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Consumer Morsel

High childcare costs threaten women's progress

22 February 2024

Key takeaways

- Rising childcare costs pose a risk to women's progress. As the expense has increased over the last several decades, the percentage of women in the workforce has stalled. Further, Bank of America internal data finds that households with childcare payments had a higher 2023 average pay disruption rate from 2019 relative to the total population.
- An average family's childcare costs were 32% higher in January than the 2019 average, per Bank of America internal data. Though this rise is greatest among higher-income households, a lack of affordability might be limiting access for lower-income families, with Bank of America internal data showing a drop in the share of these customers making childcare payments.
- Given that childcare responsibilities have traditionally fallen disproportionately on mothers, the rising cost of childcare sparks concern about the progress of women's participation rates in the workforce.

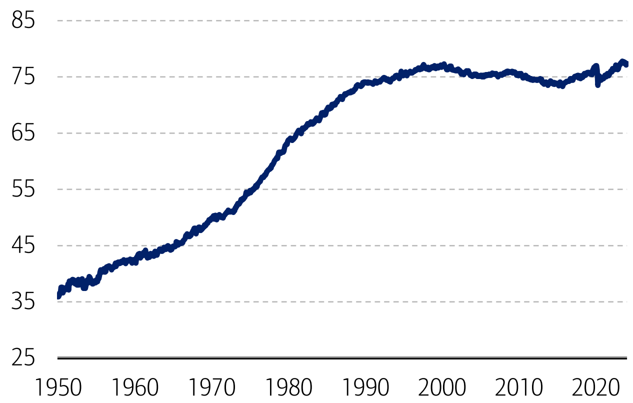
Women's rising labor market participation has largely stalled

The soaring cost of childcare is threatening the advancement of women in the labor force. Over the decades following World War II, women increasingly entered the US workforce (Exhibit 1), raising the female labor force participation rate (LFPR) for prime age women (25-54 years old) and helping to drive growth and higher living standards for families. However, throughout this century, that progress appears to have stalled.

Why? In recent times, the pandemic was a particularly disruptive event for women's labor market participation. According to the National Bureau of Economic Research, women have experienced sharp employment losses both because their employment is concentrated in heavily affected sectors such as services, and due to increased childcare needs caused by school and daycare closures.

Exhibit 1: After a big rise in the post-war period, the female labor participation rate has largely flat-lined in the 21st Century

Labor force participation rate: women (age 25-54 years) (monthly)



Source: Haver Analytics

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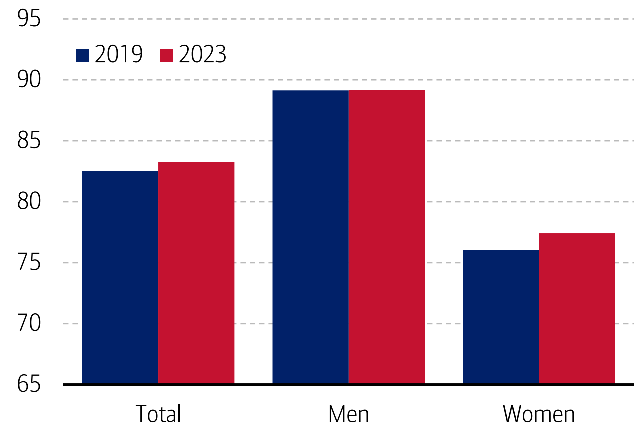
Exhibit 2: However, the drop in labor force participation since the pandemic reversed

Labor force participation rate: women and men (age 25-54 years) in 2019 and 2023



Source: Bank of America internal data

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Since the pandemic, one positive development has been the rebound in female participation (Exhibit 2). We think this is in part due to the reopening of childcare centers and more flexible work arrangements. However, as of January 2024, the prime-age women LFPR in the US was still more than 11pp lower than prime-age men, at 77.5% versus 89.0%, respectively.

