

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through June 2016

August 12, 2016

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SPENDING BRIEF

Modest 2016 health spending growth continues

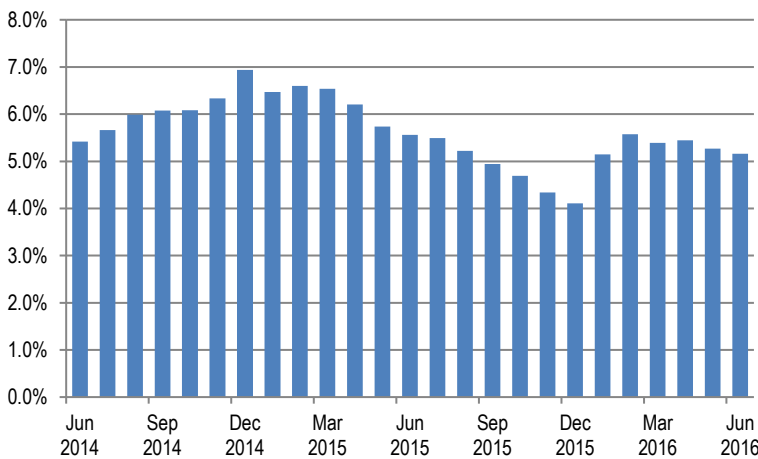
HIGHLIGHTS

- ▲ At \$3.36 trillion (seasonally adjusted annual rate) national health spending¹ in June 2016 was 5.2% higher than health spending in June 2015.
- ▲ The June 2016 nominal gross domestic product (GDP) growth over a 12-month period was 2.3%.
- ▲ The health spending share of GDP was 18.2% in June (up 0.1 from May).
- ▲ The health spending share of potential GDP (PGDP) was 17.8% in June and is gradually approaching the health spending share of GDP as the economy approaches full employment.²
- ▲ Spending in June 2016, year over year, increased in all major categories. Home health care grew the fastest, at 8.0%. Nursing home care grew at a 2.8% rate, the slowest among the major categories.

HEALTH SPENDING

In June 2016, health spending increased slightly to a seasonally adjusted annual rate (SAAR) of \$3.36 trillion from its value of \$3.34 trillion in May. June's health spending accounted for 18.2% of GDP, up slightly from the May value of 18.1%. As a share of PGDP, June's spending was at 17.8%, just above its May reading of 17.7%. Year over year, health spending in June grew by 5.2%, down from 5.3% in May (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*

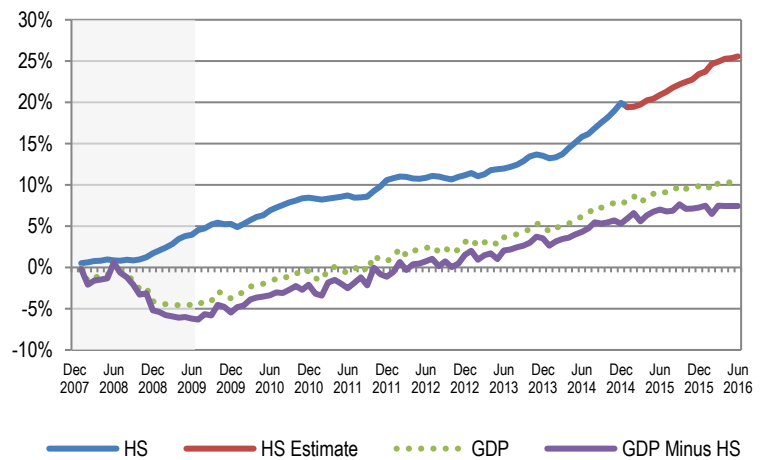
	Jun 2014	Jun 2015	May 2016	Jun 2016
GDP	17.38	18.09	18.45	18.50
National Health Spending	3.03	3.19	3.34	3.36
Health Spending Share of GDP	17.4%	17.7%	18.1%	18.2%
Health Spending Share of PGDP	16.9%	17.4%	17.7%	17.8%
Growth from Prior 12 Months				
Health Spending	5.4%	5.6%	5.3%	5.2%
GDP	4.4%	4.1%	2.4%	2.3%
Health Spending Minus GDP	1.0%	1.5%	2.9%	2.9%
Health Spending Minus PGDP	1.9%	2.9%	2.6%	2.4%

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 2016 has increased by 25.6% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 7.4% above its December 2007 level. Including health care, real GDP in June was 10.3% above its pre-recession level (Exhibit 2).

