

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

## Insights from Monthly National Health Spending Data Through March 2015

May 13, 2015

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### SPENDING BRIEF

## Recent acceleration in health spending continues

### HIGHLIGHTS

- ▲ National health spending<sup>1</sup> in March 2015 was 6.8% higher than health spending in March 2014.
- ▲ The March 2015 gross domestic product (GDP) growth over a 12-month period was 3.6%.
- ▲ The health spending share of GDP was 18.1% in March. This is up from 16.0% at the start of the recession in December 2007. This increase is partly attributable to slow GDP growth rather than high health spending growth; the March health spending share of potential GDP (PGDP) was 17.3%.<sup>2</sup>
- ▲ Spending in March 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 10.7%, with hospital spending also showing rapid growth, at 9.8%.

National Health Spending and GDP\*

	Mar 2013	Mar 2014	Feb 2015	Mar 2015
<b>GDP</b>	16.53	17.11	17.71	17.72
<b>National Health Spending (HS)</b>	2.87	3.00	3.19	3.20
<b>HS Share of GDP</b>	17.4%	17.5%	18.0%	18.1%
<b>HS Share of PGDP</b>	16.5%	16.7%	17.3%	17.3%
<b>Growth from Prior 12 Months</b>				
<b>HS</b>	3.0%	4.3%	6.6%	6.8%
<b>GDP</b>	3.7%	3.5%	4.0%	3.6%
<b>HS Minus GDP</b>	-0.8%	0.8%	2.6%	3.2%
<b>HS Minus PGDP</b>	-0.3%	1.2%	3.9%	4.2%

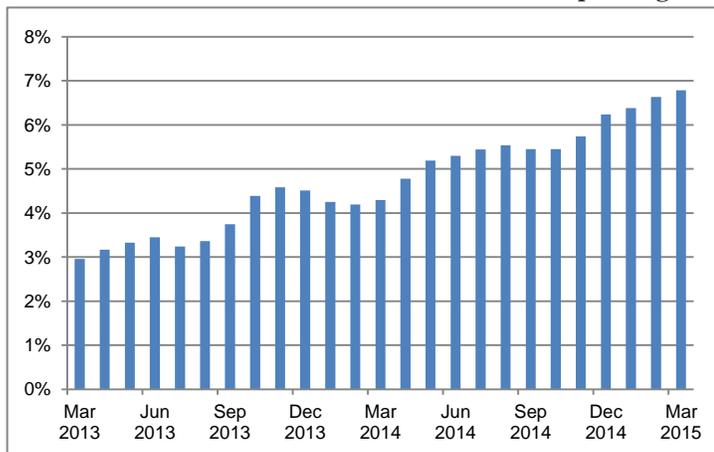
Source: Altarum Institute monthly health spending estimates (see Methods on page 4); monthly GDP is from Macroeconomic Advisers and Altarum estimates; PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.  
\*Spending is trillions of dollars, seasonally adjusted annual rate.

### HEALTH SPENDING

In March 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.20 trillion from its value of \$3.19 trillion in February. March's health spending accounted for 18.1% of GDP. As a share of PGDP, March's spending was at 17.3%, equal to the February value. Year over year, health spending in March grew by 6.8%, a higher rate than the February value of 6.6% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

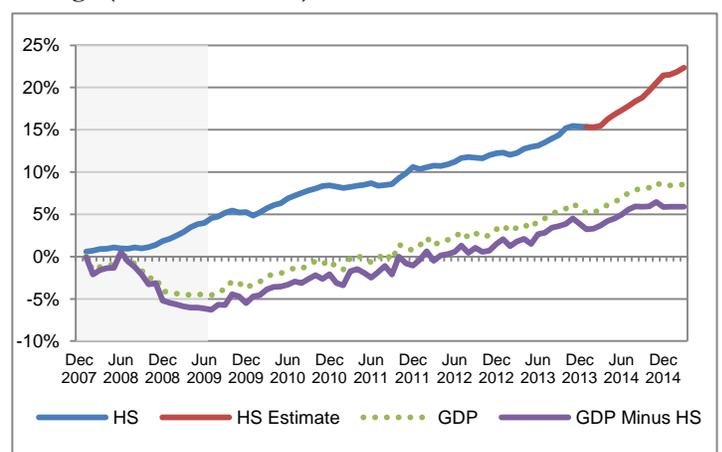
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through March 2015 has increased by 22.4% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 5.9% above its December 2007 level. Including health care, real GDP in January was 8.5% 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: 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



