

February 21, 2020 ▲ Health spending acceleration leads to highest growth rate since August 2015

HIGHLIGHTS

- ▲ At \$3.92 trillion (seasonally adjusted annual rate), national health spending¹ in December 2019 was 5.7% higher than in December 2018.
- ▲ The December 2019 nominal gross domestic product (GDP) growth over a 12-month period was 4.2%, and the resulting health spending share of GDP was 18.0% and 18.1% of PGDP.
- ▲ Spending in December 2019, year over year, increased in all major categories. Spending on prescription drugs grew the fastest, at 11.7%. Growth in spending on physician and clinical services was the slowest, at 2.9%.

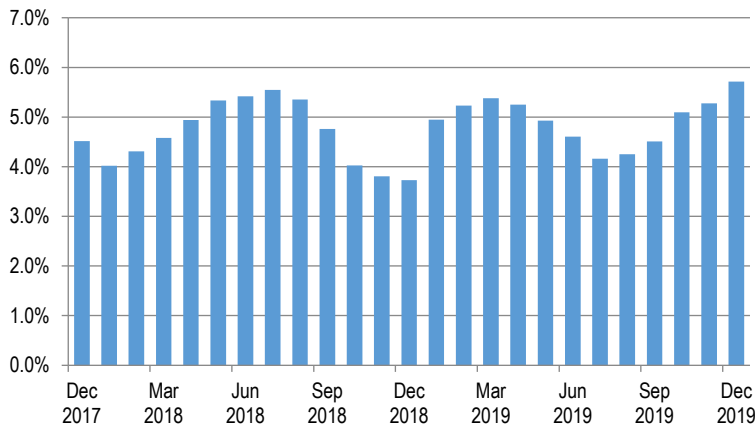
National Health Spending and GDP*				
	Dec 2017	Dec 2018	Nov 2019	Dec 2019
GDP	20.03	20.88	21.71	21.77
National Health Spending	3.58	3.71	3.89	3.92
Health Spending Share of GDP	17.9%	17.8%	17.9%	18.0%
Health Spending Share of PGDP	17.9%	17.8%	18.1%	18.1%
Growth from Prior 12 Months				
Health Spending	4.5%	3.7%	5.3%	5.7%
GDP	4.8%	4.3%	4.0%	4.2%
Health Spending Minus GDP	-0.3%	-0.6%	1.2%	1.5%
Health Spending Minus PGDP	0.7%	-0.5%	1.5%	1.8%

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 December 2019, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.92 trillion, well above its November value of \$3.89 trillion. December’s health spending accounted for 18.0% of GDP. As a share of potential GDP (PGDP), December spending was 18.1%. Year over year, health spending in December grew by 5.7%, notably greater than the November rate of 5.3% (Exhibit 1). Exhibits 7 and 8 show long-term comparisons.

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

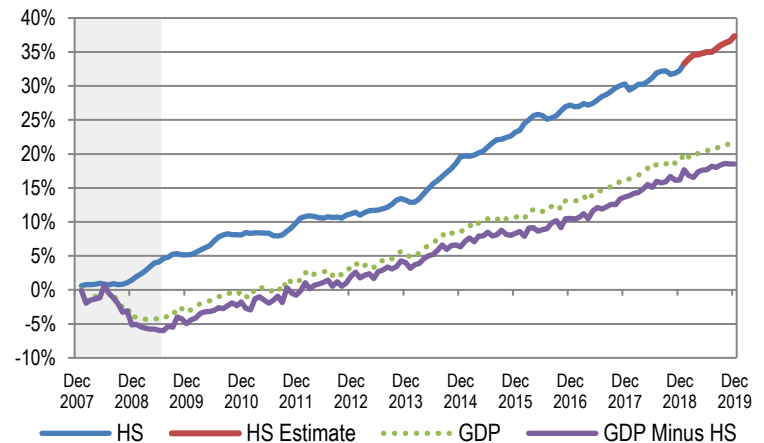


Source: Altarum monthly health spending estimates.

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 December 2019 has increased by 37.3% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009, and is now 18.5% above its December 2007 level. Including health care, real GDP in December was 21.5% 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.

