

# Economic Impacts of the Child Care Industry

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*Prepared for:*

**First 5 Placer**

*365 Nevada Street*

*Auburn, CA 95603*

*530/745-1413*

*www.first5placer.org*

*Prepared by:*



**CENTER *for* STRATEGIC  
ECONOMIC RESEARCH**

*400 Capitol Mall, Suite 2500*

*Sacramento, CA 95814*

*916/491-0444*

*www.strategiceconomicresearch.org*

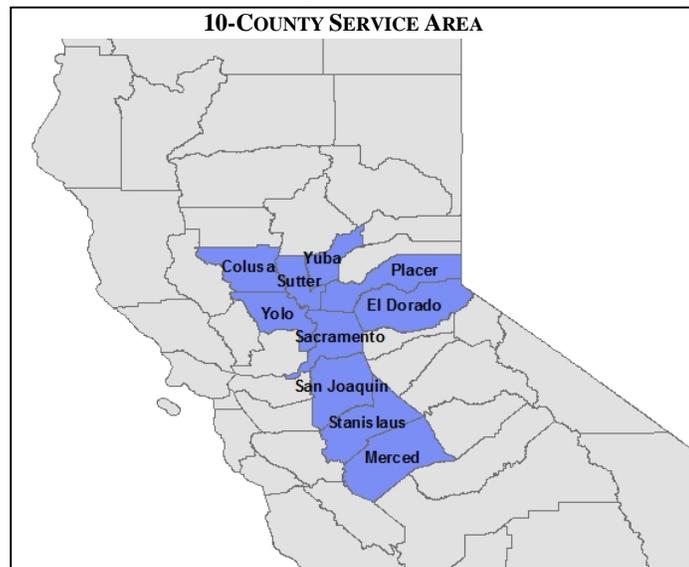


## Economic Impacts of the Child Care Industry

### Introduction

From an economic perspective, the child care industry benefits the statewide and local economies by allowing parents to take full advantage of employment opportunities. Most notably, the spending, employment, and other economic activities associated with businesses in the child care industry also generate what is known as a “ripple effect” in the economy due to the linkages that exist between business operations, suppliers of goods and services (indirect effect), and employee spending (induced effect).

In order to develop a greater understanding of the child care industry’s economic effects throughout the the statewide and local economies, a group of child care coordinating entities in Central and Northern California engaged the Center for Strategic Economic Research (CSER) to conduct a high-level gross economic impact analysis. CSER developed a conservative estimate of the direct contributions of the child care industry based on analysis of data covering full-time, part-time, and temporary jobs along with the related economic value of the services provided. In order to quantify the full range of economic impacts associated with the industry’s activities, CSER utilized the IMPLAN input-output model (see the Technical Notes section at the end of this report for a discussion of the economic impact methodology, including the effects and variables measured). CSER analyzed the economic impacts specifically within each of the ten counties represented by the group of child care coordinating entities, displayed in the map to the right (Colusa, El Dorado, Merced, Placer, Sacramento, San Joaquin, Stanislaus, Sutter, Yolo, and Yuba Counties), as well as the combined 10-County Service Area and the state of California. This brief report provides an overview of the statewide and Service Area impacts and includes information on the impacts within each of the 10 counties.



## Economic Impacts

Child care is a nearly \$5.4 billion industry, directly supporting almost 108,000 jobs in California based on a conservative estimate of economic activities. As shown in the table below, when accounting for estimates of the full range of economic impacts, the child care industry’s contribution reaches more than \$11.3 billion and 146,000 jobs. This impact is roughly the same size as a few entire prominent industry sectors in the state such as Publishing, Warehousing, and Waste Management. The gross economic impacts in the state are a result of additional economic activity generated through the industry’s demand on suppliers of goods and services plus employees spending their paychecks across a wide range of sectors. Nearly 13,000 jobs and \$2.0 billion of output are created through indirect effects within the sectors that typically supply goods and services to the child care industry. An induced effect totaling roughly 26,000 jobs and \$3.9 billion of output is generated by way of the consumption activities of employees supported by the child care industry as well as those generated through indirect effects. The multiplier effect shows that, on average, for every employee or dollar of output supported by the child care industry, the statewide economy gains an additional 0.4 jobs or \$1.10 of output, respectively. The industry sectors benefitting the most from the employment and output impacts of the child care industry statewide include Retail Trade, Finance & Insurance, and Health & Social Services. California also sees a total benefit of around \$4.7 billion in employee compensation resulting from the total economic impacts of the child care industry—this equates to about \$32,000 per employee and directly affects spending, investment, and savings patterns.

