

June 12, 2020

Pandemic spurs massive declines in health spending

HIGHLIGHTS

- ▲ At \$2.88 trillion (seasonally adjusted annual rate), national health spending in April 2020 was 24.3% lower than in April 2019.
- ▲ The April 2020 nominal gross domestic product (GDP) was 13.7% lower than in April 2019, and the resulting health-spending share of GDP was 15.7%, and 13.2% of PGDP.
- ▲ Spending in April 2020, year over year, declined in all major categories except prescription drugs and nursing home care. Spending on nursing home care grew the fastest, at 6.3%. The greatest decline was in spending on dental services, at 60.8%.

National Health Spending and GDP

	Apr 2018	Apr 2019	Mar 2020	Apr 2020
GDP	20.41	21.28	20.81	18.36
National Health Spending (HS)	3.61	3.80	3.57	2.88
HS Share of GDP	17.7%	17.9%	17.1%	15.7%
HS Share of PGDP	17.8%	18.0%	16.3%	13.2%
Growth from Prior 12 Months				
HS	4.9%	5.2%	-5.8%	-24.3%
GDP	6.3%	4.3%	-1.4%	-13.7%
HS minus GDP	-1.3%	1.0%	-4.5%	-10.5%
HS minus PGDP	0.6%	1.3%	-9.6%	-27.2%

Source: Altarum monthly health spending estimates (see Methods box below). 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

Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among vulnerable and publicly insured populations. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. This work was made possible through generous support from the Robert Wood Johnson Foundation.

The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Paul Hughes-Cromwick, at 202-776-5110 or paul.hughes-cromwick@altarum.org. George Miller, PhD (principal author), Paul Hughes-Cromwick, Ani Turner, Corwin Rhyon, and Matt Daly, PhD, contributed to this brief. Media Contact Sarah Litton, 202-772-5062. press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.



DISCUSSION

The COVID-19 pandemic continued to have a major impact on health spending in April 2020. National health spending in April was 24.3% lower than in April 2019 (Exhibit 2). While March 2020 exhibited the only previous occurrence in our historical time series (which goes back to 1989) of a monthly decline from the previous year, the April reading dwarfs the March value.

Spending reductions for most of the major components are even larger (Exhibit 4). The two largest categories, hospital spending and physician and clinical services spending, fell by 40.7% and 40.9%, respectively, while dental services declined by 60.8%, year over year. As in

March, spending declined in all major personal health care categories except nursing home care and prescription drugs, which rose 6.3% and 5.1% year over year, respectively. Interestingly, the prescription drug rate is down from 14.0% in March, when patients may have been stocking up over concerns such as stay-at-home orders.

The health-spending share of GDP fell to 15.7% in April. This compares to 17.1% in March and a mostly steady trend near 18% over the past four years, meaning that health care spending is falling faster than the overall economy.

From these April spending data:

- National health spending is at its lowest point since July 2013; in just two months, we have gone from a seasonally adjusted annual rate of \$3.98 trillion to \$2.88 trillion.
- Personal health care is the lowest since February 2011.
- Hospital care spending was last lower in December 2008.
- Physician and clinical services is the lowest since November 2006.
- Dental services spending is at its lowest since July 1998.

With the start of reopening of the US economy in May, we anticipate a modest reversal of these declines in spending.

Exhibit 1. Health Spending by Category, April 2020

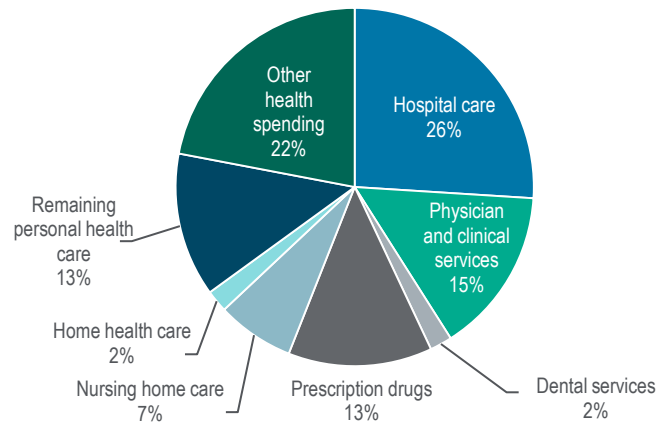
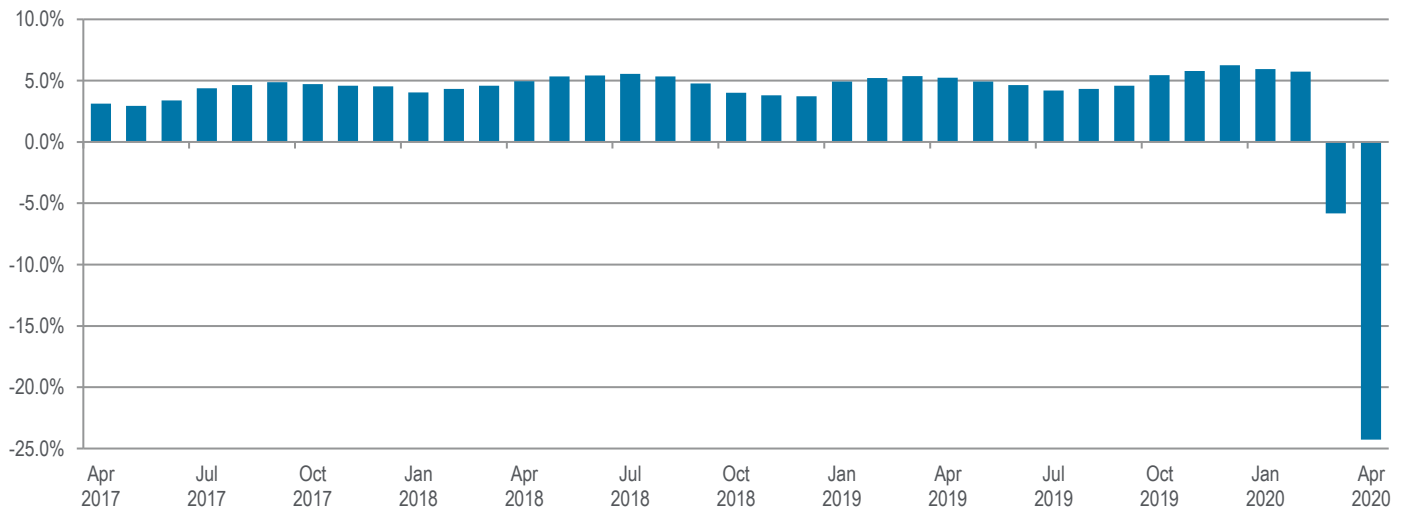


