EXECUTIVE SUMMARY

Child Care in State Economies

2024 Update

A THREE-PART REPORT SERIES

JULY 2024

Part 2: Recent Trends in Child Care Industry Revenue and Employment

CED

W.K. KELLOGG FOUNDATION

REGIONTRACK
Regional Economic Forecasting and Analysis

Child Care in State Economies 2024

Executive Summary

The second report within CED's three-part series concentrates primarily on the supply of child care from the perspective of paid child care providers.

The analysis is performed within the context of identifying structural changes to child care delivery since the onset of the recent pandemic. This includes the number of child care providers, changes in the child care workforce and wages, and spillover effects from the child care industry to the broader economy. The pandemic prompted significant changes in the structure of the industry, both nationally and across the states.

This report was produced by RegionTrack, Inc., an economic research firm, and commissioned by Committee for Economic Development, the public policy center of The Conference Board (CED) with funding from the W.K. Kellogg Foundation. It provides a broad overview of the child care industry from the perspective of allowing parents to participate in the labor force (or to further education and training), and as an industry that employs workers and is an integral part of state economies.

Trusted Insights for What's Ahead

Economic Impact of COVID-19 on Child Care Supply

- The U.S. child care sector experienced a significant economic disruption due to COVID-19, with a sharper contraction than the broader national economy.
- Revenue for child care facilities that are employers plummeted by 36% in Q2 2020, compared to a 9% decline across all service sectors during the same period.
- Throughout 2020, child care facilities, both employer and non-employer (home-based businesses offering child care services), faced a revenue decline exceeding 10%.

Industry Recovery

- The sector's recovery was notably supported by federal and state interventions, including a total of $52 billion in supplemental federal aid.
- The child care sector adapted to revenue fluctuations primarily through employment and wage adjustments, mostly avoiding permanent shutdowns.
- Revenue for child care centers grew by 25.8% from pre-pandemic levels by the 3rd quarter of 2023, although workforce numbers per establishment have not fully recovered.
- By the second quarter of 2023, total wages for child care workers had surged more than 31% above pre-pandemic levels, reaching $30 billion annually. The average annual wage for child care workers increased by 27% in the period, reflecting the sharp rise in total wages.
- After a brief decline in 2020, the number of child care establishments began to expand again, with a 5.3% increase in employer establishments compared to pre-pandemic figures (an increase of 3,900 child care centers).
- The industry's trajectory post-federal aid depletion remains uncertain.

U.S. Child Care Industry Profile

- The child care industry plays a vital role in parental labor force participation and significantly contributes to the economy, with revenues reaching $68.5 billion in 2022.
- As of 2022, there were 624,300 operational business establishments in the sector, providing jobs for 1.5 million people.
- The industry continues to shift from non-employer (home-based) to employer (center-based) establishments, indicating a trend towards center care settings, which may impact future affordability and accessibility.

State-Level Variations and Trends

- The economic impact of the child care industry varies significantly across states, influenced by the number of children in paid care and the types of child care providers.
- Twenty-three states reported child care industry revenues exceeding $1 billion, with California the highest with $9.1 billion and Wyoming the lowest at $87 million.
- Rural and Farm Belt states derive a larger portion of their child care revenue from family child care homes, whereas urban and certain states like New Hampshire, New Jersey, and the District of Columbia, see less revenue from these home-based providers.
- The state-level breakdown further underscores the diverse economic roles of child care across the U.S., emphasizing the need for continued attention and support to ensure the sector's stability and growth and provide working parents with adequate care choices within their communities.

Summary of Findings

Part 2 of the “Child Care in State Economies (2024)” report series presents an analysis of the child care sector’s business response in the aftermath of the COVID-19 pandemic. It explores the supply adjustments made by providers and the current state of the sector’s overall recovery from the pandemic’s impacts.

Steep Downturn in Child Care Usage Prompts Supply Adjustments

The report outlines the initial shock to the child care sector, including a sharp decline in demand due to shelter-in-place orders and a consequential 36% drop in revenue among child care facilities classified as employers during the second quarter of 2020. This period also saw a significant reduction in employment within the sector, with a 31% decrease amounting to 290,000 lost jobs, and a 28% decline in total compensation paid to wage and salary workers. For all of 2020, both the employer and non-employer sectors of the industry experienced just more than a 10% decline in revenue.

