

Health Sector Economic IndicatorsSM

Insights from Monthly National Health Spending Data Through July 2015

September 11, 2015

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SPENDING BRIEF

Health spending growth continues recent gradual decline

HIGHLIGHTS

- ▲ National health spending¹ in July 2015 was 5.6% higher than health spending in July 2014.
- ▲ The June 2015 gross domestic product (GDP) growth over a 12-month period was 3.3%. (July data are not yet available.)
- ▲ The health spending share of GDP was 18.1% in June. This is up from 16.0% at the start of the recession in December 2007.
- ▲ The June health spending share of potential GDP (PGDP) was 17.7% and is gradually approaching the health spending share of GDP as the economy approaches full employment.²
- ▲ Spending in July 2015, year over year, increased in all major categories. Prescription drugs grew the fastest, by 9.7%.

	Jul 2013	Jul 2014	Jun 2015	Jul 2015
GDP	16.65	17.44	17.92	**
National Health Spending	2.92	3.09	3.25	3.26
Health Spending Share of GDP	17.5%	17.7%	18.1%	**
Health Spending Share of PGDP	16.8%	17.1%	17.7%	**
Growth from Prior 12 Months				
Health Spending	3.4%	5.8%	5.6%	5.6%
GDP	2.5%	4.7%	3.3%	**
Health Spending Minus GDP	0.9%	1.1%	2.4%	**
Health Spending Minus PGDP	0.3%	2.4%	3.2%	**

Potential Gross Domestic Product (PGDP) is an estimate of what GDP would be at full employment.

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.

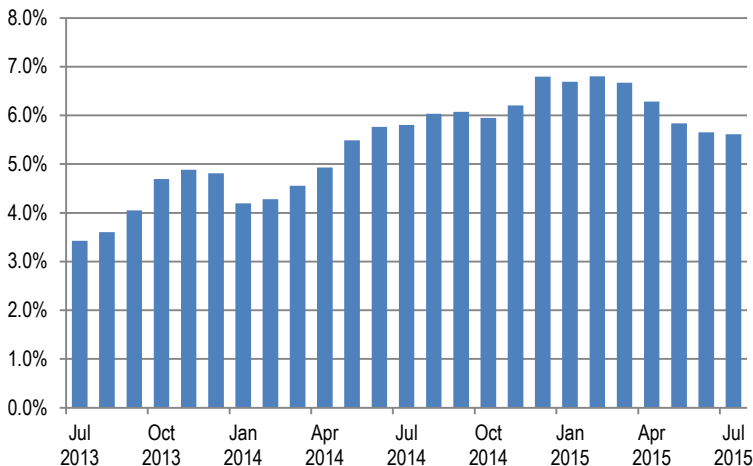
** Data not yet available.

HEALTH SPENDING

In July 2015, health spending increased to a seasonally adjusted annual rate (SAAR) of \$3.26 trillion from its value of \$3.25 trillion in June. June's health spending accounted for 18.1% of GDP. (July GDP data are not yet available.) As a share of PGDP, June's spending was at 17.7%, up slightly from 17.6% in May. Year over year, health spending in July grew by 5.6%, equal to the June value (Exhibit 1). (Exhibits 7 and 8 show long-term comparisons.)

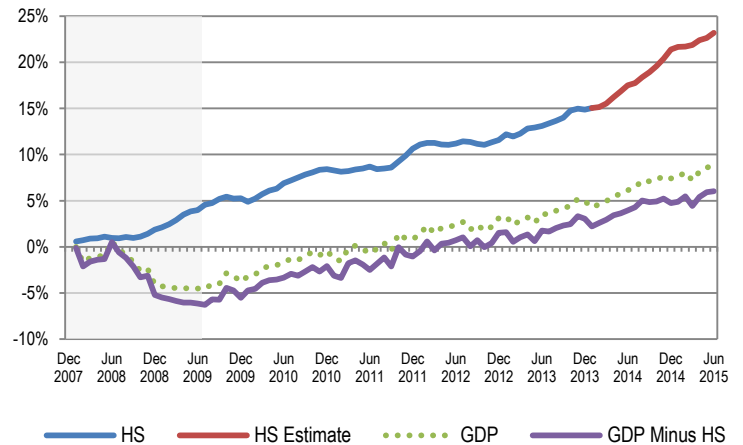
Since the start of the recession in December 2007, real health spending (using the GDP deflator) through June 2015 has increased by 23.2% (an annual rate of 2.8%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 6.0% above its December 2007 level. Including health care, real GDP in June 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



