

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data through January 2015

March 6, 2015

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SPENDING BRIEF

Latest data provide further evidence of recent health spending acceleration

HIGHLIGHTS

- ▲ Current estimates indicate that national health spending¹ grew by 5.0% in 2014.
- ▲ National health spending in January 2015 was 5.7% higher than health spending in January 2014.
- ▲ The December 2014 gross domestic product (GDP) growth over a 12-month period was 3.1% (January 2015 GDP data are not yet available).
- ▲ The health spending share of GDP was 17.9% in December. 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 December 2014 health spending share of potential GDP (PGDP) was 17.2%.²
- ▲ Spending in January 2015, year over year, increased in all major categories. Prescription drugs grew the fastest by far, by 11.6%.

National health spending and gross domestic product (GDP)*

	January 2013	January 2014	December 2014	January 2015
GDP	16.52	16.99	17.62	**
National Health Spending (HS)	2.86	2.99	3.15	3.16
HS Share of GDP	17.3%	17.6%	17.9%	**
HS Share of PGDP	16.5%	16.7%	17.2%	**
Growth from Prior 12 Months				
HS	3.5%	4.3%	5.5%	5.7%
GDP	4.1%	2.9%	3.1%	**
HS Minus GDP	-0.6%	1.4%	2.4%	**
HS Minus PGDP	0.1%	1.1%	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 trillions of dollars, seasonally adjusted annual rate.

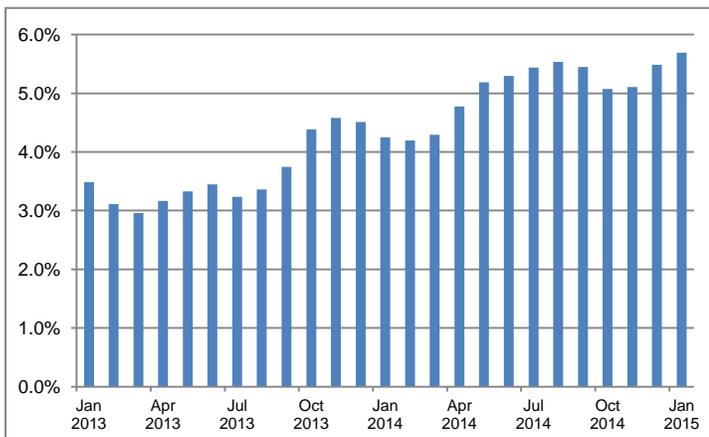
** Data not yet available.

HEALTH SPENDING

In January 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.16 trillion from its value of \$3.15 trillion in December 2014. December's health spending accounted for 17.9% of GDP (January GDP data are not yet available). As a share of PGDP, December's spending was at 17.2%, 0.1% above the November value. Year over year, health spending in January grew by 5.7%, a higher rate than the December value of 5.5% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

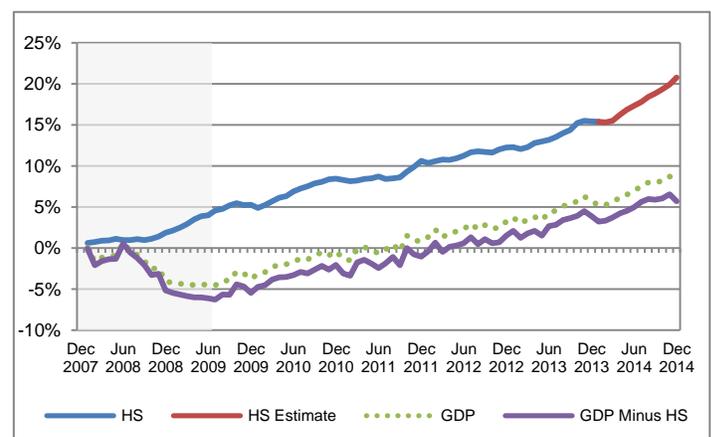
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through January 2015 has increased by 20.7% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 5.7% above its December 2007 level. Including health care, real GDP in December 2014 was 8.1% 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.

