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
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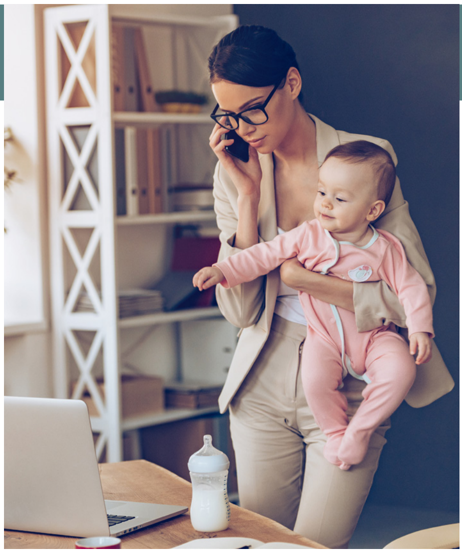
Regional Economic Forecasting and Analysis

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.

Child Care in State Economies 2024



Overview: A Three-Part Report Series

Child Care in State Economies (2024) is a three-part series examining the current status of the paid child care industry in the U.S. The reports provide policymakers and other stakeholders with a detailed update on the status of the paid child care industry following unprecedented disruption during the recent COVID-19 public health pandemic. Both parents and child care providers made significant adjustments in the way paid child care is used and delivered since the onset of the pandemic in early 2020.

The objectives of the reports are to analyze changes in the use of paid care, assess the residual effects on the child care industry, and evaluate changes in the economic role played by paid child care in the national and state economies. Most of the data in the report extends through at least 2022, which captures a significant portion of the economic recovery to date.

The three reports focus on paid child care because it is the measure of care believed to be most closely identified with the core economic role of child care as a means for parents to work. The use of paid care is also highly correlated with economic activity at the national and state levels.

The report series will continue to highlight how the paid child care market differs among the states. During the pandemic, state-level labor markets experienced widely varying outcomes, which in turn generated significant differences in the outcome for paid child care markets across the states. This analysis provides valuable insight to state policymakers who face unique characteristics for both the labor force and paid child care markets in their respective states. Detailed data appendices are provided along with the report allowing the study of changes in child care activity at the state level.

The first report focuses on the demand side of the market for paid child care services. This view of child care examines the usage of paid child care by families to enable a parent to work. The child care market experienced a steep drop in the use of paid care amid massive layoffs in the early stages of the pandemic. The sector has since experienced steady recovery, but the rebound in paid care usage remains well below pre-COVID levels and lags the overall economic recovery. There are also widely differing outcomes in the share of paid child care usage across the states.

The second report concentrates primarily on the supply of child care from the perspective of paid child care providers. This 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.

The focus of the third report is the role of paid child care usage in regional economic growth and associated changes in labor force participation, income, and poverty. Child care remains a key factor in economic growth via its role as a means for parents with children to participate in the labor force. Special focus is placed on the labor force participation of mothers by age of the child in care. The discussion also evaluates how shifts in paid child care usage and delivery are related to economic growth at the national and state levels.

Great effort is made within each report to examine the most recently available data on the usage of paid child care. Data remains a long-standing concern when engaging in any effort to study the U.S. child care sector. Comprehensive surveys remain sparse, with heavy reliance on annual data and a near absence of data available at a monthly or quarterly interval. Even available annual surveys of child care activity remain limited in breadth and are customarily released with a substantial time lag.

Much of the data on paid child care activity in the report series is sourced from the Annual Social and Economic Supplement (ASEC) administered annually as part of the widely used Current Population Survey (CPS). The CPS-ASEC is the most comprehensive source for data on current and historical paid child care use and expenditures. The survey is especially useful for evaluating child care from an economic perspective because it asks specifically about paid child care used to allow a parent to work. Data is available on an annual basis in consistent form from 2000 to 2022 for paid care usage and from 2009 to 2022 for family expenditures on paid care.

The reports closely examine the most recent four years of paid child care activity, which generally comprises annual data for 2019 through 2022. Although annual data do not fully capture the extreme volatility in the U.S. economy during the pandemic period, they nevertheless provide a clear view of the general timing and magnitude of changes in child care usage in the period. Annual surveys ask about activity in a specific reference period which is typically the prior year. Hence, surveys administered in 2023 inquire about activity in 2022, which is the most recently available annual data used for the report series. While recognizing the limitations of annual data, 2019 is viewed as a pre-pandemic benchmark year, 2020 is the initial pandemic year in which most data series bottom out, and both 2021 and 2022 are years of restructuring and recovery in the economy.

Throughout the reports, children are examined in three basic cohorts. Younger children ages 0 to 4 who are not yet in elementary school; older children ages 5 to 14 who are of school age; and a combined group of all children ages 0 to 14. These groups are consistent with both the age groupings used in federal surveys and official Census population estimates.

The reports also serve to update the series of research reports produced by CED in 2022 (Economic Role of Paid Child Care in the U.S.) and in 2019 and 2015 (Child Care in State Economies). These reports examine the economic role of paid child care and its impact nationally and at the state level on the industry and working families. Research findings within these prior reports are discussed throughout each report in the three-part series.

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Child Care in State Economies (2024) Part 2

Introduction: Recent Trends in Child Care Industry Revenue and Employment

This report is the second installment in a three-part series titled "Child Care in the U.S. and State Economies" exploring the impact of the COVID-19 pandemic on the paid child care sector. The series' first report released in January 2024 focused on shifts in the demand for paid child care services, uncovering a significant departure of over 2.35 million children aged 14 and under from paid child care in 2020. The subsequent recovery in paid child care usage has not kept pace with the broader labor force's rebound, leading to a persistent decrease in the number of children enrolled in paid child care compared to prepandemic levels. Furthermore, the recovery trajectory varied considerably across states, with some quickly exceeding prepandemic child care enrollment levels while others remain challenged.

The central focus of this second report is an analysis of the shifts in the supply of paid child care services in the aftermath of the pandemic. The fall in demand resulted in a marked downturn in business for many child care providers, despite significant federal and state emergency financial assistance. This required child care facilities to make operational adjustments, including workforce reductions, to align with the diminished demand for services.

The report aims to illuminate the supply adjustments made in the postpandemic period and evaluate the current state of the paid child care market. The child care industry has fully emerged from the initial effects of the pandemic and is now operating under relatively stable demand for child care services. The overall U.S. economy has similarly returned to near-normal conditions. This provides an ideal opportunity to evaluate the sector's recovery and identify adjustments made along the way.

The report is structured into two main sections:

1. The first section addresses four critical questions concerning the supply of paid child care services:

- Has the child care sector fully rebounded from the pandemic-induced downturn?
- What structural shifts have occurred within the provision of paid child care services?
- How does the sector's postpandemic performance compare with that of the broader economy?
- How were the employment and wages of child care workers affected?

By exploring these questions, the report intends to offer an overview of the status of child care providers in the postpandemic landscape.

2. The second section presents an updated economic profile of the child care sector at both the national and state levels. The profile provides a broad historical perspective on child care market conditions extending across more than two decades, alongside a detailed state-level analysis using the most recently available data. Examining state-specific characteristics of the child care sector provides policymakers with a nuanced understanding of the recent dynamics of the paid child care market.

By examining the child care sector's recovery, structural changes, and the impact on child care workers, complemented by an updated economic profile at national and state levels, this report offers a look into the paid child care sector's evolving landscape in the postpandemic era.

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 nonemployer (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.
- 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 prepandemic figures (an increase of 3,900 child care centers).
- By Q2 2023, total wages for child care workers had surged more than 31% above prepandemic 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.
- Revenue for child care centers had grown by 25.8% from prepandemic levels as of Q3 2023, although workforce numbers per establishment have not fully recovered.
- The industry's trajectory after 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 nonemployer (home-based) to employer (center-based) establishments, indicating a trend toward center care settings that may affect 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 at $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.

Paid Child Care and the COVID-19 Pandemic

The COVID-19 pandemic triggered an unexpected and significant disruption in the demand for paid child care services. The initial uncertainty surrounding the severity of the COVID-19 health risk led to the implementation of shelter-in-place orders, business and school closures, and significant layoffs among companies affected by the pandemic's consequences. As a result, the downturn in the workforce led to a swift decline in the demand for paid child care services among working parents.

In response to the sudden drop in demand, the child care system was pressed to implement adjustments to adapt to the new challenging conditions. A survey of state child care agencies by the U.S. Department of Health and Human Services found that 63% of child care centers and 27% of family child care homes were closed at some point during the COVID-19 pandemic.[1]

Crucial to the sector's recovery has been the considerable financial aid provided by federal and state governments. Policymakers, acknowledging the integral role of child care in the labor market's recovery, introduced aid programs to support providers through the period of market upheaval.

This section of the report delves into the adaptive strategies child care providers used following the postpandemic shock to child care demand. Initially, it examines the financial assistance provided to the sector and then assesses the impact of the pandemic on vital industry metrics including revenue, employment levels, child care worker wages, and the overall count of child care establishments.

Federal and State Financial Assistance

An overarching factor influencing the recovery trajectory of the child care industry has been the extensive federal and state financial support extended to child care providers. Between March 2020 and early 2021, Congress allocated $52 billion in supplemental federal child care funding to states, with $37.1 billion (71.3%) of the funding to be expended by September 30, 2023, and the remaining $14.9 billion (28.7%) by September 30, 2024.

An overarching factor influencing the recovery trajectory of the child care industry has been the extensive federal and state financial support extended to child care providers.

