

November 15, 2019 ▲ Hospital spending growth uptick contributes to health spending acceleration

HIGHLIGHTS

- ▲ At \$3.88 trillion (seasonally adjusted annual rate), national health spending¹ in September 2019 was 4.9% higher than it was in September 2018.
- ▲ The September 2019 nominal gross domestic product (GDP) growth over a 12-month period was 4.1%, and the resulting health spending share of GDP was 18.0% and 18.1% of PGDP.
- ▲ Spending in September 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 1.9%.

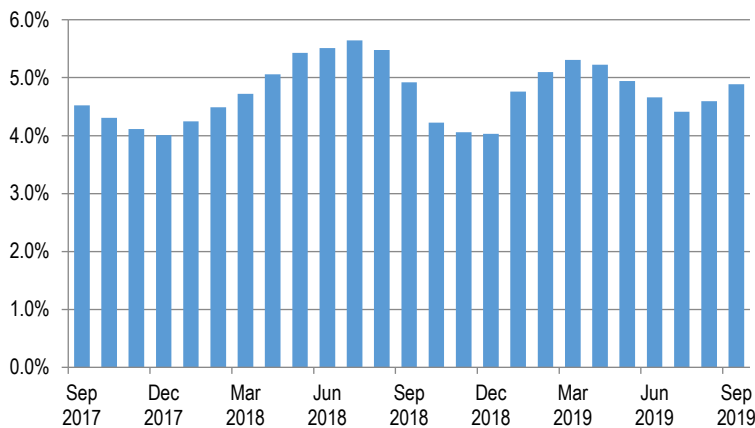
National Health Spending and GDP*				
	Sep 2017	Sep 2018	Aug 2019	Sep 2019
GDP	19.71	20.69	21.47	21.55
National Health Spending	3.53	3.70	3.87	3.88
Health Spending Share of GDP	17.9%	17.9%	18.0%	18.0%
Health Spending Share of PGDP	17.9%	18.0%	18.1%	18.1%
Growth from Prior 12 Months				
Health Spending	4.5%	4.9%	4.6%	4.9%
GDP	4.2%	5.0%	4.0%	4.1%
Health Spending Minus GDP	0.3%	-0.1%	0.6%	0.8%
Health Spending Minus PGDP	0.9%	0.7%	0.6%	0.9%

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 September 2019, health spending reached a seasonally adjusted annual rate (SAAR) of \$3.88 trillion, slightly above its August value of \$3.87 trillion. September’s health spending accounted for 18.0% of GDP. As a share of potential GDP (PGDP), September spending was 18.1%. Year over year, health spending in September grew by 4.9%, somewhat above the August rate of 4.6% (Exhibit 1). Exhibits 7 and 8 show long-term comparisons.

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

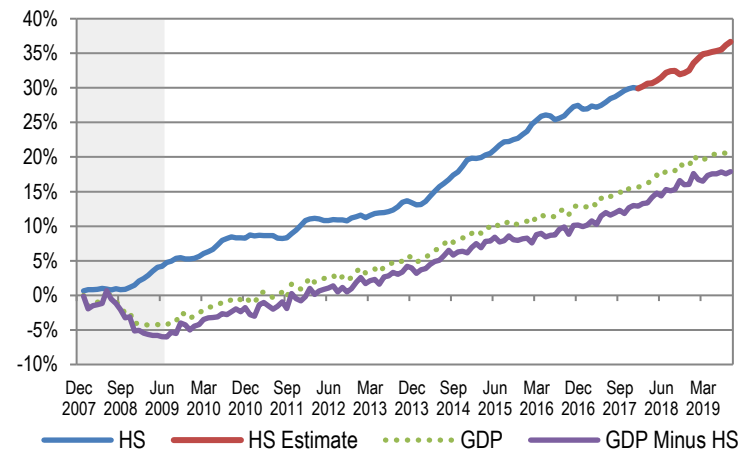


Source: Altarum monthly health spending estimates.

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 September 2019 has increased by 36.7% (an annual rate of 2.7%). Real GDP, excluding health spending, fell by more than 6% in mid-2009, and is now 17.9% above its December 2007 level. Including health care, real GDP in September was 20.9% 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.

