

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

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

May 12, 2016

### Led by Moderation in Hospital Spending, Health Spending Growth Appears to Reach a Plateau Below 5%

#### HIGHLIGHTS

- ▲ National health spending<sup>1</sup> in March 2016 was 4.7% higher than health spending in March 2015. This is the fifth consecutive month of spending growth below 5%.
- ▲ The March 2016 nominal gross domestic product (GDP) growth over a 12-month period was 3.3%.
- ▲ The health spending share of GDP was 18.1% in March.
- ▲ The health spending share of potential GDP (PGDP) was 17.7% in March and is gradually approaching the health spending share of GDP as the economy approaches full employment.<sup>2</sup>
- ▲ Spending in March 2016, year over year, increased in all major categories. Home health care grew the fastest, by 14.3%. Hospital care grew at a 2.5% rate, the slowest among the major categories.

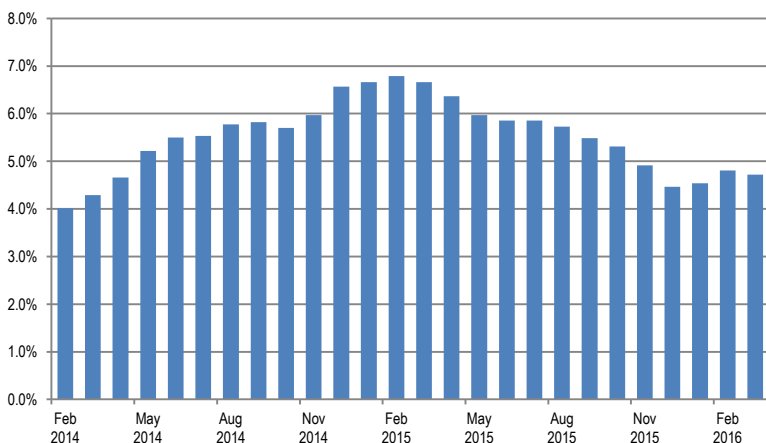
	Mar 2014	Mar 2015	Feb 2016	Mar 2016
<b>GDP</b>	17.07	17.64	18.22	18.23
<b>National Health Spending</b>	2.96	3.16	3.30	3.31
<b>Health Spending Share of GDP</b>	17.3%	17.9%	18.1%	18.1%
<b>Health Spending Share of PGDP</b>	16.7%	17.3%	17.7%	17.7%
<b>Growth from Prior 12 Months</b>				
<b>Health Spending</b>	4.3%	6.7%	4.8%	4.7%
<b>GDP</b>	3.7%	3.4%	2.8%	3.3%
<b>Health Spending Minus GDP</b>	0.6%	3.3%	2.0%	1.4%
<b>Health Spending Minus PGDP</b>	1.1%	4.0%	2.0%	2.2%

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.

#### HEALTH SPENDING

In March 2016, health spending increased slightly to a seasonally adjusted annual rate (SAAR) of \$3.31 trillion from its value of \$3.30 trillion in February. March’s health spending accounted for 18.1% of GDP, equal to the February value. As a share of PGDP, March’s spending was at 17.7%, also equal to its February reading. Year over year, health spending in March grew by 4.7%, down slightly from 4.8% in February (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

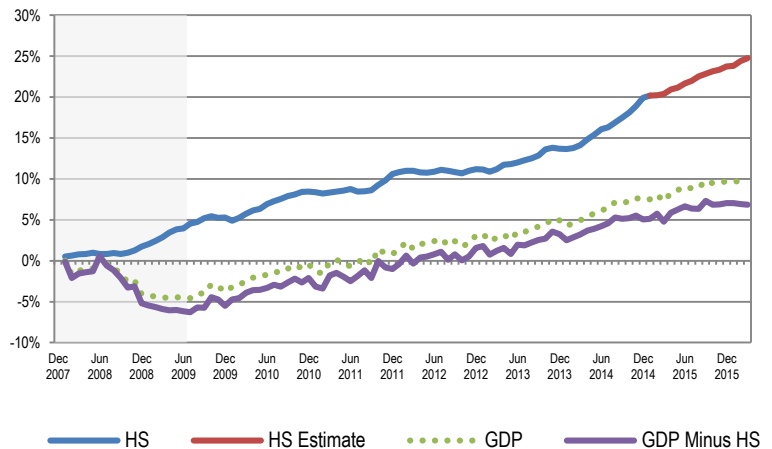
Exhibit 1. Year-over-Year Growth Rates in Health Spending



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.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through March 2016 has increased by 24.8% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.9% above its December 2007 level. Including health care, real GDP in March was 9.7% above its pre-recession level (Exhibit 2).

