

# Health Sector Economic Indicators<sup>SM</sup>

## Insights from Monthly National Health Spending Data Through May 2015

July 9, 2015

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### SPENDING BRIEF

## Health spending growth in May continues to moderate

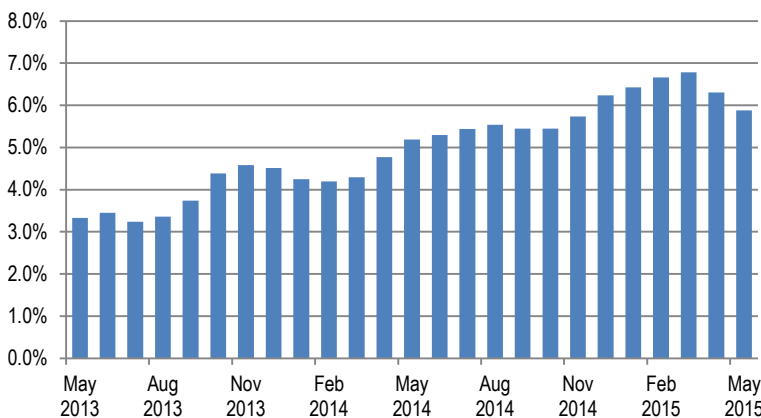
### HIGHLIGHTS

- ▲ National health spending<sup>1</sup> in May 2015 was 5.9% higher than health spending in May 2014.
- ▲ The April 2015 gross domestic product (GDP) growth over a 12-month period was 3.6% (May GDP data are not yet available).
- ▲ The health spending share of GDP was 18.0% in April. 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; the April health spending share of potential GDP (PGDP) was 17.3%.<sup>2</sup>
- ▲ Spending in May 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 9.3%, with hospital spending also showing rapid growth, at 7.2%.

### HEALTH SPENDING

In May 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.22 trillion from its value of \$3.21 trillion in April. April's health spending accounted for 18.0% of GDP (May GDP data are not yet available). As a share of PGDP, April's spending was at 17.3%, equal to the March value. Year over year, health spending in May grew by 5.9%, a lower rate than the April value of 6.3% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

Exhibit 1. Year-over-Year Growth Rates in Health Spending



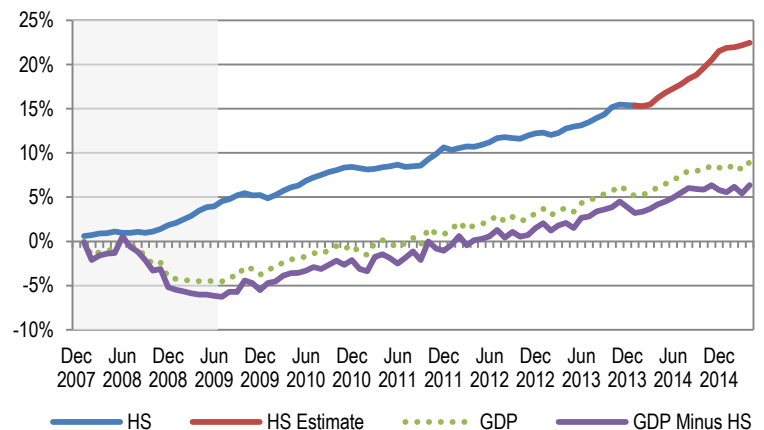
Source: Altarum monthly national health spending estimates.  
Note: Compares a given month's health spending with that of the same month from the previous year.

|                                      | May 2013 | May 2014 | Apr 2015 | May 2015 |
|--------------------------------------|----------|----------|----------|----------|
| <b>GDP</b>                           | 16.54    | 17.33    | 17.84    | **       |
| <b>National Health Spending</b>      | 2.90     | 3.05     | 3.21     | 3.22     |
| <b>Health Spending Share of GDP</b>  | 17.5%    | 17.6%    | 18.0%    | **       |
| <b>Health Spending Share of PGDP</b> | 16.5%    | 16.8%    | 17.3%    | **       |
| <b>Growth from Prior 12 Months</b>   |          |          |          |          |
| <b>Health Spending</b>               | 3.3%     | 5.2%     | 6.3%     | 5.9%     |
| <b>GDP</b>                           | 2.8%     | 4.8%     | 3.6%     | **       |
| <b>Health Spending Minus GDP</b>     | 0.5%     | 0.4%     | 2.7%     | **       |
| <b>Health Spending Minus PGDP</b>    | 0.2%     | 1.7%     | 3.6%     | **       |

