

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through September 2015

November 12, 2015

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SPENDING BRIEF

Health spending growth rate continues gradual decline from February high

HIGHLIGHTS

- ▲ National health spending¹ in September 2015 was 5.5% higher than health spending in September 2014.
- ▲ The September 2015 gross domestic product (GDP) growth over a 12-month period was 2.7%.
- ▲ The health spending share of GDP was 18.3% in September. This is up from 16.0% at the start of the recession in December 2007.
- ▲ The September health spending share of potential GDP (PGDP) was 17.8% and is gradually approaching the health spending share of GDP as the economy approaches full employment.²
- ▲ Spending in September 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 8.4%.

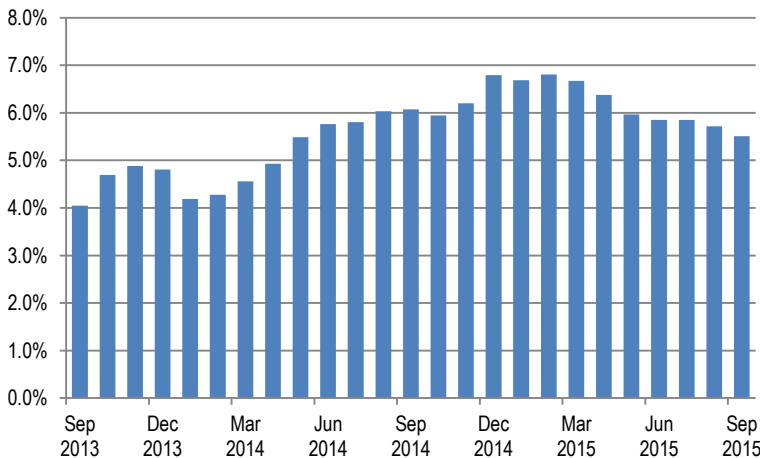
	Sep 2013	Sep 2014	Aug 2015	Sep 2015
GDP	16.81	17.57	18.03	18.05
National Health Spending	2.95	3.12	3.28	3.30
Health Spending Share of GDP	17.5%	17.8%	18.2%	18.3%
Health Spending Share of PGDP	16.8%	17.3%	17.7%	17.8%
Growth from Prior 12 Months				
Health Spending	4.0%	6.1%	5.7%	5.5%
GDP	3.2%	4.5%	2.7%	2.7%
Health Spending Minus GDP	0.8%	1.6%	3.0%	2.8%
Health Spending Minus PGDP	1.1%	2.8%	3.1%	2.9%

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 trillions of dollars, seasonally adjusted annual rate.

HEALTH SPENDING

In September 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.30 trillion from its value of \$3.28 trillion in August. September's health spending accounted for 18.3% of GDP. As a share of PGDP, September's spending was at 17.8%, slightly up from its August reading of 17.7%. Year over year, health spending in September grew by 5.5%, down from 5.7% in August (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

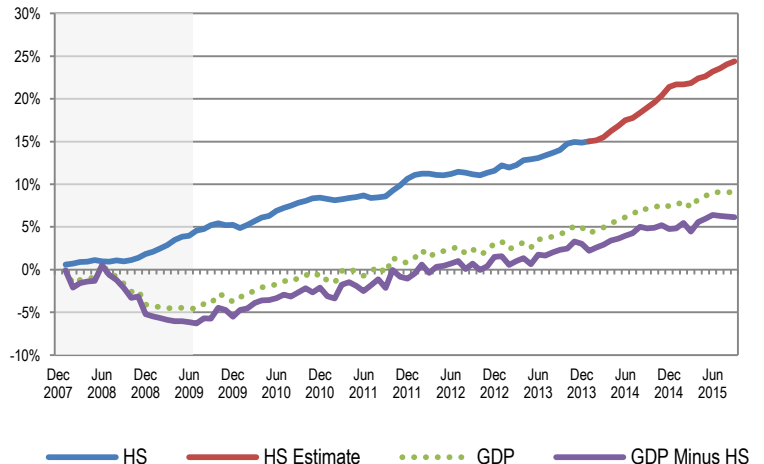
Exhibit 1. Year-over-Year Growth Rates in Health Spending



Source: Altarum monthly national health spending estimates.
Note: 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 September 2015 has increased by 24.4% (an annual rate of 2.9%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.1% above its December 2007 level. Including health care, real GDP in September was 9.0% above its pre-recession level (Exhibit 2).