Exhibit 2. Health Spending and GDP: Cumulative Percentage Change (Constant Dollars) Since December 2007



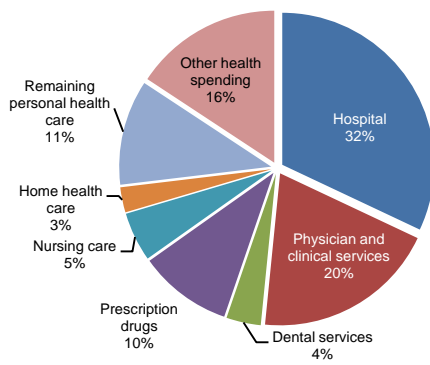
Source: “Health spending” (HS) consists of Altarum monthly estimates that match the government’s official National Health Expenditure Accounts (NHEA). “HS estimates” are Altarum estimates designed to be consistent with future NHEA values. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.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

## HEALTH CARE SPENDING BY CATEGORY

In March 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 \$659 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 \$265 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.

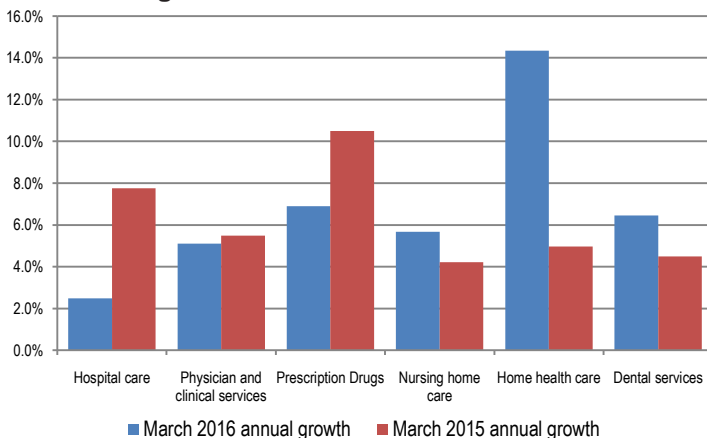
**Exhibit 3. Health Spending by Category, March 2016**



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 (14.3%). Hospital care grew the slowest among major categories, at 2.5%. For the preceding 12-month period ending February 2015, prescription drugs showed the highest growth among the major categories, at 10.5% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

## DISCUSSION

For the fifth consecutive month, year-over-year health spending growth has remained below 5%. The five-month average growth rate of 4.7%, which is equal to the March value, is below the average rate for all of 2015 of 5.8%. This 2015 rate incorporates the effect of a gradual decline in spending growth throughout the year from a high of 6.8% in February, which is likely related to a leveling off of the expansion of coverage associated with the Patient Protection and Affordable Care Act. The decline was led by hospital spending (representing nearly one-third of all health expenditures), which peaked at 7.9% year-over-year growth in February 2015 but has been at or below 3% for each of the most recent five months.

These data are based largely on the Bureau of Economic Analysis (BEA) monthly spending data, including its most recent update released on April 28. (Our estimates for 2014 and earlier are based on the official estimates of National Health Expenditures that are updated annually by CMS.) The BEA data for the first quarter of 2016 are preliminary and will be revised over the next two months as more data become available, culminating in incorporation of data from the U.S. Census Bureau’s Quarterly Services Survey (QSS) to be released in early June.

Though preliminary, these results suggest that spending growth may have reached a plateau, at least temporarily.