Despite these challenges, the sector demonstrated resilience, with only a minimal reduction in the number of operating child care establishments. Recovery began with operational adjustments that led to a gradual revenue recovery, returning to pre-pandemic revenue levels by the third quarter of 2021. By the third quarter of 2022, the child care sector achieved a full revenue recovery, eventually exceeding forecasted trends in 2023. However, when adjusted for inflation, the real revenue gain stood at 12.6%, suggesting that the revenue recovery was somewhat overstated by inflationary effects.

Supplemental Funding Aids Industry Rebound

Federal and state funding has been instrumental in the child care sector’s rebound, with an infusion of $52 billion in supplemental federal aid significantly bolstering industry revenue during the recovery phase. Yet, due to federal reporting methodologies, the precise impact of these funds on the sector’s revenue resurgence remains indeterminate. The industry’s trajectory post-aid depletion also remains uncertain.

Initial Adjustments Through Employment and Wages

The child care sector’s adaptation strategy focused on employment and wage adjustments rather than ceasing operations. Employment saw a substantial drop and has recovered slowly, with the current total number of child care workers not yet reaching the pre-pandemic trend level despite full revenue recovery. Although hiring resumed after only one quarter of layoffs, the current number of workers per establishment, at 12.5, has yet to fully rebound to pre-pandemic levels despite the full recovery in child care revenue per establishment.

Sharply Increased Wages per Worker

Total wages paid to child care workers surged to an annual rate of $30 billion by the second quarter of 2023. This reflects a 31% increase from pre-pandemic levels, slightly exceeding the 25.8% rise in total revenue in the period. The average wage per child care worker is 27% higher than the pre-pandemic period. Child care operators increased wage rates to attract and retain employees, while operating with a reduced workforce. The share of total revenue paid out in wages remains stable near the long-run average of 47%. This suggests that rising revenue, impacted by federal relief funding, is the primary influence on wage gains.

Child Care Industry Adapts to New Growth Path

The report also provides an updated economic profile of the U.S. child care sector, highlighting significant trends from 1997 to 2022. It notes an increase in child care sector revenue to $68.5 billion in 2022, primarily driven by strong gains at employer firms. This growth underscores the sector's critical role in supporting working parents and contributing to the U.S. economy. Employer firms, mainly child care centers, continue to serve the majority of children in organized care and generate the bulk of the industry's revenue.

Despite their economic importance, and post-pandemic gains, wages for child care workers remain relatively low. The average worker in a child care center earned annual wages of $28,185 in 2022. After expenses, individuals operating family child care homes earned an average of only $10,400 dollars in net proprietor income after expenses in 2022.

The report observes a continued change in the mix of child care establishments, with a decline in non-employer providers and an increase in employer establishments, signaling a shift towards larger care settings over home-based care models. This ongoing shift suggests future implications for both affordability and accessibility.

State-Level Characteristics Influence Economic Role of Child Care

State-level analyses offer insights into disparities in child care provision across the states. The characteristics of the child care sector vary widely by provider type, the proportion of children in paid care, and average revenue per child in 2022. The economic impact of the child care industry on state economies is closely tied to these factors, with significant variations across states. For instance, 23 states reported revenues from the child care industry exceeding $1 billion, with California leading at $9.1 billion and Wyoming at the lowest with $87 million. The share of children in paid care and the average revenue per child vary widely, reflecting regional differences in child care utilization and prices.

The structure of the child care sector, particularly the balance between child care centers and smaller family-run homes, significantly impacts its economic contributions at the state level. Child care centers accounted for 84% of the industry's total revenue in 2022, but this distribution varies widely by state, influenced by parental preferences, geographical considerations, and economic factors.

The cost of child care, revenue per child, and the mix of provider types are linked to both the cost of living in a state and the wages of child care workers. Child care centers, which often charge higher fees, not only generate more revenue per child but also typically pay their employees more than family child care home providers earn. The balance between these provider types affects wage levels across states, with a higher prevalence of child care centers correlating with higher average wages for workers. This highlights the impact of provider structure on the economic dynamics of the child care industry at the state level.

Child Care Remains Important for Working Parents, Kids, and Economic Growth

In conclusion, the report highlights the supply adjustments made by the child care sector in the post-pandemic economic landscape, detailing its challenges, structural shifts, and contributions to the broader economy. The resilience and strategic adjustments of the sector are evident, with significant implications for policy, workforce development, and family support. The detailed state-level breakdown further underscores the diverse economic roles of child care across the U.S., emphasizing the need for continued attention and support to ensure the sector's stability and growth and provide working parents with adequate care choices within their communities.

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