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Cost of Childcare Increasingly Weighs on Labor Force Engagement

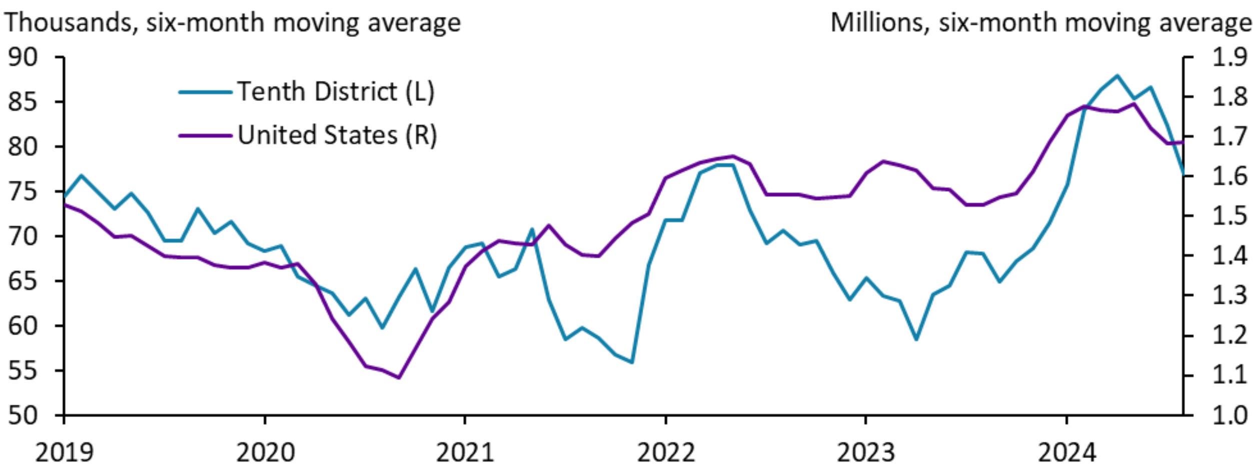
By John McCoy

Problems attaining childcare have weighed on workers' engagement in the labor force for some time. A few years ago, pandemic disruptions were the primary culprit in the lower consumption of childcare services. Now, the rising cost of childcare may be to blame. As wage growth moderates, higher childcare costs could place added pressure on households and cause some workers to at least partially disengage from the workforce.

Although labor markets are becoming more balanced across the country, with the number of job openings relative to the number of available workers approaching pre-pandemic levels, some states and regions are continuing to face tighter-than-normal labor market conditions. In the Tenth Federal Reserve District, for example, businesses have reported that they are still struggling to find workers to fill job openings.[1]

Workers' difficulty accessing or paying for childcare may be a contributing factor to labor force disengagement. Chart 1 shows the number of people not fully engaged in the labor force due to childcare—a measure including those who are working only part-time as well as those who are unemployed and not looking for work. Difficulty attaining childcare has weighed on full engagement in the labor force at least since 2021, when many people began returning to offices as pandemic restrictions eased. However, this difficulty appears to have grown more substantially in the Tenth District over the last few years. From 2023:Q2 to 2024:Q3, the number of people who are working part-time or not in the labor force due to childcare rose 43 percent (blue line).[2]

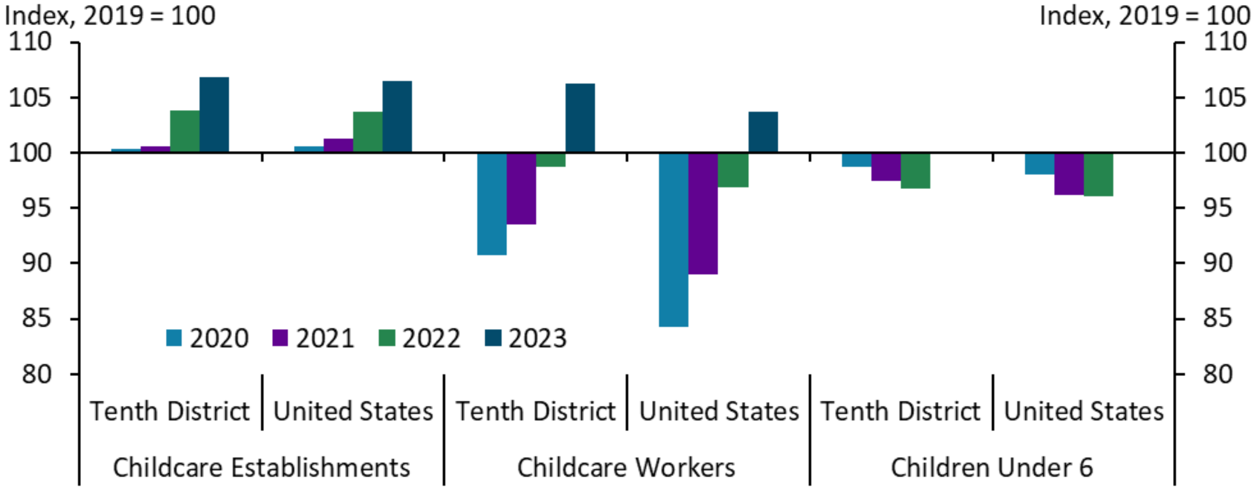
Chart 1: The number of people working part-time or not in the labor force due to childcare challenges has risen above pre-pandemic levels



