

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through May 2016

July 15, 2016

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SPENDING BRIEF

Estimates of year-to-date 2016 health spending growth have been revised upward

HIGHLIGHTS

- ▲ National health spending¹ in May 2016 was 5.0% higher than health spending in May 2015.
- ▲ Year-over-year growth in national health spending for the first quarter of 2016 has been revised upward from 4.7% to 5.1%.
- ▲ The April 2016 nominal gross domestic product (GDP) growth over a 12-month period was 3.3%. (May data are not yet available.)
- ▲ The health spending share of GDP was 18.1% in April.
- ▲ The health spending share of potential GDP (PGDP) was 17.8% in April and is gradually approaching the health spending share of GDP as the economy approaches full employment.²
- ▲ Spending in May 2016, year over year, increased in all major categories. Home health care grew the fastest, by 8.8%. Hospital care grew at a 2.6% rate, the slowest among the major categories.

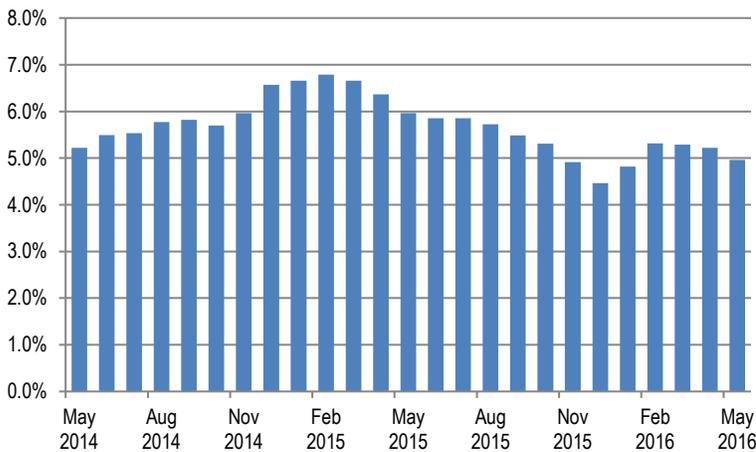
	May 2014	May 2015	Apr 2016	May 2016
GDP	17.28	17.92	18.41	**
National Health Spending	3.01	3.19	3.34	3.35
Health Spending Share of GDP	17.4%	17.8%	18.1%	**
Health Spending Share of PGDP	16.8%	17.4%	17.8%	**
Growth from Prior 12 Months				
Health Spending	5.2%	6.0%	5.2%	5.0%
GDP	5.1%	3.7%	3.3%	**
Health Spending Minus GDP	0.1%	2.3%	1.9%	**
Health Spending Minus PGDP	1.6%	3.5%	2.5%	**

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.

HEALTH SPENDING

In May 2016, health spending increased slightly to a seasonally adjusted annual rate (SAAR) of \$3.35 trillion from its value of \$3.34 trillion in April. April's health spending accounted for 18.1% of GDP, down slightly from the March value of 18.2%. (May data are not yet available.) As a share of PGDP, April's spending was at 17.8%, equal to its March reading. Year over year, health spending in May grew by 5.0%, down from 5.2% in April (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

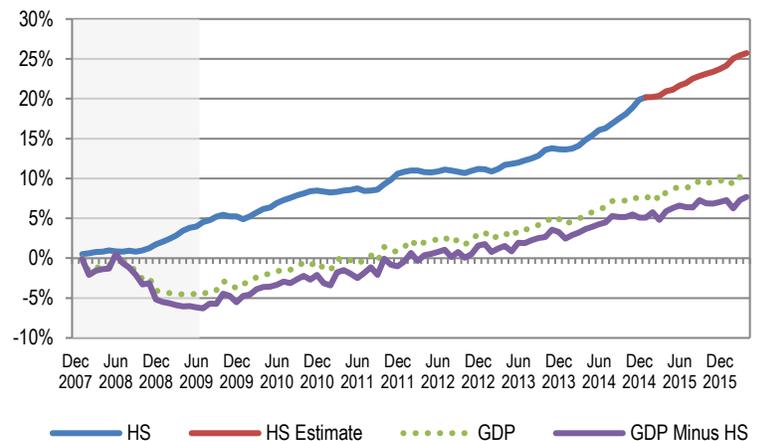
Exhibit 1. Year-over-Year Growth Rates in Health Spending



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.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through April 2016 has increased by 25.7% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 7.7% above its December 2007 level. Including health care, real GDP in March was 10.6% above its pre-recession level (Exhibit 2).

