

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through January 2016

March 11, 2016

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SPENDING BRIEF

Health Spending Growth Is Below 5% for Second Straight Month

HIGHLIGHTS

- ▲ National health spending¹ in January 2016 was 4.9% higher than health spending in January 2015. This was slightly above the December 2015 growth rate of 4.8%, which was the lowest reading since April 2014.
- ▲ The December 2015 nominal gross domestic product (GDP) growth over a 12-month period was 3.0%. (January data are not yet available.)
- ▲ The health spending share of GDP was 18.1% in December.
- ▲ The December health spending share of potential GDP (PGDP) was 17.7% and is gradually approaching the health spending share of GDP as the economy approaches full employment.²
- ▲ Spending in January 2016, year over year, increased in all major categories. Home health care grew the fastest, by 11.4%. Nursing home care and dental services each grew at a 3.6% rate, the slowest among the major categories.

	Jan 2014	Jan 2015	Dec 2015	Jan 2016
GDP	16.91	17.58	18.13	**
National Health Spending	2.94	3.14	3.28	3.29
Health Spending Share of GDP	17.4%	17.8%	18.1%	**
Health Spending Share of PGDP	16.7%	17.4%	17.7%	**
Growth from Prior 12 Months				
Health Spending	3.9%	6.7%	4.8%	4.9%
GDP	2.6%	4.0%	3.0%	**
Health Spending Minus GDP	1.3%	2.7%	1.7%	**
Health Spending Minus PGDP	0.7%	4.2%	1.9%	**

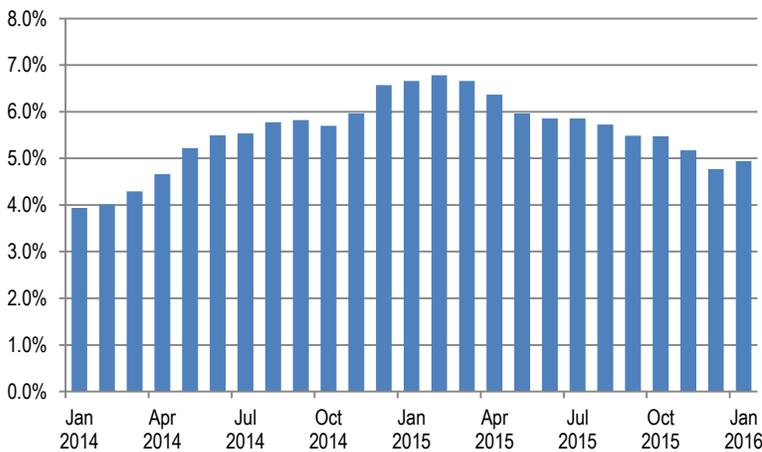
Source: Altarum Institute monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.
*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

HEALTH SPENDING

In January 2016, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.29 trillion from its value of \$3.28 trillion in December. December's health spending accounted for 18.1% of GDP, equal to the November value. (January data are not yet available.) As a share of PGDP, December's spending was at 17.7%, also equal to its November reading. Year over year, health spending in January grew by 4.9%, up slightly from 4.8% in December (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

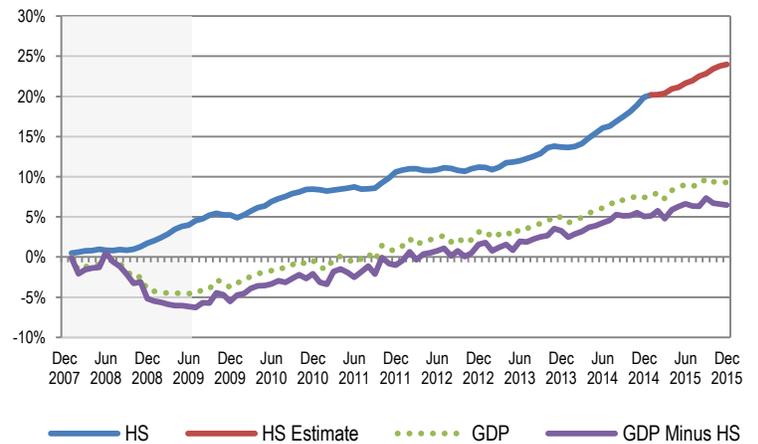
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through December 2015 has increased by 24.0% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.5% above its December 2007 level. Including health care, real GDP in December was 9.3% 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: This exhibit 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



