

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

May 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 first quarter (Q1) of 2016, will be produced in June. Interim reports highlight noteworthy health sector trends and early indications of results for the next quarter. In this May 2016 report, spending estimates are available through March 2016 while prices and labor are available through April.

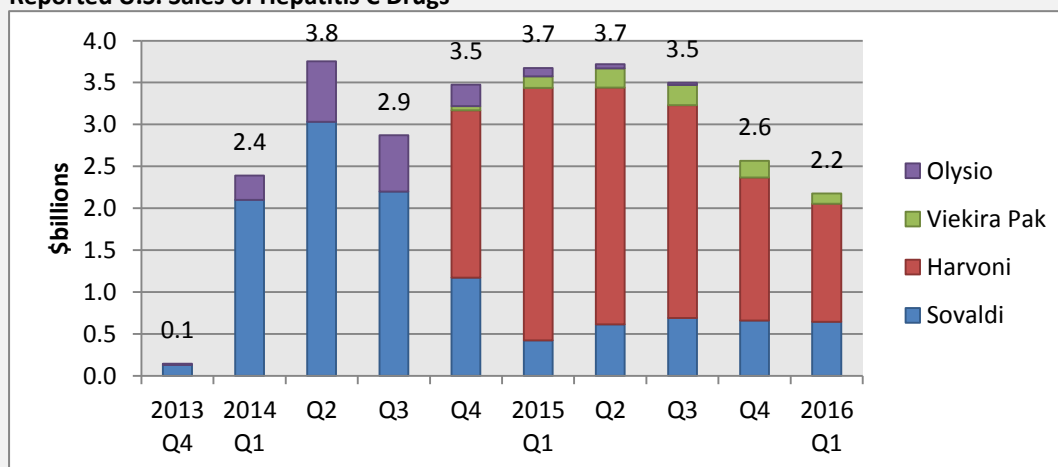
**Preliminary estimates put health spending growth at 4.7% for the first quarter (Q1) of 2016. A more precise Q1 estimate will be provided in next month's report, reflecting QSS data released on June 8<sup>th</sup>.**

- The 4.7% growth rate in health spending estimated for Q1 2016 is well below the 5.8% rate estimated for 2015. This slowdown began in Q4 2015 with 4.9% growth.
- Spending on the health care services component grew by an estimated 4.3% in Q1 2016. It is this component that will be updated with the June QSS release. Continued strong job growth in the healthcare services sector (see next page) raises the odds of an upward revision to the current estimate of spending growth.

**Spending on prescription drugs grew by 7.1% in Q1 2016, much lower than the 9.5% growth for 2015, but still high.**

- Much of the slowdown in spending on prescription drugs can be attributed to slowing sales of the new class of hepatitis C drugs whose introduction pushed spending up dramatically beginning in 2014.
- Company-reported U.S. sales of hepatitis C drugs totaled \$13.5 billion in 2015, but were only \$2.2 billion in Q1 2016 (see chart), an annual rate of \$8.8 billion. Thus, 2016 is on pace for a \$4.7 billion dollar reduction in spending, which would reduce overall prescription drug spending by about 1.5%.

**Reported U.S. Sales of Hepatitis C Drugs**



Source: Altarum Center for Sustainable Health Spending

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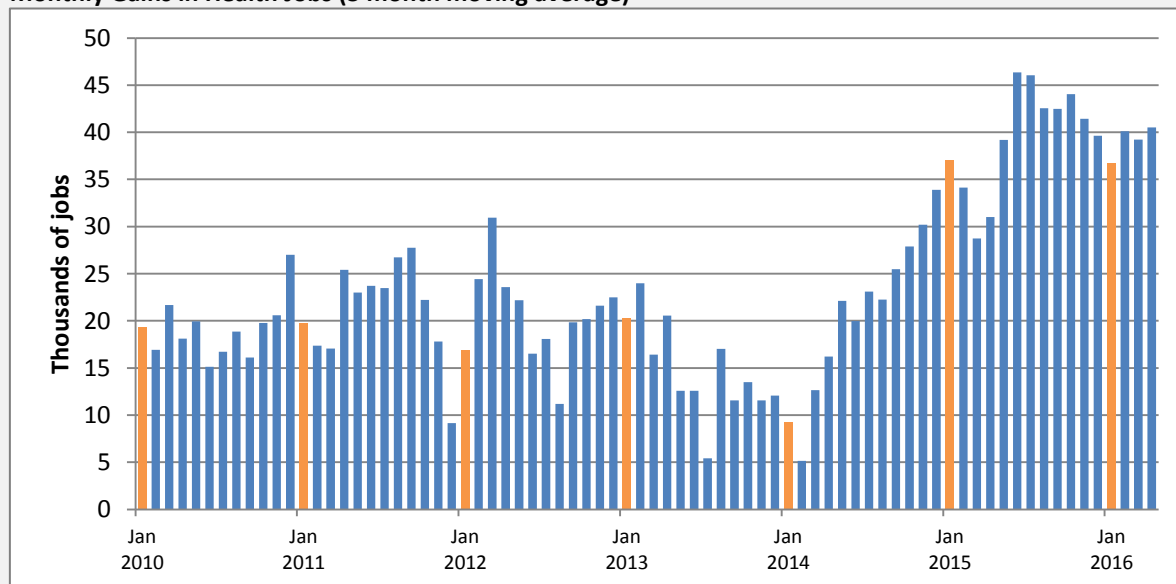
**Health care prices grew at an annual rate of 1.6% in Q1 2016, up from 1.1% growth in 2015, with the increase led by the services component.**

- Price growth for the services component was 1.3% in Q1 2016, compared to only 0.7% growth in 2015. The slow price growth in 2015 was largely due to the end of Medicaid enhanced primary care payments that year. Thus, the higher rate in Q1 2016 is essentially a return to normal.
- Public payer prices for all health care services continue to rise more slowly than private payer prices. April 2016 annual rates are 0.2%, 0.6%, and 1.7%, for Medicare, Medicaid and private, respectively.
- Prescription drug price growth slowed in Q1 to a (still high) 3.3% rate, compared to 4.6% growth in 2015 (though the rate was 4.0% for April 2016, year over year). Thus, prices have also played a role in the slowing of prescription drug spending (in addition to slower spending on hepatitis C drugs).

**Health care jobs continue strong growth despite the spending slowdown, with an average monthly gain of 40 thousand during the first four months of 2016.**

- Health care job growth began to accelerate in 2014 with the advent of ACA expanded coverage, and appears to have peaked in the middle of 2015 at over 45 thousand new jobs per month.
- Monthly growth has recently dropped back to about 40 thousand, but this is still more than twice the growth in the years leading up to expanded coverage (from 2010 through 2013, the average monthly growth was about 19 thousand).

**Monthly Gains in Health Jobs (3 month moving average)**



Source: Altarum analysis of BLS Current Employment Statistics data.

**Growth in health employment has slowed slightly from its very high rate between April and November 2015 but remains more than a percentage point above the rates experienced between 2009 and 2013.**

- The continued high growth rate in health employment runs counter to the slowing in spending on health care services (health employment data are limited to employment in health care services).
- One would expect employment growth to slow in the coming months. Otherwise, we expect future QSS data to show a higher growth rate in health services spending than we observed for Q4 2015. QSS data for Q1 2016 will be released in June.