

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

## Insights from Monthly National Health Spending Data Through January 2017

March 17, 2017

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### SPENDING BRIEF

## Data revisions show gradual acceleration in health spending since September

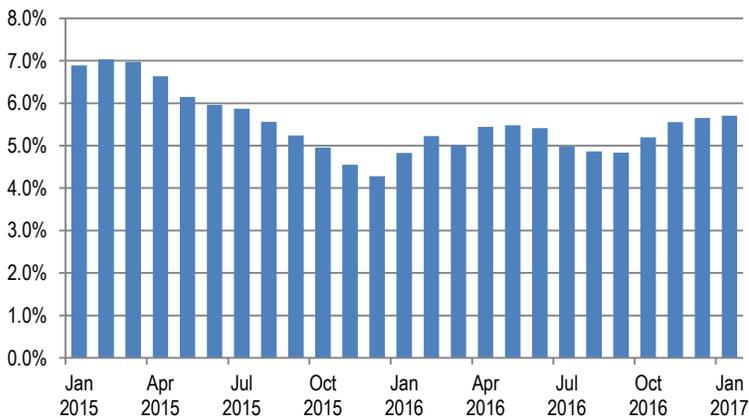
### HIGHLIGHTS

- ▲ Current estimates indicate that national health spending<sup>1</sup> grew by 5.2% in 2016.
- ▲ At \$3.47 trillion (seasonally adjusted annual rate), national health spending in January 2017 was 5.7% higher than health spending in January 2016.
- ▲ The December 2016 nominal gross domestic product (GDP) growth over a 12-month period was 3.9%. (January data are not yet available.)
- ▲ The health spending share of GDP was 18.2% in December.
- ▲ The health spending share of potential GDP (PGDP) was 18.1% in December.<sup>2</sup>
- ▲ Spending in January 2017, year over year, increased in all major categories. Nursing home care grew the fastest, at 7.9%. Dental services grew at a 1.0% rate, the slowest among the major categories.

### HEALTH SPENDING

In January 2017, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.47 trillion, slightly above its December value of \$3.46 trillion. December's health spending accounted for 18.2% of GDP, equal to its November value. (January data are not yet available.) As a share of PGDP, December's spending was at 18.1%, also equal to its November value. Year over year, health spending in January grew by 5.7%, unchanged from its December rate (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.

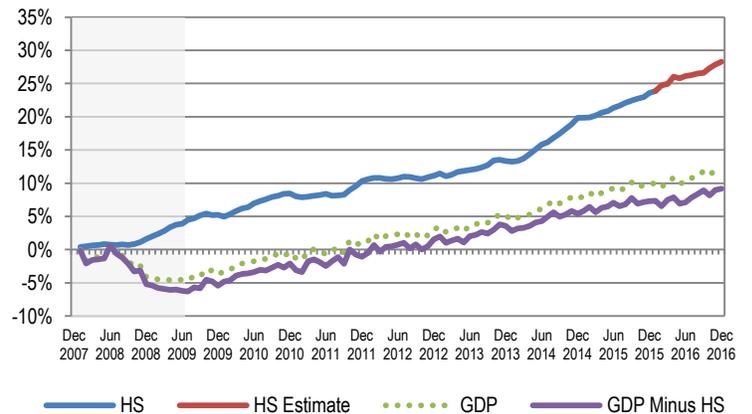
**National Health Spending and GDP\***

	Jan 2015	Jan 2016	Dec 2016	Jan 2017
<b>GDP</b>	17.71	18.29	18.97	**
<b>National Health Spending</b>	3.13	3.28	3.46	3.47
<b>Health Spending Share of GDP</b>	17.7%	18.0%	18.2%	**
<b>Health Spending Share of PGDP</b>	17.5%	17.7%	18.1%	**
<b>Growth from Prior 12 Months</b>				
Health Spending	6.9%	4.8%	5.7%	5.7%
GDP	4.4%	3.3%	3.9%	**
<b>Health Spending Minus GDP</b>	2.5%	1.5%	1.7%	**
<b>Health Spending Minus PGDP</b>	4.3%	1.7%	2.2%	**

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 December 2016 has increased by 28.3% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 9.2% above its December 2007 level. Including health care, real GDP in December was 12.2% above its pre-recession level (Exhibit 2).

