

December 15, 2020

National health spending continues slow recovery

HIGHLIGHTS

- ▲ At \$3.91 trillion (seasonally adjusted annual rate), national health spending in October 2020 was 0.8% higher than in October 2019.
- ▲ The October 2020 nominal gross domestic product (GDP) was 0.7% lower than in October 2019, and the resulting health-spending share of GDP was 18.1%, and 17.6% of potential GDP (PGDP).
- ▲ Spending in October 2020, year over year, declined in some major categories and grew in others. The greatest decline was in spending on dental services, at -14.1%. The greatest increase was in home health care, which grew by 18.2%

National Health Spending and GDP

	October 2018	October 2019	September 2020	October 2020
GDP	20.90	21.71	21.38	21.56
National Health Spending (HS)	3.69	3.88	3.89	3.91
HS Share of GDP	17.7%	17.9%	18.2%	18.1%
HS Share of PGDP	17.8%	18.1%	17.6%	17.6%
Growth from Prior 12 Months				
HS	4.2%	5.2%	1.0%	0.8%
GDP	5.7%	3.8%	-1.0%	-0.7%
HS minus GDP	-1.5%	1.3%	2.0%	1.5%
HS minus PGDP	-0.3%	1.6%	-2.5%	-2.6%

Source: Altarum monthly health spending estimates (see Methods box below). Monthly GDP is from IHS Markit 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

Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among vulnerable and publicly insured populations. 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. This work was made possible through generous support from the Robert Wood Johnson Foundation.

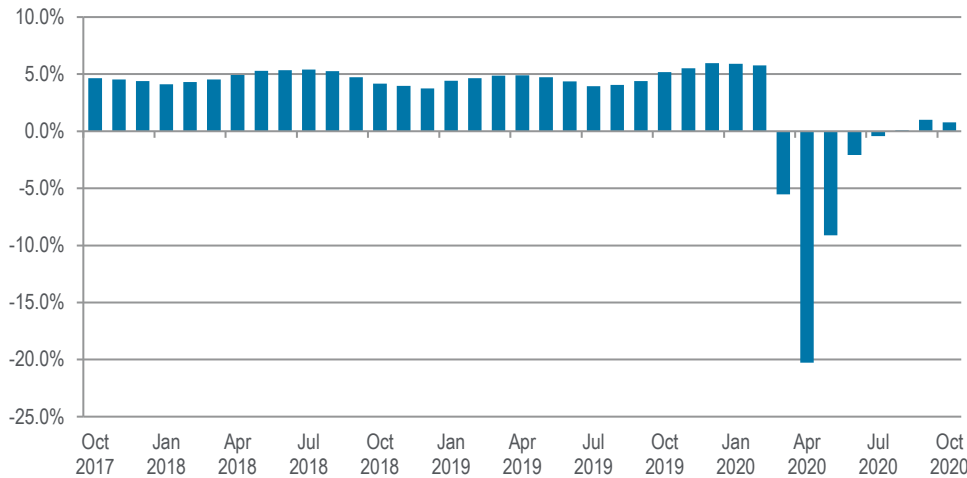
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Ani Turner at ani.turner@altarum.org. George Miller, PhD (principal author), Ani Turner, Corwin Rhyan, and Matt Daly, PhD, contributed to this brief. We thank Paul Hughes-Cromwick, who originated the concept of these reports and provided inspired leadership of the work from its inception. Media Contact: Sarah Litton, 202-772-5062, press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.



DISCUSSION

From its all-time year-over-year decline of 20.3% in April 2020, the 6-month recovery of national health spending is showing signs of stalling. Spending grew by 0.8% in October, down from 1.0% in September, year over year (Exhibit 1). Growth in the past 4 months has been a meager 0.4% over the same 4-month period in 2019. Spending for the first 10 months of 2020 is 2.4% below spending for the same period in 2019. These data suggest

