

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

## Insights from Monthly National Health Spending Data Through June 2015

August 13, 2015

www.altarum.org

### SPENDING BRIEF

## Major data updates show health spending grew by 5.5% in 2014; 2015 moderation continues

### HIGHLIGHTS

- ▲ New projections from the Centers for Medicare & Medicaid Services (CMS) indicate that national health spending<sup>1</sup> grew by 5.5% in 2014.
- ▲ National health spending in June 2015 was 5.7% higher than health spending in June 2014.
- ▲ The June 2015 gross domestic product (GDP) growth over a 12-month period was 3.4%.
- ▲ The health spending share of GDP was 18.1% in June. This is up from 16.0% at the start of the recession in December 2007. The June health spending share of potential GDP (PGDP) was 17.6% and is gradually approaching the health spending share of GDP as the economy approaches full employment.<sup>2</sup>
- ▲ Spending in June 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 9.4%.

	Jun 2013	Jun 2014	May 2015	Jun 2015
<b>GDP</b>	16.63	17.35	17.84	17.93
<b>National Health Spending</b>	2.91	3.08	3.24	3.25
<b>Health Spending Share of GDP</b>	17.5%	17.7%	18.1%	18.1%
<b>Health Spending Share of PGDP</b>	16.7%	17.1%	17.6%	17.6%
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	3.6%	5.8%	5.8%	5.7%
<b>GDP</b>	3.0%	4.3%	3.2%	3.4%
<b>Health Spending Minus GDP</b>	0.6%	1.5%	2.6%	2.3%
<b>Health Spending Minus PGDP</b>	0.3%	2.4%	3.3%	3.1%

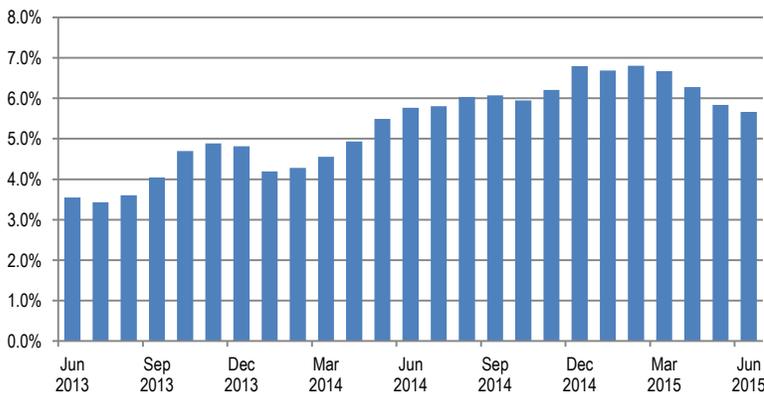
Source: Altarum Institute monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum. 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

### HEALTH SPENDING

In June 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.25 trillion from its value of \$3.24 trillion in May. June's health spending accounted for 18.1% of GDP. As a share of PGDP, June's spending was at 17.6%, equal to the May value. Year over year, health spending in June grew by 5.7%, a slightly lower rate than the May value of 5.8% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

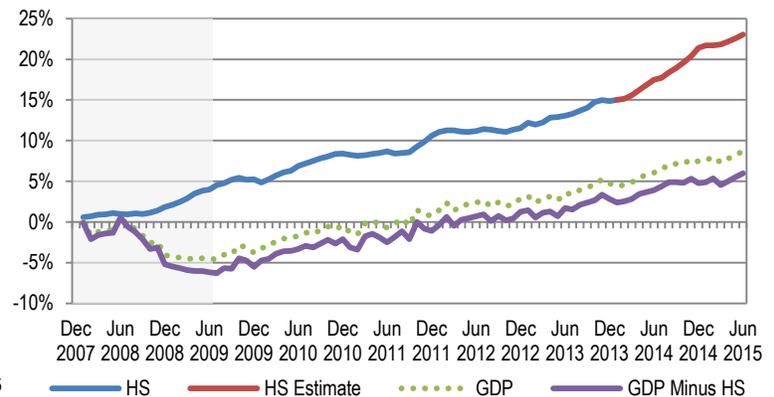
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through June 2015 has increased by 23.0% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.0% above its December 2007 level. Including health care, real GDP in June was 8.7% above its pre-recession level (Exhibit 2).

