

# Health Sector Economic Indicators<sup>SM</sup>

## Insights from Monthly National Health Spending Data Through June 2017

August 11, 2017

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### SPENDING BRIEF

## New government data result in a downward revision to recent health spending estimates

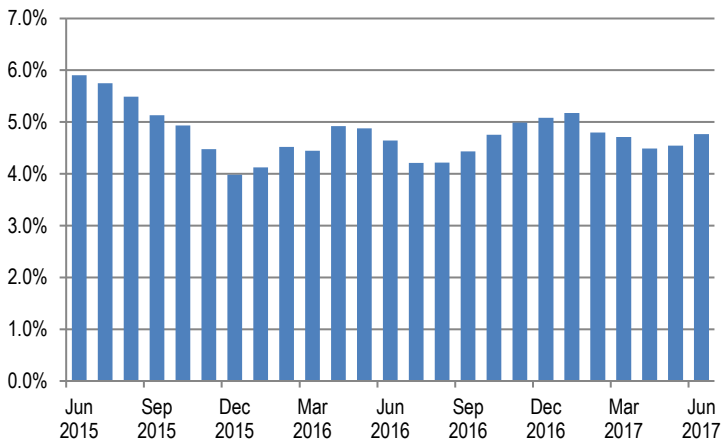
### HIGHLIGHTS

- ▲ At \$3.51 trillion (seasonally adjusted annual rate), national health spending<sup>1</sup> in June 2017 was 4.8% higher than health spending in June 2016.
- ▲ The June 2017 nominal gross domestic product (GDP) growth over a 12-month period was 4.1%, and the resulting health spending share of GDP was 18.1%.
- ▲ The health spending share of potential GDP (PGDP) was 18.2% in June.<sup>2</sup>
- ▲ Spending in June 2017, year over year, increased in all major categories. Spending on physician and clinical services grew the fastest, at 6.1%. Growth in nursing home care was near 0%, making it the slowest among the major categories.

### HEALTH SPENDING

In June 2017, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.51 trillion, slightly above its May value of \$3.49 trillion. June's health spending accounted for 18.1% of GDP, equal to its May value. As a share of PGDP, June's spending was 18.2%, up from its May value of 18.1% and slightly above the June share of GDP. Year over year, health spending in June grew by 4.8%, somewhat greater than the May rate of 4.5% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

Exhibit 1. Year-over-Year Growth Rates in Health Spending



Source: Altarum monthly national health spending estimates.

Note: This exhibit compares a given month's health spending with that of the same month from the previous year.

National Health Spending and GDP\*

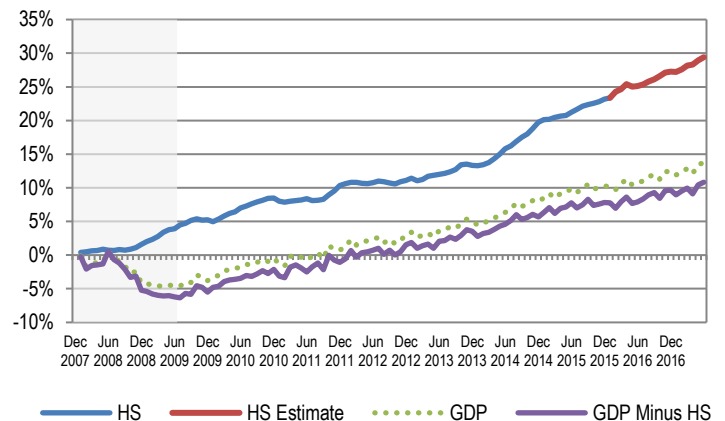
	Jun 2015	Jun 2016	May 2017	Jun 2017
<b>GDP</b>	18.20	18.58	19.26	19.35
<b>National Health Spending</b>	3.20	3.35	3.49	3.51
<b>Health Spending Share of GDP</b>	17.6%	18.0%	18.1%	18.1%
<b>Health Spending Share of PGDP</b>	17.6%	17.8%	18.1%	18.2%
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	5.9%	4.6%	4.5%	4.8%
<b>GDP</b>	4.5%	2.1%	4.1%	4.1%
<b>Health Spending Minus GDP</b>	1.4%	2.5%	0.5%	0.6%
<b>Health Spending Minus PGDP</b>	3.1%	1.6%	1.6%	1.9%

Source: Altarum Institute monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.

