

Center for Sustainable Health Spending
Health Sector Economic Indicators®

September 8, 2011

www.altarum.org

SPENDING BRIEF

Insights from Monthly National Health Expenditure Estimates Through July 2011

July health spending grows at 5.1% year-over-year; revised June estimate reaches 18.2% of GDP

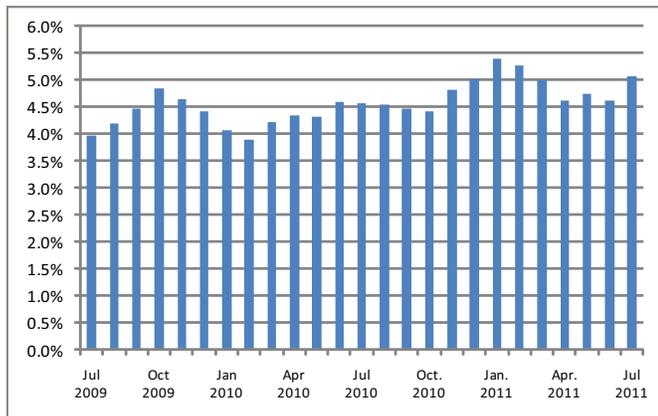
HIGHLIGHTS

- ▲ National health expenditures (NHE) in July 2011 grew by 5.1% relative to July 2010.¹
- ▲ From June 2010 through June 2011, the NHE growth rate of 4.6% was 1.3% more than gross domestic product (GDP) growth over that period.
- ▲ The health spending share of GDP was 18.2% in June 2011, up from 16.3% at the start of the recession (December 2007). This increase is largely attributable to slow GDP growth rather than high health spending growth. In fact, year-over-year health spending growth exceeded potential GDP (PGDP) growth by only 0.3% in June.
- ▲ Spending through July increased in all major categories over the past year, with hospital care showing the highest growth year-over-year (7.2%) and physician services lowest (2.7%).

HEALTH SPENDING

In July 2011, health spending increased to a seasonally adjusted annual rate (SAAR) of \$2.74 trillion. June's health spending SAAR of \$2.72 trillion accounted for 18.2% of GDP. On a 12-month basis, health spending through July grew by 5.1%, slightly down from the first quarter of 2011, but somewhat higher than the most recent 3 months (Exhibit 1). The health spending share of GDP in June was up slightly from the previous June, as health spending grew slightly faster than GDP.

Exhibit 1. Year-Over-Year Growth Rates in National Health Expenditures



Source: Altarum monthly NHE estimates
Compares monthly NHE to the same month from the previous year

National Health Expenditures (NHE) and Gross Domestic Product (GDP)*

	July 2009	July 2010	June 2011	July 2011
GDP	13.85	14.57	14.95	**
NHE	2.49	2.60	2.72	2.74
NHE Share of GDP	18.0%	17.9%	18.2%	**
NHE Share of PGDP	16.5%	16.7%	16.8%	**
Growth from Prior 12 Months				
NHE	4.0%	4.6%	4.6%	5.1%
GDP	-4.4%	5.2%	3.3%	**
NHE minus GDP	8.4%	-0.6%	1.3%	**
NHE minus PGDP	1.5%	1.6%	0.3%	**

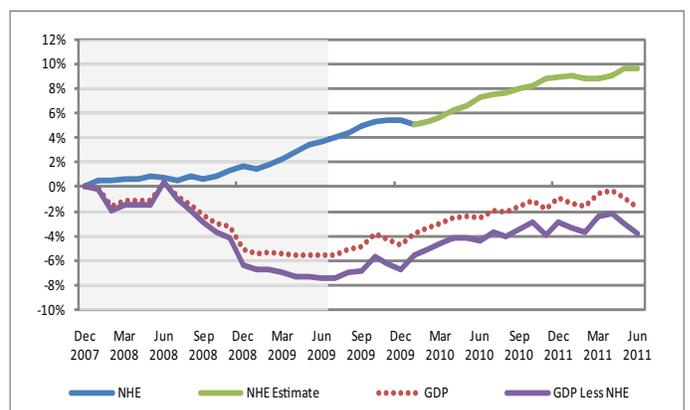
Potential Gross Domestic Product (PGDP) is a measure of the economy's maximum sustainable output while keeping inflation neutral.