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



Source: Altarum monthly national health spending estimates.  
Note: Compares a given month's health spending with that of the same month from the previous year.

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



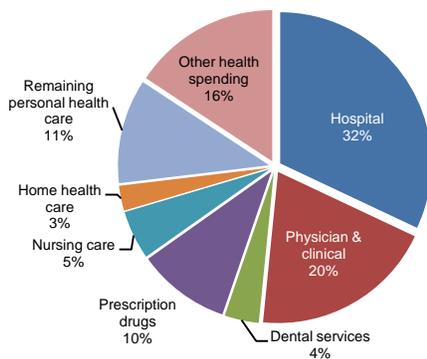
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values and match the NHEA forecast values for 2014. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.  
Note: Shading indicates the recession period.

## HEALTH CARE SPENDING BY CATEGORY

### In June 2015:

- ▲ Hospital spending was \$1.04 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$641 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$334 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$249 billion, 8% of total health spending.
- ▲ Spending on personal health care goods and services accounted for 84% of total health spending. Other major components include public health, research, construction, and net cost of private insurance.

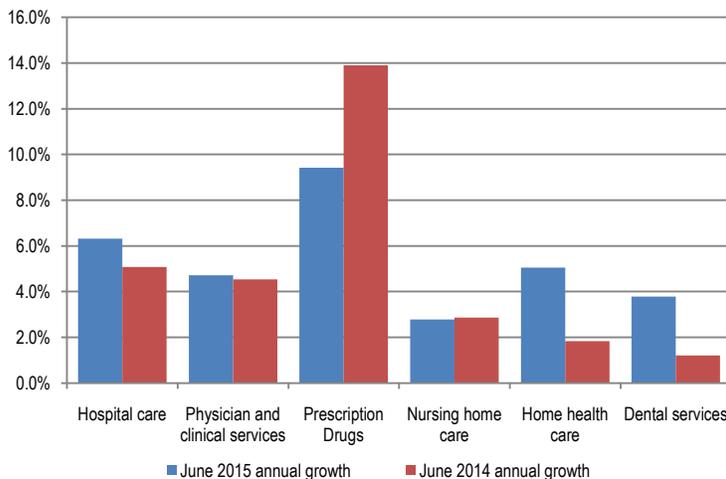
### Exhibit 3. Health Spending by Category, June 2015



Source: Altarum monthly national health spending estimates.  
 Notes: See Exhibit 5 for a complete list of spending categories. Categories do not add to 100% due to rounding.

**Growth over the past 12 months:** Prescription drugs grew most rapidly among the major categories (9.4%), while hospital spending grew by 6.3%. Nursing home care grew the slowest among major categories, at 2.8%. For the preceding 12-month period ending June 2014, prescription drugs again showed the highest growth among the major categories, at 13.9%, whereas dental services rose the least, by 1.2% (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 extensive updates to two of our major data sources. On August 5, the Bureau of Economic Analysis (BEA) released the details of its annual revision to the National Income and Product Accounts (NIPA), a primary source of our spending data. The revision updated BEA’s estimates from 2012 through the first quarter of 2015.

Altarum has also incorporated new data from CMS that project national health expenditures (NHE) from 2014 through 2024.<sup>3</sup> While our spending estimates are based largely on the NIPA data, we adjust these data to match as closely as possible the official spending data that are later published by CMS (and that we subsequently incorporate into our estimates). The official CMS expenditure data for 2014 will be released in December of this year, but the just-released projections provide the best available estimates of actual 2014 NHE values. We have therefore modified our monthly BEA-based estimates for 2014 to match the CMS projections for that year. We also use the CMS projections to estimate recent spending in categories that are not captured in the BEA data (mostly non-personal health spending in categories such as public health and the net cost of private health insurance). This month’s spending brief incorporates the new projections in these categories for 2015. We continue to use adjusted BEA data for our 2015 estimates in the spending categories that are captured in the NIPA using adjustment factors have been updated to reflect the new CMS 2014 forecast.

