

December 13, 2019 ▲ New CMS data indicate national health spending grew by 4.6% in 2018

HIGHLIGHTS

- ▲ New data from the Centers for Medicare and Medicaid Services (CMS) indicate that national health spending as measured by the National Health Expenditure Accounts (NHEA) grew by 4.6% in 2018.¹
- ▲ At \$3.89 trillion (seasonally adjusted annual rate), national health spending² in October 2019 was 5.3% higher than in October 2018.
- ▲ The October 2019 nominal gross domestic product (GDP) growth over a 12-month period was 3.6%, and the resulting health spending share of GDP was 17.9% and 18.1% of PGDP.
- ▲ Spending in October 2019, year over year, increased in all major categories. Spending on prescription drugs grew the fastest, at 8.0%. Growth in spending on home health care was the slowest, at 0.8%.

National Health Spending and GDP*				
	Oct 2017	Oct 2018	Sep 2019	Oct 2019
GDP	19.78	20.94	21.60	21.70
National Health Spending	3.55	3.69	3.87	3.89
Health Spending Share of GDP	17.9%	17.6%	17.9%	17.9%
Health Spending Share of PGDP	17.9%	17.8%	18.1%	18.1%
Growth from Prior 12 Months				
Health Spending	4.7%	4.0%	4.7%	5.3%
GDP	5.1%	5.8%	3.9%	3.6%
Health Spending Minus GDP	-0.4%	-1.8%	0.8%	1.6%
Health Spending Minus PGDP	1.0%	-0.4%	1.0%	1.6%

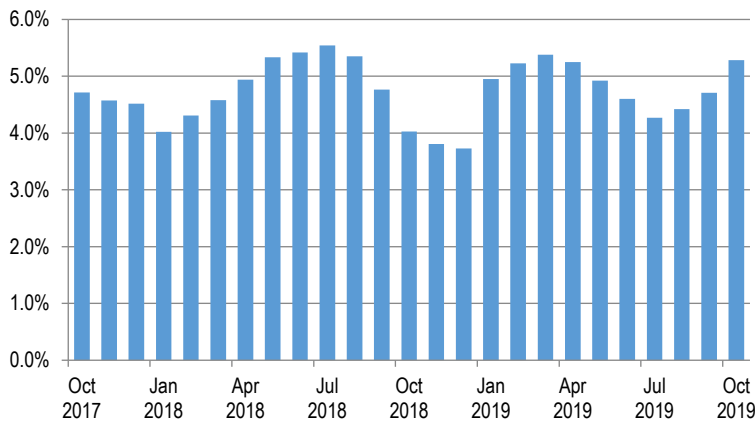
Source: Altarum monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.
* Spending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

HEALTH SPENDING

In October 2019, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.89 trillion, slightly above its September value of \$3.87 trillion. October's health spending accounted for 17.9% of GDP. As a share of potential GDP (PGDP), October spending was 18.1%. Year over year, health spending in October grew by 5.3%, significantly above the September rate of 4.7% (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 October 2019 has increased by 36.6% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009, and is now 18.7% above its December 2007 level. Including health care, real GDP in October was 21.5% above its pre-recession level (Exhibit 2).

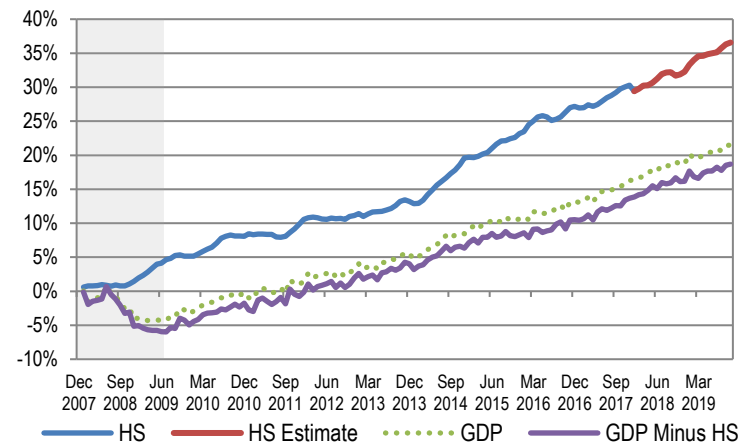
Exhibit 1. Year-over-Year Growth Rates in Health Spending



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.