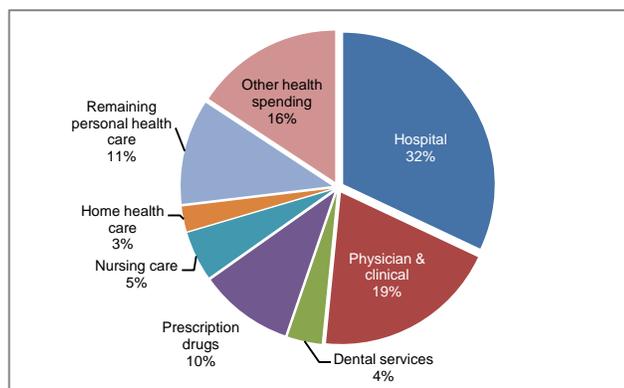
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In January 2015:

- ▲ Hospital spending was \$1.01 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$613 billion, representing 19% of total health spending.
- ▲ Prescription drug spending was \$317 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$251 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.

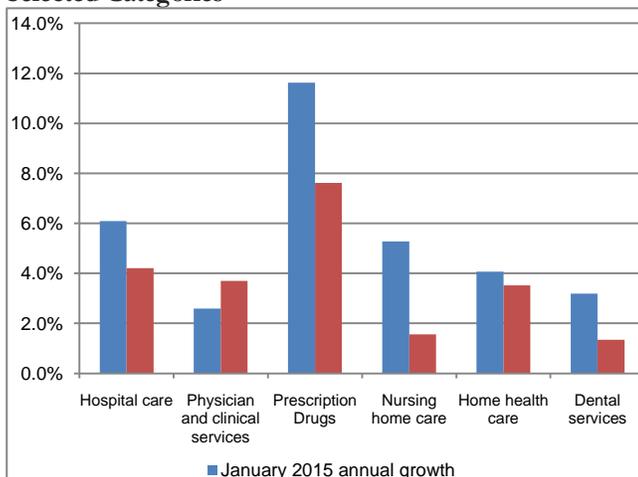
Exhibit 3. Health Spending by Category, January 2015



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 (11.6%). Physician and clinical services grew the slowest among major categories, at 2.6%. For the preceding 12-month period ending January 2014, prescription drugs again showed the highest growth among the major categories, at 7.6%, whereas dental spending 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

This month's spending brief provides a second look at spending for the entire 2014 calendar year and continues to suggest that national health spending grew by 5.0% from its 2013 level—a rate higher than the historically low 2013 growth rate of 3.6%. This acceleration in spending appears to have continued through January 2015, for which we estimate a 5.7% growth rate, year over year. These results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on March 2.

BEA's results are preliminary and will be revised at the end of March to incorporate data from the Census Bureau's Quarterly Services Survey (QSS) for the fourth quarter of 2014, which was released on March 11. While the latest QSS results are not included in this month's spending brief, our initial review of them suggests that their incorporation is likely to cause only a small increase in our estimated growth in spending for 2014. For example, the latest QSS numbers indicate that spending on health services—which is roughly comparable to our physician services, dental services, other professional services, hospital care, and nursing home and home health care spending categories combined—grew by 3.9% in 2014—close to the 3.8% growth rate that we currently show for the aggregate of these spending categories. (The overall QSS growth rate of 3.8% masks a pattern of growth in the QSS values through the year that indicates acceleration in services spending from 2.1% growth in the first quarter to 5.4% in the fourth quarter, reinforcing the evidence that spending growth is increasing.)

The difference between our estimated 3.8% growth in services in 2014 and the 5.0% growth in overall health spending for the year is driven largely by high growth in spending for prescription drugs (9.0% for 2014) and administration and net cost of private insurance (11.1%). This latter value is very preliminary and could be revised downward later this year. Such a downward revision, however, would not alter the overall observation that health spending has begun to accelerate.

¹ 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.

² 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>.

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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*SM 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 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. For more information, visit www.altarum.org/cshs.