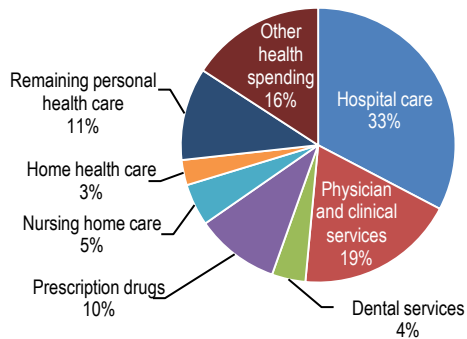
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In December 2019:

- ▲ Hospital spending was \$1.290 trillion (SAAR) and represented 33% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$759 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 \$291 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, December 2019

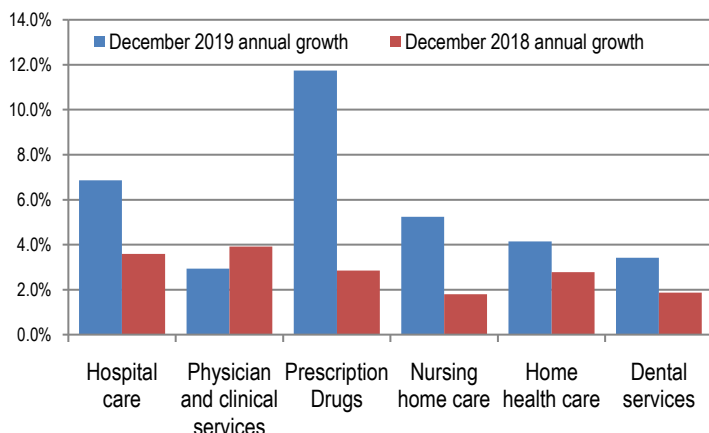


Source: Altarum monthly national health spending estimates.

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 11.7%. Expenditures for physician and clinical services grew the slowest, at 2.9%. For the preceding 12-month period ending December 2018, spending on physician and clinical services showed the highest growth among the major categories, at 3.9%. Growth in spending on nursing home care was lowest, at 1.8% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

For the fifth straight month, national health spending has accelerated, with year-over-year growth increasing from 4.2% in July to 5.7% in December. December's growth rate is the highest since August 2015, and has resulted in health spending slightly exceeding 18% of GDP for the first time since May 2016.

However, unlike in the previous four months, this month's acceleration was not driven by hospital spending, whose year-over-year growth rate declined from 7.3% in November to 6.9% in December. It was instead driven primarily by retail sales of medical products, led by prescription drug spending, whose growth rate jumped to 11.7% in December, up from 7.6% in November, year over year. This is the highest monthly growth rate for drugs since December 2014. We are uncertain of the cause: while prescription drug price growth surged in December, the price indexes for retail sales of other products fell, while their spending growth also increased significantly. We will wait to see if these higher growth rates persist in future months.

This month's spending brief provides a first look at health spending growth for all of 2019. Our estimate of national health spending growth for the year currently stands at 4.9%, slightly higher than 2018's growth rate of 4.6%. Hospital spending grew by 5.9% and prescription drug spending grew by 8.0%, while spending for physician and clinical services grew by a relatively modest 3.4%.

CMS will release its annual projections of national health expenditures later this month. These projections will cover the ten-year period from 2019 through 2028, so should shed further light on spending in 2019. Last year's release projected 2019 growth at 4.8%, close to our current estimate of 4.9%. The official CMS accounting of 2019 national health expenditures will not be available until December.