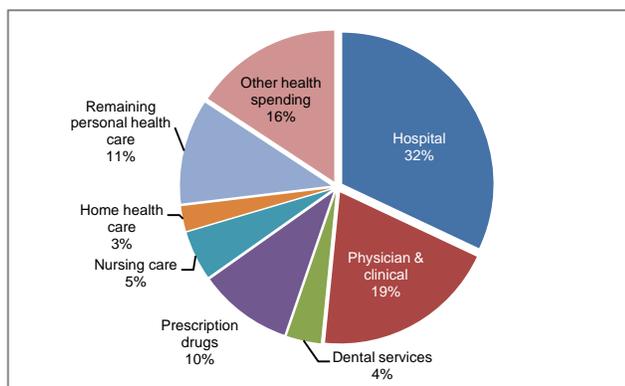
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum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

## HEALTH CARE SPENDING BY CATEGORY

### In March 2015:

- ▲ Hospital spending was \$1.04 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$618 billion, representing 19% of total health spending.
- ▲ Prescription drug spending was \$320 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$252 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.

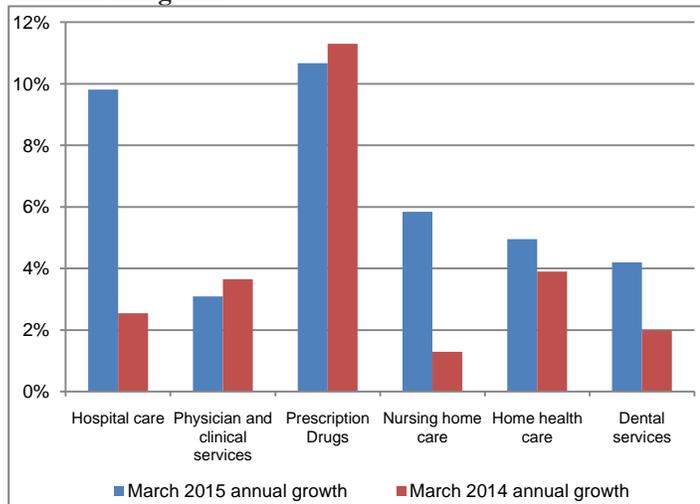
Exhibit 3. Health Spending by Category, March 2015



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 drugs grew most rapidly among the major categories (10.7%), while hospital spending grew by 9.8%. Physician and clinical services grew the slowest among major categories, at 3.1%. For the preceding 12-month period ending March 2014, prescription drugs again showed the highest growth among the major categories, at 11.3%, whereas nursing home care rose the least, by 1.3% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

## DISCUSSION

Led by growth in spending on prescription drugs (10.7%, year over year) and hospital care (9.8%), health spending in March continued its acceleration for the fifth consecutive month. Spending in March 2015 grew at a rate of 6.8% since March of 2014, the highest growth rate since March of 2007. However, growth in spending within other major categories, notably physician and clinical services (3.1%), remained relatively modest. Year-over-year health spending growth in the first quarter of 2015 currently stands at 6.6%.

For the period beginning January 2014, our spending estimates are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on April 30. (The estimates for 2013 and earlier are based on the official National Health Expenditure [NHE] values published annually by CMS, converted to monthly values by using monthly weights from the BEA data.) The BEA data for the first quarter of 2015 are preliminary and will be revised over the next 2 months as more data become available.

Though preliminary, these results suggest an end to record-low growth rates in health spending that began in 2009 (3.8%) and continued through 2013 (3.6%). (Spending growth in 2014 is currently estimated at 5.2%, including the effects of fourth-quarter acceleration.) However, as noted in our most recent Health Sector Trend Report,<sup>3</sup> there are reasons to expect growth to drop back below 6% as 2015 progresses. First, the growth rate in spending on prescription drugs should drop below 10% due to a leveling off in spending on specialty drugs that treat hepatitis C. (The growth rate of prescription drug spending has been declining since December 2014.) Second, the growth in expanded coverage stemming from the Patient Protection and Affordable Care Act should also be smaller in 2015 than in 2014.

<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 2013; CMS will release official values for 2014 in December 2015.

<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://altarum.org/sites/default/files/uploaded-publication-files/Altarum%20RWJF%20Trend%20Report%20April%202015\\_1.pdf](http://altarum.org/sites/default/files/uploaded-publication-files/Altarum%20RWJF%20Trend%20Report%20April%202015_1.pdf)

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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 Institute'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: Ken Schwartz, 571-733-5709, [ken.schwartz@altarum.org](mailto:ken.schwartz@altarum.org). For more information, visit [www.altarum.org/cshs](http://www.altarum.org/cshs).