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 not yet available.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through April 2015 has increased by 22.5% (an annual rate of 2.8%; May GDP data are not yet available). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.4% above its December 2007 level. Including health care, real GDP in March was 9.0% above its pre-recession level (Exhibit 2).

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



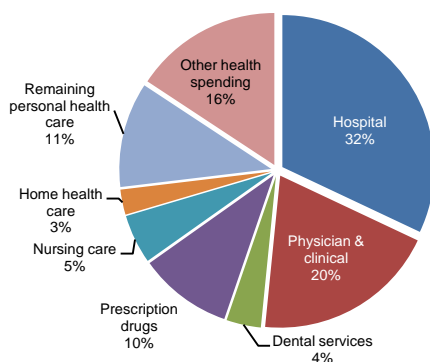
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum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

**HEALTH CARE SPENDING BY CATEGORY**

**In May 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 \$630 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$325 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$249 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.

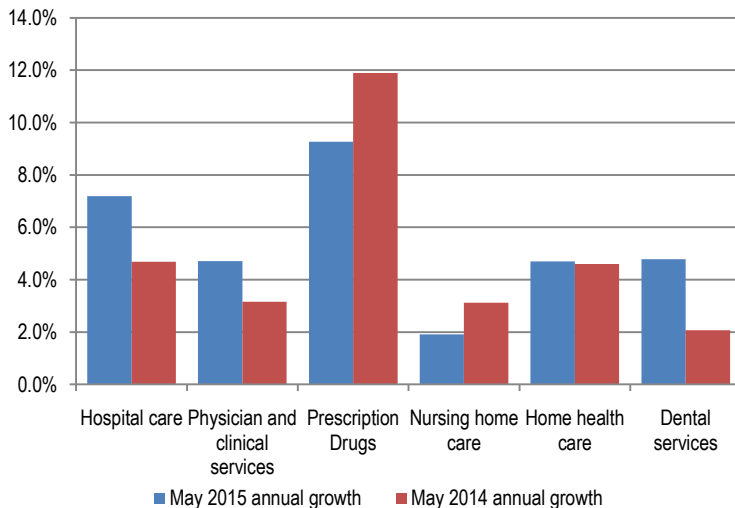
**Exhibit 3. Health Spending by Category, May 2015**



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

**Growth over the past 12 months:** Prescription drugs grew most rapidly among the major categories (9.3%), while hospital spending grew by 7.2%. Nursing home care grew the slowest among major categories, at 1.9%. For the preceding 12-month period ending May 2014, prescription drugs again showed the highest growth among the major categories, at 11.9%, whereas dental services rose the least, by 2.1% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

**DISCUSSION**

For the second straight month, health spending growth moderated from a peak year-over-year growth rate of 6.8% in March to 5.9% in May. Hospital spending growth led the decline, slipping from 9.0% in March to 7.2% in May. Prescription drug spending growth continued a 5-month decline from a peak of 13.1% in December 2014 to 9.3% in May, the first time drug spending growth has been below 10% since February 2014. For reasons outlined in Altarum’s April Health Sector Trend Report,<sup>3</sup> a drop in overall spending growth to below 6% and in prescription drug spending growth to below 10% were anticipated to occur as the year progressed.