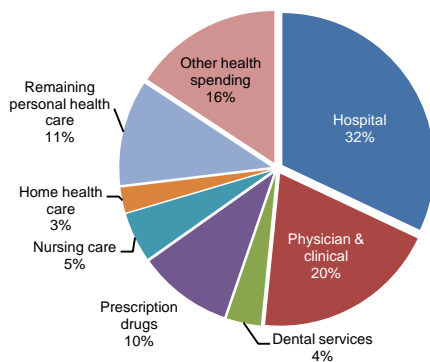
Source: "Health spending" consists of Altarum monthly estimates that match the government's official National Health Expenditure Accounts (NHEA). "Health spending estimates" are Altarum estimates designed to be consistent with future NHEA values and match the NHEA forecast values for 2014. Monthly GDP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

HEALTH CARE SPENDING BY CATEGORY

In July 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 \$642 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$337 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.

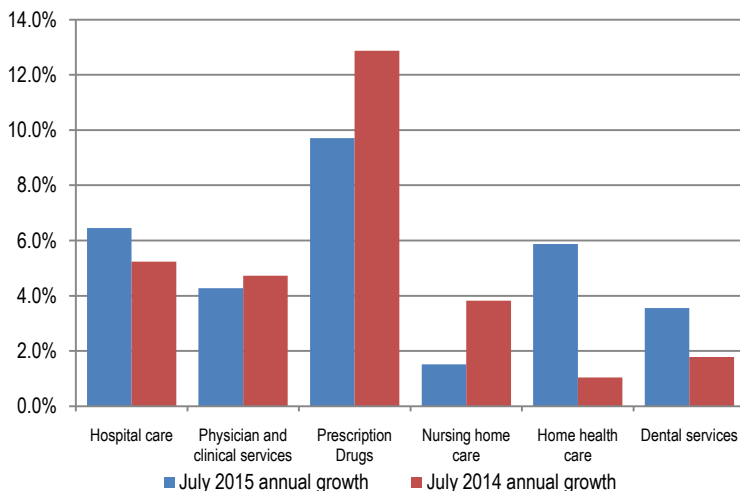
Exhibit 3. Health Spending by Category, July 2015



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 (9.7%), while hospital spending grew by 6.5%. Nursing home care grew the slowest among major categories, at 1.5%. For the preceding 12-month period ending July 2014, prescription drugs again showed the highest growth among the major categories, at 12.9%, whereas home health care 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

Health spending growth in July has continued its gradual decline from a recent high of 6.8% (year over year) in February of this year to a July rate of 5.6%. This decline has been led by hospital spending, which represents 32% of health spending and whose growth rate has declined from 7.9% in February to a July value of 6.5%.

Our spending estimates are based largely on data published by the Bureau of Economic Analysis (BEA) of the Department of Commerce as part of their National Income and Product Accounts (NIPA). We adjust the NIPA data to match as closely as possible the official spending data that are later published by the Centers for Medicare and Medicaid Services (CMS) and that we subsequently incorporate into our estimates.

On September 9, the U.S. Census Bureau released its Quarterly Services Survey (QSS), which includes quarterly estimates of spending on health services, for the second quarter of 2015. BEA will use these results later this month to revise its preliminary estimates of health spending for the second quarter of 2014, and we will capture these revisions in our October Spending Brief. The QSS reports expenditures that correspond to our spending estimates for hospitals, professional services, nursing homes, and home health care. A preliminary review of these latest QSS data suggests that BEA's revisions will cause our estimate of second-quarter spending growth for health care services to increase slightly from its current value of 5.4%. Even so, the resulting growth rate will remain relatively low by long-term historical standards and will likely be only modestly higher than the 5.0% second-quarter growth in services that we observed in 2014.

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>.

