

Health Sector Trend Report

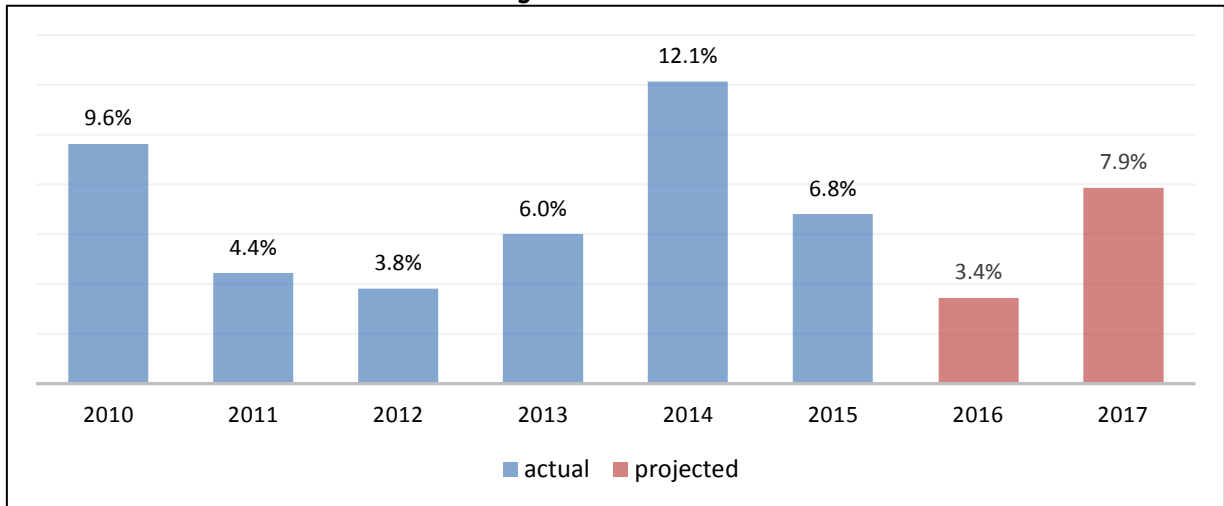
October 2017

This report provides a monthly summary of key trends in U.S. health care spending, prices, utilization, and employment, based primarily on data from Altarum's [Health Sector Economic IndicatorsSM briefs \(HSEI\)](#). Every March, June, September, and December, we issue an expanded version of the report to coincide with the incorporation of the latest U.S. Census Bureau's [Quarterly Services Survey \(QSS\)](#) into the HSEI data. In this October 2017 report, spending estimates are available through August 2017, while prices and labor are available through September 2017.

Estimates for the first 2 months of Q3 2017 (July & August) put health spending growth at 4.5%, year over year, essentially unchanged from the 4.6% growth observed in 2016 and in the first half of 2017. Estimates for all of Q3 2017 will be available next month with the release of Advance QSS data.

- ▲ Health spending growth seems to have stabilized at about 4.6%, starting in 2016 and continuing through August 2017. However, a look at individual components suggests core spending growth has slowed.
- ▲ The services component has been on a downward trend, with 4.9% growth in 2016, 4.5% growth in the first half of 2017, and 4.1% growth in July and August of 2017.
- ▲ Growth in spending on prescription drugs dropped to 3.9% in August 2017, from an average of about 5% during 2016 and through July 2017.
- ▲ Growth in spending on administration and net cost of insurance is on track to be 7.9% in 2017, compared to 3.4% in 2016 (see chart). This jump is primarily why overall health spending growth has remained steady even though core components have been trending down.¹

Administration and net cost of insurance growth rates



Source: Altarum Center for Sustainable Health Spending calculations from CMS Ten Year Projections: Feb 2017

