

March 13, 2020 ▲ Health spending growth declines for the first time in 6 months

HIGHLIGHTS

- ▲ At \$3.94 trillion (seasonally adjusted annual rate), national health spending¹ in January 2020 was 5.3% higher than in January 2019.
- ▲ The January 2020 nominal gross domestic product (GDP) growth over a 12-month period was 3.2%, and the resulting health spending share of GDP was 18.0% and 18.2% of PGDP.
- ▲ Spending in January 2020, year over year, increased in all major categories. Spending on prescription drugs grew the fastest, at 10.1%. Growth in spending on dental services was the slowest, at 3.4%.

National Health Spending and GDP*				
	Jan 2018	Jan 2019	Dec 2019	Jan 2020
GDP	20.09	21.15	21.78	21.82
National Health Spending	3.56	3.74	3.92	3.94
Health Spending Share of GDP	17.7%	17.7%	18.0%	18.0%
Health Spending Share of PGDP	17.8%	17.9%	18.1%	18.2%
Growth from Prior 12 Months				
Health Spending	4.0%	4.9%	5.7%	5.3%
GDP	5.0%	5.3%	4.3%	3.2%
Health Spending Minus GDP	-1.0%	-0.3%	1.4%	2.1%
Health Spending Minus PGDP	0.2%	1.0%	1.9%	1.3%

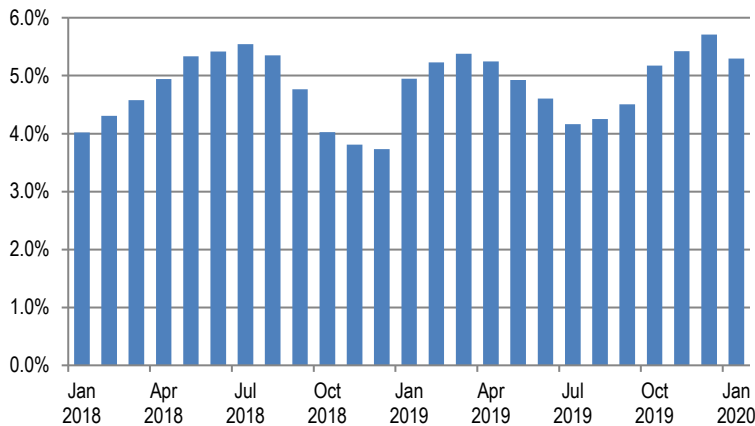
Source: Altarum monthly health spending estimates (see Methods on page 4). Monthly GDP is from Macroeconomic Advisers and Altarum estimates. PGDP, defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates, converted to monthly by Altarum.
* Spending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

HEALTH SPENDING

In January 2020, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.94 trillion, above its December 2019 value of \$3.92 trillion. January’s health spending accounted for 18.0% of GDP. As a share of potential GDP (PGDP), January spending was 18.2%. Year over year, health spending in January grew by 5.3%, less than the December rate of 5.7% (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 January 2020 has increased by 37.8% (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 January was 21.8% above its pre-recession level (Exhibit 2).

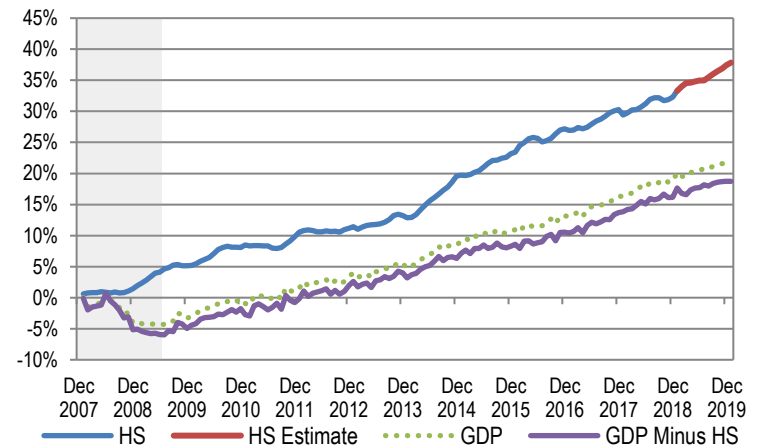
Exhibit 1. Year-over-Year Growth Rates in Health Spending



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.