Source: Altarum monthly NHE estimates (see Methods on page 4); monthly GDP is from Macroeconomic Advisers and Altarum estimates; potential GDP (PGDP), defined as what GDP would be at full employment, is from the quarterly Congressional Budget Office estimates converted to monthly by Altarum

*Note: Spending in trillions of dollars, seasonally adjusted annual rate
**Data not yet available

Since the start of the recession in December 2007, real health spending through June has increased by 9.6% (an annual rate of 2.7%). During this same period, real GDP excluding health care declined by more than 7% at one point and is still 3.8% below its December 2007 level. With health care included, real GDP in June was 1.6% below its pre-recession level (Exhibit 2).

Exhibit 2. NHE and GDP: Cumulative Percent Change (Constant Dollars) Since December 2007



Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates

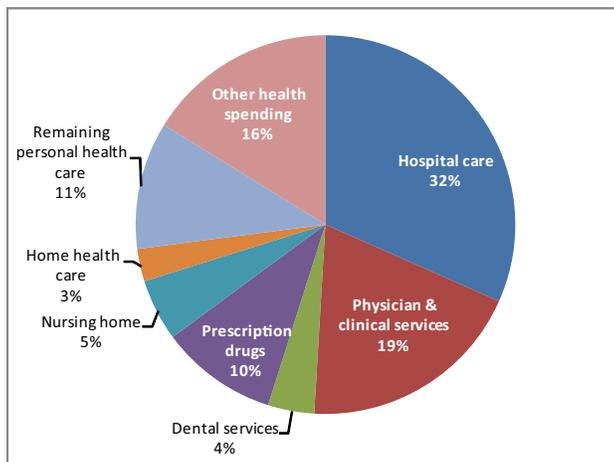
Note: Lightly shaded bar denotes recession period

HEALTH SPENDING BY CATEGORY

In July 2011:

- ▲ Hospital spending increased to \$866 billion (SAAR), 32% of total health spending (Exhibit 3).
- ▲ Physician and clinical services spending increased to \$528 billion, 19% of total health spending.
- ▲ Prescription drug spending remained at \$273 billion, 10% of total health spending.
- ▲ Nursing home and home health spending combined remained at \$221 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, July 2011

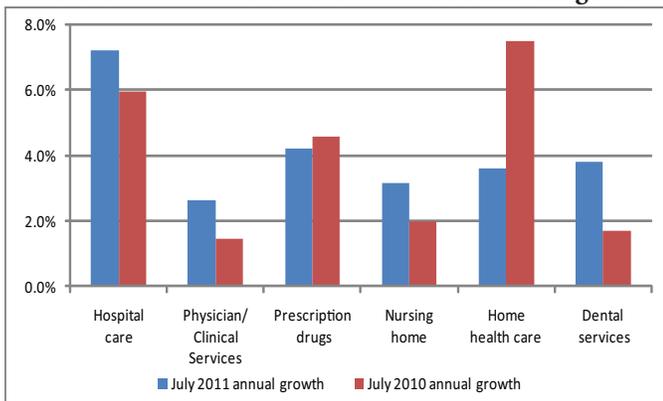


Source: Altarum monthly NHE estimates

Note: See Exhibit 5 for complete list of NHE categories

Growth over the past 12 months: hospital spending grew most rapidly (7.2%), while spending on physician services showed the slowest growth (2.7%). For the previous 12-month period ending July 2010, home health showed the highest growth at 7.5% (Exhibit 4).

