

April 15, 2020 ▲ Health spending deceleration continues; COVID-19 impact is still to come

HIGHLIGHTS

- ▲ At \$3.97 trillion (seasonally adjusted annual rate), national health spending¹ in February 2020 was 5.5% higher than in February 2019.
- ▲ The February 2020 nominal gross domestic product (GDP) growth over a 12-month period was 4.2%, and the resulting health spending share of GDP was 18.1% and 18.2% of PGDP.
- ▲ Spending in February 2020, year over year, increased in all major categories. Spending on prescription drugs grew the fastest, at 9.4%. Growth in spending on home health care was the slowest, at 1.9%.

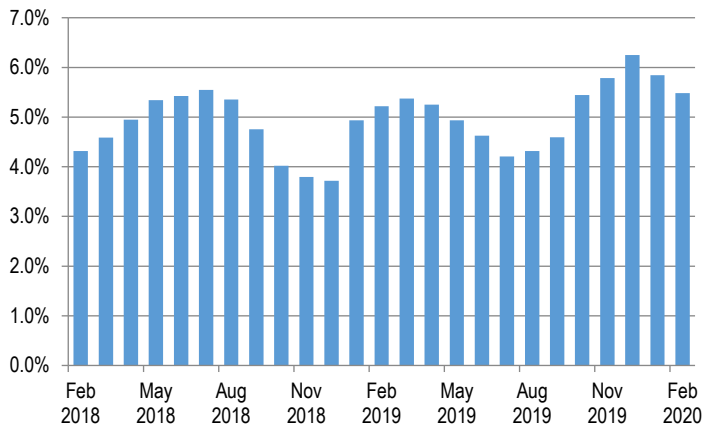
	Feb 2018	Feb 2019	Jan 2020	Feb 2020
GDP	20.17	21.06	21.82	21.95
National Health Spending	3.58	3.76	3.96	3.97
Health Spending Share of GDP	17.7%	17.9%	18.1%	18.1%
Health Spending Share of PGDP	17.7%	18.0%	18.2%	18.2%
Growth from Prior 12 Months				
Health Spending	4.3%	5.2%	5.8%	5.5%
GDP	5.2%	4.4%	3.2%	4.2%
Health Spending Minus GDP	-0.9%	0.8%	2.7%	1.3%
Health Spending Minus PGDP	0.4%	1.3%	1.9%	1.7%

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 February 2020, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.97 trillion, slightly above its January value of \$3.96 trillion. February’s health spending accounted for 18.1% of GDP. As a share of potential GDP (PGDP), February spending was 18.2%. Year over year, health spending in February grew by 5.5%, less than the January rate of 5.8% (Exhibit 1). Exhibits 7 and 8 show long-term comparisons.

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

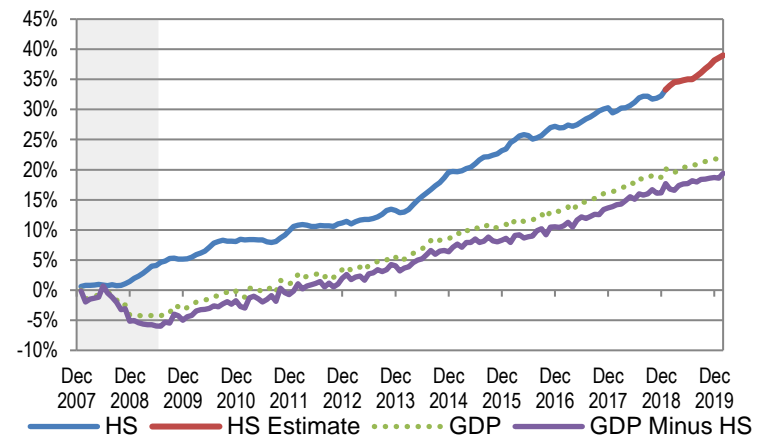


Source: Altarum monthly health spending estimates.

Note: This exhibit compares a given month’s health spending with that of the same month from the previous year.

Since the start of the recession in December 2007, real health spending (using the GDP deflator) through February 2020 has increased by 39.0% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009, and is now 19.4% above its December 2007 level. Including health care, real GDP in February was 22.5% 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.