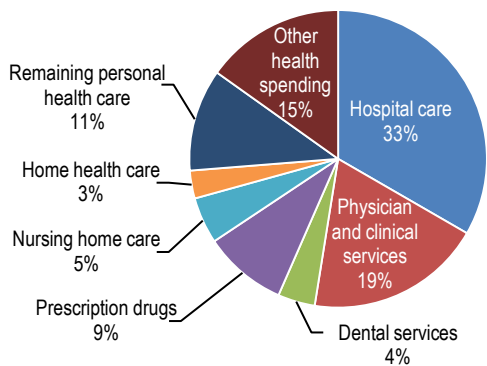
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In October 2019:

- ▲ Hospital spending was \$1.285 trillion (SAAR) and represented 33% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$756 billion, representing 19% of total health spending.
- ▲ Prescription drug spending was \$369 billion, 9% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$287 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, October 2019

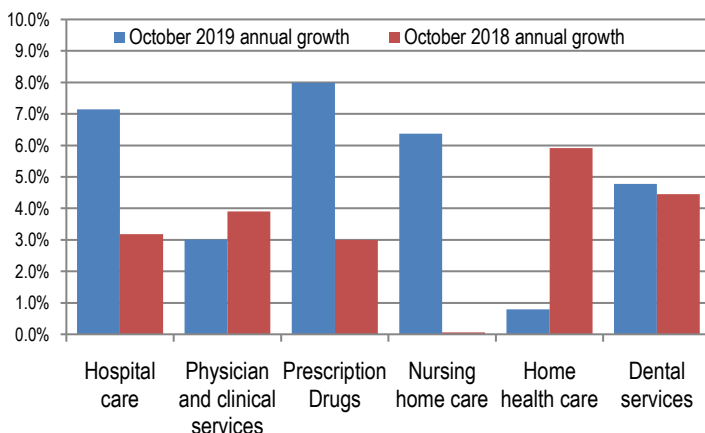


Source: Altarum monthly national health spending estimates.

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: Spending on prescription drugs grew most rapidly among the major categories, at 8.0%. Expenditures for home health care grew the slowest, at 0.8%. For the preceding 12-month period ending October 2018, spending on home health care showed the highest growth among the major categories, at 5.9%. Growth in spending on nursing home care was lowest, at 0.1% (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 new data from the official 2018 release of the NHEA, published by CMS on December 5. As a result, our national health spending growth estimate has been revised from 4.8% to 4.6%. Our estimate of total national health spending in 2018 was also revised slightly from \$3.66 trillion to \$3.65 trillion. These small downward revisions occurred despite an upward revision to 12.0% in growth of the net cost of health insurance resulting from the health insurance tax. Our previous growth rate of 7.1% was based on the CMS NHEA projections published in February of this year. Our revisions caused health spending as a share of GDP to move downward from 17.9% to the CMS value of 17.7%.

Our estimate of national health spending growth for the first 10 months of 2019 is 4.9%, year over year. (The official NHEA values for 2019 will be released in December 2020.) Spending in October grew by 5.3% since October 2018 – the third consecutive month of health spending acceleration since the growth rate stood at 4.2% in July. This acceleration is primarily attributable to growth in hospital spending, which has also exhibited steady acceleration for the past 3 months, from a growth rate of 4.5% in July to 7.1% in October. In last month's spending brief, we cited evidence that the recent increase in hospital spending growth might continue in the coming months.

Spending for physician and clinical services grew moderately at 3.5% for the year to date and 3.0% in October 2019. Prescription drug spending growth has been quite high throughout 2019, standing at 7.6% for the year to date and 8.0% for October. But because it has not accelerated significantly during the year, it has not contributed to the recent acceleration of overall health spending.

Despite this recent acceleration, health spending remains below 18% of GDP, largely because of strong GDP growth that may be fading.

¹ Hartmann M et al., National Health Care Spending In 2018: Growth Driven By Accelerations In Medicare And Private Insurance Spending. Health Affairs. Published December 5, 2019. Available at: <https://www.healthaffairs.org/doi/full/10.1377/hlthaff.2019.01451>.

² 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 that are currently available through 2017 and (for some spending categories) NHEA projections for 2018.

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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://altarum.org/solution/health-sector-spending>.