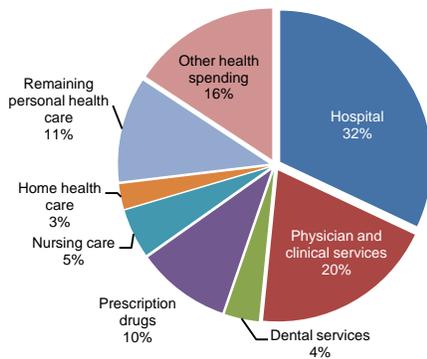
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum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

HEALTH CARE SPENDING BY CATEGORY

In January 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 \$658 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$334 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$260 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.

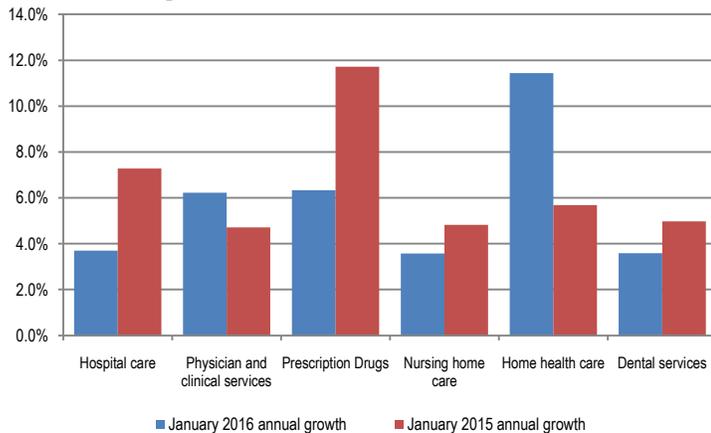
Exhibit 3. Health Spending by Category, January 2016



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 (11.4%). Nursing home care and dental services grew the slowest among major categories, at 3.6% each. Growth in hospital care also remained modest, at 3.7%. For the preceding 12-month period ending December 2014, prescription drugs showed the highest growth among the major categories, at 11.7%, but they have since moderated to a January rate of 6.3% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

Although we continue to estimate that health spending grew at an average rate of 5.9% for all of 2015, year-over-year monthly growth declined throughout most of the year from a peak of 6.8% in February to a low of 4.8% in December. Our preliminary estimate that year-over-year growth in January 2016 was 4.9% suggests that the decline might have begun to level off. From December 2015 to January 2016, a modest continued moderation in hospital spending growth (from 4.0% to 3.7%, year over year) was offset by increased growth in other areas, notably nursing home and home health care spending, whose year-over-year growth together increased from 5.0% in December to 6.3% in January. Spending growth for physician and clinical services also increased between the 2 months, from 5.5% to 6.2%.

These results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on February 26. BEA's results are preliminary and will be revised at the end of March to incorporate data from the U.S. Census Bureau's Quarterly Services Survey (QSS) for the fourth quarter of 2015, which was released on March 10. The QSS measures spending on hospital care, professional services such as physician and dental care, nursing home care, and home health care. Data from this QSS release show a fourth-quarter year-over-year growth of 3.8% in spending for these services. For comparison, our estimates developed for this spending brief suggest that expenditures on these services grew at a rate of 4.8% for the same period. Thus, the March QSS provides evidence for the continued slowdown in health spending through the fourth quarter of 2015.

Next month's spending brief, which will incorporate BEA's revisions based on the QSS results, will provide a more accurate picture of spending throughout 2015 and provide a further indication of whether the recent decline in spending growth is coming to an end.

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>.

