

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

## Insights from Monthly National Health Spending Data Through August 2016

October 14, 2016

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### SPENDING BRIEF

## Estimates of second-quarter 2016 health spending growth have been revised upward

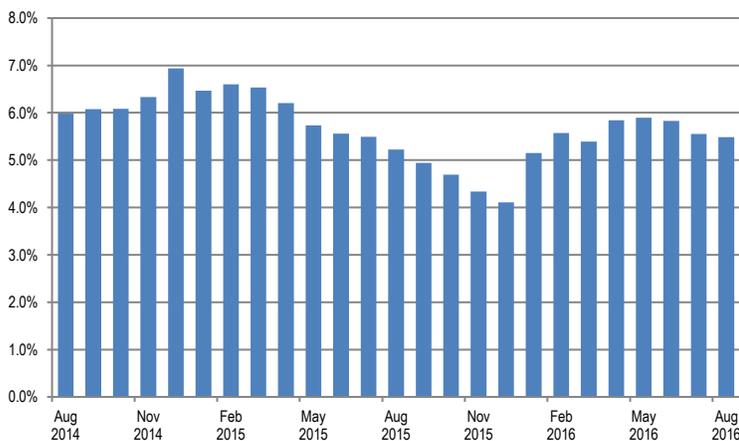
### HIGHLIGHTS

- ▲ At \$3.40 trillion (seasonally adjusted annual rate) national health spending<sup>1</sup> in August 2016 was 5.5% higher than health spending in August 2015.
- ▲ Newly-released government data have resulted in upward revisions to estimated national health spending growth for the 4 months preceding August.
- ▲ The July 2016 nominal gross domestic product (GDP) growth over a 12-month period was 3.0%. (August data are not yet available.)
- ▲ The health spending share of GDP was 18.2% in July. This was slightly below its revised value in May and June of 18.3%, which is the all-time high for this series.
- ▲ The health spending share of potential GDP (PGDP) was 17.9% in July and is gradually approaching the health spending share of GDP as the economy approaches full employment.<sup>2</sup>
- ▲ Spending in August 2016, year over year, increased in all major categories. Nursing health care grew the fastest, at 6.6%. Prescription drugs grew at a 4.3% rate, the slowest among the major categories.

### HEALTH SPENDING

In August 2016, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.40 trillion, slightly above its July value of \$3.39 trillion. July's health spending accounted for 18.2% of GDP, down slightly from the June value of 18.3%. (August data are not yet available.) As a share of PGDP, July's spending was at 17.9%, up from 17.8% in June. Year over year, health spending in August grew by 5.5%, down from 5.6% 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: This exhibit compares a given month's health spending with that of the same month from the previous year.

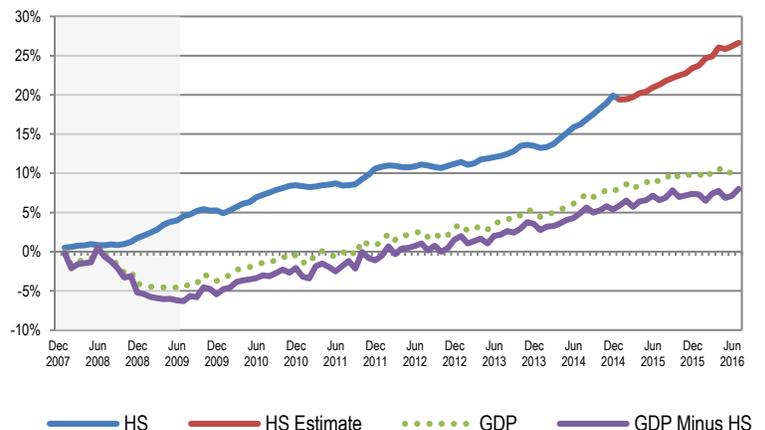
National Health Spending and GDP\*

	Aug 2014	Aug 2015	Jul 2016	Aug 2016
<b>GDP</b>	17.63	18.11	18.60	**
<b>National Health Spending</b>	3.06	3.22	3.39	3.40
<b>Health Spending Share of GDP</b>	17.4%	17.8%	18.2%	**
<b>Health Spending Share of PGDP</b>	17.0%	17.4%	17.9%	**
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	6.0%	5.2%	5.6%	5.5%
<b>GDP</b>	5.2%	2.7%	3.0%	**
<b>Health Spending Minus GDP</b>	0.8%	2.5%	2.5%	**
<b>Health Spending Minus PGDP</b>	2.4%	2.7%	2.9%	**

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.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through July 2016 has increased by 26.2% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 8.0% above its December 2007 level. Including health care, real GDP in July was 11.0% above its pre-recession level (Exhibit 2).