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



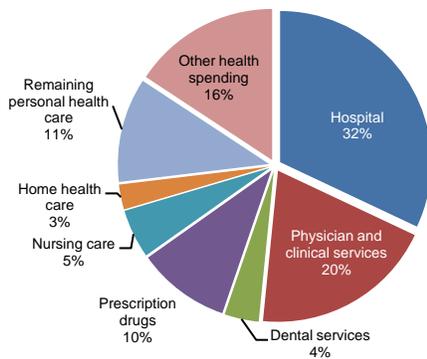
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

HEALTH CARE SPENDING BY CATEGORY

In May 2016:

- ▲ Hospital spending was \$1.06 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$670 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$339 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$261 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.

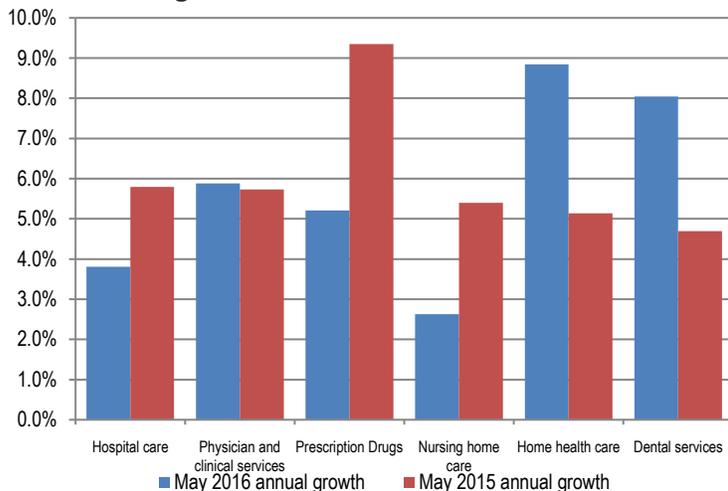
Exhibit 3. Health Spending by Category, May 2016



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 by 8.8%, while dental services grew by 8.0%. Nursing home care grew the slowest among major categories, at 2.6%. For the preceding 12-month period ending May 2015, prescription drugs showed the highest growth among the major categories, at 9.4% (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 the latest results from the U.S. Census Bureau’s Quarterly Services Survey (QSS). Our spending estimates for 2015 and 2016 are based largely on monthly spending data published by the Bureau of Economic Analysis (BEA), adjusted to approximate anticipated values in CMS’ future release of the official NHEA. BEA’s latest estimates, published on June 29, incorporate first quarter 2016 QSS estimates for spending on health services. The impact on our reported first quarter national health spending growth is an upward revision from 4.7% to 5.1%, year over year. Our estimated first quarter year-over-year hospital spending growth was revised upward from 2.4% to 3.5%; growth in spending for physician and clinical services was revised upward from 5.4% to 6.4%. Our estimate for overall spending growth in April also increased, from 4.6% to 5.2%. Our estimates for April and May are preliminary and will be revised later this year, following release of the second-quarter QSS report in September.

On July 13, CMS published its annual projections of national health expenditures.³ These projections suggest that national health spending grew from 2014 to 2015 by 5.5%. Because these projections provide the best estimate to date of the official NHEA values that will be published by CMS in December, next month’s Spending Brief will incorporate updates to our spending estimates for 2015 to match the CMS projections. The result will be a slight downward revision of our year-over-year 2015 growth estimate from its current value of 5.8%. The CMS projection of overall spending growth for 2016 is 4.8%. In comparison, our estimated year-over-year growth rate for the first five months of 2016 is 5.1%. It will be interesting to see if our estimates trend down in the remainder of 2016 to approach CMS’s projection.

¹ 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.

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 Keehan, S.P. et al (2016). National health expenditure projections, 2015-2025: economy, prices, and aging expected to shape spending and enrollment. *Health Affairs* 35(8). Available at <http://content.healthaffairs.org/content/early/2016/07/12/hlthaff.2016.0459>.

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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)	May 2013	May 2014	May 2015	May 2016
GDP	\$16,446.7	\$17,283.9	\$17,923.4	**
National health spending	\$2,859.6	\$3,008.9	\$3,188.4	\$3,346.6
Personal health care	\$2,424.5	\$2,545.5	\$2,693.2	\$2,827.6
Hospital expenditures	\$927.8	\$966.9	\$1,023.0	\$1,061.9
Physician and clinical expenditures	\$573.8	\$598.4	\$632.7	\$669.9
Other professional services expenditures	\$80.0	\$83.5	\$88.8	\$95.5
Dental services expenditures	\$111.3	\$112.3	\$117.6	\$127.0
Other health, residential, and personal care expenditures	\$143.7	\$149.7	\$155.7	\$163.2
Home health care expenditures	\$79.5	\$83.2	\$87.5	\$95.2
Nursing care facilities and continuing care retirement communities	\$148.4	\$153.0	\$161.3	\$165.5
Prescription drug expenditures	\$259.7	\$294.6	\$322.2	\$338.9
Durable medical equipment expenditures	\$45.0	\$46.9	\$46.5	\$49.2
Nondurable medical products expenditures	\$55.3	\$57.0	\$57.9	\$61.1
Administration and net cost of health insurance expenditures	\$206.4	\$231.2	\$257.4	\$272.1
Public health activity	\$76.3	\$78.6	\$81.9	\$86.0
Research	\$46.6	\$45.5	\$46.2	\$48.1
Structures and equipment	\$105.7	\$108.1	\$109.8	\$112.9
National health spending share of GDP	17.4%	17.4%	17.8%	**
National health spending share of PGDP	16.6%	16.8%	17.4%	**

