

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through November 2014

January 15, 2015

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SPENDING BRIEF

Health spending continues to show signs of acceleration

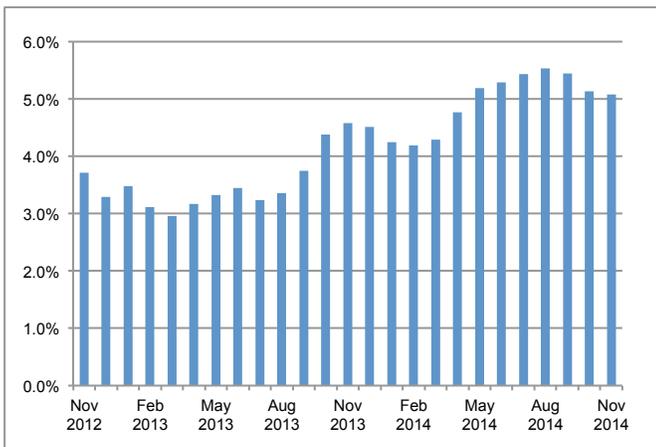
HIGHLIGHTS

- ▲ National health spending¹ in November 2014 grew 5.1% over November 2013.
- ▲ The October gross domestic product (GDP) growth over a 12-month period was 3.7% (November GDP data are not yet available).
- ▲ The health spending share of GDP was 17.7% in October. This is up from 16.0% at the start of the recession in December 2007. This increase is partly attributable to slow GDP growth rather than high health spending growth, as the October 2014 health spending share of potential GDP (PGDP) was 17.0%.²
- ▲ Spending in November, year over year, increased in all major categories. Prescription drugs grew the fastest, at 10.9%.

HEALTH SPENDING

In November 2014, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.13 trillion from its value of \$3.12 trillion in October. October's health spending accounted for 17.7% of GDP (November GDP data are not yet available). As a share of PGDP, October's spending was at 17.0%, equal to its September value. Year over year, health spending in November grew by 5.1%, equal to the October value (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 to that of the same month from the previous year.

National health spending and gross domestic product (GDP)*

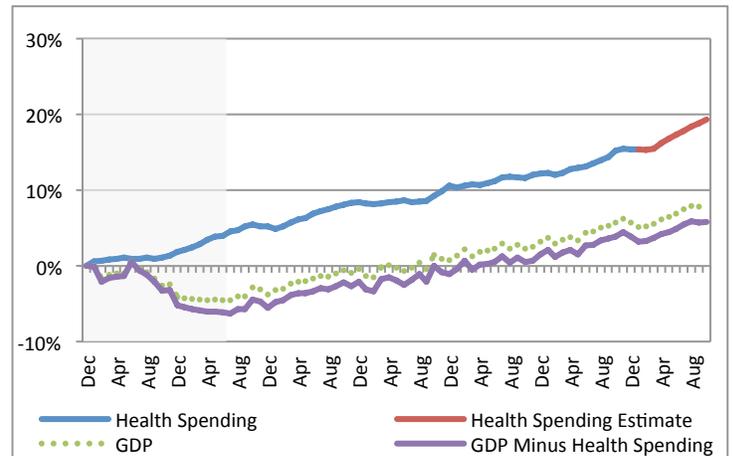
	November 2012	November 2013	October 2014	November 2014
GDP	16.30	17.13	17.64	**
National Health Spending (HS)	2.85	2.98	3.12	3.13
HS Share of GDP	17.5%	17.4%	17.7%	**
HS Share of PGDP	16.5%	16.7%	17.0%	**
Growth from Prior 12 Months				
HS	3.7%	4.6%	5.1%	5.1%
GDP	3.4%	5.1%	3.7%	**
HS Minus GDP	0.4%	-0.6%	1.4%	**
HS Minus PGDP	0.3%	1.4%	1.8%	**

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

* Note: Spending is trillions of dollars, seasonally adjusted annual rate.
** Data not available.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through October has increased by 19.3% (an annual rate of 2.6%). During this same period, real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 5.8% above its December 2007 level. Including health care, real GDP in October is 8.0% above its pre-recession level (Exhibit 2).