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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)	Jan 2013	Jan 2014	Jan 2015	Jan 2016
GDP	\$16,475.5	\$16,906.6	\$17,581.5	**
National health spending	\$2,828.6	\$2,939.9	\$3,135.7	\$3,290.6
Personal health care	\$2,397.1	\$2,487.8	\$2,649.9	\$2,779.4
Hospital expenditures	\$915.9	\$942.2	\$1,010.8	\$1,048.1
Physician and clinical expenditures	\$571.4	\$591.2	\$619.1	\$657.6
Other professional services expenditures	\$78.2	\$83.1	\$86.8	\$91.1
Dental services expenditures	\$106.3	\$110.8	\$116.3	\$120.5
Other health, residential, and personal care expenditures	\$141.7	\$147.7	\$153.6	\$160.5
Home health care expenditures	\$78.0	\$80.9	\$85.5	\$95.3
Nursing care facilities and continuing care retirement communities	\$148.5	\$152.0	\$159.3	\$165.0
Prescription drug expenditures	\$258.4	\$281.0	\$313.9	\$333.8
Durable medical equipment expenditures	\$43.7	\$43.9	\$46.9	\$47.8
Nondurable medical products expenditures	\$55.0	\$54.9	\$57.7	\$59.6
Administration and net cost of health insurance expenditures	\$202.0	\$221.8	\$249.9	\$267.8
Public health activity	\$76.5	\$77.5	\$80.8	\$84.5
Research	\$47.4	\$45.7	\$45.8	\$47.3
Structures and equipment	\$105.6	\$107.2	\$109.3	\$111.5
National health spending share of GDP	17.2%	17.4%	17.8%	**
National health spending share of PGDP	16.6%	16.7%	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	Jan 2014	Jan 2015	Jan 2016
GDP	2.6%	4.0%	**
National health spending	3.9%	6.7%	4.9%
Personal health care	3.8%	6.5%	4.9%
Hospital expenditures	2.9%	7.3%	3.7%
Physician and clinical expenditures	3.5%	4.7%	6.2%
Other professional services expenditures	6.3%	4.5%	4.9%
Dental services expenditures	4.3%	5.0%	3.6%
Other health, residential, and personal care expenditures	4.3%	4.0%	4.5%
Home health care expenditures	3.7%	5.7%	11.4%
Nursing care facilities and continuing care retirement communities	2.3%	4.8%	3.6%
Prescription drug expenditures	8.8%	11.7%	6.3%
Durable medical equipment expenditures	0.5%	6.7%	2.0%
Nondurable medical products expenditures	-0.2%	5.1%	3.2%
Administration and net cost of health insurance expenditures	9.8%	12.7%	7.2%
Public health activity	1.4%	4.2%	4.7%
Research	-3.6%	0.2%	3.5%
Structures and equipment	1.5%	2.0%	2.0%
National health spending minus GDP	1.3%	2.7%	**
National health spending minus PGDP	0.7%	4.2%	**

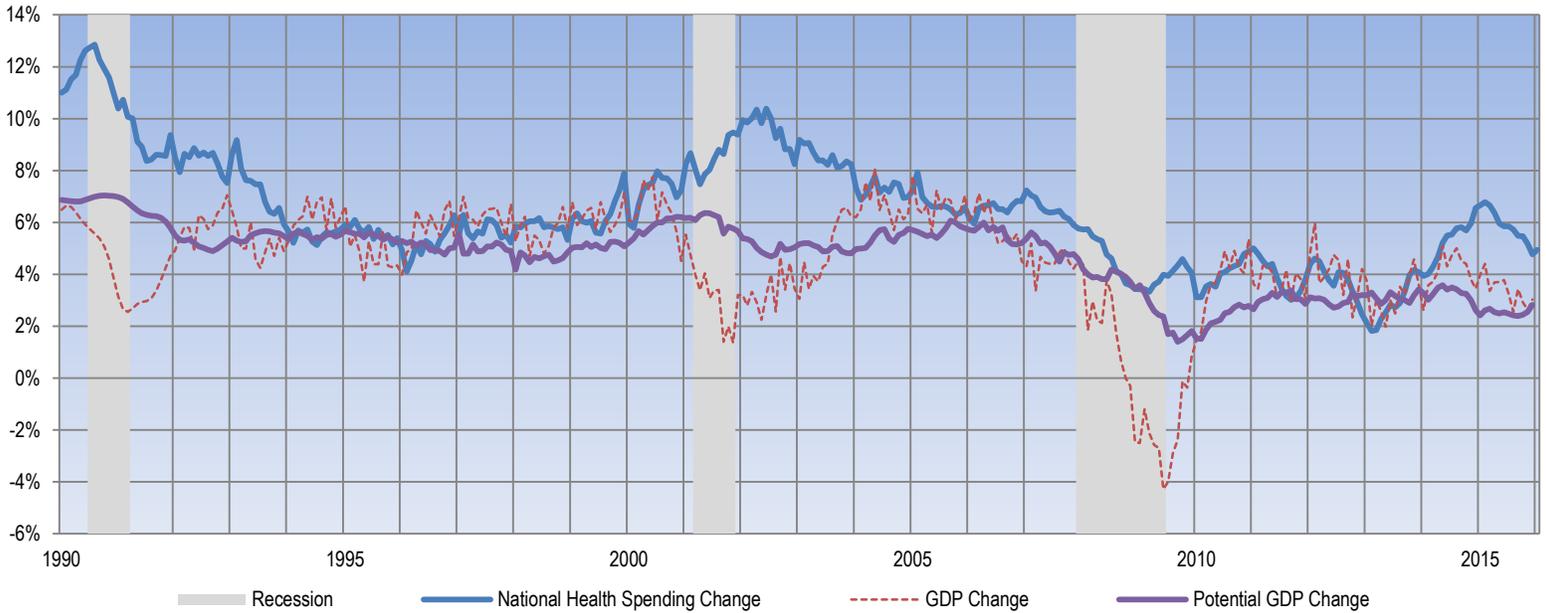
Source: Computed from Exhibit 5.

