

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data through December 2014

February 12, 2015

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SPENDING BRIEF

Initial estimates suggest health spending grew by 5.0% in 2014

HIGHLIGHTS

- ▲ Preliminary estimates indicate that national health spending¹ grew by 5.0% in 2014.
- ▲ National health spending in December 2014 was 5.6% higher than health spending in December 2013.
- ▲ The December gross domestic product (GDP) growth over a 12-month period was 3.8%.
- ▲ The health spending share of GDP was 17.8% in December 2014. This is up from 16.0% at the start of the recession in December 2007. This increase is partly attributable to slow GDP growth rather than high health spending growth; the December 2014 health spending share of potential GDP (PGDP) was 17.2%.²
- ▲ Spending in December, year over year, increased in all major categories. Prescription drugs grew the fastest by far, by 13.0%.

National health spending and gross domestic product (GDP)*

	December 2012	December 2013	November 2014	December 2014
GDP	16.42	17.09	17.71	17.74
National Health Spending (HS)	2.86	2.99	3.14	3.15
HS Share of GDP	17.4%	17.5%	17.7%	17.8%
HS Share of PGDP	16.5%	16.7%	17.1%	17.2%
Growth from Prior 12 Months				
HS	3.3%	4.5%	5.2%	5.6%
GDP	4.3%	4.1%	3.4%	3.8%
HS Minus GDP	-1.0%	0.4%	1.8%	1.8%
HS Minus PGDP	-0.2%	1.2%	2.2%	2.9%

Source: Altarum monthly health spending estimates (see Methods on page 4); monthly GDP is from Macroeconomic Advisers and Altarum estimates; potential GDP (PGDP), defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.

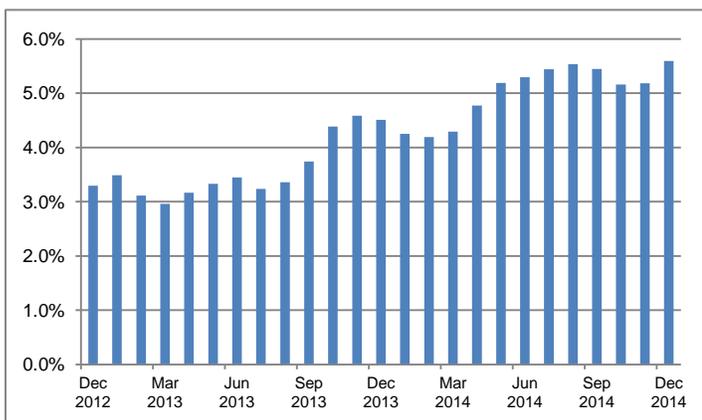
*Spending is trillions of dollars, seasonally adjusted annual rate.

HEALTH SPENDING

In December 2014, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.15 trillion from its value of \$3.14 trillion in November. December's health spending accounted for 17.8% of GDP. As a share of PGDP, December's spending was at 17.2%, 0.1% above the November value. Year over year, health spending in December grew by 5.6%, a higher rate than the November value of 5.2% (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

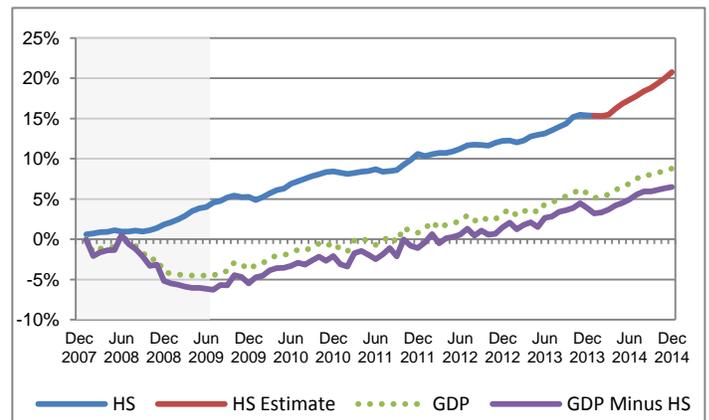
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through December 2014 has increased by 20.8% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.5% above its December 2007 level. Including health care, real GDP in December 2014 was 8.8% 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: 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



