

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through October 2015

December 11, 2015

www.altarum.org

SPENDING BRIEF

Updates to government data reveal health spending to be below 18% of GDP

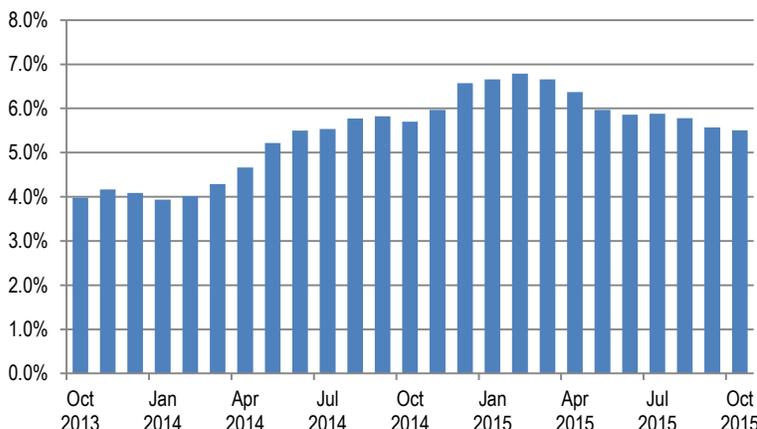
HIGHLIGHTS

- ▲ New and revised data just released by the Centers for Medicare & Medicaid Services (CMS) indicate that national health spending as measured by the National Health Expenditure Accounts (NHEA) grew by 5.3% in 2014 and by 2.9% in 2013.¹
- ▲ National health spending² in October 2015 was 5.5% higher than health spending in October 2014.
- ▲ The September 2015 gross domestic product (GDP) growth over a 12-month period was 3.4%. (October data are not yet available.)
- ▲ The health spending share of GDP was 17.9% in September. This downward revision from our previous estimate of 18.3% was driven largely by the newly released NHEA data, which reflect lower health spending than previous estimates.
- ▲ The September health spending share of potential GDP (PGDP) was 17.5% and is gradually approaching the health spending share of GDP as the economy approaches full employment.³
- ▲ Spending in October 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 9.1%.

HEALTH SPENDING

In October 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.26 trillion from its value of \$3.25 trillion in September. September's health spending accounted for 17.9% of GDP. (October GDP data are not yet available.) As a share of PGDP, September's spending was at 17.5%, equal to its August reading. Year over year, health spending in October grew by 5.5%, down from 5.6% in September (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.

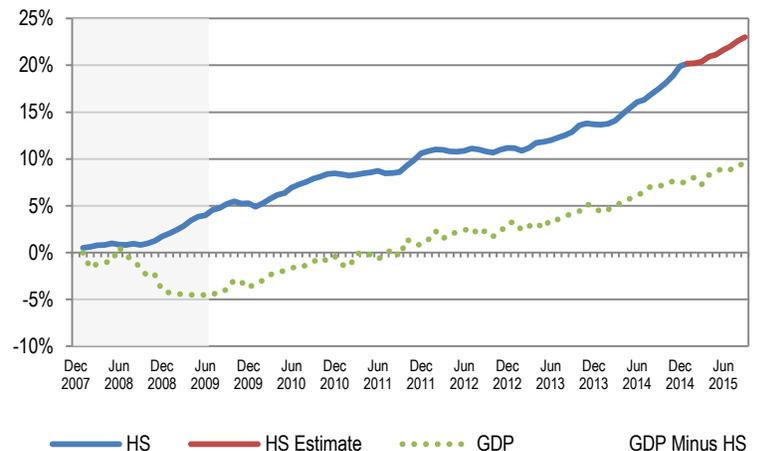
Note: Compares a given month's health spending with that of the same month from the previous year.

	Oct 2013	Oct 2014	Sept 2015	Oct 2015
GDP	16.86	17.60	18.16	**
National Health Spending	2.93	3.09	3.25	3.26
Health Spending Share of GDP	17.4%	17.6%	17.9%	**
Health Spending Share of PGDP	16.7%	17.1%	17.5%	**
Growth from Prior 12 Months				
Health Spending	4.0%	5.7%	5.6%	5.5%
GDP	4.0%	4.4%	3.4%	**
Health Spending Minus GDP	0.0%	1.3%	2.2%	**
Health Spending Minus PGDP	1.2%	2.4%	3.0%	**

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.
** Data are not yet available.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through September 2015 has increased by 23.0% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 7.3% above its December 2007 level. Including health care, real GDP in September was 9.8% above its pre-recession level (Exhibit 2).