The sources of the $52 billion in supplemental child care funding include:

- **The Coronavirus Aid, Relief, and Economic Security (CARES) Act**
  The CARES Act appropriated an additional $3.5 billion to states for child care (P.L. 116-136, enacted March 2020).
- **Coronavirus Response & Relief Supplemental Appropriations (CRRSA)**
  CRRSA appropriated an additional $10 billion to states for child care (P.L. 116-260, enacted December 2020).
- **American Rescue Plan**
  Congress provided aid to states and child care providers through both Section 2201 (Child Care and Development Block Grant Program) and Section 2202 (Child Care Stabilization) funding for child care. At least $21.6 billion of the funding was earmarked for child care providers (P.L. 117-2, enacted March 2021).
  - Section 2201. Appropriated an additional $14.99 billion for CCDF Supplemental Discretionary Funds, available until September 30, 2024.
  - Section 2202. Appropriated an additional $23.975 billion for child care stabilization grants, available until September 30, 2023 (of which 90% was required to be passed through to child care providers).

The distribution of increased federal funds to child care providers occurred at different times across different states during the recovery period. Additionally, available records regarding the size and timing of these disbursements are lacking. This absence of detailed information on payouts complicates efforts to evaluate the impact of federal aid on revenue and wage recovery within the child care sector.

Child Care Industry Revenue

Revenue earned by child care providers is the broadest measure of total business activity taking place within the sector. Assessing the pandemic's full impact on revenue presents challenges because of the industry's unique structure and the specific criteria that federal data programs use to estimate revenue.

The most current and reliable source for measuring the sector's revenue is the Census Bureau's Quarterly Services Survey (QSS) program.[2] The QSS offers ongoing quarterly updates on revenue and expenses for the child care sector (classified under NAICS 6244) and other service industries, providing an extensive historical dataset beginning in 2003 and extending through Q3 2023.

However, the coverage of the QSS survey does not encompass the full range of U.S. child care providers. It specifically includes only employer-based businesses with paid employees and excludes nonemployer entities, or businesses without any paid employees. This is a serious limitation because nearly 90% of child care facilities in the U.S. are small, nonemployer businesses, often operated by individuals as sole proprietorships without any paid staff.[3] These nonemployer entities, which primarily include family child care homes caring for a small number of children, are not captured by many federal surveys, including the QSS, and are instead tracked separately in the Nonemployer Statistics data initiative of the Census Bureau.[4] Nonemployer data are also reported only annually and with a lag of one to two years, further limiting their usefulness in evaluating recent conditions in this important component of the child care sector. Trends in nonemployer child care establishments and revenue are discussed later in the report.

Despite these limitations, the QSS database offers valuable insights into the child care sector's revenue trends for employer firms. Child care businesses with employees covered by the QSS—though only representing 10-12% of all child care entities—account for a disproportionate share of the industry's revenue, generating 80-85% of the total revenue in recent years. These businesses are typically child care centers that serve many more children than family child care homes. Consequently, while the QSS data may cover a relatively small fraction of providers, they effectively capture a significant majority of the child care sector's business activity.

Another concern regarding the precision of child care revenue measurement during the pandemic is the degree to which the QSS successfully captured the significant federal and state financial support distributed to child care providers via subsidies and direct payments during and following the pandemic. The level of certainty of this data capture is unknown. Although the survey directs respondents to include all sources of revenue, it does not offer clear instructions for documenting such financial assistance within its reporting framework. This suggests that some revenue received by child care providers during this period may not have been fully accounted for in the QSS data, even though state guidelines pertaining to federal supplemental funds stipulate that such grants are fully subject to taxation.[5] As a result, the child care industry revenue figures reported in the QSS should be viewed as conservative estimates, reflecting the minimum amount of revenue received. The actual revenue received by child care providers could be higher, taking into account the possibility of unreported government financial support.

Pandemic Revenue Decline and Recovery

The analysis of revenue trends reveals a significant downturn for child care providers triggered by the onset of the pandemic. QSS data indicate a 36% drop in revenue for employer-based child care facilities in Q2 2020, falling to an annual rate of $33.1 billion from the prepandemic high of $51.6 billion recorded in Q1 2020 (*Figure 1a*).[6] The initial reduction in child care usage and revenue was driven by layoffs among working parents, alongside other significant factors like school closures, shelter-in-place orders, and the shift to remote work. Each of these factors increased the feasibility, and often the necessity, of parental care at home.

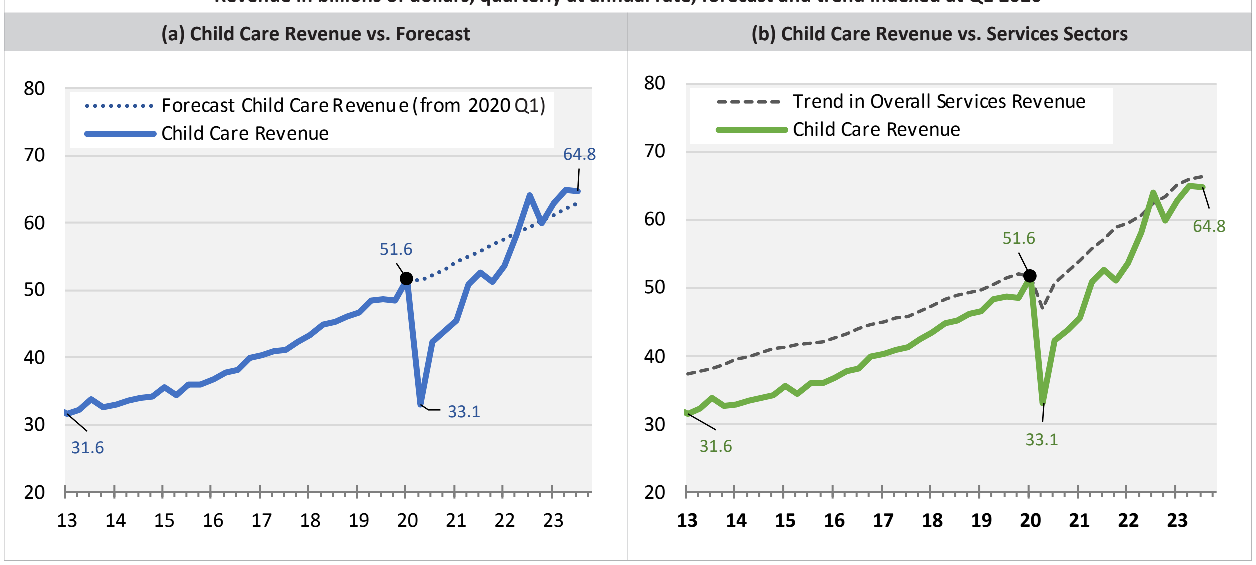
> *The analysis of revenue trends reveals a significant downturn for child care providers triggered by the onset of the pandemic.*

Nonemployer family child care homes faced similar revenue challenges, albeit within the context of their existing long-term trends. Nonemployer care facilities have been in a slow but steady revenue decline since peaking in 2011 at $9.9 billion. The annual estimate for nonemployer child care homes suggests a 10.4% year-over-year decline in revenue in 2020, from $9.45 billion in 2019 to $8.46 billion in 2020.[7] For comparison, employer firms, whose revenue has been in a steady uptrend for decades, experienced a year-over-year decline of 11.2% for all of 2020, roughly equaling the revenue decline for nonemployers. Across both types of child care facilities, the revenue downturn in 2020 equaled approximately 11% year over year.

Quarterly QSS data also highlight the immediate recovery in revenue on the employer side of the child care sector beginning in Q3 2020, in tandem with the recovery in the broader economy. Revenue at center-based providers returned to its prepandemic peak one year later in Q3 2021. Yet, this milestone did not reflect a complete recovery given the ongoing upward revenue trend in place prior to the pandemic (*Figure 1a*). Adjusting for the anticipated growth trajectory, child care centers reached full revenue recovery in Q3 2022. In the first three quarters of 2023, child care revenue slightly exceeded the forecast trend. Throughout the recovery period, revenue was affected by the injection of federal emergency funding to stabilize the industry.

Figure 1. Child Care Sector Revenue Trends

Revenue in billions of dollars, quarterly at annual rate, forecast and trend indexed at Q1 2020



Note: Estimates are for employer firms in NAICS industry 6244. Actual data extend through Q1 2023. The revenue forecast uses an exponential smoothing algorithm with an additive error, additive trend, and additive seasonality in the Q1 2009 to Q1 2020 period.
Source: U.S. Census Bureau: Quarterly Services Survey and RegionTrack trend and forecast estimates

Child Care vs. Overall Services Revenue

The immediate revenue contraction in the employer-based child care sector was far larger than the contraction in the broader group of services sectors. The 36% decline in revenue in the employer-based child care sector in Q2 2020 was roughly four times larger than the 9% decline across the full services sector (*Figure 1b*).

The broader services sector also experienced a swifter rebound, with revenue quickly returning to above prepandemic levels within two quarters. As of Q3 2023, revenue for the broader group was approximately 7% higher than its projected trend, indicating a resilient national recovery across a wide range of service industries.

After experiencing a far greater revenue decline early in the pandemic, the child care sector has made significant strides in closing the revenue gap with the broader services sectors (*Figure 1b*). Through Q3 2023, revenue at employer-based child care providers increased by 25.8% from its benchmark in Q1 2020, nearly matching the 28.6% growth reported for the broader services sectors. The closing of the gap reflects, in part, significant federal and state financial assistance received by the child care sector during the pandemic.

This comparison illuminates the child care sector's continuing alignment with the general recovery trends seen in the service industry. The child care sector appears to have returned to a new long-run trend and is broadly keeping pace with the overall services sector's revenue recovery. However, the cumulative amount of revenue lost in the aftermath of the pandemic remains far larger for the child care sector than the broader services group.

Inflation and Child Care Revenue

The perceived strength of the child care revenue recovery is mitigated when factoring in the inflationary pressures prevalent during the period in question. Specifically, the Consumer Price Index (CPI) for daycare and preschool services saw a cumulative increase of 13.2% from Q1 2020 to Q3 2023. This inflationary rise accounts for approximately half of the reported 25.8% increase in child care revenue over the same period, leaving an inflation-adjusted gain of 12.6% relative to the

prepandemic period. In real terms, the revenue growth is significantly less robust than nominal figures suggest, indicating that the sector's financial recovery may not be as strong as initially perceived.

