

Consumer Morsel

Rising childcare costs starting to bite

27 October 2023

Key takeaways

- Rising childcare costs add to the list of headwinds facing consumers. According to Bank of America internal data, the average childcare payment per household has risen over 30% since 2019 with middle- and upper-income families (annual income of \$100k-\$250k) seeing the biggest increase.
- This might be driving some parents out of the workforce in order to look after their children. Specifically, among families that pay for childcare, there are fewer dual income households in 2023 than in 2019. Regionally, consumers in large cities such as San Francisco and Seattle are paying the most for childcare.
- Our data finds families with childcare payments have been spending at a slower pace than the rest of the population since May. They are also dipping into savings at a faster rate. But the good news is that across income groups, even households that pay for childcare have considerable excess savings relative to 2019 levels, which could continue to provide a financial buffer.

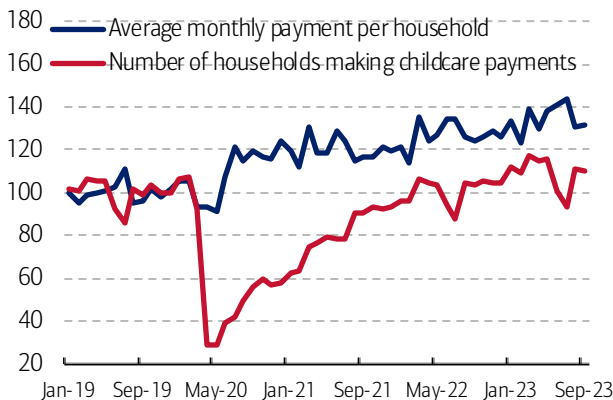
Will rising childcare costs hurt women’s participation in the labor market?

In a recent [Consumer Checkpoint](#), we noted that a positive development in the labor market over the past two years has been the increasing number of women entering the workforce which has pushed the prime-age (25-54 years old) female labor force participation rate (LFPR) to historically high levels. However, the rising cost of childcare has sparked concerns about a reversal in the female LFPR given that childcare responsibilities have traditionally fallen disproportionately on mothers.

According to Bank of America internal data, average monthly childcare payments per household have increased steadily over the past three years. As of September, an average family spent over \$700 per month, 32% higher than the 2019 average. Moreover, prices could rise further as the Child Care Stabilization program, which subsidized childcare providers and was part of the American Rescue Plan in 2021, expired on September 30. This could have a meaningful impact on consumers because over 12% of US households pay for childcare on a regular basis, according to the Department of Health & Human Services, and any further increase in prices would disproportionately weigh on families with young children. According to a recent survey by Care.com, for parents that pay for childcare, 67% are already spending 20% or more of their annual household income on such services.

Exhibit 1: Average monthly childcare payment per household and number of customers making such payments (index, 2019 average =100 for each series)

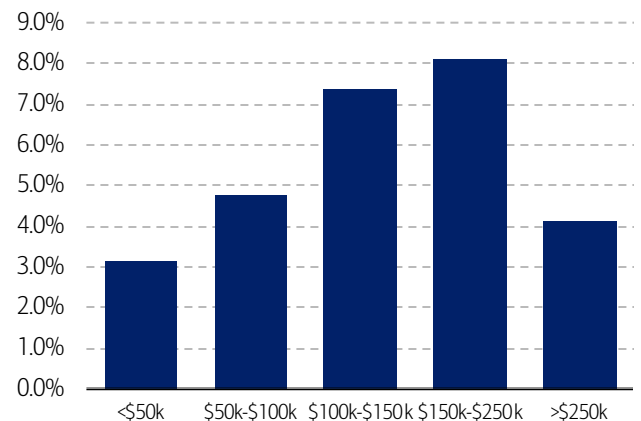
Average monthly childcare payment per customer has increased steadily over the past three years



Source: Bank of America internal data

Exhibit 2: Increase in average childcare payment per household by income groups (%YoY for 3Q 2023)

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



Source: Bank of America internal data

Biggest jump in prices for middle- and upper-income families

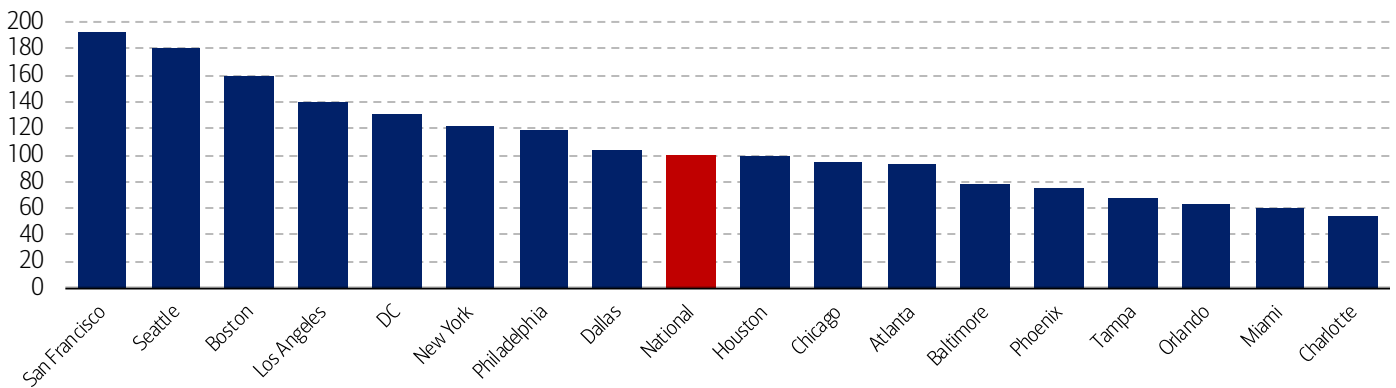
To better understand the impact of rising childcare costs, we first turn to Bank of America internal data for income and regional breakdowns.