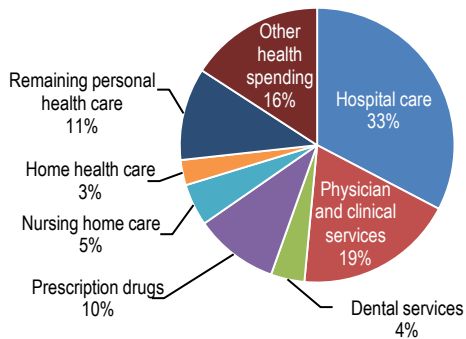
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In January 2020:

- ▲ Hospital spending was \$1.295 trillion (SAAR) and represented 33% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$768 billion, representing 19% of total health spending.
- ▲ Prescription drug spending was \$382 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$293 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, January 2020

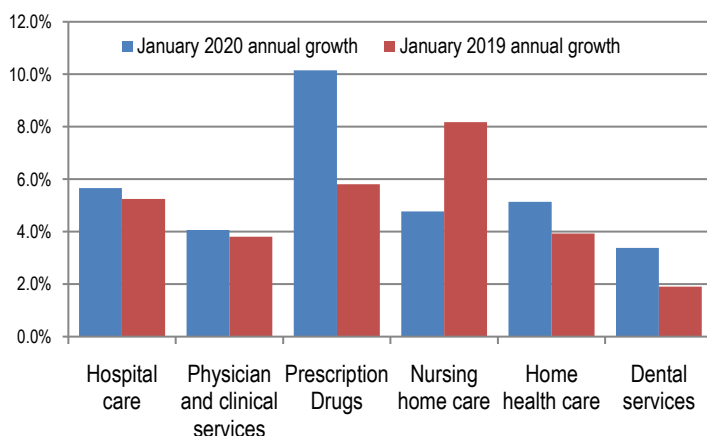


Source: Altarum monthly national health spending estimates.

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 10.1%. Expenditures for dental services grew the slowest, at 3.4%. For the preceding 12-month period ending January 2019, spending on nursing home care showed the highest growth among the major categories, at 8.2%. Growth in spending on dental services was lowest, at 1.9% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

After 5 months of health spending acceleration to 5.7% in December 2019, year-over-year spending growth in January 2020 dropped to 5.3%. Hospital spending growth, which led the acceleration for 4 of the 5 previous months, dropped from 6.6% in December to 5.7% in January. Retail sales of medical products, which was a major driver in December's acceleration, dropped from 9.1% to 7.8%. While prescription drug spending growth – the largest component of retail sales of medical products – remained high at 10.1%, growth in spending on its other components declined significantly: Spending growth for durable medical equipment dropped precipitously from 5.8% in December to 1.0% in January. Similarly, spending growth on nondurable medical products dropped from 5.8% in December to 1.8% in January.

Although we were expecting release of the CMS projections of national health expenditures in February, we have been told the release has been slightly delayed in order to incorporate the repeal of the Cadillac tax, health insurer tax, and device tax into the projections. 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, including program administration and net cost of private health insurance, government public health activities, research, structures and equipment, and other personal health care. We will update these spending categories when we receive the projections. The projections will also provide a check on our spending estimates for all of 2019, for which our annual growth estimate currently stands at 5.0%.

We will be watching in coming months for an impact of the COVID-19 pandemic on health care spending.