### ESTIMATED ECONOMIC IMPACTS OF THE CHILD CARE INDUSTRY CALIFORNIA AND SERVICE AREA

<i>Area/Activity</i>	<i>Direct</i>	<i>Indirect</i>	<i>Induced</i>	<i>Total</i>
<b>California</b>				
Employment	107,528	12,820	25,857	146,205
Employee Compensation	\$2,703,114,592	\$663,653,519	\$1,321,301,246	\$4,688,069,357
Output	\$5,384,996,474	\$2,035,649,749	\$3,904,326,499	\$11,324,972,722
<b>10-County Service Area</b>				
Employment	11,708	1,127	1,761	14,596
Employee Compensation	\$269,747,382	\$40,638,126	\$74,077,770	\$384,463,279
Output	\$559,687,761	\$148,115,288	\$226,621,688	\$934,424,737

Center for Strategic Economic Research, June 2013

Data Source: IMPLAN, 2010 coefficients and CSER analysis IMPLAN, County Business Patterns, Quarterly Census of Employment & Wages, and Nonemployer Statistics information

The child care industry also generates a significant contribution to the 10-County Service Area economy, supporting a total of close to 15,000 jobs and more than \$934 million of output. The industry directly contributes nearly 12,000 jobs and \$560 million in output to the Service Area’s economy. Through its establishments’ demand on linked suppliers of goods and services, the local economy benefits from an indirect effect of around 1,100 jobs and \$148 million in output while consumption activities of those employed directly and indirectly through child care establishments create an induced effect of around 1,800

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jobs and \$227 million in output. On average, the multiplier effect shows that for every employee or dollar of output supported by child care establishment operations, the 10-County Service Area economy gains an additional 0.3 jobs or 70 cents of output, respectively. The Service Area economy also benefits from around \$384 million in employee compensation resulting from direct, indirect, and induced impacts, equating to around \$26,000 per employee.

The table on the following page provides the estimated economic impacts of the child care industry for each of the 10 counties in the Service Area. There is quite a variation in the industry's total impacts among the 10 counties with a low range of 50 jobs, around \$1.9 million in output, and \$485,000 in employee compensation in Colusa County to a high range of 5,600 jobs, about \$349 million in output, and \$139 million in employee compensation in Sacramento County. Placer County benefits from the greatest multiplier effects with an additional 0.3 jobs and 80 cents in output for every employee or dollar of output supported by the County's child care industry activities, followed closely by San Joaquin, Stanislaus, and Sacramento Counties.

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## ESTIMATED ECONOMIC IMPACTS OF THE CHILD CARE INDUSTRY 10 COUNTIES

<u>Area/Activity</u>	<i>Direct</i>	<i>Indirect</i>	<i>Induced</i>	<i>Total</i>
<b><u>Colusa County</u></b>				
Employment	46	2	1	50
Output	\$1,450,395	\$273,485	\$148,414	\$1,872,295
Employee Compensation	\$369,432	\$76,665	\$39,288	\$485,385
<b><u>El Dorado County</u></b>				
Employment	687	77	75	839
Output	\$30,286,676	\$9,120,757	\$9,219,788	\$48,627,221
Employee Compensation	\$13,472,197	\$1,998,530	\$2,564,585	\$18,035,312
<b><u>Merced County</u></b>				
Employment	588	45	90	723
Output	\$33,299,745	\$5,395,055	\$10,748,775	\$49,443,575
Employee Compensation	\$18,334,785	\$1,177,065	\$3,191,392	\$22,703,243
<b><u>Placer County</u></b>				
Employment	926	100	140	1,166
Output	\$42,946,241	\$13,263,989	\$18,761,159	\$74,971,389
Employee Compensation	\$20,117,130	\$3,685,901	\$6,164,527	\$29,967,559
<b><u>Sacramento County</u></b>				
Employment	4,499	451	650	5,600
Output	\$200,642,193	\$61,640,484	\$86,316,473	\$348,599,150
Employee Compensation	\$90,349,203	\$19,035,888	\$29,838,748	\$139,223,839
<b><u>San Joaquin County</u></b>				
Employment	2,797	263	508	3,568
Output	\$146,722,544	\$34,364,615	\$64,753,209	\$245,840,367
Employee Compensation	\$76,445,021	\$8,744,013	\$20,668,367	\$105,857,401
<b><u>Stanislaus County</u></b>				
Employment	939	87	170	1,195
Output	\$48,938,019	\$10,879,943	\$20,982,613	\$80,800,574
Employee Compensation	\$25,369,491	\$2,637,743	\$6,836,989	\$34,844,222
<b><u>Sutter County</u></b>				
Employment	275	30	37	342
Output	\$12,612,549	\$3,379,334	\$4,335,982	\$20,327,866
Employee Compensation	\$5,843,844	\$763,282	\$1,260,367	\$7,867,493
<b><u>Yolo County</u></b>				
Employment	768	63	72	903
Output	\$33,354,392	\$8,600,864	\$9,181,362	\$51,136,619
Employee Compensation	\$14,596,539	\$2,265,355	\$2,878,004	\$19,739,899
<b><u>Yuba County</u></b>				
Employment	183	10	17	210
Output	\$9,435,007	\$1,196,761	\$2,173,913	\$12,805,682
Employee Compensation	\$4,849,741	\$253,683	\$635,503	\$5,738,928