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



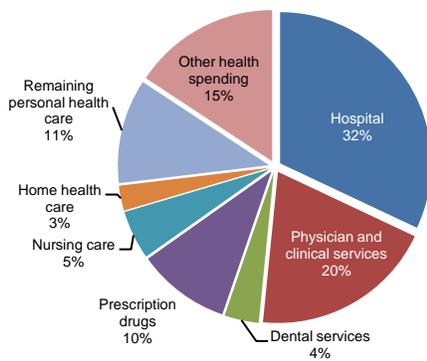
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

**HEALTH CARE SPENDING BY CATEGORY**

**In August 2016:**

- ▲ Hospital spending was \$1.08 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$678 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$340 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$268 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.

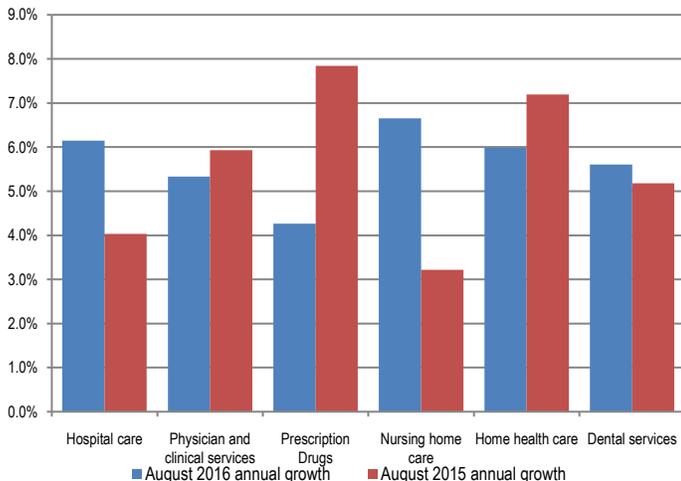
**Exhibit 3. Health Spending by Category, August 2016**



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 6.6%. Prescription drug expenditures grew the slowest among major categories, at 4.3%. For the preceding 12-month period ending August 2015, prescription drugs showed the highest growth among the major categories, at 7.8% (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 incorporates the latest results from the U.S. Census Bureau’s Quarterly Services Survey (QSS). Our spending estimates for 2016 are based largely on monthly spending data published by the Bureau of Economic Analysis (BEA), adjusted to approximate anticipated values in CMS’ future release of the official NHEA. BEA’s latest estimates, published on September 30, incorporate second quarter 2016 QSS estimates for spending on health services. The impact on our reported second quarter national health spending growth is an upward revision from 5.3% to 5.9%, year over year. Our estimated second quarter year-over-year hospital spending growth was revised upward from 4.4% to 5.4%; growth in spending for physician and clinical services was revised upward from 6.2% to 6.8%. Our estimate for overall spending growth in July also increased, from 4.9% to 5.6%; August spending growth is currently estimated at 5.5%. Estimates for July and August are preliminary and will be revised later this year, following release of the third-quarter QSS report in December.

While spending growth in recent months now appears to be higher than previously thought, it remains somewhat below its recent peak in late 2014 and early 2015, when it was well above 6%. This peak was likely associated with expanded insurance coverage. Prior to that peak, the last time spending growth exceeded 6% was in October 2007, before the Great Recession and structural changes suppressed health spending.

The QSS addresses health care services only, including hospital care, professional services, nursing home care, and home health care. Our estimate for second-quarter year-over-year growth in this health care services component of spending is 5.8%. Although this number is up from the 5.3% reported in last month’s Spending Brief, it is somewhat lower than the 7.0% taken from the QSS and discussed in our latest Health Sector Trend Report.<sup>3</sup> This is largely a result of BEA’s smoothing of QSS data when incorporating them into BEA’s spending estimates.