In addition, it is essential to consider the role of inflation in evaluating the revenue recovery in child care versus the overall services sector. The overall services sector CPI rose by 16.7% from Q1 2020 to Q3 2023, surpassing the 13.2% price increase in the child care segment by more than three percentage points. Therefore, the 28.6% nominal revenue increase in the broader services sector translates to an adjusted real gain of only 11.9%, slightly less than the real gain of 12.6% for the child care sector. Ultimately, the child care sector achieved a slightly higher real revenue gain over the full period when adjusted for inflation.

Child Care Business Establishments

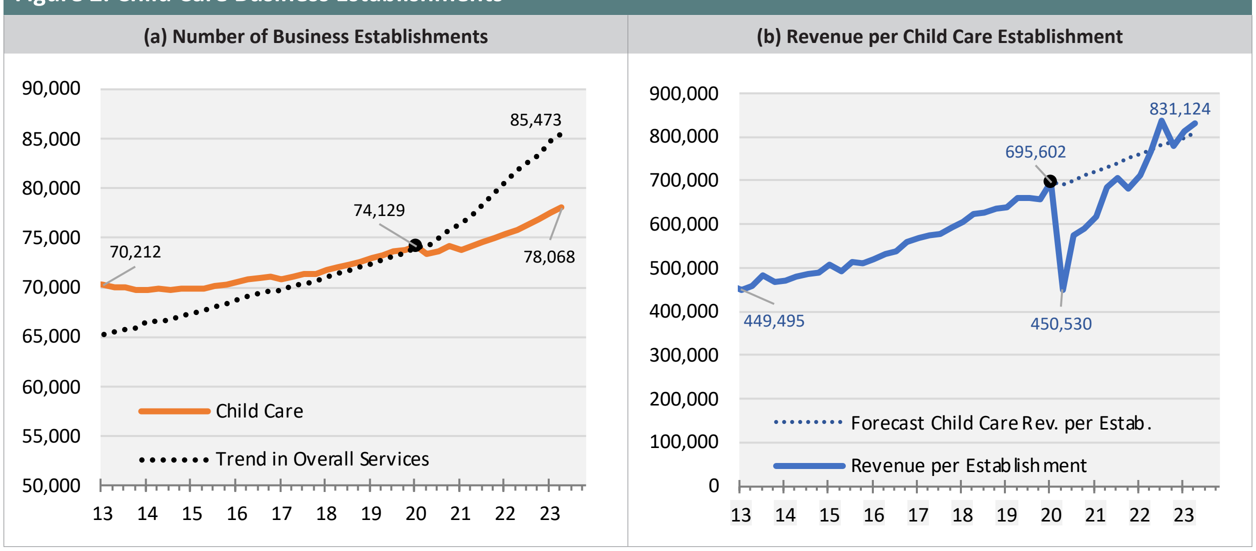
The revenue trajectory in the child care sector is a function of both the number of operational business establishments and the revenue generated per establishment. *Figure 2a* shows a comparison between the number of child care establishments and establishments in the broader services sector. The data for estimating the number of child care establishments come from the Quarterly Census of Employment and Wages (QCEW) program, administered by the Bureau of Labor Statistics (BLS). This dataset offers comprehensive quarterly information on the count of establishments and offers a long historical time series. However, similar to the QSS survey, the QCEW does not capture nonemployer child care providers.

A significant finding is the employer-based child care sector's marked underperformance in new firm creation relative to the broader services sector since the pandemic's inception. Historically, the child care sector has lagged in generating new establishments compared to the broader services sector, a disparity that widened notably in the postpandemic period. The child care sector initially saw only a small decline in the number of establishments throughout 2020 and quickly resumed expansion in 2021. In sharp contrast, the broader services sectors, along with the goods-producing sectors, experienced a sharp increase in establishment growth in the postpandemic period.

Despite the underperformance of the child care sector, few employer-based child care facilities closed permanently. Through Q2 2023, approximately 3,900 net new child care establishments (5.3% increase) were added relative to the prepandemic period, bringing the most recent total to 78,070. Had the employer-based child care sector paralleled the expansion trend seen across the services sector, it would have added an additional 7,400 new establishments, or a total of 12,100. This indicates that new child care establishments emerged at merely a third of the rate seen in the broader services sector postpandemic. While strong establishment growth characterizes one of the fundamental shifts in the U.S. economy during the recovery phase, this momentum in business formation did not extend to the child care sector.

Despite the underperformance of the child care sector, few employer-based child care facilities closed permanently.

Figure 2. Child Care Business Establishments



Notes: Estimates are for employer firms in NAICS industry 6244. Actual data extend through Q2 2023. The revenue forecast uses an exponential smoothing algorithm with an additive error, additive trend, and additive seasonality in the Q1 2009 to Q1 2020 period.
Source: Bureau of Labor Statistics: Quarterly Census of Employment and Wages (QCEW); U.S. Census Bureau: Quarterly Services Survey; and RegionTrack trend and forecast estimates

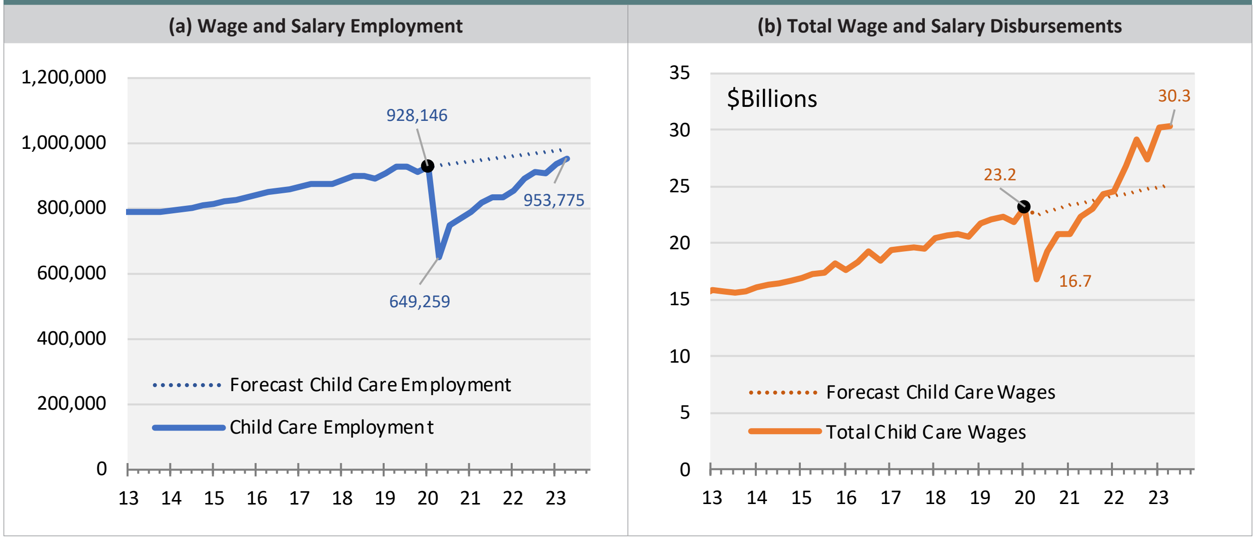
Revenue per Establishment

Revenue per establishment among employer child care facilities has mirrored the strong trend observed in total child care revenue (*Figure 2b*). Revenue per establishment rebounded to its prepandemic peak within six quarters of bottoming and has since closely followed the prepandemic trajectory based on time series forecasts. Revenue per establishment was up 19.5% in Q2 2023 relative to the prepandemic period.

The recovery suggests a full return to trend growth, although the pace of establishment growth in the child care sector continues to lag behind the broader economic recovery trends. When viewed alongside establishment growth, growth in revenue per establishment explains 80% of the rise in total child care revenue while establishment growth explains the remaining 20%. In other words, there are now more child care providers operating in the sector, but the revenue generated by each provider underlies most of the increase in total revenue in the sector.

When adjusted for inflation, the growth in revenue per establishment is not as robust as the growth in total revenue observed since the pandemic began. Although there was a nominal increase of 19.5% in revenue per establishment relative to the prepandemic period, this growth was significantly tempered by a child care inflation rate of 13.2% during the same period. Consequently, the net real increase in revenue per establishment after inflation stands at a modest 6.3% across the entire pandemic cycle, half the 12.6% real gain in total child care revenue. After inflation adjustment, establishment growth and growth in revenue per establishment each explain roughly half of the inflation-adjusted gain in total revenue since the prepandemic period. This differential highlights the importance of considering inflationary pressures in assessing the financial health and growth of child care establishments in the postpandemic landscape.

Figure 3. Child Care Sector Employment and Wages



Notes: Estimates are for employer firms in NAICS industry 6244. Actual data extend through Q2 2023. The revenue forecast uses an exponential smoothing algorithm with an additive error, additive trend, and additive seasonality in the Q1 2009 to Q1 2020 period.
Source: Bureau of Labor Statistics: Quarterly Census of Employment and Wages (QCEW) and RegionTrack forecast estimates.

Child Care Employment and Wages

Following the pandemic, the child care sector witnessed a significant divergence in employment and wage patterns. *Figure 3* draws on estimates from the QCEW database to depict trends in total employment and wages within the child care sector (NAICS 6244[8]) over the past decade. Again, these estimates capture only employer-based child care providers.

Child Care Employment

The postpandemic analysis reveals a rapid and pronounced 31% reduction in employment in Q2 2020, translating to a loss of 290,000 jobs in the child care sector (*Figure 3a*). The downturn in child care employment closely mirrored the 36% decline in total child care revenue observed during the same time frame, highlighting the direct impact of financial distress on workforce size.

