

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

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

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### SPENDING BRIEF

October 8, 2015

## Latest government data show higher health spending growth, but with recent moderation

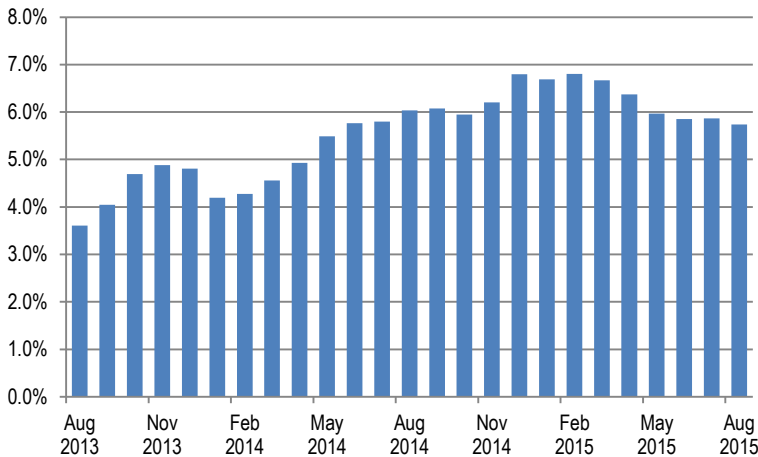
### HIGHLIGHTS

- ▲ National health spending<sup>1</sup> in August 2015 was 5.7% higher than health spending in August 2014.
- ▲ The July 2015 gross domestic product (GDP) growth over a 12-month period was 3.2%. (August data are not yet available.)
- ▲ The health spending share of GDP was 18.2% in July. This is up from 16.0% at the start of the recession in December 2007.
- ▲ The July 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.<sup>2</sup>
- ▲ Spending in August 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 9.2%.

### HEALTH SPENDING

In August 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.29 trillion from its value of \$3.27 trillion in July. July's health spending accounted for 18.2% of GDP. (August GDP data are not yet available.) As a share of PGDP, July's spending was at 17.7%, the same as its June reading. Year over year, health spending in August grew by 5.7%, down from 5.9% in July (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: Compares a given month's health spending with that of the same month from the previous year.

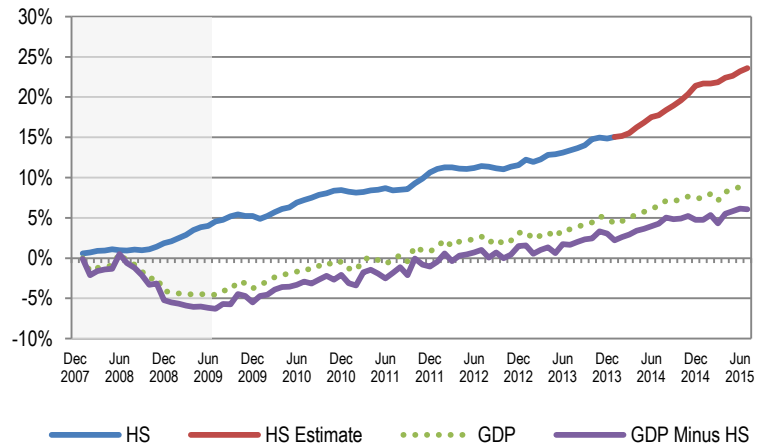
**National Health Spending and GDP\***

	Aug 2013	Aug 2014	Jul 2015	Aug 2015
<b>GDP</b>	16.73	17.56	17.99	**
<b>National Health Spending</b>	2.93	3.11	3.27	3.29
<b>Health Spending Share of GDP</b>	17.5%	17.7%	18.2%	**
<b>Health Spending Share of PGDP</b>	16.8%	17.2%	17.7%	**
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	3.6%	6.0%	5.9%	5.7%
<b>GDP</b>	3.5%	5.0%	3.2%	**
<b>Health Spending Minus GDP</b>	0.1%	1.0%	2.7%	**
<b>Health Spending Minus PGDP</b>	0.6%	2.6%	3.3%	**

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.  
\*\* Data are not yet available.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through July 2015 has increased by 23.6% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.1% above its December 2007 level. Including health care, real GDP in July was 8.9% above its pre-recession level (Exhibit 2).