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



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

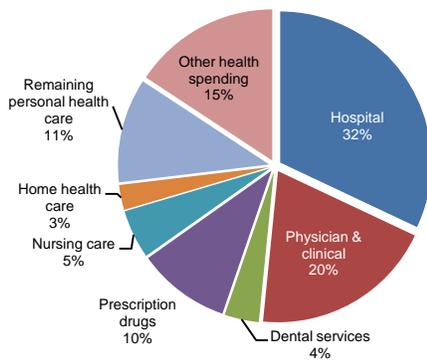
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In October 2015:

- ▲ Hospital spending was \$1.05 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$638 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$336 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$255 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.

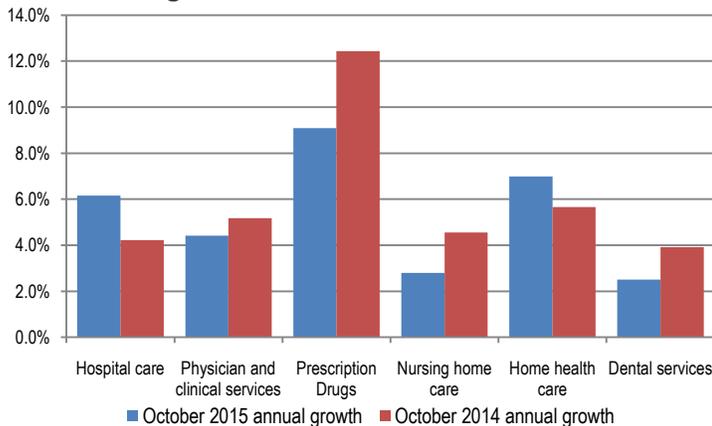
Exhibit 3. Health Spending by Category, October 2015



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

Growth over the past 12 months: Prescription drugs grew most rapidly among the major categories (9.1%). Dental services grew the slowest among major categories, at 2.5%. For the preceding 12-month period ending September 2014, prescription drugs again showed the highest growth among the major categories, at 12.4%, whereas dental services rose the least, by 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 data from the official 2014 release of the NHEA, published on line by CMS on December 2.¹ This resulted in a slight downward revision to our national health spending estimates for 2014, for which year-over-year growth now stands at 5.3%. Perhaps more significant was the downward revision to spending growth in 2013 to 2.9%, which is the lowest annual growth rate in the history of the NHEA. These downward revisions, which caused a more than \$50 billion reduction in our estimated annualized spending in September 2015 from last month's spending brief, are the principal contributors to our revised estimate that health spending is now less than 18% of GDP.

CMS attributes the acceleration in health spending in 2014 largely to expanded health insurance coverage under the Affordable Care Act and to growth in prescription drug spending, led by the introduction of new hepatitis C drugs.⁴ The growth rate, which increased throughout 2014, peaked in February of this year at 6.8%, and spending growth has been declining since then to its October level of 5.5%. Our recent Health Sector Trend Reports⁵⁻⁶ previously identified insurance coverage expansion and prescription drug spending growth as principal causes of the spending acceleration into the first quarter of 2015, and noted that the more recent decline in spending growth is associated with a moderation in each of these two causes. We anticipate that spending growth will continue to decline in the near future as these two factors continue to moderate.

On December 10, the Census Bureau released the results of its Quarterly Services Survey (QSS) for the third quarter of 2015. The QSS will be used in coming months by the Bureau of Economic Analysis (BEA) to update their estimates of health services spending, which are a principal source for our 2015 spending estimates. Data from this QSS release show a downward trend in spending growth that is consistent with our estimates, though the QSS growth rates are higher than the rates we are currently reporting.

¹ <http://content.healthaffairs.org/content/early/2015/11/25/hlthaff.2015.1194>.

² 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 2014.

³ 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>.

⁴ See our recent blog on this latter impact: <http://healthaffairs.org/blog/2015/12/07/the-impact-of-new-hepatitis-c-drugs-on-national-health-spending/>.

⁵ <http://altarum.org/publications/health-sector-trend-report-october-2015>.

⁶ <http://altarum.org/publications/health-sector-trend-report-november-2015>.

Follow us on Twitter: @ALTARUM_CSHS

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>.