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

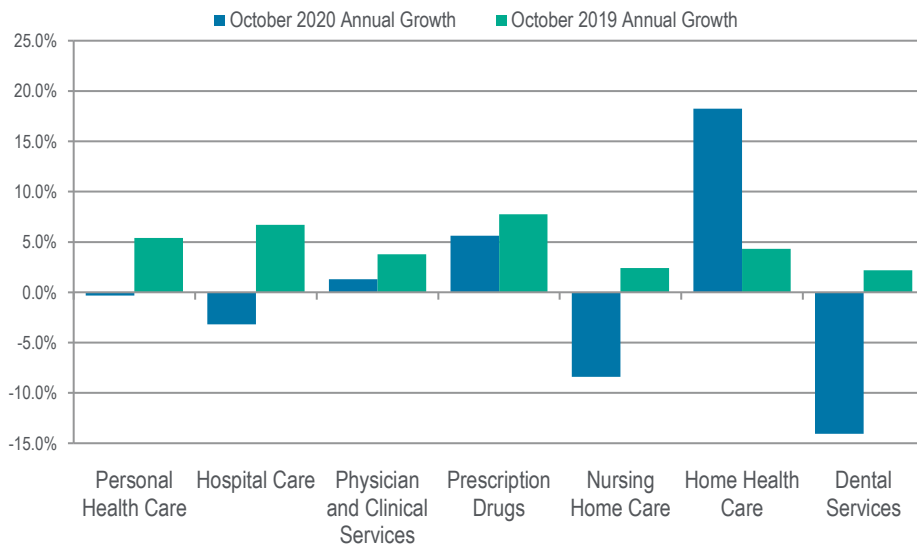


that 2020 will likely be the first year ever to show an annual decline in overall health spending since CMS began tracking spending in 1960.

As the first bar in Exhibit 2 indicates, spending on personal health care in October was 0.3% below its October 2019 level, down slightly from its September reading of -0.1%.

Exhibit 2 also illustrates the continued variation in the year-over-year change in spending on 6 major components of personal health care. It indicates modest growth for physician and clinical services (1.3%), more significant growth for prescription drugs (5.6%, excluding any impact of changes in rebates), and nearly unprecedented growth in home health care (18.2% -- the greatest year-over-year growth since April 1995). Spending on hospital care continues to be below its October 2019 level (at -3.2%), as does spending on nursing home care (-8.4%) and

Exhibit 2. Health Care Spending 12-Month Growth for Selected Categories



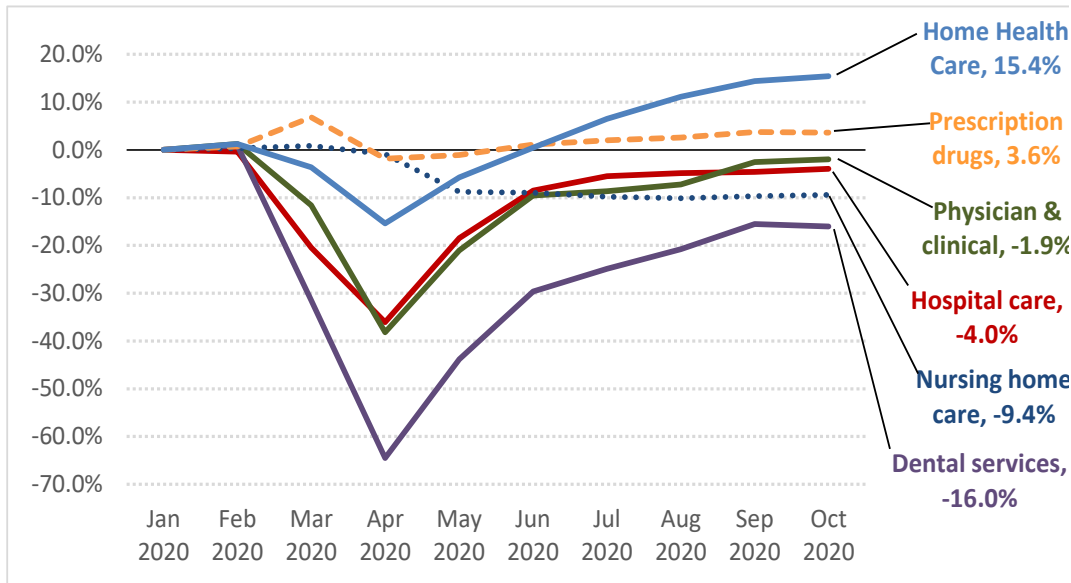
especially dental care (-14.1%). In contrast, spending in October 2019 grew at moderate rates for all 6 of these categories.

Exhibit 3 is an update of our time series of changes in spending in each of these six components of personal health care through 2020 and illustrates the impact of the COVID-19 pandemic on spending. Spending on hospital care, physician and clinical services, and dental services dropped significantly in March and April before recovering in subsequent months, with recovery rates slowing over time. Spending in all 3 of these components remain below their January levels. Home health care spending also dropped in March and April but subsequently accelerated to



a level significantly above that in January. Spending for nursing home care declined in April and May but has been relatively flat since then, averaging 9.5% below its January level. There is some evidence that the pandemic may have resulted in the shifting of some care from nursing homes to home health in recent months. While

Exhibit 3. Cumulative Spending Growth since Jan 2020, by Major Categories (Percent Difference for Sept 2020 Shown in Data Labels)



prescription drug spending first accelerated in March and then declined in April, it appears to have been only slightly affected by the pandemic.