Altarum’s spending growth rate estimates for 2014 and 2015 are based largely on monthly spending data published by the Bureau of Economic Analysis (BEA). BEA’s first-quarter 2015 estimates now incorporate the latest results from the U.S. Census Bureau’s Quarterly Services Survey (QSS), which was released for the first quarter on June 10. The raw QSS numbers suggest that spending on health services (hospitals, ambulatory care, and nursing homes) during the first quarter of 2015 grew by 7.3%, year over year. In contrast, our current BEA-based estimate of first-quarter growth for health services is 6.2%, because BEA bases its growth in most services on moving averages of historical QSS data rather than just the raw first-quarter QSS results. For the same reason, our BEA-based estimate of first-quarter growth for all of health spending of 6.6% is somewhat lower than the first-quarter growth in health spending of 7.5% that was reported in our most recent Health Sector Trend Report,<sup>4</sup> which uses the raw first-quarter QSS numbers rather than BEA’s moving averages. Our spending estimates for April and May are preliminary and will be revised later this year, following release of the second-quarter QSS report in September.

<sup>1</sup> 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; CMS will release official values for 2014 in December 2015.

<sup>2</sup> 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>.

<sup>3</sup> [http://altarum.org/sites/default/files/uploaded-publication-files/Altarum%20RWJF%20Trend%20Report%20April%202015\\_1.pdf](http://altarum.org/sites/default/files/uploaded-publication-files/Altarum%20RWJF%20Trend%20Report%20April%202015_1.pdf).

<sup>4</sup> [http://altarum.org/sites/default/files/uploaded-publication-files/Altarum%20RWJF%20Trend%20Report%20June%202015%20FINAL\\_1.pdf](http://altarum.org/sites/default/files/uploaded-publication-files/Altarum%20RWJF%20Trend%20Report%20June%202015%20FINAL_1.pdf).

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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<sup>SM</sup>** 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](mailto: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](mailto: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)                                    | May 2012   | May 2013   | May 2014   | May 2015  |
|--|------------|------------|------------|-----------|
| GDP  | \$16,089.9 | \$16,538.0 | \$17,334.1 | *         |
| National health spending   | \$2,802.1  | \$2,895.3  | \$3,045.6  | \$3,224.6 |
| Personal health care   | \$2,364.8  | \$2,448.9  | \$2,567.2  | \$2,721.5 |
| Hospital expenditures  | \$889.3    | \$929.5    | \$973.1    | \$1,043.1 |
| Physician and clinical expenditures                                | \$563.9    | \$583.0    | \$601.3    | \$629.7   |
| Other professional services expenditures                           | \$76.5     | \$79.8     | \$83.0     | \$88.4    |
| Dental services expenditures                                       | \$109.4    | \$110.7    | \$113.0    | \$118.4   |
| Other health, residential, and personal care expenditures          | \$139.0    | \$147.3    | \$154.8    | \$163.2   |
| Home health care expenditures                                      | \$76.6     | \$79.3     | \$83.0     | \$86.9    |
| Nursing care facilities and continuing care retirement communities | \$151.4    | \$154.3    | \$159.1    | \$162.2   |
| Prescription drug expenditures                                     | \$263.5    | \$266.0    | \$297.7    | \$325.3   |
| Durable medical equipment expenditures                             | \$41.5     | \$43.2     | \$44.6     | \$45.4    |
| Nondurable medical products expenditures                           | \$53.7     | \$55.6     | \$57.6     | \$59.0    |
| Administration and net cost of health insurance expenditures       | \$198.7    | \$207.5    | \$231.5    | \$250.0   |
| Public health activity   | \$74.9     | \$74.9     | \$78.8     | \$82.1    |
| Research   | \$48.2     | \$46.7     | \$47.0     | \$45.9    |
| Structures and equipment   | \$115.5    | \$117.4    | \$121.1    | \$125.2   |
| National health spending share of GDP                              | 17.4%      | 17.5%      | 17.6%      | *         |
| National health spending share of PGDP                             | 16.5%      | 16.5%      | 16.8%      | *         |

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 not yet available.