Exhibit 4. NHE 12-Month Growth for Selected Categories



Source: Altarum monthly NHE estimates

DISCUSSION

As noted in our June Spending Brief, extensive revisions to government data sources in July revealed that the health spending share of GDP first reached 18% in the summer of 2009 and is again above 18%. Subsequent revisions to the National Income and Product Accounts (NIPA) released on August 29 included a 0.5% upward revision of health expenditures for June, largely due to an upward revision of hospital expenditures by 1.0%. In addition, our GDP estimate for June was adjusted downward by 0.2%. As a result, we now estimate the June health spending share of GDP to be 18.2%, and the June NHE growth rate over the previous 12 months is now estimated to exceed the GDP growth rate over the same period by 1.3%. The NHE year-over-year growth rate, now estimated to be 4.6% for June, has increased to 5.1% for July. (The July GDP estimate is not yet available.)

As forecasters continue to downgrade their GDP growth estimates, this disparity between NHE growth and GDP growth is likely to continue to increase, even if health spending does not accelerate as it appears to have done in July. On the other hand, health spending growth exceeded potential GDP (PGDP) – what GDP would be at full employment – in June by only 0.3% year-over-year, emphasizing the fact that the slow economy rather than accelerated health spending is the principal cause of the increasing disparity.

Altarum Institute 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.

The Center for Sustainable Health Spending (CSHS) was launched in 2010 to lead Altarum Institute’s research on investigating the cost growth trends and key drivers of U.S. health care spending and to formulate policy strategies to help bend the cost growth curve.

The Health Sector Economic Indicators[®] reports are a monthly publication of Altarum’s CSHS and provide an analysis of health spending, employment, and prices. We thank Dr. Thomas Walke, former Deputy Director of CSHS, now at the U.S. Government Accountability Office, for his valuable contributions to the development of these reports.

For more information, contact **Charles Roehrig, PhD** at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick; George Miller, PhD; and Ani Turner also contributed to this brief.

Media Contact: Jeff Moore, 703-575-1685, jeff.moore@altarum.org.

¹ Spending data are in nominal dollars except for Exhibit 2.

² Keehan et. al., “National Health Spending Projections Through 2020: Economic Recovery and Reform Drive Faster Spending Growth,” Health Affairs, July, 2011. These projections form the basis of our monthly spending estimates for January 2010 through June 2011 for those components of NHE for which corresponding NIPA data are not available (see page 4 Methods).

³ For further discussion of PGDP, see <http://www.healthpolicyforum.org/2011/05/the-case-for-tracking-health-spending-as-a-share-of-potential-gdp/>

DETAILED HEALTH SPENDING

Exhibit 5. Monthly NHE Estimates by Detailed Category

Level in (\$ Billions)	July 2008	July 2009	July 2010	July 2011
GDP	\$14,491.5	\$13,850.7	\$14,568.3	*
NHE	\$2,395.4	\$2,490.4	\$2,604.0	\$2,735.9
Personal health care	\$2,000.0	\$2,095.1	\$2,185.0	\$2,294.0
Hospital care	\$720.9	\$762.4	\$807.9	\$866.0
Physician and clinical services	\$488.4	\$506.5	\$513.9	\$527.5
Other prof. services	\$64.2	\$66.6	\$68.3	\$70.1
Dental services	\$102.6	\$102.0	\$103.7	\$107.7
Other health, residential, and personal care	\$113.1	\$123.2	\$131.0	\$137.7
Home health care	\$62.1	\$68.5	\$73.7	\$76.4
Nursing home care	\$132.9	\$137.7	\$140.4	\$144.9
Prescription drugs	\$236.7	\$250.7	\$262.1	\$273.1
Durable medical equipment	\$35.8	\$34.5	\$38.1	\$41.6
Nondurable medical products	\$43.2	\$43.1	\$45.8	\$49.2
Program administration and net cost of private health insurance	\$164.5	\$162.0	\$178.0	\$187.6
Government public health activities	\$73.0	\$77.5	\$81.0	\$86.4
Research	\$43.3	\$45.3	\$50.2	\$53.4
Structures and equipment	\$114.6	\$110.5	\$109.9	\$114.5
NHE Share of GDP	16.5%	18.0%	17.9%	*
NHE Share of PGDP	16.2%	16.5%	16.7%	*

Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers

Notes: Spending in billions of dollars, SAAR

Exhibit 6. NHE 12-Month Growth Rates by Detailed Category

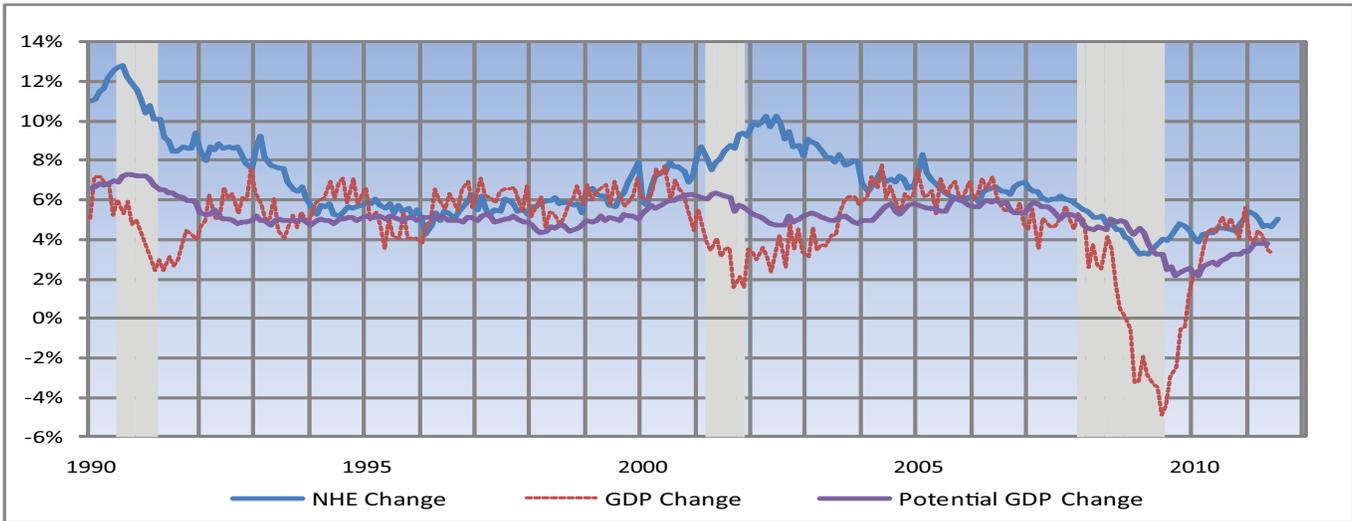
Levels	July 2009	July 2010	July 2011
GDP	-4.4%	5.2%	*
NHE	4.0%	4.6%	5.1%
Personal health care	4.8%	4.3%	5.0%
Hospital care	5.8%	6.0%	7.2%
Physician and clinical services	3.7%	1.5%	2.7%
Other prof. services	3.8%	2.5%	2.5%
Dental services	-0.6%	1.7%	3.8%
Other health, residential, and personal care	8.9%	6.3%	5.1%
Home health care	10.3%	7.5%	3.6%
Nursing home care	3.6%	2.0%	3.2%
Prescription drugs	5.9%	4.6%	4.2%
Durable medical equipment	-3.6%	10.5%	9.1%
Nondurable medical products	-0.3%	6.3%	7.4%
Program administration and net cost of private health insurance	-1.5%	9.9%	5.4%
Government public health activities	6.1%	4.6%	6.7%
Research	4.5%	10.9%	6.3%
Structures and equipment	-3.5%	-0.6%	4.2%
NHE Minus GDP	8.4%	-0.6%	*
NHE Minus PGDP	1.5%	1.6%	*