Exhibit 5. Monthly National Spending Estimates by Detailed Category

Levels (in billions of dollars)	Oct 2012	Oct 2013	Oct 2014	Oct 2015
GDP	\$16,209.9	\$16,856.1	\$17,598.7	**
National health spending	\$2,813.5	\$2,925.4	\$3,092.1	\$3,262.3
Personal health care	\$2,383.7	\$2,481.1	\$2,614.4	\$2,756.8
Hospital expenditures	\$907.9	\$951.6	\$991.8	\$1,052.9
Physician and clinical expenditures	\$566.2	\$581.4	\$611.5	\$638.5
Other professional services expenditures	\$78.7	\$81.4	\$85.5	\$89.7
Dental services expenditures	\$108.4	\$111.8	\$116.2	\$119.1
Other health, residential, and personal care expenditures	\$140.0	\$146.2	\$152.1	\$158.6
Home health care expenditures	\$78.5	\$80.0	\$84.5	\$90.4
Nursing care facilities and continuing care retirement communities	\$148.7	\$153.0	\$159.9	\$164.4
Prescription drug expenditures	\$258.5	\$274.0	\$308.1	\$336.1
Durable medical equipment expenditures	\$42.9	\$45.7	\$47.1	\$47.9
Nondurable medical products expenditures	\$53.9	\$56.0	\$57.6	\$59.2
Administration and net cost of health insurance expenditures	\$199.7	\$215.1	\$243.2	\$264.5
Public health activity	\$76.5	\$76.8	\$80.0	\$83.5
Research	\$47.9	\$45.9	\$45.6	\$46.9
Structures and equipment	\$105.5	\$106.4	\$109.0	\$110.7
National health spending share of GDP	17.4%	17.4%	17.6%	**
National health spending share of PGDP	16.5%	16.7%	17.1%	**

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	Oct 2013	Oct 2014	Oct 2015
GDP	4.0%	4.4%	**
National health spending	4.0%	5.7%	5.5%
Personal health care	4.1%	5.4%	5.4%
Hospital expenditures	4.8%	4.2%	6.2%
Physician and clinical expenditures	2.7%	5.2%	4.4%
Other professional services expenditures	3.4%	5.1%	4.9%
Dental services expenditures	3.2%	3.9%	2.5%
Other health, residential, and personal care expenditures	4.5%	4.0%	4.3%
Home health care expenditures	1.9%	5.7%	7.0%
Nursing care facilities and continuing care retirement communities	2.8%	4.6%	2.8%
Prescription drug expenditures	6.0%	12.4%	9.1%
Durable medical equipment expenditures	6.6%	3.1%	1.7%
Nondurable medical products expenditures	3.8%	2.9%	2.7%
Administration and net cost of health insurance expenditures	7.7%	13.1%	8.7%
Public health activity	0.4%	4.1%	4.4%
Research	-4.2%	-0.8%	2.9%
Structures and equipment	0.9%	2.4%	1.6%
National health spending minus GDP	0.0%	1.3%	**
National health spending minus PGDP	1.2%	2.4%	**

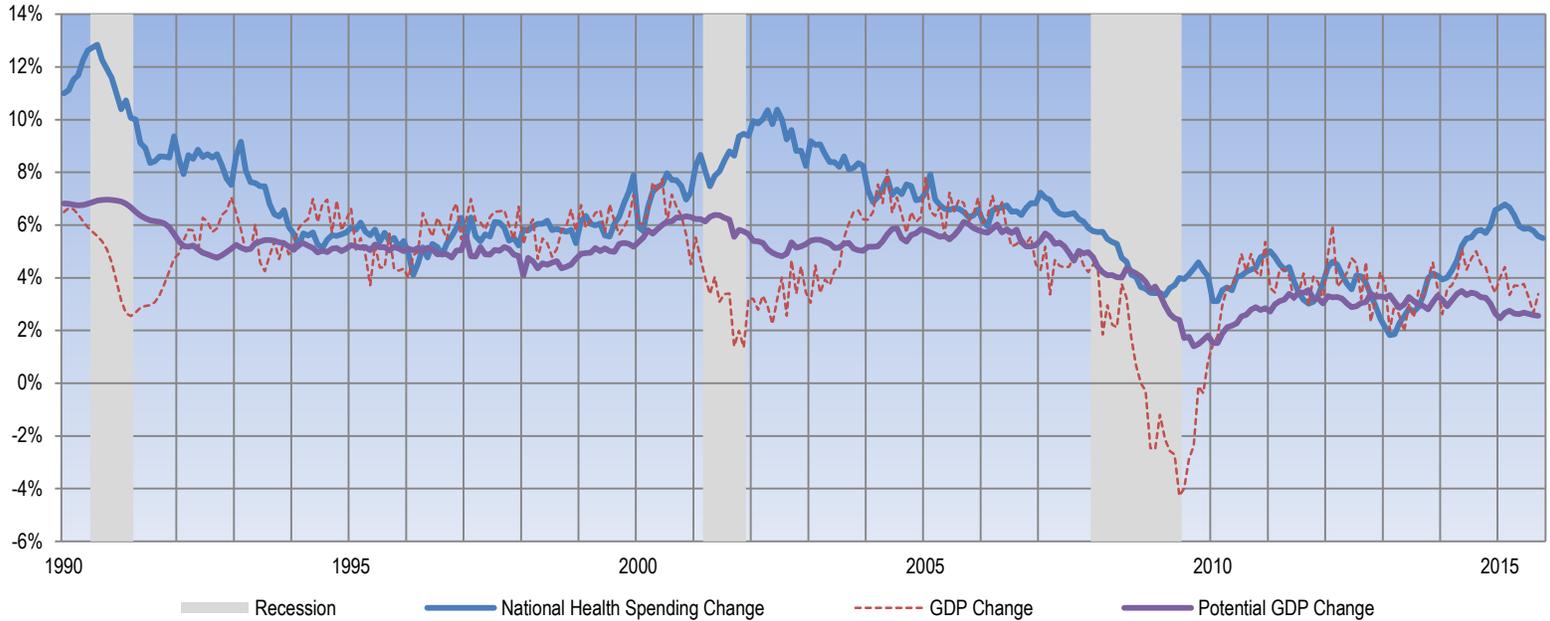
Source: Computed from Exhibit 5.