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



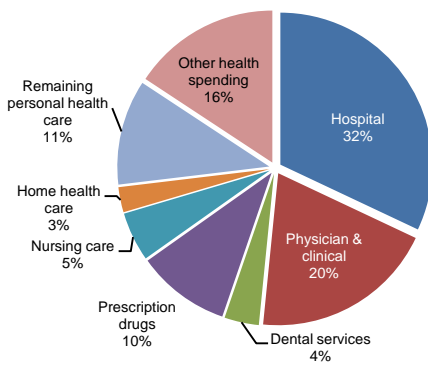
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values and match the NHEA forecast values for 2014. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In September 2015:

- ▲ Hospital spending was \$1.05 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$651 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$339 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined were \$258 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.

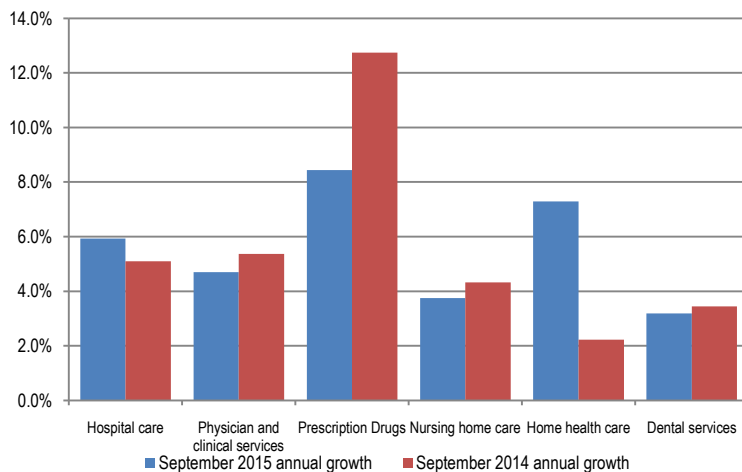
Exhibit 3. Health Spending by Category, September 2015



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

Growth over the past 12 months: Prescription drugs grew most rapidly among the major categories (8.4%). Dental services grew the slowest among major categories, at 3.2%. For the preceding 12-month period ending September 2014, prescription drugs again showed the highest growth among the major categories, at 12.7%, whereas home health care rose the least, by 2.2% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

After reaching an 8-year high in February, the health spending growth rate has steadily declined from 6.8% to the September value of 5.5%, year over year. In the months leading up to the February peak, there was little growth in prices (as has been documented in our price briefs³), meaning that the spending acceleration was associated with increased utilization. In fact, as we have noted in our recent Health Sector Trend Reports,⁴ the acceleration through February resulted largely from expanded insurance coverage under the Patient Protection and Affordable Care Act as well as from growth in prescription drug spending, led by the introduction of new hepatitis C drugs. The subsequent moderation in spending growth has been associated with a leveling off of both the number of newly insured individuals and spending on hepatitis C medications. We anticipate that these two factors will continue to drive spending growth moderation for at least the remainder of this year.

For the first 9 months of 2015, year-over-year health spending has grown by 6.2%. These spending data for the most recent months are preliminary and subject to revision in the coming months. (The Census Bureau's Quarterly Services Survey for the third quarter of 2015, to be released on December 10, will drive subsequent updates to the Bureau of Economic Analysis' data that serve as a basis for much of this spending brief.) However, unless the data are revised downward significantly, spending growth for all of 2015 is likely to be well above the 5.3% projected by the Centers for Medicare & Medicaid Services (CMS),⁵ despite the anticipated continued decline.

¹ Altarum's monthly estimates of national health spending are intended to approximate the official NHEA produced annually by CMS. Our estimates match NHEA values that are currently available through 2013 and match the CMS projections for 2014. 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 <http://altarum.org/our-work/cshs-health-sector-economic-indicators-briefs>.

⁴ <http://altarum.org/publications/health-sector-trend-report-october-2015>.

⁵ Keehan, S. P., et al. (2015). National health expenditure projections, 2014-24: Spending growth faster than recent trends. *Health Affairs*, 24(8), 1407-1417.