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



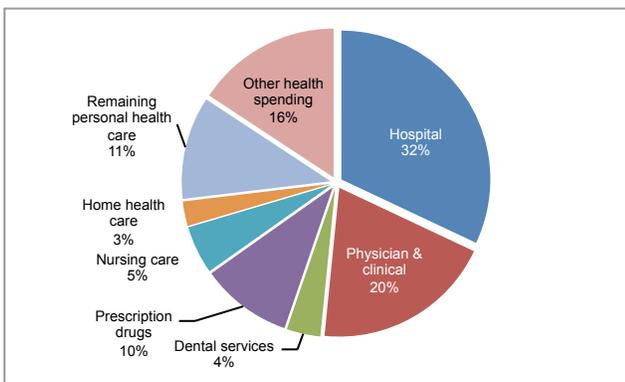
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum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

HEALTH SPENDING BY CATEGORY

In November 2014:

- ▲ Hospital spending was \$1.00 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$614 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$311 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$248 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).

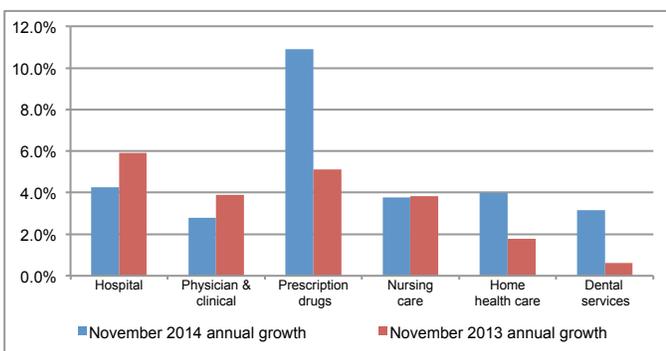
Exhibit 3. Health Spending by Category, November 2014



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

Growth over the past 12 months: Prescription drugs grew most rapidly among the major categories (10.9%). Physician and clinical services grew the slowest among major categories, at 2.8%. For the 12-month period ending November 2013, hospitals showed the highest growth among the major categories, at 5.9%, while dental spending rose the least, by 0.6% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

Altarum’s spending estimates for the first 11 months of 2014 are based largely on the U.S. Bureau of Economic Analysis (BEA) December 23 release of personal income and outlay data. We adjust the BEA data and supplement them with other data to make them consistent with the official National Health Expenditure Accounts (NHEA) that are now available from the Centers for Medicare & Medicaid Services (CMS) Office of the Actuary through 2013. BEA’s December release incorporates results from the Census Bureau’s Quarterly Services Survey (QSS) for the third quarter of 2014. As we noted in last month’s spending brief, the new QSS data indicate accelerated spending on health services in the third quarter, and this acceleration is reflected in our updated health spending estimates. We now estimate that national health spending in the third quarter was 5.5% greater than in the third quarter of 2013, up from our previous estimate of 5.0%. This is the highest quarterly growth rate since the first quarter of 2008, when it was 5.8%, year over year. Annualized spending growth for the first 11 months of 2014 now stands at 5.0%, culminating in year-over-year growth of 5.1% for the month of November. This is somewhat higher than the historically low growth rate in NHEA of 3.6% for all of 2013, as recently reported by CMS,³ further suggesting that the long-expected acceleration in health spending may have begun. See our latest blog⁴ for an analysis of the likely contribution to this acceleration of expanded insurance coverage under the Patient Protection and Affordable Care Act. (Minor methodological differences cause the growth rates reported in the blog to differ slightly from those reported in this spending brief. The blog uses QSS data directly, whereas this brief incorporates BEA’s processed QSS results.)

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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*SM reports are a monthly publication of Altarum’s 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, 571-733-5709, ken.schwartz@altarum.org. For more information, visit www.altarum.org/cshs.

