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

Insights from Monthly National Health Spending Data through August 2014

October 9, 2014



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# **SPENDING BRIEF**

# Acceleration in health spending through August remains modest

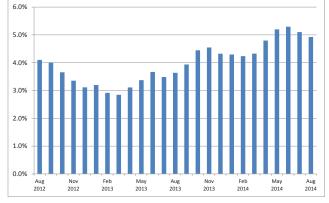
#### **HIGHLIGHTS**

- ▲ National health spending¹ in August 2014 grew 4.9% over August 2013.
- ▲ The July gross domestic product (GDP) growth over a twelvemonth period was 4.3% (August GDP data are not yet available).
- ▲ The health spending share of GDP was 17.4% in July. 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, as the July 2014 health spending share of potential GDP (PGDP) was 16.7%.²
- ▲ Spending in August, year over year, increased in all major categories. Prescription drugs grew the fastest, at 10.6%.

### **HEALTH SPENDING**

In August 2014, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.05 trillion from its value of \$3.04 trillion in July. July's health spending accounted for 17.4% of GDP, which is unchanged since December 2013 (August GDP data are not yet available). As a share of PGDP, July's spending was at 16.7% – equal to its June value. Year over year, health spending in August grew by 4.9% – below the July value of 5.1% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

Exhibit 1. Year-Over-Year Growth Rates in Health Spending

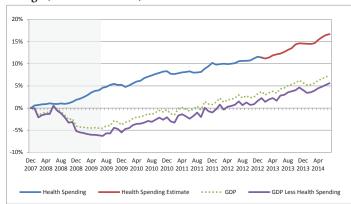


Source: Altarum monthly national health spending estimates Compares monthly health spending to the same month from the previous year

	August 2012	August 2013	July 2014	August 201
GDP	16.20	16.88	17.50	**
National Health Spending (HS)	2.81	2.91	3.04	3.05
HS Share of GDP	17.3%	17.2%	17.4%	**
HS Share of PGDP	16.4%	16.5%	16.7%	**
Growth from Prior 12 Months				
HS	4.1%	3.6%	5.1%	4.9%
GDP	3.5%	4.2%	4.3%	**
HS Minus GDP	0.6%	-0.5%	0.8%	**
HS Minus PGDP	0.8%	0.6%	1.9%	**

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through July has increased by 16.7% (an annual rate of 2.4%). During this same period, real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 5.6% above its December 2007 level. Including health care, real GDP in July is 7.4% 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; monthly GDP is from Macroeconomic Advisers and Altarum estimates.

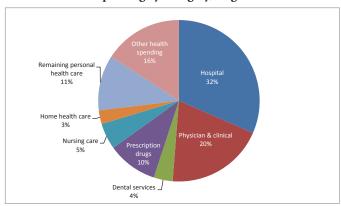
Note: Shading indicates recession period

#### **HEALTH SPENDING BY CATEGORY**

### In August 2014:

- ▲ Hospital spending was \$962 billion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$601 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$307 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$245 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).

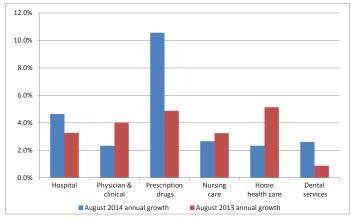
Exhibit 3. Health Spending by Category, August 2014



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

**Growth over the past 12 months:** Prescription drugs grew most rapidly among the major categories (10.6%). Physician and clinical services and home health care grew the slowest among major categories, both by 2.3%. For the 12-month period ending August 2013, home health care showed the highest growth among the major categories, at 5.1%, while dental spending rose the least, by 0.9% (Exhibits 4 and 6).

Exhibit 4. Health Spending by Category, August 2014



Source: Altarum monthly national health spending estimates

#### DISCUSSION

This month's spending estimates, which are developed in part from the latest personal income and outlay data from the U.S. Bureau of Economic Analysis (BEA), reflect BEA's incorporation of results from the Census Bureau's Quarterly Services Survey (QSS) that was released on September 11. (BEA's preliminary data are routinely revised each quarter when QSS results become available.) This caused an upward revision of our estimate of overall second quarter health spending growth from 4.5% to 5.1%, year-over-year. Year-to-date growth through August is now estimated at 4.8%, year-over-year, but with no evidence of acceleration in the most recent months. This is an increase from 3.6% growth observed for the entire year of 2013, and is partly driven by double-digit growth in prescription drug spending over the past 6 months.

Recently released projections of health spending from the Centers for Medicare and Medicaid Services (CMS) predict 5.6% growth for all of 2014.<sup>3</sup> This forecasted increase from the 3.6% growth observed in 2013 is attributed largely to expanded insurance coverage under the Affordable Care Act, with some of the increase also associated with the improving economy. Given our preliminary estimate of 4.8% growth through August, spending in the final 4 months of the year would have to exceed 7% to reach 5.6% for the year. This seems unlikely, given the relatively modest growth observed in the most recent months. Thus, while we are observing some acceleration in spending in 2014, it is lower than anticipated. Our recent New England Journal of Medicine Perspective<sup>4</sup> considers possible reasons for this somewhat surprising trend.