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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 IndicatorsSM 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. 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. 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)	Sep 2012	Sep 2013	Sep 2014	Sep 2015
GDP	\$16,283.3	\$16,808.5	\$17,567.2	\$18,048.0
National health spending	\$2,831.0	\$2,945.6	\$3,124.5	\$3,296.5
Personal health care	\$2,390.4	\$2,491.1	\$2,632.6	\$2,776.1
Hospital expenditures	\$907.3	\$943.8	\$991.9	\$1,050.6
Physician and clinical expenditures	\$565.3	\$590.0	\$621.7	\$650.9
Other professional services expenditures	\$77.4	\$81.3	\$85.9	\$90.9
Dental services expenditures	\$110.2	\$112.4	\$116.3	\$120.0
Other health, residential, and personal care expenditures	\$142.0	\$149.6	\$153.9	\$160.9
Home health care expenditures	\$77.0	\$80.8	\$82.6	\$88.6
Nursing care facilities and continuing care retirement communities	\$153.0	\$156.6	\$163.4	\$169.5
Prescription drug expenditures	\$263.5	\$277.6	\$312.9	\$339.3
Durable medical equipment expenditures	\$40.8	\$42.9	\$44.9	\$45.2
Nondurable medical products expenditures	\$53.8	\$56.2	\$59.1	\$60.3
Administration and net cost of health insurance expenditures	\$200.7	\$214.5	\$247.4	\$269.2
Public health activity	\$75.2	\$75.6	\$79.5	\$82.7
Research	\$47.7	\$46.5	\$45.8	\$47.1
Structures and equipment	\$117.0	\$118.0	\$119.2	\$121.4
National health spending share of GDP	17.4%	17.5%	17.8%	18.3%
National health spending share of PGDP	16.6%	16.8%	17.3%	17.8%

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.

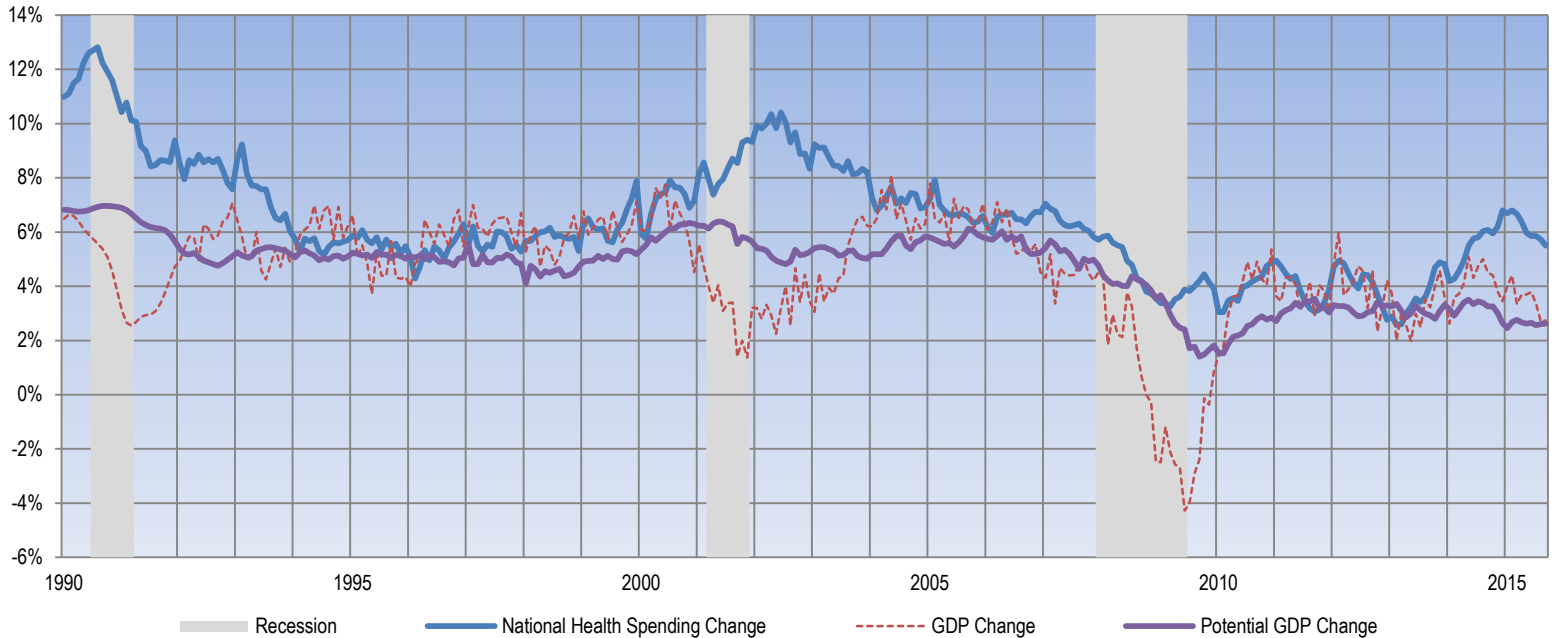
Exhibit 6. National Health Spending 12-Month Growth Rates by Detailed Category