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

| Growth Rates   | May 2013 | May 2014 | May 2015 |
|--|----------|----------|----------|
| GDP  | 2.8%     | 4.8%     | *        |
| National health spending   | 3.3%     | 5.2%     | 5.9%     |
| Personal health care   | 3.6%     | 4.8%     | 6.0%     |
| Hospital expenditures  | 4.5%     | 4.7%     | 7.2%     |
| Physician and clinical expenditures                                | 3.4%     | 3.2%     | 4.7%     |
| Other professional services expenditures                           | 4.4%     | 3.9%     | 6.6%     |
| Dental services expenditures                                       | 1.2%     | 2.1%     | 4.8%     |
| Other health, residential, and personal care expenditures          | 5.9%     | 5.1%     | 5.4%     |
| Home health care expenditures                                      | 3.6%     | 4.6%     | 4.7%     |
| Nursing care facilities and continuing care retirement communities | 1.9%     | 3.1%     | 1.9%     |
| Prescription drug expenditures                                     | 1.0%     | 11.9%    | 9.3%     |
| Durable medical equipment expenditures                             | 4.1%     | 3.2%     | 1.8%     |
| Nondurable medical products expenditures                           | 3.6%     | 3.6%     | 2.3%     |
| Administration and net cost of health insurance expenditures       | 4.4%     | 11.6%    | 8.0%     |
| Public health activity   | 0.1%     | 5.2%     | 4.2%     |
| Research   | -3.2%    | 0.6%     | -2.3%    |
| Structures and equipment   | 1.7%     | 3.1%     | 3.3%     |
| National health spending minus GDP                                 | 0.5%     | 0.4%     | *        |
| National health spending minus PGDP                                | 0.2%     | 1.7%     | *        |

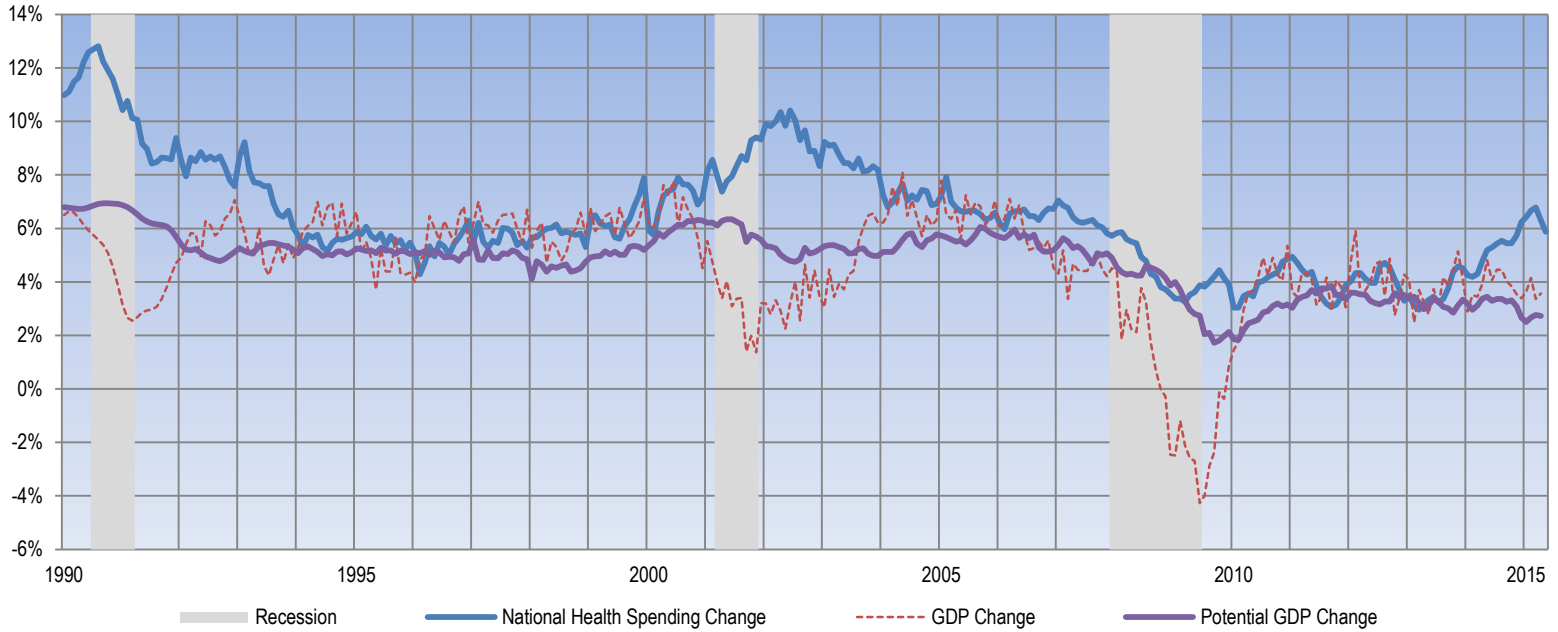
Source: Computed from Exhibit 5.

