

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through November 2015

January 15, 2016

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SPENDING BRIEF

Health spending approaches 18% of GDP for the first time ... again

HIGHLIGHTS

- ▲ National health spending¹ in November 2015 was 5.0% higher than health spending in November 2014.
- ▲ The October 2015 gross domestic product (GDP) growth over a 12-month period was 3.0%. (November data are not yet available.)
- ▲ The health spending share of GDP was fractionally below 18.0% in October. This is the third time in recent years that spending has been estimated to approach this benchmark share due to revisions either in health care spending or GDP.
- ▲ The October 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.²
- ▲ Spending in November 2015, year over year, increased in all major categories. Home health care grew the fastest, by 9.6%, with prescription drugs also showing rapid growth at 9.2%.

	Nov 2013	Nov 2014	Oct 2015	Nov 2015
GDP	17.01	17.66	18.12	**
National Health Spending	2.94	3.11	3.26	3.27
Health Spending Share of GDP	17.3%	17.6%	18.0%	**
Health Spending Share of PGDP	16.7%	17.2%	17.5%	**
Growth from Prior 12 Months				
Health Spending	4.2%	6.0%	5.4%	5.0%
GDP	4.6%	3.8%	3.0%	**
Health Spending Minus GDP	-0.4%	2.2%	2.5%	**
Health Spending Minus PGDP	1.1%	3.0%	2.7%	**

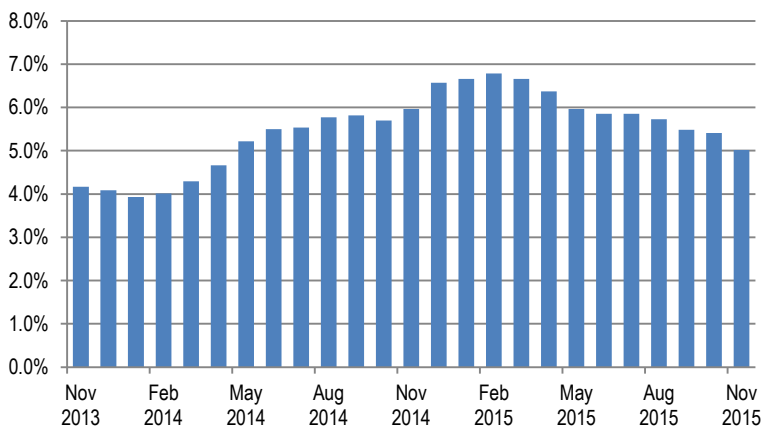
Source: Altarum Institute monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.
* Spending is in trillions of dollars at a seasonally adjusted annual rate.
** Data are not yet available.

HEALTH SPENDING

In November 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.27 trillion from its value of \$3.26 trillion in October. October's health spending accounted for 18.0% of GDP, up from 17.9% in September. (November GDP data are not yet available.) As a share of PGDP, October's spending was at 17.5%, equal to its September reading. Year over year, health spending in November grew by 5.0%, down from 5.4% in October (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

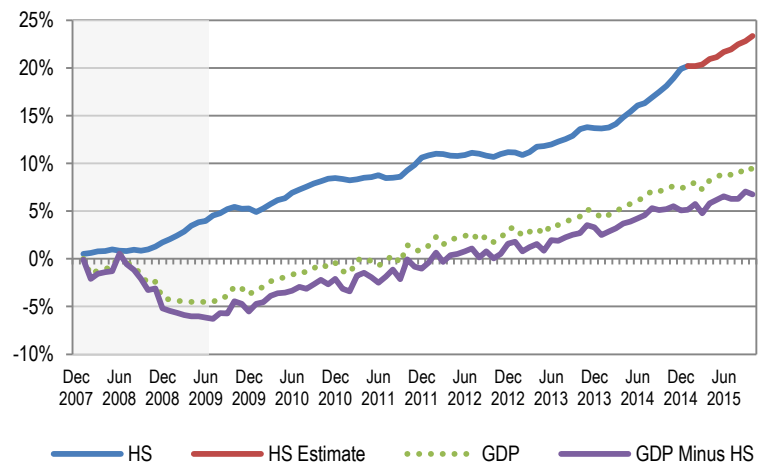
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through October 2015 has increased by 23.3% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.7% above its December 2007 level. Including health care, real GDP in September was 9.4% 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