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

** Data are not yet available.

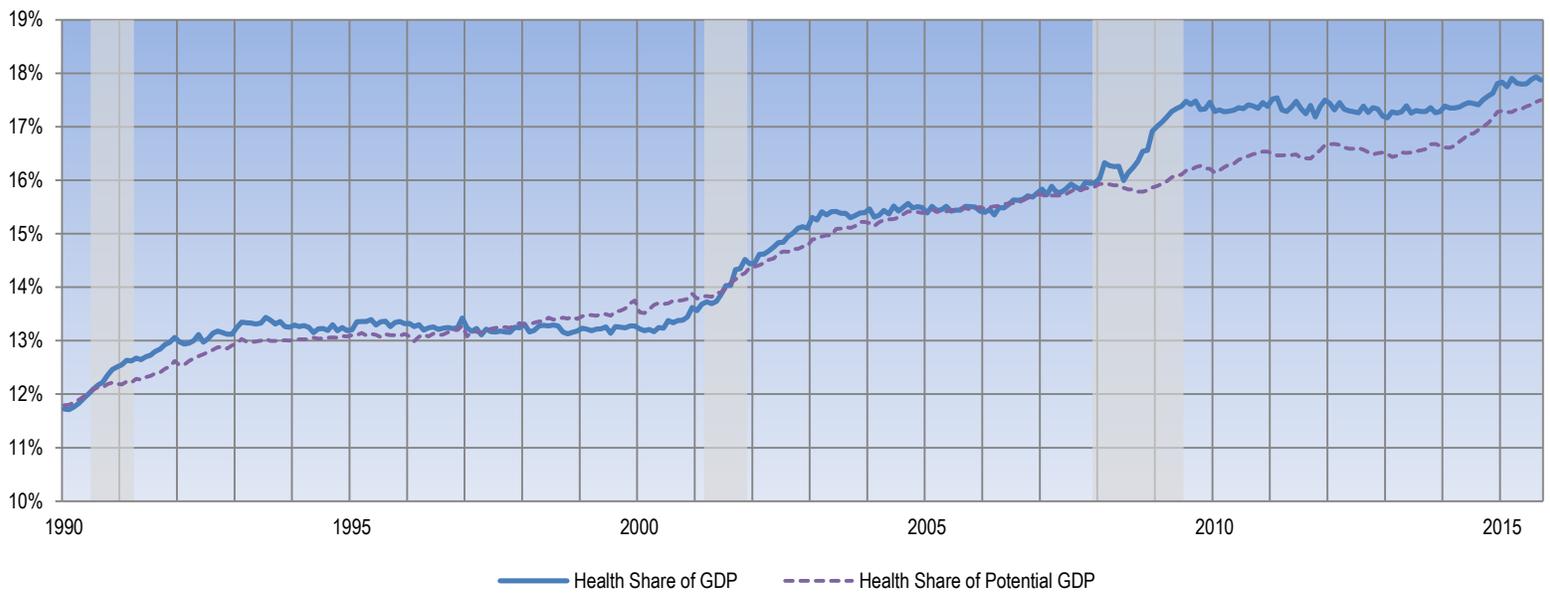
TIME SERIES TRACKER

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