<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)	Mar 2013	Mar 2014	Mar 2015	Mar 2016
GDP	\$16,457.1	\$17,069.1	\$17,641.9	\$18,230.0
National health spending	\$2,839.5	\$2,961.3	\$3,158.6	\$3,307.6
Personal health care	\$2,406.5	\$2,503.8	\$2,668.1	\$2,792.7
Hospital expenditures	\$922.6	\$944.2	\$1,017.4	\$1,042.8
Physician and clinical expenditures	\$572.2	\$594.0	\$626.6	\$658.6
Other professional services expenditures	\$79.1	\$83.0	\$87.3	\$92.2
Dental services expenditures	\$108.0	\$111.2	\$116.2	\$123.7
Other health, residential, and personal care expenditures	\$142.7	\$148.7	\$154.6	\$161.8
Home health care expenditures	\$77.8	\$81.9	\$86.0	\$98.4
Nursing care facilities and continuing care retirement communities	\$148.9	\$151.5	\$157.8	\$166.8
Prescription drug expenditures	\$255.0	\$286.6	\$316.7	\$338.5
Durable medical equipment expenditures	\$44.8	\$46.3	\$47.5	\$49.7
Nondurable medical products expenditures	\$55.4	\$56.4	\$57.9	\$60.3
Administration and net cost of health insurance expenditures	\$204.0	\$226.4	\$253.7	\$269.9
Public health activity	\$76.4	\$78.0	\$81.3	\$85.3
Research	\$47.0	\$45.5	\$45.9	\$47.7
Structures and equipment	\$105.6	\$107.6	\$109.5	\$112.2
National health spending share of GDP	17.3%	17.3%	17.9%	18.1%
National health spending share of PGDP	16.5%	16.7%	17.3%	17.7%

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	Mar 2014	Mar 2015	Mar 2016
GDP	3.7%	3.4%	3.3%
National health spending	4.3%	6.7%	4.7%
Personal health care	4.0%	6.6%	4.7%
Hospital expenditures	2.3%	7.8%	2.5%
Physician and clinical expenditures	3.8%	5.5%	5.1%
Other professional services expenditures	4.9%	5.2%	5.5%
Dental services expenditures	2.9%	4.5%	6.5%
Other health, residential, and personal care expenditures	4.2%	4.0%	4.7%
Home health care expenditures	5.4%	5.0%	14.3%
Nursing care facilities and continuing care retirement communities	1.7%	4.2%	5.7%
Prescription drug expenditures	12.4%	10.5%	6.9%
Durable medical equipment expenditures	3.2%	2.7%	4.5%
Nondurable medical products expenditures	1.9%	2.6%	4.1%
Administration and net cost of health insurance expenditures	11.0%	12.1%	6.3%
Public health activity	2.1%	4.2%	4.8%
Research	-3.1%	0.9%	3.8%
Structures and equipment	1.9%	1.8%	2.4%
National health spending minus GDP	0.6%	3.3%	1.4%
National health spending minus PGDP	1.1%	4.0%	2.2%

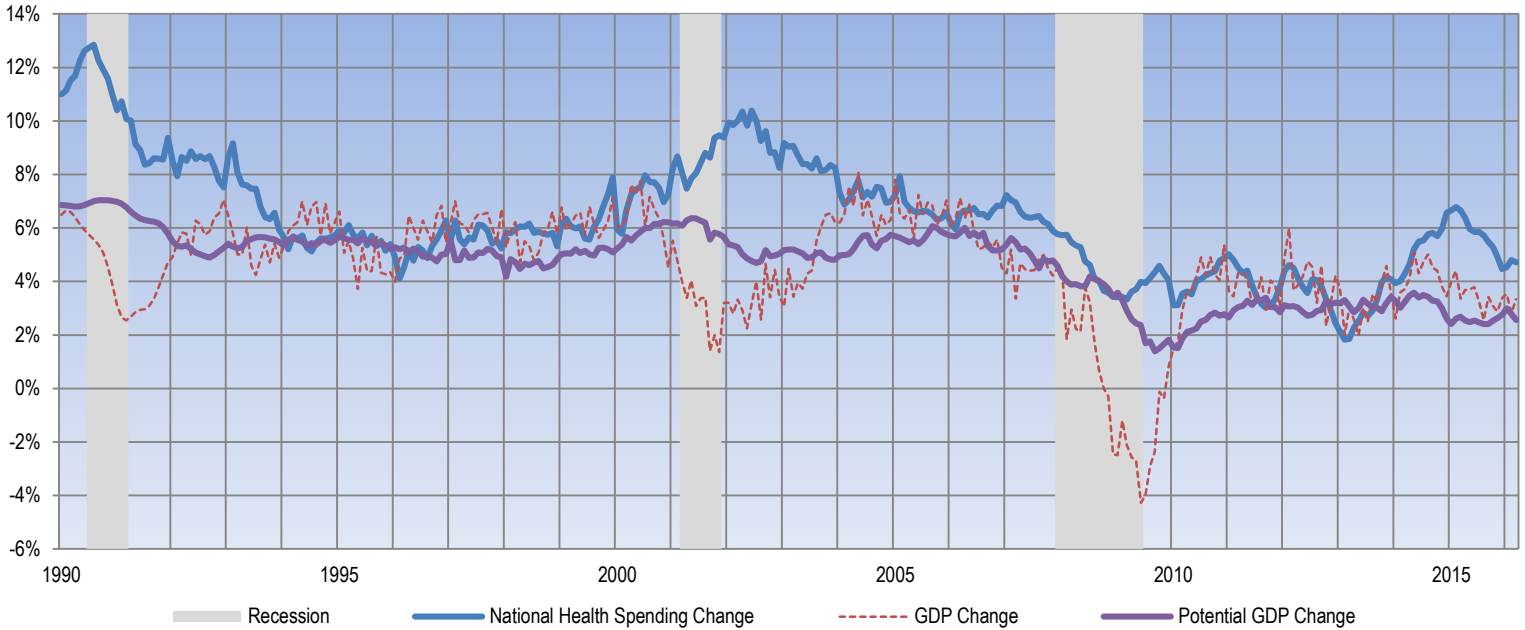
Source: Computed from Exhibit 5.

