenue for Latino-owned businesses of $1.03 trillion, with $762 billion in those six industries alone (wholesale and retail trade are the two biggest contributors).[36] In fact, Latinos are underrepresented in company ownership terms even in industries where Latino workers are overrepresented.[37] The most glaring example is agriculture, in which Latinos make up 51 percent of the industry's workforce but own just 5 percent of employer firms. Latino-owned employer firms also tend to be smaller, averaging 8.9 employees per firm versus 12.1 for non-Latino White employer firms.[38]

In terms of per-firm revenues within industries, there's an aggregate gap of $1.23 trillion, with $794 billion attributable to just four industries—wholesale trade, retail trade, manufacturing, and construction.[39] Latino employer firms generate an average of 52 percent of the annual revenue of non-Latino White employer firms,[40] and the shortfall holds even in states with the highest sales for Latino-owned employer firms, such as California, Florida, Texas, New York, and Illinois.[41]

The states with the highest share of Latino populations have above-average representation of Latino-owned employer businesses. Still, significant parity gaps exist. For example, although Latino employer firms make up 9.6 percent of companies in California and generate nearly $100 billion in annual revenue, there's still a parity gap of about $730 billion when taking into account the average revenue gap to White firms and the fact that Latinos make up 39.4 percent of the state population. Even in New Mexico, the state with the largest share of Latino-owned employer businesses, the Latino-owned share of employer firms (17.8 percent) is well below Latinos' 49.3 percent share of the state population (Exhibit 16).

A Latino gender gap

In addition to the aggregate gap between Latino and non-White Latino-owned employer businesses, there is a gap within the Latino population between male- and female-owned employer businesses.[42] Only about 24 percent of Latino employer businesses are owned by women, resulting in an aggregate representation gap of $91 billion and a per-firm revenue gap of $32 billion for Latina-owned employer businesses when compared with Latino-male-owned employer businesses. Some 57 percent of this gender-based revenue gap results from three industries: wholesale trade, construction, and retail trade.[43]

Barriers limiting Latinos from starting and scaling businesses

Latino business owners have similar credit scores to their White counterparts.[44] Yet they have a low rate of bank and financial institution loan funding to start their businesses—12 percent compared with 17 percent of White employer businesses[45]—and are less likely than White-owned employer businesses to receive all the funding they apply for.[46] 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 harms their chances of accessing capital.[47]

[36] Ibid.
[37] Ibid; American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, usa.ipums.org.
[38] Annual Business Survey 2017.
[39] Ibid.
[40] Ibid.
[41] Ibid; 2019 US Census.
[42] Annual Business Survey 2017.
[43] Ibid.
[44] *2020 State of Latino entrepreneurship,* January 2021.
[45] 2018 Annual Survey of Entrepreneurs.
[46] *Small business credit survey: 2019 report on minority-owned firms,* December 2019.
[47] Bank of America 2018 Hispanic Small Business Owner Spotlight survey, 2018, about.bankofamerica.com.

Exhibit 16

Gaps persist even in states with the highest revenues for Latino-owned firms.

Industry	Latino share of total employer firms, %	Latino share of state population,[1] %	Average sales per employer firm, $ millions			Aggregate gap, $ billions		
			Current average sales per firm	Gap between sales of Latino-owned firms and those of non-Latino White-owned firms		Representation gap	Revenue gap	
California	9.6	39.4	1.4	1.5	2.8	306.5	427.9	734.4
Florida	15.1	26.4	1.3	0.6	1.9	62.0	71.1	133.0
Texas	12.3	39.8	1.6	1.6	3.2	185.7	265.3	451.0
New York	4.9	19.3	1.1	1.3	2.4	71.2	111.3	182.5
Illinois	5.5	17.5	1.0	1.7	2.6	28.9	72.4	101.3
New Jersey	5.9	20.9	1.1	1.6	2.7	30.2	64.6	94.8
Arizona	7.2	31.7	1.1	1.0	2.1	29.6	33.6	63.2
Georgia	3.1	9.8	1.4	1.4	2.8	16.4	23.9	40.3
New Mexico	17.8	49.3	1.2	0.7	1.8	12.1	10.5	22.6
Virginia	3.6	9.7	1.2	1.1	2.3	10.6	15.1	25.6
Remaining 40 states	2.0	8.7	1.4	1.0	2.3	253.9	312.9	566.9

8.5% vs 2.0%

Average share of Latino firms in the top 10 states vs the remaining 40

[1] 2019 US Census population estimates by age, sex, race, and Hispanic origin.
Source: US Census Annual Business Survey, 2017; US Census, 2019

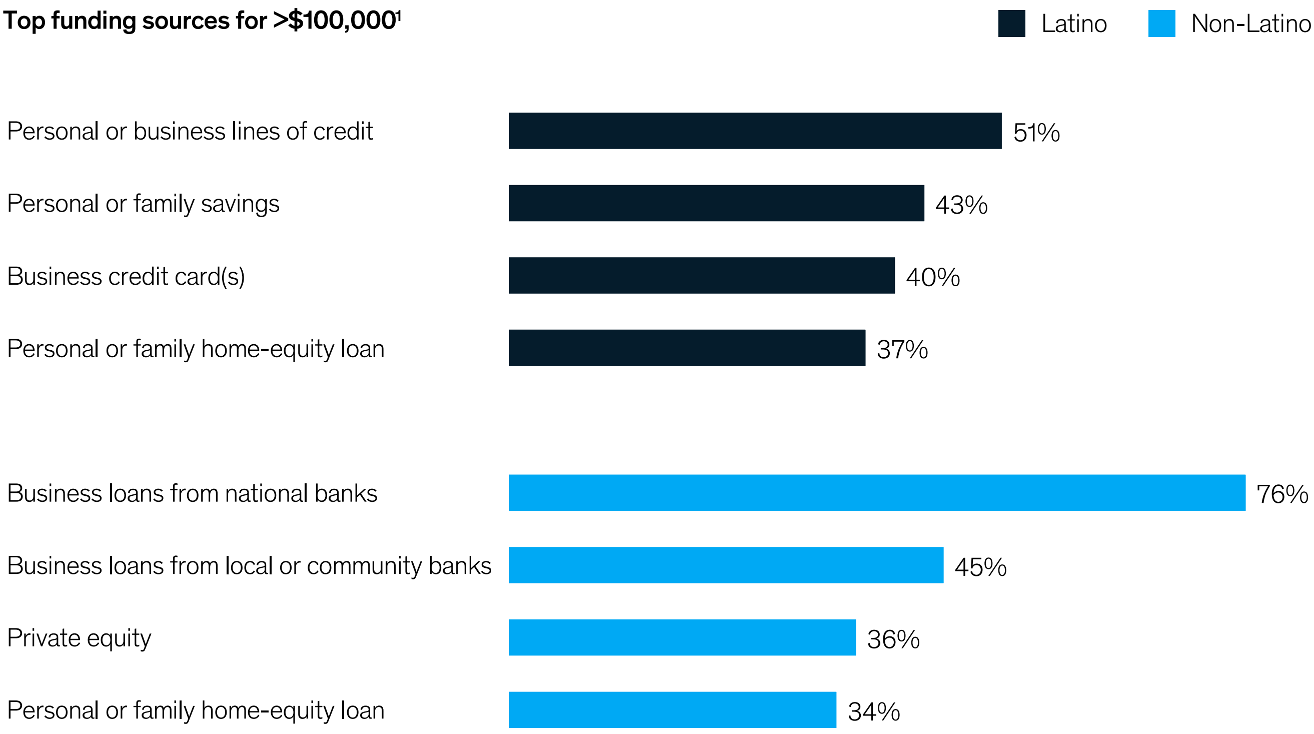
Once established, Latino-owned employer firms continue to depend on personal sources of funding, making them vulnerable to personal financial risk. The top funding sources for Latino-owned employer businesses seeking more than $100,000 tend toward personal savings, credit cards, and assets, while White-owned employer businesses look to secured loans from national or local banks (Exhibit 17).[48] Accessing venture capital is also challenging: Latino- and Black-founded companies represent only 2.0 percent of US-based venture-backed firms and around 2.5 percent of funding.[49]

Second, Latino entrepreneurs are less likely than their White counterparts to seek support and mentoring from professional advisers and colleagues,[50] 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 commerce goes increasingly digital.[51]

Exhibit 17

Even once established, Latino-owned firms rely on personal sources of funding.

Top funding sources for >$100,000[1]



3 of 4

top sources of funding for Latino-owned businesses are personal funds; for White-owned firms, 3 of the top 4 sources are private

This leads to Latino business owners taking on more personal financial risk compared with White business owners, increasing vulnerability to predatory lending

[1] Based on Stanford Latino Entrepreneurship Initiative survey of US business owners, 2020 (n = 7,000).

Source: Marlene Orozco, Paul Oyer, Jerry I. Porras, Inara Sunan Tareque, "2020 state of Latino entrepreneurship," Stanford Latino Entrepreneurship Initiative, January 2021, gsb.stanford.edu.

[48] *2020 State of Latino entrepreneurship,* January 2021.
[49] *Crunchbase diversity spotlight 2020: Funding to Black & Latinx founders,* Crunchbase, October 2020, crunchbase.com.
[50] 2016 Annual Survey of Entrepreneurs.
[51] Ibid.

Three interventions to help improve outcomes for Latino business owners

Interventions that could help improve outcomes for Latino business owners are increasing access to capital, building entrepreneurial capacity, and closing representation gaps in the most attractive sectors. It's clear many Latinos want to start businesses. But action is required to close gaps in representation and to improve access to traditional business funding sources. And consumers can, of course, invest in Latino-owned businesses every day—simply by buying their goods and services.

Increase access to capital

Latinos create more businesses than any other US population, despite the barriers they face. Reducing those hurdles could unleash even greater entrepreneurial activity, as well as scaling their businesses, but a principal barrier is limited access to funding. There are several ways to address this. First, funding could be set aside to support Latino-owned businesses and entrepreneurs, reducing their personal financial burden and helping them grow their businesses. For example, JPMorgan Chase committed $350 million to provide low-cost loans and equity investments to Black, Latino, women, and other underserved entrepreneurs. Beyond traditional banks, other sources of capital, from angel investors, venture capital and private equity, to community development financial institutions (CDFIs), could focus more attention on Latino-owned businesses. Furthermore, equitable access to government and private funding could be ensured through fair lending practices and outreach to the Latino community.

Build entrepreneurial capacity

Professional development of Latino entrepreneurs could spur even greater entrepreneurship and enable Latino-owned businesses to more successfully scale. That could be achieved by creating formal mentorship programs for Latino-owned businesses, as well as connecting Latino business owners with industry experts and professionals. For example, Pepsico launched a program providing free business coaching to 500 Latino-owned food and beverage businesses, while New York City's peer mentorship programs connects experienced business owners to support minority and women-owned business enterprises.

Additional capacity-building for Latino entrepreneurs can come through formal education. For example, Stanford University's Graduate School of Business offers a seven-week immersive program designed to increase Latino business owners' understanding of how to access and manage capital. And third, equal access to government and private funding could be ensured through fair lending practices and outreach to the Latino community.

Close representation gaps in the most attractive sectors

It's also important to close representation gaps in the sectors that will represent the highest levels of gropus and form the basis of the future economy. Digital adoption is critical: newly created Latino-owned employer firms remain concentrated in construction and other lower-growth industries. Investing in broadband access and supporting Latino business owners in establishing an online presence could boost Latino involvement in high-growth sectors. Those efforts could focus on large metropolitan areas with heavier concentrations of Latino-owned employer firms in sectors such as information, real estate, and healthcare. For example, Facebook created Latinx Hispanic Business Boost, a free program offering a mix of training, tools, and insights to help Latino businesses grow revenue.[52] And Comcast's RISE Investment Fund provides grants to minority-owned small businesses for equipment, internet access, and other needs.

[52] "Latinx Hispanic Business Boost," Facebook for Business, Meta, facebook.com.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4. Latino consumers: America's growing domestic market

660 billion

of additional Latino spending could be unlocked by addressing disparities

Consumer spending drives the world's biggest economy. And within the US economy, Latinos are critical and increasingly influential. During the past eight years, Latino consumption has grown by around 6 percent annually, about double the pace of spending growth among non-Latino Whites. Yet while Latino consumption is growing and dynamic, it's constrained from reaching its full potential due to lower average incomes and wealth, inadequate access for Latino communities, and unmet demand for goods and services that could better meet the needs and preferences of Latino consumers.

