

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through October 2016

December 13, 2016

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SPENDING BRIEF

Health spending growth through October is slightly below 2015 growth rate just released by CMS

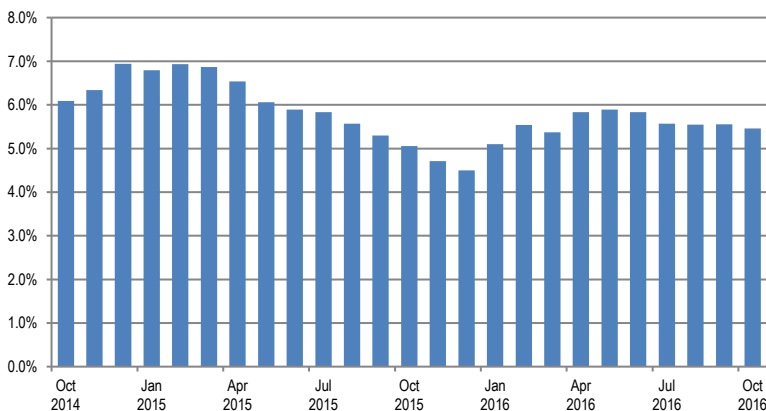
HIGHLIGHTS

- ▲ New data just released by the Centers for Medicare and Medicaid Services (CMS) indicate that national health spending as measured by the National Health Expenditure Accounts (NHEA) grew by 5.8% in 2015.¹
- ▲ At \$3.43 trillion (seasonally adjusted annual rate), national health spending² in October 2016 was 5.5% higher than health spending in October 2015.
- ▲ The September 2016 nominal gross domestic product (GDP) growth over a 12-month period was 2.7%. (October data are not yet available.)
- ▲ The health spending share of GDP was 18.2% in September, falling just below the all-time high of 18.3% seen in each month from May to August 2016.
- ▲ The health spending share of potential GDP (PGDP) was 18.0% in September and is gradually approaching the health spending share of GDP as the economy approaches full employment.³
- ▲ Spending in October 2016, year over year, increased in all major categories. Hospital care grew the fastest, at 6.6%. Prescription drugs grew at a 3.5% rate, the slowest among the major categories.

HEALTH SPENDING

In October 2016, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.43 trillion, slightly above its September value of \$3.42 trillion. September's health spending accounted for 18.2% of GDP, just below its August value of 18.3%. (October GDP data are not yet available.) As a share of PGDP, September's spending was at 18.0%, slightly above its August value of 17.9%. Year over year, health spending in October grew by 5.5%, down slightly 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: This exhibit compares a given month's health spending with that of the same month from the previous year.

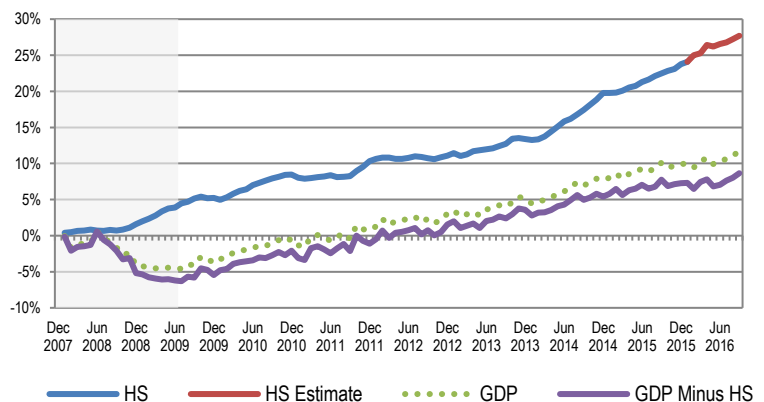
National Health Spending and GDP*

	Oct 2014	Oct 2015	Sep 2016	Oct 2016
GDP	17.65	18.18	18.76	**
National Health Spending	3.10	3.25	3.42	3.43
Health Spending Share of GDP	17.6%	17.9%	18.2%	**
Health Spending Share of PGDP	17.1%	17.5%	18.0%	**
Growth from Prior 12 Months				
Health Spending	6.1%	5.1%	5.6%	5.5%
GDP	4.5%	3.0%	2.7%	**
Health Spending Minus GDP	1.6%	2.0%	2.9%	**
Health Spending Minus PGDP	2.6%	2.5%	2.7%	**

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 September 2016 has increased by 27.7% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 8.7% above its December 2007 level. Including health care, real GDP in September was 11.7% above its pre-recession level (Exhibit 2).