Exhibit 2 shows the year-over-year (YoY) 3Q 2023 increase in average childcare payments per household – 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, those with annual income of \$100k-\$250k. This could be because those households may have two incomes, and therefore rely the most on outside childcare services, while also being more tolerant to price increases. However, families with the lowest annual incomes, may be less able to absorb higher childcare costs, so may have needed to cut back on their usage of childcare facilities. Moreover, the US saw a small baby boom during the pandemic, driven largely by women with a college education, who tend to be in better financial positions, according to a paper from Proceedings of National Academy of Science. This could also explain the bigger increase in childcare spending for the \$100k-\$250k income group.

Our data also showed a clear regional divide. Larger cities such as San Francisco and Seattle have the highest average household childcare payment, nearly twice the national average in September 2023 (Exhibit 3). On the flip side, childcare in Charlotte and Miami is more affordable than in rest of the country.

Exhibit 3: Average childcare payment per household by select cities in Sept 2023 (index, national average in Sep 2023=100)

Large coastal cities such as San Francisco and Seattle have the highest average household childcare payment, nearly twice as much as the national average in September 2023

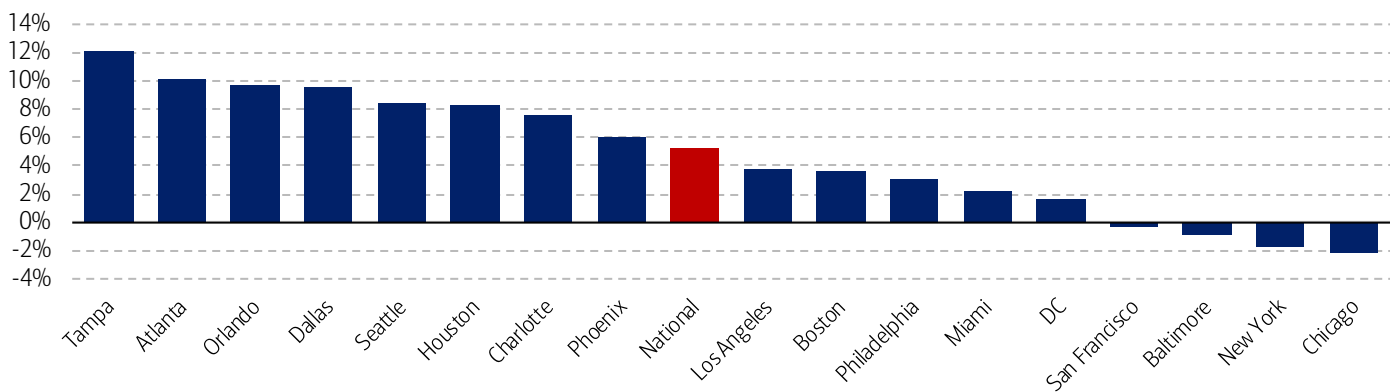


Source: Bank of America internal data

But when we look at YoY growth, Tampa showed the fastest rate of 12% in September 2023, followed by 10% for Orlando and Atlanta. Meanwhile, in New York, there has actually been a small reversal of -2% YoY. In our view, part of the increase in childcare prices in southern cities could be driven by the ongoing migration into these cities, which has put a bigger upward pressure on cost of childcare.

Exhibit 4: Average childcare payment per household by select cities in Sept 2023 (%YoY)

Tampa and Atlanta showed the fastest %YoY growth of childcare payment in September 2023



Source: Bank of America internal data

Families who pay for childcare are spending less and dipping into savings more

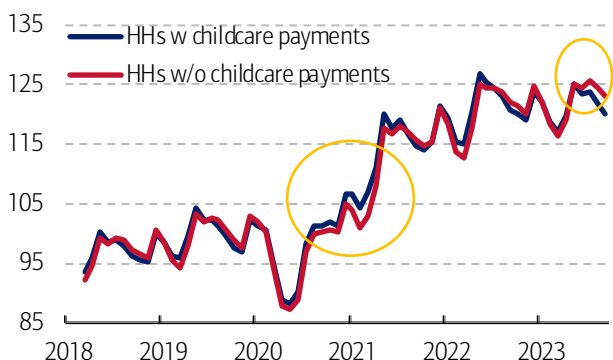
How are households who pay for childcare faring in terms of spending patterns and financial health relative to the rest of the consumer population? Exhibit 5 shows total card spending for households who pay for childcare services and those who do not. While the two series generally track closely to each other, there are two periods of divergence.