Latinos account for 11.4 percent of aggregate consumer spending, but that could be over 50 percent higher if Latino incomes were commensurate with the parity scenario we described in the worker chapter[53]. While the current Latino consumer market amounts to around $870 billion in consumer expenditure annually, it would be around $500 billion higher in the income parity scenario. In addition, our research shows there's another $159 billion in unsatisfied demand, because many Latinos may be willing to spend more on offerings better suited to their needs. [54]

Addressing disparities could create a $660 billion opportunity (Exhibit 18). Yet closing the gap between Latinos' actual and potential expenditures requires commitment on multiple fronts. Latino spending power must be increased by closing the wage gap that results in Latino workers earning 66 cents for every dollar made by and non-Latino White workers. With more than 41.5 million Latinos living in consumer "deserts," access to vital products and services must be improved. And goods and services need to truly address Latino needs and preferences.

This chapter examines how the Latino consumer market could reach its full potential, just as our chapter on workers sought to shed light on the barriers to Latinos achieving income equity in the US labor force. Closing the consumption gap could not only give Latinos a greater sense of inclusion and representation in the US economy but may also provide the private sector with enormous potential and deliver an immediate boost to economic growth.

[53] The income parity scenario includes the representation in occupations for US-born Latinos as their share of the population, and closing within-occupation income gaps for all Latinos.

[54] Not all of this unsatisfied demand could be realized as additional net consumer spending. Consumers might be willing to pay more for better products/services in one category, but increases spend in one category could result in lower spend in another category.

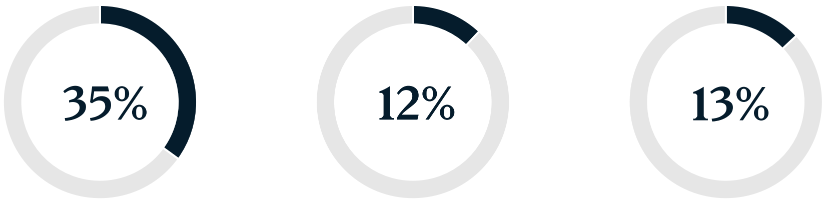
Exhibit 18

Latino consumption is below its potential due to lower incomes, lower access and unsatisfied demand.

$159 billion

unsatisfied demand

Average Latino household consumption has grown



35% faster than White households (largely driven by Latino income growth)

12% of aggregate consumer spend is attributable to Latinos (vs 18% share of population)

13% of Latinos are dissatisfied with current offerings.[1] Latinos of Mexican origin appear to be the most satisfied, while those of Cuban origin appear to be the most dissatisfied

Latinos are willing to spend

1.2x

more on average on offerings that are better suited for their needs and preferences. Latinos of Mexican origin and first-generation immigrants appear to be willing to pay the most for better offerings

41.5 million

Latinos live in “deserts” that lack vital products and services

[1] Based on McKinsey consumer survey, August 2021 (n = 4,000).
Source: McKinsey Global Institute analysis

A snapshot of the Latino consumer market

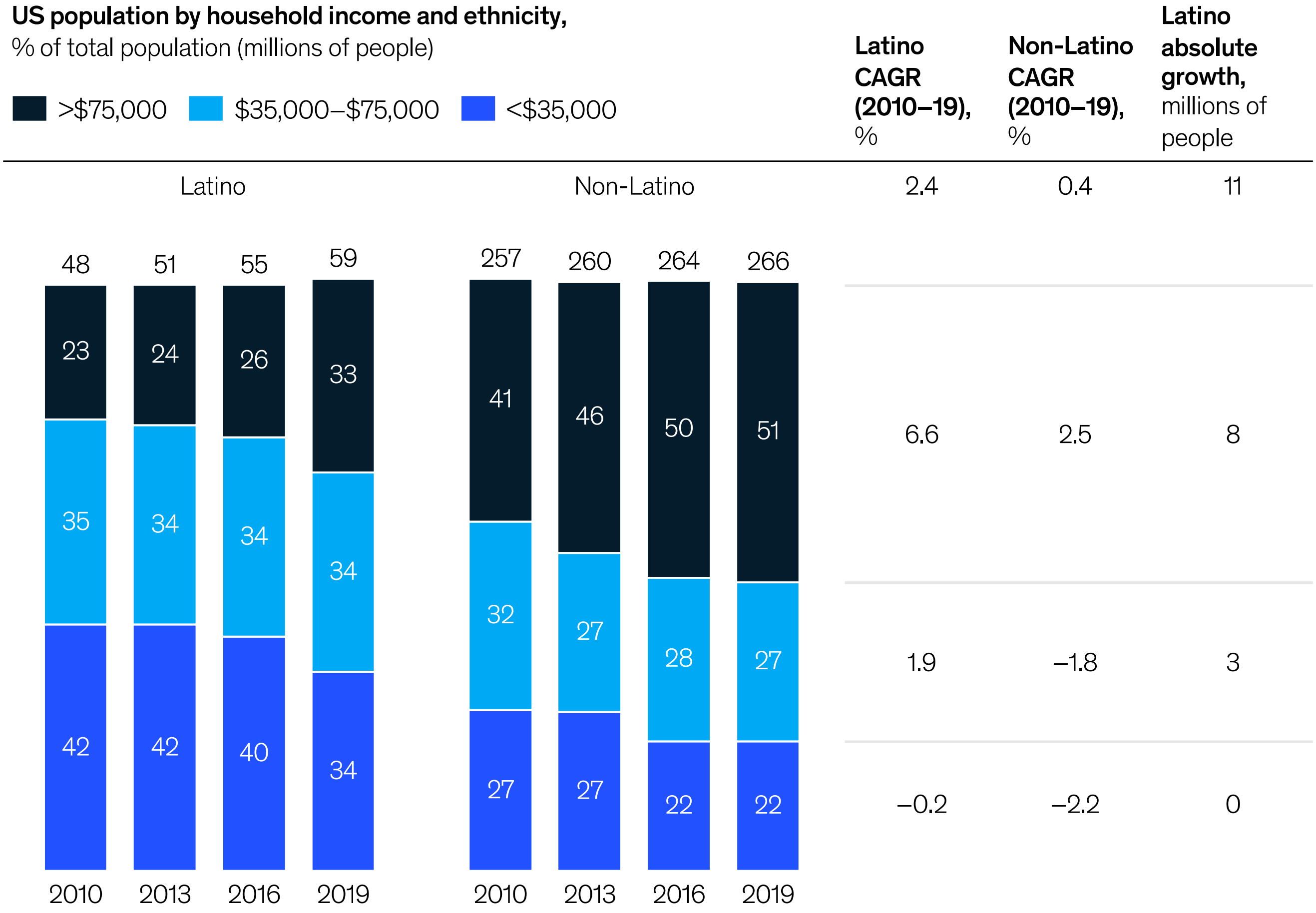
Latino consumption is growing by 6 percent a year, with Latinos’ share of total US consumption increasing by 3 percent annually for the past eight years to 11.4 percent of total spending. That growth has been propelled by an increase in the number of high-income Latino households: households with income of more than $75,000 have grown at a compound annual rate of 6.6 percent over the past decade (Exhibit 19).

Yet while the Latino consumer market is growing and dynamic, it’s not reaching its full potential. Lower wages among Latino workers result in reduced wealth, requiring Latino households to spend a larger share of income on essentials: expenditure on housing totals 31.9 percent of Latino household income, compared with 28 percent for non-Latino White households; 17.8 percent of household income goes to transportation and vehicles, compared with 14.5 percent for White householders; and they spend 14.1 percent of income on food and alcohol, compared with 12 percent of their White counterparts.[55] Many Latino communities have inadequate access to key product and service categories, including food, housing, banking, broadband, healthcare, and consumer goods.[56] And there’s unmet demand: Latinos are, on average, more dissatisfied with current product and service offerings than non-Latino White consumers, especially in categories where they have limited access.[57]

[55] 2019 Consumer Expenditures Surveys, US Bureau of Labor Statistics, 2020, bls.gov.
[56] “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; *How America banks: Household use of banking and financial services,* Federal Deposit Insurance Corporation, October 2020, fdic.gov; “Form 477 Census Tract Data on Internet Access Services,” Economics and Analytics, Federal Communications Commission, updated October 13, 2020, fcc.gov; “Food Environment Atlas,” Economic Research Service, US Department of Agriculture, accessed July 2021, ers.usda.gov.
[57] McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Hispanic Economic Mobility analysis; BEM report.

Exhibit 19

High-income households have been the fastest-growing segment of the Latino population.



Source: Current Population Survey (CPS), US Bureau of Labor Statistics, 2003–2016

Spending: Lower income equals reduced buying power

The aggregate income gap between Latino and non-Latino White workers was detailed in chapter 2, “Latino workers: Pursuing the American dream.” It stems from having lower representation within higher-paying occupations and lower pay within occupations, with the net result Latino households spend less, on average, in almost every product and service category (Exhibit 20).

Lower average annual income for Latino households results in less discretionary spending power and more cautious consumer choices:

— **They feel less financially secure:** 44 percent of Latinos make adjustments to make ends meet compared with 38 percent of non-Latinos; 45 percent are worried about losing their job, compared with 28 percent; and 28 percent live paycheck to paycheck, compared with 23 percent of non-Latinos.[58]

— **They are cautious spenders:** 31 percent cut back on spending (versus 26 percent); 31 percent are delaying spending given their economic situation; and 44 percent are increasingly looking for ways to save money, compared with 38 percent of non-Latinos.[59]

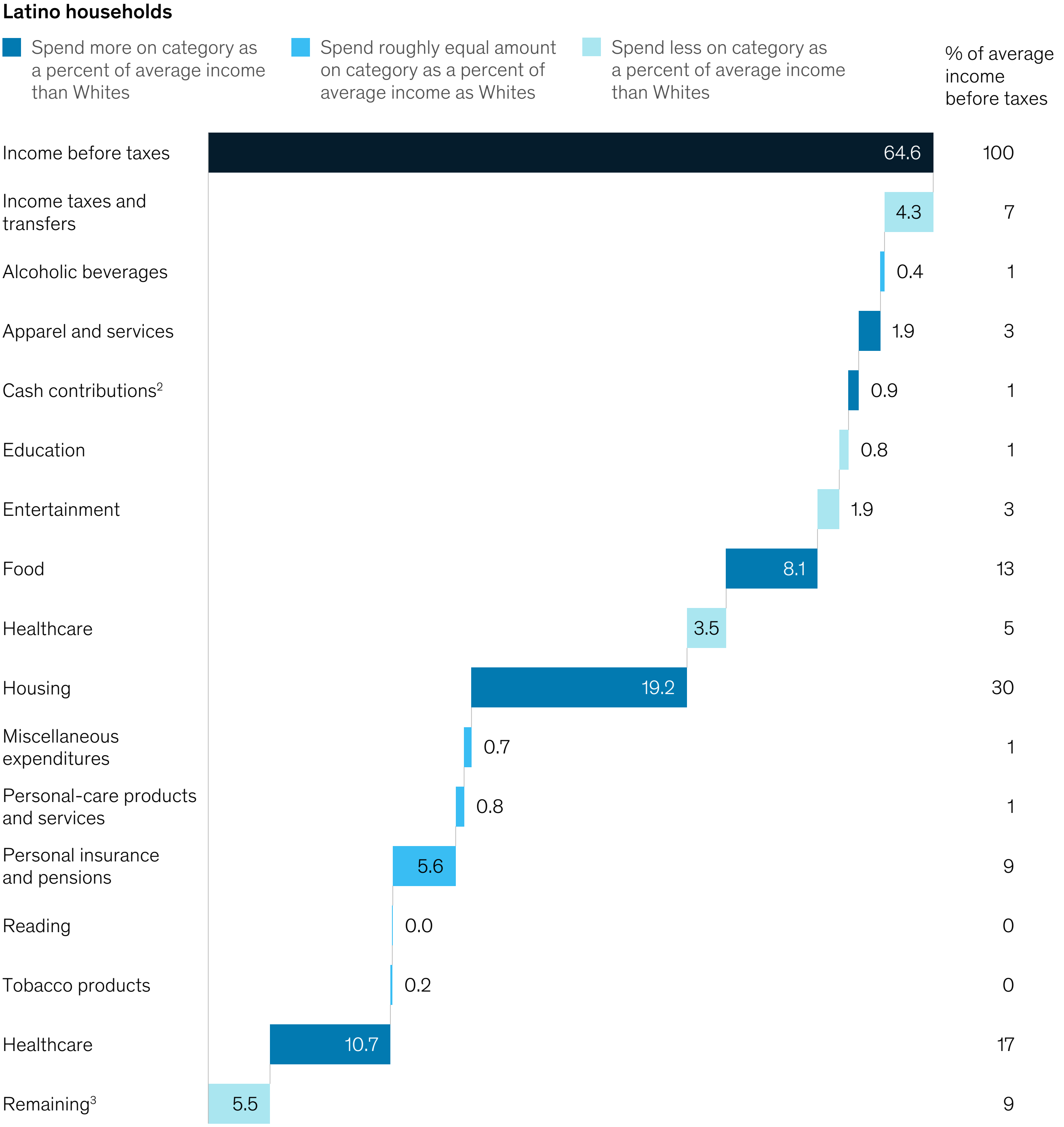
— **They buy at stores with lower prices:** 28 percent buy their preferred brands at stores with lower prices, notably for food and household products.[60]