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



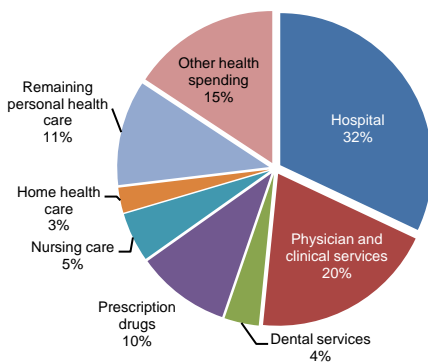
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

HEALTH CARE SPENDING BY CATEGORY

In October 2016:

- ▲ Hospital spending was \$1.11 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$678 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$346 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$266 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.

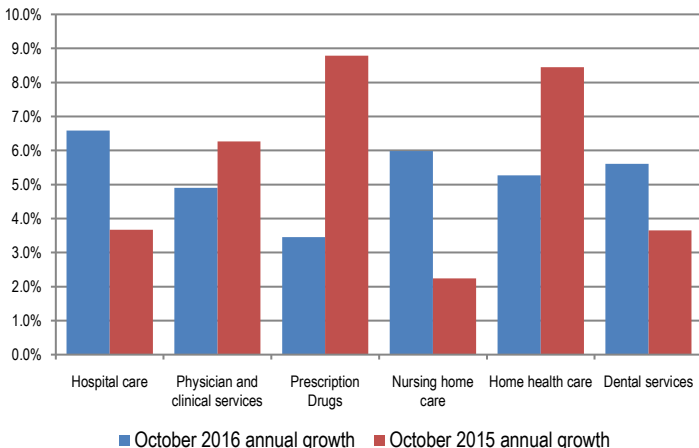
Exhibit 3. Health Spending by Category, October 2016



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

Growth over the past 12 months: Hospital care grew most rapidly among the major categories at 6.6%. Prescription drug expenditures grew the slowest among major categories, at 3.5%. For the preceding 12-month period ending October 2015, prescription drug spending showed the highest growth among the major categories, at 8.8%, and nursing home care was lowest, at 2.2% (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 data from the official 2015 release of the NHEA, published on line by CMS on December 2.¹ This resulted in an upward revision to our national health spending estimates for 2015 from 5.5% to 5.8%. (Our previous estimates for 2015 were based on CMS NHE projections that were released earlier this year.⁴) Our estimates suggest that year-over-year growth in health spending for the first 10 months of 2016 was 5.6%, slightly below the 2015 growth rate, and relatively stable at approximately this rate for the past four months.

A decline in spending growth in 2016 had been expected to accompany a leveling off of expanded coverage under the Affordable Care Act. This was reflected in the CMS NHE projections, which included an estimate that national health spending growth in 2016 would be 4.8%. Our estimated year-to-date growth rate of 5.6% suggests that the leveling off of expanded coverage has had a smaller impact than had previously been anticipated.

Spending on prescription drugs, which grew by 9.0% in 2015, has moderated to a year-to-date growth rate of 5.3%, and stands at 3.5%, year over year, for October 2016, its lowest rate since July 2013. Some of this appears to be due to slower spending on hepatitis C medications.

On December 8, the Census Bureau released the results of its Quarterly Services Survey (QSS) for the third quarter of 2016. 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 2016 spending estimates. We anticipate that these updates will have only a minor impact on our spending estimates: the latest QSS release indicates that health services grew at a rate of 5.4% (year over year) for the third quarter, whereas our estimate for third quarter growth in services spending currently stands at 5.6%.

¹<http://content.healthaffairs.org/content/early/2016/11/22/hlthaff.2016.1330.full.pdf+html>

² 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 and NHEA projections for 2015.

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 <http://content.healthaffairs.org/content/early/2016/07/12/hlthaff.2016.0459.full>.