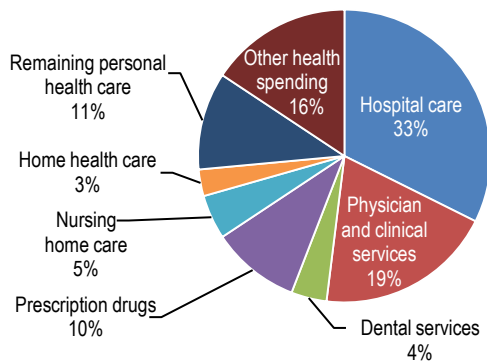
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In February 2020:

- ▲ Hospital spending was \$1.302 trillion (SAAR) and represented 33% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$775 billion, representing 19% of total health spending.
- ▲ Prescription drug spending was \$384 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$294 billion, less than 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, February 2020

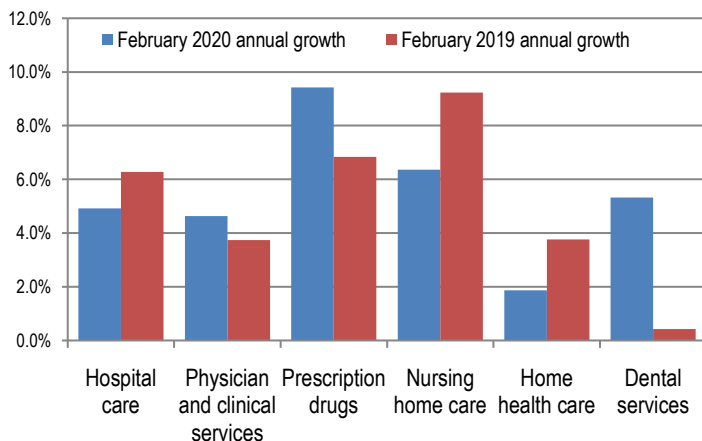


Source: Altarum monthly national health spending estimates.

Notes: See Exhibit 5 for a complete list of spending categories. Percentages do not sum to 100% due to rounding.

Growth over the past 12 months: Spending on prescription drugs grew most rapidly among the major categories, at 9.4%. Expenditures for home health care grew the slowest, at 1.9%. For the preceding 12-month period ending February 2019, spending on nursing home care showed the highest growth among the major categories, at 9.2%. Growth in spending on dental services was lowest, at 0.4% (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 February declined for the second consecutive month. Year-over-year spending growth peaked at 6.2% in December 2019 and stands at 5.5% in February. This month's deceleration was led by hospital spending growth, which has dropped for 4 consecutive months from a peak of 7.3% in November 2019 to 4.9% in February. January hospital growth was 6.0%, year over year.

This month's spending brief incorporates results from the recently-released CMS projection of national health expenditures from 2019 through 2028.² We use these data to update our estimates of expenditures on spending categories that are not included in the monthly updates from the Bureau of Economic Analysis, which is our principal source for spending estimates in 2019 and 2020. The result was a small upward revision to overall spending growth for 2019 and the first months of 2020 (e.g., from 5.3% to 5.5% for February 2020, year over year).

The impact of the COVID-19 pandemic on health spending is likely to begin to reveal itself in next month's spending brief, which will cover spending through March. Preliminary evidence suggests that there will be a decline in expenditures (or at least a further decline in spending growth) beginning in March because of a significant reduction in use of health care services that are not related to COVID-19.³ This evidence includes data from the latest jobs report that indicates a loss of 43,000 health care jobs in the first month of the COVID-19 economic downturn – a magnitude “unlike anything we have seen at the start of a recession over the past three decades.”⁴

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 currently available through 2018 and (for some spending categories) NHEA projections for 2019 and 2020.

² Keehan SP et al. National Health Expenditure Projections, 2019–28: Expected Rebound In Prices Drives Rising Spending Growth. *Health Affairs* 39:4. March 24, 2020. Available at: <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2020.00094>.

³ Cutler D. How Will COVID-19 Affect the Health Care Economy? *JAMA Health Forum*. April 9, 2020. Available at: https://jamanetwork.com/channels/health-forum/fullarticle/2764547?utm_source=silverchair&utm_medium=email&utm_campaign=article_alert-jhf&utm_content=olf&utm_term=040920.

⁴ Turner A. Health Care Sheds 43,000 Jobs in March, the Biggest Loss in at Least Three Decades. *Altarum Newsroom*. April 3, 2020. Available at: <https://altarum.org/news/health-care-sheds-43000-jobs-march-biggest-loss-least-three-decades>.

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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 202-776-5110 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://altarum.org/solution/health-sector-spending>.