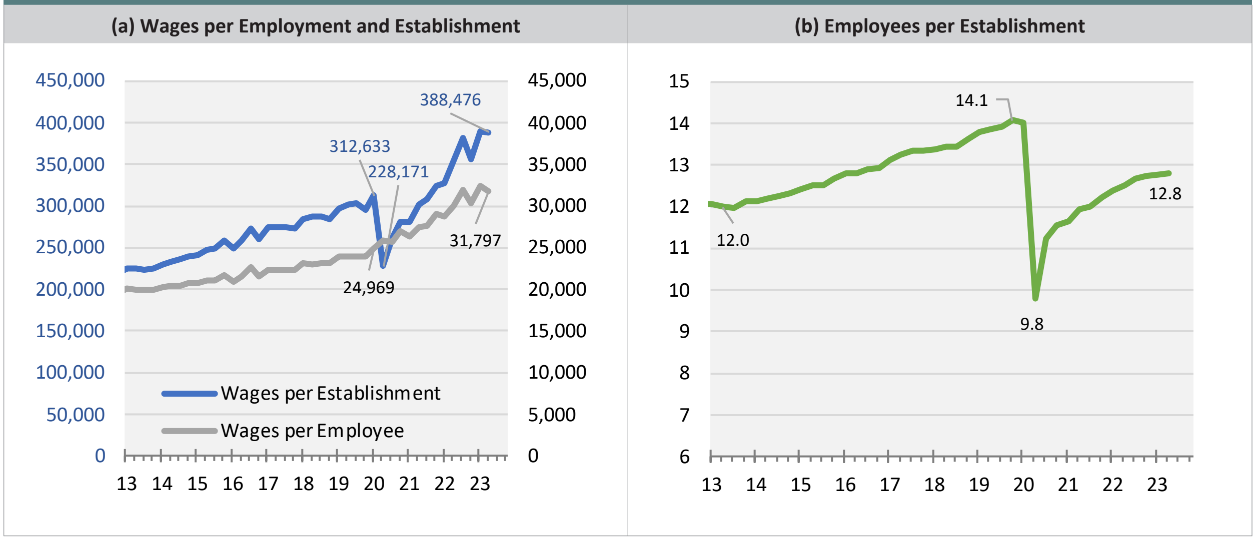
The road to employment recovery within the sector has proven to be difficult, with employment figures still not fully aligning with the expected historical trend as of Q2 2023. This indicates a slow and tentative rebound from the pandemic's disruptions, particularly when viewed relative to the U.S. job rebound, both overall and in the services sectors. As of Q2 2023, employment in the broader services sectors was 5% above the level in Q1 2020, nearly double the 2.8% gain for the child care sector.

Child Care Wages

Total wages paid to workers in the child care sector similarly experienced a 28% decline in Q2 2020 but rebounded robustly during the recovery phase (*Figure 3b*). Much of the federal and state financial assistance channeled toward child care providers was structured to either maintain employment or increase wages paid to child care workers.[9] By Q2 2023, total wages paid in the sector surged to an annual rate of $30 billion, marking a 31% increase from prepandemic levels. For comparison, total wages in the broader private services sectors posted only a 13% increase relative to the prepandemic level.

The sharp rise in total child care wages produced a surprisingly significant increase in the average annual wage per child care worker, which now stands 27% higher than prepandemic figures, increasing from $24,969 to $31,797 per worker in Q2 2023 (*Figure 4a*). For comparison, the average annual wage per worker across the private services sector increased only 18.5% in the same period. Analysis of hourly wage data for child care workers from 2020 to 2022 suggests that the increase in annual wages per worker reflects a sharp

Figure 4. Child Care Sector Metrics



Notes: Estimates are for employer firms in NAICS industry 6244. Actual data extend through Q2 2023. The revenue forecast uses an exponential smoothing algorithm with an additive error, additive trend, and additive seasonality in the Q1 2009 to Q1 2020 period.
Source: Bureau of Labor Statistics: Quarterly Census of Employment and Wages (QCEW) and RegionTrack calculations

rise in average hourly wages in 2021 and 2022, not an increase in hours worked.[10] This reflects far faster wage growth within the child care sector compared to the group of services sectors.

In short, a key operational adjustment by child care providers relative to the prepandemic period is a slight reduction in the hiring of child care workers and sharply increased annual pay per child care worker. It remains unclear, however, how much of the increase in total and average child care wages relative to prepandemic conditions was made possible by the infusion of federal and state funds. It is also unknown whether the market will sustain these wage increases once all federal and state funds have been received and fully expended by child care providers.

It remains unclear, however, how much of the increase in total and average child care wages relative to prepandemic conditions was made possible by the infusion of federal and state funds.

Other Child Care Metrics

Revenue and employment patterns at the child care establishment level also experienced large fluctuations. Revenue per establishment declined by 27% in Q2 2020, from $312,600 to $228,200, before making a swift recovery in the following quarter. By Q2 2023, revenue per establishment had climbed to $388,476, a 24% increase over prepandemic averages.

The pandemic led to an immediate and significant reduction in the average number of employees per establishment, from 14.0 to 9.8 in Q2 2020 (*Figure 4b*). Although hiring resumed in the subsequent quarter, the current average number of workers per establishment, at 12.8, has yet to fully rebound to prepandemic levels despite the full recovery in child care revenue.

Given the sharp increase in average annual wages, it is noteworthy that the proportion of revenue allocated to wages has not shown a marked change in the postpandemic period, with total wages paid to child care workers consistently representing about 47% of total revenue received by child care providers. On an annual basis in Q2 2023, total wages of $30.3 billion were paid from $64.9 billion in revenue, a 46.7% share. This stability in the wage-to-revenue ratio, alongside the substantial increases in both average wages and revenue per establishment, underscores the complex interplay of employment, wages, revenue, and federal emergency funding in the operational dynamics within the child care sector during the recovery phase.

Summary of Pandemic-Era Changes in the Child Care Sector

The various metrics examined highlight several notable changes in the U.S. organized child care sector since the pandemic began. Initially, the child care sector faced a significant revenue decline of 36% in Q2 2020, yet has since fully rebounded and reached 26% above prepandemic levels in Q3 2023. The decline in revenue at family child care homes dropped proportionately based on full-year 2020 data for nonemployer providers. After initially lagging, the child care sector successfully bridged an early revenue gap relative to the broader group of services sectors, aided by a large infusion of federal child care funds. Nevertheless, the amount of lost revenue since the onset of the pandemic remains far larger for the child care sector than the broader group of services sectors.

Starting in early 2021, bolstered by increased federal and state relief funding, the sector experienced a resumption of growth in the number of establishments.

The stability of the number of child care centers reflects the resilience of the sector, indicating minimal permanent exits from the industry despite early challenges. While the early pandemic period saw minor fluctuations, most adjustments were made through changes in employment and wages rather than closures. Starting in early 2021, bolstered by increased federal and state funding, the sector experienced a resumption of growth in the number of establishments, albeit at a slower pace than in the broader U.S. economy's rapid business establishment expansion.

Employment within child care facilities has had a slower recovery trajectory, with the workforce size still not reaching its prepandemic forecast levels three years into the recovery of the sector. In contrast, total wages in the sector have significantly increased and are nearly one-third higher than prepandemic figures. These wage gains align closely with the revenue growth trend. For child care workers, the total wage increase resulted in substantially higher annual average wages paid per worker. The increase in average wages primarily reflects higher hourly rates rather than an increase in working hours per worker. Similarly, the stability in the share of total child care revenue paid in wages reflects the direct influence of increased revenue in the sector, including supplemental federal funds, on average wages paid.

Along with a lagging recovery in overall child care employment, the child care sector shows a clear reduction in the use of labor, with the number of workers remaining below the expected historical trend and fewer workers per establishment than before the pandemic. Yet those employed in the sector now benefit from higher average annual wages. This wage shift reflects the primary labor force adjustment within the sector, emphasizing higher wage rates over employment levels.

Economic Profile of the U.S. Child Care Industry

This section of the report presents a comprehensive economic profile of the U.S. child care industry at periodic intervals since 1997. The profile captures the economic contribution of the sector using key economic measures of the sector such as revenue, number of business establishments, employment, and wages.

The national profile of the child care sector is then extended to the states for 2022, the most recent year examined. The relative size and structure of the industry differs greatly across the states, with substantial variation in the types of providers, amount of revenue produced per child care establishment, and average earnings of workers in the child care sector. The state-level structure of the industry influences the overall economic role of the child care sector in the broader economy of each state.

Provider Types

The economic structure of the child care industry reflects the two major types of care providers that commonly operate within the industry: center-based establishments with paid employees and smaller establishments typically operated by a sole proprietor with no paid employees. As discussed earlier in the report, federal employment and wage surveys track and refer to these businesses as employer and nonemployer firms, respectively. The national and state economic profiles provide a breakdown of the various metrics for both provider types.

