

August 8, 2018 ▲ Updated underlying government data increase estimates of recent spending growth

HIGHLIGHTS

- ▲ At \$3.66 trillion (seasonally adjusted annual rate), national health spending¹ in June 2018 was 5.2% higher than it was in June 2017.
- ▲ The June 2018 nominal gross domestic product (GDP) growth over a 12-month period was 4.9%, and the resulting health spending share of GDP was 17.9%.
- ▲ Health spending currently stands at 18.0% of potential GDP (PGDP).²
- ▲ Spending in June 2018, year over year, increased in all major categories. Spending on dental services grew the fastest, at 7.7%. Growth in spending on prescription drugs was the slowest, at 3.0%.

National Health Spending and GDP*				
	Jun 2016	Jun 2017	May 2018	Jun 2018
GDP	18.68	19.49	20.46	20.45
National Health Spending	3.34	3.48	3.64	3.66
Health Spending Share of GDP	17.9%	17.8%	17.8%	17.9%
Health Spending Share of PGDP	17.7%	17.8%	17.9%	18.0%
Growth from Prior 12 Months				
Health Spending	4.4%	4.2%	5.3%	5.2%
GDP	2.0%	4.4%	5.6%	4.9%
Health Spending Minus GDP	2.4%	-0.2%	-0.3%	0.3%
Health Spending Minus PGDP	1.6%	0.9%	0.8%	0.7%

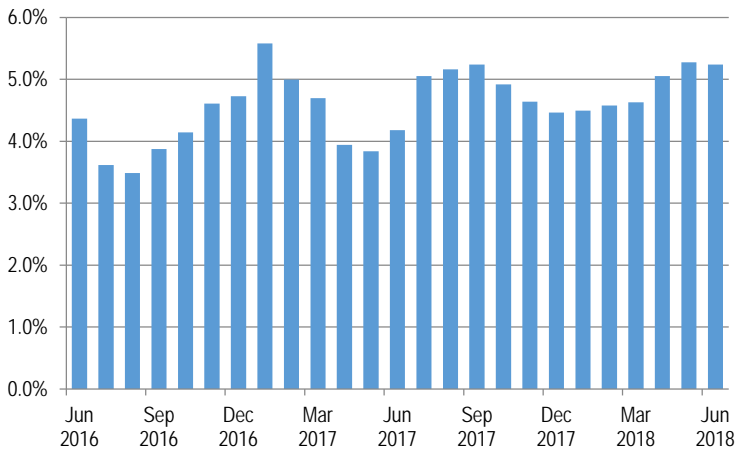
Source: Altarum monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.
* Spending is in trillions of dollars at a seasonally adjusted annual rate

HEALTH SPENDING

In June 2018, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.66 trillion, above its May value of \$3.64 trillion. June’s health spending accounted for 17.9% of GDP, above the May value of 17.8%. As a share of revised PGDP, June spending was 18.0%, above the May value of 17.9%. Year over year, health spending in June grew by 5.2%, less than the May rate of 5.3% (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 2018 has increased by 31.4% (an annual rate of 2.6%). Real GDP, excluding health spending, fell by more than 6% in mid-2009 and is now 14.4% above its December 2007 level. Including health care, real GDP in June was 17.1% above its pre-recession level (Exhibit 2).

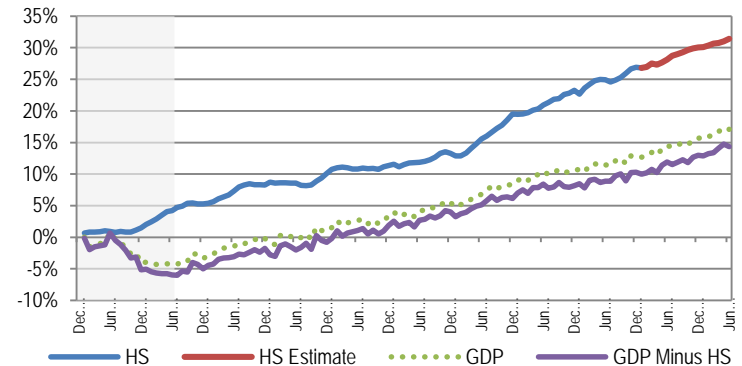
Exhibit 1. Year-over-Year Growth Rates in Health Spending



Source: Altarum monthly 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.