Note: Chart shows number of people working part-time due to "problems with childcare" regardless of whether they would prefer to have a full-time job, as well as those not in the labor force because they could not arrange childcare.
Sources: U.S. Bureau of Labor Statistics (BLS) and author's calculations.

Unlike during the pandemic, a lack of childcare facilities does not appear to be the primary constraint. Chart 2 shows that the number of childcare services establishments and childcare workers have increased above pre-pandemic levels (dark blue bars). At the same time, the number of children under age 6 whose caregivers are active in the labor force has steadily declined through 2022 (the last year for which data are available). Together, a falling number of children who would likely require childcare services and increasing number of childcare centers suggests capacity may have steadily increased.

Chart 2: Despite pandemic disruptions, changes in potential supply of childcare have outstripped changes in potential demand

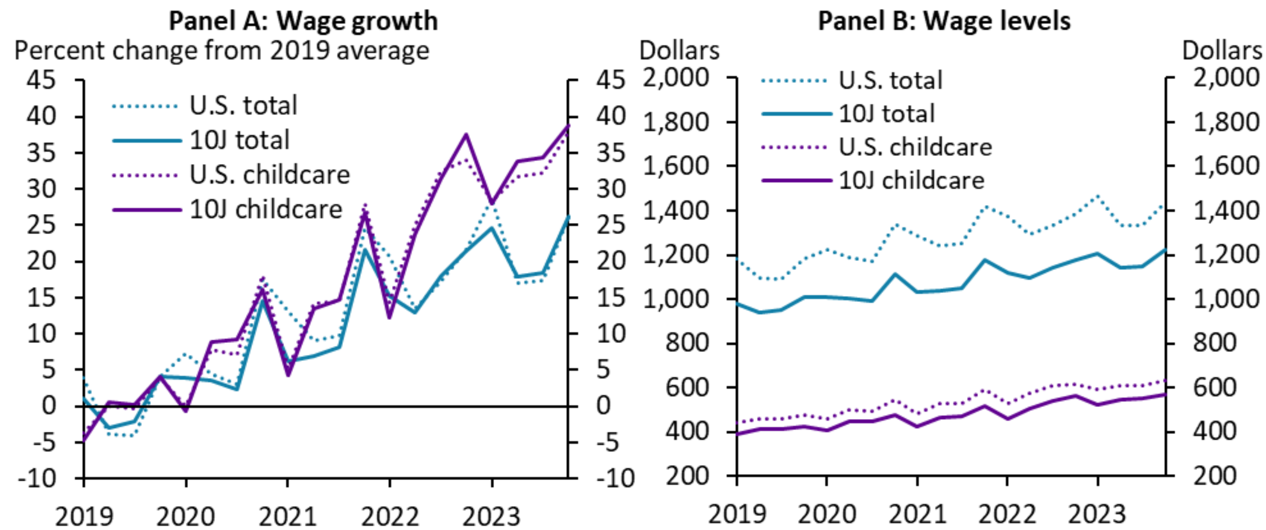


Notes: The population of children under age 6 displayed here includes only those whose guardians are active in the labor force, thus excluding households where one parent is available to stay at home. Data for children under 6 not available after 2022.
Sources: U.S. Census Bureau, IPUMS NHGIS (University of Minnesota), National Historical Geographic Information System, BLS, and author's calculations.

