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Sector Morsel

Tough hiring tests healthcare's patients

12 April 2024

Key takeaways

- The healthcare sector has been a major contributor to overall US job growth over the last year. But despite this growth, employment in healthcare remains below its pre-pandemic trend.
- Much of the growth in payrolls within healthcare has been in small businesses. Using Bank of America internal data we find that one constraint on job growth has been relatively soft wage growth compared to other high-touch services sectors, likely making it harder to attract workers.
- Firms' difficulty sourcing permanent employees has, in turn, led to extensive use of temporary labor. However, our data suggests this is now slowing, which could signal that healthcare firms may experience a gradual easing in pressure from labor shortages.

Labor pains?

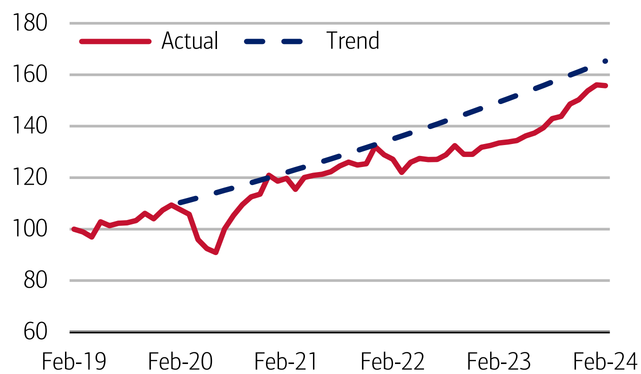
Since the pandemic, the healthcare industry has experienced persistent complications from the labor market. Looking at internal Bank of America data for small business payroll spending, we see that in early 2020, payrolls in healthcare fell below pre-pandemic trends as elective and non-urgent medical care, as well as non-emergency dental care, was shuttered, leaving thousands without work (Exhibit 1). More recently, healthcare payrolls have been rising relatively quickly. Over the past year, they made an outsized contribution to the overall nonfarm payrolls growth as reported by the Bureau of Labor Statistics (BLS).

But despite this recent strong employment growth, it appears healthcare payrolls remain below the pre-pandemic trend. Does this mean the sector can continue to add jobs at the recent rate?

Smaller firms with fewer than 20 employees make up nearly half of total employment in ambulatory healthcare, the subsector responsible for half of healthcare's employment gains in the last year (Exhibit 2) and the largest healthcare subsector by number of employees (Exhibit 3). So, in our view, the situation facing small businesses is key to understanding the overall outlook for job growth in the healthcare sector. Here we look at Bank of America internal data to delve deeper.

Exhibit 1: Healthcare employment levels have been below pre-pandemic trends since early 2020 but show signs of recovery in the last year

Healthcare services payroll transactions, Actual compared to Trend (index, Actual Employment Feb-19 = 100)



Source: Bank of America internal data

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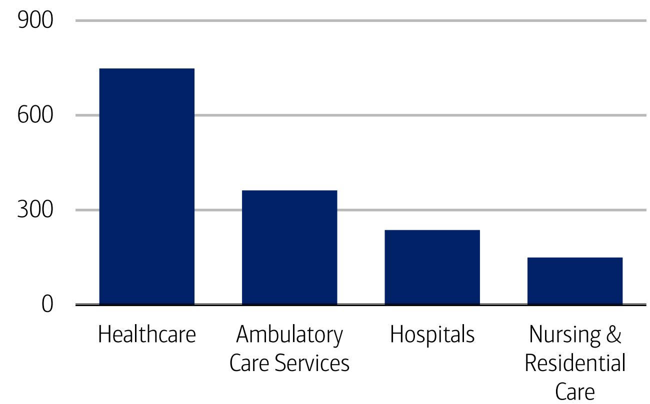
Exhibit 2: In March 2024, ambulatory care services accounted for nearly half of all job gains in the healthcare industry year-over-year (YoY)

YoY job growth for healthcare sector and associated subsectors (actuals)



Source: Haver, BLS

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Why is healthcare employment below 'trend'?

One reason why healthcare employment has not closed the gap to the pre-pandemic trend faster may be difficulties sourcing labor. Last year saw a very strong jobs market for workers at the lower-end of the income distribution, with big employment gains in high-touch services such as leisure and hospitality.