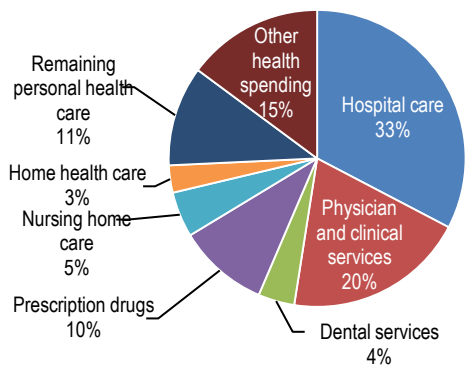
Note: Shading indicates the recession period.

HEALTH CARE SPENDING BY CATEGORY

In September 2019:

- ▲ Hospital spending was \$1.277 trillion (SAAR) and represented 33% of total health spending (Exhibits 3 and 5).
- ▲ Physician and clinical services spending was \$761 billion, representing 20% of total health spending.
- ▲ Prescription drug spending was \$379 billion, 10% of total health spending.
- ▲ Nursing home care and home health care spending combined were \$297 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, September 2019

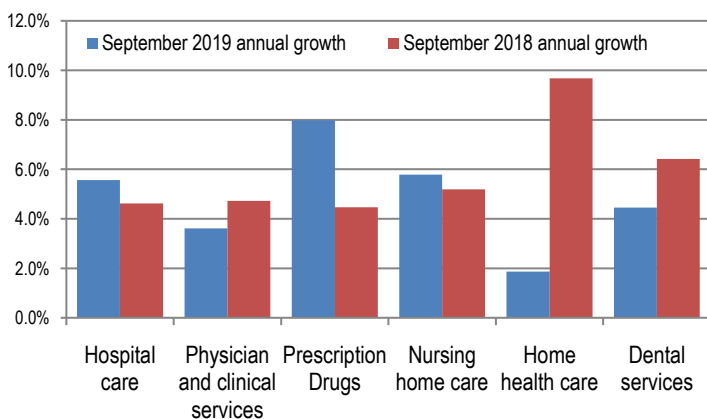


Source: Altarum monthly national health spending estimates.

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 1.9%. For the preceding 12-month period ending September 2018, spending on home health care showed the highest growth among the major categories, at 9.7%. Growth in prescription drug spending was lowest, at 4.5% (Exhibits 4 and 6).

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



Source: Altarum monthly national health spending estimates.

DISCUSSION

Year-over-year national health spending growth reached 4.9% in September, the highest growth rate since May of this year. The growth rate for the first 9 months of 2019 now also stands at 4.9%, which is nearly equal to our estimate of health spending growth of 4.8% for all of 2018. While still relatively moderate, September's growth exceeds year-over-year GDP growth for the month by 0.8%, the largest excess growth rate since January 2017.

In recent months, we have attributed observed moderation in health spending growth to moderate growth in spending on hospital care and physician and clinical services, which together account for more than 50% of national health spending. While growth in spending on physician and clinical services remains low at 3.6% in September, year-over-year growth in hospital spending reached 5.6%, an increase from the July and August growth rates of 4.5% and 4.8%, respectively. With hospital spending contributing one-third of national health spending, its September growth increase contributed significantly to the jump in overall health spending growth. Large, for-profit hospital systems are reporting recent volume growth that they expect to continue through the year², which suggests that the September increase in hospital spending growth might continue in the coming months.

In the first week of December 2019, CMS expects to release its official report of the National Health Expenditure Accounts (NHEA) for 2018. Our national health spending estimates are intended to approximate the NHEA, and we will update our 2018 estimates to match the NHEA values in next month's spending brief.

¹Altarum'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.

²See, <https://www.healthcaredive.com/news/every-for-profit-hospital-chain-reported-admission-upticks-is-it-a-blip/567077/>