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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)	Oct 2013	Oct 2014	Oct 2015	Oct 2016
GDP	\$16,888.5	\$17,645.5	\$18,179.8	**
National health spending	\$2,919.6	\$3,097.4	\$3,254.1	\$3,431.8
Personal health care	\$2,472.3	\$2,623.5	\$2,759.6	\$2,913.5
Hospital expenditures	\$957.7	\$1,006.1	\$1,043.0	\$1,111.7
Physician and clinical expenditures	\$571.9	\$607.9	\$646.0	\$677.6
Other professional services expenditures	\$79.0	\$85.6	\$89.8	\$94.9
Dental services expenditures	\$111.4	\$115.3	\$119.5	\$126.2
Other health, residential, and personal care expenditures	\$145.5	\$154.7	\$166.4	\$173.5
Home health care expenditures	\$80.0	\$84.6	\$91.7	\$96.5
Nursing care facilities and continuing care retirement communities	\$151.4	\$156.7	\$160.2	\$169.8
Prescription drug expenditures	\$273.4	\$307.6	\$334.6	\$346.1
Durable medical equipment expenditures	\$45.8	\$47.6	\$48.8	\$53.7
Nondurable medical products expenditures	\$56.2	\$57.7	\$59.6	\$63.3
Administration and net cost of health insurance expenditures	\$217.2	\$243.4	\$256.3	\$270.1
Public health activity	\$78.0	\$79.4	\$81.8	\$86.2
Research	\$46.2	\$45.9	\$47.0	\$48.3
Structures and equipment	\$106.0	\$105.1	\$109.3	\$113.7
National health spending share of GDP	17.3%	17.6%	17.9%	**
National health spending share of PGDP	16.7%	17.1%	17.5%	**

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 2014	Oct 2015	Oct 2016
GDP	4.5%	3.0%	**
National health spending	6.1%	5.1%	5.5%
Personal health care	6.1%	5.2%	5.6%
Hospital expenditures	5.0%	3.7%	6.6%
Physician and clinical expenditures	6.3%	6.3%	4.9%
Other professional services expenditures	8.3%	5.0%	5.7%
Dental services expenditures	3.5%	3.6%	5.6%
Other health, residential, and personal care expenditures	6.3%	7.6%	4.3%
Home health care expenditures	5.7%	8.4%	5.3%
Nursing care facilities and continuing care retirement communities	3.5%	2.2%	6.0%
Prescription drug expenditures	12.5%	8.8%	3.5%
Durable medical equipment expenditures	3.8%	2.6%	10.1%
Nondurable medical products expenditures	2.8%	3.3%	6.2%
Administration and net cost of health insurance expenditures	12.1%	5.3%	5.4%
Public health activity	1.9%	3.0%	5.4%
Research	-0.5%	2.4%	2.7%
Structures and equipment	-0.9%	4.0%	4.0%
National health spending minus GDP	1.6%	2.0%	**
National health spending minus PGDP	2.6%	2.5%	**

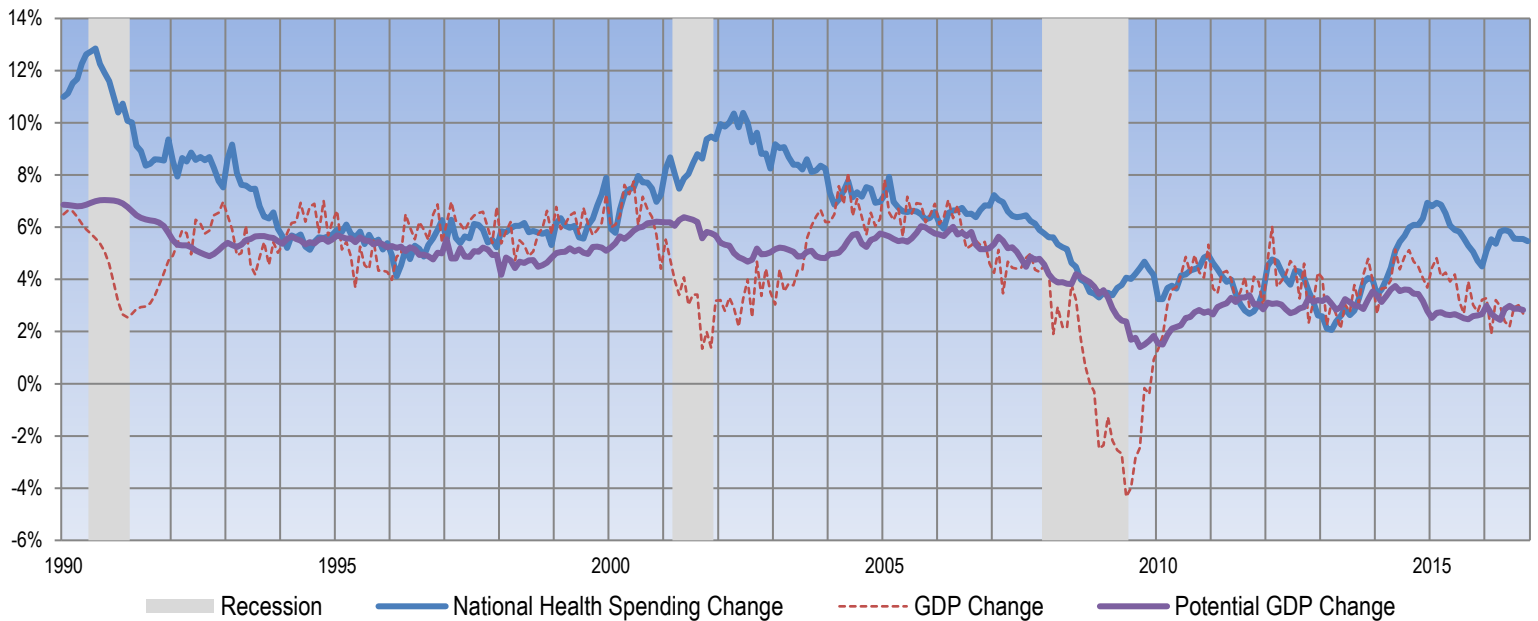
Source: Computed from Exhibit 5.