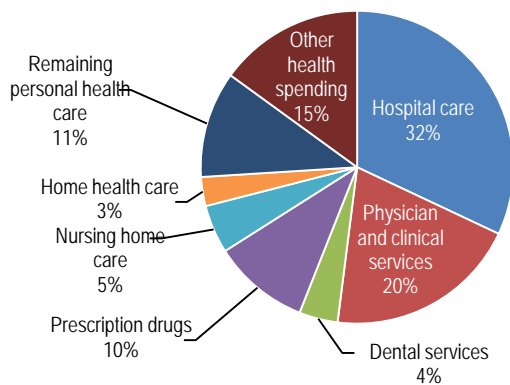
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In June 2018:

- ▲ Hospital spending was \$1.173 trillion (SAAR) and represented 32% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$733 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$355 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$280 billion, 8% of total health spending.
- ▲ Spending on personal health care goods and services accounted for 85% of total health spending. Other major components include public health, research, construction, and net cost of private insurance.

Exhibit 3. Health Spending by Category, June 2018

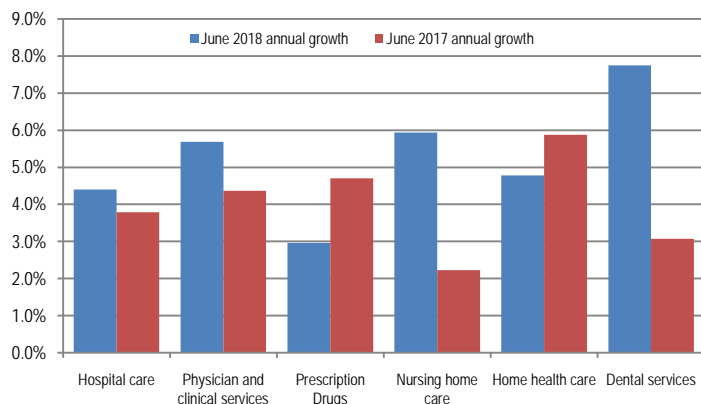


Source: Altarum monthly national health spending estimates.

Notes: See Exhibit 5 for a complete list of spending categories.

Growth over the past 12 months: Spending on dental services grew most rapidly among the major categories, at 7.7%. Expenditures for prescription drugs grew the slowest, at 3.0%. For the preceding 12-month period ending June 2017, spending on home health care showed the highest growth among the major categories, at 5.9%, and growth in nursing home care spending was lowest, at 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

This month's spending brief incorporates updates to the Bureau of Economic Analysis (BEA) 2018 Comprehensive Update of the National Income and Product Accounts (NIPA).³ The NIPA is a primary source for our national health spending estimates. This "benchmark" update is usually conducted at 5-year intervals; the last update was in 2013. The current update affects health spending data back to 2003, although it affects our spending estimates only for 2017 and 2018: we use the Centers for Medicare & Medicaid Services (CMS) official National Health Expenditure Accounts (NHEA) as the basis for our estimates through 2016, the most recent year for which these data are available.

As a result, our current estimate of annualized national health spending for the first 5 months of 2018 is 0.45% higher than previously estimated, at \$3.61 trillion. This is due largely to an increase in spending on hospital care, which represents 32% of national health spending. At \$1.16 trillion, hospital care spending is now 1.88% higher, year to date, than previously estimated. In May, national health spending was 0.74% higher, at \$3.64 trillion, and hospital spending was 1.93% higher, at \$1.17 trillion. Year-over-year growth in national health spending for the first 5 months of the year now stands at 4.8%, up from 4.4% and, for hospital spending, is at 3.9%, up from 3.0%. National health spending growth for the first 6 months of 2018 currently stands at 4.9%, year over year.

Because CMS and BEA rely largely on the same data sources in producing their spending estimates, we can expect to see some of the same factors that caused these changes in the NIPA data reflected in the upcoming release of the NHEA for 2017, anticipated in December. Our spending estimates will be updated to be consistent with the 2017 NHEA data when they are released.

¹Altarum'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 2016 and (for some spending categories) NHEA projections for 2017.

²For 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<https://www.bea.gov/scb/2018/04-april/0418-preview-2018-comprehensive-nipa-update.htm>

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Altarum 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. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. In large part, this work was made possible through generous support from the Robert Wood Johnson Foundation.