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 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 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)	Dec 2016	Dec 2017	Dec 2018	Dec 2019
GDP	\$19,100.0	\$20,025.6	\$20,884.2	\$21,766.7
National health spending	\$3,420.8	\$3,575.3	\$3,708.7	\$3,920.7
Personal health care	\$2,904.0	\$3,022.6	\$3,124.6	\$3,312.8
Hospital expenditures	\$1,116.4	\$1,165.5	\$1,207.4	\$1,290.3
Physician and clinical expenditures	\$686.9	\$709.9	\$737.7	\$759.4
Other professional services expenditures	\$93.7	\$100.5	\$106.2	\$112.7
Dental services expenditures	\$126.5	\$134.0	\$136.5	\$141.2
Other health, residential, and personal care expenditures	\$177.9	\$187.4	\$195.2	\$204.9
Home health care expenditures	\$94.2	\$100.2	\$103.0	\$107.3
Nursing care facilities and continuing care retirement communities	\$165.4	\$171.7	\$174.7	\$183.9
Prescription drug expenditures	\$328.5	\$333.9	\$343.5	\$383.8
Durable medical equipment expenditures	\$51.8	\$53.7	\$54.6	\$59.1
Nondurable medical products expenditures	\$62.8	\$65.7	\$65.7	\$70.2
Administration and net cost of health insurance expenditures	\$265.5	\$288.4	\$311.8	\$322.7
Public health activity	\$90.0	\$92.4	\$94.6	\$97.4
Research	\$48.5	\$51.3	\$53.7	\$56.5
Structures and equipment	\$112.9	\$120.7	\$123.9	\$131.2
National health spending share of GDP	17.9%	17.9%	17.8%	18.0%
National health spending share of PGDP	17.8%	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	Dec 2017	Dec 2018	Dec 2019
GDP	4.8%	4.3%	4.2%
National health spending	4.5%	3.7%	5.7%
Personal health care	4.1%	3.4%	6.0%
Hospital expenditures	4.4%	3.6%	6.9%
Physician and clinical expenditures	3.4%	3.9%	2.9%
Other professional services expenditures	7.3%	5.7%	6.1%
Dental services expenditures	5.9%	1.9%	3.4%
Other health, residential, and personal care expenditures	5.4%	4.2%	5.0%
Home health care expenditures	6.4%	2.8%	4.1%
Nursing care facilities and continuing care retirement communities	3.8%	1.8%	5.2%
Prescription drug expenditures	1.7%	2.8%	11.7%
Durable medical equipment expenditures	3.7%	1.7%	8.3%
Nondurable medical products expenditures	4.6%	0.0%	6.8%
Administration and net cost of health insurance expenditures	8.6%	8.1%	3.5%
Public health activity	2.7%	2.4%	2.9%
Research	5.8%	4.8%	5.2%
Structures and equipment	6.9%	2.7%	5.9%
National health spending minus GDP	-0.3%	-0.6%	1.5%
National health spending minus PGDP	0.7%	-0.5%	1.8%

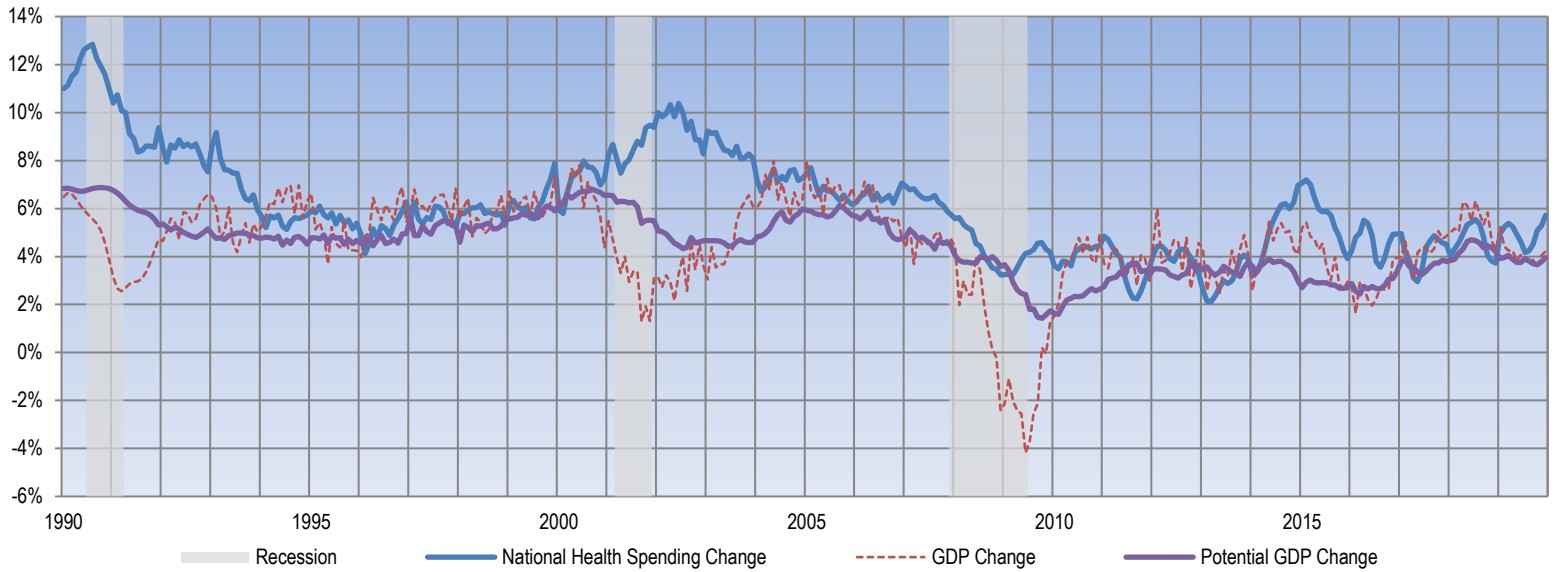
Source: Computed from Exhibit 5.