Figure 5: U.S. Child Care Sector Economic Profile							
Economic Indicator	**1997**	**2002**	**2007**	**2012**	**2017**	**2020**	**2022***
Total Revenue ($ Billions)	$19.0	$28.8	$38.6	$41.5	$49.8	$51.1	$68.5
Employers	$14.2	$21.8	$29.7	$32.1	$41.2	$42.7	$58.9
Nonemployers	$4.8	$7.0	$8.9	$9.5	$8.7	$8.5	$9.61
Number of Establishments	544,081	682,345	758,599	764,308	611,307	592,545	624,312
Employers	55,347	63,398	67,310	70,983	71,851	74,562	76,847
Nonemployers	488,734	618,947	691,289	693,325	539,456	517,983	547,4651
Revenue per Establishment	$34,836	$42,268	$50,931	$54,354	$81,515	$86,311	$109,715
Employers	$256,564	$343,862	$441,240	$451,938	$573,087	$572,425	$766,866
Nonemployers	$9,726	$11,376	$12,927	$13,650	$16,041	$16,336	$17,4721
Total Employment (job equivalent)	1,117,446	1,370,680	1,546,415	1,566,576	1,510,996	1,378,691	1,504,990
Employers	628,712	751,733	855,126	873,251	971,540	860,708	957,525
Nonemployers	488,734	618,947	691,289	693,325	539,456	517,983	547,4651
Employee Compensation at Employers ($ billions)	$7.0	$10.5	$14.0	$15.6	$20.3	$20.5	$27.0
Compensation per employee	$11,075	$13,972	$16,316	$17,851	$20,895	$23,818	$28,185
Compensation per employer	$126,409	$166,829	$208,933	$221,872	$285,319	$275,437	$351,194
Total Employees per Establishment	2.05	2.01	2.04	2.05	2.47	2.33	2.41
Employers	11.4	11.9	12.7	12.3	13.5	11.5	12.5
Nonemployers	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Revenue per capita	$70.78	$100.27	$128.26	$132.10	$153.33	$156.61	$205.52
Population per child care establishment	486	418	393	408	527	548	534

Source: Census Bureau – Economic Census, Nonemployer Statistics; Bureau of Labor Statistics – Quarterly Census of Employment and Wages, Current Employment Statistics, and State Quarterly Personal Income.
Notes: *Data for nonemployers in 2022 is estimated using data for 2021, the most recent year available.

U.S. Child Care Sector—Economic Profile

Figure 5 provides a comprehensive overview of key economic measures that define the size and composition of the child care industry over time. As of 2022, the sector boasted 624,312 operational business establishments that contributed a record $68.5 billion in revenue to the U.S. economy. Moreover, the sector provided employment for a little over 1.5 million individuals, encompassing both wage and salary workers and self-employed child care operators.[11] The subsequent sections examine each of these vital components, highlighting their implications for the industry's future.

Child Care Sector Revenue

Revenue within the child care sector experienced a significant surge in 2022, reaching a record level of $68.5 billion. This represents an increase of one-third (33.9%) compared to the pandemic year of 2020. Over the span of the last two decades, the industry has witnessed substantial revenue growth, more than doubling (137% increase) since 2002. This long-run growth trajectory has occurred in a period with relatively little increase in the number of children in paid care. Continued revenue growth reflects the various roles played by rising costs associated with child care services, broader inflationary trends, and a substantial injection of federal child care funds during the COVID-19 pandemic.

Employer Firms

In 2022, the U.S. child care sector was anchored by 76,847 employer firms, which are predominantly traditional child care centers. These centers served roughly three-quarters of all children in market-based child care and generated 86% ($58.9 billion) of the industry's total revenue. This translates to an average total revenue of nearly $767,000 per employer provider.

Employer firms employed approximately 957,500 wage and salary workers, paying out a total of $27 billion in employee compensation in 2022. The typical child care provider employed a little more than 12 workers, with an average annual payroll of $351,000. Despite the sector's economic significance, wages for child care workers remain relatively low, with the average worker at an employer establishment earning only $28,185 annually.

In 2022, the U.S. child care sector was anchored by 76,847 employer firms, which are predominantly traditional child care centers and generated 86% ($58.9 billion) of the industry's total revenue.

Nonemployers

The remainder of the child care sector consists of approximately 547,500 very small business establishments that are owned and operated by a self-employed person with no paid employees. Data for nonemployer child care establishments and revenue currently extend only through 2021, with the 2021 figure used as an estimate for 2022.

Most nonemployer firms are home-based child care businesses, operated either in the child's home or out of the owner's personal residence. Collectively, these very small child care providers served approximately one-fourth of all children in formal care and generated $9.6 billion in operating revenue in 2021. Unlike traditional employees, the owners of these businesses earn income through net profits, which, after expenses, amounted to an estimated $5.7 billion in proprietor income for 2021.

These nonemployer businesses tend to produce much less revenue than those with employees. On average, a nonemployer child care provider reported annual revenue of approximately $17,472, with estimated net earnings of $10,400 after operational costs.[12] The net earnings are considered proprietor earnings, or labor income, to the self-employed child care operator.

Changing Establishment Mix

Recent years have witnessed a notable shift in the composition of the child care industry, with fewer total firms and a growing influence of employer firms over nonemployer entities (*Figure 6*). This trend is reflected in the changing landscape of child care provision, where the overall number of establishments has decreased by 18% over the past decade—a long-run loss of nearly 140,000 establishments. The reduction is attributed entirely to a decline in nonemployer providers, which saw a 21% decrease from over 693,000 in 2012 to 547,500 in 2022.

In contrast, the number of employer establishments increased by 8% in the past decade, adding 5,900 new establishments. These changes reflect an ongoing transformation within the child care sector, emphasizing a shift toward center-based child care settings and away from the traditional, home-based care model.

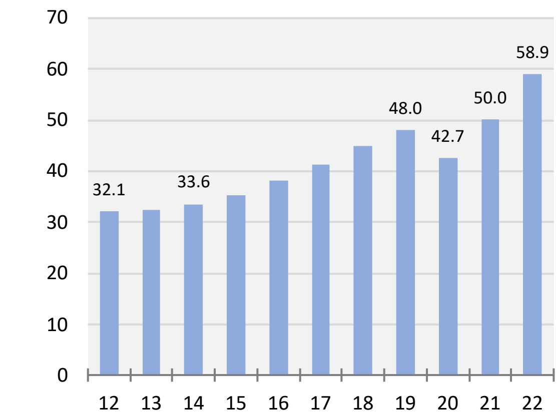
Declining numbers of nonemployer providers is reflected in the mix of industry-wide revenue growth. Between 2012 and 2022, the U.S. child care industry witnessed a notable 65% increase in revenue. The growth predominantly originated from employer firms, which experienced an 84% surge in revenue, in stark contrast to the modest 1% increase observed in smaller, nonemployer firms. This discrepancy underscores the significant impact that larger, employer-based child care centers have had on the sector's overall financial expansion. A key influence on the decline in the revenue share earned by nonemployer care providers is the decrease in the number of operating nonemployer establishments.

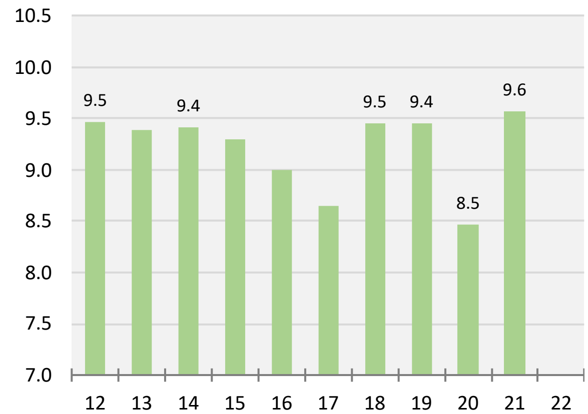
During the decade from 2012 to 2022, both categories of care providers witnessed significant growth in average revenue per establishment. For nonemployer entities, average revenue surged by 28%, escalating from $13,650 in 2012 to $17,500 in 2022. Similarly, employer-based establishments saw their revenue per establishment increase by 70% over the same period. By 2022, the average revenue per establishment for employers had reached $767,000, which is nearly 45 times greater than that of nonemployer establishments. This substantial differential underscores the scale at

Figure 6. Employer and Nonemployer Child Care Providers

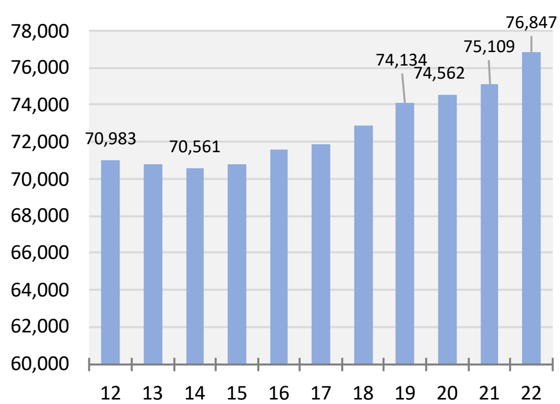
Employers	Nonemployers

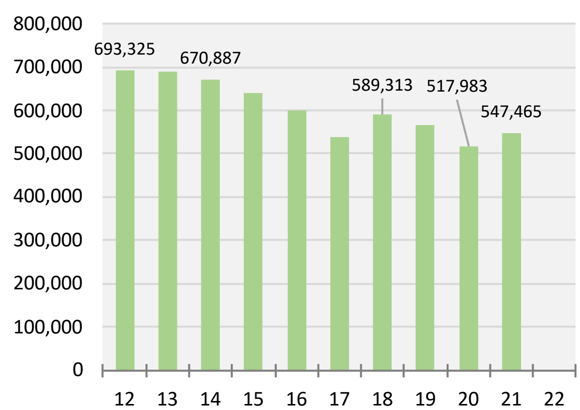
(a) Total Revenue ($Billions)



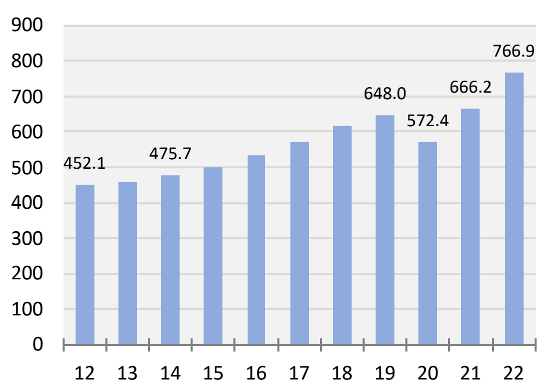


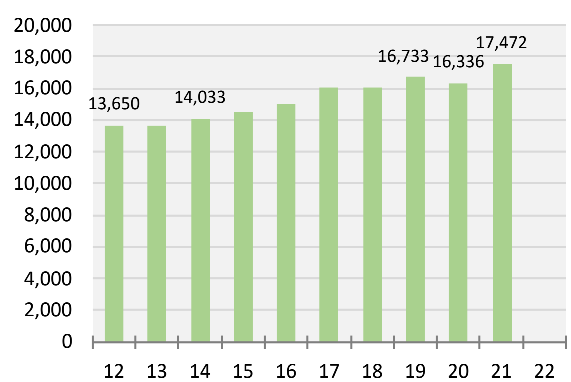
(b) Number of Establishments





(c) Revenue per Establishment ($)





Source: IPUMS-CPS, University of Minnesota, www.ipums.org; and RegionTrack calculations
Notes: The pre-pandemic share of young children in paid care is the average of the share in the 2018 to 2019 period. The post-pandemic share is the average share in the recovery years of 2021 and 2022.