58 McKinsey Global Sentiment Survey, 2020.
59 Ibid.
60 Ibid.

Exhibit 20

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

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



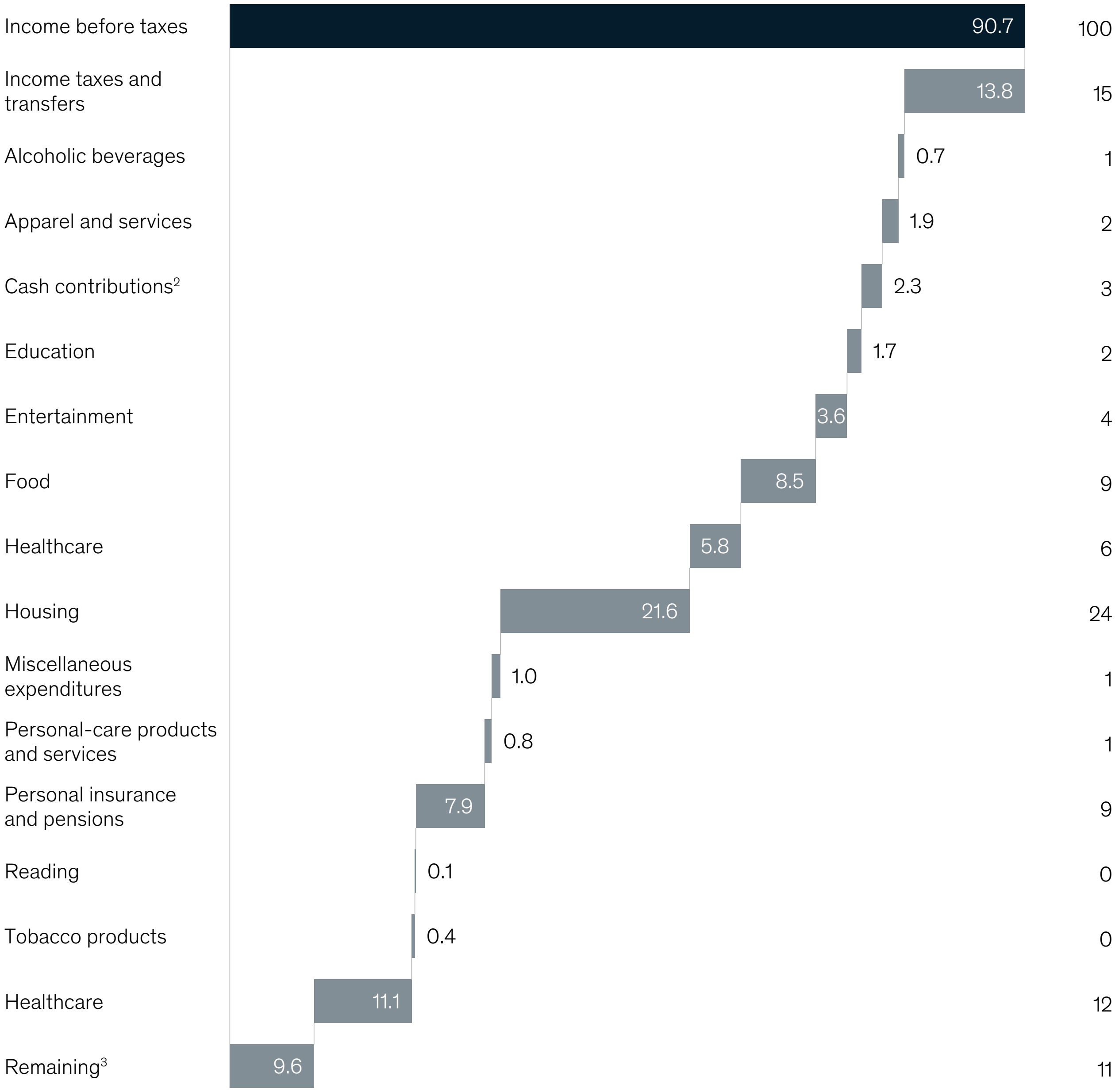
Note: Figures may not sum, because of rounding.

[1]Based on race and ethnicity of the reference person for the consumer unit.
[2]Per 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."
[3]This 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 20 (continued)

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

Non-Latino White households (including all other races)



Note: Figures may not sum, because of rounding.

[1]Based on race and ethnicity of the reference person for the consumer unit.
[2]Per 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.”
[3]This 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

At similar income levels, Latino households tend to be more frugal and put a greater share of spending toward essentials compared with non-Latino White households. They are more likely to stick to a budget when shopping; tend to shop online more than non-Latinos (reflecting a higher adoption rate of mobile technology and use of social media); and proportionately spend more on fresh food, children's apparel, and supplies for laundry and cleaning. The COVID-19 pandemic, which disproportionately affected Latino workers, reinforced these trends. Latinos reduced annual spending by 4 percent from 2019 to 2020, while all other households cut back on spending by 2.8 percent in the same period.

Access: Many Latinos live in consumer 'deserts,' lacking access to key goods and services

Earning a fair wage is one thing, but what if you're unable to spend it on needed goods and services? Latino households spend 71 percent of their income, on average, in six categories: housing, healthcare, banking, broadband, food, and consumer goods. Yet, in every instance, a higher percentage of the Latino population than non-Latino White consumers lives in areas with reduced access to these goods and services—so-called consumer deserts. In two essential categories—housing and healthcare—the lack of access is acute: Latinos are 3.1 times more likely to live in a housing desert than non-Latino White households, and 2.5 times more likely to live in a healthcare desert (Exhibit 21).

Housing

The US Department of Housing and Urban Development defines households as cost burdened when more than 30 percent of their gross income goes toward housing—a tipping point that begins to squeeze their ability to spend on other categories.[61] In 2019, around 21.2 million Latino residents—or 42 percent of all Latinos in the United States—lived in housing deserts, with 89 percent of that total in just five states: California, Texas, Florida, New York, and New Jersey (Exhibit 22). And these areas aren't in the middle of nowhere: they're urban neighborhoods with relatively high density but also high poverty. In fact, 32 percent of Latinos live in census tracts with poverty rates above 20 percent, compared with just 12 percent of non-Latino White people.[62] Latino households are more than ten times more likely than White households to live in crowded conditions, with more than one person per room.[63] And Latino households are consistently more likely to have fallen behind on housing payments than White households across income levels.[64]

Healthcare

Latinos are 2.5 times more likely than White Americans to live in a neighborhood with limited healthcare services, defined as areas that are either medically underserved or having too few providers relative to the population.[65] In 2019, this designation applied to around 21.4 million Latino residents, with 75 percent of those concentrated in California, Texas, Florida, New York, and Arizona. The majority of healthcare deserts in these five states are in urban areas (Exhibit 23), and Latinos are more than three times more likely to be uninsured than non-Latino Whites.[66]

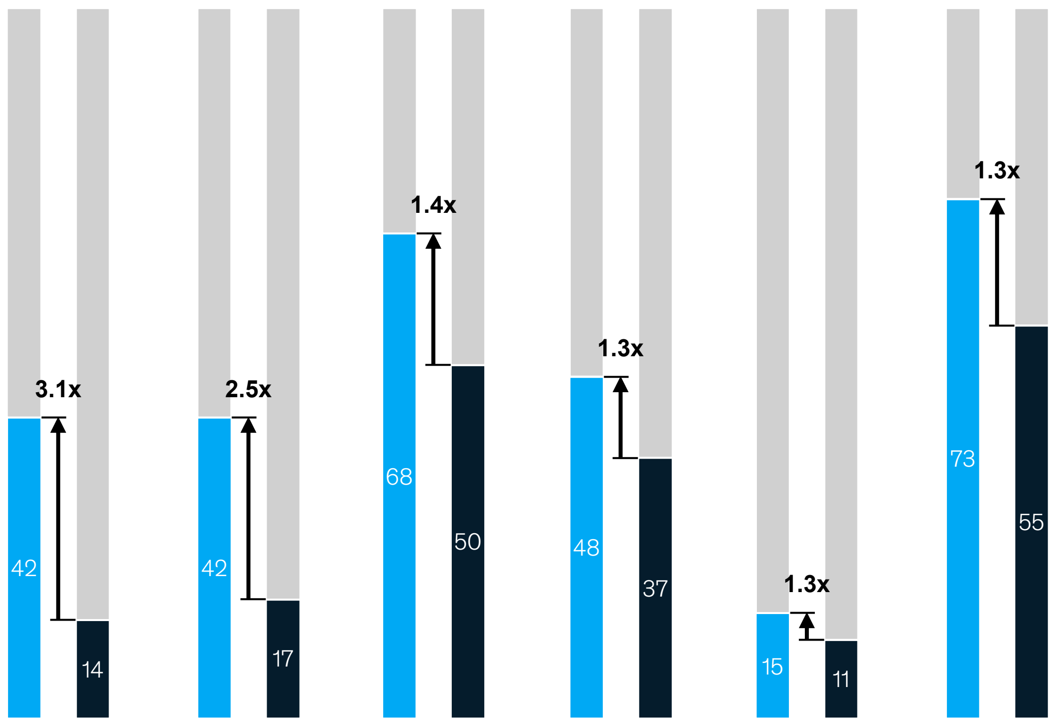
61 "Rental burdens: Rethinking affordability measures," *PD&R Edge,* US Department of Housing and Urban Development, September 22, 2014, huduser.gov.
62 *The state of the nation's housing 2020,* Joint Center for Housing Studies of Harvard University, 2020, jchs.harvard.edu.
63 Ibid.
64 Ibid.
65 "Food Access Research Atlas," 2019; "Shortage Areas," accessed July 2021; National Low Income Housing Coalition; *How America banks,* October 2020; "Form 477 Census Tract Data on Internet Access Services," October 13, 2020; "Food Environment Atlas," accessed July 2021.
66 American Community Survey (ACS) one-year estimates, detailed tables, 2013–19, US Census Bureau.

Exhibit 21

Latinos are more likely to live in a 'consumer desert' for essential products and services.