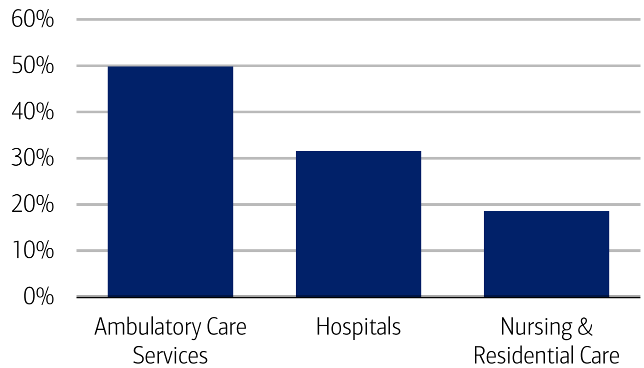
Looking at Bank of America small business data, we find that the health services industry has seen high payroll growth but relatively low payroll spending per transaction growth compared to other sectors (Exhibit 4). Growth in payroll spending per transaction can be taken as a proxy for workers' wage growth. Therefore, the slow growth here could imply that some workers have been lured to higher wage growth sectors and avoided employment in healthcare.

This finding is consistent with a 2023 National Institute of Health study that found inadequate pay was the most frequently cited reason for burnout and leaving medicine. Additionally, the BLS notes that eight in ten workers in healthcare occupations are women. In a recent publication, we highlighted how rising childcare prices are a headwind for female employment.

Slower wage growth in healthcare could be due to how healthcare costs are reimbursed. Healthcare providers, in part, rely on reimbursements from government programs and private insurance companies. According to BofA Global Research, only a third of private insurance contracts renew every year, so it's possible some of the private insurance reimbursement rates were negotiated during periods of modest inflation or wage growth.

Overall, while healthcare employment growth has been strong recently, these arguments suggest it could have been even stronger without some of these headwinds.

Exhibit 3: As of March 2024, ambulatory care services contained the largest percentage of jobs in the healthcare sector
Share of jobs in the healthcare sector by subsector (%)



Source: Haver, BLS

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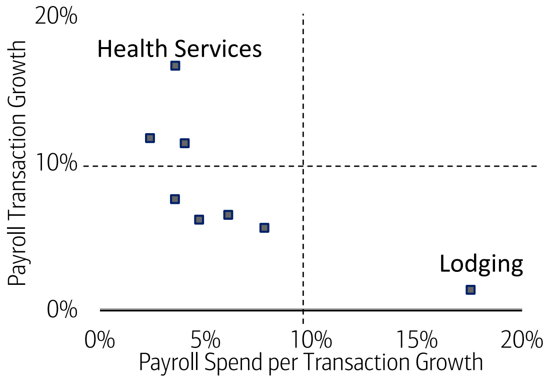
Exhibit 4: Healthcare services has seen high payroll transaction growth but relatively low payroll spending per transaction growth
Payroll transactions growth YoY% compared to payroll spending per transaction growth YoY% (3-month moving average as of Feb. 2024)



Source: Bank of America internal data

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Past the peak of temporary contracts – normalization ahead?

Healthcare is a very labor-intensive industry. According to the US Bureau of Economic Analysis (BEA), labor accounts for over 80% of the value-add in the sector compared to nearly 50% for all private industries (Exhibit 5). Consistent with this, in Bank of America internal small business data, we find that healthcare services is one of the most labor-intensive industries (Exhibit 6). We define labor-intensive by the relative amount of payroll transactions per client.

As a result, firms have had to plug shortfalls in sourcing permanent employees with temporary and contract labor. We can use Bank of America internal small business data to analyze how much contract labor is being used in the sector and its momentum.

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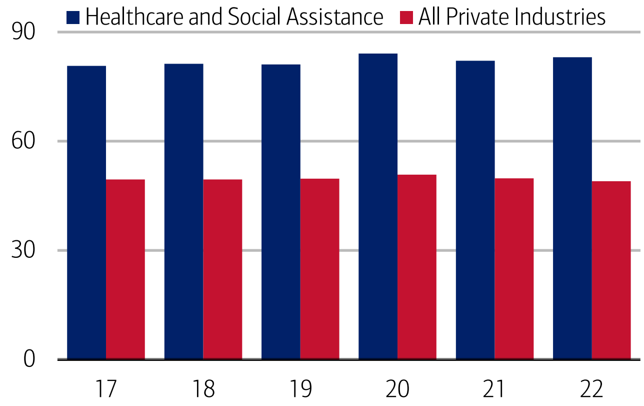
Exhibit 5: Healthcare's employee compensation is responsible for significantly more value-add than the all-industry standard