Center for Strategic Economic Research, June 2013

Data Source: IMPLAN, 2010 coefficients and CSER analysis IMPLAN,  
County Business Patterns, Quarterly Census of Employment & Wages,  
and Nonemployer Statistics information

## Technical Notes

The estimation of economic impacts was performed using the IMPLAN input-output model (produced by MIG, Inc. and originally named Impact Analysis for Planning). This model is widely used in economic analysis to estimate multiplier effects (commonly known as ripple effects) and quantify the full range of economic impacts. Input-output models, including IMPLAN, evaluate the effects of industries on each other based on final demand. Industries require inputs from other industries to produce final goods and provide services—the supplier industries respond by purchasing goods and services from other industries. The economic activity resulting from the linked suppliers of goods and services is called indirect impacts. Those workers employed through direct and indirect activities also spend part of their compensation, which creates additional demand for goods and services. The employee consumption activities are known as induced impacts. The IMPLAN model provides the detailed data and internal models necessary to estimate the indirect and induced impacts using specific sets of multipliers within a defined study area. The multipliers describe the incremental increase in economic activity created in all existing industries caused by a change in final demand from any specific industry.

The full range of economic impacts for the activities analyzed within this report include direct, indirect, and induced benefits:

- *Direct Benefits* consist of economic activity related exclusively to the activities of establishments in the child care industry.
- *Indirect Benefits* define the creation of additional economic activity that results from purchases made and employment created by suppliers of goods and services for the child care establishments.
- *Induced Benefits* measure the consumption expenditures of direct and indirect sector employees. Examples of induced benefits include employees' expenditures on items such as retail purchases, housing, medical services, banking, and insurance.

In this analysis, the total direct, indirect, and induced benefits are presented in three ways:

- *Employment* demonstrates the number of jobs generated on an annual basis.
- *Output* accounts for total revenues including all sources of income; the total market value of production generated by an industry for a given time period; or the total value of contributions to the overall supply of a specific service or creation of a good. This is the best overall measure of business and economic activity because it is the measure most establishments use to determine current activity levels.
- *Employee Compensation* includes wages, salaries, benefits, and all other employer contributions. This measure shows how the employment levels convert to financial and fiscal potential.

Additionally, the input-output model is used to quantify the multiplier effect that occurs when new employment or output is added in the study area. This numerical value illustrates the effect generated when new employment or output is added in one sector, but creates additional jobs or output in other sectors which supply goods and services (indirect impact) and consumer services to employees (induced impact). For instance, the operations of establishments within the child care industry create direct employment in addition to demand for goods and services such as legal services from a local company. This supplier demand will generate an indirect benefit of employment at the law firm, which will ultimately create induced benefits of child care establishment and law firm employees making purchases of items such as clothing, food, and insurance in the local economy.

CSER developed a conservative estimate of the employment and output within the child care industry using 2010 data from the IMPLAN, County Business Patterns, Quarterly Census of Employment & Wages, and Nonemployer Statistics data sets. These data cover full-time, part-time, and temporary employment and some also provide information on associated industry sales and output. For purposes of this project, CSER defined the child care industry based on the North American Industrial Classification System (NAICS) code 6244, Child Day Care Services.\* CSER fully recognizes that some employment and output is not included in this estimate—specifically, those activities included within public school districts as well as some self-employment. The available public data sets either do not offer enough detail or are not available at the necessary geographic levels to separate out these aspects of the industry. If captured, these elements would incrementally increase the child care industry's total economic impacts. It is important to note that direct comparisons between other child care industry impact reports and this report should not be made as the reports have varying assumptions and methodologies.

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\* The following web site provides additional information on the NAICS code: <http://www.census.gov/cgi-bin/sssd/naics/naicsrch?code=624410&search=2012%20NAICS%20Search>