DETAILED HEALTH SPENDING

Exhibit 5. Monthly National Health Spending Estimates by Detailed Category

Levels (in billions of dollars)	January 2012	January 2013	January 2014	January 2015
GDP	\$15,868.5	\$16,517.1	\$16,994.5	**
National health spending	\$2,767.4	\$2,863.9	\$2,985.6	\$3,155.5
Personal health care	\$2,335.4	\$2,421.1	\$2,519.4	\$2,658.9
Hospital expenditures	\$881.6	\$915.6	\$954.1	\$1,012.3
Physician and clinical expenditures	\$554.3	\$575.9	\$597.2	\$612.7
Other professional services expenditures	\$74.2	\$78.7	\$82.0	\$85.5
Dental services expenditures	\$108.5	\$110.8	\$112.3	\$115.9
Other health, residential, and personal care expenditures	\$136.1	\$144.7	\$152.3	\$160.3
Home health care expenditures	\$74.5	\$78.7	\$81.4	\$84.8
Nursing care facilities and continuing care retirement communities	\$150.6	\$155.1	\$157.5	\$165.9
Prescription drug expenditures	\$262.0	\$263.8	\$283.9	\$317.0
Durable medical equipment expenditures	\$40.6	\$42.5	\$42.5	\$45.9
Nondurable medical products expenditures	\$53.0	\$55.3	\$56.1	\$58.9
Administration and net cost of health insurance expenditures	\$196.4	\$203.5	\$222.7	\$245.3
Public health activity	\$74.0	\$75.0	\$77.1	\$81.2
Research	\$48.7	\$47.1	\$46.8	\$46.2
Structures and equipment	\$112.9	\$117.3	\$119.5	\$123.9
National health spending share of GDP	17.4%	17.3%	17.6%	**
National health spending share of PGDP	16.5%	16.5%	16.7%	**

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 not yet available.

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

Growth Rates	January 2013	January 2014	January 2015
GDP	4.1%	2.9%	**
National health spending	3.5%	4.3%	5.7%
Personal health care	3.7%	4.1%	5.5%
Hospital expenditures	3.9%	4.2%	6.1%
Physician and clinical expenditures	3.9%	3.7%	2.6%
Other professional services expenditures	6.1%	4.2%	4.2%
Dental services expenditures	2.1%	1.3%	3.2%
Other health, residential, and personal care expenditures	6.3%	5.2%	5.2%
Home health care expenditures	5.5%	3.5%	4.1%
Nursing care facilities and continuing care retirement communities	3.0%	1.6%	5.3%
Prescription drug expenditures	0.7%	7.6%	11.6%
Durable medical equipment expenditures	4.6%	0.2%	7.9%
Nondurable medical products expenditures	4.4%	1.4%	5.1%
Administration and net cost of health insurance expenditures	3.6%	9.5%	10.1%
Public health activity	1.3%	2.9%	5.3%
Research	-3.4%	-0.5%	-1.2%
Structures and equipment	3.8%	2.0%	3.6%
National health spending minus GDP	-0.6%	1.4%	**
National health spending minus PGDP	0.1%	1.1%	**