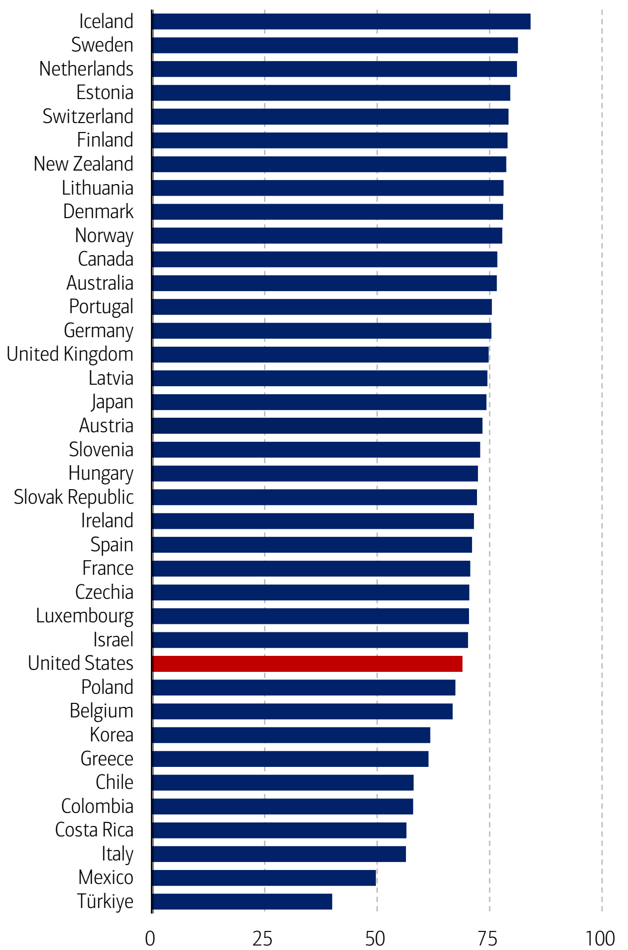
Are rising childcare costs keeping women out of the workforce?

A large part of the lower rate of women in the US workforce is, in our view, potentially due to high childcare costs.

Exhibits 3 and 4 show that the US has fewer women in the labor market than most Organization for Economic Co-operation and Development (OECD) countries, while it has the second-highest childcare costs. Only New Zealand pays more for childcare.

Exhibit 3: The US lags in female labor participation compared to other OECD countries

Women (age 15-64) labor market participation rate across OECD countries



Source: OECD

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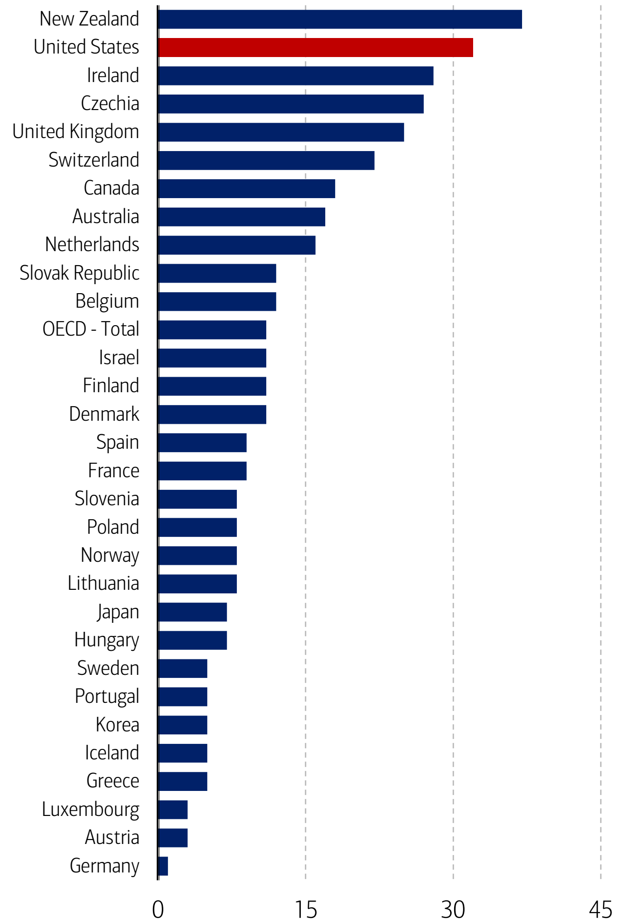
Exhibit 4: US childcare costs are high compared to other OECD countries

Net childcare costs as a % of average wage for couple with two children



Source: OECD. Data is for net childcare costs as a% of average wage for a couple with 2 children both on 67% of average wages

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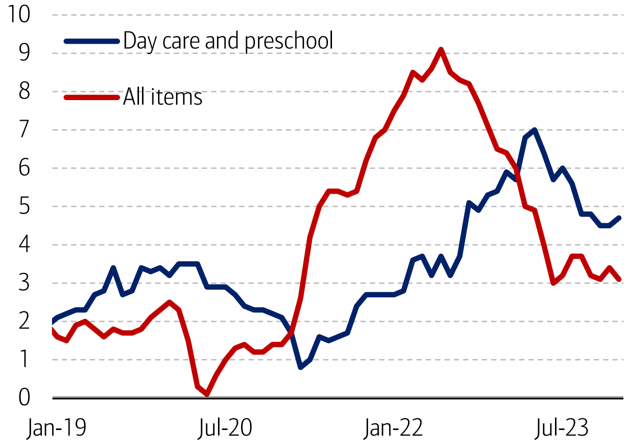
A lack of affordable childcare has likely long been a key driver in the workforce gender gap, but inflationary pressures in the childcare sector are only adding fuel to the fire. The Consumer Price Index (CPI) showed that prices for daycare and preschool have been rising faster than the general rate of inflation over the past year (Exhibit 5).