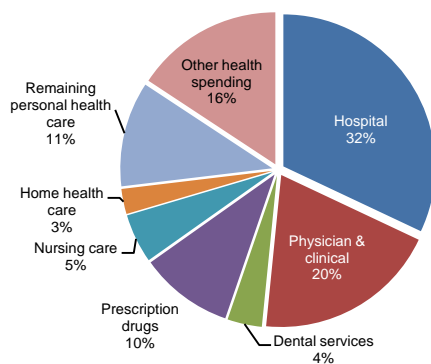
Source: "Health spending" consists of Altarum monthly estimates that match the government's official NHEA. "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.
Note: Shading indicates the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

HEALTH CARE SPENDING BY CATEGORY

In November 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 \$650 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$337 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$257 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.

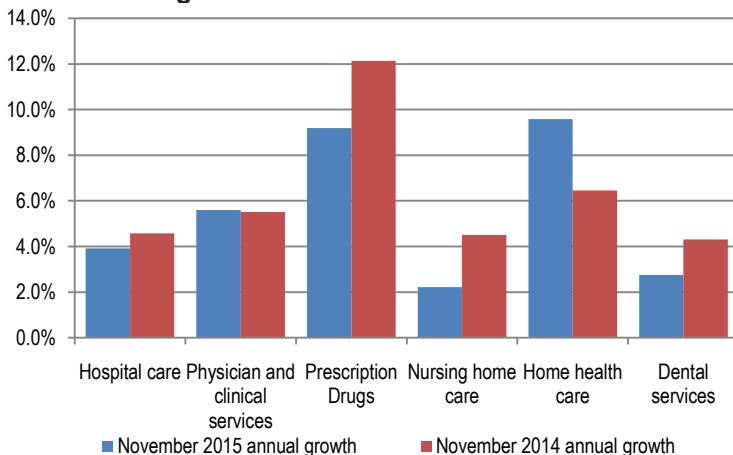
Exhibit 3. Health Spending by Category, November 2015



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 (9.6%), and was nearly matched by the growth rate in prescription drug spending (9.2%). Nursing home care grew the slowest among major categories, at 2.2%. For the preceding 12-month period ending November 2014, prescription drugs showed the highest growth among the major categories, at 12.1%, whereas dental services rose the least, by 4.3% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

Preliminary estimates for November suggest that health spending is at 17.99% of GDP. This is the third time in recent years that spending has been estimated to approach this benchmark level. In 2013, an upward revision to the government estimate of GDP caused the percent attributable to health spending to dip temporarily below 18%. And last month's official release of the National Health Expenditure Accounts (NHEA) for 2014³ included a significant downward revision of health spending data for 2013 that again caused estimates of health spending through October 2015 to drop below 18% of GDP. This month's estimates of spending growth (which incorporate newly released data from the U.S. Census Bureau for the third quarter of 2015, as noted below) have caused the 18% level to be essentially reached again.

Overall spending for 2015 is on pace to come in at just below 6% higher than in 2014. This is somewhat greater than the 5.3% growth reported in the NHEA for 2014 and significantly greater than the growth rates at or below 4% that were observed in each preceding year back to 2009. However, the rate of growth in health spending has fallen steadily since February of this year and is at 5%, year over year, for the month of November, suggesting that growth in 2016 might drop to more modest levels.

Our spending estimates for the first 11 months of 2015 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 NHEA that are now available through 2014. BEA's December release incorporates results from the Census Bureau's Quarterly Services Survey (QSS) for the third quarter of 2015, which was released on December 10. Spending estimates for October and November are preliminary pending release of the QSS for the fourth quarter in March.