DETAILED HEALTH SPENDING

Exhibit 5. Monthly National Spending Estimates by Detailed Category

Levels (in billions of dollars)	Feb 2017	Feb 2018	Feb 2019	Feb 2020
GDP	\$19,180.8	\$20,171.7	\$21,063.0	\$21,950.3
National health spending	\$3,428.1	\$3,576.0	\$3,762.6	\$3,969.0
Personal health care	\$2,908.1	\$3,014.7	\$3,177.3	\$3,346.1
Hospital expenditures	\$1,125.1	\$1,167.3	\$1,240.6	\$1,301.6
Physician and clinical expenditures	\$687.6	\$714.5	\$741.2	\$775.5
Other professional services expenditures	\$95.3	\$100.5	\$107.5	\$113.3
Dental services expenditures	\$128.2	\$134.9	\$135.5	\$142.7
Other health, residential, and personal care expenditures	\$179.6	\$188.7	\$196.6	\$206.1
Home health care expenditures	\$95.5	\$100.1	\$103.9	\$105.8
Nursing care facilities and continuing care retirement communities	\$162.7	\$162.0	\$177.0	\$188.2
Prescription drug expenditures	\$320.1	\$328.2	\$350.6	\$383.7
Durable medical equipment expenditures	\$51.4	\$53.5	\$56.5	\$58.9
Nondurable medical products expenditures	\$62.7	\$65.1	\$68.0	\$70.3
Administration and net cost of health insurance expenditures	\$265.6	\$295.8	\$311.9	\$337.7
Public health activity	\$90.5	\$92.6	\$95.3	\$98.0
Research	\$49.0	\$51.6	\$54.3	\$57.6
Structures and equipment	\$114.8	\$121.2	\$123.8	\$129.6
National health spending share of GDP	17.9%	17.7%	17.9%	18.1%
National health spending share of PGDP	17.7%	17.7%	18.0%	18.2%

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

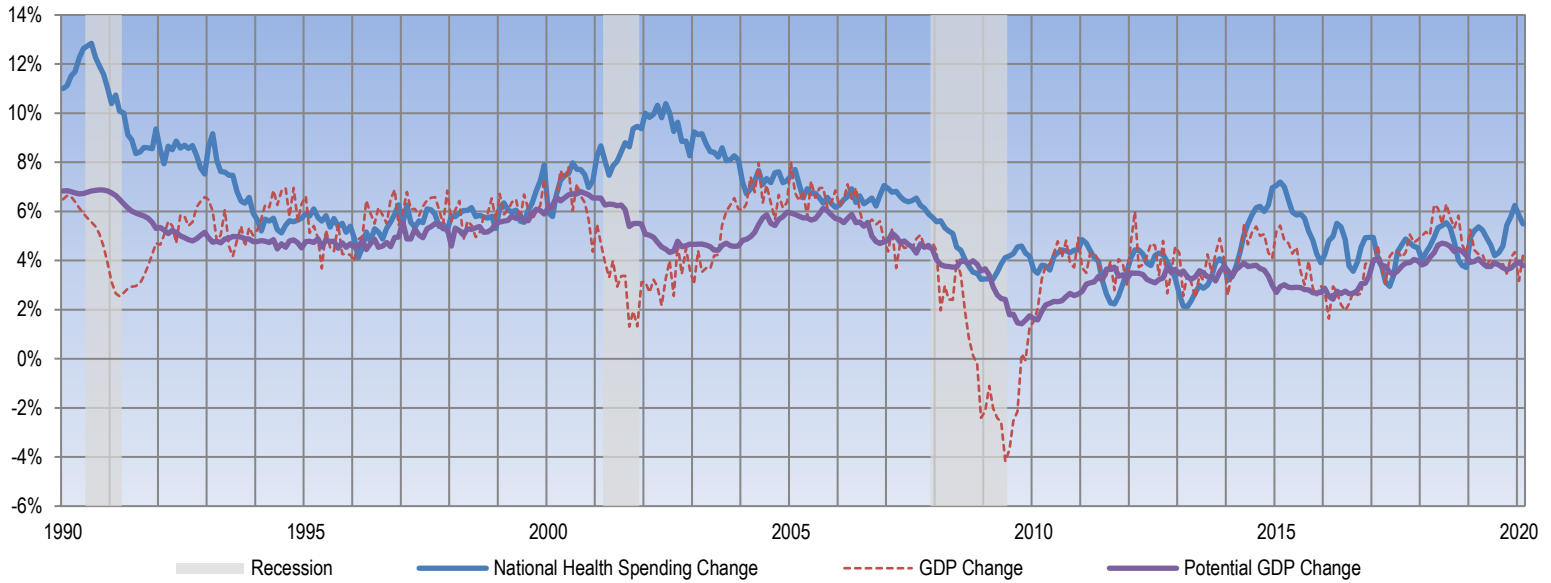
Growth Rates	Feb 2018	Feb 2019	Feb 2020
GDP	5.2%	4.4%	4.2%
National health spending	4.3%	5.2%	5.5%
Personal health care	3.7%	5.4%	5.3%
Hospital expenditures	3.8%	6.3%	4.9%
Physician and clinical expenditures	3.9%	3.7%	4.6%
Other professional services expenditures	5.4%	7.0%	5.4%
Dental services expenditures	5.3%	0.4%	5.3%
Other health, residential, and personal care expenditures	5.1%	4.2%	4.8%
Home health care expenditures	4.8%	3.8%	1.9%
Nursing care facilities and continuing care retirement communities	-0.4%	9.2%	6.4%
Prescription drug expenditures	2.5%	6.8%	9.4%
Durable medical equipment expenditures	4.1%	5.6%	4.3%
Nondurable medical products expenditures	3.7%	4.5%	3.5%
Administration and net cost of health insurance expenditures	11.4%	5.4%	8.3%
Public health activity	2.4%	2.9%	2.7%
Research	5.4%	5.2%	6.0%
Structures and equipment	5.5%	2.1%	4.7%
National health spending minus GDP	-0.9%	0.8%	1.3%
National health spending minus PGDP	0.4%	1.3%	1.7%

