

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

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

September 9, 2016

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### SPENDING BRIEF

## Moderate 2016 health spending growth continues a slow downward trend

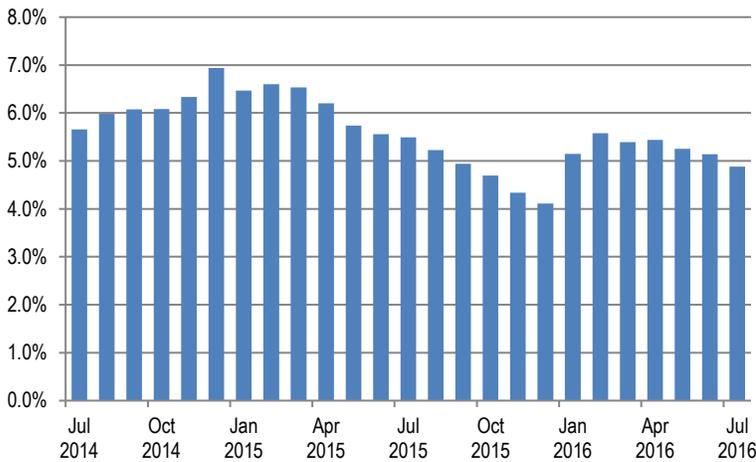
### HIGHLIGHTS

- ▲ At \$3.36 trillion (seasonally adjusted annual rate) national health spending<sup>1</sup> in July 2016 was 4.9% higher than health spending in June 2015.
- ▲ The June 2016 nominal gross domestic product (GDP) growth over a 12-month period was 1.9%. (July data are not yet available.)
- ▲ The health spending share of GDP was 18.2% in June, equal to its May value, the all-time high for this series.
- ▲ The health spending share of potential GDP (PGDP) was 17.7% in June and is gradually approaching the health spending share of GDP as the economy approaches full employment.<sup>2</sup>
- ▲ Spending in July 2016, year over year, increased in all major categories. Home health care grew the fastest, at 7.3%. Nursing home care grew at a 3.2% rate, the slowest among the major categories.

### HEALTH SPENDING

In July 2016, health spending held steady at a seasonally adjusted annual rate (SAAR) of \$3.36 trillion, equal its June value. June's health spending accounted for 18.2% of GDP, equal to the May value. (July data are not yet available.) As a share of PGDP, June's spending was at 17.7%, also equal to its May reading. Year over year, health spending in July grew by 4.9%, down from 5.1% in June (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\*

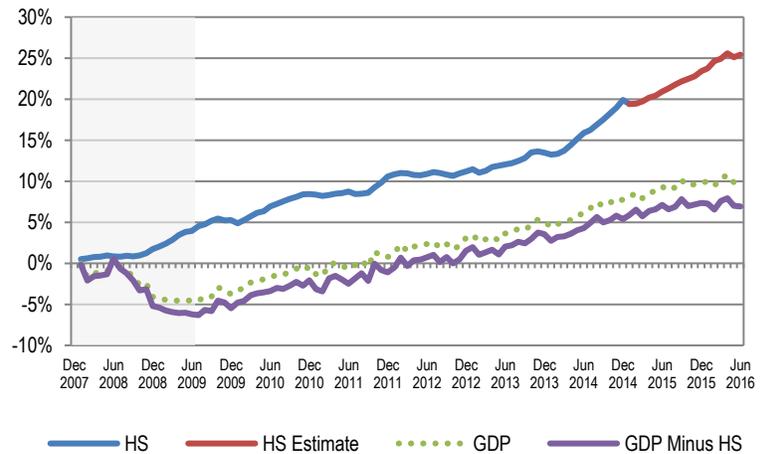
	Jul 2014	Jul 2015	Jun 2016	Jul 2016
<b>GDP</b>	17.50	18.05	18.44	**
<b>National Health Spending</b>	3.04	3.21	3.36	3.36
<b>Health Spending Share of GDP</b>	17.4%	17.8%	18.2%	**
<b>Health Spending Share of PGDP</b>	16.9%	17.4%	17.7%	**
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	5.7%	5.5%	5.1%	4.9%
<b>GDP</b>	4.9%	3.2%	1.9%	**
<b>Health Spending Minus GDP</b>	0.8%	2.3%	3.2%	**
<b>Health Spending Minus PGDP</b>	2.0%	2.9%	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 June 2016 has increased by 25.4% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.9% above its December 2007 level. Including health care, real GDP in June was 10.0% above its pre-recession level (Exhibit 2).