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)	Jan 2017	Jan 2018	Jan 2019	Jan 2020
GDP	\$19,132.3	\$20,090.5	\$21,145.7	\$21,818.3
National health spending	\$3,424.6	\$3,562.4	\$3,738.6	\$3,936.7
Personal health care	\$2,906.3	\$3,005.3	\$3,153.9	\$3,324.9
Hospital expenditures	\$1,126.0	\$1,164.5	\$1,225.6	\$1,295.1
Physician and clinical expenditures	\$686.8	\$711.2	\$738.3	\$768.4
Other professional services expenditures	\$95.4	\$100.5	\$106.6	\$113.0
Dental services expenditures	\$127.8	\$133.6	\$136.2	\$140.8
Other health, residential, and personal care expenditures	\$178.7	\$188.1	\$196.0	\$205.9
Home health care expenditures	\$95.3	\$99.2	\$103.1	\$108.4
Nursing care facilities and continuing care retirement communities	\$163.6	\$162.9	\$176.2	\$184.6
Prescription drug expenditures	\$318.6	\$327.5	\$346.5	\$381.6
Durable medical equipment expenditures	\$51.3	\$53.0	\$57.0	\$57.6
Nondurable medical products expenditures	\$62.6	\$64.9	\$68.5	\$69.7
Administration and net cost of health insurance expenditures	\$265.5	\$292.3	\$311.4	\$325.6
Public health activity	\$90.2	\$92.5	\$94.9	\$97.6
Research	\$48.7	\$51.5	\$54.0	\$56.8
Structures and equipment	\$114.0	\$120.8	\$124.5	\$131.8
National health spending share of GDP	17.9%	17.7%	17.7%	18.0%
National health spending share of PGDP	17.7%	17.8%	17.9%	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

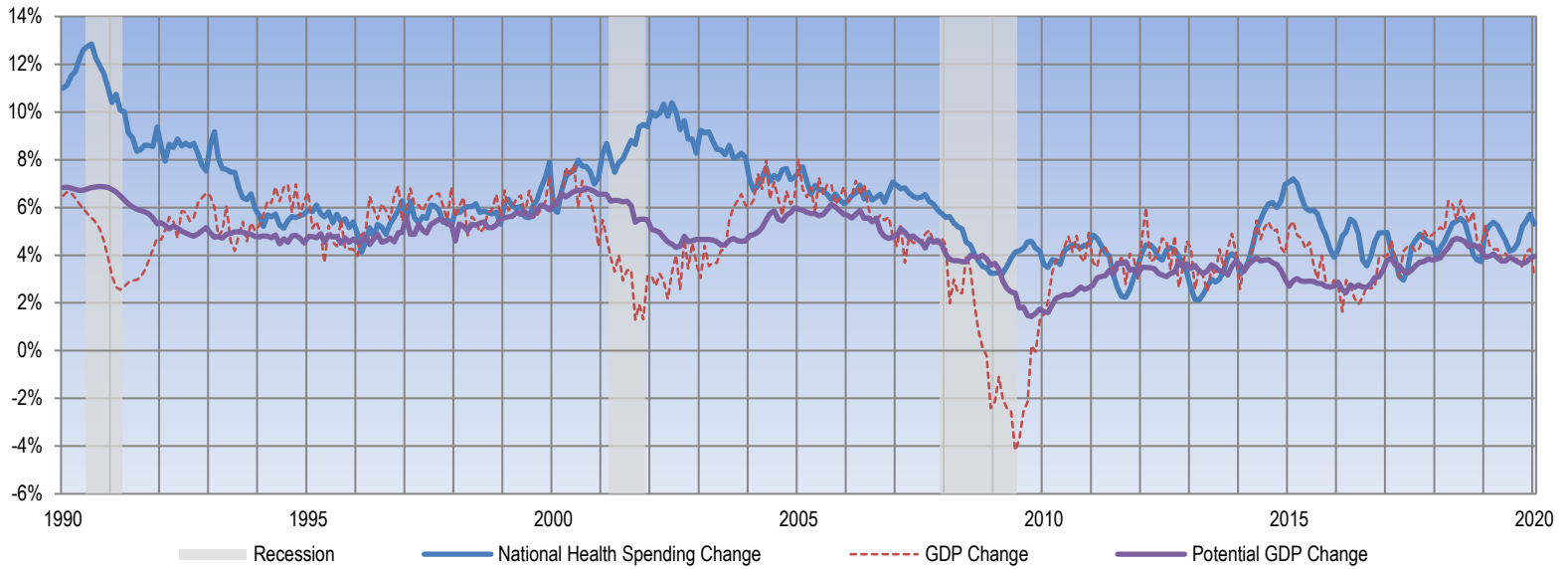
Growth Rates	Jan 2018	Jan 2019	Jan 2020
GDP	5.0%	5.3%	3.2%
National health spending	4.0%	4.9%	5.3%
Personal health care	3.4%	4.9%	5.4%
Hospital expenditures	3.4%	5.3%	5.7%
Physician and clinical expenditures	3.6%	3.8%	4.1%
Other professional services expenditures	5.4%	6.1%	6.0%
Dental services expenditures	4.5%	1.9%	3.4%
Other health, residential, and personal care expenditures	5.2%	4.2%	5.1%
Home health care expenditures	4.1%	3.9%	5.1%
Nursing care facilities and continuing care retirement communities	-0.5%	8.2%	4.8%
Prescription drug expenditures	2.8%	5.8%	10.1%
Durable medical equipment expenditures	3.1%	7.6%	1.0%
Nondurable medical products expenditures	3.6%	5.6%	1.8%
Administration and net cost of health insurance expenditures	10.1%	6.5%	4.6%
Public health activity	2.6%	2.5%	2.9%
Research	5.7%	4.8%	5.1%
Structures and equipment	5.9%	3.1%	5.8%
National health spending minus GDP	-1.0%	-0.3%	2.1%
National health spending minus PGDP	0.2%	1.0%	1.3%