Facing these escalating costs, many families are often torn between spending a large portion of their paychecks on such care, finding lower-quality options, reducing work hours, or leaving the workforce altogether to become full-time caregivers. According to Bank of America's 2023 Workplace Benefits Report, 16% of employees reduced their work hours, 11% quit or left the workforce and 9% turned down a promotion due to caregiving responsibilities. Plus, according to the Bureau of Labor Statistics (BLS), in January 2024 nearly 3.7% of part-time workers cited "childcare responsibilities" as the reason for not working full-time, up from 3.2% in 2019.

Using Bank of America internal data, we also note that people with childcare commitments find it harder to maintain continuous employment. Exhibit 6 uses Bank of America data to explore 'pay disruptions,' which we define as occurring when a customer has had 12 consecutive previous months of pay deposited into their accounts followed by three months without earnings. Those customers with childcare payments had a higher average pay disruption growth rate relative to the total population. This can have adverse consequences for women and families and may prevent women from investing in their careers and gaining both pay increases and promotions.

Exhibit 5: Childcare prices remain particularly inflated compared to all items since early last year

CPI by select categories (YoY, %)



Source: Bureau of Labor Statistics

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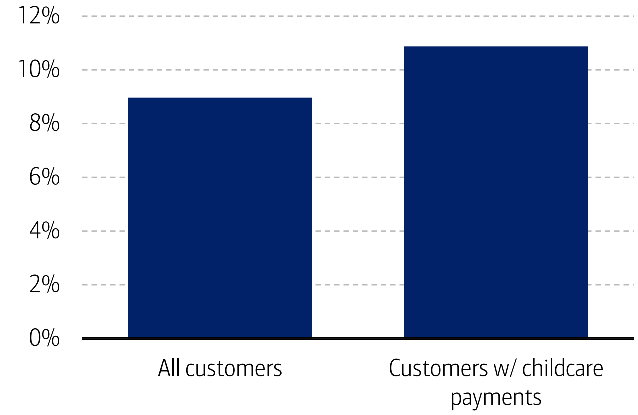
Exhibit 6: Customers making childcare payments saw a greater increase in their 2023 average pay disruption rate from 2019 than the total population

Average pay disruption growth rate per customer (YoY4, %)



Source: Bank of America internal data

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Access to affordable childcare has decreased most for lower-income families

We also find that access to affordable childcare is a growing challenge for working families on lower incomes.

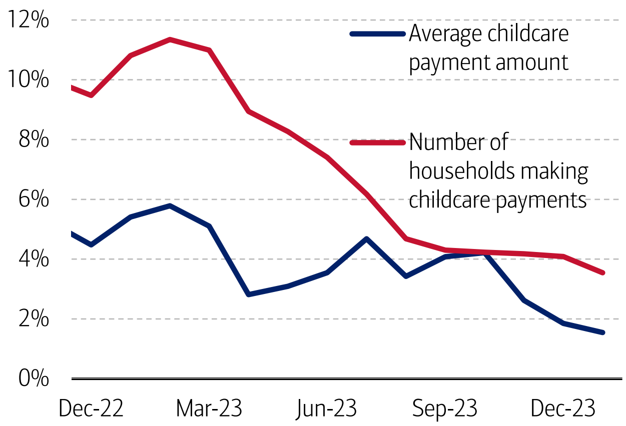
The US Department of Health and Human Services considers childcare 'affordable' if the cost does not exceed 7% of a household's income. But many families appear to be paying far more than that.

According to Care.com's 2024 Cost of Care Report, 60% of parents spend 20% or more of their annual household income on childcare services. Additionally, we find in Bank of America internal data that a family's childcare payments on average in 2023 were 26% higher than the 2019 average, and in January 2024 were 32% higher than the 2019 average.

Bank of America data also shows that while the number of households making childcare payments remains positive in terms of growth, the rate has come down significantly since the beginning of last year (Exhibit 7). This may suggest that faced with these higher costs, some families are increasingly choosing to exit the labor market entirely.