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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, 571-733-5709, 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)	Jul 2012	Jul 2013	Jul 2014	Jul 2015
GDP	\$16,243.7	\$16,649.0	\$17,436.6	**
National health spending	\$2,822.8	\$2,919.6	\$3,089.0	\$3,262.5
Personal health care	\$2,383.7	\$2,469.8	\$2,603.1	\$2,746.2
Hospital expenditures	\$903.6	\$933.1	\$982.0	\$1,045.4
Physician and clinical expenditures	\$564.0	\$588.0	\$615.7	\$642.0
Other professional services expenditures	\$76.6	\$80.7	\$85.7	\$89.0
Dental services expenditures	\$110.4	\$112.6	\$114.6	\$118.7
Other health, residential, and personal care expenditures	\$140.5	\$148.7	\$153.1	\$159.6
Home health care expenditures	\$75.9	\$80.9	\$81.7	\$86.5
Nursing care facilities and continuing care retirement communities	\$152.9	\$154.4	\$160.3	\$162.7
Prescription drug expenditures	\$264.2	\$272.2	\$307.3	\$337.1
Durable medical equipment expenditures	\$41.6	\$43.2	\$44.1	\$45.1
Nondurable medical products expenditures	\$53.9	\$55.9	\$58.7	\$60.0
Administration and net cost of health insurance expenditures	\$199.9	\$210.1	\$242.2	\$266.5
Public health activity	\$75.1	\$75.2	\$78.9	\$82.1
Research	\$47.9	\$46.7	\$45.8	\$46.8
Structures and equipment	\$116.3	\$117.8	\$119.0	\$120.9
National health spending share of GDP	17.4%	17.5%	17.7%	**
National health spending share of PGDP	16.7%	16.8%	17.1%	**

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 not yet available.

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

Growth Rates	Jul 2013	Jul 2014	Jul 2015
GDP	2.5%	4.7%	**
National health spending	3.4%	5.8%	5.6%
Personal health care	3.6%	5.4%	5.5%
Hospital expenditures	3.3%	5.2%	6.5%
Physician and clinical expenditures	4.2%	4.7%	4.3%
Other professional services expenditures	5.2%	6.3%	3.8%
Dental services expenditures	2.0%	1.8%	3.6%
Other health, residential, and personal care expenditures	5.9%	2.9%	4.3%
Home health care expenditures	6.6%	1.0%	5.9%
Nursing care facilities and continuing care retirement communities	1.0%	3.8%	1.5%
Prescription drug expenditures	3.1%	12.9%	9.7%
Durable medical equipment expenditures	3.9%	2.0%	2.4%
Nondurable medical products expenditures	3.7%	4.9%	2.2%
Administration and net cost of health insurance expenditures	5.1%	15.3%	10.0%
Public health activity	0.1%	4.9%	4.1%
Research	-2.6%	-2.0%	2.2%
Structures and equipment	1.3%	0.9%	1.7%
National health spending minus GDP	0.9%	1.1%	**
National health spending minus PGDP	0.3%	2.4%	**

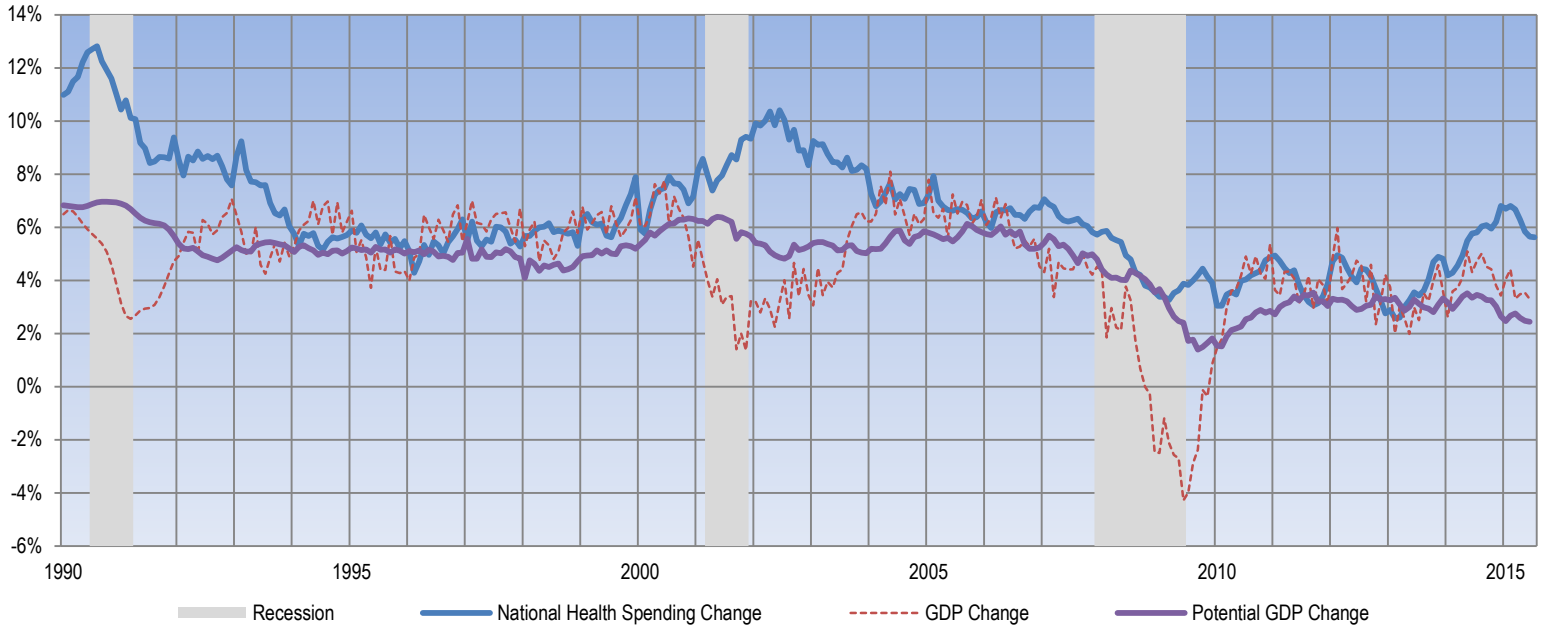
Source: Computed from Exhibit 5.