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



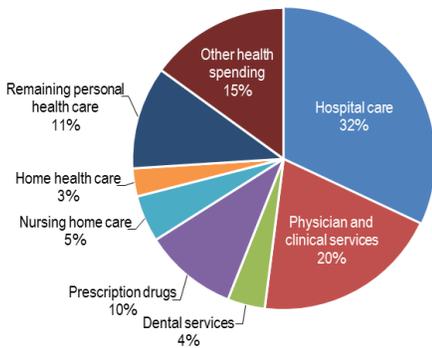
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

**HEALTH CARE SPENDING BY CATEGORY**

**In January 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 \$697 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$349 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$270 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.

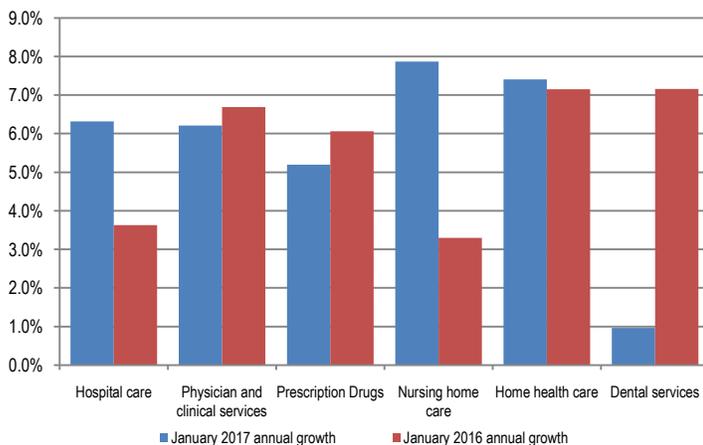
**Exhibit 3. Health Spending by Category, January 2017**



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

**Growth over the past 12 months:** Nursing home care grew most rapidly among the major categories, at 7.9%. Expenditures for dental services grew the slowest among major categories, at 1.0%. For the preceding 12-month period ending November 2015, dental services spending showed the highest growth among the major categories, at 7.2%, and nursing home care was lowest, at 3.3% (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 provides a second look at spending for the entire 2016 calendar year and suggests that national health spending grew by 5.2% from its 2015 level. Year-over-year spending growth has increased gradually over the past several months, from a rate of 4.8% in September 2016 to a rate of 5.7% in January 2017.

These results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on March 1. This month’s spending data for January 2016 through January 2017 also incorporate new results from the Centers for Medicare & Medicaid Services (CMS) latest projections of national health expenditures, which were published on February 15.<sup>3</sup> We use these data to estimate expenditures that are not included in the BEA updates (including spending in the categories of government administration; net cost of health insurance; public health; research; structures and equipment; and other health, residential, and personal care).

The CMS projections indicate that total spending for all of 2016 grew at a rate of 4.8%, somewhat lower than the 5.2% that we currently estimate. The BEA results that provide the primary basis for our estimates are preliminary and will be revised at the end of March to incorporate data from the U.S. Census Bureau’s Quarterly Services Survey for the fourth quarter of 2016, which was released on March 9. However, BEA’s March 1 release already incorporates preliminary QSS estimates that were released on February 17<sup>4</sup>, and there were only minor differences between the preliminary and final QSS results. The final QSS data suggest that health services spending (on hospital care, professional services, and nursing home and home health care) grew by 6.1% in 2016. In comparison, we currently estimate that services spending grew by 5.7% during the same period. All of this suggests that overall spending growth in 2016 is unlikely to be as low as the 4.8% projected by CMS.

Next month’s spending brief, which will incorporate BEA’s revisions based on the final QSS results, will provide a slightly more accurate picture of spending throughout 2016 and provide further evidence regarding the acceleration in spending over the past 5 months that we currently report.

<sup>1</sup> 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.