Figure 7: Child Care Sector Economic Profile by State (2022)

	Total (Employers and Nonemployers)					
Region	Establishments	Total Revenue (mil.)	Total Employment	Total Earnings (mil.)	Average Revenue	Earnings per Worker
UNITED STATES	624,312	$68,496.6	1,504,990	$32,671.9	$109,715	$21,709
Alabama	7,542	537.7	17,864	333.0	71,295	18,642
Alaska	1,153	135.0	2,997	72.4	117,124	24,160
Arizona	10,432	786.5	22,642	453.0	75,397	20,008
Arkansas	4,815	270.2	15,566	308.4	56,114	19,810
California	99,806	9,074.2	168,670	3,709.1	90,919	21,990
Colorado	7,985	1,256.0	23,314	633.0	157,293	27,152
Connecticut	6,789	1,534.4	20,384	470.0	226,025	23,057
Delaware	1,226	184.2	4,858	120.4	150,223	24,776
Dist. of Columbia	1,121	407.7	4,364	148.3	363,649	33,977
Florida	37,497	3,376.6	94,012	1,899.6	90,050	20,206
Georgia	25,378	1,928.7	58,769	1,057.3	75,999	17,990
Hawaii	1,203	99.8	4,578	137.3	82,943	29,991
Idaho	2,579	314.9	6,690	125.8	122,118	18,808
Illinois	32,469	2,979.7	66,398	1,450.0	91,771	21,839
Indiana	10,530	1,405.6	23,450	464.6	133,481	19,812
Iowa	9,561	1,261.4	21,775	427.0	131,936	19,609
Kansas	6,160	728.0	12,890	254.8	118,195	19,763
Kentucky	5,880	590.8	17,318	319.2	100,480	18,431
Louisiana	11,260	631.4	23,145	351.9	56,080	15,202
Maine	2,325	304.0	6,922	178.5	130,784	25,793
Maryland	12,195	2,022.1	27,803	656.7	165,811	23,620
Massachusetts	9,645	2,682.9	35,920	1,105.2	278,175	30,767
Michigan	16,527	1,693.8	33,714	677.0	102,491	20,082
Minnesota	12,093	2,460.5	27,981	717.8	203,473	25,655
Mississippi	7,737	399.8	17,361	284.9	51,673	16,412
Missouri	10,530	1,738.3	26,974	548.0	165,085	20,317
Montana	1,892	211.3	4,907	99.1	111,685	20,196
Nebraska	5,424	555.8	14,521	292.1	102,471	20,113
Nevada	6,547	555.2	11,264	179.2	84,812	15,908
New Hampshire	1,510	247.6	6,451	164.1	163,930	25,432
New Jersey	15,785	1,717.1	52,811	1,271.3	108,779	24,072
New Mexico	2,999	135.2	8,741	184.6	45,090	21,115
New York	43,637	4,062.0	114,305	2,888.4	93,086	25,269
North Carolina	14,459	1,449.3	44,097	1,004.8	100,233	22,787
North Dakota	2,426	262.3	6,069	132.3	108,126	21,803
Ohio	19,763	2,353.4	51,521	1,053.4	119,085	20,447
Oklahoma	6,054	365.9	15,872	293.0	60,443	18,462
Oregon	7,218	908.1	18,619	484.1	125,818	26,002
Pennsylvania	14,312	2,590.1	55,618	1,370.5	180,972	24,642
Rhode Island	1,634	147.2	5,233	128.2	90,094	24,504
South Carolina	7,825	807.2	17,915	320.9	103,158	17,910
South Dakota	2,438	273.4	5,734	117.9	112,153	20,562
Tennessee	12,348	1,168.5	26,912	517.3	94,631	19,222
Texas	61,632	4,915.6	140,372	2,483.0	79,757	17,689
Utah	4,694	256.9	12,336	244.0	54,733	19,780
Vermont	1,255	150.0	3,639	104.9	119,586	28,839
Virginia	14,762	2,998.1	37,353	814.3	203,091	21,799
Washington	9,309	2,098.6	28,456	799.8	225,429	28,105
West Virginia	2,065	216.9	6,083	115.7	105,032	19,023
Wisconsin	8,827	1,159.8	26,278	627.0	131,396	23,861
Wyoming	1,065	86.7	3,526	78.7	81,426	22,322

Data for nonemployers in 2022 is estimated using data for 2021, the most recent year available.

Table continues

Figure 7: Child Care Sector Economic Profile by State (2022) *continued*

Region	Nonemployers*				
	Establishments	Total Revenue (mil.)	Proprietor Earnings (mil.)	Average Revenue per Establishment	Net Earnings per Proprietor
UNITED STATES	547,465	$9,566	$5,684	$17,472	$10,382
Alabama	6,554	76.6	44.7	11,685	6,819
Alaska	1,004	25.1	17.1	25,036	16,987
Arizona	9,614	125.5	79.6	13,057	8,284
Arkansas	4,007	50.9	36.3	12,704	9,071
California	90,830	1,818.2	974.9	20,017	10,733
Colorado	6,971	137.1	89.8	19,666	12,877
Connecticut	5,884	113.9	66.1	19,351	11,240
Delaware	922	26.9	16.6	29,192	18,008
Dist. of Columbia	848	14.7	9.3	17,391	10,921
Florida	32,963	474.1	272.7	14,383	8,271
Georgia	22,744	238.7	137.0	10,496	6,022
Hawaii	805	15.9	10.1	19,796	12,497
Idaho	2,050	37.5	25.8	18,285	12,565
Illinois	29,759	571.0	348.0	19,188	11,694
Indiana	9,232	173.5	98.5	18,797	10,666
Iowa	8,715	236.9	165.4	27,182	18,976
Kansas	5,693	146.0	92.4	25,654	16,230
Kentucky	4,868	57.5	30.3	11,813	6,217
Louisiana	10,077	98.6	54.4	9,788	5,395
Maine	1,671	43.2	31.0	25,834	18,549
Maryland	10,807	252.0	149.7	23,316	13,854
Massachusetts	7,628	235.7	123.2	30,904	16,144
Michigan	14,852	256.8	161.2	17,290	10,856
Minnesota	10,849	401.3	240.7	36,990	22,188
Mississippi	6,906	77.1	45.1	11,166	6,535
Missouri	9,177	151.5	98.1	16,512	10,687
Montana	1,369	29.4	19.0	21,450	13,912
Nebraska	4,678	114.9	76.7	24,556	16,404
Nevada	6,206	60.2	37.1	9,704	5,972
New Hampshire	1,048	18.1	11.3	17,281	10,792
New Jersey	13,407	172.1	93.4	12,840	6,970
New Mexico	2,537	26.4	16.8	10,398	6,637
New York	37,765	677.7	403.9	17,946	10,695
North Carolina	11,934	181.7	114.1	15,226	9,565
North Dakota	2,094	63.0	50.9	30,107	24,307
Ohio	16,974	274.3	155.5	16,159	9,160
Oklahoma	5,172	91.0	66.1	17,599	12,772
Oregon	5,722	123.5	78.0	21,575	13,634
Pennsylvania	10,488	155.3	89.0	14,803	8,483
Rhode Island	1,333	25.4	14.4	19,051	10,825
South Carolina	7,005	80.1	50.1	11,439	7,158
South Dakota	2,186	66.9	45.5	30,614	20,829
Tennessee	11,162	149.1	100.5	13,360	9,005
Texas	55,836	615.1	349.7	11,017	6,262
Utah	4,013	74.2	50.2	18,494	12,511
Vermont	1,012	33.0	28.3	32,563	27,937
Virginia	12,998	218.3	123.1	16,798	9,473
Washington	7,264	236.9	143.2	32,613	19,709
West Virginia	1,627	30.3	21.1	18,625	12,945
Wisconsin	7,372	173.2	115.6	23,495	15,675
Wyoming	833	19.0	12.6	22,770	15,144

Data for nonemployers in 2022 is estimated using data for 2021, the most recent year available.