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



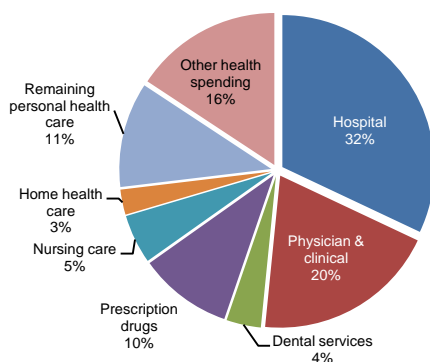
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values and match the NHEA forecast values for 2014. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.  
Note: Shading indicates the recession period.

## HEALTH CARE SPENDING BY CATEGORY

### In August 2015:

- ▲ Hospital spending was \$1.05 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$650 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$339 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$254 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.

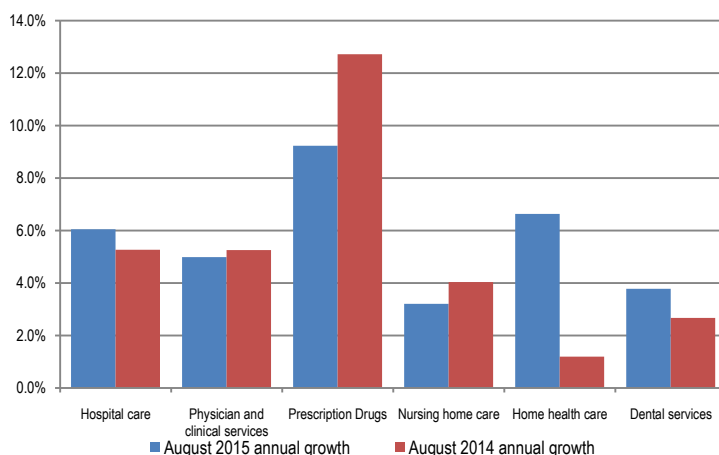
### Exhibit 3. Health Spending by Category, July 2015



Source: Altarum monthly national health spending estimates.  
Notes: See Exhibit 5 for a complete list of spending categories. Categories do not add to 100% due to rounding.

**Growth over the past 12 months:** Prescription drugs grew most rapidly among the major categories (9.2%). Nursing home care grew the slowest among major categories, at 3.2%. For the preceding 12-month period ending August 2014, prescription drugs again showed the highest growth among the major categories, at 12.7%, whereas home health care rose the least, by 1.2% (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 estimates, which are based largely on the Bureau of Economic Analysis’ (BEA’s) September 28 update to its National Income and Product Accounts, reflect BEA’s inclusion of results from the Census Bureau’s September 9 release of the Quarterly Services Survey (QSS) for the second quarter of 2015. (BEA’s preliminary estimates are routinely revised each quarter when QSS results become available.) This update resulted in an upward revision of our estimates of overall second quarter health spending growth from 5.9% to 6.1%, year over year. This is somewhat lower than the 6.6% second-quarter growth rate reported in our most recent Health Sector Trend Report<sup>3</sup>, because BEA uses moving averages for some of the QSS components, while the trend report incorporates raw QSS growth rates. As a result, this spending brief shows a decline in spending growth from 6.7% in the first quarter to 6.1% in the second quarter and a further reduction to 5.7% in August 2015 (the lowest value since May 2014). Thus, while spending growth in early 2015 (and in most of 2014) has been higher than the historically low 4% levels experienced from 2009 through 2013, there has been a gradual decline in the growth rate since February of this year. The trend report suggested that much of the higher growth through the second quarter might be attributable to upward pressure from temporary factors such as expanded insurance coverage and the introduction of new drugs. The gradual decline in the growth rate since February that we observe in this spending brief would be consistent with a recent reduction in these pressures. Such a reduction could cause this decline in spending growth to continue through the remainder of the year, affording some hope that spending growth will continue to retreat toward more nearly sustainable levels in the coming months.

<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 and match the CMS projections for 2014. 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/publications/health-sector-trend-report-september-2015>.