Share of population that lives in a census tract designated a 'desert,' %

Latino White



Low-access category	**Housing[1]**	**Healthcare[2]**	**Banking[3]**	**Broadband[4]**	**Food[5]**	**Consumer goods[6]**
# of "desert" census tracts	12,302	17,215	38,131	31,283	9,293	43,265
% of all census tracts	17.0	23.7	52.6	43.1	12.8	59.7
# of Latino people	21.2 million	21.4 million	34.5 million	24.3 million	24.9 million	36.9 million

71% of average Latino household consumption represented in these categories

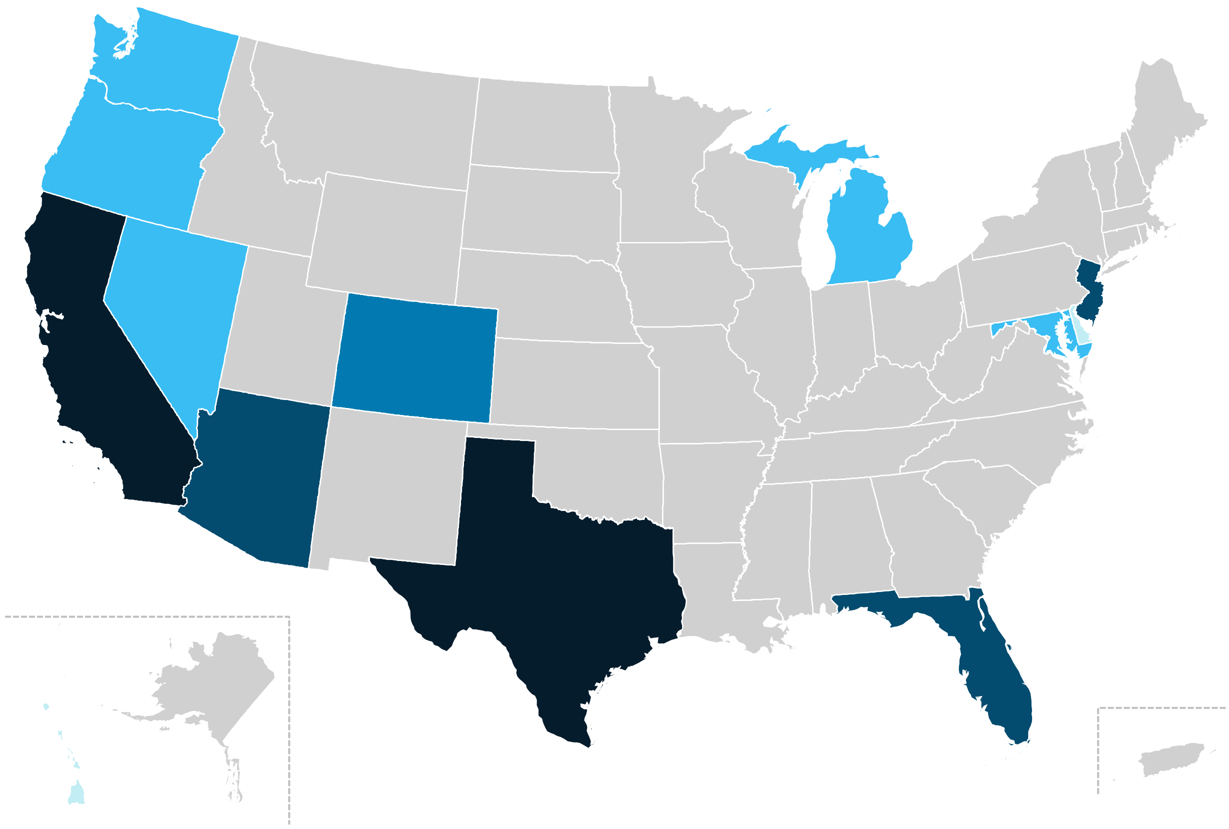
Note: Figures may not sum because of rounding.
[1] Defined as census tracts that are low income (as defined above) and in a state that has less than the national level of affordable and available units per 100 extremely low-income households, as defined by the National Low Income Housing Coalition (NLIHC).
[2] Census tracts that are designated a medically underserved area (MUA) or healthcare-provider shortage area (HPSA) by the Health Resources and Services Administration (HRSA). HRSA uses a scoring index that includes provider-population ratios, poverty rates, travel time, etc.
[3] Defined as census tracts in states that have an above-average proportion of unbanked individuals, as measured by the Federal Deposit Insurance Corporation (FDIC) (those not served by a bank or similar financial institution).
[4] Defined as census tracts where there are fewer than 800 high-speed connections per 1,000 households, as measured by the Federal Communications Commission (FCC).
[5] Census tracts that are designated by USDA as a food desert. USDA defines "food deserts" as census tracts that are both low income and low access. The criteria for identifying a low-income census tract are the same as the definitions used for the New Markets Tax Credit program (NMTC). Low access is defined as being far from a supermarket or grocery store. A census tract is considered low access if at least 500 people or 33% of the population are far away from a supermarket. There are four different distance measures of low access; the measure utilized here is 1 mile in urban areas and 10 miles in rural areas.
[6] Defined as census tracts in counties with a below-average number of "supercenters" as identified by USDA. "Supercenters" includes warehouse clubs and supercenters (North American Industry Classification System [NAICS] code 452910), retailers that sell a general line of groceries in addition to apparel, furniture, and appliances.

Source: Form 477 Census Tract Data on Internet Access Services, Federal Communications Commission (FCC), October 13, 2020, fcc.gov; Health Resources and Services Administration (HRSA) Health Professional Shortage Areas (HPSA) and Medically Underserved Areas/Populations (MUA/P); *How America banks: Household Use of Banking and Financial Services,* Federal Deposit Insurance Corporation (FDIC), 2019, fdic.gov; National Low Income Housing Coalition (NLIHC); USDA Food Access Research Atlas; USDA Food Environment Atlas

Exhibit 22

Just five states account for almost 90 percent of Latinos living in housing deserts.

Latino population living in a census tract designated a housing 'desert' by state[1]



Latino individuals residing in housing deserts

>5,000,000 | 1,000,000–5,000,000 | 500,000–1,000,000 | 100,000–500,000 | 0–100,000 | N/A

In 2019

21.2 million

Latino people lived in a housing desert

Equivalent to

~42%

of all Latinos

Concentrated in

5 states,

which account for over ~89% of all Latino people living in housing deserts (18.9 million; California, Texas, Florida, Arizona, and New Jersey)

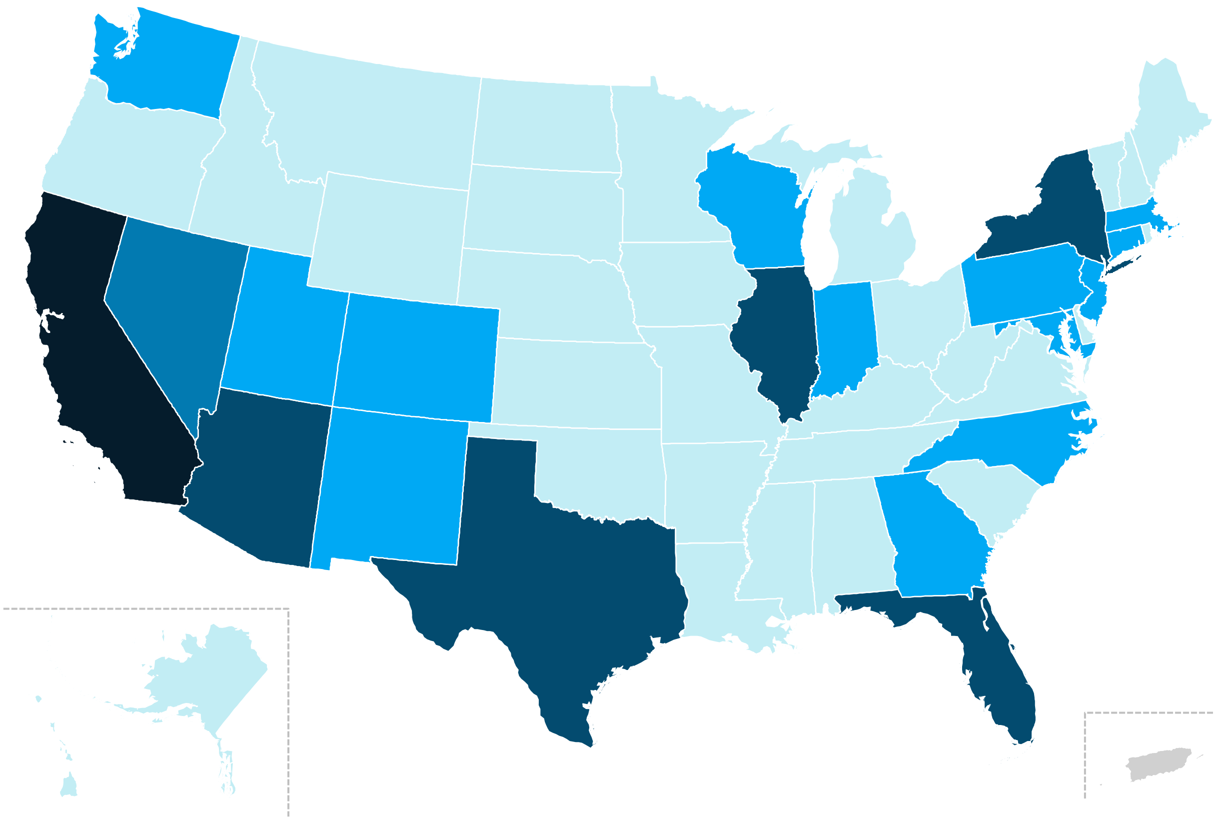
[1] Defined as census tracts that are low income (as defined above) and in a state that has less than the national level of affordable and available units per 100 extremely low-income households, as defined by the National Low Income Housing Coalition (NLIHC).

Source: American Community Survey (ACS) five-year estimates, US Census Bureau, 2009–2019, retrieved via Integrated Public Use Microdata Series (IPUMS) USA

Exhibit 23

Around 75 percent of Latinos live in urban healthcare deserts.

Latino population living in a census tract designated an urban healthcare 'desert' by state[1]



\# Latino individuals residing in healthcare deserts

>5,000,000 | 1,000,000–5,000,000 | 500,000–1,000,000 | 100,000–500,000 | 0–100,000

In 2019

20.1 million

Latino people lived in a urban healthcare desert

Equivalent to

~40%

of all Latinos

Concentrated in

5 states,

which account for over ~75% of urban Latino residents living in urban healthcare deserts (15.0 million; California, Texas, Florida, New York, and Arizona)

[1] Census tracts that are designated a medically underserved area (MUA) or healthcare-provider shortage area (HPSA) by the Health Resources & Services Administration (HRSA). HRSA uses a scoring index that includes provider-population ratios, poverty rates, and travel time.

Source: Health Resources and Services Administration (HRSA) Health Professional Shortage Areas (HPSA) and Medically Underserved Areas/Populations (MUA/P)

Banking

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.[67] In 2019, this applied to around 34.5 million Latino residents, with 87 percent of that total in California, Texas, New York, Illinois, and New Mexico. Latino households are 1.4 times more likely than White households to live in a community with this type of access issue,[68] which feeds into Federal Deposit Insurance Corporation data showing 14 percent of Latino households are underbanked or unbanked, compared with just 3 percent of White households.[69] However, banking deserts are not the only reason Latinos are underbanked and unbanked. Our survey identifies high account fees, a lack of trust, and issues with identification and credit as major impediments to greater adoption.

Satisfaction: Latinos are dissatisfied and want products and services that meet their needs

Based on a survey conducted for this research, Latinos are, on average, more dissatisfied with goods and services on offer than non-Latino White people.[70] That's especially true in categories they struggle to access, such as banking and financial services, food, housing, and healthcare (Exhibit 24).

Yet the reasons for dissatisfaction go beyond the inability to access what's desired. Across four categories with the highest levels of dissatisfaction, about a third of Latinos express dissatisfaction with the buying experience (Exhibit 25), while other issues such as value for money and quality are also prominent reasons for dissatisfaction[71].

Just as the location, nature, and income of Latino workers vary by country of origin, there are variations within Latino subgroups when it comes to satisfaction.[72] On average, Latinos of Mexican origin are the most satisfied, with an overall dissatisfaction rate of 10 percent. The varying levels of dissatisfaction persist within products and services: for example, almost a third of Latinos of Cuban origin are dissatisfied with housing, compared with only 15 percent of those of Mexican origin. In addition, second-generation Latinos are significantly more likely to express dissatisfaction than those in the first generation.[73]

Paying more for better offerings

Consumer spending could be around $500 billion higher if Latinos' expenditures matched their share of the US population. In addition, our research shows Latinos are willing to pay an average of 18 percent more—or 1.18 times the existing level of unsatisfied demand[74]—for products and services that better meet their needs (Exhibit 25).

