

Executive summary

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

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

## Authors

Ana Paula Calvo  
Carolina Mazuera  
Jordan Morris  
Lucy Pérez  
Bernardo Sichel

# Executive summary

US Latinos account for the fastest-growing portion of US GDP. So much so, that if we considered US Latinos as their own country, it would be third only to the GDP growth rate of China and India in the past decade.<sup>1</sup> At a time of economic uncertainty with concerns about a possible recession growing, consumers are looking for additional support. Our research estimates that the Latino consumer base has unmet needs of more than \$100 billion currently, and this could grow six-fold to \$660 billion if we address the parity gap between Latinos and non-Latino Whites based on share of population.

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

Over the past decade, Latinos have grown their household consumption to reach a cumulative \$1 trillion market in 2021—a 6 percent annual growth rate over the last decade. Their household spend is higher compared to other groups at similar income levels, and yet marketing spend directed at Latinos most likely does not reflect this.<sup>2</sup> Latinos are conscious of their impact, choosing brands that value the environment and their employees, all of which makes them more influential than their income levels would suggest.

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

Latino voices remain underrepresented in the C-suites of corporate America where product offerings and capital allocation decisions are made, and this is particularly true of Latina women. As a result, Latino consumers are often overlooked by companies that do not recognize them as a priority demographic. Less than 5 percent of seats in Fortune 500 boards and in C-suites of corporate America are occupied by Latinos despite this community representing 19 percent of the US population.<sup>3</sup> Latina women hold 1 percent of seats in Fortune 500 boards, the smallest percentage of board seats compared to any racial or ethnic demographic in the US.<sup>4</sup> Furthermore, Latina women may be further marginalized at work as described in our latest *Women in the workplace* report.<sup>5</sup>

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

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<sup>1</sup> Dan Hamilton, et al., “2022 LDC US Latino GDP report,” Latino Donor Collaborative, September 2022.

<sup>2</sup> Jeremy Goldman, and Daniel Konstantinovic, “Hispanic consumers remain an underserved demographic for many marketers,” Insider Intelligence, September 25, 2021.

<sup>3</sup> “Latino Board Monitor,” Latino Corporate Directors Association, August 2022.

<sup>4</sup> Ibid.

<sup>5</sup> Lareina Yee, et al., “Women in the workplace 2022,” McKinsey in partnership with LeanIn.org., October 18, 2022.

# 23%

of Latinos are considered financially healthy in 2022

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

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

In pursuing greater prosperity and fulfillment, Latinos increased their share of professional roles to 25 percent—a five percentage point gain over the past decade. However, Latinos still face barriers in the workplace, through discrimination, implicit biases, or a lack of opportunities for advancement in new roles. In fact, if Latinos were represented at job levels in line with their share of the population, and paid the same as non-Latino Whites, they would receive an additional \$281 billion in annual income that could be further deployed to drive economic growth.<sup>6</sup>

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

While Latinos have about half as much debt as non-Latino White counterparts, this may be because they find it difficult to access appropriate financial products. Latinos are 1.7 times more likely than non-Latino Whites to be turned down for a loan, and 30 percent are unbanked or underbanked compared to 12 percent of their non-Latino White counterparts.<sup>7</sup> For financial institutions, this is a significant opportunity to address an underserved consumer market.

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

Latinos are the most entrepreneurial group in the US economy, but they face significant barriers in access to capital—including lower approval rates than non-Latino White-owned businesses for bank loans, private-equity funding, and factoring. Less than 5 percent of venture capital is directed toward Latino entrepreneurs.<sup>8</sup> These obstacles, along with Latino businesses' lower representation in fast-growing economic sectors, limit their expansion and their opportunity to contribute to a more diversified product offering that meets the needs of American consumers.

If Latino businesses' access to capital were improved, and their representation in growing sectors increased, they would contribute an additional \$2.3 trillion in revenue to the economy and create 750,000 new employer firms, resulting in more than six million jobs.<sup>9</sup> Interventions to improve access to funding, both from financial institutions and procurement-led organizations, and investments in digital capabilities for Latino businesses can help realize this potential.

<sup>6</sup> McKinsey calculations using the "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>7</sup> "Economic well-being of US households in 2020," Federal Reserve, May 2021.

<sup>8</sup> Janice Bitters Turi, "VC funding to early-stage Latine-founded startups in the US has stalled. Here's why that matters," Crunchbase News, January 26, 2022.

<sup>9</sup> "Annual business survey 2019," US Census Bureau.

# The economic state of Latinos in the US:

Determined to Thrive



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



## Workers

**54%**

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



## Savers and investors

**\$47K**

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

**\$77B**

Gap in aggregate disposable savings among Latino and White households



## Business owners

**744K**

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



## Consumers

**8%**

Annual growth in Latino spending for the past nine years

**\$663B**

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

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

**~80%**

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

**~14%**

decrease in unemployment rate from pandemic high

**\$1.1T**

in aggregate annual spend, back to pre-pandemic level

# 80%

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

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

Latinos play a crucial and growing role in the US economy and have demonstrated resourcefulness, hard work, and creativity—despite being challenged by lower-paying jobs, less education, and widespread bias. Over the past year, it has become clear that Latinos are also uniquely vulnerable to income disruption. When COVID-19-associated lockdowns began to be implemented, Latinos found themselves in a precarious position: they were more concentrated in low-wage occupations than non-Latino Whites.<sup>10</sup> As a result, almost 60 percent of Latinos—who are overrepresented in industries most impacted by COVID-19, such as hospitality—lost their jobs or had to take a pay cut, and they are now more vulnerable to high inflation than other groups.

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

Our latest findings point to other welcome signs of agility among economically active Latinos. Over the past year, they have increased their share in professional occupations, raised their net worth faster than their non-Latino White counterparts, and shown their mettle as the fastest-growing minority entrepreneurial group. As consumers, Latinos already represent a \$1 trillion market, and their spending power is rising (6 percent compounded annual growth in the last decade, compared to 3 percent for the non-Latino White population).<sup>11</sup>

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

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

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

<sup>10</sup> "2020 5-Year estimates," 2020 ACS data release, American Community Survey, US Census Bureau.

<sup>11</sup> "Consumer expenditure survey 2021," US Census Bureau, US Bureau of Labor Statistics.



## Sidebar

### The journey continues

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

Highlights of the 2021 report:

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

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

## Data Sources

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

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



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