Growth Rates	Sep 2013	Sep 2014	Sep 2015
GDP	3.2%	4.5%	2.7%
National health spending	4.0%	6.1%	5.5%
Personal health care	4.2%	5.7%	5.5%
Hospital expenditures	4.0%	5.1%	5.9%
Physician and clinical expenditures	4.4%	5.4%	4.7%
Other professional services expenditures	5.0%	5.7%	5.7%
Dental services expenditures	2.0%	3.4%	3.2%
Other health, residential, and personal care expenditures	5.3%	2.9%	4.5%
Home health care expenditures	4.9%	2.2%	7.3%
Nursing care facilities and continuing care retirement communities	2.3%	4.3%	3.7%
Prescription drug expenditures	5.3%	12.7%	8.4%
Durable medical equipment expenditures	5.3%	4.6%	0.7%
Nondurable medical products expenditures	4.4%	5.3%	1.9%
Administration and net cost of health insurance expenditures	6.8%	15.4%	8.8%
Public health activity	0.5%	5.2%	4.1%
Research	-2.6%	-1.4%	2.7%
Structures and equipment	0.9%	1.1%	1.8%
National health spending minus GDP	0.8%	1.6%	2.8%
National health spending minus PGDP	1.1%	2.8%	2.9%

Source: Computed from Exhibit 5.
 Note: This exhibit compares monthly national health spending to the same month from the previous year.

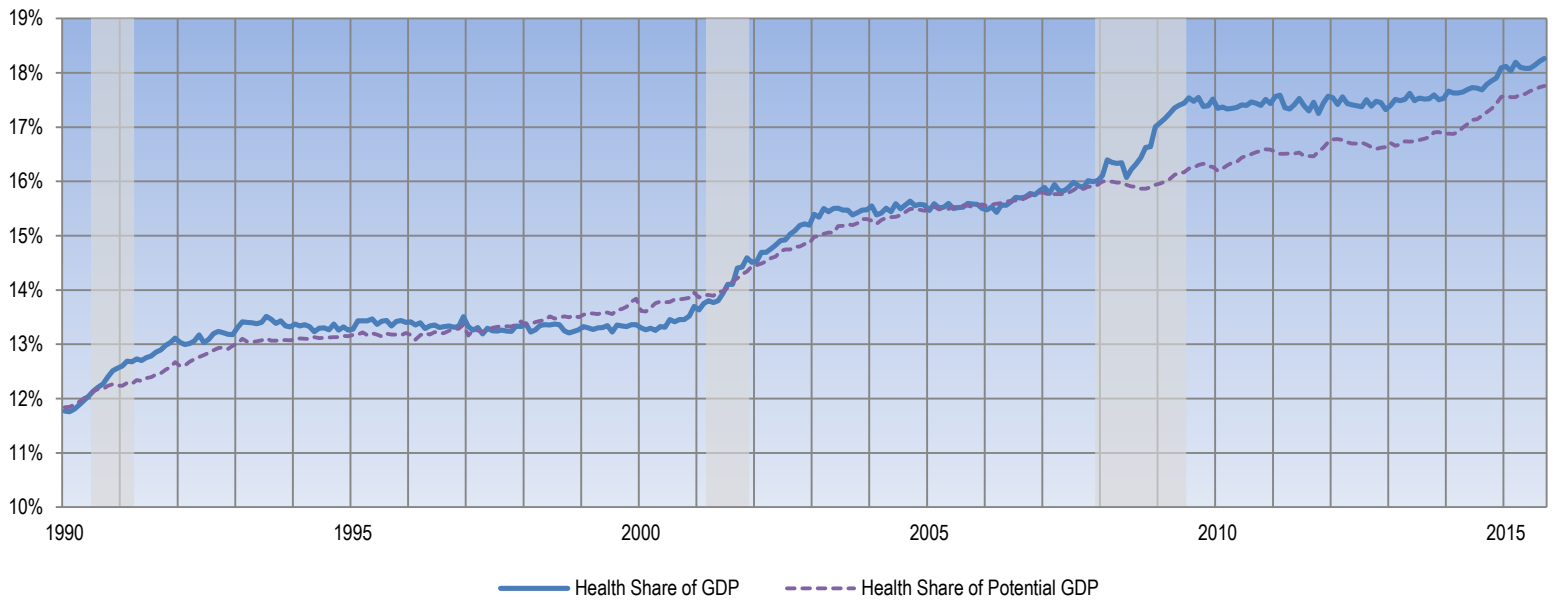
TIME SERIES TRACKER

Exhibit 7. Year-over-Year Percentage Change in 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 (1990–2013) and projections (2014 and 2015) (<https://www.cms.gov/NationalHealthExpendData>). 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, NHE estimates and projections are allocated across months by using a simple trend. Annual ratio adjustments through 2014 are based on NHEA actuals (through 2013) and projections (for 2014) and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2014 ratios are used to adjust BEA spending for months in 2015.