**DETAILED HEALTH SPENDING**

Exhibit 5. Monthly National Health Spending Estimates by Detailed Category

Levels (in billions of dollars)	March 2012	March 2013	March 2014	March 2015
GDP	\$15,941.5	\$16,534.2	\$17,107.6	\$17,724.2
National health spending	\$2,790.8	\$2,873.4	\$2,996.7	\$3,200.0
Personal health care	\$2,356.0	\$2,429.2	\$2,524.4	\$2,700.2
Hospital expenditures	\$888.5	\$923.7	\$947.2	\$1,040.1
Physician and clinical expenditures	\$559.3	\$578.6	\$599.7	\$618.3
Other professional services expenditures	\$75.4	\$79.2	\$82.2	\$85.8
Dental services expenditures	\$108.9	\$110.7	\$112.9	\$117.6
Other health, residential, and personal care expenditures	\$137.6	\$146.0	\$153.5	\$161.7
Home health care expenditures	\$75.5	\$78.7	\$81.8	\$85.8
Nursing care facilities and continuing care retirement communities	\$152.4	\$155.1	\$157.1	\$166.3
Prescription drug expenditures	\$263.7	\$259.7	\$289.0	\$319.9
Durable medical equipment expenditures	\$41.3	\$42.3	\$44.1	\$46.1
Nondurable medical products expenditures	\$53.4	\$55.2	\$57.0	\$58.5
Administration and net cost of health insurance expenditures	\$197.5	\$205.2	\$227.1	\$247.7
Public health activity	\$74.5	\$74.9	\$77.9	\$81.6
Research	\$48.5	\$46.8	\$46.9	\$46.0
Structures and equipment	\$114.3	\$117.3	\$120.3	\$124.5
National health spending share of GDP	17.5%	17.4%	17.5%	18.1%
National health spending share of PGDP	16.5%	16.5%	16.7%	17.3%

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.

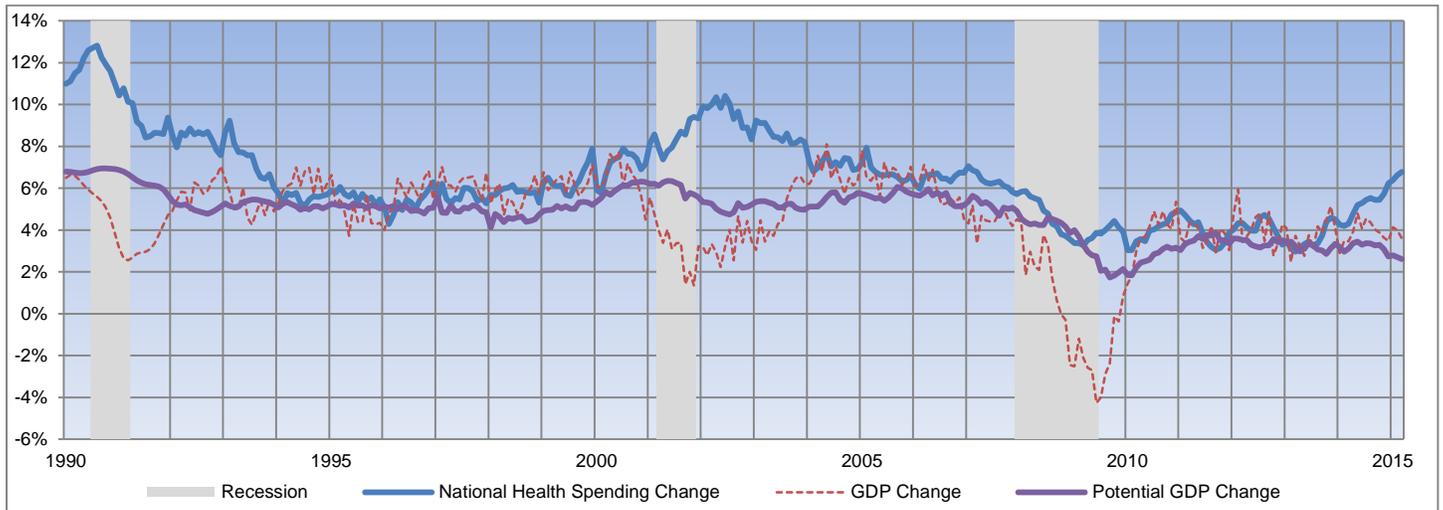
Exhibit 6. National Health Spending 12-Month Growth Rates by Detailed Category