- 1 Altarum's monthly estimates of national health spending are intended to approximate the official National Health Expenditure Accounts (NHEA) produced annually by the Center for Medicare and Medicaid Services (CMS). Our estimates match NHEA values that are currently available through 2012 and match NHEA forecast values for 2013; official values for 2013 will be released by CMS in December 2014.
- 2 For further discussion of PGDP, see our blog at <a href="http://altarum.org/health-policy-blog/the-case-for-tracking-health-spending-as-a-share-of-potential-gdp">http://altarum.org/health-policy-blog/the-case-for-tracking-health-spending-as-a-share-of-potential-gdp</a>.
- 3 Sisko A et al. (2014). National Health Expenditure Projections, 2013-23: Faster Growth Expected with Expanded Coverage and Improving Economy. *Health Affairs* 33(10), October. Available at: <a href="http://content.healthaffairs.org/content/early/2014/08/27/hlthaff.2014.0560">http://content.healthaffairs.org/content/early/2014/08/27/hlthaff.2014.0560</a>.
- 4 Roehrig C (2014). National Health Spending in 2014 Acceleration Delayed. New England Journal of Medicine 371(15). Published online October 8, 2014. Available at: http://www.nejm.org/toc/nejm/medical-journal.

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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 Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact Charles Roehrig, PhD, at 734-302-4600 or <a href="mailto:charles.roehrig@altarum.org">charles.roehrig@altarum.org</a>. George Miller, PhD (principal author), Paul Hughes-Cromwick, Ani Turner, and Matt Daly, PhD, contributed to this brief.

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## **DETAILED HEALTH SPENDING**

Exhibit 5. Monthly National Health Spending Estimates by Detailed Category

Levels (in \$Billions)	August 2011	August 2012	August 2013	August 2014
GDP	\$15,659.8	\$16,204.7	\$16,881.6	**
National health spending	\$2,695.2	\$2,805.7	\$2,907.8	\$3,050.9
Personal health care	\$2,272.4	\$2,371.4	\$2,459.5	\$2,568.9
Hospital expenditures	\$833.2	\$890.3	\$919.4	\$962.1
Physician and clinical expenditures	\$542.7	\$564.7	\$587.5	\$601.2
Other professional services expenditures	\$73.5	\$76.3	\$80.2	\$83.1
Dental services expenditures	\$107.6	\$111.9	\$112.9	\$115.8
Other health, residential, and personal care expenditures	\$132.8	\$139.1	\$146.6	\$154.0
Home health care expenditures  Nursing care facilities and continuing care retirement	\$74.2	\$78.3	\$82.3	\$84.2
communities	\$151.6	\$151.3	\$156.2	\$160.3
Prescription drug expenditures	\$263.9	\$264.3	\$277.2	\$306.5
Durable medical equipment expenditures	\$39.6	\$41.3	\$42.3	\$44.4
Nondurable medical products expenditures Government administration and net cost of health insurance	\$53.3	\$54.0	\$55.0	\$57.2
expenditures	\$191.0	\$198.9	\$211.2	\$236.3
Public health activity	\$72.9	\$75.4	\$77.4	\$81.7
Research	\$49.6	\$47.9	\$47.0	\$47.2
Structures and equipment expenditures	\$109.3	\$112.1	\$112.6	\$116.8
National health spending share of GDP	17.2%	17.3%	17.2%	**
National health spending share of PGDP	16.2%	16.4%	16.5%	**

Source: Altarum monthly national health spending estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates Note: Spending in billions of dollars, seasonally adjusted annual rate (SAAR)

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

Levels	August 2012	August 2013	August 2014
GDP	3.5%	4.2%	**
National health spending	4.1%	3.6%	4.9%
Personal health care	4.4%	3.7%	4.4%
Hospital expenditures	6.9%	3.3%	4.6%
Physician and clinical expenditures	4.1%	4.0%	2.3%
Other professional services expenditures	3.8%	5.1%	3.7%
Dental services expenditures	4.1%	0.9%	2.6%
Other health, residential, and personal care expenditures	4.7%	5.4%	5.1%
Home health care expenditures  Nursing care facilities and continuing care retirement	5.4%	5.1%	2.3%
communities	-0.2%	3.2%	2.7%
Prescription drug expenditures	0.2%	4.9%	10.6%
Durable medical equipment expenditures	4.1%	2.5%	5.0%
Nondurable medical products expenditures Government administration and net cost of health insurance	1.3%	2.0%	4.0%
expenditures	4.1%	6.2%	11.9%
Public health activity	3.4%	2.7%	5.5%
Research	-3.4%	-1.8%	0.3%
Structures and equipment expenditures	2.6%	0.4%	3.7%
National health spending share of GDP	0.6%	-0.5%	**
National health spending share of PGDP	0.8%	0.6%	**

Source: Computed from Exhibit 5

Note: Compares monthly national health spending to the same month from the previous year

<sup>\*\*</sup>Data not yet available

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#### TIME SERIES TRACKER

Exhibit 7. Year-Over-Year Percentage Change in Health 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. Potential GDP 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) Bureau of Economic Analysis (BEA) monthly health spending (http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1) and (2) Centers for Medicare & Medicaid Services annual National Health Expenditure (NHE) estimates (1990–2012) and projections (2013 and 2014); https://www.cms.gov/NationalHealthExpendData/). BEA spending categories are matched to NHE account (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 NHEA and in GDP. Survey of Current Business. 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 2012 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2013 ratios from the latest NHE projections are used to adjust BEA spending for months in 2013 and 2014.