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



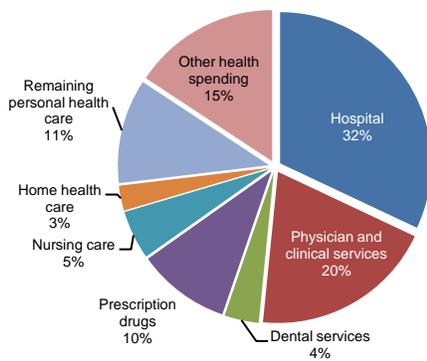
Source: "Health spending" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

**HEALTH CARE SPENDING BY CATEGORY**

In July 2016:

- ▲ Hospital spending was \$1.07 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$673 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$338 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$262 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.

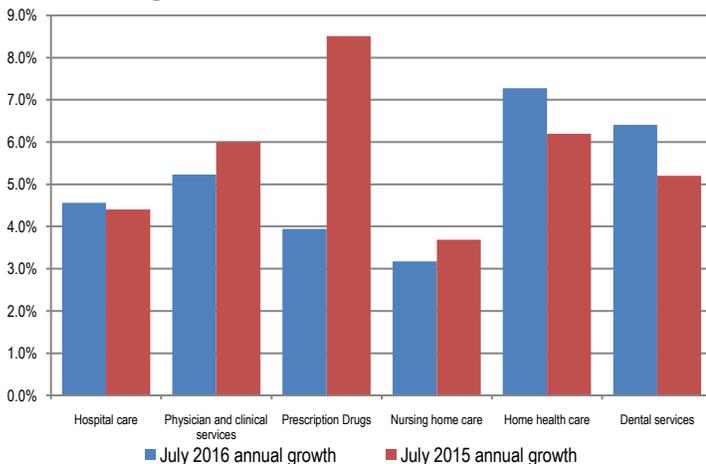
**Exhibit 3. Health Spending by Category, July 2016**



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

**Growth over the past 12 months:** Home health care grew most rapidly among the major categories at 7.3%, while dental services grew by 6.4%. Nursing home care grew the slowest among major categories, at 3.2%. For the preceding 12-month period ending July 2015, prescription drugs showed the highest growth among the major categories, at 8.5% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

**DISCUSSION**

National health spending growth in July continued its gradual downward trend over the past six months, declining from 5.6% (year over year) in February to a July growth rate of 4.9%. On July 13, CMS published its annual projections of national health expenditures.<sup>3</sup> These projections suggest that national health spending will grow in 2016 by 4.8%. Although our July growth rate of 4.9% is approaching this value, the higher rates earlier in the year mean that growth in the remaining 5 months of the year will have to average 4.1% to reach the CMS projection, which seems unlikely. Furthermore, as noted below, our estimates for the most recent months are preliminary and will likely be revised upward in future spending briefs.

At 18.2%, the health spending share of GDP remains at an all-time high, though it has hovered between 18.1% and 18.2% since February 2016. Whether this apparent leveling off continues will depend in part on whether GDP growth improves in future months.

These results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on August 29. (Our estimates for 2015 and earlier are based on the official estimates and projections of National Health Expenditures that are updated annually by CMS.) The BEA data for the most recent four months are preliminary and will be revised next month, when BEA incorporates data from the U.S. Census Bureau’s Quarterly Services Survey (QSS) for the second quarter, which was released on September 8. The QSS data indicate that spending on health care services grew 6.9% from the second quarter of 2015 to the second quarter of 2016. In comparison, this spending brief incorporates an estimate of 5.3% growth in services spending over the same period, suggesting that there will be upward revisions to our services data in next month’s brief.

<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> Keehan, S.P. et al (2016). National health expenditure projections, 2015-2025: economy, prices, and aging expected to shape spending and enrollment. *Health Affairs* 35(8). Available at <http://content.healthaffairs.org/content/early/2016/07/12/hlthaff.2016.0459>.

