

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through May 2017

July 14, 2017

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SPENDING BRIEF

Led by hospitals, health spending growth continues to decline in May

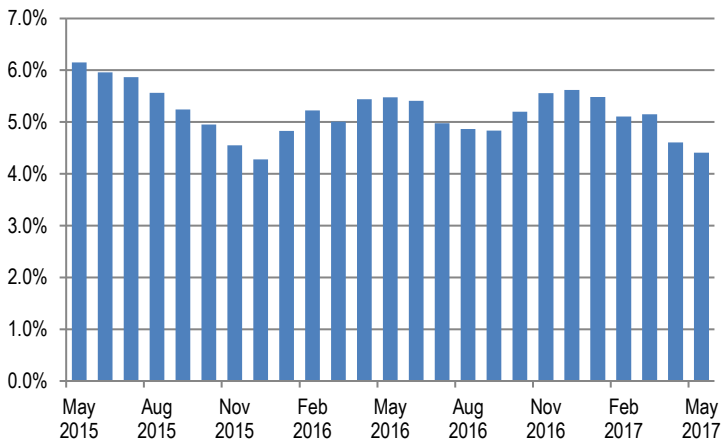
HIGHLIGHTS

- ▲ At \$3.51 trillion (seasonally adjusted annual rate), national health spending¹ in May 2017 was 4.4% higher than health spending in May 2016.
- ▲ The May 2017 nominal gross domestic product (GDP) growth over a 12-month period was 4.6%, and the resulting health spending share of GDP was 18.2%.
- ▲ The health spending share of potential GDP (PGDP) was also 18.2% in May.²
- ▲ Spending in May 2017, year over year, increased in all major categories. Prescription drug spending grew the fastest, at 5.6%. Nursing home care grew at a 0.7% rate, the slowest among the major categories.

HEALTH SPENDING

In May 2017, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.51 trillion, slightly above its April value of \$3.50 trillion. May's health spending accounted for 18.2% of GDP, slightly below its April value of 18.3%. As a share of PGDP, May's spending was 18.2%, up from its April value of 18.1% and equal to the May share of GDP. Year over year, health spending in May grew by 4.4%, slightly lower than its April rate of 4.6% (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.

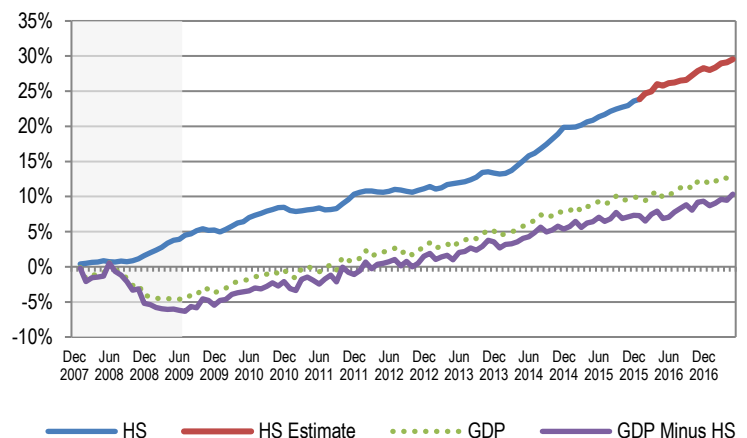
National Health Spending and GDP*

	May 2015	May 2016	Apr 2017	May 2017
GDP	17.99	18.42	19.15	19.27
National Health Spending	3.19	3.36	3.50	3.51
Health Spending Share of GDP	17.7%	18.3%	18.3%	18.2%
Health Spending Share of PGDP	17.5%	17.9%	18.1%	18.2%
Growth from Prior 12 Months				
Health Spending	6.1%	5.5%	4.6%	4.4%
GDP	3.9%	2.4%	3.8%	4.6%
Health Spending Minus GDP	2.2%	3.1%	0.8%	-0.2%
Health Spending Minus PGDP	3.4%	2.5%	0.9%	1.4%

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 May 2017 has increased by 29.5% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 10.3% above its December 2007 level. Including health care, real GDP in May was 13.4% above its pre-recession level (Exhibit 2).