DETAILED HEALTH SPENDING

Exhibit 5. Monthly National Spending Estimates by Detailed Category

Levels (in billions of dollars)	Oct 2016	Oct 2017	Oct 2018	Oct 2019
GDP	\$18,830.9	\$19,784.6	\$20,937.7	\$21,700.9
National health spending	\$3,389.0	\$3,548.7	\$3,691.6	\$3,886.8
Personal health care	\$2,874.9	\$3,004.6	\$3,109.3	\$3,286.1
Hospital expenditures	\$1,105.9	\$1,162.0	\$1,199.0	\$1,284.7
Physician and clinical expenditures	\$675.0	\$706.0	\$733.5	\$755.6
Other professional services expenditures	\$93.5	\$99.7	\$105.1	\$112.6
Dental services expenditures	\$124.8	\$131.5	\$137.4	\$143.9
Other health, residential, and personal care expenditures	\$176.2	\$186.0	\$193.9	\$203.1
Home health care expenditures	\$94.1	\$98.3	\$104.2	\$105.0
Nursing care facilities and continuing care retirement communities	\$165.7	\$171.4	\$171.6	\$182.5
Prescription drug expenditures	\$326.2	\$331.4	\$341.3	\$368.6
Durable medical equipment expenditures	\$50.9	\$53.1	\$55.9	\$58.9
Nondurable medical products expenditures	\$62.6	\$65.0	\$67.5	\$71.1
Administration and net cost of health insurance expenditures	\$265.7	\$280.8	\$312.1	\$317.5
Public health activity	\$89.5	\$92.1	\$94.2	\$96.9
Research	\$48.0	\$50.9	\$53.3	\$56.1
Structures and equipment	\$111.0	\$120.3	\$122.8	\$130.2
National health spending share of GDP	18.0%	17.9%	17.6%	17.9%
National health spending share of PGDP	17.7%	17.9%	17.8%	18.1%

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.

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

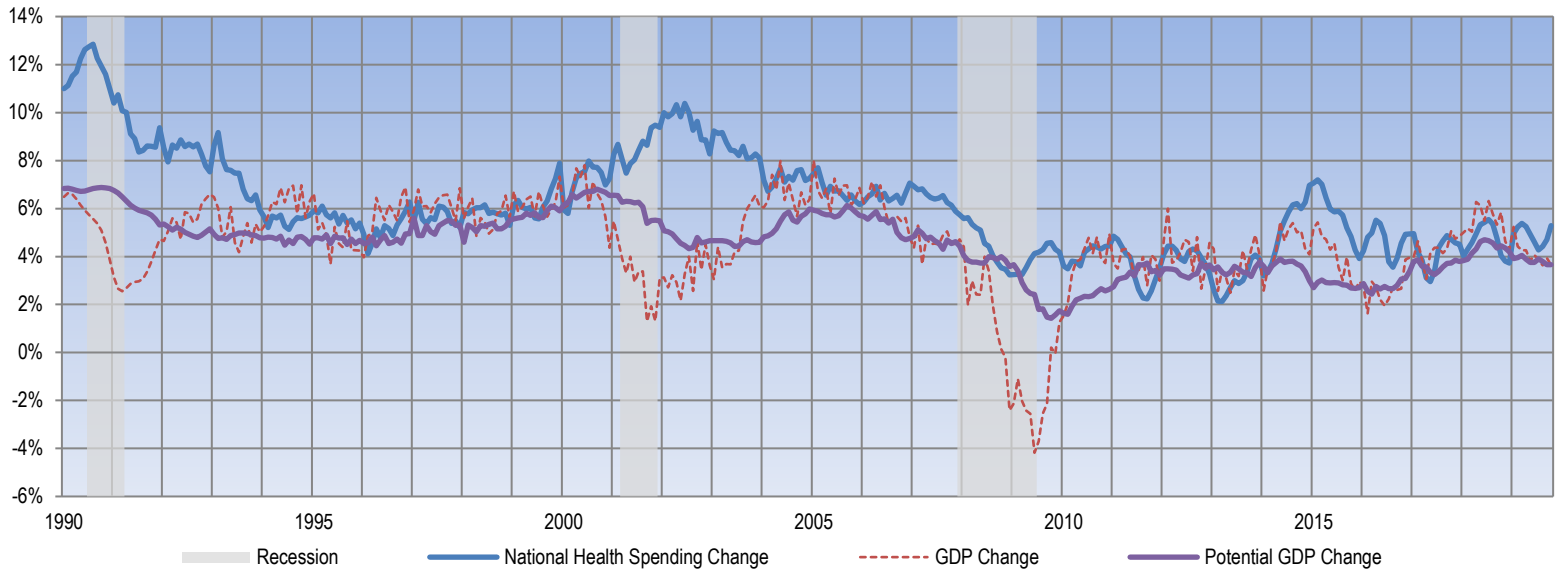
Growth Rates	Oct 2017	Oct 2018	Oct 2019
GDP	5.1%	5.8%	3.6%
National health spending	4.7%	4.0%	5.3%
Personal health care	4.5%	3.5%	5.7%
Hospital expenditures	5.1%	3.2%	7.1%
Physician and clinical expenditures	4.6%	3.9%	3.0%
Other professional services expenditures	6.7%	5.3%	7.2%
Dental services expenditures	5.4%	4.4%	4.8%
Other health, residential, and personal care expenditures	5.6%	4.2%	4.7%
Home health care expenditures	4.6%	5.9%	0.8%
Nursing care facilities and continuing care retirement communities	3.4%	0.1%	6.4%
Prescription drug expenditures	1.6%	3.0%	8.0%
Durable medical equipment expenditures	4.3%	5.2%	5.5%
Nondurable medical products expenditures	3.9%	3.8%	5.3%
Administration and net cost of health insurance expenditures	5.7%	11.1%	1.7%
Public health activity	2.9%	2.3%	2.9%
Research	6.1%	4.7%	5.2%
Structures and equipment	8.4%	2.0%	6.0%
National health spending minus GDP	-0.4%	-1.8%	1.6%
National health spending minus PGDP	1.0%	-0.4%	1.6%