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	May 2014	May 2015	May 2016
GDP	5.1%	3.7%	**
National health spending	5.2%	6.0%	5.0%
Personal health care	5.0%	5.8%	5.0%
Hospital expenditures	4.2%	5.8%	3.8%
Physician and clinical expenditures	4.3%	5.7%	5.9%
Other professional services expenditures	4.3%	6.4%	7.5%
Dental services expenditures	0.9%	4.7%	8.0%
Other health, residential, and personal care expenditures	4.1%	4.0%	4.8%
Home health care expenditures	4.7%	5.1%	8.8%
Nursing care facilities and continuing care retirement communities	3.1%	5.4%	2.6%
Prescription drug expenditures	13.4%	9.4%	5.2%
Durable medical equipment expenditures	4.2%	-0.7%	5.6%
Nondurable medical products expenditures	3.1%	1.7%	5.5%
Administration and net cost of health insurance expenditures	12.0%	11.3%	5.7%
Public health activity	2.9%	4.2%	5.0%
Research	-2.5%	1.5%	4.1%
Structures and equipment	2.3%	1.5%	2.8%
National health spending minus GDP	0.1%	2.3%	**
National health spending minus PGDP	1.6%	3.5%	**

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.

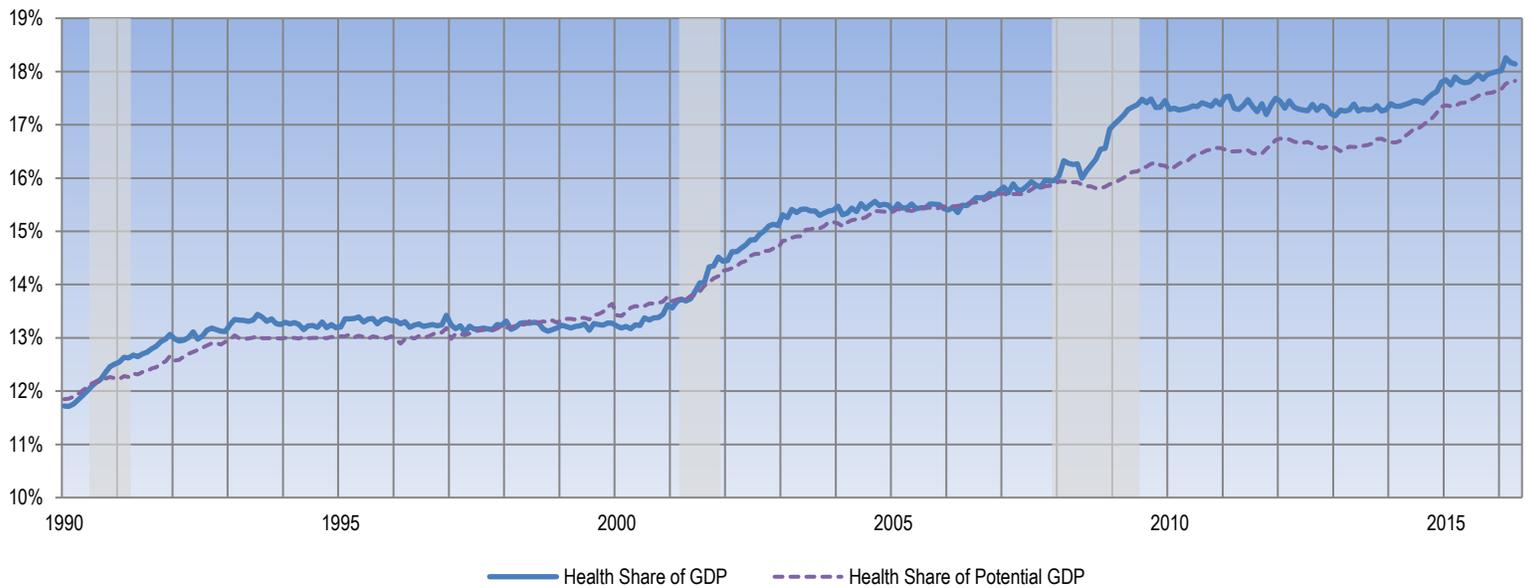
TIME SERIES TRACKER

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 (1990–2014) and projections (2015 and 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 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 and 2016.