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67 *Liberty Street Economics,* "Banking deserts, branch closings, and soft information," blog entry by Donald P. Morgan, Maxim L. Pinkovsky, and Bryan Yang, New York Federal Reserve, March 7, 2016, libertystreeteconomics.newyorkfed.org.
68 "Food Access Research Atlas," 2019; "Shortage Areas," accessed July 2021; National Low Income Housing Coalition; *How America banks,* October 2020; "Form 477 Census Tract Data on Internet Access Services," October 13, 2020; "Food Environment Atlas," accessed July 2021.
69 *How America banks,* October 2020.
70 McKinsey analysis.
71 ibid
72 Ibid.
73 Ibid.
74 Ibid. This unsatisfied demand is a clear opportunity for individual providers of these goods and services, but some consumers would likely shift spend between companies or spend categories, so the total potential aggregate increase in consumer spending is lower than 18%.

Exhibit 24

Latinos are more dissatisfied with product and service offerings than White Americans are.

Product or service Highest dissatisfaction %	Dissatisfaction, % Latino	Non-Latino	White	Multiplier difference (White vs Latino)
Food at home (eg, groceries and snacks)	9	5	2	4.3x
Food away from home (eg, meals at restaurant, take out, and delivery)	16	7	3	5.4x
Beverages at home (eg, soda, coffee at home, and bottled water)	10	6	5	2.0x
Personal-care products and services (eg, shampoo, deodorant, and barbershops and salons)	10	4	3	3.3x
Household furnishing and appliances (eg, bedding, furniture, dishwashers)	12	8	5	2.4x
Consumer electronics (eg, smartphones, laptops, and TVs)	10	4	4	2.5x
Apparel	10	6	4	2.6x
Footwear	10	6	6	1.6x
Entertainment (eg, streaming service, concerts, and movie tickets)	12	8	6	2.0x
Hospitality and travel (eg, hotel/resort/rental stays, plane tickets, adventures, and tours)	13	8	6	2.2x
Banking and financial services (eg, checking-account fees, home-insurance premiums, and personal-loan interest)	20	19	3	6.8x
Vehicle purchases (eg, cars, trucks, and boats, including leasing)	15	7	7	2.1x
Housing (eg, mortgage, rent, utilities, and repairs)	20	13	4	5.1x
Healthcare (eg, insurance, medical services, and drugs)	21	13	4	5.2x
Education (eg, school supplies and tuition)	15	11	8	1.9x

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

Exhibit 25

Latino consumers are willing to pay more for better product and service offerings.

	Share of Latino respondents expressing dissatisfaction with current offerings in category, %	Revenue at stake, $ billions	Additional willingness to pay for better products and services, %	Size of unmet demand, $ billions
Housing	20	62.5	7–15	71.8
Banking and financial services	20	18.2	9–17	21.4
Healthcare	21	11.5	9–18	13.5
Vehicle purchases	15	10.2	11–21	12.3
Food away from home	16	8.5	17–25	10.7
Food at home	9	6.6	13–23	8.1
Entertainment	12	3.8	8–16	4.4
Household furnishings and appliances	12	3.2	11–21	3.8
Apparel	10	3.2	10–18	3.8
Education	15	2.0	12–22	2.5
Hospitality and travel	13	2.0	12–21	2.4
Consumer electronics	10	1.4	11–19	1.7
Personal care products and services	10	1.2	16–26	1.5
Footwear	10	0.8	11–20	1.0
Beverages at home	10	0.6	13–21	0.7
Total		**~$136 billion** revenue at stake		**~$159 billion** revenue at stake

Latinos are willing to pay 1.18 times more

Note: Figures may not sum because of rounding.
Source: McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Latino Economic Mobility analysis

Prioritizing Latino consumers: A win-win

Latino consumers already spend a total of about $870 billion annually on goods and services in the US, and represent one of the fastest growing consumer segments. Yet that number could be $660 billion higher simply in an income parity scenario and their needs were better served. We outline three broad categories of interventions that could help Latino consumers close gaps that fundamentally represent an opportunity cost to the US economy.

Increase Latino spending power
The more people earn, the more they spend. We've already detailed how Latinos make just 66 cents for every dollar earned by non-Latino White workers, a gap that means Latinos are collectively underpaid by $288 billion annually (for more, see chapter 2, "Latino workers: Pursuing the American dream"). Improving outcomes for Latino workers and business owners not only makes the economy more equitable and provides greater financial stability, but could drive higher spending.

Provide greater access to goods and services
Earlier in this chapter we outlined how consumer deserts disproportionately affect Latino consumers. Many organizations are contributing to find solutions. Finhabits, for example, is a bilingual digital platform designed to make savings and investment accessible for Latinos and to encourage investing and long-term financial planning. Capital Plus Financial focuses on homeownership in underserved markets, originating first-line residential mortgages in low- to moderate-income communications across Texas. And the asset-management firm Mercer launched a mobile telehealth initiative to offer services through native Spanish-speaking providers.

Increase Latino satisfaction with goods and services
While Latinos already make up one of the largest and fastest-growing consumer markets in the United States, they express high rates of dissatisfaction and a willingness to pay even more for better goods and services. Aligning offerings and experiences to better meet their needs and preferences could help close the gap.

Goods and services can be better tailored to appeal to Latinos and subsegments of the population, considering all aspects of the customer experience. Consider McDonald's, which created a Spanish-language website with customized content and messaging to support Latino communities in areas of food, education, music, and sports. Or Procter & Gamble, which introduced laundry detergent in multiple scents to appeal to Latinos, who tend to like heavily scented products, while also increasing its use of Latino spokespeople. And Walmart has entered into a three-year partnership with Univision Communications to develop customized local advertisements for Latino communities.

Increasing Latino representation in key decision-making positions is likely to result in more focus on serving Latino consumers. Latinos are underrepresented in key occupations that shape decisions about which consumers to target (roles such as sales, marketing, advertising, and promotions managers), jobs that influence design, and positions that drive product development. In addition, as detailed in chapter 2, "Latino workers: Pursuing the American dream," Latinos account for 17.3 percent of the US labor force—but they represent less than 2.0 percent of Fortune 500 CEOs and less than 1.0 percent of Fortune 100 CEOs, and hold just 3.8 percent of Fortune 500 board seats. Among all US companies, Latinos hold about 6 percent of CEO positions, compared with 83 percent for White workers, and are 3.9 times less likely to hold a C-suite position than their White counterparts. It's a problem that starts early and gets worse: proportionally fewer Latinos, male and female, secure entry-level positions, and the percentage of Latinos falls the more senior the role.

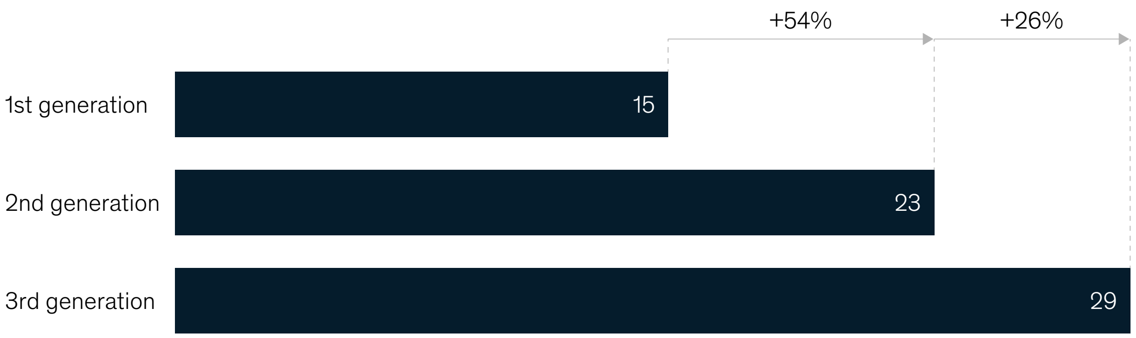
5. Latino savers and investors: Confronting the wealth gap

At its heart, the American dream is simple. It's the belief that anyone, no matter where they're born or what their circumstances are, can achieve their own version of prosperity and success. For many, the accumulation of wealth and the security it provides are central to that dream, as well as the desire for each generation to be better off than the one before. On that measure, Latinos are on the journey to achieving the dream: 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.[75] Wealth is also increasing by generation, especially from the first generation to the second (Exhibit 26). In fact, children of foreign-born Latino immigrants experience higher economic mobility than their US-born peers.[76]

Exhibit 26

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



[1]Sum 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.
[2]Sum 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

36,000

Median wealth of Latino households, compared with $188,000 for White households

Yet while Latino wealth is on an upward trajectory, it's far from equal with that of non-Latino Whites. The current median wealth of Latino households is about $36,000, just one-fifth of the median $188,200 of their White peers.[77] Latino families are also significantly more likely to have a zero or negative net worth: 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.[78]

[75] 2019 Survey of Consumer Finances, Federal Reserve, 2020, federalreserve.gov.
[76] Ibid.
[77] Ibid.
[78] Ibid.

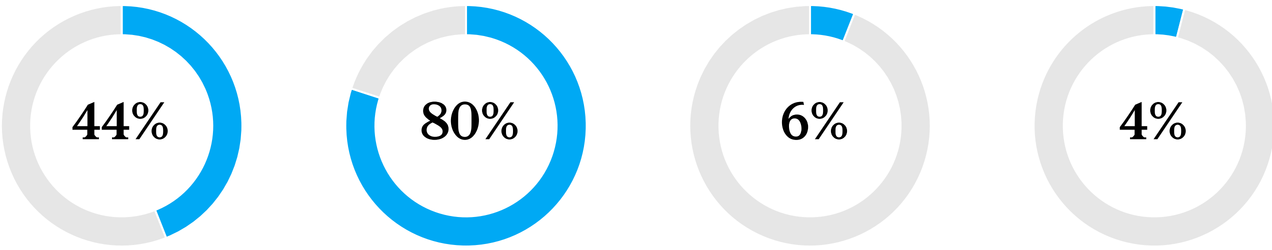
The problem is while Latinos have higher rates of intergenerational mobility, they start from a much smaller base: our analysis finds the annual flow of net wealth for Latinos is about $380 billion lower than in a per capita parity scenario with their White peers (Exhibit 27). Yet that also represents an opportunity. Closing the gap in annual wealth accumulation by addressing the barriers constraining Latinos from saving and investing could boost median Latino household wealth by $24,000.

Exhibit 27

While Latinos have higher rates of intergenerational mobility, the flow of wealth is well below its potential.

~$380 billion

Annual wealth flow gap



of Latino families have a net worth below $20,000 (vs 20% of non-Latino White families)

of the gap in annual flows is driven by inheritance and participation in stocks

of Latino families receive an inheritance (vs 24% of non-Latino White families)

of Latino families have direct holdings of stocks (vs 19% of non-Latino White families)

Source: McKinsey Global Institute analysis

A universal wealth gap

The wealth gap between Latinos and non-Latino Whites exists at all levels, but is greatest in the lowest wealth percentiles. That's because more than a third of Latino families have a net worth below $10,000 (10 percent of Latino families have negative net worth, with liabilities exceeding assets), and 67 percent of Latino families have a net worth below $100,000—barely half the average wealth of White families (Exhibit 28).

