EXECUTIVE SUMMARY

Child Care in State Economies

2024 Update

A THREE-PART REPORT SERIES

Part 1: Recent Trends in Paid Child Care Usage

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CED COMMITTEE FOR ECONOMIC DEVELOPMENT
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REGIONTRACK
Regional Economic Forecasting and Analysis

Child Care in State Economies 2024

Executive Summary

The first report within CED's three-part series on paid child care examines the residual effects of the COVID-19 pandemic on the demand for paid child care services. U.S. families pulled back significantly in their use of paid care at the onset of the pandemic in early 2020, with a loss of nearly one in five children in paid care. Families have since increased their use of paid care, but the number of children in paid care remained nearly 10% below pre-pandemic levels through 2022. Most importantly, the rebound in paid child care usage remained far weaker than the overall recovery in both the labor force and the broader economy. The concern for policymakers is that the key economic and demographic factors that traditionally underlie paid child care usage do not adequately explain the weak recovery in usage. This comprehensive analysis aims to provide insights into these trends and offer guidance toward policy efforts to sustain the paid child care sector in the post-pandemic era.

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.

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Child Care Usage

- The number and share of children in paid child care dropped sharply during the early stages of the pandemic. Record declines in employment and labor force participation coupled with distancing mandates produced sharply reduced usage of paid child care services by working families.
- Between 2019 and 2020, Census survey data suggest a 19% (2.35 million) decline in the number of children ages 0 to 14 in paid child care while a parent worked.
- The subsequent rebound in paid care usage was sluggish through 2022 and trailed well behind the rebound in overall economic conditions. After two years of recovery, the total number of children in paid care in 2022 remained 9.5% (1.18 million) below the 2019 pre-pandemic level.
- The rebound in the use of paid child care was also highly uneven across the states. Several states moved well above their pre-pandemic share of children in paid child care by 2022 while other states remained far behind.

Explaining Changes in Child Care Usage

- A key factor in explaining the drop in paid child care usage is a decline in the number of children of child care age. Multiple surveys indicate a substantial drop in the number of children ages 0 to 14 but differ on the magnitude of the decline and the age groups most affected. A decline in the birth rate during the pandemic explains some of the reduction in the number of infants in paid care.
- Surprisingly, many other traditional economic, demographic, and child care market factors known to influence paid child care usage were relatively strong across the pandemic cycle and moved counter to the slow rebound in paid child care usage.
- Traditional factors boosting paid child care usage across most of the pandemic cycle include a strong rebound in female labor force participation, relatively strong growth in family income, expanded public child care assistance, and falling relative prices for child care. These factors all run counter to the weak rebound in paid child care and instead provided much needed support to the paid child care market.
- Although many traditional factors do not explain the extent of the decline in paid child care usage, other factors such as work-from-home, shifts in parental preferences, and a reduced supply of paid child care are plausible contributors to the weak rebound.
- An additional possible factor explaining the weakness in paid care usage is a decline in the supply of paid child care services across the pandemic period.

Prior CED research on paid child care usage examines three groups of factors – economic, demographic, and market characteristics – that are closely related to the use of paid child care. This report first evaluates changes in paid care usage since the onset of the pandemic and then evaluates the potential role played by these factors in explaining the subdued recovery in paid child care.

1. Changes in Paid Care Usage

The U.S. experienced a substantial drop in paid child care usage during the pandemic.

- From 2019 to 2020, Census estimates suggest a 19% (2.35 million) decline in the number of children ages 0 to 14 in paid child care while a parent worked.
- The overall share of children ages 0 to 14 dropped from 20.2% in 2019 to only 16.6% in the initial peak pandemic year of 2020.
- By headcount, far more older children ages 5 to 14 (-1.4 million) than younger children ages 0 to 4 (-960,000) dropped out of paid care during the pandemic year of 2020. The percentage decline was also larger for older children (-20.6%) than for younger children (-16.8%).

The subsequent recovery in paid child care usage was sluggish and trailed well behind the overall recovery in the labor force and broader economy underway since early 2020.

