

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through April 2016

June 10, 2016

www.altarum.org

SPENDING BRIEF

Health Spending Growth Plateau Persists

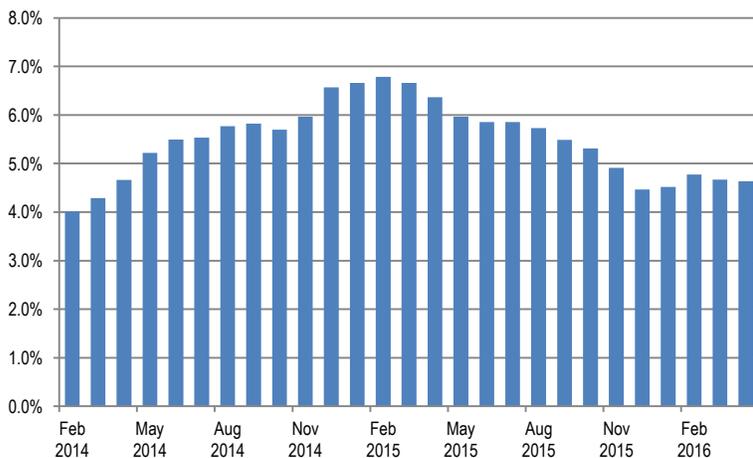
HIGHLIGHTS

- ▲ National health spending¹ in April 2016 was 4.6% higher than health spending in April 2015. This is the sixth consecutive month of spending growth below 5%.
- ▲ The March 2016 nominal gross domestic product (GDP) growth over a 12-month period was 3.8%. (April data are not yet available.)
- ▲ The health spending share of GDP was 18.1% in March.
- ▲ The health spending share of potential GDP (PGDP) was 17.7% in March and is gradually approaching the health spending share of GDP as the economy approaches full employment.²
- ▲ Spending in April 2016, year over year, increased in all major categories. Home health care grew the fastest, by 14.1%. Hospital care grew at a 2.7% rate, the slowest among the major categories.

HEALTH SPENDING

In April 2016, health spending increased slightly to a seasonally adjusted annual rate (SAAR) of \$3.32 trillion from its value of \$3.31 trillion in March. March's health spending accounted for 18.1% of GDP, down slightly from the February value of 18.2%. (April data are not yet available.) As a share of PGDP, March's spending was at 17.7%, equal to its February reading. Year over year, health spending in April grew by 4.6%, down slightly from 4.7% in March (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*

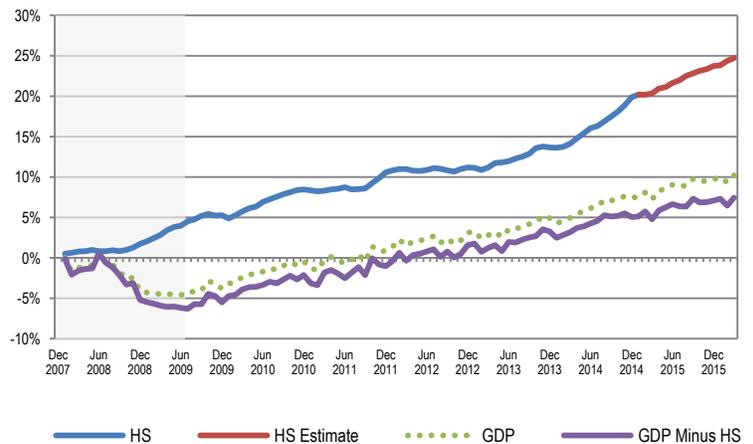
	Apr 2014	Apr 2015	Mar 2016	Apr 2016
GDP	17.18	17.81	18.31	**
National Health Spending	2.98	3.17	3.31	3.32
Health Spending Share of GDP	17.4%	17.8%	18.1%	**
Health Spending Share of PGDP	16.8%	17.4%	17.7%	**
Growth from Prior 12 Months				
Health Spending	4.7%	6.4%	4.7%	4.6%
GDP	4.1%	3.7%	3.8%	**
Health Spending Minus GDP	0.6%	2.7%	0.9%	**
Health Spending Minus PGDP	1.2%	3.8%	2.1%	**

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 March 2016 has increased by 24.7% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 7.5% above its December 2007 level. Including health care, real GDP in March was 10.2% above its pre-recession level (Exhibit 2).