32%

of Latinos send money to family overseas

Wealth is also distributed unevenly within the Latino population. Our survey found the median wealth of Latinos of Mexican origin—the largest Latino subgroup in the United States—is $5,000 per individual, compared with $13,000 for Latinos of Cuban origin and $15,000 for Latinos of Puerto Rican origin. Latinos of Mexican origin also had significantly fewer assets than other subgroups, and around 55 percent had total wealth below $10,000 (compared with around 44 percent of Latinos of Cuban origin and 46 percent of Latinos of Puerto Rican origin).[79]

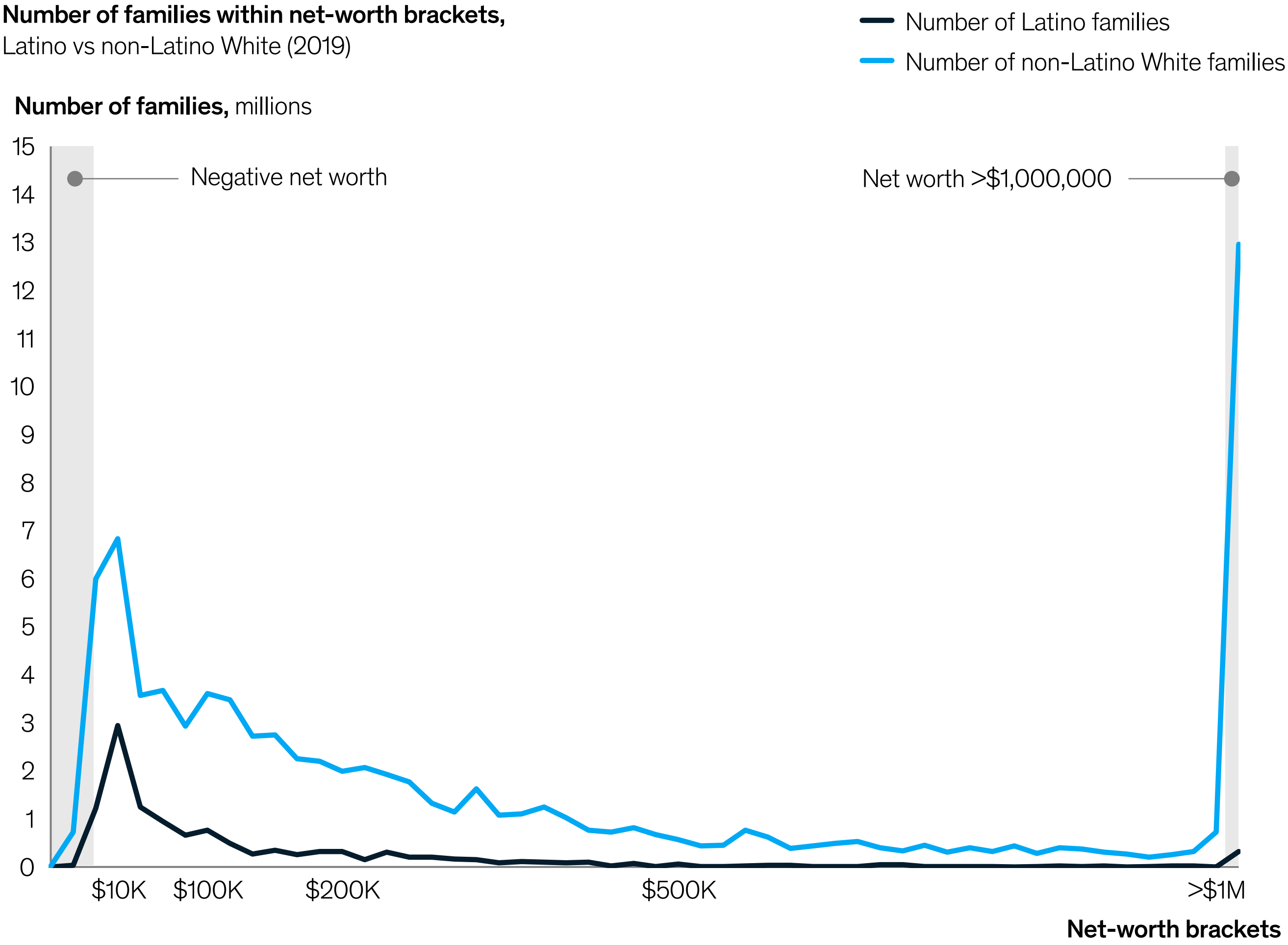
This chapter explores the wealth of Latino individuals and households in the United States. We examine what's driving the disparity between Latino and non-Latino White wealth, from intergenerational transfers to lower rates of saving and reduced participation in retirement programs. Finally, we look at what could be done to improve outcomes and begin to close the annual gap in net wealth transfers. As with all chapters in this report, we don't claim change will be quick or easy. But we know there's an opportunity to make changes that will meaningfully boost Latino wealth—now and for future generations.

[79] McKinsey analysis.

Exhibit 28

More than a third of Latino families have a net worth of less than $10,000.

Number of families within net-worth brackets,
Latino vs non-Latino White (2019)



	Negative net worth	$0–$10,000 net worth	$20,000–$100,000 net worth	>$1,000,000 net worth
Latino families	10%	24%	33%	3%
Non-Latino White families	8%	8%	20%	16%

Source: Survey of Consumer Finances (SCF), Federal Reserve Board, 2019, federalreserve.gov

The three drivers of the Latino wealth gap

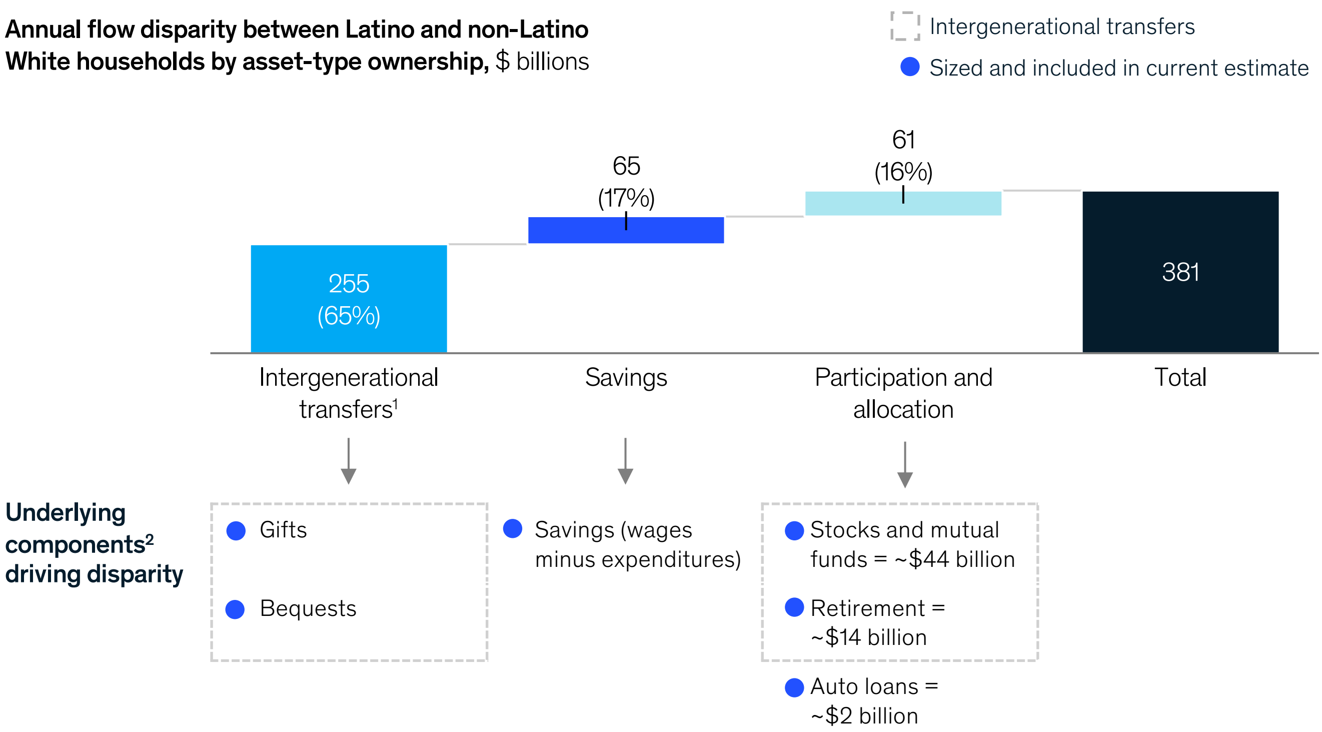
Wealth accumulates—or dissipates—over time, from generation to generation. Wealth is lowest for foreign-born Latinos, who have an individual median net worth of $15,000. It jumps by 54 percent to $23,000 for the second generation, and rises another 26 percent to $29,000 for the third generation.[80] Yet around 45 percent of first- and second-generation Latinos still have median individual wealth of less than $10,000.[81]

It's the lack of accumulated wealth that primarily drives the $380 billion gap in the annual flow of net wealth compared with White peers. Two-thirds of that 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 (Exhibit 29). Closing this gap in annual wealth accumulation could boost Latino household wealth by $24,000—the equivalent of a 66 percent increase in median wealth.[82]

Exhibit 29

More than 60 percent of the wealth gap stems from low numbers of intergenerational transfers.

Annual flow disparity between Latino and non-Latino White households by asset-type ownership, $ billions



[1] Based on median value of inheritance.
[2] Does not include: transfers, bonds, check and savings, emergency savings, homeownership, fees, consumer credit, student loans, and mortgages.
Source: Survey of Consumer Finances (SCF), Federal Reserve Board, federalreserve.gov; Hamilton Project, Brookings Institution; McKinsey analysis

[80] Ibid.
[81] Ibid.
[82] 2019 Survey of Consumer Finances; Hamilton/Brookings Institution; McKinsey analysis.

Behind the shortfall in intergenerational transfers

The supporting facts behind the $255 billion gap in Latino intergenerational transfers are simple: Latinos are four times less likely to receive an inheritance than non-Latino Whites, and when they do, it's more than three times smaller.[83] The headline reasons for these facts are also simple: immigrant Latinos generally arrive with limited wealth; Latinos earn less, for all the reasons we've detailed, and the cumulative effects on family wealth compounds over generations.

Yet there are other additional factors driving the gap in intergenerational transfers. While 63 percent of non-Latino Whites have a will or living trust, just 15 percent of Latinos do.[84] The reason? A growing number of Latinos cite a lack of knowledge and resources for not undertaking estate planning.[85] The underrepresentation of Latinos in financial advising—just 2.2 percent of certified financial planners are Latino—may contribute to that.[86]

In addition, many Latino immigrants have limited access to the banking system. Until recently, Latinos who don't use Social Security numbers have been excluded from the banking system, and a lack of proper documentation remains an obstacle for many. In fact, 14 percent of Latinos don't have a bank account. Higher rates of consumption and the need to pay down debt also mean inheritances are less likely to be saved or reinvested. In short, because the gap in asset value between Latino and non-White Latino households is larger than the wealth gap, Latino households accumulate less wealth over their lifetimes.[87]

Saving and consumption patterns

About 17 percent—or $65 billion—of the $380 billion gap in the annual flow into 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.[88] That's because Latino incomes are lower and, as a result, households spend proportionally more of their income on essentials such as housing, transportation, and food, and less on retirement and healthcare (Exhibit 30).[89]

Two additional significant differences between Latino and White households relate to the financial role of family. First, Latinos are more likely to support family members in the US when they have disposable income—44 percent report using extra money to help 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).[90] In fact, 17 percent of Latino millennials have been providing financial support to family since they were old enough to have a job, compared with 8 percent of non-Latino millennials.[91]

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83 Ibid.

84 Shinae L. Choi et al., "Estate planning among older Americans: The moderating role of race and ethnicity," *Financial Planning Review,* 2019, Volume 2, Number 3-4, onlinelibrary.wiley.com.

85 2020 Estate Planning and Wills Study, Caring, 2020, caring.com; *The Lawyer Marketing Blog*, "Getting to the Bottom of Latino Clients' Unique Legal Needs," blog entry by FindLaw, June 22, 2021, lawyermarketing.com; Ingrid Cruz, "10 Latina Influencers to Follow Now," MoneyGeek, June 23, 2021, moneygeek.com.

86 Ross Snel, "Diversity increased among CFPs in 2020. There's still room for progress.," *Barron's*, January 12, 2021, barrons.com.

87 2019 Survey of Consumer Finances.

88 2019 Consumer Expenditures Surveys, US Bureau of Labor Statistics, 2020, bls.gov; Bank of America, "Disparities in Minority Retirement Savings Behavior."