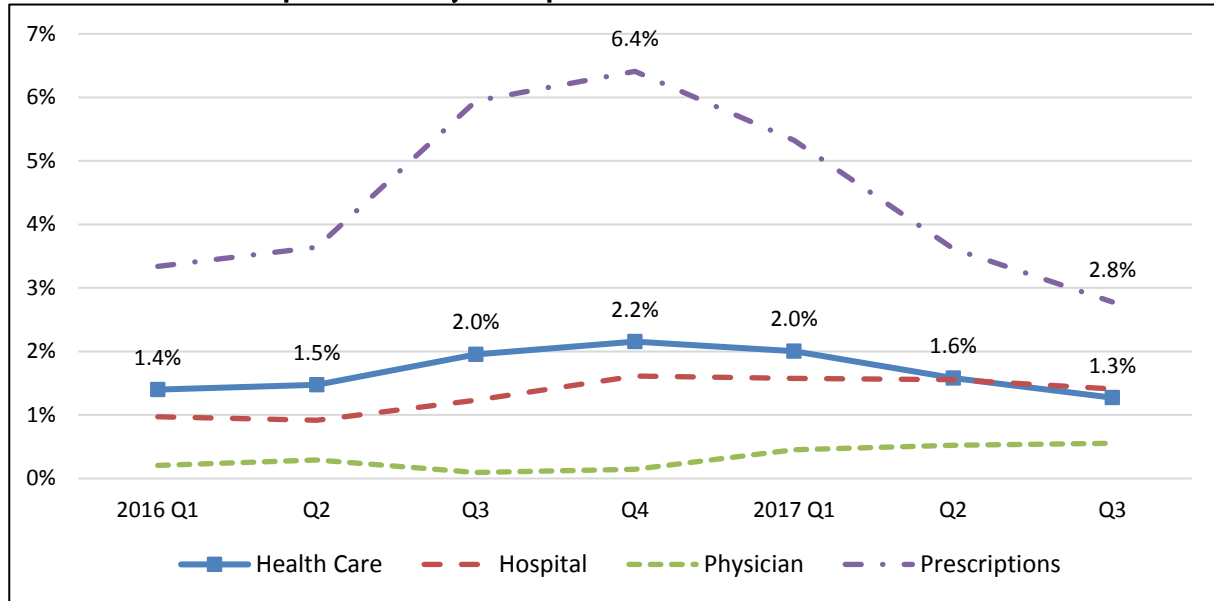
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Health care price growth drops to 1.3% in Q3 2017, down from 1.6% in Q2 and 2.0% in Q1.

- ▲ Health care price growth has fallen since a peak of 2.2% in Q4 2016.
- ▲ This is mainly due to slower growth in prescription drug prices, which fell from 6.4% in Q4 2016 to 2.8% in Q3 2017.²
- ▲ Growth in prices of physician services have trended up slightly in 2017 but remain extraordinarily low at 0.6% in Q3 2017.

Growth in health care prices and major components



Source: Altarum Center for Sustainable Health Spending

Through the end of Q3, health care has averaged 25,000 new jobs per month in 2017, compared to 32,000 per month in 2016.

- ▲ The year-over-year growth rate in health care jobs dropped to 2.0% in August 2017, the lowest rate since December 2014.
- ▲ Hospital job growth has dropped to 6,000 jobs per month through Q3 of 2017, from 10,000 per month in 2016, and accounts for over half of the slowdown in overall job growth.

¹ Administration and net cost of insurance consists primarily of the difference between what commercial insurers collect in premiums and pay out in health care costs. It also includes the government costs of administering Medicare and Medicaid. HSEI estimates for 2016 and 2017 are based upon Centers for Medicare & Medicaid Services (CMS) projections and, as such, could be subject to significant revisions in December when CMS releases 2016 actuals, and again in February 2018 when projections are updated.

² Note that the measure of prescription drug price growth, which is based upon the Bureau of Labor Statistics (BLS) prescription drug Consumer Price Index (CPI), does not take account of trends in rebates, which can impact net price growth. Price growth is overstated when rebates grow faster than overall spending and is understated when rebates grow by less than overall spending. We are currently looking into the possible development of appropriate adjustments.