Exhibit 7: The number of households making childcare payments has declined at a much quicker rate than the cost of payment over the past year

Average monthly childcare payment per household and number of households making such payments (%YoY, 3-month moving average)



Source: Bank of America internal data

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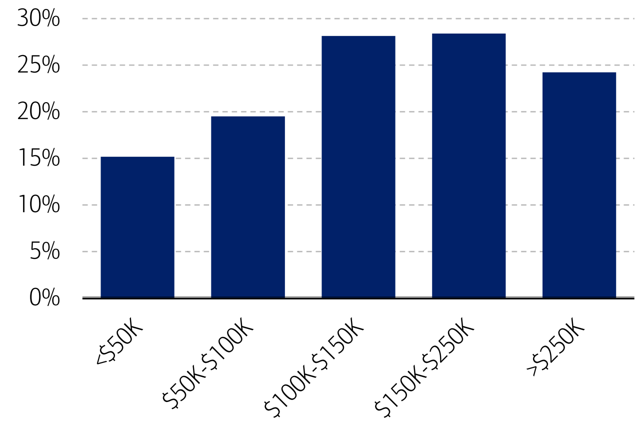
Exhibit 8: The biggest increase in childcare payments was seen among households with annual income of $100k-$250k

Increase in average childcare payment per household by income groups (%YoY4 for 4Q 2023)



Source: Bank of America internal data

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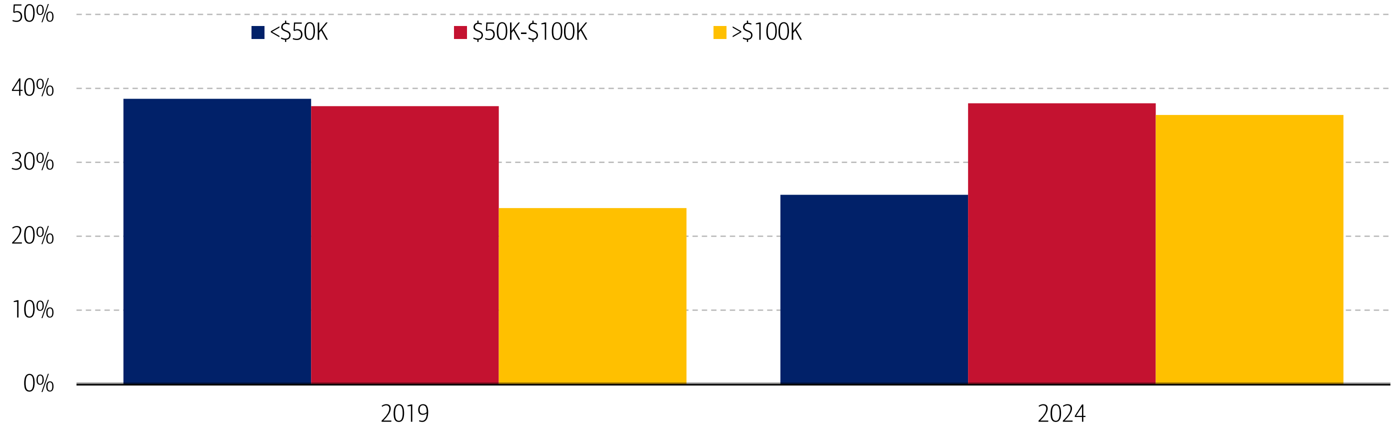
There is also evidence that paying for services such as preschool or a babysitter may disproportionately impact those least able to afford it. Exhibit 8 shows the 4Q 2023 increase in average childcare payments per household from 4Q 2019 for those who made at least one such payment through debit/credit card, ACH, check, or bill pay in a given month. The biggest increase was seen among the upper-middle-income cohort, with annual income of $100k-$250k. In our view, this may be because these households can afford it and choose to continue to access full-time care. Conversely, the smaller rise among lower-income households may reflect scaling back their use of childcare due to cost pressures.

Exhibit 9 also shows that the proportion of Bank of America customers making childcare payments who are lower-income customers dropped by 13pp between January 2019 and January 2024. While some lower-income customers may have moved up the income distribution over this period, aided in part by childcare options, in our view, it seems plausible that this implies some lower-income families stopped accessing childcare entirely over this period.

Exhibit 9: From January 2019 to January 2024, there was a drop in the share of lower-income customers making childcare payments
Income distribution of customers making childcare payments in January (%)



Source: Bank of America internal data

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Caregiving disparities continue to undermine women's ability to work

How will things evolve from here? Families, no doubt, will continue to face cost pressures, particularly given that inflation is running higher. An additional concern is the expiration last September of the federal Child Care Stabilization program, which subsidized childcare providers and was part of the American Rescue Plan in 2021. The cessation of this program could limit the availability of care, which may lead to further increases in costs.

Taken together, we think this reflects that caregiving responsibilities still disproportionately fall on women and are ultimately a factor in keeping them from getting into, remaining, and progressing in the labor force.

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.

Bank of America credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards is excluded. 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.

If applicable, the consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level.

If applicable, any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Any reference to aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash and checks.

The Pay Disruptions Rate is defined as the proportion of customers who previously had 12 months of regular payroll payments into their accounts and had a payment to a childcare provider in that time, but then had three months of no payroll payments, relative to the total number of customers with 12 consecutive months of payroll and with a payment to a childcare provider in that time.

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

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

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