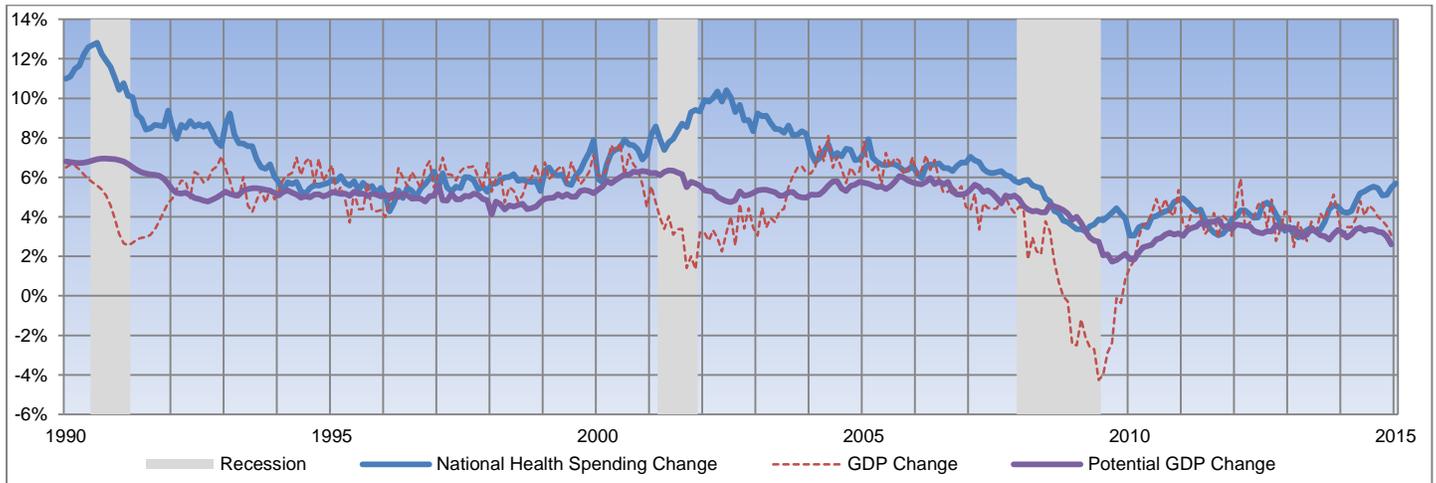
Source: Computed from Exhibit 5.

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

** Data not yet available.

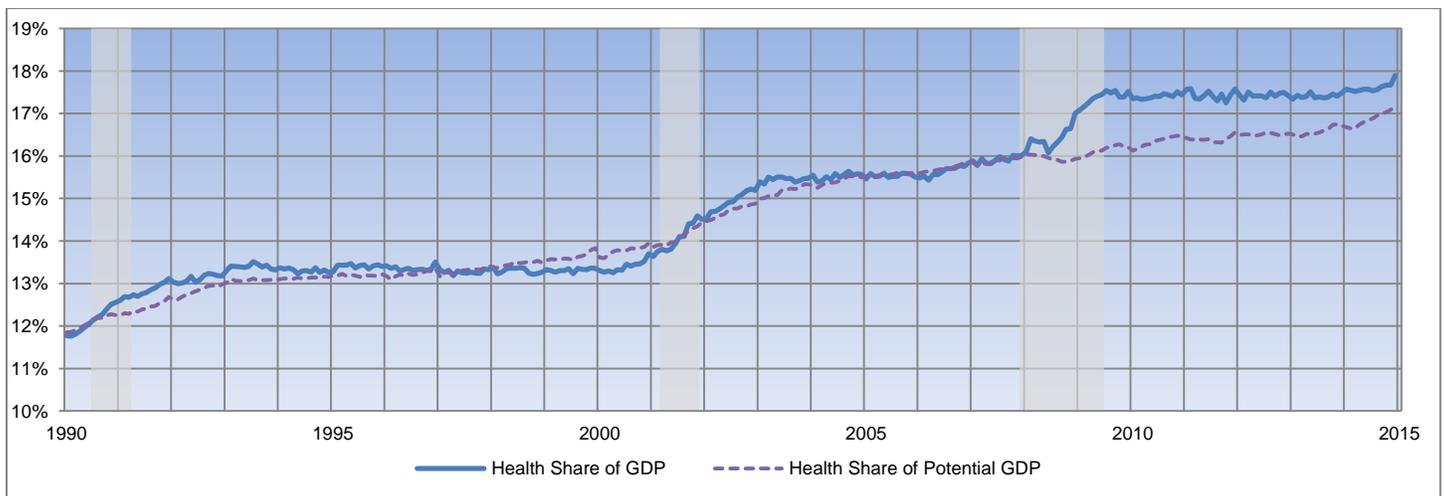
TIME SERIES TRACKER

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 National Health Expenditure (NHE) estimates (1990–2013) and projections (2014) (<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*. 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.