\* Spending is in trillions of dollars at a seasonally adjusted annual rate.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through June 2017 has increased by 29.4% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 10.8% above its December 2007 level. Including health care, real GDP in June was 13.8% above its pre-recession level (Exhibit 2).

Exhibit 2. Health Spending and GDP: Cumulative Percentage Change (Constant Dollars) Since December 2007



Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.

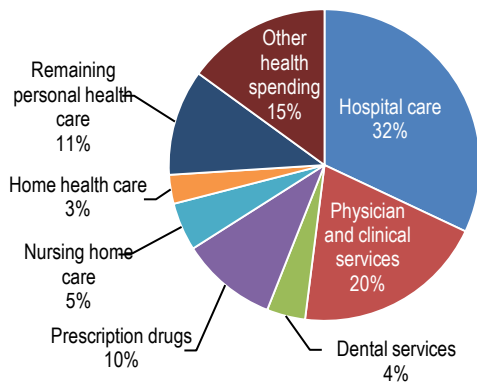
Note: Shading indicates the recession period.

## HEALTH CARE SPENDING BY CATEGORY

In June 2017:

- ▲ Hospital spending was \$1.13 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$708 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$359 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$260 billion, 8% of total health spending.
- ▲ Spending on personal health care goods and services accounted for 85% of total health spending. Other major components include public health, research, construction, and net cost of private insurance.

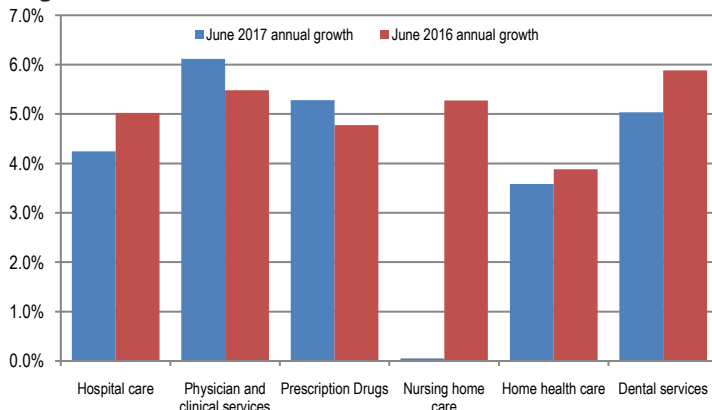
Exhibit 3. Health Spending by Category, June 2017



Source: Altarum monthly national health spending estimates.  
 Note: See Exhibit 5 for a complete list of spending categories.

**Growth over the past 12 months:** Spending on physician and clinical services grew most rapidly among the major categories, at 6.1%. Expenditures for nursing home care grew the slowest, at 0.05%. For the preceding 12-month period ending June 2016, dental services spending showed the highest growth among the major categories, at 5.9%, and home health care spending was lowest, at 3.9% (Exhibits 4 and 6).

Exhibit 4. Health Spending Year-over-Year Growth for Selected Categories



Source: Altarum monthly national health spending estimates.

## DISCUSSION

This month’s spending brief incorporates major revisions associated with the Bureau of Economic Analysis (BEA) 2017 annual update of the National Income and Products Accounts—a major source for our spending data.<sup>3</sup> The update includes changes to spending estimates from 2014 forward. Expenditures in most categories were revised downward for the most recent months, resulting in an overall downward revision in our estimates of national health spending of 0.57% for all of 2016 and 0.65% for the first 5 months of 2017 (year over year). Hospital spending was revised downward by 0.4% and 0.34% for these same 2 periods; spending on physician and clinical services was revised downward by 1.03% and 1.04%. The largest percentage reductions were for the category of other professional services (such as chiropractors, optometrists, and physical therapists): 4.2% and 5.25%.