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



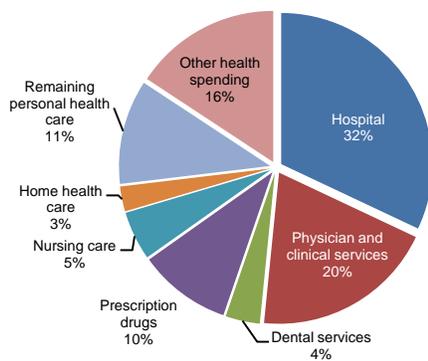
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

HEALTH CARE SPENDING BY CATEGORY

In April 2016:

- ▲ Hospital spending was \$1.05 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$660 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$341 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$266 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.

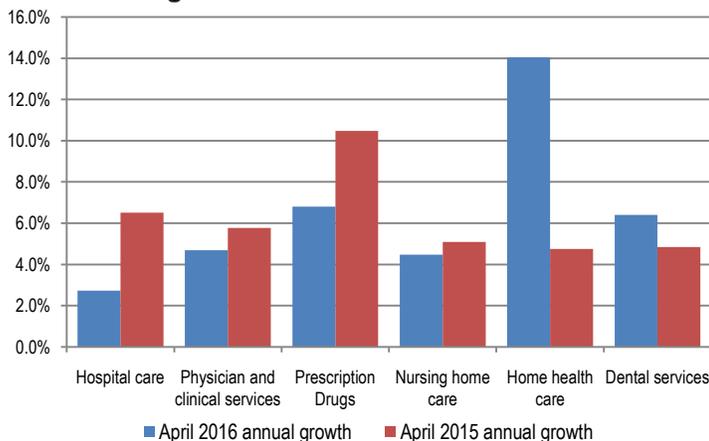
Exhibit 3. Health Spending by Category, April 2016



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 (14.1%). Hospital care grew the slowest among major categories, at 2.7%. For the preceding 12-month period ending April 2015, prescription drugs showed the highest growth among the major categories, at 10.5% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

For each of the past six months, year-over-year health spending growth has hovered within the historically moderate range of 4.5% to 4.9%, down from a recent peak of 6.8% in February 2015. Hospital spending continues to be the dominant driver of the moderation, although its growth rate increased from 2.4% in March to 2.7% in April. Prescription drug spending growth, at 6.8% in April, is significantly lower than the double-digit growth rates observed from February 2014 through April 2015, but it still exceeds overall health spending growth by more than 2 percentage points. Growth of all but one of the other spending categories falls within plus or minus 2 percentage points of the overall growth rate.

Home health care spending (which represents only 3% of national health spending) is the outlier: It has accelerated since May 2015, has shown double-digit growth since December 2015, and grew by 14.1% from April 2015 through April of this year. Most of this growth represents increased utilization rather than higher prices. While prices have accelerated in recent months, price growth remains below 3%, year over year.³ Growth in home health care spending has historically been very volatile: Since 1990, year-over-year spending has fluctuated between more than 35% growth to nearly a 13% decline.

These results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on May 31. (Our estimates for 2014 and earlier are based on the official estimates of National Health Expenditures that are updated annually by CMS.) The BEA data for the first four months of 2016 are preliminary and will be revised next month, when BEA incorporates data from the U.S. Census Bureau's Quarterly Services Survey (QSS) for the first quarter, which was released on June 8. An initial look at the QSS data suggests that the estimated high growth rates in home health care spending since the start of 2016 are likely to be revised downward next month.

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 See our most recent price brief at <http://altarum.org/our-work/cshs-health-sector-economic-indicators-briefs>.