<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://content.healthaffairs.org/content/36/3/553.full>

<sup>4</sup> <https://www.census.gov/newsroom/press-releases/2017/cb17-tps10.html>

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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*<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: Sarah Litton, 202-772-5062, [press@altarum.org](mailto: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)	Jan 2014	Jan 2015	Jan 2016	Jan 2017
GDP	\$16,953.9	\$17,705.8	\$18,287.7	**
National health spending	\$2,931.0	\$3,132.9	\$3,284.1	\$3,471.4
Personal health care	\$2,477.4	\$2,652.2	\$2,789.4	\$2,956.2
Hospital expenditures	\$947.0	\$1,021.9	\$1,058.9	\$1,125.9
Physician and clinical expenditures	\$582.4	\$614.9	\$656.0	\$696.7
Other professional services expenditures	\$78.7	\$84.3	\$92.0	\$98.3
Dental services expenditures	\$110.6	\$114.6	\$122.8	\$124.0
Other health, residential, and personal care expenditures	\$147.0	\$158.3	\$167.4	\$174.3
Home health care expenditures	\$81.3	\$85.3	\$91.4	\$98.1
Nursing care facilities and continuing care retirement communities	\$149.5	\$153.9	\$159.0	\$171.5
Prescription drug expenditures	\$281.5	\$312.9	\$331.9	\$349.2
Durable medical equipment expenditures	\$44.4	\$47.9	\$49.7	\$54.4
Nondurable medical products expenditures	\$55.0	\$58.2	\$60.3	\$63.9
Administration and net cost of health insurance expenditures	\$224.3	\$248.1	\$256.5	\$270.5
Public health activity	\$78.2	\$80.1	\$81.7	\$83.9
Research	\$45.9	\$46.2	\$47.3	\$48.8
Structures and equipment	\$105.2	\$106.3	\$109.3	\$111.9
National health spending share of GDP	17.3%	17.7%	18.0%	**
National health spending share of PGDP	16.8%	17.5%	17.7%	**

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 2015	Jan 2016	Jan 2017
GDP	4.4%	3.3%	**
National health spending	6.9%	4.8%	5.7%
Personal health care	7.1%	5.2%	6.0%
Hospital expenditures	7.9%	3.6%	6.3%
Physician and clinical expenditures	5.6%	6.7%	6.2%
Other professional services expenditures	7.2%	9.1%	6.9%
Dental services expenditures	3.6%	7.2%	1.0%
Other health, residential, and personal care expenditures	7.7%	5.7%	4.1%
Home health care expenditures	4.9%	7.1%	7.4%
Nursing care facilities and continuing care retirement communities	3.0%	3.3%	7.9%
Prescription drug expenditures	11.2%	6.1%	5.2%
Durable medical equipment expenditures	7.9%	3.7%	9.5%
Nondurable medical products expenditures	5.9%	3.7%	5.8%
Administration and net cost of health insurance expenditures	10.6%	3.4%	5.5%
Public health activity	2.5%	1.9%	2.7%
Research	0.6%	2.4%	3.1%
Structures and equipment	1.0%	2.9%	2.4%
National health spending minus GDP	2.5%	1.5%	**
National health spending minus PGDP	4.3%	1.7%	**

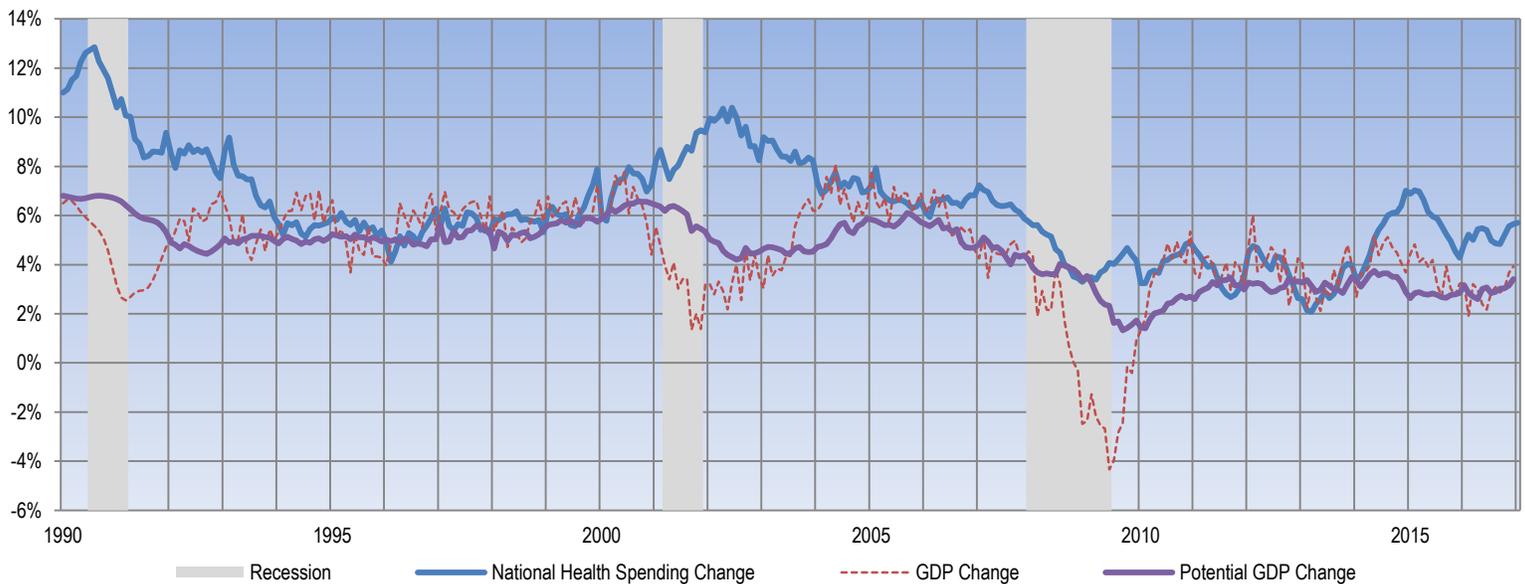
Source: Computed from Exhibit 5.