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

** Data not yet available.

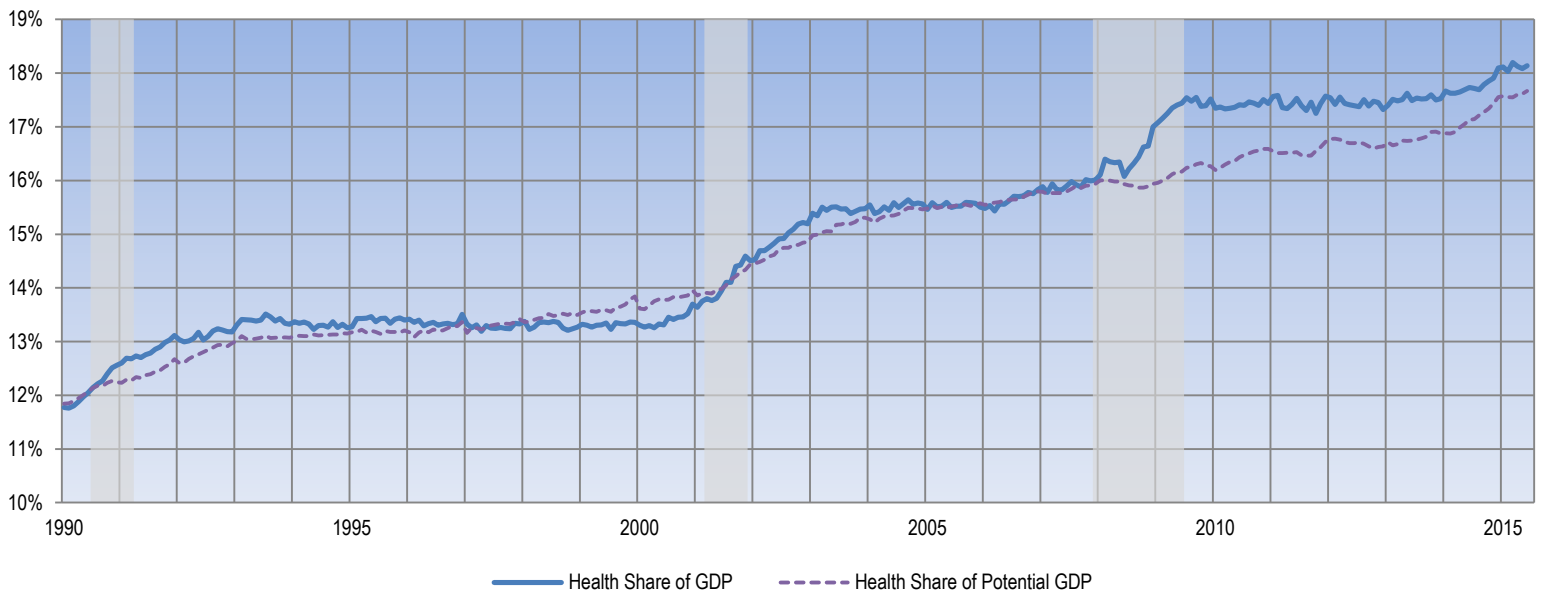
TIME SERIES TRACKER

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 (1990–2013) and projections (2014 and 2015) (<https://www.cms.gov/NationalHealthExpendData>). BEA spending categories are matched to NHEA components by 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*, 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.