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

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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)	Nov 2012	Nov 2013	Nov 2014	Nov 2015
GDP	\$16,268.0	\$17,011.6	\$17,657.9	**
National health spending	\$2,819.3	\$2,936.7	\$3,111.9	\$3,268.0
Personal health care	\$2,389.0	\$2,490.0	\$2,631.4	\$2,760.6
Hospital expenditures	\$906.9	\$956.4	\$1,000.1	\$1,039.3
Physician and clinical expenditures	\$567.1	\$583.6	\$615.8	\$650.3
Other professional services expenditures	\$79.0	\$81.4	\$86.6	\$90.7
Dental services expenditures	\$107.6	\$111.8	\$116.7	\$119.9
Other health, residential, and personal care expenditures	\$140.6	\$146.7	\$152.6	\$159.2
Home health care expenditures	\$79.3	\$79.8	\$85.0	\$93.1
Nursing care facilities and continuing care retirement communities	\$148.7	\$153.8	\$160.8	\$164.3
Prescription drug expenditures	\$261.6	\$275.1	\$308.5	\$336.8
Durable medical equipment expenditures	\$43.9	\$45.2	\$47.6	\$47.5
Nondurable medical products expenditures	\$54.3	\$56.0	\$57.9	\$59.4
Administration and net cost of health insurance expenditures	\$200.4	\$217.2	\$245.5	\$265.6
Public health activity	\$76.5	\$77.0	\$80.2	\$83.8
Research	\$47.8	\$45.8	\$45.6	\$47.0
Structures and equipment	\$105.6	\$106.7	\$109.1	\$111.0
National health spending share of GDP	17.3%	17.3%	17.6%	**
National health spending share of PGDP	16.5%	16.7%	17.2%	**

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	Nov 2013	Nov 2014	Nov 2015
GDP	4.6%	3.8%	**
National health spending	4.2%	6.0%	5.0%
Personal health care	4.2%	5.7%	4.9%
Hospital expenditures	5.5%	4.6%	3.9%
Physician and clinical expenditures	2.9%	5.5%	5.6%
Other professional services expenditures	3.0%	6.3%	4.8%
Dental services expenditures	4.0%	4.3%	2.7%
Other health, residential, and personal care expenditures	4.4%	4.0%	4.4%
Home health care expenditures	0.6%	6.5%	9.6%
Nursing care facilities and continuing care retirement communities	3.5%	4.5%	2.2%
Prescription drug expenditures	5.1%	12.1%	9.2%
Durable medical equipment expenditures	3.1%	5.2%	-0.3%
Nondurable medical products expenditures	3.2%	3.3%	2.6%
Administration and net cost of health insurance expenditures	8.4%	13.0%	8.2%
Public health activity	0.7%	4.2%	4.5%
Research	-4.1%	-0.5%	3.1%
Structures and equipment	1.0%	2.3%	1.7%
National health spending minus GDP	-0.4%	2.2%	**
National health spending minus PGDP	1.1%	3.0%	**

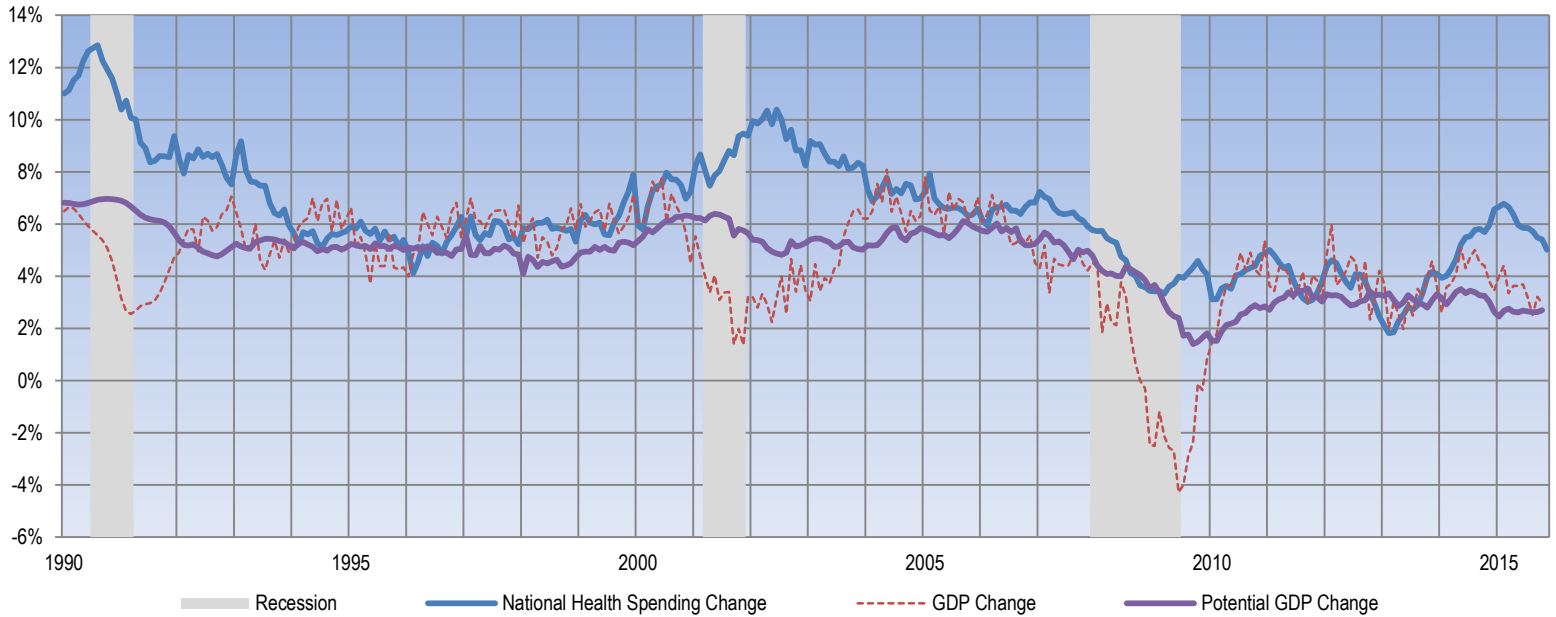
Source: Computed from Exhibit 5.