As a result, national health spending growth for all of 2016 now stands at 4.6%, down from an estimate of 5.2% before the update. For the first 5 months of 2017, the growth rate is down from 4.9% to 4.7%, with a current year-over-year growth rate of 4.8% for June. As a percent of GDP, health spending is now estimated to have averaged 18.1% for the first 5 months of 2017, down from the pre-update estimate of 18.3%, and is currently holding steady at 18.1% for June.

These reductions in estimated health spending levels and growth rates reinforce recent evidence of spending moderation. However, as we noted last year,<sup>4</sup> we do not believe that even these relatively moderate values are sustainable in the long run.

<sup>1</sup> Altarum’s monthly estimates of national health spending are intended to approximate the official NHEA produced annually by the Centers for Medicare & Medicaid Services (CMS). Our estimates match NHEA values that are currently available through 2015 and (for some spending categories) NHEA projections for 2016 and 2017.

<sup>2</sup> For further discussion of PGDP, see our blog at <http://altarum.org/health-policy-blog/the-case-for-tracking-health-spending-as-a-share-of-potential-gdp>.

<sup>3</sup> <https://www.bea.gov/national/an1.htm#2017annualupdate>.

<sup>4</sup> <http://healthaffairs.org/blog/2016/06/23/health-spending-growth-still-facing-a-triangle-of-painful-choices/>.

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Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum’s research on the cost growth trends and key drivers of U.S. health spending and to formulate policy strategies to help bend the cost growth curve.

**The Health Sector Economic Indicators<sup>SM</sup>** reports are a monthly publication of CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). George Miller, PhD (principal author), Paul Hughes-Cromwick, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, [press@altarum.org](mailto:press@altarum.org). For more information, visit <http://www.altarum.org/cshs>.

**DETAILED HEALTH SPENDING**

**Exhibit 5. Monthly National Spending Estimates by Detailed Category**

Levels (in billions of dollars)	Jun 2014	Jun 2015	Jun 2016	Jun 2017
GDP	\$17,410.1	\$18,195.1	\$18,580.4	\$19,350.3
National health spending	\$3,021.9	\$3,200.4	\$3,348.9	\$3,508.5
Personal health care	\$2,556.5	\$2,711.9	\$2,848.9	\$2,979.1
Hospital expenditures	\$978.9	\$1,034.7	\$1,086.7	\$1,132.9
Physician and clinical expenditures	\$595.1	\$632.4	\$667.0	\$707.8
Other professional services expenditures	\$82.5	\$87.7	\$90.3	\$94.7
Dental services expenditures	\$112.7	\$116.8	\$123.6	\$129.8
Other health, residential, and personal care expenditures	\$150.6	\$163.4	\$169.4	\$178.5
Home health care expenditures	\$84.2	\$88.6	\$92.0	\$95.3
Nursing care facilities and continuing care retirement communities	\$151.3	\$156.7	\$164.9	\$165.0
Prescription drug expenditures	\$297.5	\$325.1	\$340.7	\$358.7
Durable medical equipment expenditures	\$46.7	\$48.2	\$51.2	\$51.8
Nondurable medical products expenditures	\$57.0	\$58.5	\$63.0	\$64.5
Administration and net cost of health insurance expenditures	\$236.2	\$252.8	\$260.0	\$280.7
Public health activity	\$78.9	\$80.9	\$82.3	\$85.2
Research	\$45.8	\$46.7	\$47.8	\$49.6
Structures and equipment	\$104.6	\$108.1	\$110.0	\$113.9
National health spending share of GDP	17.4%	17.6%	18.0%	18.1%
National health spending share of PGDP	17.0%	17.6%	17.8%	18.2%

Source: Altarum monthly national health spending estimates. The monthly GDP is from Macroeconomic Advisers and Altarum estimates.  
 Note: Spending is expressed in billions of dollars at a SAAR.