<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 2014 and NHEA projections for 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%20September%202016%20Final.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’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 2013	Aug 2014	Aug 2015	Aug 2016
GDP	\$16,770.5	\$17,634.9	\$18,111.8	**
National health spending	\$2,887.7	\$3,060.6	\$3,220.4	\$3,397.1
Personal health care	\$2,447.8	\$2,588.4	\$2,720.2	\$2,874.1
Hospital expenditures	\$934.8	\$982.2	\$1,021.8	\$1,084.6
Physician and clinical expenditures	\$576.1	\$607.7	\$643.7	\$678.0
Other professional services expenditures	\$79.9	\$85.6	\$90.3	\$96.4
Dental services expenditures	\$111.8	\$114.0	\$119.9	\$126.6
Other health, residential, and personal care expenditures	\$145.2	\$151.1	\$159.2	\$166.9
Home health care expenditures	\$80.2	\$83.3	\$89.3	\$94.6
Nursing care facilities and continuing care retirement communities	\$150.3	\$157.3	\$162.4	\$173.2
Prescription drug expenditures	\$268.9	\$302.6	\$326.3	\$340.2
Durable medical equipment expenditures	\$44.9	\$47.1	\$48.2	\$51.1
Nondurable medical products expenditures	\$55.7	\$57.6	\$59.2	\$62.4
Administration and net cost of health insurance expenditures	\$211.3	\$238.5	\$256.2	\$269.3
Public health activity	\$76.5	\$79.4	\$83.9	\$87.9
Research	\$46.2	\$45.5	\$46.3	\$47.5
Structures and equipment	\$106.0	\$108.7	\$114.0	\$118.3
National health spending share of GDP	17.2%	17.4%	17.8%	**
National health spending share of PGDP	16.6%	17.0%	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	Aug 2014	Aug 2015	Aug 2016
GDP	5.2%	2.7%	**
National health spending	6.0%	5.2%	5.5%
Personal health care	5.7%	5.1%	5.7%
Hospital expenditures	5.1%	4.0%	6.1%
Physician and clinical expenditures	5.5%	5.9%	5.3%
Other professional services expenditures	7.1%	5.5%	6.8%
Dental services expenditures	2.0%	5.2%	5.6%
Other health, residential, and personal care expenditures	4.1%	5.3%	4.9%
Home health care expenditures	3.9%	7.2%	6.0%
Nursing care facilities and continuing care retirement communities	4.7%	3.2%	6.6%
Prescription drug expenditures	12.5%	7.8%	4.3%
Durable medical equipment expenditures	4.9%	2.4%	6.0%
Nondurable medical products expenditures	3.4%	2.7%	5.5%
Administration and net cost of health insurance expenditures	12.9%	7.4%	5.1%
Public health activity	3.8%	5.6%	4.8%
Research	-1.5%	1.7%	2.6%
Structures and equipment	2.5%	4.8%	3.9%
National health spending minus GDP	0.8%	2.5%	**
National health spending minus PGDP	2.4%	2.7%	**

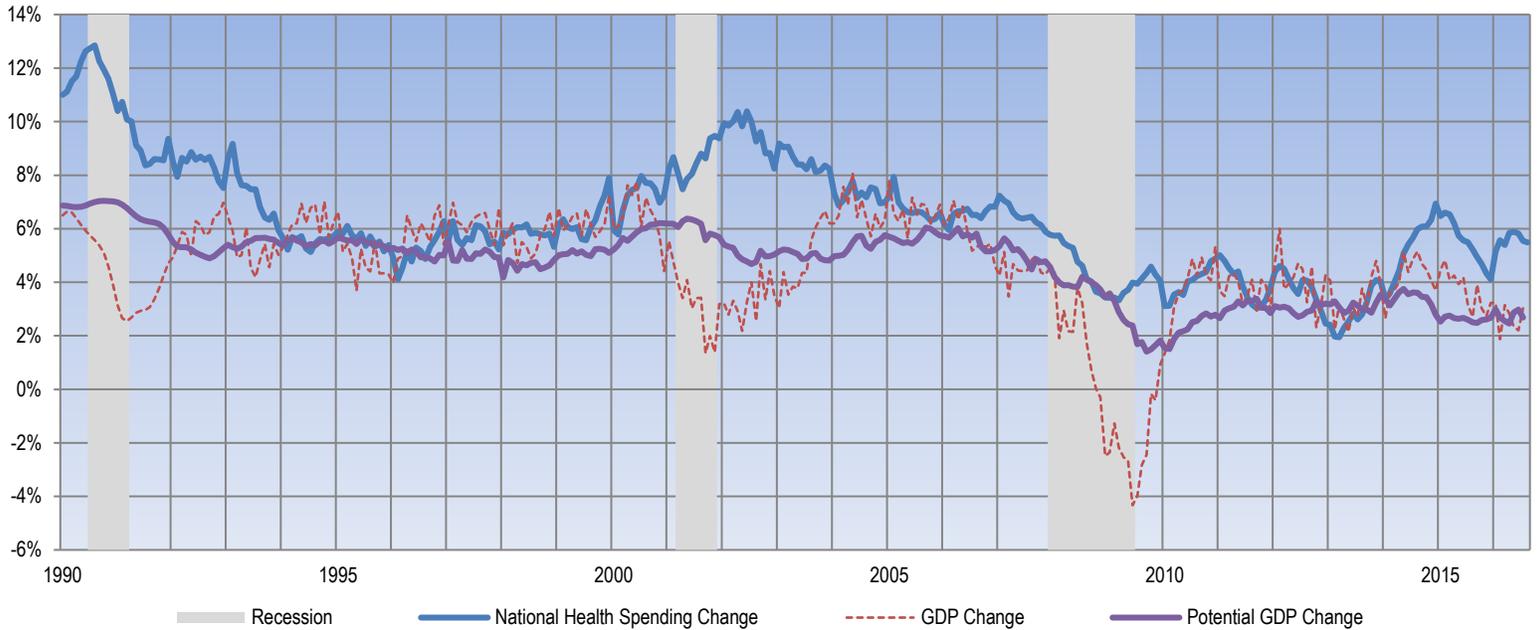
Source: Computed from Exhibit 5.

