

# Health Sector Economic Indicators<sup>SM</sup>

## Insights from Monthly National Health Spending Data Through February 2016

April 8, 2016

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### SPENDING BRIEF

## Health Spending Growth Remains Below 5%

### HIGHLIGHTS

- ▲ National health spending<sup>1</sup> in February 2016 was 4.8% higher than health spending in February 2015.
- ▲ The January 2016 nominal gross domestic product (GDP) growth over a 12-month period was 3.0%. (February data are not yet available.)
- ▲ The health spending share of GDP was 18.0% in January.
- ▲ The health spending share of potential GDP (PGDP) was 17.6% in January and is gradually approaching the health spending share of GDP as the economy approaches full employment.<sup>2</sup>
- ▲ Spending in February 2016, year over year, increased in all major categories. Home health care grew the fastest, by 12.2%. Hospital care grew at a 2.4% rate, the slowest among the major categories.

National Health Spending and GDP\*

	Feb 2014	Feb 2015	Jan 2016	Feb 2016
<b>GDP</b>	16.98	17.72	18.25	**
<b>National Health Spending</b>	2.95	3.15	3.28	3.30
<b>Health Spending Share of GDP</b>	17.4%	17.7%	18.0%	**
<b>Health Spending Share of PGDP</b>	16.7%	17.3%	17.6%	**
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	4.0%	6.8%	4.5%	4.8%
<b>GDP</b>	3.6%	4.4%	3.8%	**
<b>Health Spending Minus GDP</b>	0.4%	2.4%	0.7%	**
<b>Health Spending Minus PGDP</b>	1.0%	4.2%	1.5%	**

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 in trillions of dollars at a seasonally adjusted annual rate.

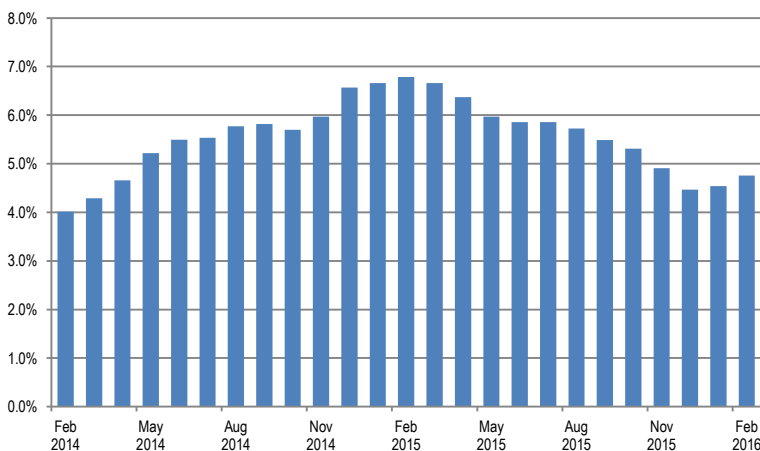
\*\* Data are not yet available.

### HEALTH SPENDING

In February 2016, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.30 trillion from its value of \$3.28 trillion in January. January's health spending accounted for 18.0% of GDP, equal to the December 2015 value. (February data are not yet available.) As a share of PGDP, January's spending was at 17.6%, also equal to its December reading. Year over year, health spending in February grew by 4.8%, up from 4.5% in January (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 December 2015 has increased by 23.7% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 7.3% above its December 2007 level. Including health care, real GDP in January was 9.9% above its pre-recession level (Exhibit 2).

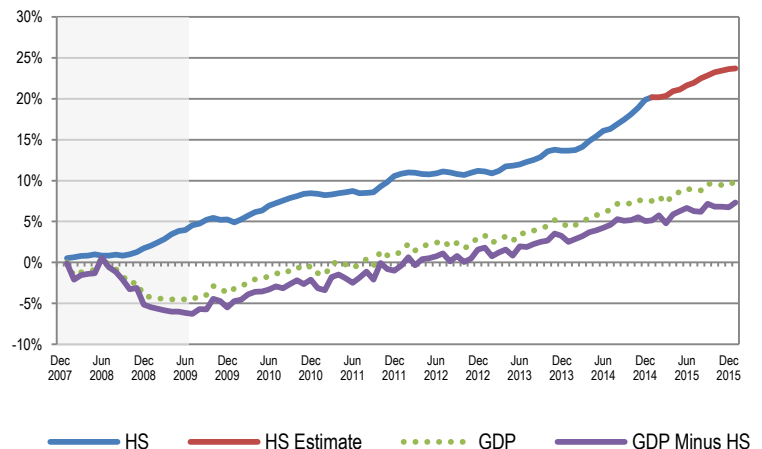
Exhibit 1. Year-over-Year Growth Rates in Health Spending



Source: Altarum monthly national health spending estimates.