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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)	Sep 2016	Sep 2017	Sep 2018	Sep 2019
GDP	\$18,906.2	\$19,708.9	\$20,692.1	\$21,545.8
National health spending	\$3,376.9	\$3,529.7	\$3,703.3	\$3,884.2
Personal health care	\$2,863.5	\$2,992.9	\$3,136.4	\$3,299.0
Hospital expenditures	\$1,098.6	\$1,156.2	\$1,209.6	\$1,276.9
Physician and clinical expenditures	\$664.6	\$701.3	\$734.4	\$761.0
Other professional services expenditures	\$93.0	\$98.7	\$104.3	\$110.1
Dental services expenditures	\$124.5	\$129.2	\$137.5	\$143.7
Other health, residential, and personal care expenditures	\$175.2	\$184.9	\$189.4	\$199.0
Home health care expenditures	\$93.9	\$97.5	\$106.9	\$108.9
Nursing care facilities and continuing care retirement communities	\$164.4	\$169.3	\$178.0	\$188.4
Prescription drug expenditures	\$335.0	\$336.2	\$351.3	\$379.3
Durable medical equipment expenditures	\$51.4	\$54.8	\$57.3	\$60.4
Nondurable medical products expenditures	\$63.0	\$64.9	\$67.6	\$71.3
Administration and net cost of health insurance expenditures	\$268.1	\$277.3	\$297.2	\$303.6
Public health activity	\$86.2	\$89.6	\$91.5	\$94.2
Research	\$48.0	\$51.4	\$54.0	\$56.8
Structures and equipment	\$111.2	\$118.5	\$124.2	\$130.7
National health spending share of GDP	17.9%	17.9%	17.9%	18.0%
National health spending share of PGDP	17.7%	17.9%	18.0%	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

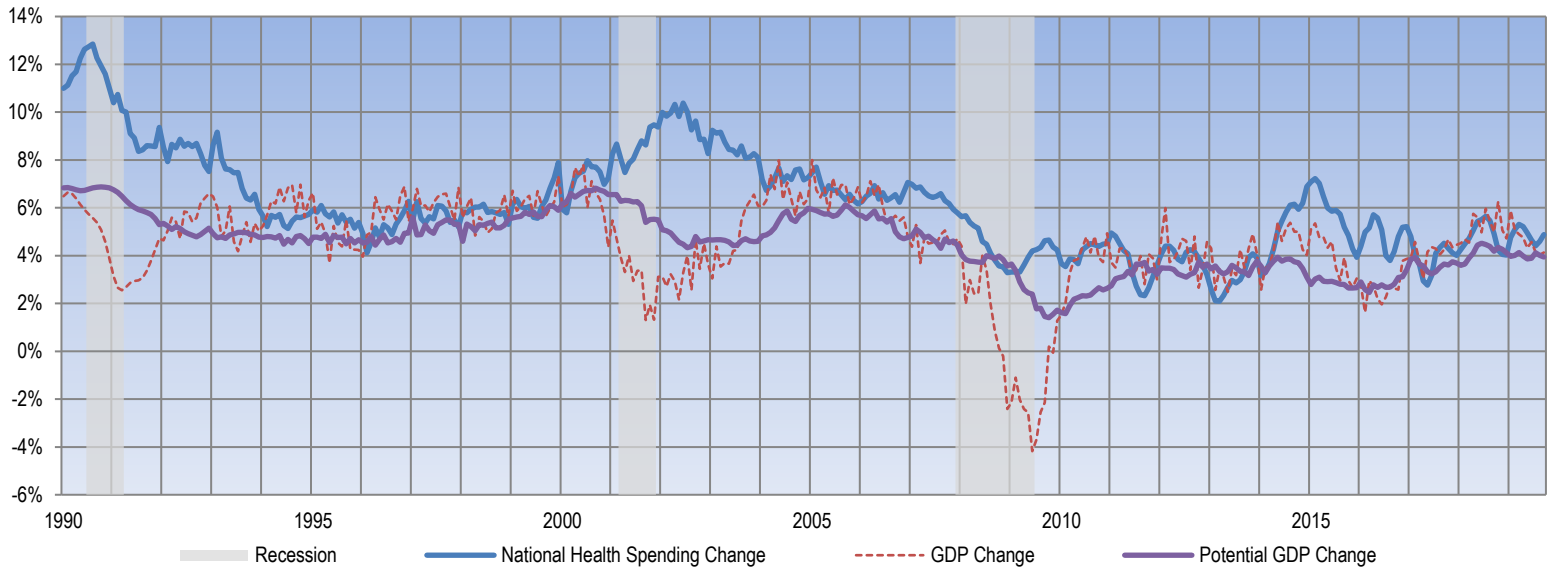
Growth Rates	Sep 2017	Sep 2018	Sep 2019
GDP	4.2%	5.0%	4.1%
National health spending	4.5%	4.9%	4.9%
Personal health care	4.5%	4.8%	5.2%
Hospital expenditures	5.2%	4.6%	5.6%
Physician and clinical expenditures	5.5%	4.7%	3.6%
Other professional services expenditures	6.2%	5.7%	5.5%
Dental services expenditures	3.8%	6.4%	4.5%
Other health, residential, and personal care expenditures	5.5%	2.5%	5.1%
Home health care expenditures	3.8%	9.7%	1.9%
Nursing care facilities and continuing care retirement communities	3.0%	5.2%	5.8%
Prescription drug expenditures	0.4%	4.5%	8.0%
Durable medical equipment expenditures	6.7%	4.7%	5.4%
Nondurable medical products expenditures	3.1%	4.1%	5.6%
Administration and net cost of health insurance expenditures	3.4%	7.2%	2.1%
Public health activity	3.9%	2.1%	3.0%
Research	7.2%	5.0%	5.2%
Structures and equipment	6.5%	4.9%	5.2%
National health spending minus GDP	0.3%	-0.1%	0.8%
National health spending minus PGDP	0.9%	0.7%	0.9%