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

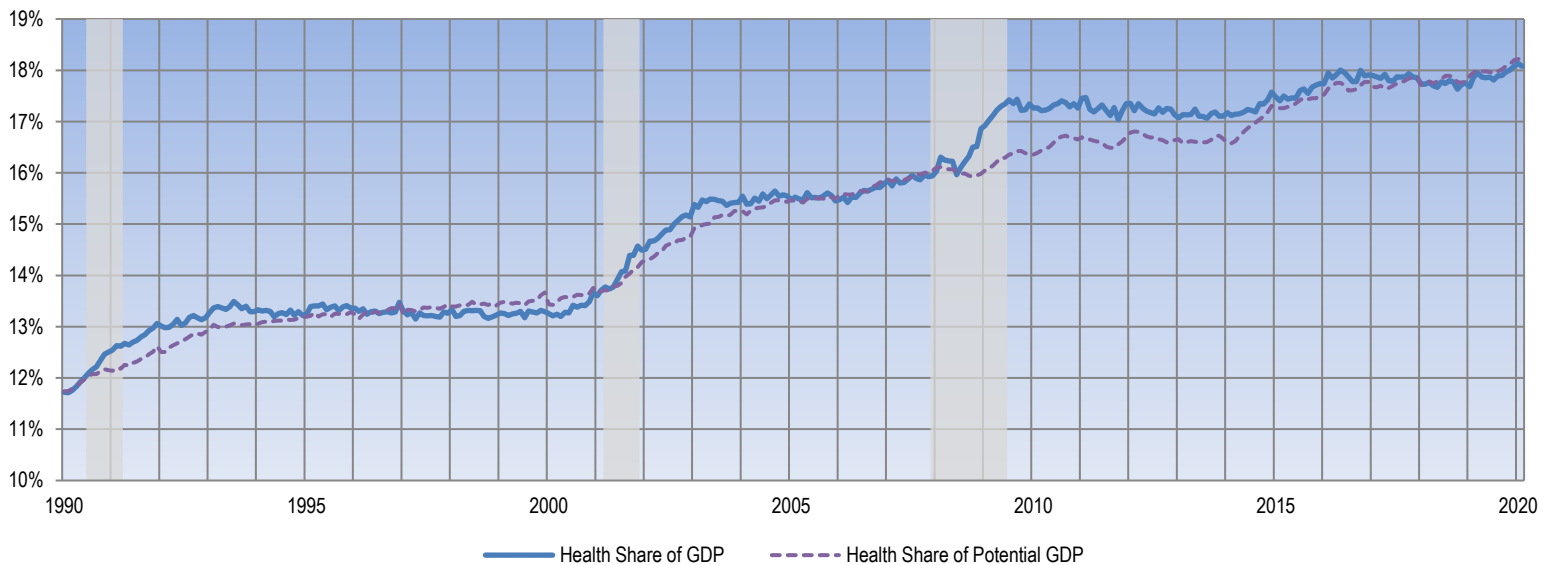
Exhibit 7. Year-over-Year Percentage Change in Spending and GDP



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 (1990–2018) and projections (2019) (<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 2018 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2018 ratios are used to adjust BEA spending for months in 2019 and 2020.