Compensation of employees as a % of value-added



Source: Haver, BEA

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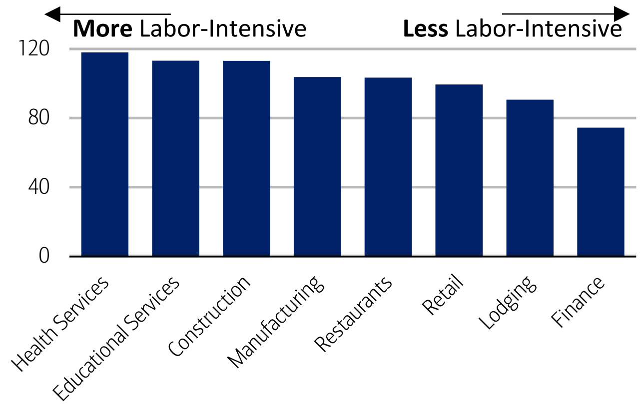
Exhibit 6: The health services industry sees the most payroll transactions per small business client compared to select industries

Small business average payroll transactions per client for select industries (indexed to all industry average = 100)



Source: Bank of America internal data

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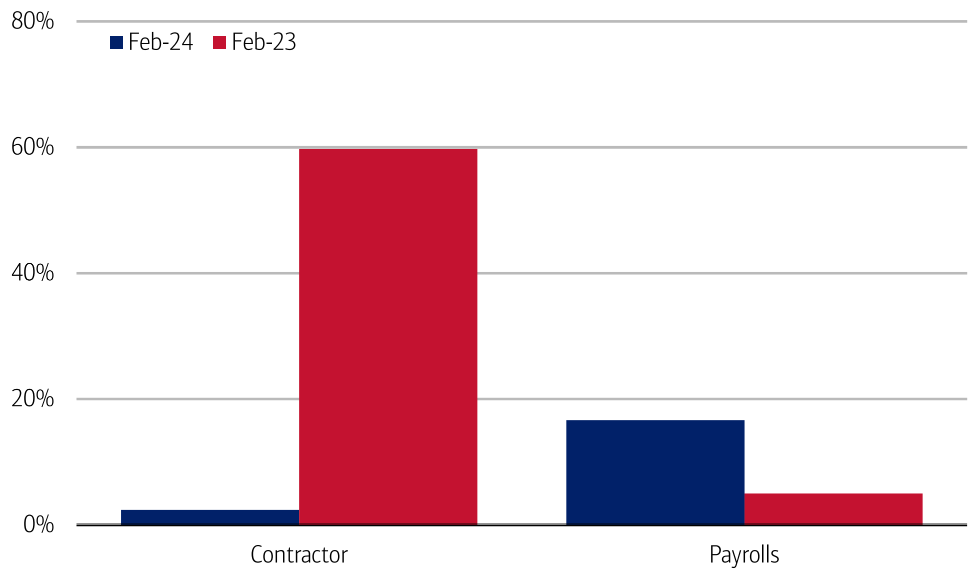
Exhibit 7 shows that healthcare firms' spending growth for contract labor was growing significantly in February 2023, increasing by 60% year-over year (YoY) – 12x the pace of spending growth for permanent payrolls. However, this year, the roles have reversed, with the rate of spending for contract labor dropping to only 2% YoY while payrolls grew at 17%, which is a more than 3x increase from the year before.

This relative decline of contract labor suggests, in our view, that some of the hiring pressure felt by healthcare firms is easing, especially when contrasted with the concurrent rise in payroll spending.

Exhibit 7: Small business spending on contractor labor for the healthcare industry grew rapidly in 2023 before dropping below payroll spending growth in 2024

Small business healthcare spending on contractors compared to payrolls (YoY%, 3-month moving average)



Source: Bank of America internal data

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So, what does this all mean for the very large contribution the healthcare sector makes to overall job growth? Healthcare payrolls remain below trend in Bank of America data, suggesting room for further job growth. But our finding that contract payments are easing indicates that firms may be under less pressure from labor shortages. This could imply normalizing employment growth ahead.

Methodology

Selected Bank of America transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on **aggregated and anonymized** selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and are generally defined as under $5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

Payments to small business-focused hiring firms include both direct deposits through Automated Clearing House (ACH) and payments via credit and debit cards.

Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Additional information about the methodology used to aggregate the data is available upon request.

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Disclosures