

## Altarum Institute Center for Sustainable Health Spending Health Sector Trend Report

February 2016

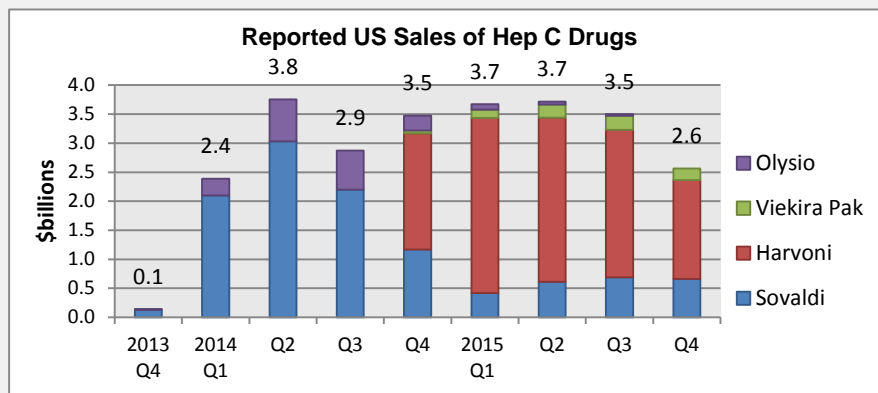
This report provides a monthly summary of key trends in U.S. health care spending, prices, utilization, and employment. The reports build on Altarum's [Health Sector Economic Indicators<sup>SM</sup> briefs \(HSEI\)](#) and make direct use of the U.S. Census Bureau's [Quarterly Services Survey \(QSS\)](#), the timeliest source of detailed, survey-based spending information for health care services, which account for more than 70% of national health spending. When new QSS data are released (in March, June, September, and December), an expanded version of this report is published with a more detailed analysis of health care services trends. The next expanded report, covering the fourth quarter (Q4) of 2015, will be produced in March. Interim reports highlight noteworthy health sector trends and early indications of results for the next quarter. In this February 2016 report, spending estimates are available through December 2015 while prices and labor are available through January.

**Preliminary estimates put health spending growth at 5.2% in Q4 and 5.9% for 2015 overall. A more precise Q4 estimate will be provided in next month's report, reflecting QSS data released on March 10.**

- This Q4 estimate is based on Altarum's monthly HSEI data showing annual growth rates of 5.4%, 5.2%, and 4.9% for October, November, and December of 2015, respectively. Growth in 2015 peaked at 6.8% in February and has declined steadily since then.
- This downward trend is heavily influenced by the growth rate in hospital spending, which peaked at 7.9% in February and has fallen steadily to 3.9% in December.
- It will be interesting to see whether the QSS confirms the Q4 portion of the slowdown in hospital spending, given continued strong growth in the latest hospital employment data (see next page).

**Prescription drug spending growth remains high at 8.3% in Q4 but has been on a downward trend that appears to be continuing. Monthly data for 2015 show that growth dropped from 11.7% in January to 6.6% in December.**

- Slowing growth in prescription drug prices explains much of the downward trend in prescription drug spending. Price growth fell from 5.6% in January to 2.4% in December.
- Another source of slower spending growth for prescription drugs is the decline in spending on the new hepatitis C drugs. As shown in the chart below, company sales of these drugs in Q4 2015 were about \$1 billion less than in each of four preceding quarters.



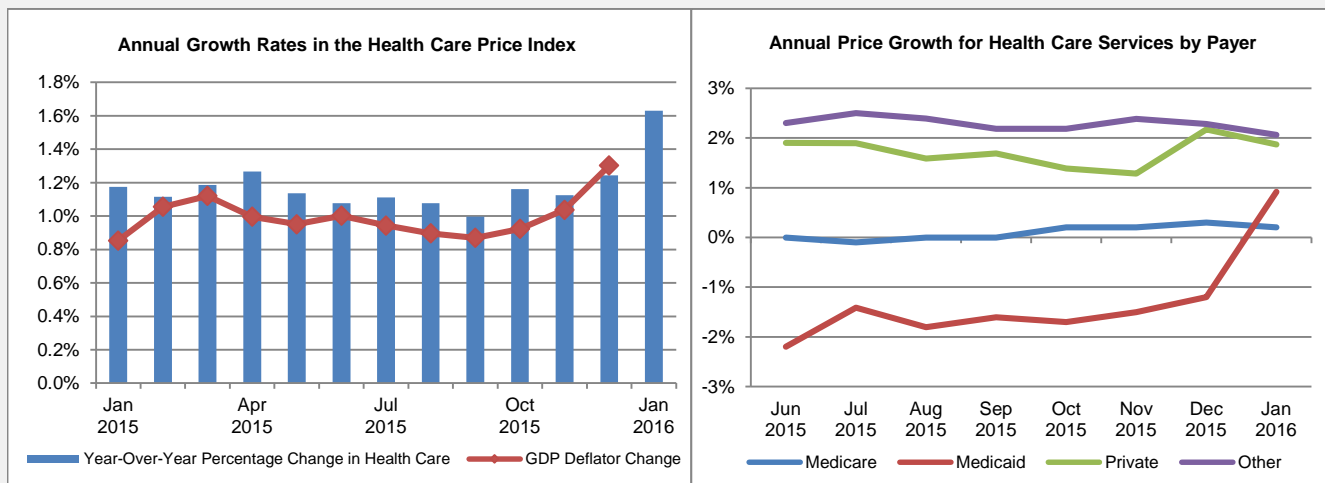
Source: Altarum Center for Sustainable Health Spending (CSHS), computed from company reports.

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**Health care price growth crept up to 1.6% in January 2016 (see the chart on the left below), still low by historical standards but above the 1.1% average for 2015.**

- While it is clearly premature to declare an end to the historically slow growth in health care prices experienced in 2015, there are reasons to expect this uptick to persist.
  - First, physician price growth in 2015 was actually negative (-1.0%) due to the end of the enhanced Medicaid primary payments under the Patient Protection and Affordable Care Act. For January 2016, the rate jumped to 1.3%, as this effect had run its course. The chart on the right below shows all-service price growth by payer. Altarum separately analyzed physician and hospital price growth by payer and determined that Medicaid physician prices were the main factor driving these results.
  - Second, as shown on the left below, economy-wide price inflation has been moving upward in the past few months.
- Prescription drug price growth, on the other hand, has been on a downward trend that could well continue into 2016.



**Health services job growth continues to be strong, with hospitals leading the way.**

- The health sector has added more than half a million jobs since January 2015, 40% of them in hospitals. Physician offices and home health also continue to show steady growth.
- Altarum has been anticipating a slowdown in job growth as the impacts of expanded coverage on health care utilization and on provider revenues begin to level off. We did see a decline in the number of new hospital jobs being added each month in the last half of 2015. However, January 2016 data, while preliminary, show little sign of a slowdown; hospitals added nearly 24,000 jobs, growing at 3.9% year over year, the largest monthly increase and the largest rate of growth since our data series began in 1990.
- Job Openings and Labor Turnover Survey data for “health care and social assistance” show a job openings rate above 5%, the highest that it has been in more than a decade—another indicator that the expected slowdown in health care hiring may not be imminent.