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



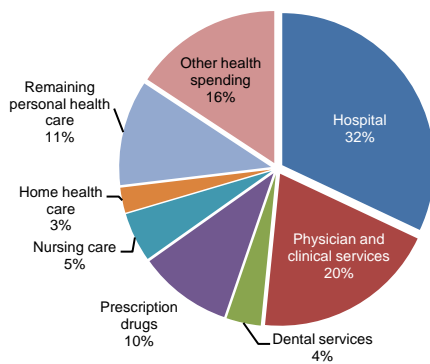
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

HEALTH CARE SPENDING BY CATEGORY

In June 2016:

- ▲ Hospital spending was \$1.07 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$672 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$339 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.

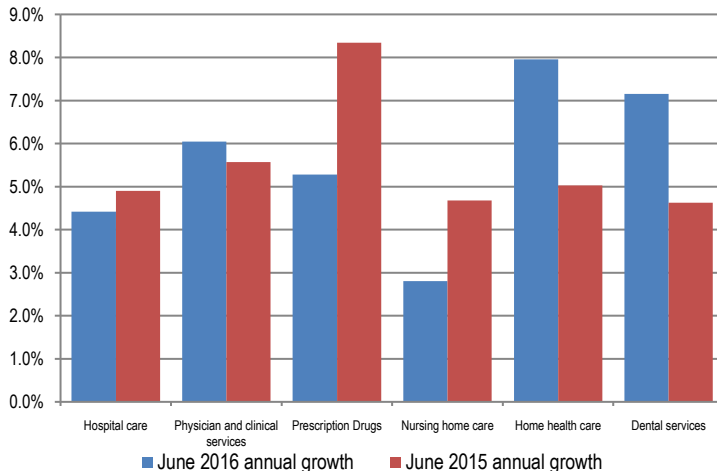
Exhibit 3. Health Spending by Category, May 2016



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

Growth over the past 12 months: Home health care grew most rapidly among the major categories at 8.0%, while dental services grew by 7.2%. Nursing home care grew the slowest among major categories, at 2.8%. For the preceding 12-month period ending June 2015, prescription drugs showed the highest growth among the major categories, at 8.3% (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 the latest results from the Bureau of Economic Analysis (BEA) for the 2nd quarter of 2016 (April, May and June), as well as revisions going back to the 1st quarter of 2013. The recent data are preliminary until the release of the U.S. Census Bureau’s Quarterly Services Survey (QSS) on September 8, 2016 (reflected in BEA data out on September 30, and by our Center in our October Spending Brief).

On July 13, CMS published its annual projections of national health expenditures.³ These projections suggest that national health spending grew from 2014 to 2015 by 5.5% (we had estimated this rate at 5.8%). Because these projections provide the best estimate to date of the official NHEA values that will be published by CMS in December, this month’s Spending Brief incorporates updates to our spending estimates for 2015 to match the CMS projections. The CMS projection of overall spending growth for 2016 is 4.8%. In comparison, our estimated year-over-year growth rate for the first six months of 2016 is 5.3%. The growth path of our data is trending down, and it will be interesting to see the extent to which this ultimately brings the 2016 rate in line with CMS’s projection.

Preliminary data put the health spending share of GDP at 18.2%, which is tied for the all-time high in our series first hit in February 2016. Without more vibrant GDP growth (3.5% nominal in the 2nd quarter, 1.2% real), this share is poised to continue to reach new all-time highs.

We stress that health spending growth has been moderate, especially when compared to pre-Great Recession rates, but we do not believe it is sustainable. For details, please see our new *Health Affairs Blog*, ‘Moderate’ Health Spending Growth Projections Exceed What we can Afford.⁴

¹ 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 2014.

² 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>.

³ Keehan, S.P. et al (2016). National health expenditure projections, 2015-2025: economy, prices, and aging expected to shape spending and enrollment. *Health Affairs* 35(8). Available at <http://content.healthaffairs.org/content/early/2016/07/12/hlthaff.2016.0459>.

⁴ Roehrig, C.S. (2016). ‘Moderate’ Health Spending Growth Projections Exceed What We Can Afford. *Health Affairs Blog*, August 10, 2016. Available at <http://healthaffairs.org/blog/2016/08/10/moderate-health-spending-growth-projections-exceed-what-we-can-afford/>.