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

** Data are not yet available.

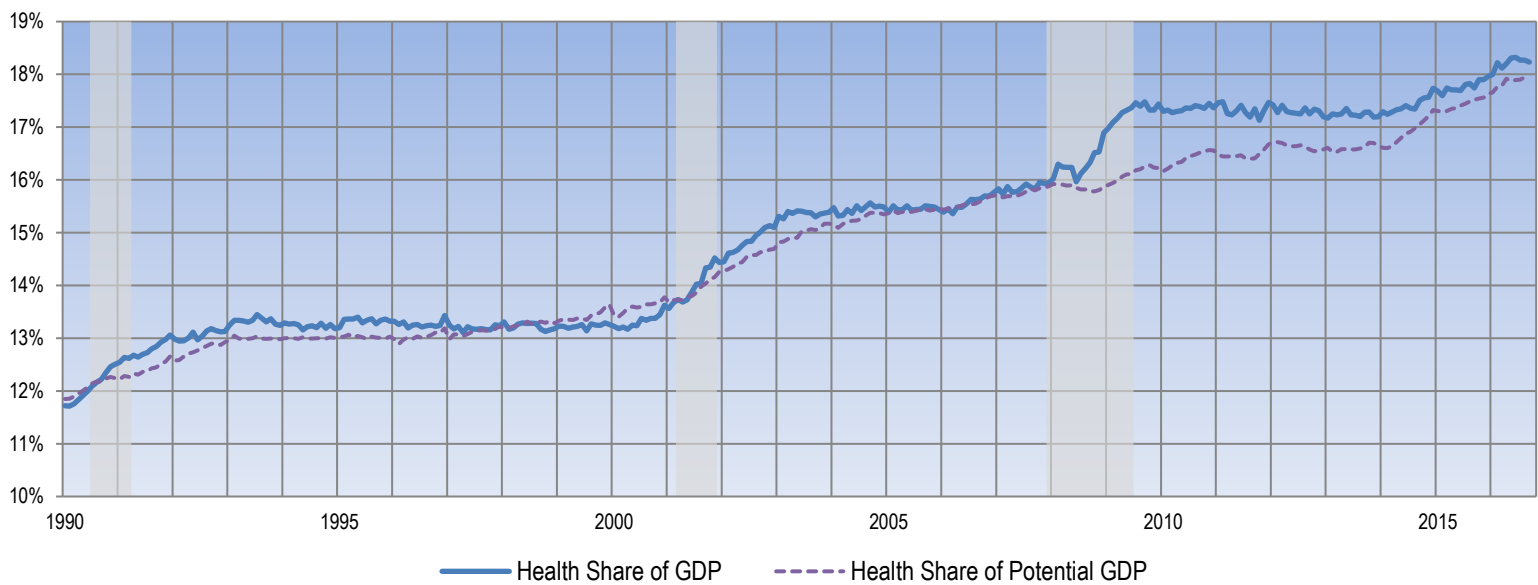
TIME SERIES TRACKER

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