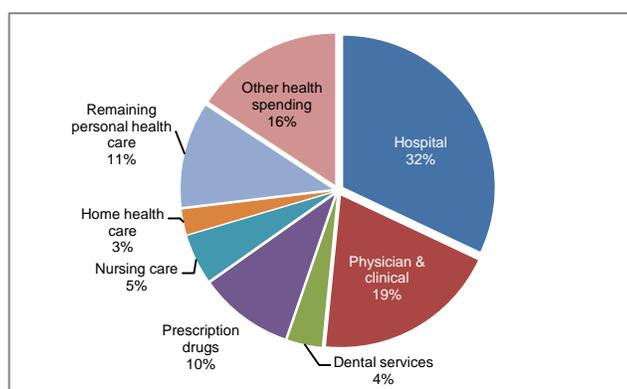
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum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

HEALTH CARE SPENDING BY CATEGORY

In December 2014:

- ▲ Hospital spending was \$1.01 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$615 billion, representing 19% of total health spending.
- ▲ Prescription drug spending was \$319 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$249 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).

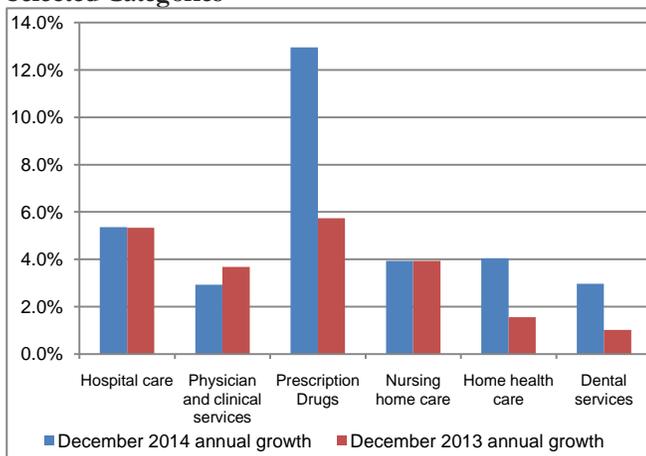
Exhibit 3. Health Spending by Category, November 2014



Source: Altarum monthly national health spending estimates.
 Note: See Exhibit 5 for a complete list of spending categories.

Growth over the past 12 months: Prescription drugs grew most rapidly among the major categories (13.0%). Physician and clinical services grew the slowest among major categories, at 2.9%. For the preceding 12-month period ending December 2013, prescription drugs showed the highest growth among the major categories, at 5.7%, whereas dental spending rose the least, by 1.0% (Exhibits 4 and 6).

Exhibit 4. Health Spending Year-Over-Year Growth for Selected Categories



Source: Altarum monthly national health spending estimates

DISCUSSION

This month's spending brief provides an initial look at spending for the entire 2014 calendar year and suggests that national health spending grew by 5.0% from its 2013 level—a rate higher than the historically low 2013 growth rate of 3.6%. This might suggest a start to the long-anticipated acceleration in health spending associated with increased insurance coverage and an improving economy, though much of the acceleration is associated with growing expenditures on prescription drugs and (tentatively) the net cost of health insurance. Growth in most health services, particularly physician and clinical services, remains modest, according to this initial estimate. However, we suspect that these estimates will be revised upward in the coming months, as discussed below.

For the period beginning January 2014, our spending estimates are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on January 30. (The estimates for 2013 and earlier are based on the official National Health Expenditure values published annually by CMS.) The BEA data for the past 3 months are preliminary and will be revised over the next 2 months as more data become available. BEA's estimated growth rate for health services (physician services, dental services, other professional services, hospital care, and nursing home and home health care) for the fourth quarter of 2014 was 4.0%, year-over-year, which is slightly lower than its estimate for the third quarter (4.3%). This drop seems inconsistent with the acceleration in health care employment (which could indicate a growth in demand for services) toward the end of 2014.³ We therefore anticipate a possible upward revision in the estimate of fourth quarter growth in spending on services when the BEA data are revised in the coming months.

¹ Altarum's monthly estimates of national health spending are intended to approximate the official National Health Expenditure Accounts (NHEA) produced annually by the Centers for Medicare & Medicaid Services (CMS). Our estimates match NHEA values that are currently available through 2013; CMS will release official values for 2014 in December 2015.

² 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>.

³ See our latest labor brief at <http://altarum.org/our-work/cshs-health-sector-economic-indicators-briefs>.

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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 Institute'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*SM reports are a monthly publication of Altarum's 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. George Miller, PhD (principal author), Paul Hughes-Cromwick, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 571-733-5709, ken.schwartz@altarum.org. For more information, visit www.altarum.org/cshs.