Note: This exhibit 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" (HS) consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "HS estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.

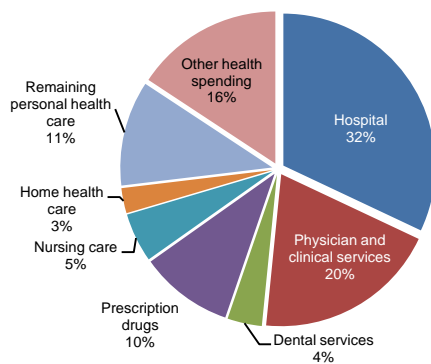
Note: Shading indicates the recession period.

## HEALTH CARE SPENDING BY CATEGORY

### In February 2016:

- ▲ Hospital spending was \$1.04 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$657 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$339 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$263 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.

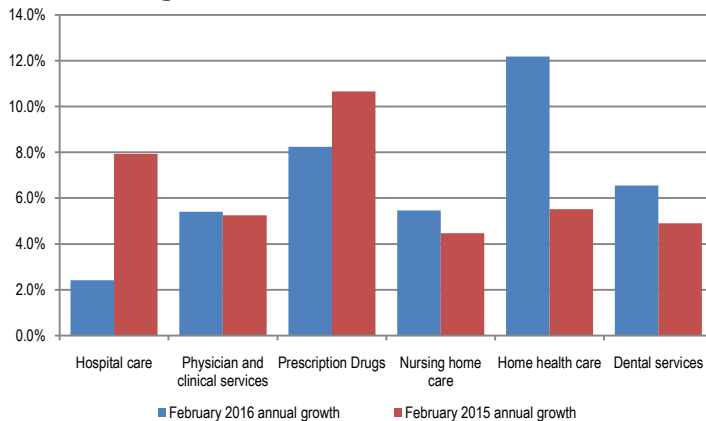
### Exhibit 3. Health Spending by Category, February 2016



Source: Altarum monthly national health spending estimates.  
 Notes: See Exhibit 5 for a complete list of spending categories. Percentages do not add to 100% due to rounding.

**Growth over the past 12 months:** Home health care grew most rapidly among the major categories (12.2%). Hospital care grew the slowest among major categories, at 2.4%. For the preceding 12-month period ending February 2015, prescription drugs showed the highest growth among the major categories, at 10.7% (Exhibits 4 and 6).

### Exhibit 4. Health Spending Year-over-Year Growth for Selected Categories



Source: Altarum monthly national health spending estimates.

## DISCUSSION

While year-over-year health spending growth of 4.8% in February is somewhat higher than the 4.5% growth observed in both December 2015 and January 2016, February is the fourth consecutive month in which it has been below 5%. The 4.5% growth rate in December and January was the lowest since March 2014. Health spending has held steady at 18.0% of GDP for the 4 consecutive months from October 2015 through January 2016. As a percentage of PGDP, health spending has remained at 17.6% for 5 consecutive months, from September 2015 through January of this year. By all of these measures, health spending growth appears to have leveled off, at least temporarily.

These results are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on March 28. BEA's results now incorporate data from the U.S. Census Bureau's Quarterly Services Survey (QSS) for the fourth quarter of 2015, which was released on March 10. With this update, we now estimate that health spending grew by 5.8% in 2015, but with a gradual decline in the rate throughout the year that led to the current sub-5% growth rate. This decline was led by hospital spending, which accounts for nearly a third of health spending and which decelerated from a growth rate of 7.9% in February 2015 to 2.4% 1 year later.

Results for January and February of this year are preliminary and will be updated in subsequent months, revealing whether the small jump in spending growth in February is real and whether the recent trend of growth below 5% is continuing.

<sup>1</sup> 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 2014.

<sup>2</sup> 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'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<sup>SM</sup>** reports are a monthly publication of 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](mailto: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, 202-772-5062, [ken.schwartz@altarum.org](mailto:ken.schwartz@altarum.org). For more information, visit <http://www.altarum.org/cshs>.