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

\*\* Data are not yet available.

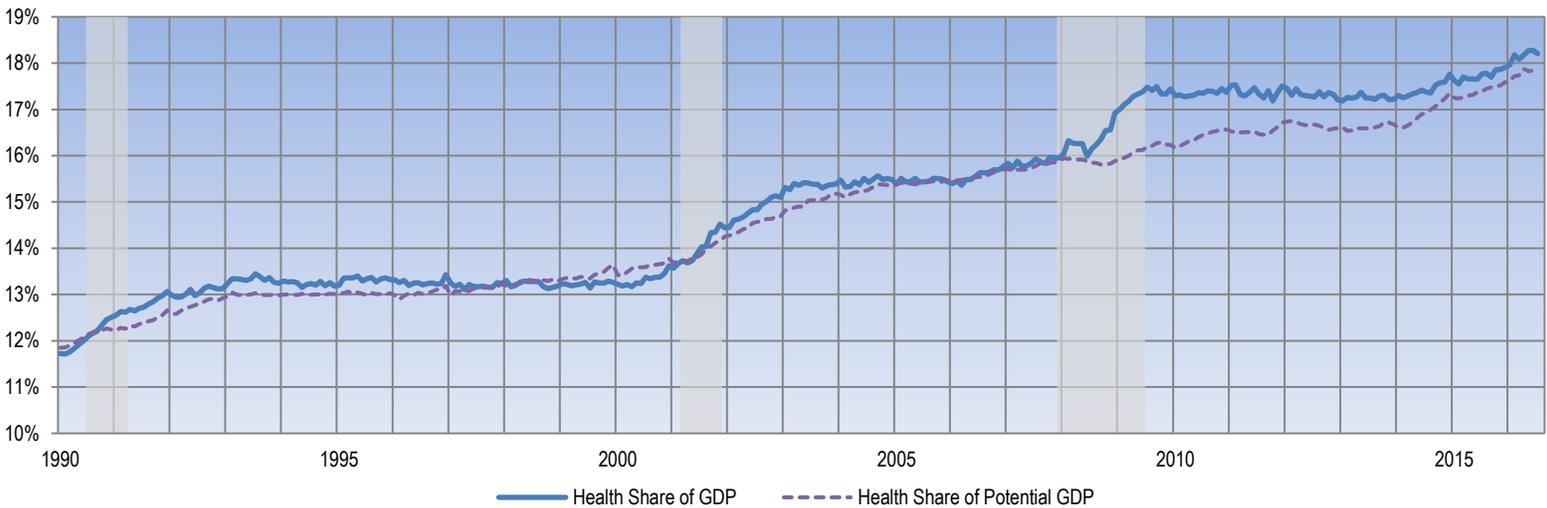
**TIME SERIES TRACKER**

**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 (1990–2014) 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 2015 are based on NHEA actuals (through 2014), and projections (for 2015), and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2015 ratios are used to adjust BEA spending for months in 2016.