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

\*\* Data are not yet available.

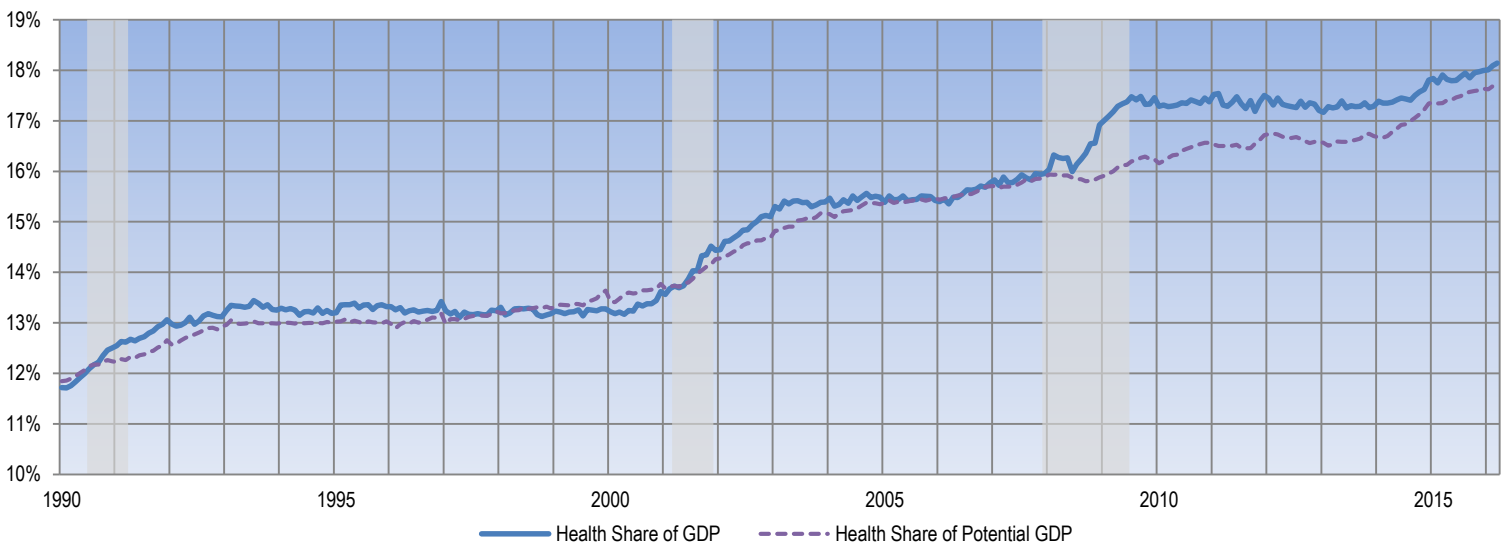
TIME SERIES TRACKER

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.