**DETAILED HEALTH SPENDING**

**Exhibit 5. Monthly National Spending Estimates by Detailed Category**

Levels (in billions of dollars)	Feb 2013	Feb 2014	Feb 2015	Feb 2016
GDP	\$16,389.1	\$16,976.9	\$17,723.8	**
National health spending	\$2,832.1	\$2,945.8	\$3,145.7	\$3,295.3
Personal health care	\$2,399.9	\$2,491.0	\$2,657.5	\$2,782.2
Hospital expenditures	\$919.3	\$939.4	\$1,013.8	\$1,038.3
Physician and clinical expenditures	\$571.0	\$592.6	\$623.8	\$657.5
Other professional services expenditures	\$78.6	\$83.0	\$87.1	\$92.2
Dental services expenditures	\$106.6	\$110.9	\$116.3	\$123.9
Other health, residential, and personal care expenditures	\$142.2	\$148.2	\$154.1	\$161.2
Home health care expenditures	\$77.6	\$81.3	\$85.8	\$96.2
Nursing care facilities and continuing care retirement communities	\$148.7	\$151.5	\$158.3	\$166.9
Prescription drug expenditures	\$255.8	\$283.0	\$313.1	\$338.9
Durable medical equipment expenditures	\$44.8	\$45.4	\$47.6	\$47.8
Nondurable medical products expenditures	\$55.4	\$55.7	\$57.6	\$59.2
Administration and net cost of health insurance expenditures	\$203.0	\$224.0	\$251.8	\$268.8
Public health activity	\$76.4	\$77.8	\$81.0	\$84.9
Research	\$47.2	\$45.6	\$45.8	\$47.5
Structures and equipment	\$105.6	\$107.4	\$109.4	\$111.8
National health spending share of GDP	17.3%	17.4%	17.7%	**
National health spending share of PGDP	16.5%	16.7%	17.3%	**

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 are not yet available.

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

Growth Rates	Feb 2014	Feb 2015	Feb 2016
GDP	3.6%	4.4%	**
National health spending	4.0%	6.8%	4.8%
Personal health care	3.8%	6.7%	4.7%
Hospital expenditures	2.2%	7.9%	2.4%
Physician and clinical expenditures	3.8%	5.3%	5.4%
Other professional services expenditures	5.6%	5.0%	5.8%
Dental services expenditures	4.1%	4.9%	6.5%
Other health, residential, and personal care expenditures	4.3%	4.0%	4.6%
Home health care expenditures	4.8%	5.5%	12.2%
Nursing care facilities and continuing care retirement communities	1.9%	4.5%	5.5%
Prescription drug expenditures	10.6%	10.7%	8.2%
Durable medical equipment expenditures	1.2%	4.9%	0.5%
Nondurable medical products expenditures	0.6%	3.3%	2.8%
Administration and net cost of health insurance expenditures	10.4%	12.4%	6.7%
Public health activity	1.7%	4.2%	4.7%
Research	-3.4%	0.6%	3.7%
Structures and equipment	1.7%	1.9%	2.2%
National health spending minus GDP	0.4%	2.4%	**
National health spending minus PGDP	1.0%	4.2%	**

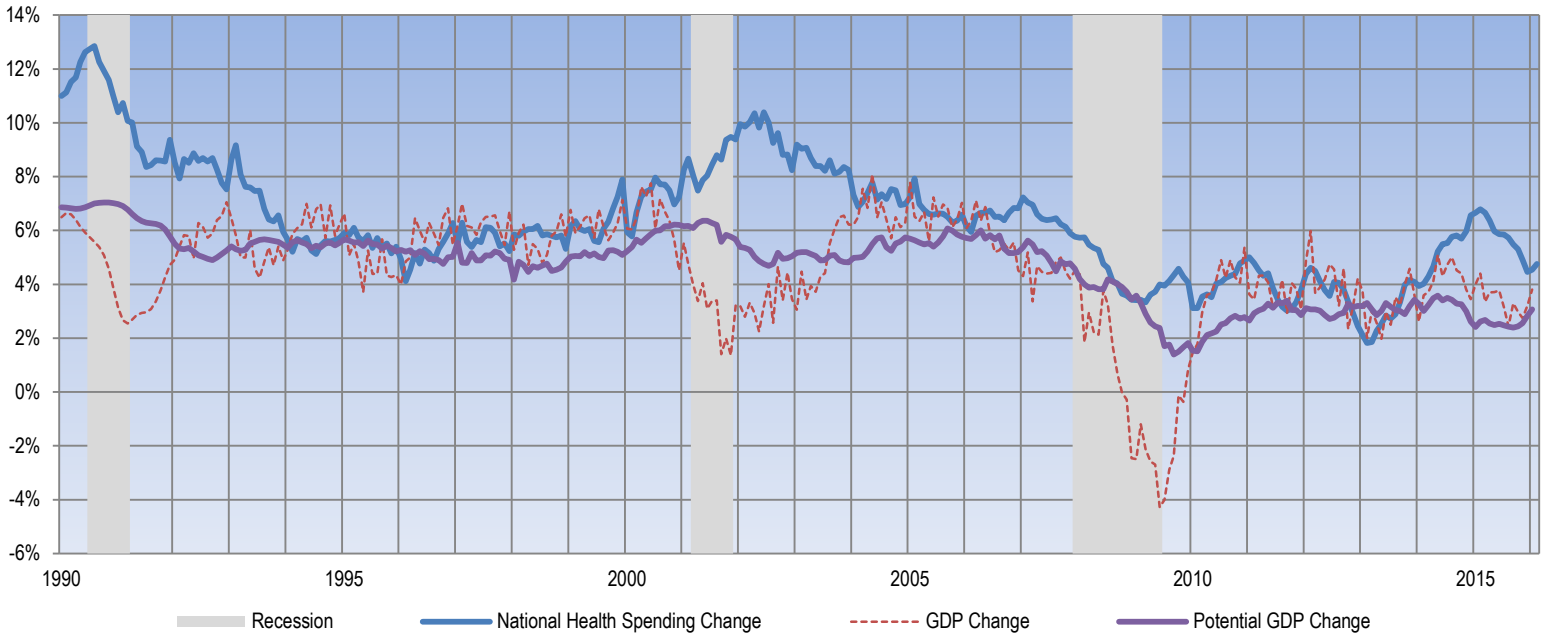
Source: Computed from Exhibit 5.