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

** Data are not yet available.

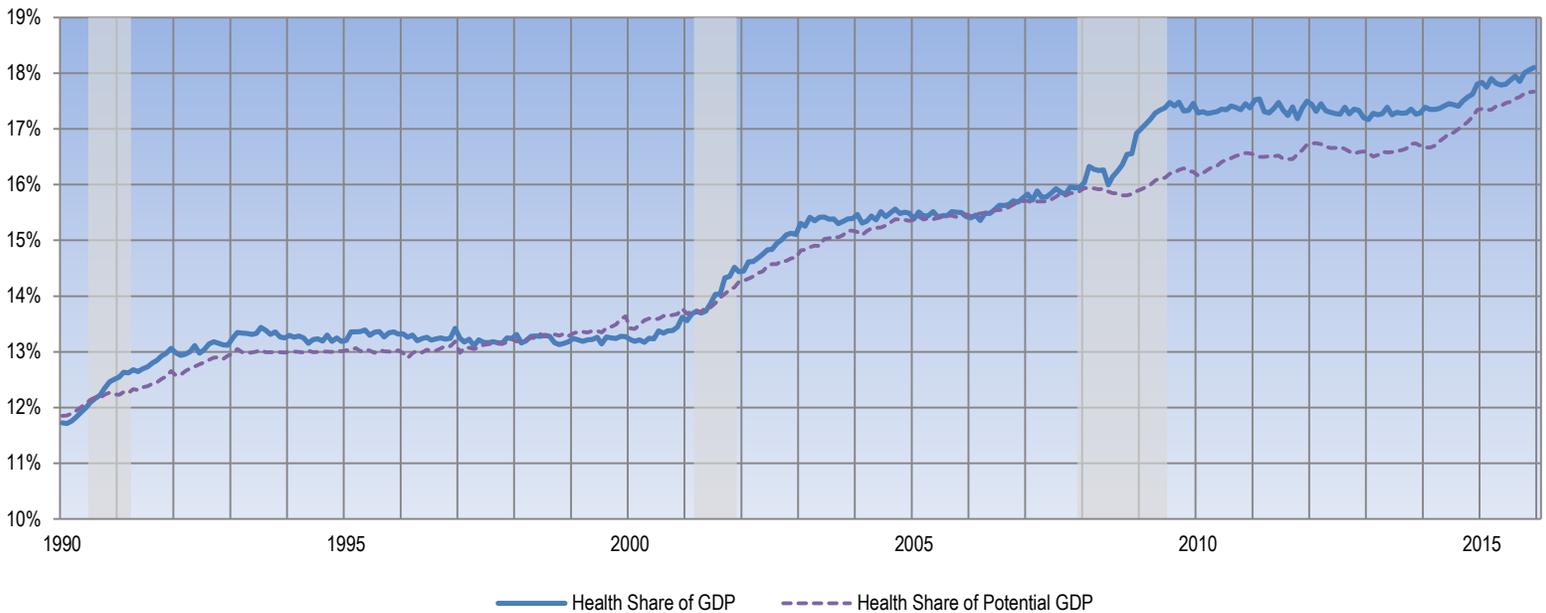
TIME SERIES TRACKER

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 and 2016) (<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, 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.