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



TIME SERIES TRACKER

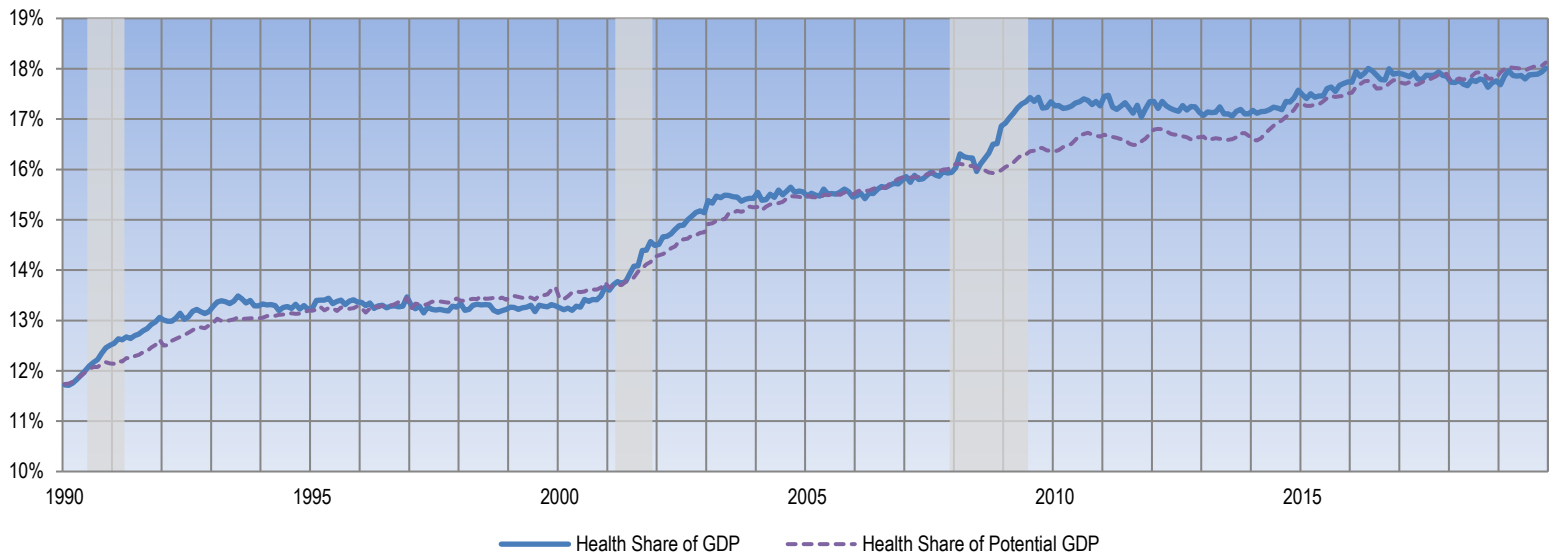
Exhibit 7. Year-over-Year Percentage Change in Spending and GDP



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.