The projected NHE growth rate of 5.5% in 2014 (which our numbers now match) is forecast by CMS to decline to 5.3% in 2015. Our estimates, which indicate that 2014 growth peaked in December at 6.8%, now include a 6.3% year-over-year growth rate in health spending for the first 6 months of 2015 (5.7%, year over year, in June). Although the second quarter data are preliminary, these numbers together suggest that the moderation in health spending growth observed so far this year will continue through the second half of the year.

<sup>1</sup> Altarum’s monthly estimates of national health spending are intended to approximate the official NHEA produced annually by CMS. Our estimates match NHEA values that are currently available through 2013 and match the CMS projections for 2014; CMS will release official values for 2014 in December 2015.

<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> Keehan, S. P. et al. (2015). National health expenditure projections, 2014-24: Spending growth faster than recent trends. *Health Affairs*, 24(8), 1407-1417.

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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 Institute’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: Ken Schwartz, 571-733-5709, [ken.schwartz@altarum.org](mailto:ken.schwartz@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 2012	Jun 2013	Jun 2014	Jun 2015
GDP	\$16,156.4	\$16,634.9	\$17,346.6	\$17,934.0
National health spending	\$2,809.2	\$2,909.0	\$3,076.7	\$3,250.9
Personal health care	\$2,370.9	\$2,461.0	\$2,594.0	\$2,736.6
Hospital expenditures	\$895.3	\$933.3	\$980.7	\$1,042.6
Physician and clinical expenditures	\$565.2	\$585.8	\$612.4	\$641.3
Other professional services expenditures	\$76.5	\$80.4	\$85.2	\$88.8
Dental services expenditures	\$110.1	\$112.5	\$113.9	\$118.2
Other health, residential, and personal care expenditures	\$139.7	\$148.2	\$152.7	\$159.0
Home health care expenditures	\$76.2	\$80.5	\$81.9	\$86.1
Nursing care facilities and continuing care retirement communities	\$152.0	\$154.3	\$158.7	\$163.1
Prescription drug expenditures	\$262.2	\$267.8	\$305.0	\$333.8
Durable medical equipment expenditures	\$40.5	\$42.6	\$44.7	\$44.3
Nondurable medical products expenditures	\$53.2	\$55.5	\$58.8	\$59.5
Administration and net cost of health insurance expenditures	\$199.4	\$208.3	\$239.5	\$265.1
Public health activity	\$75.0	\$75.1	\$78.6	\$81.8
Research	\$48.0	\$46.8	\$45.8	\$46.6
Structures and equipment	\$115.9	\$117.8	\$118.8	\$120.7
National health spending share of GDP	17.4%	17.5%	17.7%	18.1%
National health spending share of PGDP	16.7%	16.7%	17.1%	17.6%

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 2013	Jun 2014	Jun 2015
GDP	3.0%	4.3%	3.4%
National health spending	3.6%	5.8%	5.7%
Personal health care	3.8%	5.4%	5.5%
Hospital expenditures	4.2%	5.1%	6.3%
Physician and clinical expenditures	3.6%	4.5%	4.7%
Other professional services expenditures	5.1%	5.9%	4.2%
Dental services expenditures	2.2%	1.2%	3.8%
Other health, residential, and personal care expenditures	6.1%	3.0%	4.1%
Home health care expenditures	5.5%	1.8%	5.0%
Nursing care facilities and continuing care retirement communities	1.5%	2.9%	2.8%
Prescription drug expenditures	2.1%	13.9%	9.4%
Durable medical equipment expenditures	5.2%	4.8%	-0.7%
Nondurable medical products expenditures	4.4%	5.9%	1.2%
Administration and net cost of health insurance expenditures	4.5%	14.9%	10.7%
Public health activity	0.1%	4.7%	4.1%
Research	-2.6%	-2.2%	1.8%
Structures and equipment	1.7%	0.9%	1.6%
National health spending minus GDP	0.6%	1.5%	2.3%
National health spending minus PGDP	0.3%	2.4%	3.1%