Follow us on Twitter: @ALTARUM_CSHS

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)	Apr 2013	Apr 2014	Apr 2015	Apr 2016
GDP	\$16,502.8	\$17,179.4	\$17,812.0	**
National health spending	\$2,851.0	\$2,983.8	\$3,173.9	\$3,321.1
Personal health care	\$2,417.0	\$2,523.4	\$2,681.0	\$2,804.1
Hospital expenditures	\$925.6	\$957.1	\$1,019.5	\$1,047.2
Physician and clinical expenditures	\$571.5	\$596.0	\$630.4	\$660.0
Other professional services expenditures	\$79.6	\$83.0	\$88.2	\$92.4
Dental services expenditures	\$110.1	\$111.7	\$117.1	\$124.6
Other health, residential, and personal care expenditures	\$143.2	\$149.2	\$155.1	\$162.5
Home health care expenditures	\$78.7	\$82.8	\$86.7	\$98.9
Nursing care facilities and continuing care retirement communities	\$148.8	\$152.3	\$160.0	\$167.1
Prescription drug expenditures	\$259.3	\$289.2	\$319.5	\$341.2
Durable medical equipment expenditures	\$45.0	\$45.7	\$46.8	\$49.5
Nondurable medical products expenditures	\$55.2	\$56.5	\$57.7	\$60.7
Administration and net cost of health insurance expenditures	\$205.1	\$228.8	\$255.6	\$270.9
Public health activity	\$76.4	\$78.3	\$81.6	\$85.6
Research	\$46.8	\$45.5	\$46.0	\$47.9
Structures and equipment	\$105.7	\$107.9	\$109.6	\$112.5
National health spending share of GDP	17.3%	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	Apr 2014	Apr 2015	Apr 2016
GDP	4.1%	3.7%	**
National health spending	4.7%	6.4%	4.6%
Personal health care	4.4%	6.2%	4.6%
Hospital expenditures	3.4%	6.5%	2.7%
Physician and clinical expenditures	4.3%	5.8%	4.7%
Other professional services expenditures	4.2%	6.2%	4.8%
Dental services expenditures	1.5%	4.8%	6.4%
Other health, residential, and personal care expenditures	4.2%	4.0%	4.8%
Home health care expenditures	5.2%	4.8%	14.1%
Nursing care facilities and continuing care retirement communities	2.3%	5.1%	4.5%
Prescription drug expenditures	11.5%	10.5%	6.8%
Durable medical equipment expenditures	1.5%	2.5%	5.8%
Nondurable medical products expenditures	2.4%	2.2%	5.1%
Administration and net cost of health insurance expenditures	11.5%	11.7%	6.0%
Public health activity	2.5%	4.2%	4.9%
Research	-2.8%	1.2%	4.0%
Structures and equipment	2.1%	1.6%	2.6%
National health spending minus GDP	0.6%	2.7%	**
National health spending minus PGDP	1.2%	3.8%	**

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.

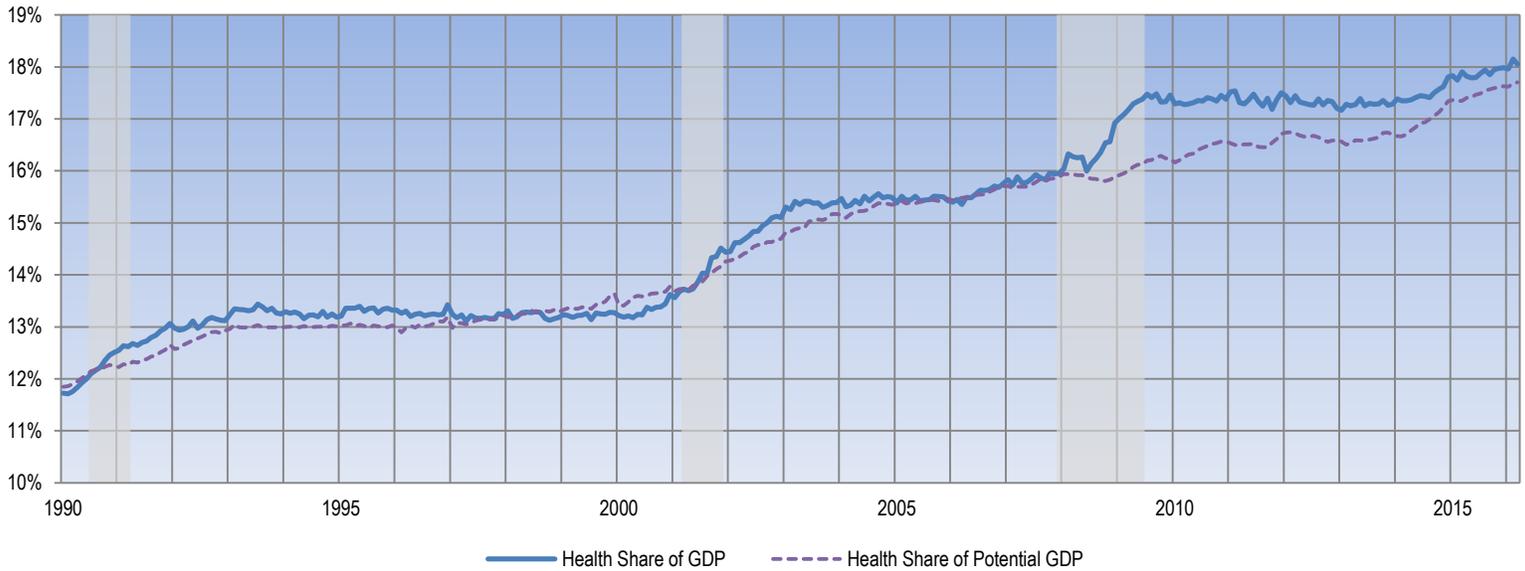
TIME SERIES TRACKER

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.