*The Health Sector Economic Indicators*SM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact **Paul Hughes-Cromwick**, at 734-302-4616 or paul.hughes-cromwick@altarum.org. George Miller, PhD (principal author), Paul Hughes-Cromwick, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Sarah Litton, 202-772-5062. press@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)	Jun 2015	Jun 2016	Jun 2017	Jun 2018
GDP	\$18,315.6	\$18,675.6	\$19,489.8	\$20,449.5
National health spending	\$3,198.4	\$3,338.1	\$3,477.5	\$3,659.7
Personal health care	\$2,713.8	\$2,836.2	\$2,948.4	\$3,096.7
Hospital expenditures	\$1,034.4	\$1,083.0	\$1,124.0	\$1,173.4
Physician and clinical expenditures	\$629.6	\$665.0	\$694.0	\$733.5
Other professional services expenditures	\$88.7	\$91.7	\$95.3	\$99.0
Dental services expenditures	\$118.1	\$123.7	\$127.5	\$137.3
Other health, residential, and personal care expenditures	\$164.6	\$173.3	\$179.6	\$191.3
Home health care expenditures	\$88.5	\$92.2	\$97.6	\$102.3
Nursing care facilities and continuing care retirement communities	\$158.2	\$163.7	\$167.3	\$177.2
Prescription drug expenditures	\$323.8	\$329.6	\$345.1	\$355.3
Durable medical equipment expenditures	\$48.7	\$51.3	\$53.9	\$59.7
Nondurable medical products expenditures	\$59.3	\$62.8	\$64.1	\$67.7
Administration and net cost of health insurance expenditures	\$249.0	\$263.0	\$281.2	\$305.3
Public health activity	\$81.8	\$82.0	\$84.4	\$87.0
Research	\$46.4	\$47.4	\$50.5	\$52.7
Structures and equipment	\$107.3	\$109.5	\$113.1	\$117.9
National health spending share of GDP	17.5%	17.9%	17.8%	17.9%
National health spending share of PGDP	17.4%	17.7%	17.8%	18.0%

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

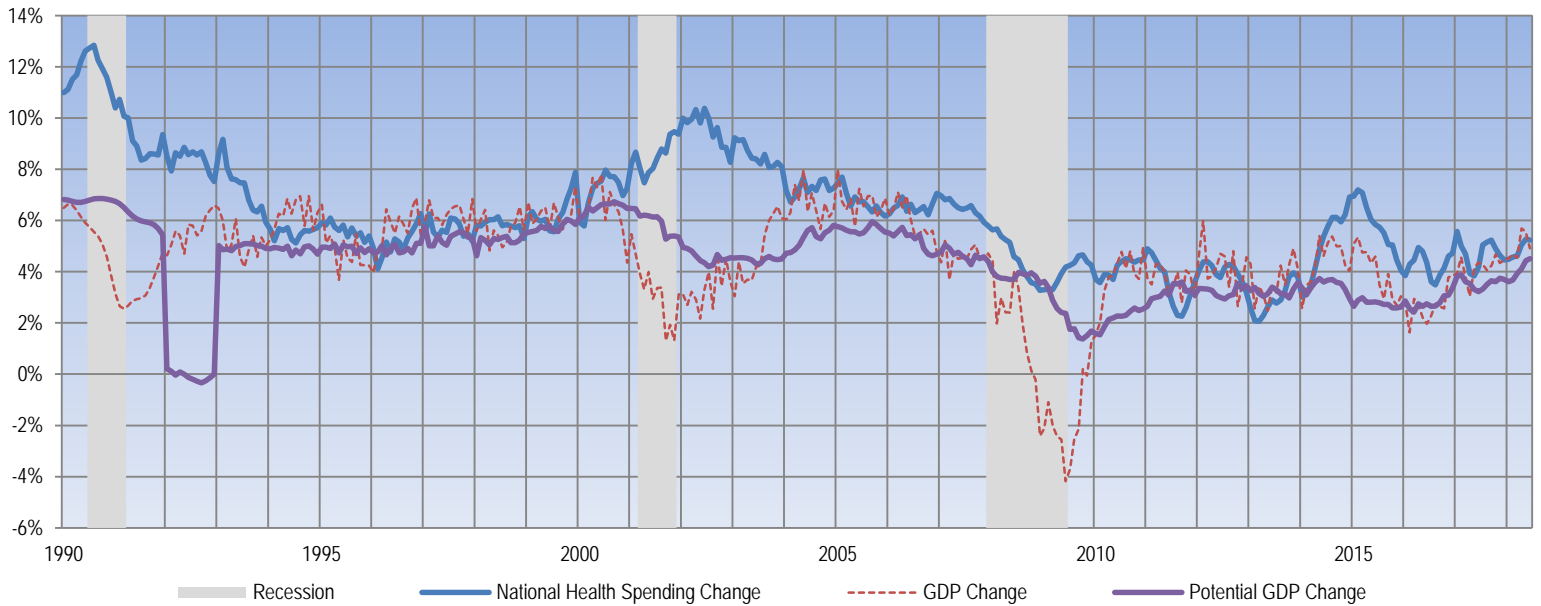
Growth Rates	Jun 2016	Jun 2017	Jun 2018
GDP	2.0%	4.4%	4.9%
National health spending	4.4%	4.2%	5.2%
Personal health care	4.5%	4.0%	5.0%
Hospital expenditures	4.7%	3.8%	4.4%
Physician and clinical expenditures	5.6%	4.4%	5.7%
Other professional services expenditures	3.4%	4.0%	3.9%
Dental services expenditures	4.7%	3.1%	7.7%
Other health, residential, and personal care expenditures	5.3%	3.6%	6.5%
Home health care expenditures	4.2%	5.9%	4.8%
Nursing care facilities and continuing care retirement communities	3.4%	2.2%	5.9%
Prescription drug expenditures	1.8%	4.7%	3.0%
Durable medical equipment expenditures	5.5%	4.9%	10.8%
Nondurable medical products expenditures	5.9%	2.1%	5.6%
Administration and net cost of health insurance expenditures	5.6%	6.9%	8.6%
Public health activity	0.2%	3.0%	3.1%
Research	2.2%	6.5%	4.3%
Structures and equipment	2.1%	3.2%	4.3%
National health spending minus GDP	2.4%	-0.2%	0.3%
National health spending minus PGDP	1.6%	0.9%	0.7%