¹ Altarum’s monthly estimates of national health spending are intended to approximate the official National Health Expenditure Accounts (NHEA) produced annually by the Centers for Medicare & Medicaid Services (CMS). Our estimates match NHEA values that are currently available through 2013; official values for 2014 will be released by CMS in December 2015.

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 Hartman M, Martin AB, Lassman D, Catlin A, National Health Expenditure Accounts Team. National health spending in 2013: growth slows, remains in step with the overall economy. *Health Affairs*. January 2015;34(1): 1111–1116. <http://content.healthaffairs.org/content/early/2014/11/25/hlthaff.2014.1107>. Accessed January 12, 2015.

⁴ Roehrig C. *The Expected Impact of Expanded Coverage on Health Care Utilization and Spending*. Altarum Health Policy Forum; December 19, 2014. <http://altarum.org/health-policy-blog/the-expected-impact-of-expanded-coverage-on-health-care-utilization-and-spending>. Accessed January 12, 2015.

DETAILED HEALTH SPENDING

Exhibit 5. Monthly National Health Spending Estimates by Detailed Category

Levels (in \$Billions)	November 2011	November 2012	November 2013	November 2014
GDP	\$15,768.1	\$16,297.6	\$17,134.4	**
National health spending	\$2,749.5	\$2,851.6	\$2,982.2	\$3,133.7
Personal health care	\$2,320.4	\$2,410.0	\$2,522.2	\$2,640.8
Hospital expenditures	\$868.8	\$908.4	\$962.0	\$1,003.0
Physician and clinical expenditures	\$548.9	\$574.5	\$596.8	\$613.5
Other professional services expenditures	\$75.2	\$78.5	\$81.5	\$86.1
Dental services expenditures	\$107.9	\$110.9	\$111.6	\$115.1
Other health, residential, and personal care expenditures	\$134.8	\$143.3	\$151.1	\$158.8
Home health care expenditures	\$74.8	\$79.2	\$80.6	\$83.8
Nursing care facilities and continuing care retirement communities	\$148.0	\$152.3	\$158.1	\$164.1
Prescription drug expenditures	\$268.6	\$266.9	\$280.6	\$311.2
Durable medical equipment expenditures	\$39.6	\$41.7	\$43.4	\$46.0
Nondurable medical products expenditures	\$53.8	\$54.4	\$56.5	\$59.1
Administration and net cost of health insurance expenditures	\$195.2	\$202.0	\$218.2	\$242.4
Public health activity	\$73.5	\$75.1	\$76.3	\$80.7
Research	\$48.9	\$47.3	\$46.7	\$46.5
Structures and equipment	\$111.4	\$117.1	\$118.8	\$123.3
National health spending share of GDP	17.4%	17.5%	17.4%	**
National health spending share of PGDP	16.5%	16.5%	16.7%	**

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 not yet available.

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

Growth Rates	November 2012	November 2013	November 2014
GDP	3.4%	5.1%	**
National health spending	3.7%	4.6%	5.1%
Personal health care	3.9%	4.7%	4.7%
Hospital expenditures	4.6%	5.9%	4.3%
Physician and clinical expenditures	4.7%	3.9%	2.8%
Other professional services expenditures	4.4%	3.9%	5.6%
Dental services expenditures	2.7%	0.6%	3.2%
Other health, residential, and personal care expenditures	6.4%	5.4%	5.1%
Home health care expenditures	5.9%	1.8%	4.0%
Nursing care facilities and continuing care retirement communities	2.9%	3.8%	3.8%
Prescription drug expenditures	-0.6%	5.1%	10.9%
Durable medical equipment expenditures	5.2%	4.2%	6.0%
Nondurable medical products expenditures	1.2%	3.9%	4.5%
Administration and net cost of health insurance expenditures	3.5%	8.0%	11.1%
Public health activity	2.1%	1.7%	5.7%
Research	-3.3%	-1.3%	-0.4%
Structures and equipment	5.2%	1.4%	3.8%
National health spending minus GDP	0.4%	-0.6%	**
National health spending minus PGDP	0.3%	1.4%	**

Source: Computed from Exhibit 5.