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

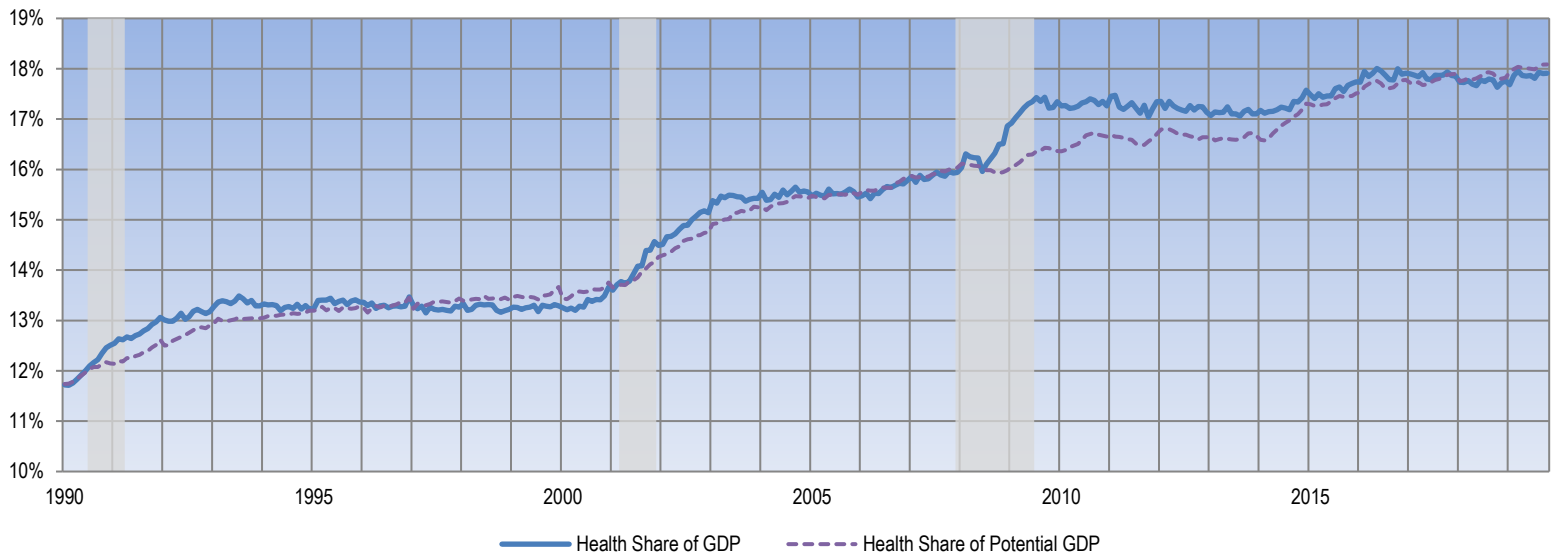
Exhibit 7. Year-over-Year Percentage Change in Spending and GDP



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.