Exhibit 2. Year-over-Year Growth Rates in National Health Spending





DETAILED HEALTH SPENDING

Exhibit 3. Monthly National Spending Estimates by Detailed Category

Levels (in billions of dollars)	Apr 2017	Apr 2018	Apr 2019	Apr 2020
GDP	\$19,203.7	\$20,407.7	\$21,281.0	\$18,360.9
National Health Spending	\$3,441.5	\$3,611.8	\$3,801.3	\$2,878.9
Personal health care	\$2,917.5	\$3,042.9	\$3,213.9	\$2,247.6
Hospital care	\$1,124.5	\$1,181.0	\$1,257.7	\$746.0
Physician and clinical services	\$689.2	\$717.3	\$748.1	\$442.2
Other professional services	\$95.3	\$103.2	\$108.6	\$54.2
Dental services	\$128.4	\$134.1	\$137.5	\$54.0
Other personal health care	\$181.3	\$190.0	\$198.0	\$207.9
Home health care	\$96.3	\$100.5	\$104.6	\$69.9
Nursing home care	\$162.2	\$165.9	\$177.9	\$189.1
Prescription Drugs	\$325.0	\$330.7	\$355.0	\$373.2
Durable medical equipment	\$52.0	\$54.4	\$57.5	\$45.6
Nondurable medical products	\$63.4	\$65.7	\$69.0	\$65.5
Program administration and net cost of private health insurance	\$266.7	\$302.6	\$312.2	\$344.2
Government public health activities	\$90.9	\$93.0	\$95.9	\$98.3
Research	\$49.5	\$52.0	\$54.8	\$58.1
Structures and equipment	\$116.8	\$121.4	\$124.6	\$130.6
HS Share of GDP	17.9%	17.7%	17.9%	15.7%
HS Share of PGDP	17.6%	17.8%	18.0%	13.2%

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.

Exhibit 4. National Health Spending 12-Month Growth Rates by Detailed Category

Growth Rates	Apr 2018	Apr 2019	Apr 2020
GDP	6.3%	4.3%	-13.7%
National Health Spending	4.9%	5.2%	-24.3%
Personal health care	4.3%	5.6%	-30.1%
Hospital care	5.0%	6.5%	-40.7%
Physician and clinical services	4.1%	4.3%	-40.9%
Other professional services	8.2%	5.3%	-50.1%
Dental services	4.5%	2.5%	-60.8%
Other personal health care	4.8%	4.2%	5.0%
Home health care	4.4%	4.1%	-33.2%
Nursing home care	2.3%	7.2%	6.3%
Prescription Drugs	1.8%	7.3%	5.1%
Durable medical equipment	4.7%	5.6%	-20.6%
Nondurable medical products	3.6%	5.1%	-5.1%
Program administration and net cost of private health insurance	13.4%	3.2%	10.2%
Government public health activities	2.3%	3.1%	2.6%
Research	5.1%	5.4%	6.0%
Structures and equipment	3.9%	2.7%	4.9%
HS Minus GDP	-1.3%	1.0%	-10.5%
HS Minus PGDP	0.6%	1.3%	-27.2%