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

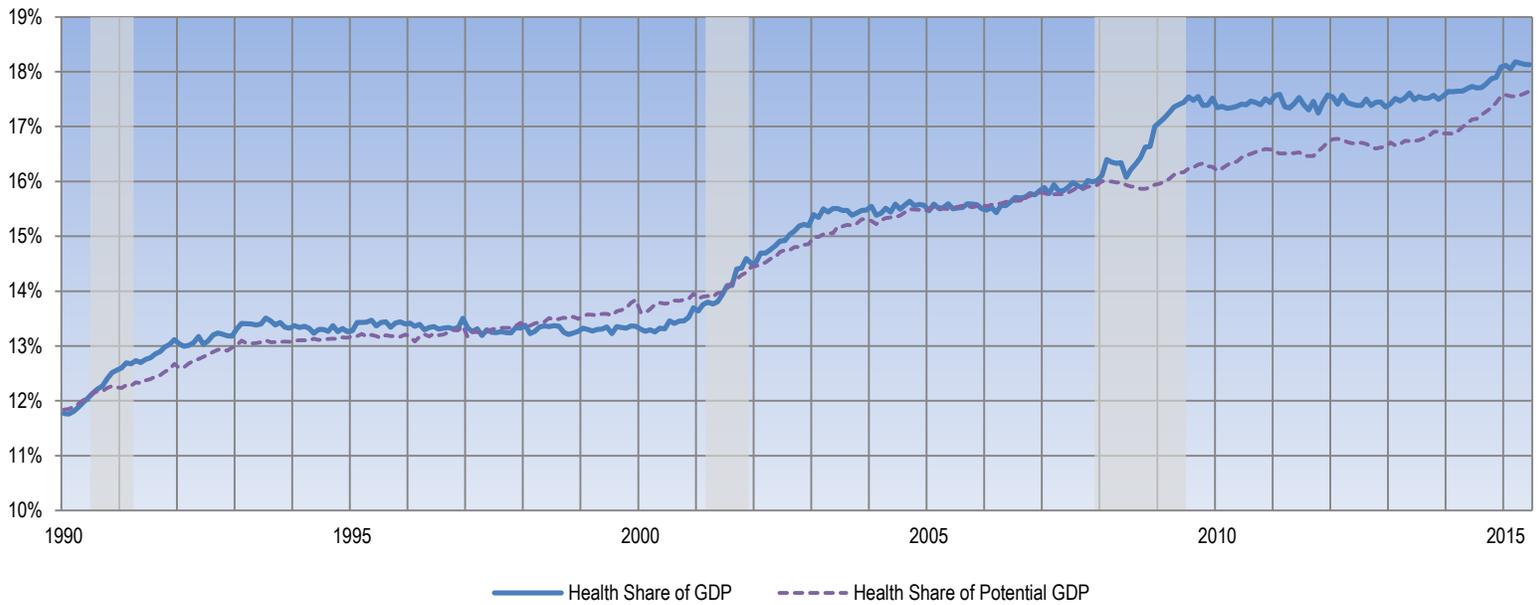
TIME SERIES TRACKER

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 (1990–2013) and projections (2014 and 2015) (<https://www.cms.gov/NationalHealthExpendData>). BEA spending categories are matched to NHEA components by using information presented in: 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, NHE estimates and projections are allocated across months by using a simple trend. Annual ratio adjustments through 2014 are based on NHEA actuals (through 2013) and projections (for 2014) and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2014 ratios are used to adjust BEA spending for months in 2015.