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**

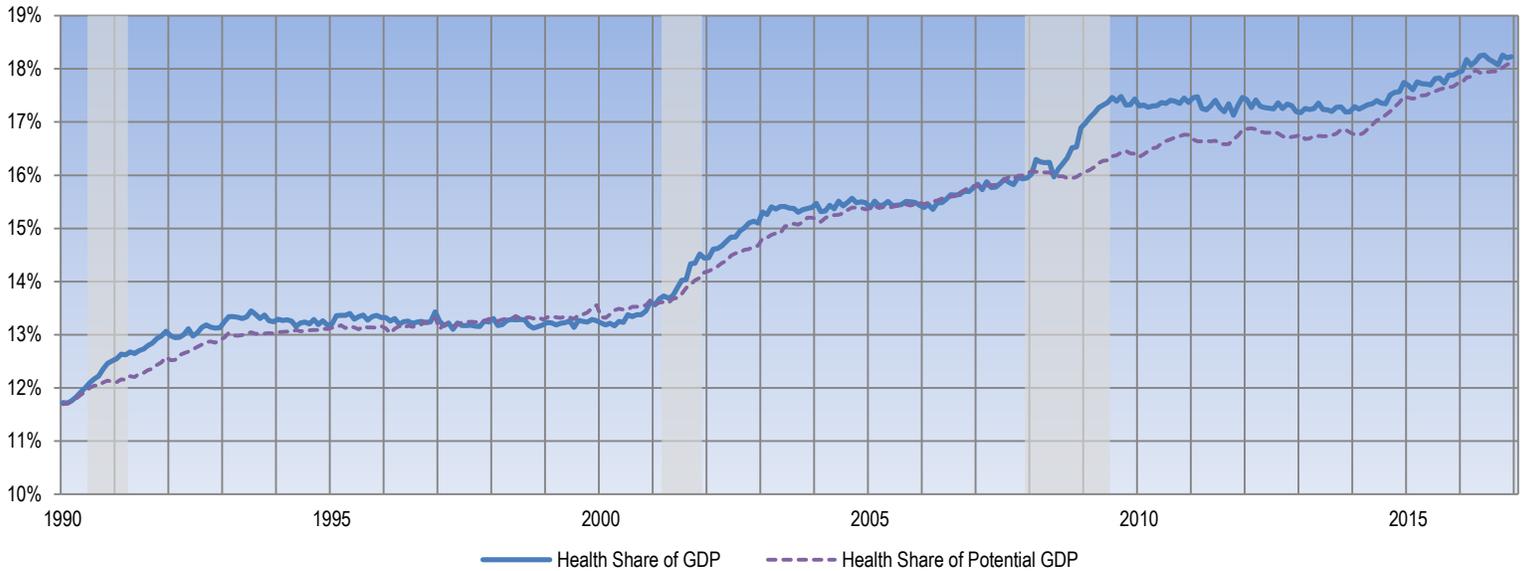
**Exhibit 7. Year-over-Year Percentage Change in Spending and GDP**



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 (1990–2015) 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.