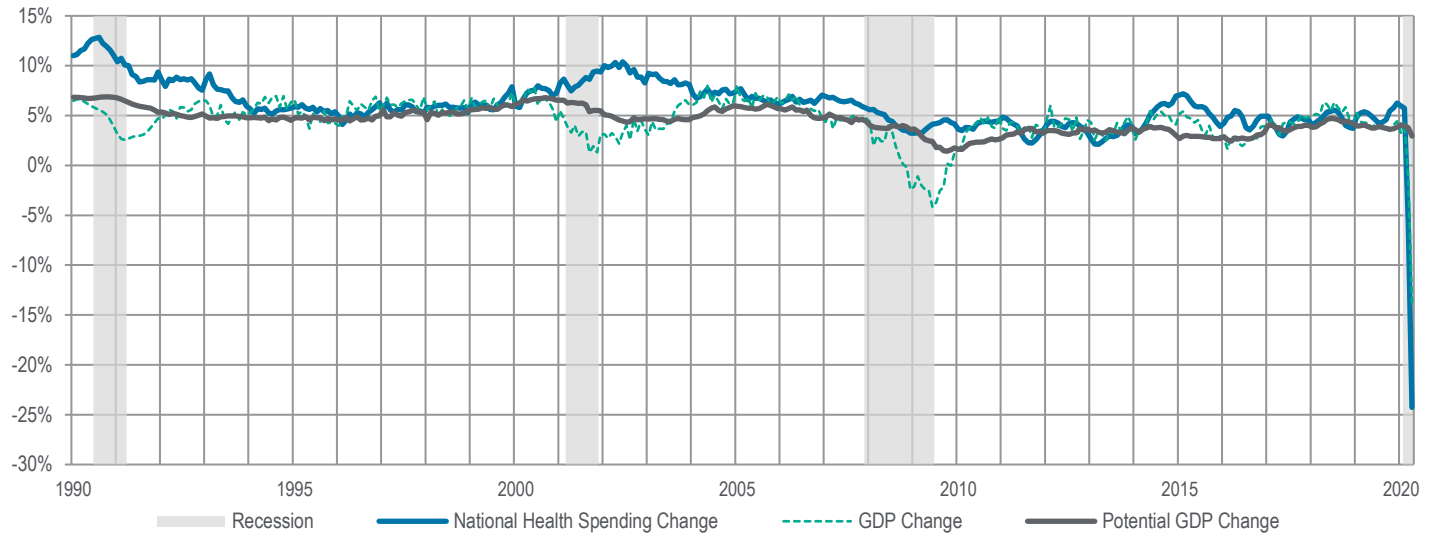
Source: Computed from Exhibit 3.

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



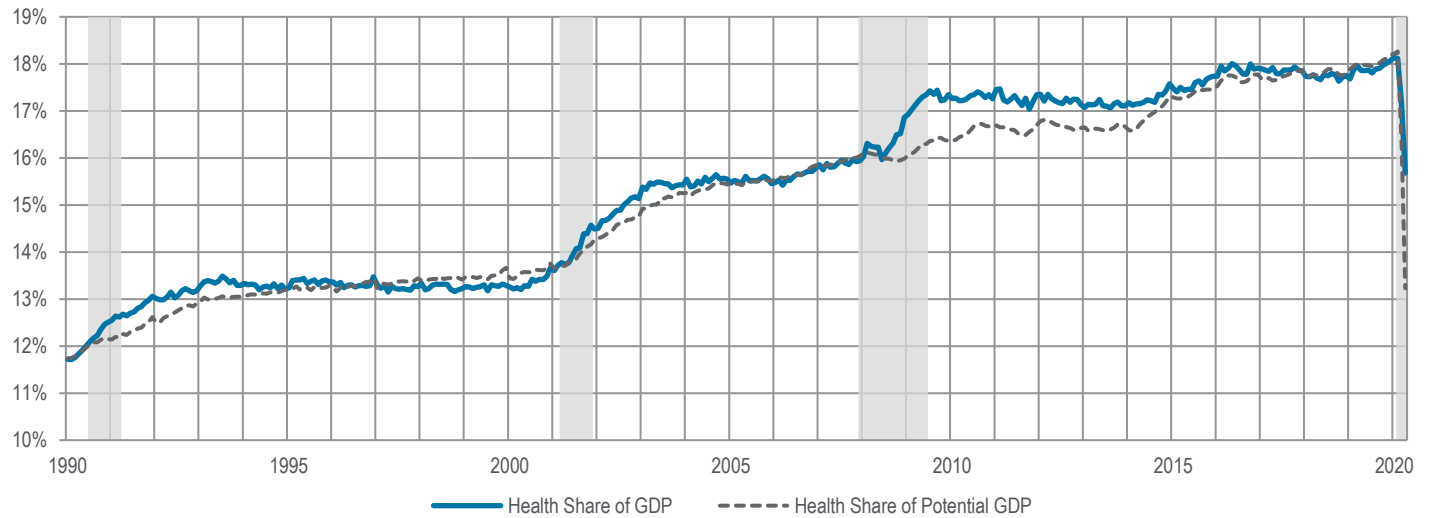
TIME SERIES TRACKER

Exhibit 5. 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 6. 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](#) and [CMS annual NHE estimates \(1990–2018\) and projections \(2019\)](#). 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 2018 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2018 ratios are used to adjust BEA spending for months in 2019 and 2020.