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



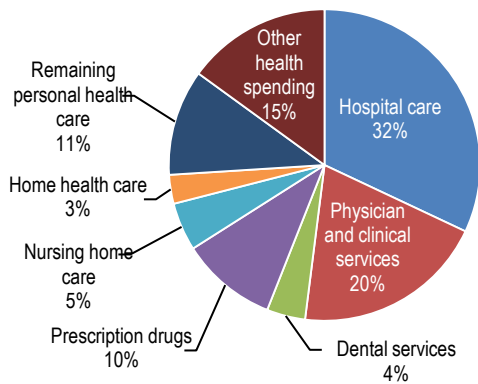
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

HEALTH CARE SPENDING BY CATEGORY

In May 2017:

- ▲ Hospital spending was \$1.13 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$709 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$356 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$264 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.

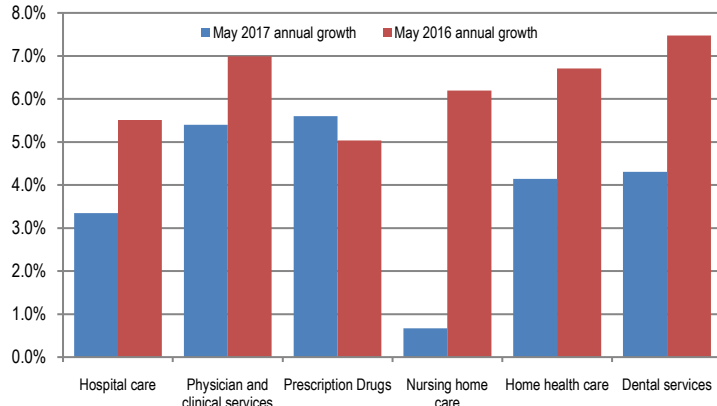
Exhibit 3. Health Spending by Category, May 2017



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

Growth over the past 12 months: Prescription drug spending grew most rapidly among the major categories, at 5.6%. Expenditures for nursing home care grew the slowest among major categories, at 0.7%. For the preceding 12-month period ending May 2016, dental services spending showed the highest growth among the major categories, at 7.5%, and prescription drug spending was lowest, at 5.0% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

National health spending growth in May is currently estimated at 4.4%, year over year, following a gradual decline from 5.6% in December 2016. May’s growth rate is the lowest since it reached 4.3% in December 2015. This decline was led by hospital spending, whose year-over-year growth has dropped from 6.5% in December 2016 (and previously peaked at 6.7% in November 2016) to 3.3% in May. (Hospital spending accounts for 32% of national health spending.) A significant decline in spending growth for nursing home care, which peaked at 7.0% in December 2016 and now stands at 0.7% for May, also contributed to the overall decline in spending growth.

As a percent of GDP, national health spending is currently estimated to be 18.2% for May and has hovered between 18.1% and 18.3% since February 2016. National health spending is also estimated to be at 18.2% of PGDP for May, the first time these 2 values have coincided since the great recession and reflecting the fact that the U.S. economy is at or near full employment. Year-over-year spending growth currently stands at GDP-0.2% for the month of May, the first month in which GDP growth exceeded health spending growth since May 2014. This number is tentative and partly reflects a spike in GDP for May. However, it is worth monitoring in the future, since maintaining health spending growth at or below GDP growth is the only path to long-run sustainability.

The latest results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on June 30. This update incorporates results from the U.S. Census Bureau’s Quarterly Services Survey for the first quarter of 2017, which was released on June 8. National health spending growth for the first quarter of 2017 is currently estimated at 5.2%.

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 2015 and (for some spending categories) NHEA projections for 2016 and 2017.

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>.