Although more childcare centers and workers alongside fewer young children needing childcare might imply lower childcare prices, several recent Federal Reserve studies note that other price pressures are contributing to higher childcare costs. Within the Tenth District, contacts have reported price pressures emanating from wages, rent, and increasing liability insurance costs (Howland 2024). Some Tenth District childcare providers have also noted that regulations such as a cap on the number of infants per adult provider have raised expenses and thereby decreased childcare availability for the youngest children. Other studies from across the Federal Reserve System also highlight pressures on the cost and availability of childcare, including the uneven distribution of childcare providers across geography, the uneven effects of cost relative to household income across different family compositions, and the complications of regulation and state reimbursements (Hartley and others 2024; Birken and Knopf 2024; Lazette 2024).

These studies note that childcare contacts across the country have reported difficulty attracting workers. Regulatory requirements, elevated turnover, or an uneven distribution of new childcare providers across geographical areas could all partly explain why elevated employment in childcare services has not relieved hiring pressures across the industry. Indeed, as shown in Chart 3, childcare providers (purple lines) have likely sought to attract workers through increased wages. By the end of 2023, wages for U.S. childcare workers had increased by nearly 40 percent relative to 2019, compared with an average wage increase of 25 percent for all U.S. workers (Panel A, blue lines). Despite this wage increase, the average weekly wage for a childcare worker remained less than half that of the average U.S. worker (Panel B).

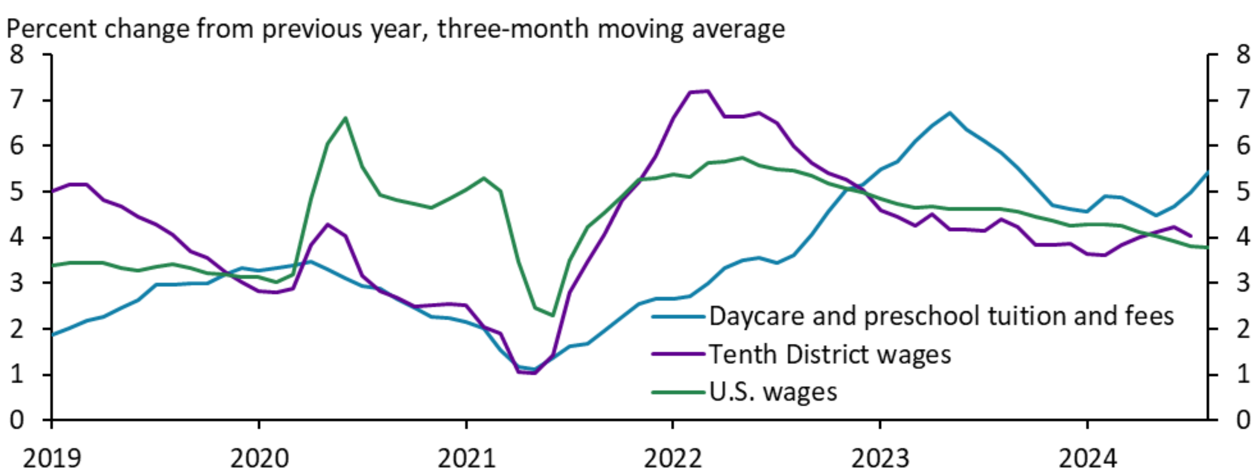
Chart 3. Average weekly wage growth for childcare workers has outpaced the general economy, but weekly wage levels are still just a fraction of the average worker's



Note: 10J is the Tenth Federal Reserve District.
Source: BLS.

At the same time, the increase in childcare costs has outpaced wage gains for childcare workers or workers as a whole, suggesting other price pressures are contributing as well. Chart 4 shows how prices for daycare and preschool services have changed relative to wages in recent years. Average hourly wage growth in the Tenth District (purple line) fell below increases in childcare prices (blue line) at the beginning of 2023. Shortly thereafter, the region began to experience a surge in workers not fully engaged in the labor force due to problems with childcare. Price increases, partly driven by increased labor expenses as well as a range of other factors, likely have reduced the use of childcare services and reduced labor force activity among some workers.

Chart 4. Inflation in childcare services peaked as headline inflation fell and has yet to recede much



Source: BLS (Haver Analytics).

The elevated cost of childcare continues to affect families across the Tenth District and the nation. Daycare and preschool costs have continued to increase throughout 2024 even as wage growth has slowed to pre-pandemic rates. These cost increases have weighed on the number of people able to fully engage with the labor force, further restricting labor supply in an expanding economy.

Endnotes

[1] The Tenth Federal Reserve District includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, western Missouri, and northern New Mexico.

[2] Throughout this article, measures of the Tenth Federal Reserve District include the entirety of the seven states in the region. Data for 2024:Q3 only include data through August.

References

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