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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)	Jul 2013	Jul 2014	Jul 2015	Jul 2016
GDP	\$16,686.0	\$17,496.7	\$18,049.7	**
National health spending	\$2,877.3	\$3,040.1	\$3,207.1	\$3,363.7
Personal health care	\$2,439.2	\$2,570.8	\$2,708.9	\$2,842.6
Hospital expenditures	\$930.4	\$976.9	\$1,019.9	\$1,066.4
Physician and clinical expenditures	\$576.2	\$603.3	\$639.5	\$673.0
Other professional services expenditures	\$79.8	\$85.1	\$89.6	\$96.2
Dental services expenditures	\$112.0	\$113.3	\$119.2	\$126.8
Other health, residential, and personal care expenditures	\$144.8	\$150.5	\$158.5	\$166.3
Home health care expenditures	\$80.2	\$83.1	\$88.3	\$94.7
Nursing care facilities and continuing care retirement communities	\$149.3	\$155.9	\$161.7	\$166.8
Prescription drug expenditures	\$266.0	\$299.3	\$324.8	\$337.6
Durable medical equipment expenditures	\$45.0	\$46.1	\$48.3	\$52.0
Nondurable medical products expenditures	\$55.7	\$57.1	\$59.2	\$62.9
Administration and net cost of health insurance expenditures	\$209.3	\$236.5	\$254.9	\$268.3
Public health activity	\$76.4	\$79.1	\$83.5	\$87.5
Research	\$46.3	\$45.5	\$46.2	\$47.4
Structures and equipment	\$106.0	\$108.3	\$113.6	\$117.9
National health spending share of GDP	17.2%	17.4%	17.8%	**
National health spending share of PGDP	16.6%	16.9%	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	Jul 2014	Jul 2015	Jul 2016
GDP	4.9%	3.2%	**
National health spending	5.7%	5.5%	4.9%
Personal health care	5.4%	5.4%	4.9%
Hospital expenditures	5.0%	4.4%	4.6%
Physician and clinical expenditures	4.7%	6.0%	5.2%
Other professional services expenditures	6.7%	5.2%	7.4%
Dental services expenditures	1.2%	5.2%	6.4%
Other health, residential, and personal care expenditures	4.0%	5.3%	4.9%
Home health care expenditures	3.7%	6.2%	7.3%
Nursing care facilities and continuing care retirement communities	4.4%	3.7%	3.2%
Prescription drug expenditures	12.5%	8.5%	3.9%
Durable medical equipment expenditures	2.6%	4.8%	7.5%
Nondurable medical products expenditures	2.5%	3.7%	6.2%
Administration and net cost of health insurance expenditures	13.0%	7.8%	5.2%
Public health activity	3.4%	5.6%	4.8%
Research	-1.8%	1.6%	2.5%
Structures and equipment	2.2%	4.8%	3.9%
National health spending minus GDP	0.8%	2.3%	**
National health spending minus PGDP	2.0%	2.9%	**

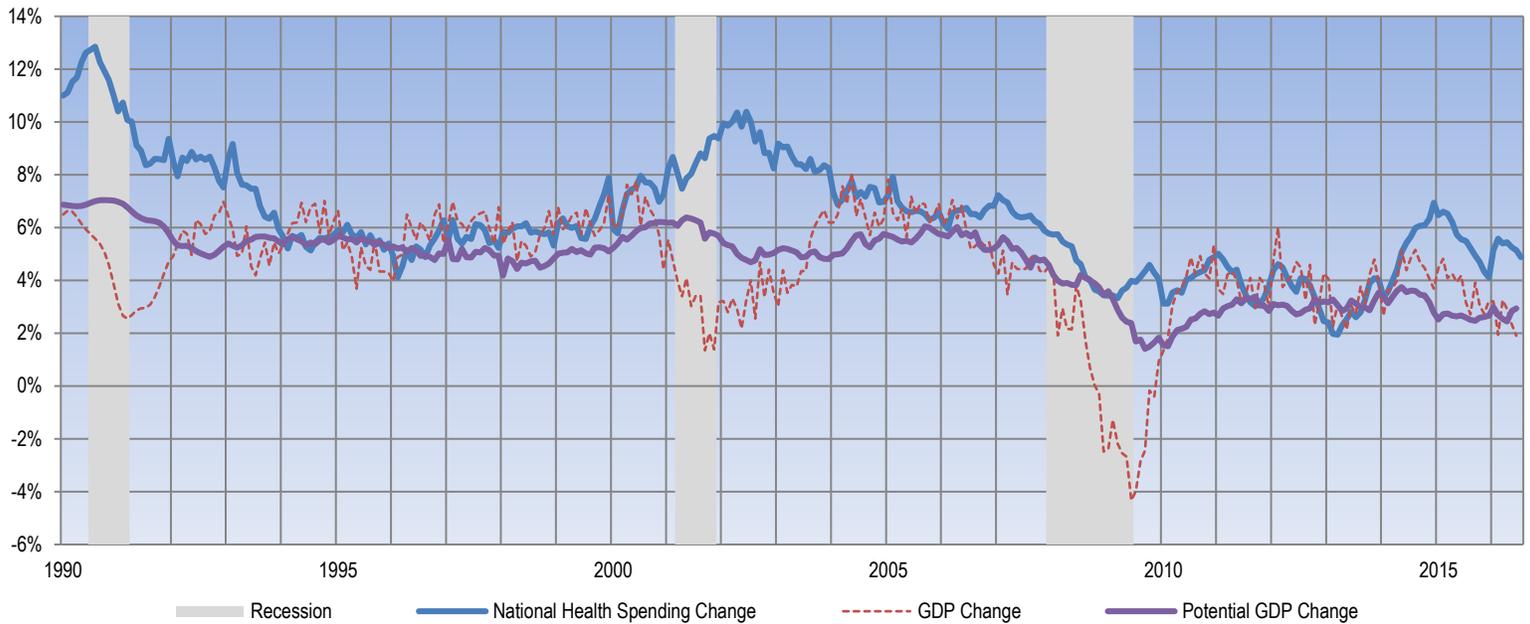
Source: Computed from Exhibit 5.