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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: Ken Schwartz, 202-772-5062, [ken.schwartz@altarum.org](mailto: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)	Aug 2012	Aug 2013	Aug 2014	Aug 2015
GDP	\$16,156.7	\$16,725.1	\$17,562.5	**
National health spending	\$2,828.2	\$2,930.1	\$3,106.9	\$3,285.3
Personal health care	\$2,388.2	\$2,478.1	\$2,617.9	\$2,766.9
Hospital expenditures	\$907.1	\$936.9	\$986.2	\$1,046.0
Physician and clinical expenditures	\$563.6	\$588.3	\$619.2	\$650.1
Other professional services expenditures	\$77.1	\$80.9	\$85.8	\$90.8
Dental services expenditures	\$110.7	\$112.4	\$115.4	\$119.7
Other health, residential, and personal care expenditures	\$141.3	\$149.2	\$153.5	\$160.2
Home health care expenditures	\$76.2	\$81.0	\$82.0	\$87.4
Nursing care facilities and continuing care retirement communities	\$153.1	\$155.5	\$161.8	\$167.0
Prescription drug expenditures	\$264.0	\$275.4	\$310.4	\$339.1
Durable medical equipment expenditures	\$41.2	\$42.8	\$44.7	\$45.9
Nondurable medical products expenditures	\$54.0	\$55.8	\$59.0	\$60.7
Administration and net cost of health insurance expenditures	\$200.3	\$212.2	\$244.9	\$267.9
Public health activity	\$75.2	\$75.4	\$79.2	\$82.4
Research	\$47.8	\$46.6	\$45.8	\$46.9
Structures and equipment	\$116.7	\$117.9	\$119.1	\$121.2
National health spending share of GDP	17.5%	17.5%	17.7%	**
National health spending share of PGDP	16.7%	16.8%	17.2%	**

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.

\*\* Data are not yet available.

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

Growth Rates	Aug 2013	Aug 2014	Aug 2015
GDP	3.5%	5.0%	**
National health spending	3.6%	6.0%	5.7%
Personal health care	3.8%	5.6%	5.7%
Hospital expenditures	3.3%	5.3%	6.1%
Physician and clinical expenditures	4.4%	5.3%	5.0%
Other professional services expenditures	4.9%	6.0%	5.9%
Dental services expenditures	1.5%	2.7%	3.8%
Other health, residential, and personal care expenditures	5.6%	2.9%	4.4%
Home health care expenditures	6.4%	1.2%	6.6%
Nursing care facilities and continuing care retirement communities	1.6%	4.0%	3.2%
Prescription drug expenditures	4.3%	12.7%	9.2%
Durable medical equipment expenditures	3.7%	4.5%	2.7%
Nondurable medical products expenditures	3.4%	5.7%	2.9%
Administration and net cost of health insurance expenditures	5.9%	15.4%	9.4%
Public health activity	0.3%	5.1%	4.0%
Research	-2.6%	-1.7%	2.5%
Structures and equipment	1.1%	1.0%	1.7%
National health spending minus GDP	0.1%	1.0%	**
National health spending minus PGDP	0.6%	2.6%	**

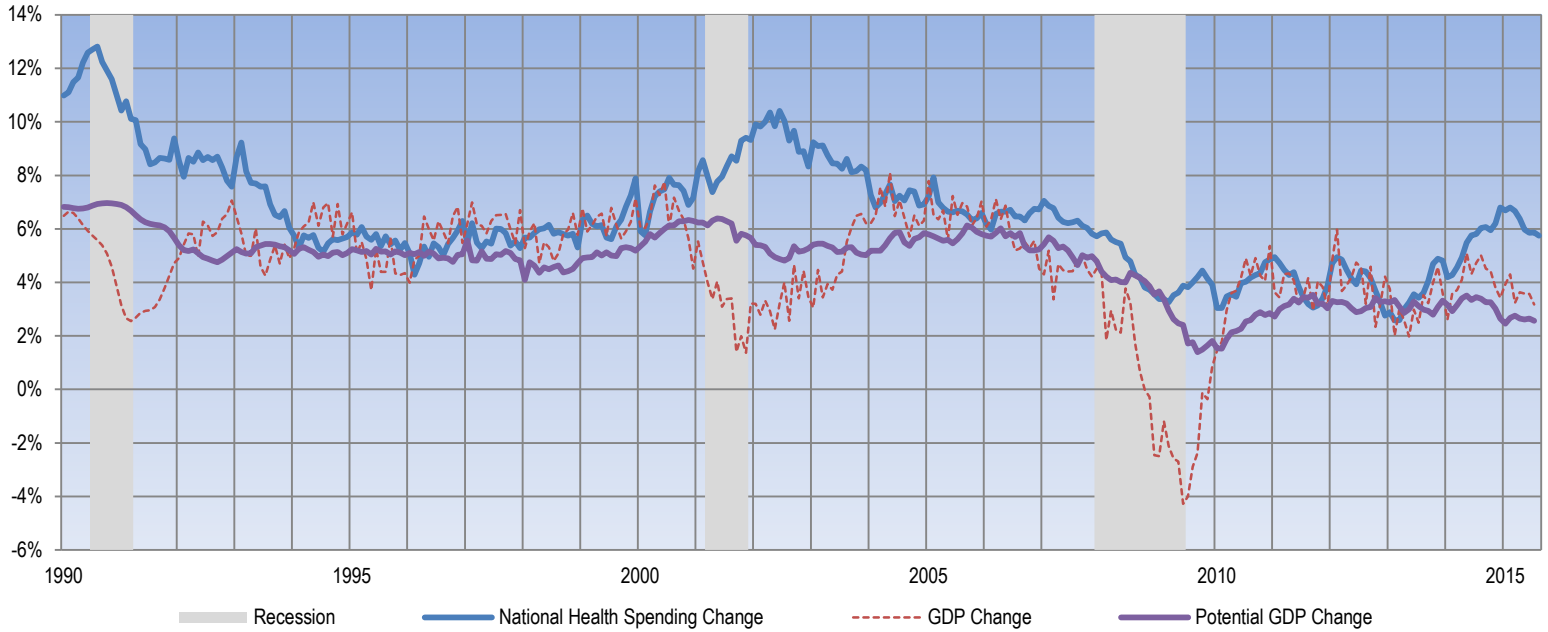
Source: Computed from Exhibit 5.