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

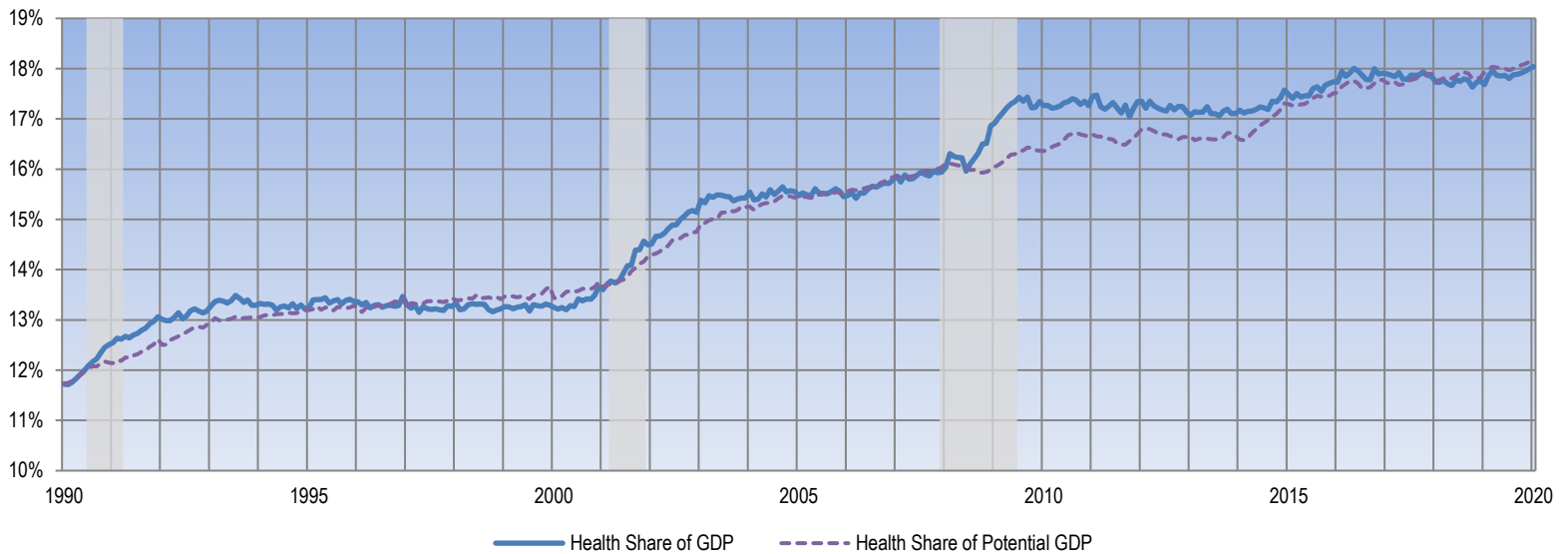
Exhibit 7. Year-over-Year Percentage Change in Spending and GDP



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.