Growth Rates	March 2013	March 2014	March 2015
GDP	3.7%	3.5%	3.6%
National health spending	3.0%	4.3%	6.8%
Personal health care	3.1%	3.9%	7.0%
Hospital expenditures	4.0%	2.5%	9.8%
Physician and clinical expenditures	3.4%	3.7%	3.1%
Other professional services expenditures	5.0%	3.8%	4.4%
Dental services expenditures	1.6%	2.0%	4.2%
Other health, residential, and personal care expenditures	6.1%	5.1%	5.3%
Home health care expenditures	4.2%	3.9%	5.0%
Nursing care facilities and continuing care retirement communities	1.8%	1.3%	5.8%
Prescription drug expenditures	-1.5%	11.3%	10.7%
Durable medical equipment expenditures	2.5%	4.1%	4.7%
Nondurable medical products expenditures	3.4%	3.1%	2.7%
Administration and net cost of health insurance expenditures	3.9%	10.7%	9.1%
Public health activity	0.6%	4.1%	4.7%
Research	-3.4%	0.2%	-1.9%
Structures and equipment	2.6%	2.6%	3.5%
National health spending minus GDP	-0.8%	0.8%	3.2%
National health spending minus PGDP	-0.3%	1.2%	4.2%

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

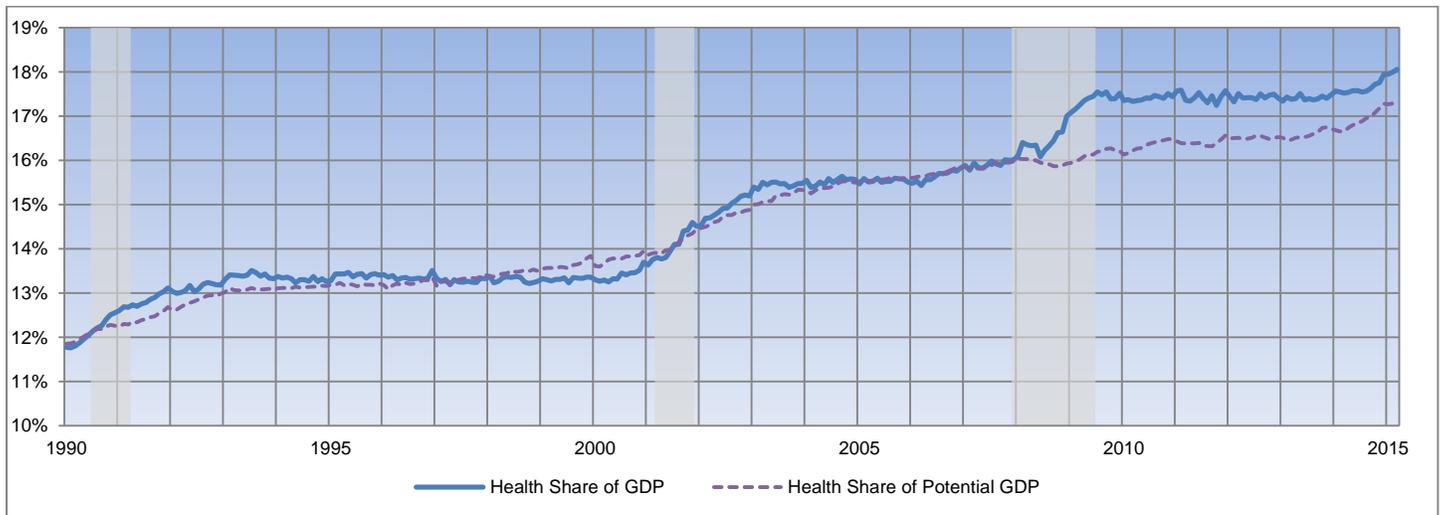
**TIME SERIES TRACKER**

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



Source: Altarum monthly national health spending estimates. The 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. The monthly GDP is from Macroeconomic Advisers and Altarum estimates. The 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 (1) BEA monthly health spending (<http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1>) and (2) CMS annual NHE estimates (1990–2013) and projections (2014 and 2015) (<https://www.cms.gov/NationalHealthExpendData>). BEA spending categories are matched to NHEA components using information presented in: 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 using annual ratios. For the remaining categories, NHE estimates and projections are allocated across months using a simple trend. Annual ratio adjustments through 2013 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2013 ratios are used to adjust BEA spending for months in 2014 and 2015.