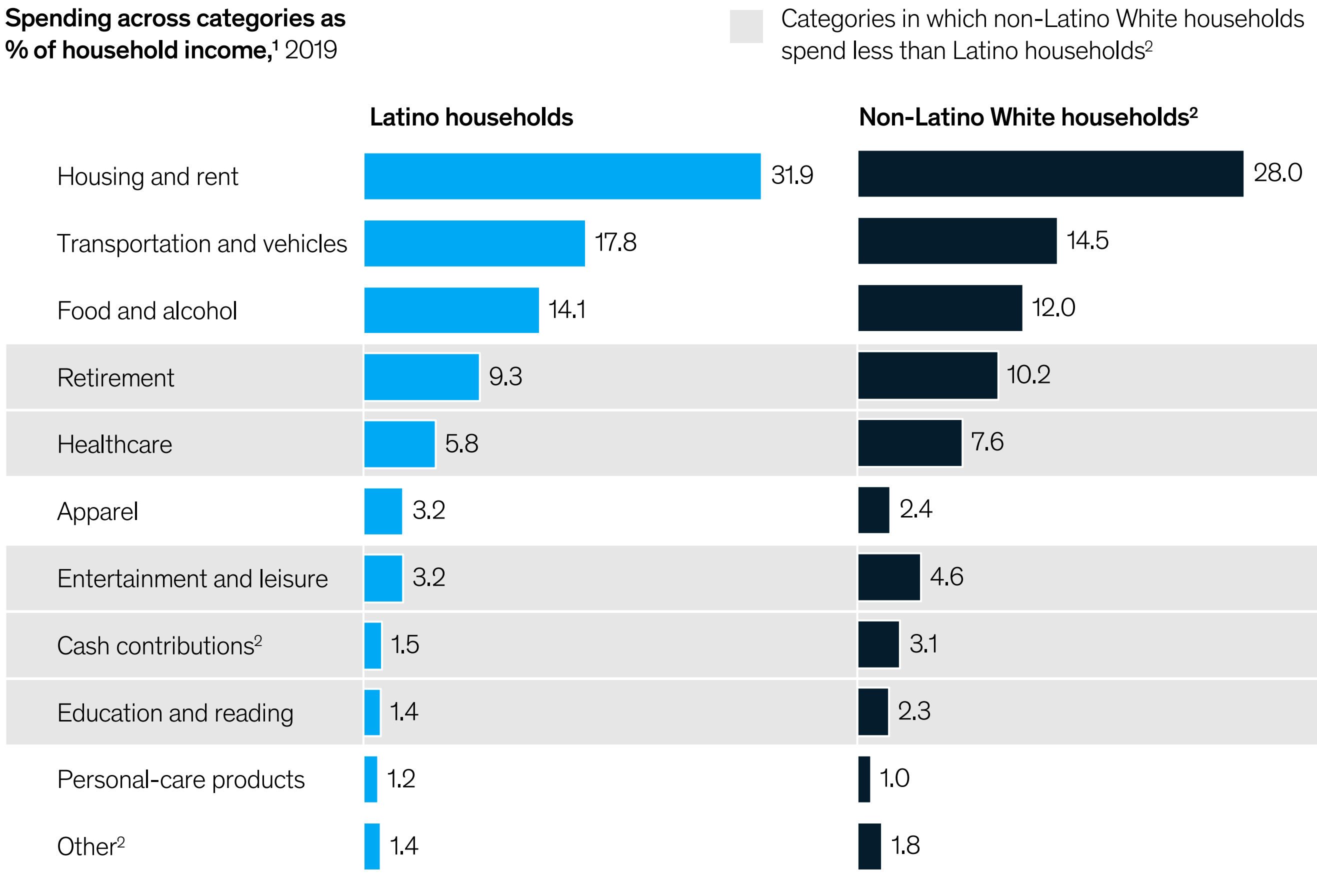
89 2019 Consumer Expenditures Surveys.

90 *2020 State of Hispanic wealth report,* Hispanic Wealth Project, 2020, hispanicwealthproject.org; *Hispanic millennials' financial experiences, challenges & the path forward*, Bank of America, 2021.

91 Ibid.

Exhibit 30

Latinos proportionally spend more on basics and less on retirement and healthcare.



[1] Post taxes.
[2] And all others, excluding Black families.
[3] Cash contributions includes financial support for children, alimony payments, and charitable donations. Other includes tobacco and smoking products and uncategorized components beneath the US Bureau of Labor Statistics “miscellaneous” taxonomy.
Source: Consumer Expenditure Survey, US Bureau of Labor Statistics, 2019, census.gov

Second, Latinos’ savings are constrained by the desire to provide financial support to family abroad. Our survey found 32 percent of Latinos send remittances outside the United States,[92] with more than two-thirds of those sending up to 30 percent of their income abroad: 23 percent send 0–10 percent, 29 percent send 10–20 percent, and 17 percent send 20–30 percent.[93] These remittances deplete savings to the tune of an estimated $50 billion to $60 billion annually—and Latinos account for a third of all remittances sent from the United States to other countries (Exhibit 31).[94] Latinos’ household wealth could be about $18,000 higher if they instead invested 40 percent of the average annual remittance value over ten years.[95]

[92] McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis.
[93] Ibid.
[94] 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.
[95] McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Black Economic Mobility analysis.

Exhibit 31

Sending money to family members overseas depletes savings for Latinos.

Latino survey remittance insights

$50–$60 billion[1]

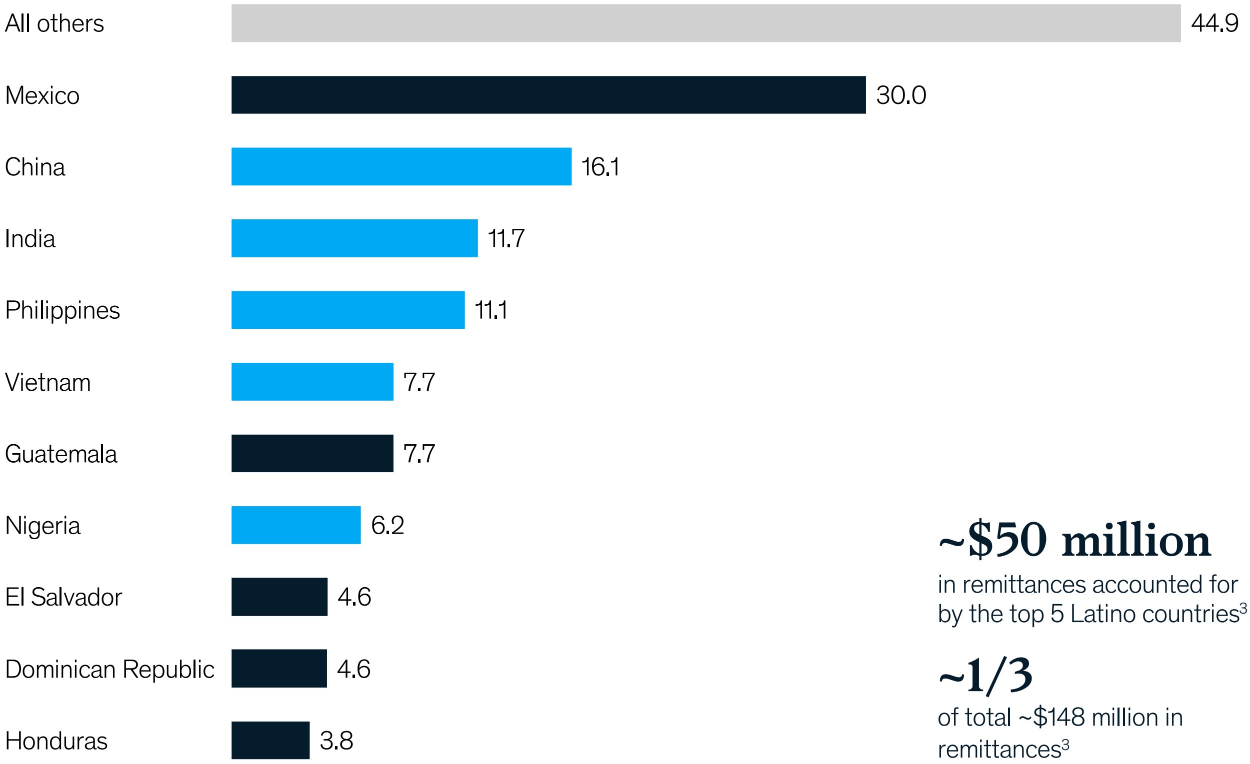
Remittances sent out of the US by Latinos

~$3,100[2]

Average annual remittance per Latino household

All 2017 remittances sent from United States to other countries,[3] $ millions

Non-Latino country | Latino country



~$50 million

in remittances accounted for by the top 5 Latino countries[3]

~1/3

of total ~$148 million in remittances[3]

[1] Latino respondents in McKinsey's consumer survey numbered ~15.9 million households. ~32 percent of Latinos send remittances. The average of the median of the upper and lower bounds of remittances was ~$10,000.
[2] ~$50 billion in remittances averaged over ~15.9 million Latino households.
[3] Obtained from Pew Research Center data on remittance flows by country, 2017.

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

Latinos hold fewer assets, of lower value

Latino families are less likely to hold assets than non-Latino White households—and when they do, the median value of those assets is lower.[96] For instance, while nearly all Latino families have transaction accounts, the median value of those accounts is about 75 percent lower than for White families.[97] Latinos are also less likely to participate in retirement programs, and the gap in retirement savings is widening over time—today it stands at around $14 billion, and Latino millennials are more than twice as likely than their White counterparts to contribute little or nothing to retirement accounts.[98]

The same holds true for other asset classes. Latino families are less likely than their White peers to hold life insurance policies, and when they do, the value is about 20 percent lower.[99] Latino household participation in stock investments and mutual funds lags behind non-Latino Whites and the general population,[100] resulting in a gap of about $44 billion in the annual flow of net wealth (based on annual returns of about 10 percent over the same period). Latinos are about four times less likely than non-Latino Whites to directly hold stocks, and 12 times less likely to directly hold some type of pooled investment fund, such as mutual funds.[101] Our research suggests this may be because Latinos feel they don't have enough money to invest or a lack of consideration.[102]

The largest proportion of Latino wealth is in housing assets. Yet Latinos are less likely to own a primary residence than non-Latino Whites, and when they do, its value is about 26 percent lower.[103] The overall rate of homeownership among the Hispanic population is 53 percent, with Latinos of Cuban origin the most likely to own a home (58 percent).[104] One asset class in which Latinos have a high level of ownership is cars: 94 percent of Latinos of Mexican origin, for example, own a vehicle.[105]

Finally, the COVID-19 pandemic has exacerbated the wealth gap and reinforced the need to address it. The pandemic made it even more difficult for Latinos to save: 46 percent had to tap into existing savings, compared with 42 percent of Whites, and almost half of Latinos drawing on savings during the pandemic tapped into at least 50 percent or more of their savings, compared with 34 percent for non-Latino Whites.[106]

96 2019 Survey of Consumer Finances, Federal Reserve, 2020, federalreserve.gov.
97 2019 Consumer Expenditures Surveys; "Disparities in Minority Retirement Savings Behavior."
98 Ibid.
99 2019 Survey of Consumer Finances.
100 Ibid; "Disparities in Minority Retirement Savings Behavior."
101 Ibid.
102 McKinsey Consumer Survey, August 2021 (n = 4,000); McKinsey Global Institute and McKinsey Institute for Latino Economic Mobility analysis.
103 Survey of Consumer Finances, 1989 – 2019, Federal Reserve, accessed July 2021, federalreserve.gov.
104 American Community Survey (ACS) five-year estimates, US Census Bureau, 2019, accessed July 2021 , usa.ipums.org.
105 Ibid.
106 *2020 State of Hispanic wealth report,* Hispanic Wealth Project, 2020, hispanicwealthproject.org.

Beginning to close the gap: Potential interventions to help boost Latino wealth

In addition to the actions we've described to increase household incomes, a fundamental intervention that could help improve outcomes for Latino savers and investors is accelerating financial inclusion to boost wealth building. While it's primarily dependent on interventions in other areas—such as reducing the wage and representation gaps for Latino workers to provide more disposable income—accelerating inclusion revolves around financial institutions better serving Latino savers, initiatives that employers can take, and supporting Latino savers in their wealth journeys.