- After two years of rebound, the total number of children in paid care in 2022 remained 1.18 million (9.5%) below the pre-pandemic level in 2019. The overall share of children in paid care remained 1.2 percentage points below the 2019 share.
- In contrast to the large gap remaining in the number of children in paid care, the average level of employment in 2022 was 1.1% above the average in the pre-pandemic year of 2019.
- The share gap in 2022 relative to 2019 remained larger for younger children ages 0 to 4 (-1.5 percentage points) than older children ages 5 to 14 (-1.0 percentage points).

The pace of the recovery in paid care usage varies widely across the states.

- Several states have already moved well above their pre-pandemic share of children in paid child care while other states remain far behind.
- Measured by young children in paid care, 17 states and the District of Columbia are already at or above the pre-pandemic share of children in paid care based on the average share in 2021 and 2022. The average share in these states is 4.3 percentage points above their pre-pandemic share.
- In contrast, the remaining 33 states all trail their pre-pandemic share of young children in paid care and report an average of 5.1 percentage points below their pre-pandemic share.

2. Explaining Changes in Paid Child Care Usage

Multiple federal surveys report a decline in the population of children of child-care age during the pandemic cycle.

- A key factor in the decline in demand for paid child care is a reported steep decline in the population of children of child care age during the pandemic.
- Census estimates suggest that the population of children ages 0 to 14 declined by a reported 2.38 million (-3.9%) between 2019 and 2022.
- The reported decline extends beyond the peak pandemic year of 2020 into both 2021 and 2022, a point well beyond the initial recovery in the labor force in mid-year 2020.
- Recent research suggests that the population of infants was reduced on net by a substantial baby bust period in 2020 followed by a mini-boom period in the first half of 2021.
- More recent Census population estimates through 2022 confirm a decline in the population of children of child care age but suggest that the total losses may be smaller and more confined to the group of children ages 0 to 4. Future revisions to population data are needed to form more precise estimates of the loss.

The sluggish rebound in paid child care usage through 2022 is inconsistent with the strength in many other traditional economic, demographic, and market factors believed to underlie the use of paid child care.

- Several key outcomes including a strong rebound in female labor force participation, a decline in the relative price of child care, expanded public child care assistance, and strong income growth for families with children provided a boost to the performance of the paid child care market.
- Rather than contribute to the sluggishness in the rebound, these factors provided much needed support to the paid child care market across the full pandemic cycle.

The rapid rebound in female labor force participation is not reflected in the sluggish rebound in paid child care.

- The labor force participation rate for women plunged in the early stages of the pandemic but has since rebounded to well above pre-pandemic levels for nearly all groups of women.
- All groups of mothers examined rapidly returned to participation rates above the pre-pandemic level. Women with younger children posted the strongest labor force performance across the period. Women with only older children ages 5 to 14 have the highest overall participation rates among all groups of women examined.
- In contrast, women with no children experienced the steepest drops in participation in 2020 and remain almost a full percentage point below pre-pandemic levels.
- The weak overall rebound in the share of children in paid care runs counter to the strong labor force outcome of mothers, which mitigated some of the potential reduction in paid care usage.
- The relationship between paid child care usage and the female labor force participation rate remains strong across the states. States with high (low) labor force participation rates for women continue to have the highest (lowest) shares of children in paid child care.

The price of child care exhibited stickiness in the early stages of the pandemic but trailed overall U.S. price increases in the subsequent economic recovery. Although the relative price of child care declined, the cost of paid child care remains quite high for most U.S. families.