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

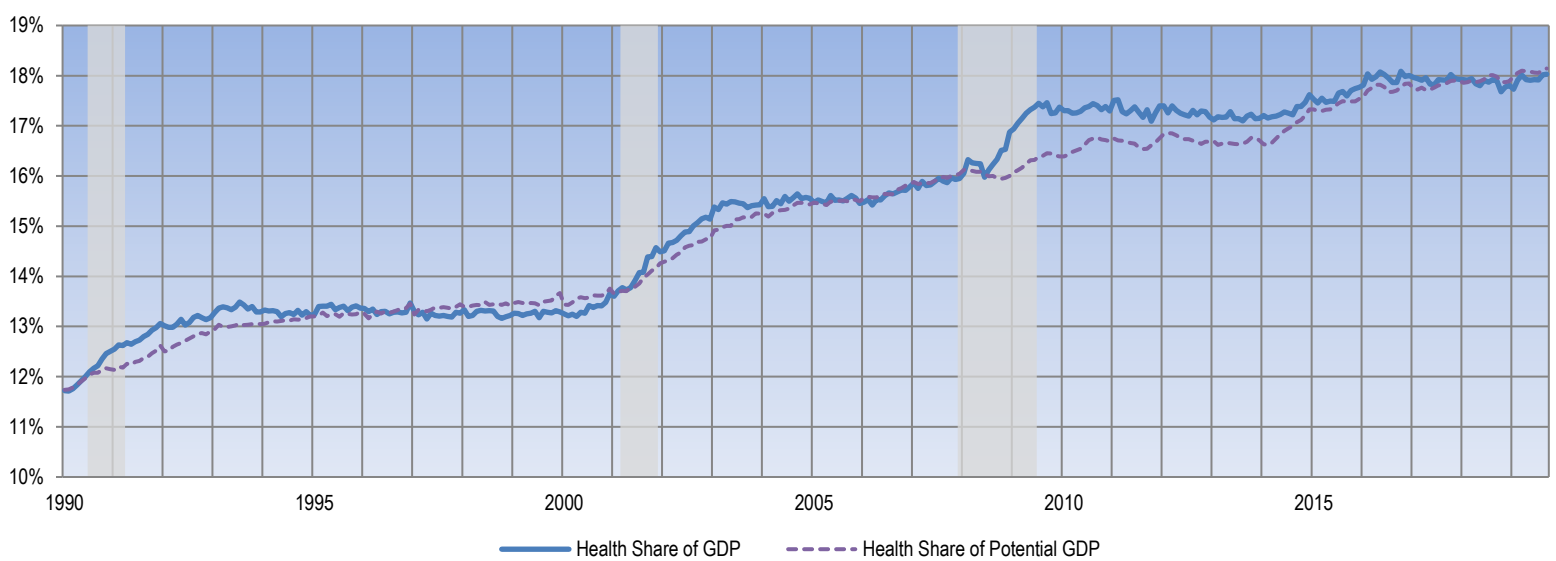
Exhibit 7. Year-over-Year Percentage Change in Spending and GDP



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 (1990–2017) and projections (2018 and 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 2017 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. The 2017 ratios are used to adjust BEA spending for months in 2018 and 2019.