Source: Altarum monthly NHE estimates

Note: Compares monthly NHE to the same month from the previous year

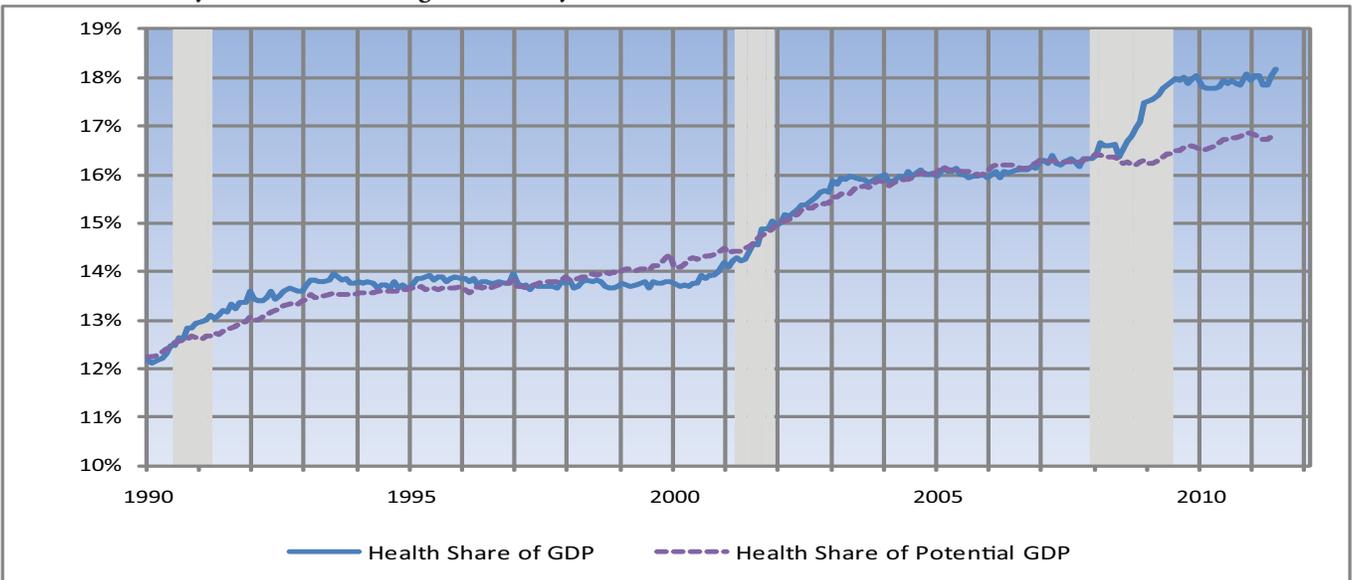
TIME SERIES TRACKER

Exhibit 7. Year-Over-Year Percentage Change in Health Spending



Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates
 Note: Lightly shaded bars denote recession periods

Exhibit 8. Monthly NHE as a Percentage of Monthly GDP



Source: Altarum monthly NHE estimates; monthly GDP is from Macroeconomic Advisers and Altarum estimates
 Note: Lightly shaded bars denote recession periods

Methods. Altarum estimates are based on (1) Bureau of Economic Analysis (BEA) monthly health spending (http://www.bea.gov/national/nipaweb/nipa_underlying/SelectTable.asp) and (2) CMS annual NHE estimates (1990–2009) and projections (2010); <https://www.cms.gov/NationalHealthExpendData/>). BEA spending categories are matched to NHE account (NHEA) components using information presented in: 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*. For all NHEA personal health care categories except “other health, residential, and personal care,” monthly estimates are based on BEA spending adjusted to NHEA using annual ratios. For the remaining categories, NHE estimates and projections are allocated across months using a simple trend. Annual ratio adjustments through 2009 are based on NHEA actuals and ensure that monthly estimates sum exactly to NHEA annual amounts. Ratios used to adjust BEA spending for months in 2010 and 2011 are taken from 2009.