Table continues

Figure 7: Child Care Sector Economic Profile by State (2022) *continued*

	Employers						
Region	Establishments	Total Revenue (mil.)	Employee Compensation (mil.)	Employment	Average Revenue	Workers per Establishment	Earnings per Employee
UNITED STATES	76,847	$58,931	$26,988	957,525	$766,866	12.5	$28,185
Alabama	988	461.1	288.3	11,310	466,927	11.5	25,494
Alaska	149	109.9	55.4	1,993	738,680	13.4	27,773
Arizona	818	661.0	373.4	13,028	808,536	15.9	28,659
Arkansas	808	219.3	272.0	11,559	271,390	14.3	23,533
California	8,976	7,256.1	2,734.2	77,840	808,387	8.7	35,126
Colorado	1,014	1,118.9	543.2	16,343	1,103,442	16.1	33,241
Connecticut	905	1,420.6	403.9	14,500	1,570,119	16.0	27,853
Delaware	304	157.3	103.8	3,936	517,298	12.9	26,361
Dist. of Columbia	273	393.0	139.0	3,516	1,438,223	12.9	39,537
Florida	4,534	2,902.5	1,627.0	61,049	640,193	13.5	26,650
Georgia	2,634	1,690.0	920.3	36,025	641,655	13.7	25,547
Hawaii	398	83.9	127.2	3,773	210,586	9.5	33,724
Idaho	529	277.5	100.1	4,640	524,498	8.8	21,566
Illinois	2,710	2,408.7	1,102.1	36,639	888,824	13.5	30,079
Indiana	1,298	1,232.0	366.1	14,218	949,170	11.0	25,752
Iowa	846	1,024.5	261.6	13,060	1,211,046	15.4	20,031
Kansas	467	582.0	162.4	7,197	1,247,535	15.4	22,559
Kentucky	1,012	533.3	288.9	12,450	527,099	12.3	23,206
Louisiana	1,183	532.8	297.5	13,068	450,569	11.1	22,764
Maine	654	260.9	147.5	5,251	399,040	8.0	28,098
Maryland	1,388	1,770.1	507.0	16,996	1,275,283	12.2	29,829
Massachusetts	2,017	2,447.2	982.0	28,292	1,213,436	14.0	34,709
Michigan	1,675	1,437.0	515.8	18,862	858,179	11.3	27,346
Minnesota	1,244	2,059.2	477.1	17,132	1,655,961	13.8	27,850
Mississippi	831	322.7	239.8	10,455	388,302	12.6	22,937
Missouri	1,353	1,586.8	450.0	17,797	1,173,003	13.2	25,283
Montana	523	182.0	80.1	3,538	347,771	6.8	22,627
Nebraska	746	440.9	215.3	9,843	591,220	13.2	21,876
Nevada	341	495.0	142.1	5,058	1,452,725	14.8	28,098
New Hampshire	462	229.5	152.8	5,403	496,408	11.7	28,272
New Jersey	2,378	1,544.9	1,177.8	39,404	649,678	16.6	29,891
New Mexico	462	108.8	167.7	6,204	235,598	13.4	27,035
New York	5,872	3,384.3	2,484.5	76,540	576,339	13.0	32,460
North Carolina	2,525	1,267.6	890.7	32,163	502,002	12.7	27,694
North Dakota	332	199.3	81.4	3,975	600,208	12.0	20,484
Ohio	2,789	2,079.2	898.0	34,547	745,553	12.4	25,992
Oklahoma	882	274.9	227.0	10,700	311,608	12.1	21,213
Oregon	1,496	784.7	406.1	12,897	524,602	8.6	31,490
Pennsylvania	3,824	2,434.9	1,281.5	45,130	636,689	11.8	28,397
Rhode Island	301	121.8	113.8	3,900	405,238	13.0	29,179
South Carolina	820	727.1	270.7	10,910	886,445	13.3	24,814
South Dakota	252	206.5	72.4	3,548	820,167	14.1	20,397
Tennessee	1,186	1,019.4	416.8	15,750	859,679	13.3	26,462
Texas	5,796	4,300.4	2,133.4	84,536	741,966	14.6	25,237
Utah	681	182.7	193.8	8,323	268,434	12.2	23,285
Vermont	243	117.1	76.7	2,627	482,749	10.8	29,186
Virginia	1,764	2,779.8	691.1	24,355	1,575,599	13.8	28,377
Washington	2,045	1,861.7	656.6	21,192	910,241	10.4	30,982
West Virginia	438	186.6	94.6	4,456	426,000	10.2	21,242
Wisconsin	1,455	986.6	511.5	18,906	678,190	13.0	27,053
Wyoming	232	67.7	66.1	2,693	292,485	11.6	24,542

Source: Census Bureau – Nonemployer Statistics, Bureau of Labor Statistics, Bureau of Economic Analysis, and RegionTrack calculations
Notes: Total employment on a job-equivalent basis is equal to wage and salary employment plus the number of proprietor establishments.
Total earnings is equal to proprietor’s earnings plus employee compensation.
Data for nonemployers in 2022 is estimated using data for 2021, the most recent year available.

which employer-based child care operations generate revenue compared to their nonemployer counterparts.

The decline in the number of nonemployer, home-based care providers has influenced the range of child care options available to working parents (*Figure 6b*), effectively reducing access to what is typically the most affordable form of child care. Recent data suggest that care in child care centers generally costs 15-30% more than equivalent services provided in a family child care home setting.[13] This economic dynamic points to potential changes in the affordability and choice of child care for families, with implications for the cost burden on working parents and overall access to child care.

Child Care at the State Level

Figure 7 presents a detailed profile of the organized child care sector at the state level, highlighting the contributions of both employer-based and nonemployer child care providers. The structure of the child care industry within each state influences its potential economic impact on the wider state economy.

Revenue and Children in Care

The economic footprint of the paid child care industry in a state correlates closely with its revenue production. In 2022, twenty-three states reported child care industry revenues surpassing $1 billion. California, the most populous state, led with a robust $9.1 billion industry, while Wyoming, the least populated state, reported the lowest revenue at $87 million.

The economic footprint of the paid child care industry in a state correlates closely with its revenue production.

Child care industry revenue per capita provides an alternative measure of industry size across states that accounts for differences in state population. Nationally, the U.S. child care sector produced $206 in revenue per capita in 2022. This measure ranges from a high of $607 per capita in the District of Columbia to a low of only $64 per capita in New Mexico.[14] Many high cost-of-care states, including Massachusetts, Minnesota, Virginia, and Connecticut plus the District of Columbia, sit atop the rankings when measured by revenue produced per capita. The higher cost of care in some states could be related to the higher cost of living in those states.

For states of comparable population sizes, the child care sector's revenue is significantly influenced by two factors: the percentage of children in paid care and the revenue generated per child. States with a higher proportion of children in paid care and higher revenue per child tend to receive a more substantial total economic contribution from the child care industry.

In 2022, the share of children in paid care ranged widely, from 8.5% in New Mexico to 41.2% in the District of Columbia, indicating continued regional variation in child care usage rates (*Figure 8*). Traditionally, higher participation rates are observed in the Upper Great Plains, New England, and parts of the Mid-Atlantic, with the lowest in the Mountain West, much of the Southwest, Southern Plains, Appalachia, California, and Hawaii.

Average revenue per child in paid care was $6,087 nationwide in 2022 but remains highly variable across the states (*Figure 8*). Revenue per child ranges from as low as $2,936 in Arkansas to as high as $9,578 in Massachusetts, with the District of Columbia slightly lower at $9,177. Notably, the child care sector in eight other states generated over $7,000 per child annually in 2022: California, Connecticut, Missouri, Washington, Virginia, New Hampshire, Iowa, and Maine—states often associated with higher child care costs.

Conversely, alongside Arkansas, states like Utah, Arizona, Mississippi, and Hawaii reported annual revenues below $4,000 per child, positioning them among the states with the lowest child care costs.

Revenue and Provider Types

The cost of care has a significant impact on the average revenue per child within the child care sector, yet it is not the sole factor. An additional element shaping the economic footprint of a state's child care industry is the distribution between child care centers and smaller, family-run child care homes.

In 2022, family child care homes, which are mostly nonemployer entities, contributed only 16% of total industry revenue. In contrast, employer firms, predominantly child care centers, made up 84% of the