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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 IndicatorsSM 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. George Miller, PhD (principal author), Paul Hughes-Cromwick, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 202-772-5062, 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 2013	Jun 2014	Jun 2015	Jun 2016
GDP	\$16,647.0	\$17,378.9	\$18,086.0	\$18,497.6
National health spending	\$2,869.6	\$3,025.1	\$3,193.3	\$3,358.0
Personal health care	\$2,433.1	\$2,558.6	\$2,697.2	\$2,838.8
Hospital expenditures	\$929.1	\$972.4	\$1,020.1	\$1,065.2
Physician and clinical expenditures	\$576.9	\$600.5	\$634.0	\$672.3
Other professional services expenditures	\$79.8	\$84.1	\$88.9	\$95.1
Dental services expenditures	\$112.0	\$113.0	\$118.2	\$126.7
Other health, residential, and personal care expenditures	\$144.3	\$150.0	\$157.8	\$165.6
Home health care expenditures	\$79.9	\$83.3	\$87.5	\$94.5
Nursing care facilities and continuing care retirement communities	\$149.2	\$154.3	\$161.5	\$166.0
Prescription drug expenditures	\$262.0	\$297.2	\$322.0	\$339.0
Durable medical equipment expenditures	\$44.5	\$46.5	\$48.2	\$51.7
Nondurable medical products expenditures	\$55.4	\$57.2	\$58.8	\$62.7
Administration and net cost of health insurance expenditures	\$207.6	\$234.3	\$253.7	\$267.2
Public health activity	\$76.4	\$78.7	\$83.1	\$87.2
Research	\$46.5	\$45.5	\$46.1	\$47.3
Structures and equipment	\$105.9	\$108.0	\$113.1	\$117.5
National health spending share of GDP	17.2%	17.4%	17.7%	18.2%
National health spending share of PGDP	16.6%	16.9%	17.4%	17.8%

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.

** Data are not yet available.

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

Growth Rates	Jun 2014	Jun 2015	Jun 2016
GDP	4.4%	4.1%	2.3%
National health spending	5.4%	5.6%	5.2%
Personal health care	5.2%	5.4%	5.3%
Hospital expenditures	4.7%	4.9%	4.4%
Physician and clinical expenditures	4.1%	5.6%	6.0%
Other professional services expenditures	5.4%	5.7%	7.0%
Dental services expenditures	0.9%	4.6%	7.2%
Other health, residential, and personal care expenditures	3.9%	5.2%	4.9%
Home health care expenditures	4.3%	5.0%	8.0%
Nursing care facilities and continuing care retirement communities	3.4%	4.7%	2.8%
Prescription drug expenditures	13.4%	8.3%	5.3%
Durable medical equipment expenditures	4.3%	3.8%	7.2%
Nondurable medical products expenditures	3.4%	2.8%	6.6%
Administration and net cost of health insurance expenditures	12.8%	8.3%	5.3%
Public health activity	3.1%	5.6%	4.9%
Research	-2.2%	1.4%	2.5%
Structures and equipment	1.9%	4.8%	3.9%
National health spending minus GDP	1.0%	1.5%	2.9%
National health spending minus PGDP	1.9%	2.9%	2.4%

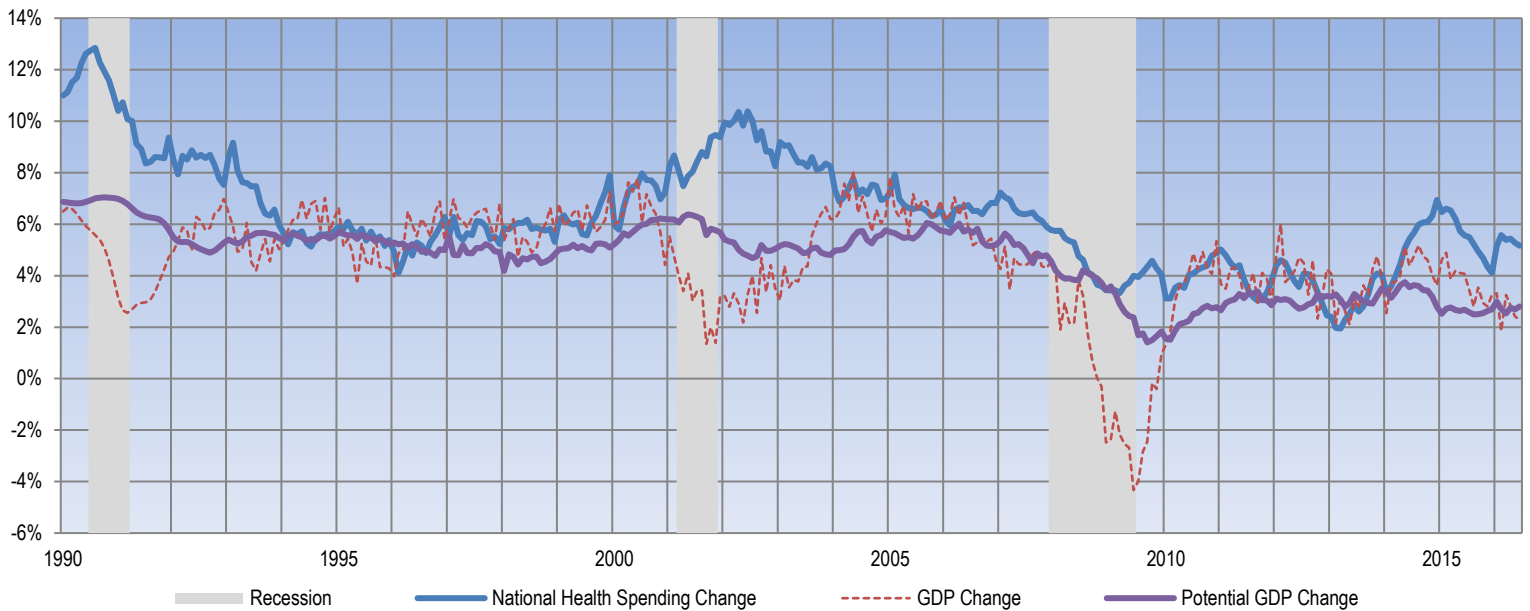
Source: Computed from Exhibit 5.