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

** Data not yet available.

TIME SERIES TRACKER

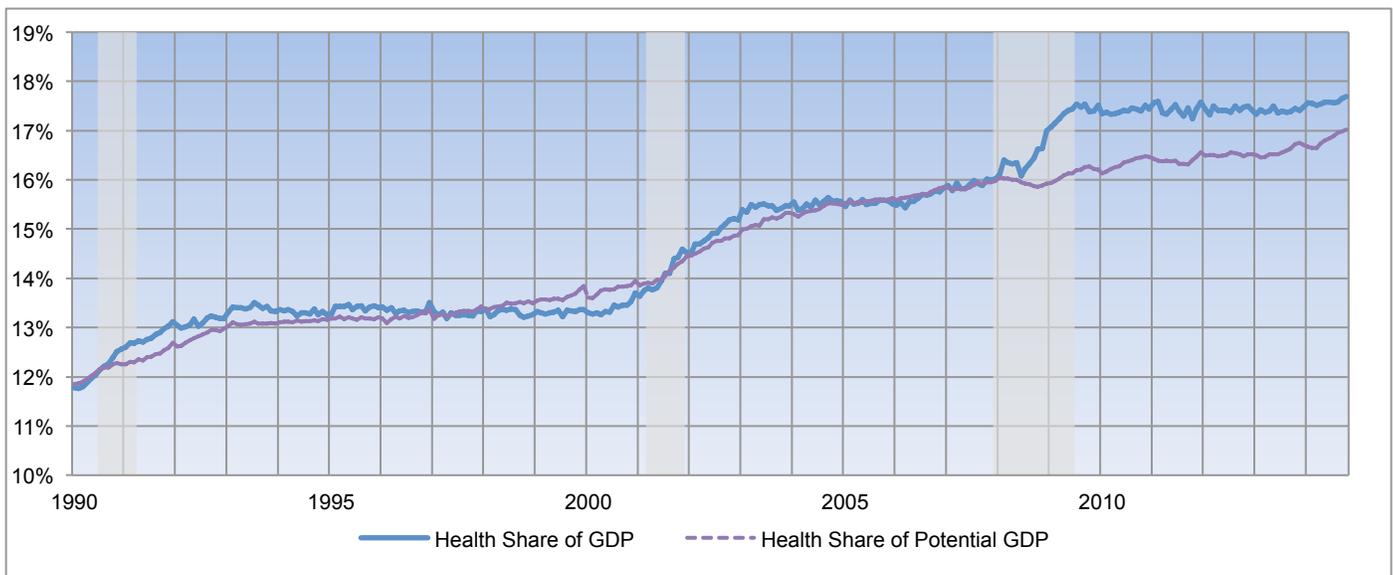
Exhibit 7. Year-over-Year Percentage Change in Health Spending and GDP



Source: Altarum monthly national health spending estimates. The 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. The monthly GDP is from Macroeconomic Advisers and Altarum estimates. The potential GDP 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 (1) Bureau of Economic Analysis (BEA) monthly health spending (<http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1>) and (2) Centers for Medicare & Medicaid Services annual National Health Expenditure (NHE) estimates (1990–2013) and projections (2014); (<https://www.cms.gov/NationalHealthExpendData/>). BEA spending categories are matched to NHE account (NHEA) components using information presented in: Hartman, M. B., Kornfeld, R. J., & Catlin, A. C. (2010, September). A reconciliation of health care expenditures in the NHEA and in GDP. Survey of Current Business. For all NHEA personal health care categories except “other health, residential, and personal care,” monthly estimates are based on BEA spending adjusted to NHEA using annual ratios. For the remaining categories, NHE estimates and projections are allocated across months using a simple trend. Annual ratio adjustments through 2013 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2013 ratios are used to adjust BEA spending for months in 2014.