Figure 8: Child Care Revenue Per Child and Per Capita

State	Population (2022)	Children Ages 0-14 Total	Children Ages 0-14 In Paid Care	Children Ages 0-14 Share in Paid Care	Child Care Industry Revenue (2022) Total (millions)	Per Capita	Rank	Per Child in Paid Care	Rank
UNITED STATES	333,287,557	59,100,866	11,252,196	19.0%	$68,496.6	$206		$6,087	
Alabama	5,074,296	895,987	88,786	9.9%	537.7	106	*46*	6,056	*20*
Alaska	733,583	148,468	23,518	15.8%	135.0	184	*27*	5,740	*26*
Arizona	7,359,197	1,288,573	236,311	18.3%	786.5	107	*45*	3,328	*50*
Arkansas	3,045,637	571,639	92,026	16.1%	270.2	89	*48*	2,936	*51*
California	39,029,342	6,839,942	1,114,964	16.3%	9,074.2	232	*15*	8,139	*6*
Colorado	5,839,926	1,002,573	217,027	21.6%	1,256.0	215	*18*	5,787	*23*
Connecticut	3,626,205	590,917	187,933	31.8%	1,534.4	423	*3*	8,165	*4*
Delaware	1,018,396	168,037	29,127	17.3%	184.2	181	*28*	6,324	*16*
Dist. of Columbia	671,803	107,729	44,428	41.2%	407.7	607	*1*	9,177	*2*
Florida	22,244,823	3,553,549	597,576	16.8%	3,376.6	152	*37*	5,650	*27*
Georgia	10,912,876	2,035,568	352,856	17.3%	1,928.7	177	*29*	5,466	*34*
Hawaii	1,440,196	244,377	21,495	8.8%	99.8	69	*50*	4,643	*45*
Idaho	1,939,033	387,534	50,458	13.0%	314.9	162	*35*	6,241	*18*
Illinois	12,582,032	2,172,384	518,360	23.9%	2,979.7	237	*14*	5,748	*25*
Indiana	6,833,037	1,284,152	287,998	22.4%	1,405.6	206	*20*	4,881	*41*
Iowa	3,200,517	587,123	159,712	27.2%	1,261.4	394	*4*	7,898	*7*
Kansas	2,937,150	561,577	116,820	20.8%	728.0	248	*13*	6,232	*19*
Kentucky	4,512,310	816,353	112,207	13.7%	590.8	131	*43*	5,265	*38*
Louisiana	4,590,241	866,722	124,229	14.3%	631.4	138	*39*	5,083	*39*
Maine	1,385,340	200,179	41,702	20.8%	304.0	219	*17*	7,290	*8*
Maryland	6,164,660	1,110,986	291,286	26.2%	2,022.1	328	*8*	6,942	*11*
Massachusetts	6,981,974	1,058,691	280,112	26.5%	2,682.9	384	*5*	9,578	*1*
Michigan	10,034,113	1,719,108	306,595	17.8%	1,693.8	169	*32*	5,525	*33*
Minnesota	5,717,184	1,059,963	363,278	34.3%	2,460.5	430	*2*	6,773	*13*
Mississippi	2,940,057	553,078	102,739	18.6%	399.8	136	*40*	3,891	*48*
Missouri	6,177,957	1,119,313	210,694	18.8%	1,738.3	281	*11*	8,250	*3*
Montana	1,122,867	189,922	37,797	19.9%	211.3	188	*25*	5,590	*31*
Nebraska	1,967,923	399,485	102,826	25.7%	555.8	282	*10*	5,405	*35*
Nevada	3,177,772	562,845	99,547	17.7%	555.2	175	*31*	5,577	*32*
New Hampshire	1,395,231	201,493	34,979	17.4%	247.6	177	*29*	7,079	*10*
New Jersey	9,261,699	1,647,179	295,809	18.0%	1,717.1	185	*26*	5,805	*22*
New Mexico	2,113,344	367,776	31,393	8.5%	135.2	64	*51*	4,307	*47*
New York	19,677,151	3,239,229	610,673	18.9%	4,062.0	206	*20*	6,652	*15*
North Carolina	10,698,973	1,890,400	305,055	16.1%	1,449.3	135	*41*	4,751	*42*
North Dakota	779,261	151,714	43,577	28.7%	262.3	337	*7*	6,019	*21*
Ohio	11,756,058	2,071,289	440,739	21.3%	2,353.4	200	*22*	5,340	*37*
Oklahoma	4,019,800	792,829	79,689	10.1%	365.9	91	*47*	4,592	*46*
Oregon	4,240,137	678,775	143,644	21.2%	908.1	214	*19*	6,322	*17*
Pennsylvania	12,972,008	2,138,944	510,810	23.9%	2,590.1	200	*22*	5,071	*40*
Rhode Island	1,093,734	168,775	21,469	12.7%	147.2	135	*41*	6,856	*12*
South Carolina	5,282,634	927,072	144,058	15.5%	807.2	153	*36*	5,603	*29*
South Dakota	909,824	183,020	48,816	26.7%	273.4	300	*9*	5,601	*30*
Tennessee	7,051,339	1,272,070	249,341	19.6%	1,168.5	166	*33*	4,686	*43*
Texas	30,029,572	6,172,458	1,049,407	17.0%	4,915.6	164	*34*	4,684	*44*
Utah	3,380,800	752,065	71,140	9.5%	256.9	76	*49*	3,611	*49*
Vermont	647,064	91,321	22,175	24.3%	150.0	232	*15*	6,764	*14*
Virginia	8,683,619	1,538,048	420,283	27.3%	2,998.1	345	*6*	7,134	*9*
Washington	7,785,786	1,348,814	257,405	19.1%	2,098.6	270	*12*	8,153	*5*
West Virginia	1,775,156	278,165	37,600	13.5%	216.9	122	*44*	5,769	*24*
Wisconsin	5,892,539	987,783	205,552	20.8%	1,159.8	197	*24*	5,642	*28*
Wyoming	581,381	104,874	16,172	15.4%	86.7	149	*38*	5,361	*36*

Source: IPUMS-CPS, University of Minnesota, www.ipums.org; and RegionTrack calculations
Notes: State shares are estimated using the percentage of children ages 0-4 reported as participating in paid child care based on a three-year average share in the 2021-2022 period.

revenue. However, the share of revenue from these two types of care varies significantly by state. For instance, rural Plains and Farm Belt states have a much larger share of their child care revenue coming from family child care homes. States like Iowa, North Dakota, South Dakota, Kansas, Minnesota, and Nebraska all have more than a quarter of their child care revenue originating from these smaller establishments, with shares ranging from 25.5% to 37.5%.

On the other end of the spectrum, urbanized areas and certain states including the District of Columbia, New Hampshire, Pennsylvania, New Jersey, New Mexico, and Hawaii see less than 10% of their child care revenue coming from family child care homes. This stark contrast underscores the diversity in child care business models across different regions, reflecting varying parental preferences, geographical considerations, and economic factors.

The average revenue per child and the composition of child care providers are intertwined with both the cost of living in a state and the earnings of child care workers within a state.

Revenue and Earnings Across States

The average revenue per child and the composition of child care providers are intertwined with both the cost of living in a state and the earnings of child care workers within a state. Child care centers, which usually levy higher fees per child than family child care homes, generate greater revenue per child. This, in turn, typically translates to higher compensation for their workers. In 2022, the average annual pretax compensation for employees at employer-based establishments, predominantly centers, was $28,185. In contrast, proprietors of nonemployer family care homes had estimated net earnings of $10,400 after operating expenses.

The composition of the child care workforce reveals that employer-based centers staff nearly twice as many employees (957,500 workers) as there are proprietors operating nonemployer family care homes (547,500 proprietors), although this ratio differs across states. The proportion of child care employment attributable to family child care homes varies significantly, from as low as 15.5% in New Hampshire to nearly half (49.9%) in California.

States like Nevada, California, Illinois, Iowa, and Kansas, where over 40% of the child care workforce consists of self-employed proprietors in family child care homes, generally see lower average earnings within the sector, all other factors equal. This reflects the influence of a substantial share of lower-earning proprietors on the overall earnings landscape.

Conversely, states such as New Hampshire, Delaware, Massachusetts, Pennsylvania, and the District of Columbia, which have a greater concentration of child care centers and less than 20% of the workforce in family child care homes, report higher average earnings for child care workers. This discrepancy underscores how the prevalence of higher-paying child care centers over lower-paid family child care homes can elevate average worker compensation within the sector.

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 Q2 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 nonemployer 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 prepandemic revenue levels by Q3 2021. By Q3 2022, the child care sector had achieved a full revenue recovery, eventually exceeding forecast 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 after 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 prepandemic trend level despite full revenue recovery. Although hiring resumed after only one-quarter of layoffs, the current number of workers per establishment, at 12.8, has yet to fully rebound to prepandemic levels despite the full recovery in child care revenue per establishment.

Sharp Increase in Wages per Worker

Total wages paid to child care workers surged to an annual rate of $30 billion by Q2 2023. This reflects a 31% increase from prepandemic levels, slightly exceeding the 25.8% rise in total revenue in the period. The average wage per child care worker is 27% higher than in the prepandemic 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, made possible 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 postpandemic 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 nonemployer providers and an increase in employer establishments, signaling a shift toward 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 lowest at $87 million. The share of children in paid care and the average revenue per child vary widely, reflecting regional differences in child care use and prices.

The structure of the child care sector, particularly the balance between child care centers and smaller family-run homes, has a significant impact on 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 postpandemic 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.

Endnotes

1 See: National Snapshot of State Agency Approaches to Child Care During the COVID-19 Pandemic, available online at: https://oig.hhs.gov/oas/reports/region7/72006092.pdf

2 The Census Bureau's Quarterly Service Survey (QSS) provides quarterly estimates of revenue and expenses for selected service industries, including child care (NAICS 6244).

3 In 2016, a reported 595,822 of the 599,018 nonemployer child care establishments were operated as sole proprietorships, with only about 3,200 organized as either corporations or partnerships. Those organized as corporations or partnerships are significantly larger than sole proprietorships, with average revenue of about $100,000 annually. Nevertheless, they remain small relative to child care providers with employees. In estimating total employment within the industry, we assume that each nonemployer establishment is equivalent to one job for a single sole proprietor.

4 The annual Census survey of nonemployers provides most of the detailed information available describing these firms. Annual historical datasets are available online at: https://www.census.gov/programs-surveys/nonemployer-statistics/data/datasets.html

5 See: U.S. Department of Health and Human Services, Administration for Children & Families, FAQs. Available online at: https://www.acf.hhs.gov/occ/faq/stabilizing-child-care-and-covid-19-faqs#test12

6 Note that revenue is reported on an annualized basis. Hence the $18.5 billion decline in revenue in Q2 2020 is also an annualized figure. The actual revenue received in the quarter was $8.28 billion, or $4.62 billion less than the $12.9 billion in actual revenue reported in Q1 2020. Nevertheless, the actual decline in revenue in Q2 2020 is still 36%.

7 See 2021 and 2020 datasets at: https://www.census.gov/programs-surveys/nonemployer-statistics/data/datasets.html

8 The child care sector is defined using NAICS code 6244, Child Care Services. The full set of industry codes in the North American Industry Classification System (NAICS) is available online at: https://www.census.gov/naics/

9 See, The Center for the Study of Child Care Employment Database: ECE Workforce Compensation Tracker (2021). Available online at:

https://cscce.berkeley.edu/compensation-tracker/

10 See the Bureau of Labor Statistics Occupational Employment and Wage Statistics Program. The dataset is available online at: https://www.bls.gov/oes/

11 In calculating total employment in the industry, we treat each nonemployer establishment as the equivalent of one job. Some nonemployer establishments are part-time businesses, while others operate the business as their full-time occupation.

12 An estimated 59.4% of U.S. child care sector revenue is earned as proprietor income, which is roughly equivalent to profit margin. This estimate is derived from 2017 Economic Census data reported for the U.S. child care sector. The state level estimates use an adjusted measure of the national ratio. The national ratio is multiplied by the employee compensation share of revenue for employer child care firms in each state relative to the national share. This adjusts proprietor income to reflect state-level differences in employee compensation as a share of revenue across the states.

13 See data on the state-level price of child care at Care Aware of America at: https://www.childcareaware.org/our-issues/research/

14 The high amount of revenue per capita for the District of Columbia is attributed to workers in adjacent states commuting into the District for work and bringing their children along for care.

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