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

\*\* Data are not yet available.

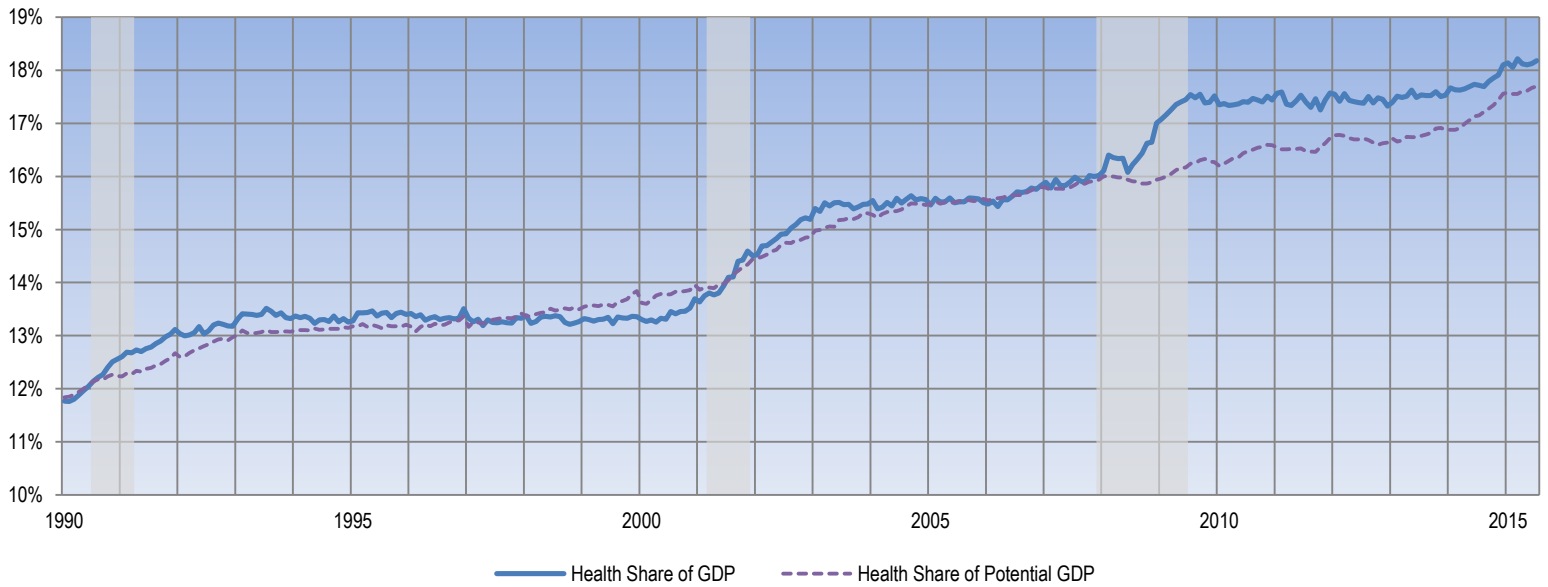
TIME SERIES TRACKER

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 (1990–2013) and projections (2014 and 2015) (<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, NHE estimates and projections are allocated across months by using a simple trend. Annual ratio adjustments through 2014 are based on NHEA actuals (through 2013) and projections (for 2014) and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2014 ratios are used to adjust BEA spending for months in 2015.