Employers can play a role in closing the gap by accelerating financial inclusion to boost wealth-building for Latinos. For example, retirement and other financial benefits could be added to workplans. Efforts could be made to attract high-potential Latino student into financial advisory roles and careers, such as JP Morgan Chase's commitment to hiring more than 300 Black and Latino financial advisors. And banks and other financial-service institutions could adjust their offerings to enhance Latino satisfaction with products and services. The opportunity is there: 22 percent of Latinos have not considered opening a retirement account, 14 percent simply don't know how to open one, and 13 percent don't know what a retirement account is.[107]

Supporting Latino people in their wealth journeys can also help accumulate wealth from one generation to another. Neighborhood Trust Federal Credit Union, for instance, offers Latinos and underserved communities estate planning, financial education, credit help, and access to other financial services. Helping young Latino students learn about financing and providing education on credit scores, retirement opportunities, investing strategies, and helpful products may go a long way to closing the gap in awareness that prevents participation in efforts to accumulate long-term wealth.

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

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Appendix A: Technical notes

Our research used the framework from *The economic state of Black America: What is and what could be*[108] and replicated the report's major analyses across the worker, business owner or entrepreneur, consumer, and saver roles.

Worker-role analyses and methodology

We rely on labor market data from Integrated Public Use Microdata Series (IPUMS) USA, which organizes microdata from the US Census Bureau. We also incorporate data from the US Bureau of Labor Statistics and other sources as noted throughout. Our labor-market analyses include sizing the gap between the current state and a scenario of greater parity, and examining the pipeline progression for Latinos entering key professions.

Parity sizing
We assess the current state for Latino workers using an IPUMS USA five-year data set (2015–19) based on the US Census Bureau's American Community Survey (ACS). The five-year data set combines single-year files to allow for sufficient sample size; it is nationally representative via weighting each data point in the sample. We use this data to analyze the representation of Latino workers across 529 ACS-defined occupational categories as well as differences in the median wages paid to Latino and non-Latino White workers within each occupational category.

We weigh the current state against scenarios of parity in both representation and pay. We then analyze the gap associated with each of these drivers; when combined, they form a $416 billion aggregate disparity in annual wages.

With regard to representation, the parity scenario is one in which Latino worker representation in each occupational category matches the Latino share of the US labor force (17.3 percent). This involves both reducing their concentration in low-wage roles in which their representation currently exceeds 17.3 percent and increasing their representation in higher-paying occupations.

With regard to wages within individual occupational categories, we consider parity scenarios in which the current differences in median wages paid to Latino and non-Latino White workers within specific categories are eliminated.

Analyzing pipelines into key professions
We analyze key professions with above-average wages in which Latino worker representation is lower than the share of Latino workers in the labor force (for example, physicians, lawyers, and teachers). These have traditionally been important roles for entering the middle class.

We construct a road map representing the typical formal journey through education, training, and ultimately entering the profession (recognizing that this view doesn't include some nontraditional ways to enter). At each stage along the way, we use various data sources to capture the share of Latino representation, seeking to identify the points at which drop-offs occur. These data sources include government agencies (the US Census Bureau, the US Department of Education), professional associations (the Association of American

[108] Michael Chui, Vivian Hunt, JP Julien, James Manyika, Bob Sternfels, Shelley Stewart III, Jonathan Woetzel, and Haiyang Zhang, *The economic state of Black America: What is and what could be,* June 17, 2021, McKinsey.com.

Medical Colleges, the American Bar Association), and others. Our identification of potential bottlenecks is based on changes in Latino representation at various points.

While we provide hypotheses for the potential reasons for the bottlenecks, we acknowledge the need for further research to understand why they manifest and how they could be addressed.

Business owner–role analyses and methodology

We rely on business data and research from the US Census Bureau—in particular, its Annual Business Survey (ABS). The ABS program captures select economic and demographic characteristics regarding businesses and business owners. It collects data on all nonfarm employer businesses filing the 941, 944, or 1120 tax forms. Our analyses of ABS data primarily focus on private employer firms (that is, companies that have at least one worker in addition to the owner) that are classifiable by the race and ethnicity of the owner. Sole proprietorships and publicly traded companies are excluded.

Parity sizing and analytics
We weigh the current state against scenarios of parity in both industry representation and per-firm revenue within industries. We then analyze the revenue gap associated with each of these drivers; when combined, they form a $2.3 trillion annual revenue gap between Latino-owned and non-Latino White-owned businesses.

With regard to industry representation, we measure the current state against a parity scenario in which the share of Latino-owned private employer firms within each industry matches the Latino share of the US population (18.4 percent). This relies on the current number of Latino-owned employer firms in each industry and the total number of firms in that industry, as reported by the Census Bureau's ABS program.

With regard to per-firm revenue, we consider the difference in the per-firm revenue of Latino-owned private employer firms and the revenue of non-Latino White-owned private employer firms within each industry (listed as sales, value of shipments, or revenue). We then consider a scenario in which this gap is closed.

Entrepreneurship data and discussion
We reference both quantitative evidence and qualitative considerations for our entrepreneurship discussion. Our analysis of newly created Latino-owned companies focuses on those that have been operating for fewer than two years, as reported by the Census Bureau's ABS program. The discussion of the industry distribution of newly created Latino-owned firms references both industry growth and each industry's contribution to GDP.

The industry growth rate is calculated as the ten-year forward compound annual growth rate based on value added to the economy. The GDP contribution is calculated as contribution to ten-year incremental GDP between 2019 and a 2028 projection. Both projections are from IHS Markit.

For discussion of entrepreneurial rates and potential barriers, we consult sources including the Kauffman Foundation's 2020 national report on early-stage entrepreneurship, Stanford's 2020 and 2019 reports on the state of Latino entrepreneurship, the Federal Reserve Bank of Atlanta's 2019 report on minority-owned firms, and JPMorgan Chase's 2020 report *Small business owner race, liquidity, and survival.*

Consumer-role analyses and methodology

This research explores multiple aspects of consumer disparities, including spending, access, and the quality of available products and services in terms of meeting the needs and preferences of Latino consumers. Our analyses build on both publicly available sources and proprietary McKinsey data, research, and tools. Among the public sources consulted are the US Census Bureau's Consumer Expenditure Surveys (which are conducted on behalf of the US Bureau of Labor Statistics), the US Department of Agriculture's Food Environment Atlas data, healthcare access data from the US Department of Health and Human Services, data on access to banking services from the Federal Deposit Insurance Corporation (FDIC), and various other public and private entities.

We also designed and implemented a major consumer survey (conducted August 2021, n = 4,000) to estimate Latino consumer dissatisfaction, current spending subject to shifts, and willingness to pay more for better products and services. This survey also looks at differences among Latino subgroups, including by origin and place of birth.

Spending data and analytics

We assess the level of Latino consumer spending based on the Consumer Expenditure Surveys. Specifically, we calculate the share of US consumer spending by Latino consumers (11.4 percent of aggregate consumer expenditures), with a breakdown by major household-spending categories (including food, apparel, entertainment, housing, transportation, and healthcare). Our analysis is based on $870 billion in actual 2019 expenditures (with data capturing both current spending and spending financed by debt).

Access data and discussion

Our access discussion considers six types of consumer "deserts" that provide insufficient access to fresh food, affordable housing, banking, broadband, healthcare, or consumer goods.

— *Food access:* We rely on the US Department of Agriculture's definition of food deserts as census tracts that are both low income and low access. The criteria for identifying a low-income census tract are the same as those used for the New Markets Tax Credit program. Low access is defined as being far from a supermarket or grocery store, and a census tract is considered low access if at least 500 people, or one-third of the population, live far away from a supermarket (defined as one mile in urban areas and 10 miles in rural areas).

— *Affordable housing access:* For the national-level analysis, we define low housing access as census tracts that are low income and in states with less than the national level of affordable and available units per 100 extremely low-income households, as defined by the National Low Income Housing Coalition (NLIHC).

— *Banking access:* We use state-level data on the unbanked population published by the FDIC. For the purpose of our analysis, we define a banking desert as a census tract with an above-average proportion of unbanked individuals in the state.

— *Broadband access:* We define broadband deserts as having less than 80 percent coverage, based on Federal Communications Commission (FCC) data showing the number of residential fixed high-speed connections (more than 200 kilobits per second in at least one direction) per 1,000 households in each census tract.[109]

— *Healthcare access:* We use data and definitions from the US Department of Health and Human Services, which designates medically underserved areas and healthcare provider shortage areas.

— *Consumer-goods access:* We use US Department of Agriculture (USDA) data that consider consumer-goods deserts as census tracts in counties with a below-average number of "supercenters," including warehouses clubs and (NAICS code 452910) retailers that sell a general line of groceries in addition to apparel, furniture, and appliances.

Quality and preference data analytics

We designed and executed a large-scale proprietary consumer survey to gauge Latino consumer dissatisfaction, the associated revenue at risk, and Latino consumers' willingness to pay more for better products and services across 15 spending categories. The survey was based on the same methodology used in our report on Black America. We collected data from 4,000 respondents in the United States and constructed a nationally representative sample.

[109] "Form 477 Census Tract Data on Internet Access Services," Economics and Analytics, Federal Communications Commission, updated October 13, 2020, fcc.gov.

Our assessment of the revenue at risk is based on the level of dissatisfaction across spending categories, as revealed by the survey, and the associated category spending based on the Consumer Expenditure Surveys. To estimate willingness to pay, we implement the Gabor-Granger methodology in our survey. The survey randomizes the starting level of willingness to pay for respondents, then loops the question to establish each respondent's maximum willingness to pay for better products or services.

Saver- and investor-role analyses and methodology

The analyses build on data from the Survey of Consumer Finances (SCF), a triennial cross-sectional survey of US families conducted by the Board of Governors of the Federal Reserve System. The SCF includes information on family balance sheets, income, and demographic characteristics. We also reference research and data published by other research entities, including Bank of America, the Hispanic Wealth Project, and the Pew Research Center.

We also used our proprietary survey (conducted August 2021, N=4,000) to understand the differences in wealth for Latinos based on origin and place of birth.

Parity scenarios and sizing
Our analyses consider disparities in annual wealth flows from three potential sources: intergenerational transfers, savings potential, and asset allocation and financial participation (instruments or debts held).

— With regard to intergenerational transfers, we measure the difference between the current state and a parity scenario in which Latino families have the same likelihood of receiving inheritances and gifts as White families, and the conditional mean value of those transfers equals that of White families. According to the Federal Reserve's Survey of Consumer Finances, Latino families (6 percent) are four times less likely to receive intergenerational transfers than their White peers (23 percent); the conditional mean of intergenerational transfers for Latino families ($85,698) is one-third that of White families ($236,495).

— With regard to annual savings potential, we calculate wages minus expenditures (including net changes of assets or liabilities) using expenditure data from the Consumer Expenditure Surveys. This is measured against a parity scenario in which Latino annual household income equals White annual household income.

— Finally, we estimate the gap in financial market participation and return–cost disparities based on a select set of financial instruments (including stocks and mutual funds, retirement accounts, and auto loans). We consider the current state against a scenario of parity that closes the gap in the likelihood of holding specific financial instruments and the median value of those holdings and then assuming a 10.7 percent one-year return (which tracks the nominal performance of the S&P 500 index from January 1989 to December 2020). The parity scenario also assumes that Latino borrowers are not charged higher interest rates on auto loans. The current state is based on data from the Federal Reserve's Survey of Consumer Finances, which reports both the share of families holding various assets and debt instrument and the median value of those holdings.

Our analyses do not intend to provide a comprehensive assessment of all the disparities that exist in financial markets. They are illustrative examples.

Family-net-wealth analysis
We use data from the Federal Reserve's Survey of Consumer Finances on reported family net worth by race. We then apply the weight variable (WGT) to calculate the corresponding number of households at that net worth level. For the purpose of our analysis, we set net worth brackets at $10,000 increments (except for the two tails, where we group net worth data below negative $100,000, and above $1,000,000, respectively).

Related McKinsey research

The economic state of Black America: What is and what could be (2021)

Closing racial gaps across the economy is not only about righting historic wrongs. It is also about choosing a more dynamic future and realizing the full potential of a massively underutilized source of talent, to the benefit of all Americans.

Race in the workplace: The Black experience in the US private sector (2021)

Advancing racial equity in the workplace is a system-level challenge—ranging from the structural inequities of geography to underrepresentation in industries and jobs that could create additional opportunity to the behaviors of the workplace itself.

The case for inclusive growth (2021)

US leaders across sectors have an opportunity to improve economic performance—and bolster individual and community well-being—through investments that embed equity into the development process.

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