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

** Data are not yet available.

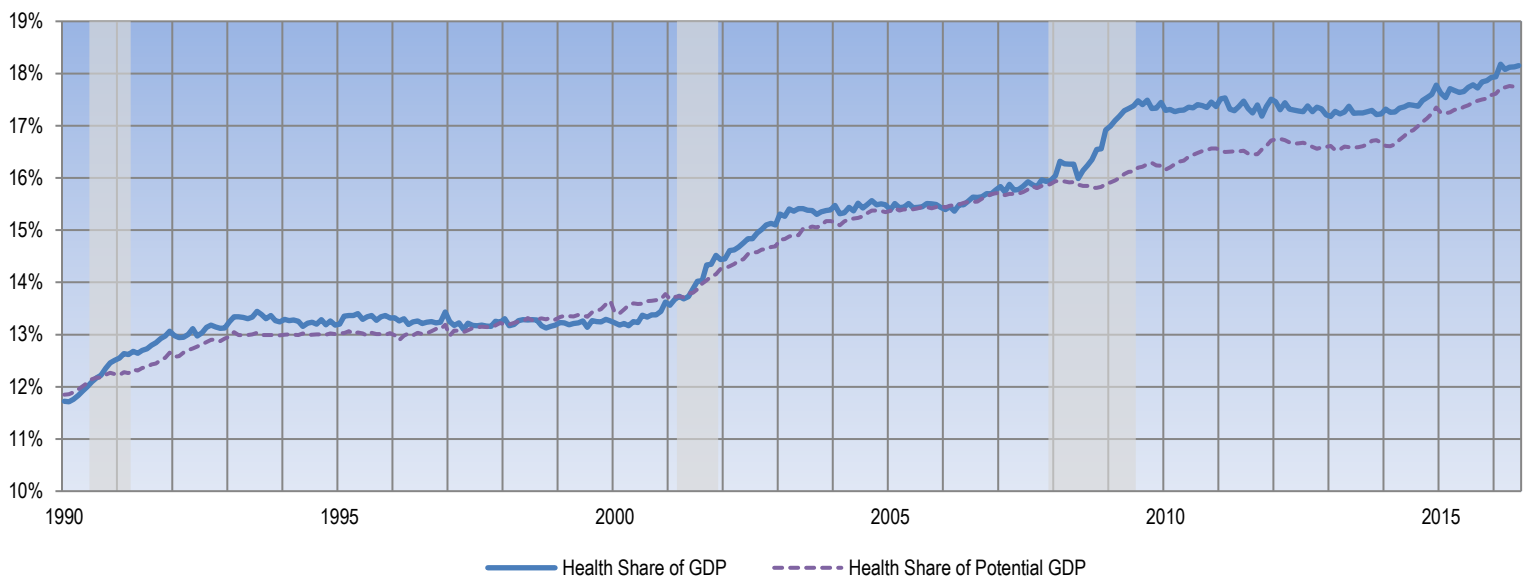
TIME SERIES TRACKER

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 (1990–2014) and projections (2015 and 2016) (<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 (through 2014), and projections (for 2015), and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2015 ratios are used to adjust BEA spending for months in 2016.