- Little downward flexibility in the price of child care services likely weighed on paid child care usage early in the pandemic.
- Based on the Consumer Price Index (CPI) for child care services, the price of paid child care did not drop in early 2020 along with the broader CPI, making paid care comparatively more expensive relative to many other goods and services.
- However, over the full pandemic cycle, increases in the price of child care trail overall price increases. Cumulative increases of 12.5% in the price of child care services since the onset of the pandemic are far lower than rises in the overall CPI (17.4%) and the services CPI (16%) through June 2023.
- The smaller gain in child care prices relative to the overall price level provided a net boost to demand for paid child care services across the full pandemic cycle.
- Survey data show that the price of child care remains quite high for most families. The 2022 annual survey of child care prices by Child Care Aware of America (CCAoA) suggests an estimated average annual price of child care across various forms of care of $10,853 per child. Care for infants remains the costliest form with a median reported price across the states of $12,024 in a child care center and $9,100 in a family child care home in 2022. The median price for four-year-olds is reportedly $9,998 in a child care center and $8,183 in a family child care home.
- Center-based infant care for a single child with a median price of $12,024 per year consumes 17.2% of median U.S. household income of $69,717 in 2021. Relative to higher education expenditures of households, the price of center-based care is 110% of the average price of annual tuition at an in-state 4-year college across the states.

Strong income gains for most U.S. households during much of the pandemic cycle worked to support demand for paid child care usage.

- Despite sizeable government transfer payments, the peak pandemic year of 2020 was a challenging year economically for most U.S. families. The group of all families regardless of child status experienced a -0.8% decline in average annual income. Families with children ages 0 to 14 (regardless of child care status) experienced a slightly stronger performance, with a -0.2% decline in household income in 2020.
- Income growth rebounded for all major family groups in both 2021 and 2022. The strength in income growth overall and for families using paid care runs counter to the weak rebound in paid care usage through 2022.
- Relatively strong income gains instead worked to mitigate the potential negative effects of income on paid child care usage during the recent recession. Hence, family income is viewed as a factor that likely provided key support to paid care usage throughout the pandemic cycle rather than contributed to the slow rebound in paid care usage.
- Survey data also continue to demonstrate that the use of paid child care remains closely related to income. Families using paid care tend to have far higher income on average than those not using it.
- Census estimates for 2022 indicate that families with children ages 0 to 14 using paid care reported an average income of $163,316, or 34.3% more than the $121,598 average for families with children ages 0 to 14 but not in paid care.

Expansion of public child care assistance programs provided a substantial demand boost across the pandemic cycle.

- A substantial expansion of existing child care assistance programs and the creation of new ones occurred in the aftermath of the pandemic.
- These efforts focused primarily on shoring up the supply side of the child care market by providing grants directly to child care providers but also stimulated the demand for paid child care through reduced costs for many families.
- The U.S. Government Accountability Office (GAO) identified $52.5 billion in supplemental child care appropriations by Congress to the states for fiscal years 2020 and 2021. As of April 23, 2023, actual spending out of the appropriated funds reached $34.5 billion.

Many of the traditional economic, demographic, and child care market characteristics explaining historical paid child care usage are unable to explain the weak rebound in the number of children in paid care across the pandemic cycle.

- Other than a reduction in the number of children of child care age, no other traditional factors examined weighed on paid child care usage across the full pandemic cycle or stand out as potential candidates for explaining the relatively weak rebound in paid care.
- To the contrary, they worked in tandem to support demand by families for paid child care and likely contributed to preventing far larger declines in paid care usage.
- Other potential sources of weakness include a shift to a greater share of employees working from home and a shift in the preferences of parents toward paid care.
- An additional possibility explaining the weakness in paid care usage is a decline in the supply of paid child care services across the pandemic period. Increased operating costs, primarily employment costs, may also be weighing on the supply of child care. Issues surrounding the supply of paid child care are examined in depth in the second report in this series.

In summary, the report highlights significant shifts in paid child care usage in the U.S. following the COVID-19 pandemic. Despite a strong recovery in the labor force and the broader economy, the rebound in paid child care usage through 2022 was notably sluggish. Traditional economic, demographic, and market factors, such as increased female labor force participation, income growth, and public child care assistance, which typically boost child care usage, did not align with the slow recovery in this sector. Additionally, the report points to other possible contributing factors, including changes in parental preferences, the rise of remote work, and possible supply-side constraints in the child care market. These findings underscore the need for further investigation and possible policy interventions to support the sustainability of the child care industry and assist working families, emphasizing the importance of collecting comprehensive data for informed decision-making at both national and state levels.

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