DETAILED HEALTH SPENDING

Exhibit 5. Monthly National Health Spending Estimates by Detailed Category

Levels (in billions of dollars)	Dec 2011	Dec 2012	Dec 2013	Dec 2014
GDP	\$15,745.4	\$16,417.9	\$17,089.7	\$17,742.4
National health spending	\$2,767.4	\$2,858.7	\$2,987.6	\$3,154.7
Personal health care	\$2,336.9	\$2,416.6	\$2,524.6	\$2,659.9
Hospital expenditures	\$876.7	\$911.3	\$959.8	\$1,011.2
Physician and clinical expenditures	\$552.2	\$576.1	\$597.2	\$614.8
Other professional services expenditures	\$76.1	\$78.6	\$81.8	\$86.3
Dental services expenditures	\$108.2	\$110.6	\$111.7	\$115.1
Other health, residential, and personal care expenditures	\$135.4	\$144.0	\$151.7	\$159.5
Home health care expenditures	\$75.3	\$79.5	\$80.8	\$84.0
Nursing care facilities and continuing care retirement communities	\$148.3	\$152.3	\$158.3	\$164.5
Prescription drug expenditures	\$272.0	\$267.4	\$282.8	\$319.4
Durable medical equipment expenditures	\$39.3	\$42.1	\$43.7	\$46.4
Nondurable medical products expenditures	\$53.3	\$54.6	\$56.8	\$58.7
Administration and net cost of health insurance expenditures	\$195.8	\$202.7	\$220.4	\$243.9
Public health activity	\$73.7	\$75.0	\$76.7	\$80.9
Research	\$48.8	\$47.2	\$46.8	\$46.4
Structures and equipment	\$112.2	\$117.2	\$119.1	\$123.6
National health spending share of GDP	17.6%	17.4%	17.5%	17.8%
National health spending share of PGDP	16.6%	16.5%	16.7%	17.2%

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

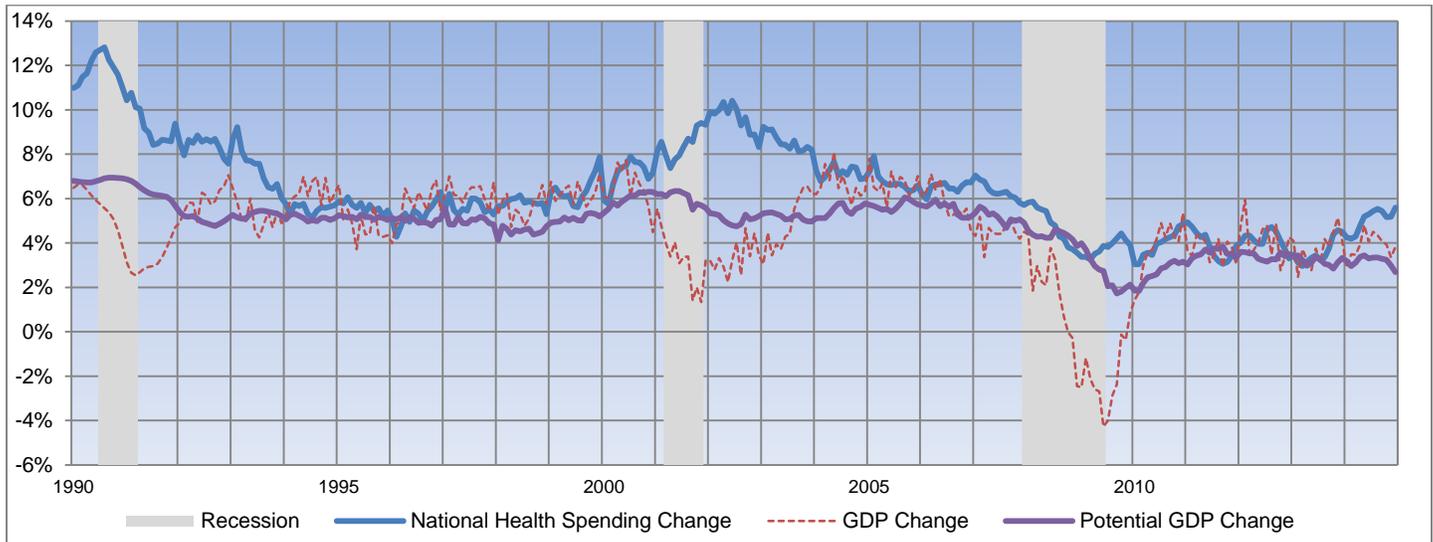
Growth Rates	Dec 2012	Dec 2013	Dec 2014
GDP	4.3%	4.1%	3.8%
National health spending	3.3%	4.5%	5.6%
Personal health care	3.4%	4.5%	5.4%
Hospital expenditures	3.9%	5.3%	5.4%
Physician and clinical expenditures	4.3%	3.7%	2.9%
Other professional services expenditures	3.4%	4.0%	5.5%
Dental services expenditures	2.2%	1.0%	3.0%
Other health, residential, and personal care expenditures	6.3%	5.3%	5.2%
Home health care expenditures	5.6%	1.6%	4.0%
Nursing care facilities and continuing care retirement communities	2.7%	3.9%	3.9%
Prescription drug expenditures	-1.7%	5.7%	13.0%
Durable medical equipment expenditures	7.1%	3.8%	6.3%
Nondurable medical products expenditures	2.5%	4.0%	3.3%
Administration and net cost of health insurance expenditures	3.5%	8.8%	10.6%
Public health activity	1.7%	2.3%	5.5%
Research	-3.4%	-0.9%	-0.8%
Structures and equipment	4.5%	1.7%	3.7%
National health spending minus GDP	-1.0%	0.4%	1.8%
National health spending minus PGDP	-0.2%	1.2%	2.9%