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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 Indicators*SM 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: Sarah Litton, 202-772-5062, press@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 2014	May 2015	May 2016	May 2017
GDP	\$17,311.2	\$17,986.7	\$18,419.5	\$19,271.8
National health spending	\$3,002.6	\$3,187.2	\$3,361.9	\$3,510.1
Personal health care	\$2,539.6	\$2,700.1	\$2,863.2	\$2,983.7
Hospital expenditures	\$973.3	\$1,034.6	\$1,091.7	\$1,128.2
Physician and clinical expenditures	\$590.6	\$629.1	\$673.0	\$709.3
Other professional services expenditures	\$81.4	\$87.0	\$94.3	\$100.0
Dental services expenditures	\$111.9	\$116.3	\$125.0	\$130.4
Other health, residential, and personal care expenditures	\$149.7	\$162.5	\$169.0	\$177.7
Home health care expenditures	\$83.7	\$87.5	\$93.4	\$97.3
Nursing care facilities and continuing care retirement communities	\$150.1	\$156.1	\$165.8	\$166.9
Prescription drug expenditures	\$295.2	\$321.1	\$337.3	\$356.2
Durable medical equipment expenditures	\$46.8	\$47.4	\$51.3	\$53.9
Nondurable medical products expenditures	\$56.9	\$58.4	\$62.4	\$63.9
Administration and net cost of health insurance expenditures	\$233.9	\$252.0	\$259.1	\$278.5
Public health activity	\$78.7	\$80.8	\$82.1	\$85.0
Research	\$45.8	\$46.6	\$47.7	\$49.5
Structures and equipment	\$104.6	\$107.8	\$109.8	\$113.5
National health spending share of GDP	17.3%	17.7%	18.3%	18.2%
National health spending share of PGDP	17.0%	17.5%	17.9%	18.2%

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.

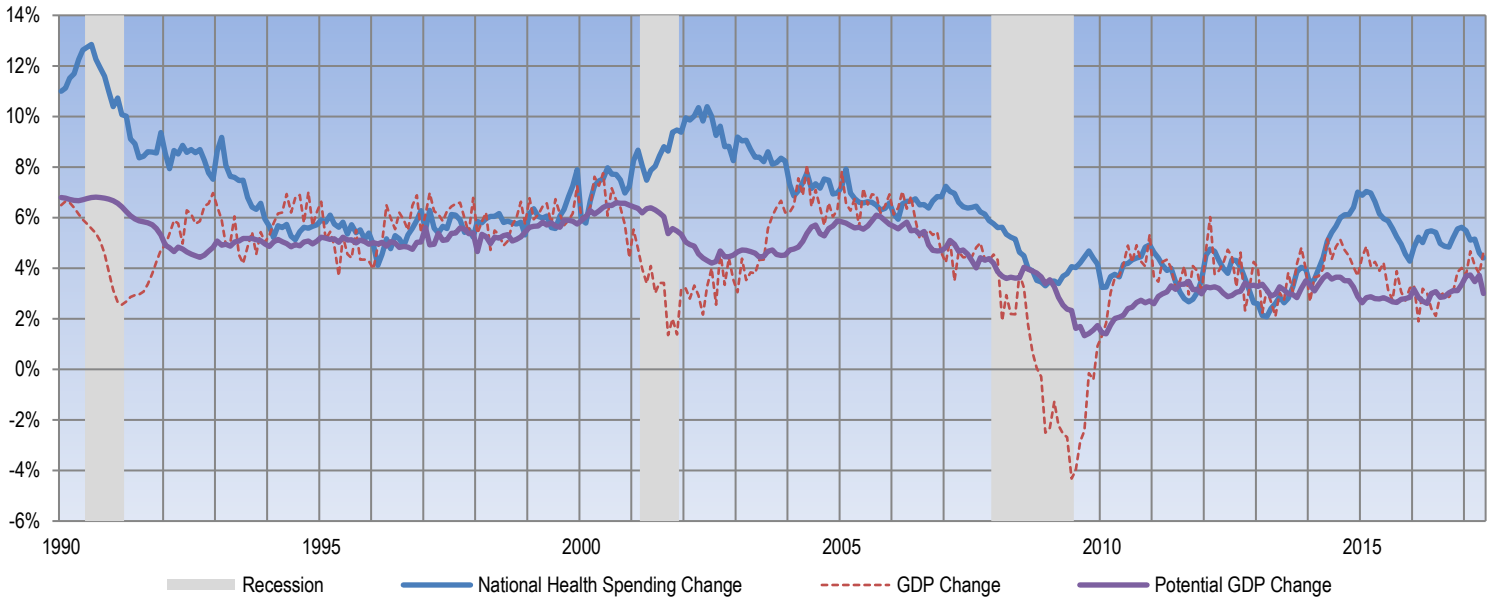
Exhibit 6. National Health Spending 12-Month Growth Rates by Detailed Category