Later this month, CMS will release its official report of the National Health Expenditure Accounts (NHEA) for 2019. Our national health spending estimates are intended to approximate the NHEA, and next month's spending brief

will incorporate updates to our estimates for 2019 and earlier years to match the latest NHEA values. We anticipate that these updates will not impact the growth rates for 2020 that are reported in this month's brief.



DETAILED HEALTH SPENDING

Exhibit 4. Monthly National Spending Estimates by Detailed Category

Levels (in billions of dollars)	Oct 2017	Oct 2018	Oct 2019	Oct 2020
GDP	\$19,784.6	\$20,904.3	\$21,705.1	\$21,555.0
National Health Spending	\$3,542.9	\$3,690.8	\$3,881.9	\$3,912.1
Personal health care	\$2,998.6	\$3,108.7	\$3,277.0	\$3,266.4
Hospital care	\$1,161.7	\$1,200.4	\$1,280.8	\$1,239.9
Physician and clinical services	\$701.6	\$733.5	\$761.1	\$771.1
Other professional services	\$99.7	\$104.9	\$111.9	\$109.5
Dental services	\$131.6	\$137.5	\$140.5	\$120.7
Other personal health care	\$186.0	\$193.9	\$202.7	\$213.5
Home health care	\$98.1	\$104.9	\$109.4	\$129.4
Nursing home care	\$170.9	\$169.2	\$173.4	\$158.8
Prescription Drugs	\$331.3	\$341.4	\$367.9	\$388.6
Durable medical equipment	\$52.9	\$55.6	\$58.1	\$56.4
Nondurable medical products	\$64.8	\$67.3	\$71.1	\$78.4
Program administration and net cost of private health insurance	\$280.8	\$312.1	\$323.8	\$352.8
Government public health activities	\$92.0	\$94.3	\$97.2	\$99.6
Research	\$50.9	\$53.3	\$56.5	\$59.4
Structures and equipment	\$120.5	\$122.4	\$127.5	\$133.9
HS Share of GDP	17.9%	17.7%	17.9%	18.1%
HS Share of PGDP	17.8%	17.8%	18.1%	17.6%

Source: Altarum monthly national health spending estimates. The monthly GDP is from IHS Markit and Altarum estimates.

Note: Spending is expressed in billions of dollars at a SAAR.

Exhibit 5. National Health Spending 12-Month Growth Rates by Detailed Category

Growth Rates	Oct 2018	Oct 2019	Oct 2020
GDP	5.7%	3.8%	-0.7%
National Health Spending	4.2%	5.2%	0.8%
Personal health care	3.7%	5.4%	-0.3%
Hospital care	3.3%	6.7%	-3.2%
Physician and clinical services	4.5%	3.8%	1.3%
Other professional services	5.2%	6.7%	-2.2%
Dental services	4.5%	2.2%	-14.1%
Other personal health care	4.2%	4.5%	5.4%
Home health care	7.0%	4.3%	18.2%
Nursing home care	-1.0%	2.4%	-8.4%
Prescription Drugs	3.1%	7.8%	5.6%
Durable medical equipment	5.0%	4.5%	-2.9%
Nondurable medical products	3.9%	5.7%	10.2%
Program administration and net cost of private health insurance	11.2%	3.7%	9.0%
Government public health activities	2.4%	3.1%	2.4%
Research	4.8%	6.0%	5.2%
Structures and equipment	1.6%	4.2%	5.1%
HS Minus GDP	-1.5%	1.3%	1.5%
HS Minus PGDP	-0.3%	1.6%	-2.6%