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

\*\* Data are not yet available.

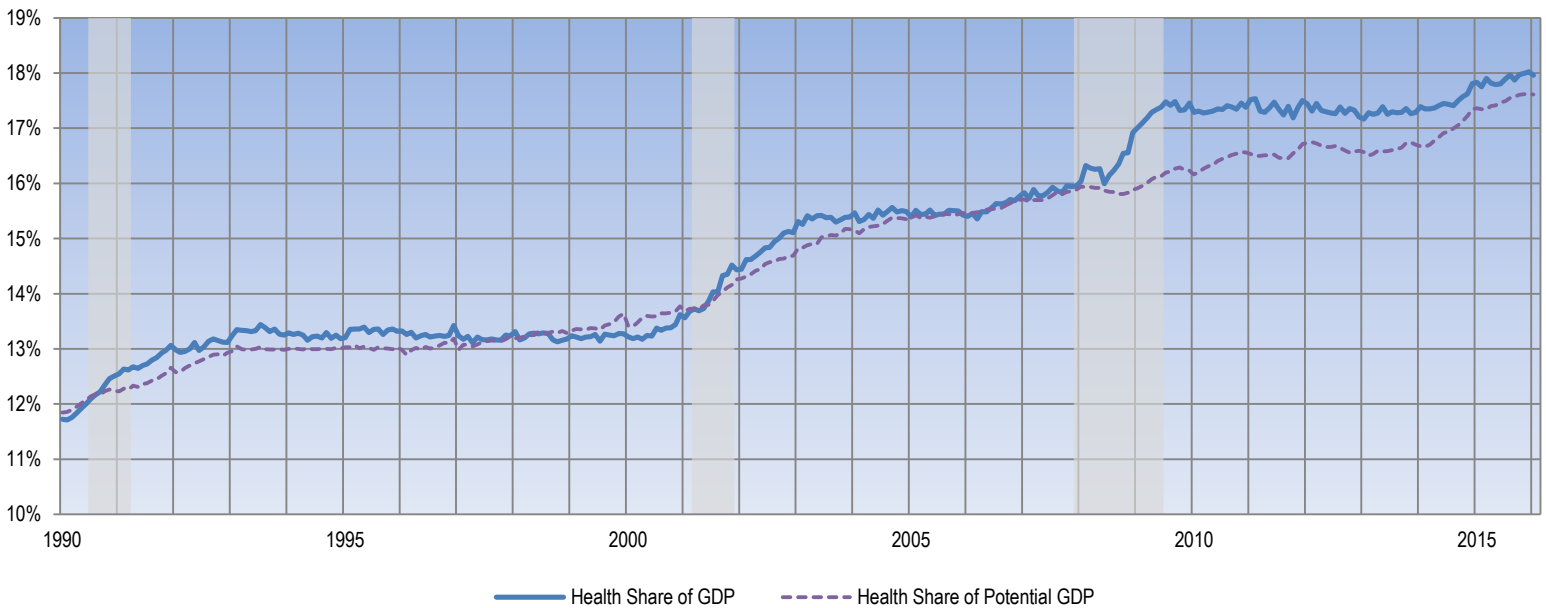
TIME SERIES TRACKER

Exhibit 7. 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 8. 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 (<http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1>) and CMS annual NHE estimates (1990–2014) and projections (2015 and 2016) (<https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/index.html>). 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 2014 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2014 ratios are used to adjust BEA spending for months in 2015 and 2016.