Source: Computed from Exhibit 5.

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

TIME SERIES TRACKER

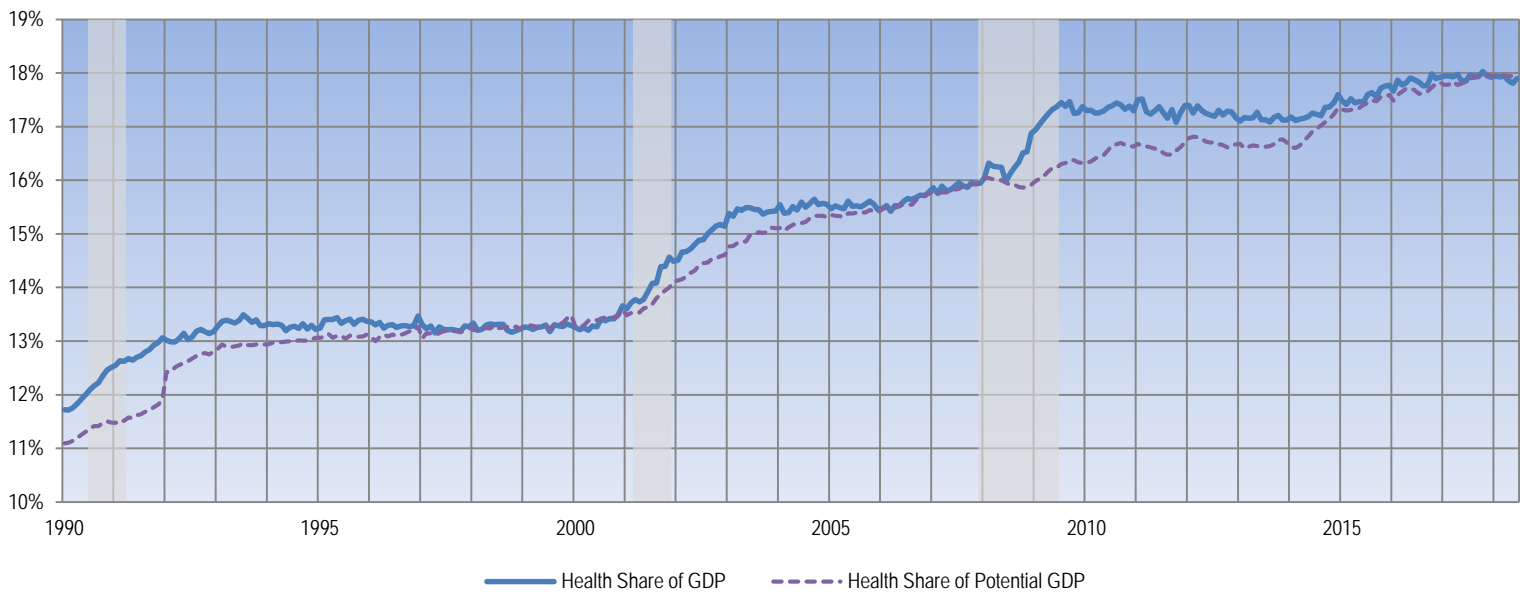
Exhibit 7. Year-over-Year Percentage Change in Spending and GDP



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 (1990–2016) and projections (2017–2018) (<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 2016 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2016 ratios are used to adjust BEA spending for months in 2017 and 2018.