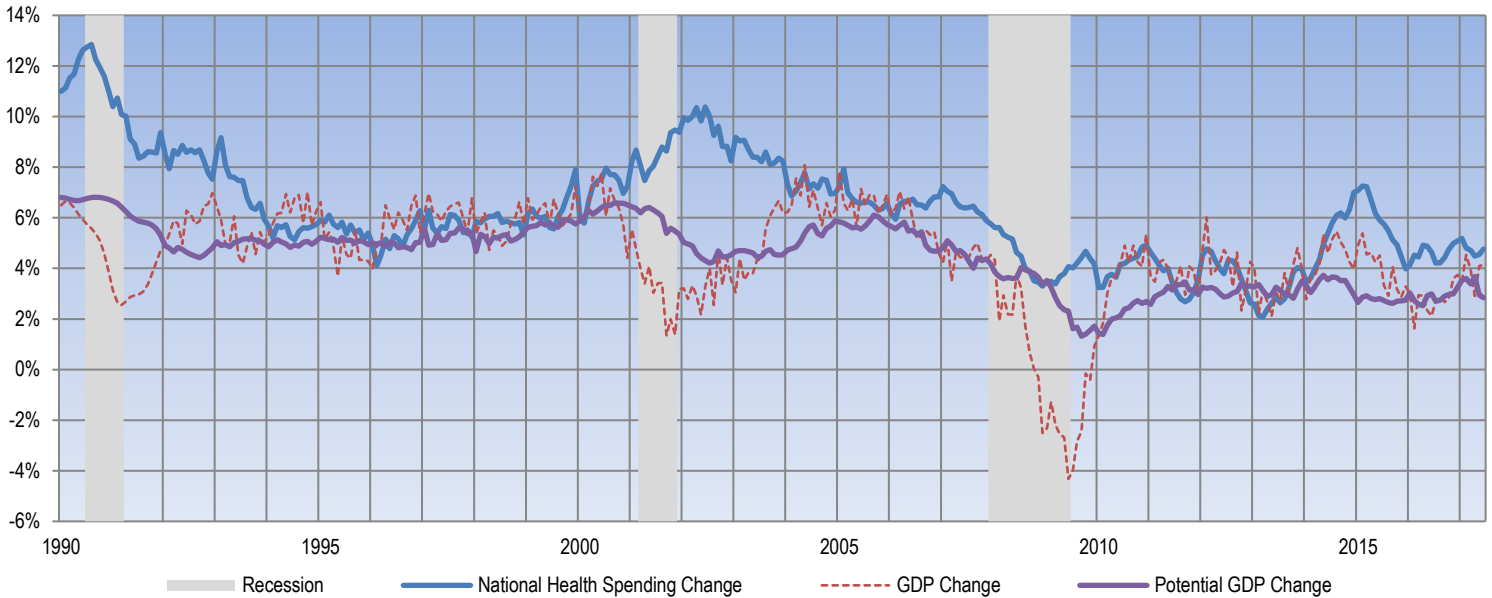
**Exhibit 6. National Health Spending 12-Month Growth Rates by Detailed Category**

Growth Rates	Jun 2015	Jun 2016	Jun 2017
GDP	4.5%	2.1%	4.1%
National health spending	5.9%	4.6%	4.8%
Personal health care	6.1%	5.0%	4.6%
Hospital expenditures	5.7%	5.0%	4.2%
Physician and clinical expenditures	6.3%	5.5%	6.1%
Other professional services expenditures	6.2%	3.0%	4.9%
Dental services expenditures	3.6%	5.9%	5.0%
Other health, residential, and personal care expenditures	8.5%	3.7%	5.4%
Home health care expenditures	5.2%	3.9%	3.6%
Nursing care facilities and continuing care retirement communities	3.5%	5.3%	0.0%
Prescription drug expenditures	9.3%	4.8%	5.3%
Durable medical equipment expenditures	3.2%	6.3%	1.2%
Nondurable medical products expenditures	2.6%	7.8%	2.4%
Administration and net cost of health insurance expenditures	7.0%	2.9%	7.9%
Public health activity	2.6%	1.7%	3.6%
Research	2.0%	2.4%	3.8%
Structures and equipment	3.3%	1.7%	3.6%
National health spending minus GDP	1.4%	2.5%	0.6%
National health spending minus PGDP	3.1%	1.6%	1.9%

Source: Computed from Exhibit 5.  
 Note: This exhibit compares monthly national health spending to that of the same month from the previous year.