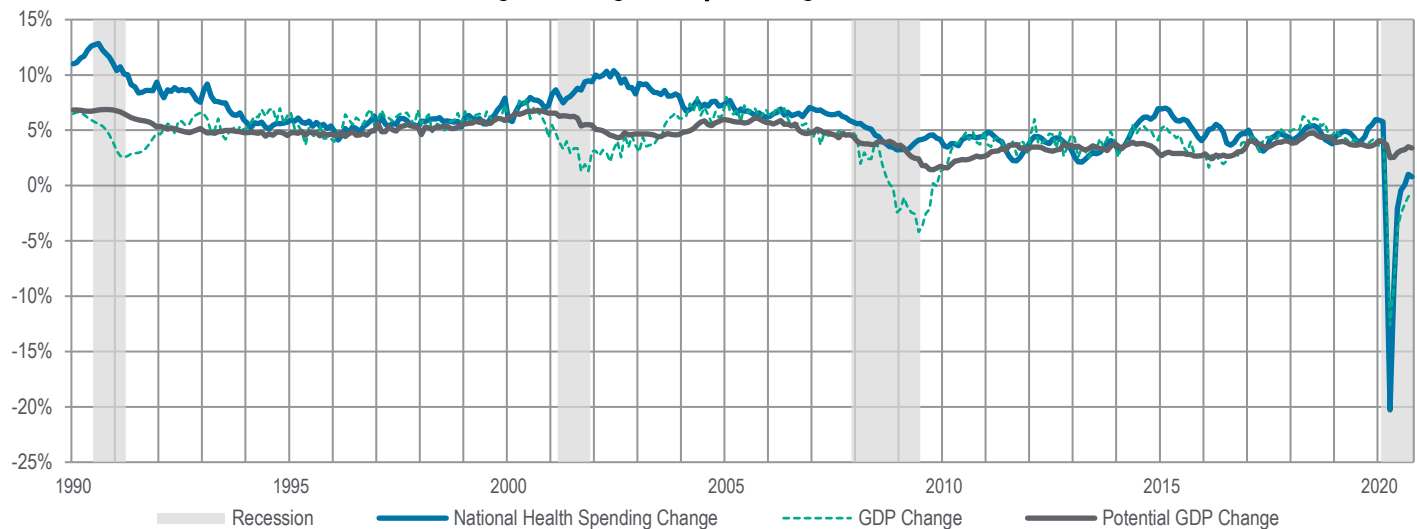
Source: Computed from Exhibit 3.

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



TIME SERIES TRACKER

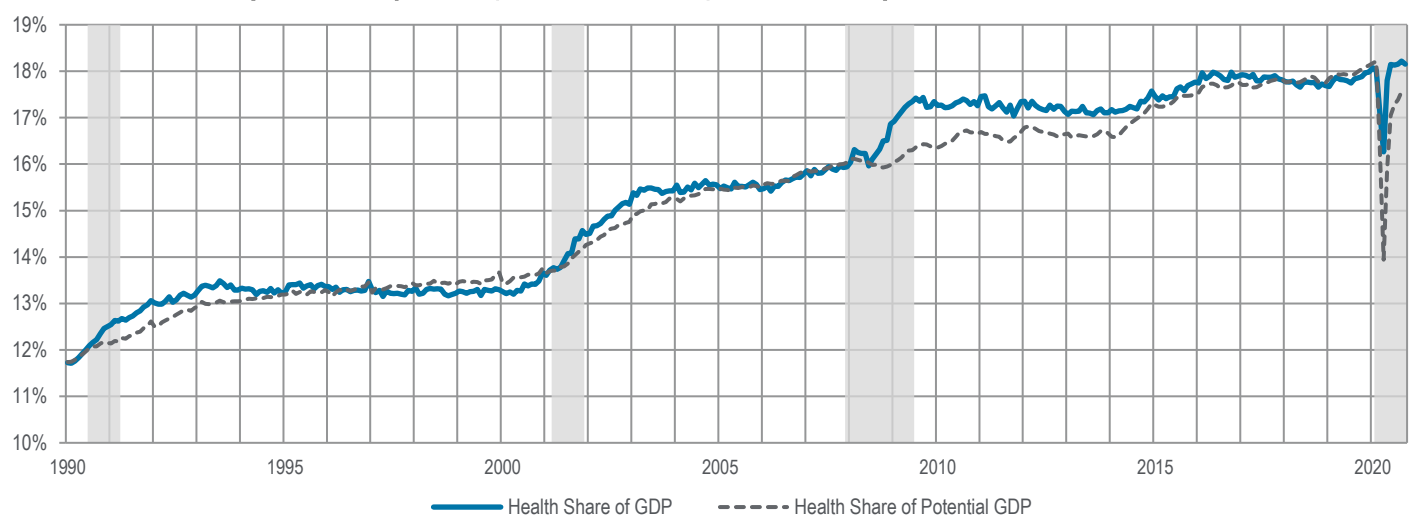
Exhibit 6. Year-over-Year Percentage Change in Spending and GDP



Source: Altarum monthly national health spending estimates. Monthly GDP is from IHS Markit and Altarum estimates.

Note: Lightly shaded bars denote recession periods.

Exhibit 7. Monthly Health Spending as a Percentage of Monthly GDP



Source: Altarum monthly national health spending estimates. Monthly GDP is from IHS Markit 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](#) and [CMS annual NHE estimates \(1990–2018\) and projections \(2019\)](#). 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 and 2020.