Growth Rates	May 2015	May 2016	May 2017
GDP	3.9%	2.4%	4.6%
National health spending	6.1%	5.5%	4.4%
Personal health care	6.3%	6.0%	4.2%
Hospital expenditures	6.3%	5.5%	3.3%
Physician and clinical expenditures	6.5%	7.0%	5.4%
Other professional services expenditures	6.8%	8.5%	6.0%
Dental services expenditures	3.9%	7.5%	4.3%
Other health, residential, and personal care expenditures	8.6%	4.0%	5.1%
Home health care expenditures	4.6%	6.7%	4.1%
Nursing care facilities and continuing care retirement communities	4.0%	6.2%	0.7%
Prescription drug expenditures	8.8%	5.0%	5.6%
Durable medical equipment expenditures	1.2%	8.2%	5.0%
Nondurable medical products expenditures	2.7%	6.8%	2.4%
Administration and net cost of health insurance expenditures	7.7%	2.8%	7.5%
Public health activity	2.6%	1.7%	3.4%
Research	1.8%	2.4%	3.7%
Structures and equipment	3.0%	1.9%	3.4%
National health spending minus GDP	2.2%	3.1%	-0.2%
National health spending minus PGDP	3.4%	2.5%	1.4%

Source: Computed from Exhibit 5.
 Note: This exhibit compares monthly national health spending to that of the same month from the previous year.

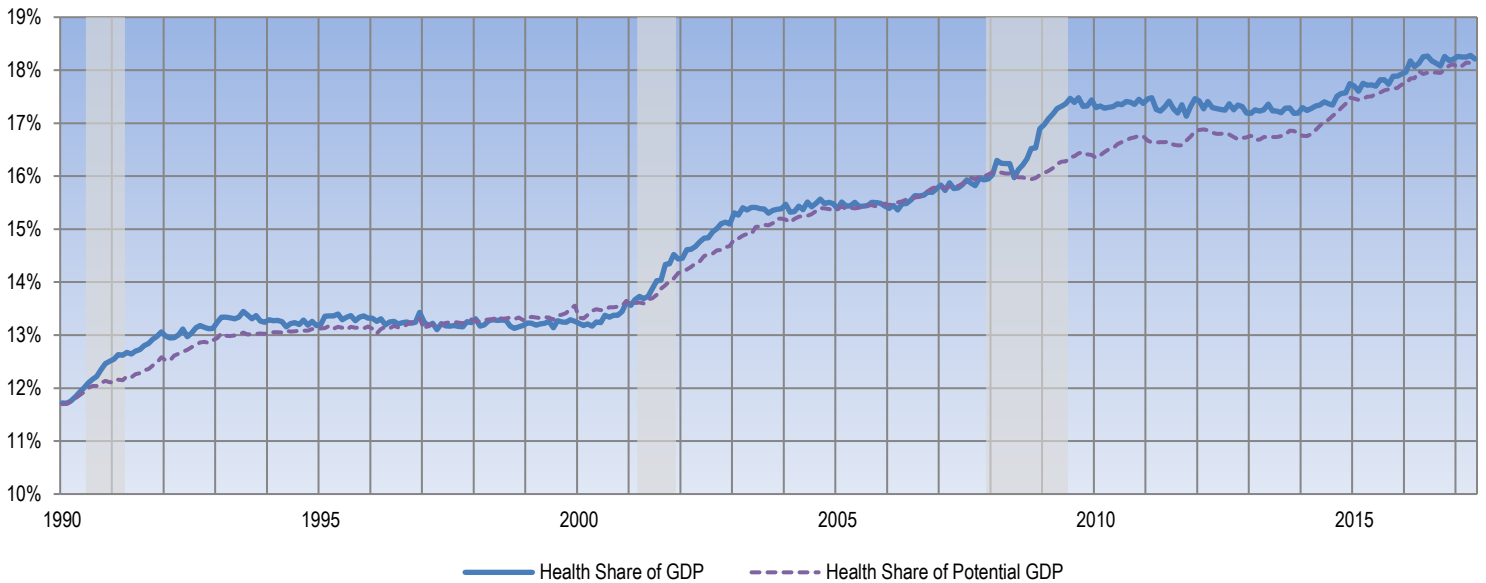
TIME SERIES TRACKER

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 and 2017) (<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 and 2017.