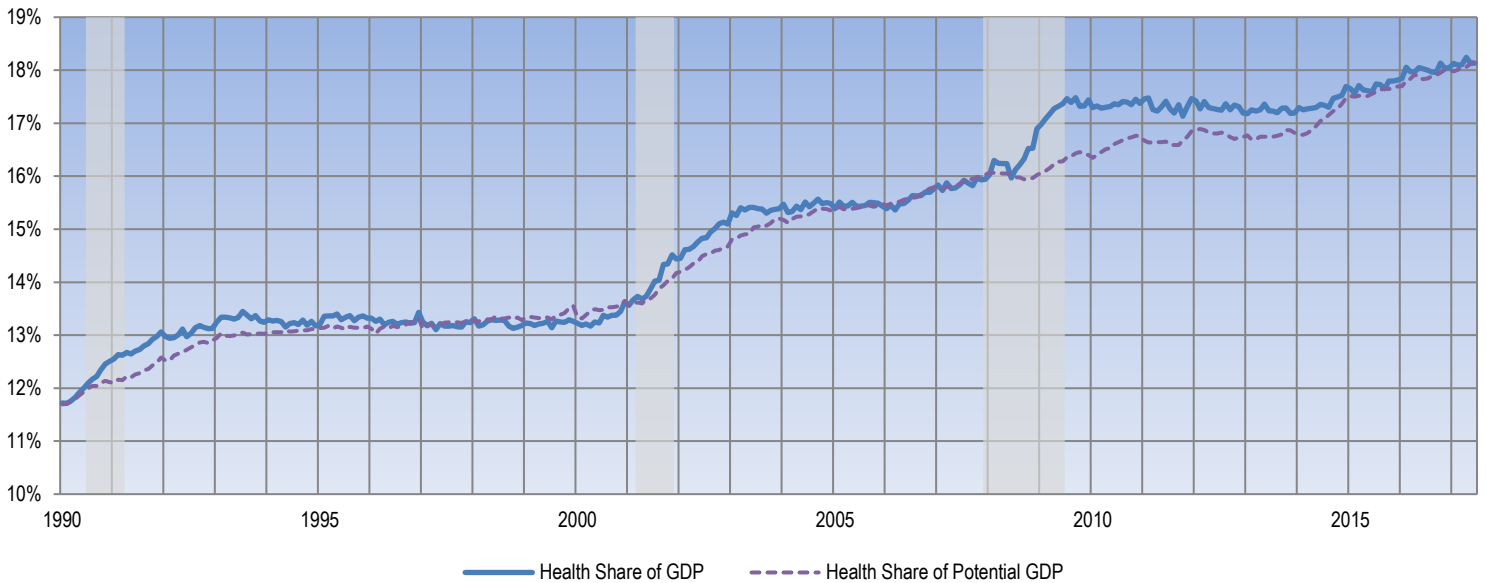
**TIME SERIES TRACKER**

**Exhibit 7. Year-over-Year Percentage Change in Spending and GDP**



Source: Altarum monthly national health spending estimates. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.  
 Note: Lightly shaded bars denote recession periods.

**Exhibit 8. Monthly Health Spending as a Percentage of Monthly GDP**



Source: Altarum monthly national health spending estimates. Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP is from the U.S. Congressional Budget Office and has been converted to monthly estimates.  
 Note: Lightly shaded bars denote recession periods.

**Methods.** Altarum’s estimates are based on BEA monthly health spending (<http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1>) and CMS annual NHE estimates (1990–2015) and projections (2016 and 2017) (<https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html>). BEA spending categories are matched to NHEA components by using information presented in the following: Hartman, M. B., Kornfeld, R. J., & Catlin, A. C. (2010, September). A reconciliation of health care expenditures in the National Health Expenditures Accounts and in gross domestic product. *Survey of Current Business*, 90(9), 42–52. For all NHEA personal health care categories except “other health, residential, and personal care,” monthly estimates are based on BEA spending adjusted to NHEA by using annual ratios. For the remaining categories, national health spending estimates and projections are allocated across months by using a simple trend. Annual ratio adjustments through 2015 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2015 ratios are used to adjust BEA spending for months in 2016 and 2017.