Source: Computed from Exhibit 5.

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

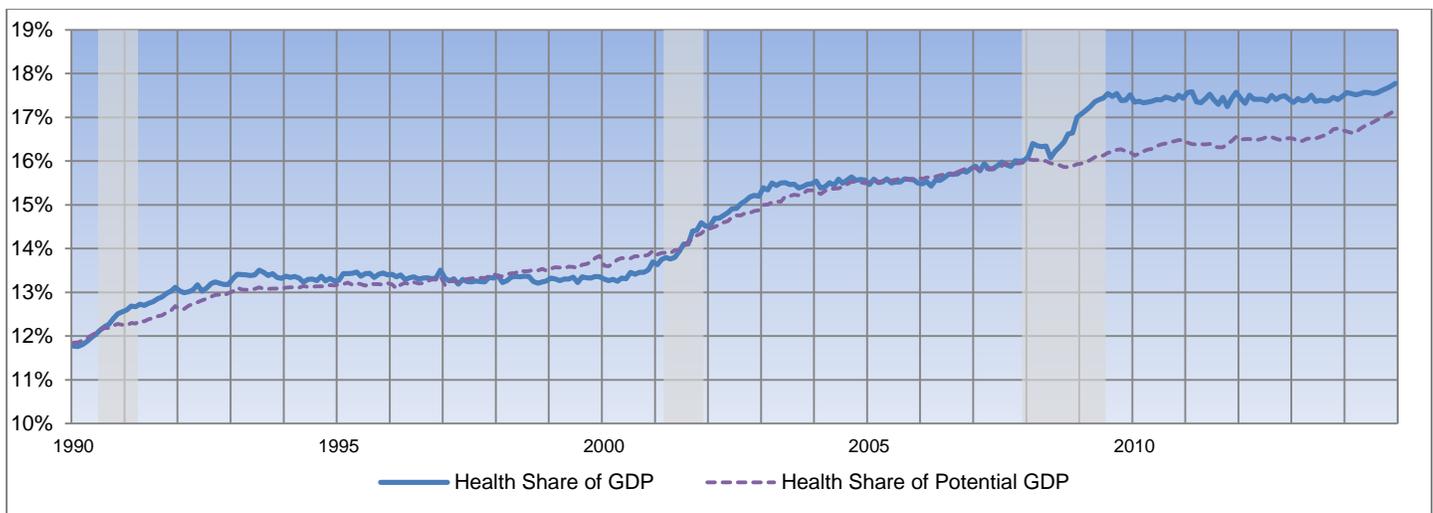
TIME SERIES TRACKER

Exhibit 7. Year-Over-Year Percentage Change in Health Spending and GDP



Source: Altarum monthly national health spending estimates. The 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. The monthly GDP is from Macroeconomic Advisers and Altarum estimates. The 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 (1) Bureau of Economic Analysis (BEA) monthly health spending (<http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1>) and (2) Centers for Medicare & Medicaid Services annual National Health Expenditure (NHE) estimates (1990–2013) and projections (2014) (<https://www.cms.gov/NationalHealthExpendData>). BEA spending categories are matched to NHE account (NHEA) components using information presented in: 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*. For all NHEA personal health care categories except “other health, residential, and personal care,” monthly estimates are based on BEA spending adjusted to NHEA using annual ratios. For the remaining categories, NHE estimates and projections are allocated across months using a simple trend. Annual ratio adjustments through 2013 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2013 ratios are used to adjust BEA spending for months in 2014.