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

** Data are not yet available.

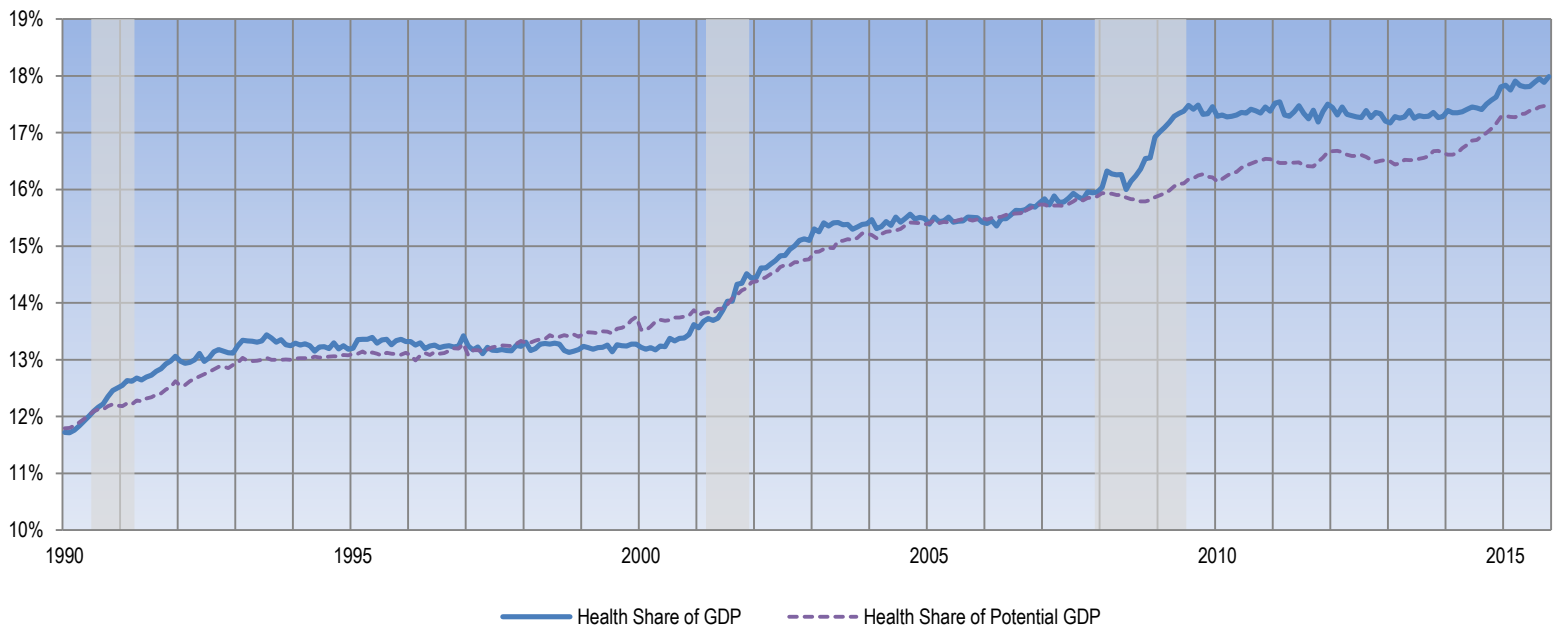
TIME SERIES TRACKER

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.