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

\*\* Data are not yet available.

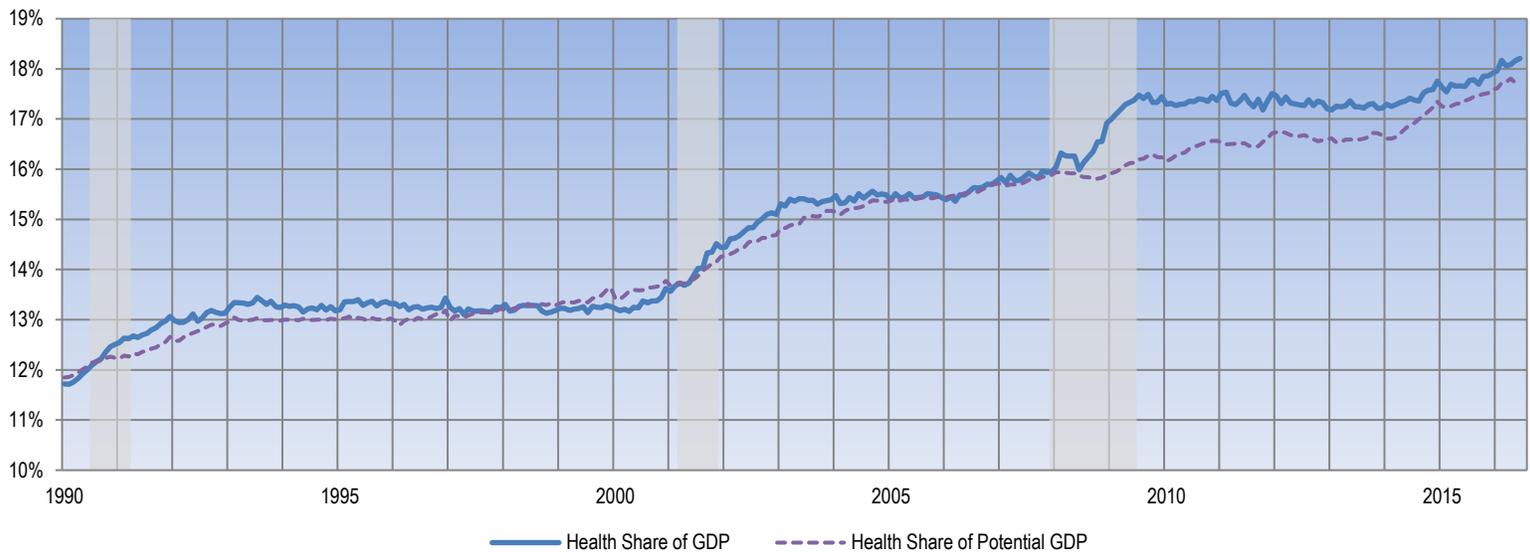
TIME SERIES TRACKER

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.