The first period is late 2020 to early 2021, when households that paid for childcare showed stronger total card spending. In our view, this was likely driven by the additional fiscal support that was allocated to these families, such as expanded child tax credits. The second period of divergence is over the four months to September (Exhibit 5). Since May 2023, card spending for households with childcare payments started to lag the rest of population, although the gap still looks fairly modest. Still, this gap could point to the increasing financial pressure that families with young children face.

A possible explanation for the recent divergence is that some parents might have dropped out of the labor force to look after their children. In order to assess this, we looked at the average number of payrolls that are deposited into accounts of households with childcare payments. As Exhibit 6 shows, over the first nine months of 2023, these households had on average 1.34 payrolls a month, compared with 1.39 in 2019. While our data only captures payrolls deposited into Bank of America accounts and might not paint the full picture, we think the decline still points to the possibility of some working parents leaving the workforce as childcare prices rise rapidly.

Exhibit 5: Total card spending per household for those with and without childcare payments (index, 2019 average=100)

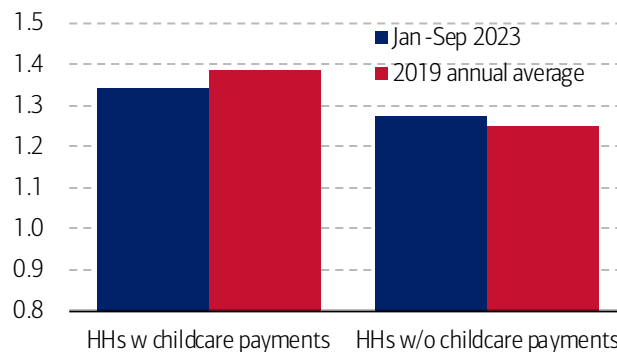
Since May 2023, card spending for households with childcare payments started to lag the rest of population



Source: Bank of America internal data

Exhibit 6: Average number of payrolls per month for households with and without childcare payments

Households who pay for childcare are less likely to have two working individuals now than in 2019

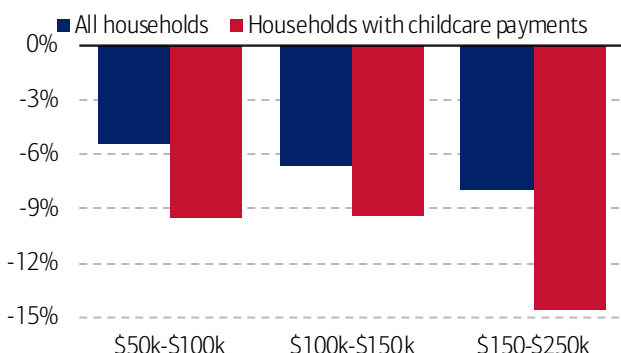


Source: Bank of America internal data

Another way that families might be tackling the rising cost of childcare is by tapping into their savings. To assess this, we focused on households with annual income of \$50k-\$250k, given they may be more reliant on childcare services. Exhibit 7 shows that across three income groups (\$50k-\$100k, \$100k-\$150k and \$150k-\$250k), households with childcare payments have seen a faster YoY drawdown of bank deposits relative to the rest of population. But it is not all bad news. When compared with 2019 levels, even these families have considerable excess savings, which could continue to provide a financial buffer.

Exhibit 7: Monthly median household savings and checking balances by income for a fixed group of households as of September 2023 (%YoY)

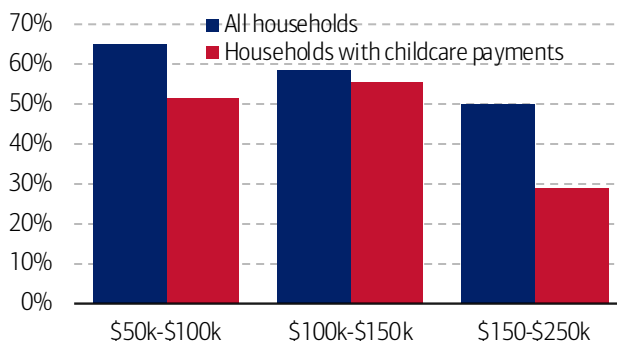
Households with childcare payments have seen a faster YoY drawdown of bank deposits relative to the rest of population



Source: Bank of America internal data. Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2018 through September 2023.

Exhibit 8: Monthly median household savings and checking balances by income for a fixed group of households as of September 2023 (%change relative to 2019 average)

But when compared with 2019 levels, even these families have considerable excess savings



Source: Monthly data includes those households that had a consumer deposit account (checking and/or savings account) for all months from January 2018 through September 2023.

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.

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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Sources

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