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

\*Data not yet available.

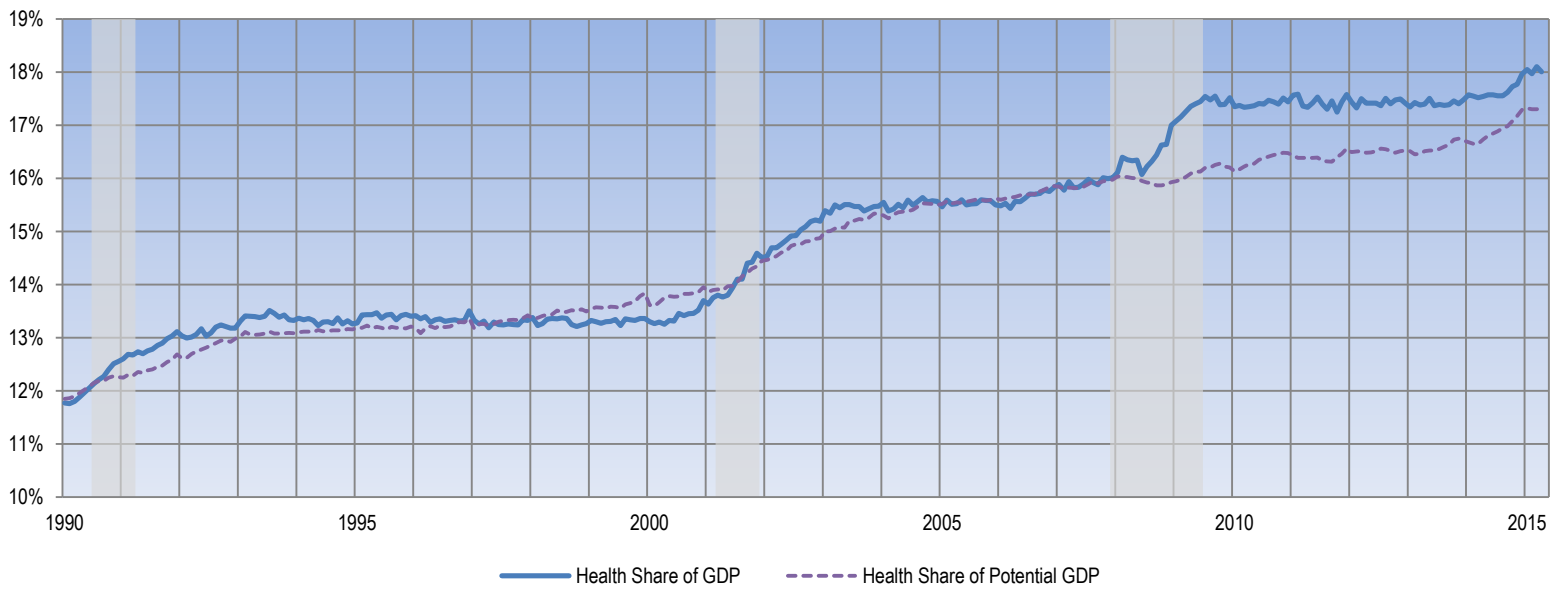
TIME SERIES TRACKER

Exhibit 7. Year-over-Year Percentage Change in 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 national health expenditure (NHE) estimates (1990–2013) and projections (2014 and 2015) (<https://www.cms.gov/NationalHealthExpendData>). BEA spending categories are matched to NHEA components by using information presented in: 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 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 and 2015.