

2 Total health expenditure

Total expenditure on health goods and services in Australia in 2005–06 was estimated at \$86.9 billion (Table 1). Of this, 92.5% was for recurrent expenditure and 7.5% was for capital expenditure and capital consumption. Total health expenditure increased by 7.1% over the previous year (\$5.8 billion). This was 1.2 percentage points lower than the average for the decade 1995–96 to 2005–06 of 8.3%. The areas showing the highest growth in 2005–06 (Table 17) were:

- public hospital services – up 10.1% (\$2,228 million)
- other health practitioners (such as physiotherapists, chiropractors and podiatrists, see Table 65 for full list) – up 8.7% (\$243 million)
- medical services up 5.8% (\$853 million)
- private hospitals up 5.6% (\$356 million).

In contrast, medications showed a growth of just 3.0% (\$335 million) in 2005–06.

After allowing for inflation, real growth between 2004–05 and 2005–06 was estimated at 3.1%. This was 2 percentage points below the average for the decade 1995–96 to 2005–06 of 5.1%. The real growth between 2004–05 and 2005–06 was the lowest recorded over the decade (Table 1).

Expenditure for research grew in real terms by 7.0% in 2005–06, followed by public hospital services at 5.6%, community health by 5.2%, aids and appliances by 4.0%, other health practitioners by 3.7%, private hospitals by 1.3% and medical services by 0.2% (Table A8).

Real expenditure on medications increased 1.6% in 2005–06 (Table A8) compared to an average annual increase in constant prices of 8.6% from 1995–96 to 2005–06.

Table 1: Total health expenditure, current and constant prices^(a), and annual growth rates, 1995–96 to 2005–06

Year	Amount (\$ million)		Growth rate over previous year (%)	
	Current	Constant	Current	Constant
1995–96	39,047	50,948	..	..
1996–97	42,116	54,015	7.9	6.0
1997–98	44,802	56,266	6.4	4.2
1998–99	48,502	59,393	8.3	5.6
1999–00	52,442	62,786	8.1	5.7
2000–01	58,287	68,090	11.1	8.4
2001–02	63,448	70,802	8.9	4.0
2002–03	68,932	74,334	8.6	5.0
2003–04 ^(b)	73,945	77,036	7.3	3.6
2004–05	81,125	81,125	9.7	5.3
2005–06	86,879	83,601	7.1	3.1
Average annual growth rate				
1995–96 to 1997–98			7.1	5.1
1997–98 to 2002–03			9.0	5.7
1995–96 to 2005–06			8.3	5.1

(a) Constant price health expenditure for 1995–96 to 2005–06 is expressed in terms of 2004–05 prices.

(b) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Source: AIHW health expenditure database.

2.1 Health expenditure and the general level of economic activity

The ratio of Australia's health expenditure to GDP (health to GDP ratio) indicates the proportion of overall economic activity contributed by health expenditure. It is estimated that spending on health accounted for 9.0% of GDP in 2005–06 – down from 9.05% in the previous year and is a substantial increase from 7.5% in 1995–96 (Table 2). Despite the slight decrease over the last year the overall increase in the decade was 1.5 percentage points of GDP. The largest increase occurred in 2000–01 when the ratio grew by 0.4 percentage points. Over the decade as a whole, GDP grew at 6.4% per year but health expenditure growth was higher at 8.3% per year (Table 2).

All expenditure on high-level residential aged care is now reported as welfare services expenditure (see Section 1.5 and Chapter 6). Total health expenditure for previous years has been revised to exclude the high-level residential aged care expenditure that was previously included under health expenditure.

Table 2: Total health expenditure and GDP, current prices, and annual growth rates, 1995–96 to 2005–06

Year	Total health expenditure		GDP		Ratio of health expenditure to GDP (%)
	Amount (\$ million)	Nominal growth rate (%)	Amount (\$ million)	Nominal growth rate (%)	
1995–96	39,047	..	518,144	..	7.5
1996–97	42,116	7.9	545,698	5.3	7.7
1997–98	44,802	6.4	577,373	5.8	7.8
1998–99	48,502	8.3	607,759	5.3	8.0
1999–00	52,442	8.1	645,058	6.1	8.1
2000–01	58,287	11.1	689,262	6.9	8.5
2001–02	63,448	8.9	735,714	6.7	8.6
2002–03	68,932	8.6	781,675	6.2	8.8
2003–04	^(a) 73,945	7.3	840,285	7.5	8.8
2004–05	81,125	9.7	896,568	6.7	9.0
2005–06	86,879	7.1	966,442	7.8	9.0
Average annual growth rate					
		1995–96 to 1997–98		7.1	5.6
		1997–98 to 2002–03		9.0	6.2
		1995–96 to 2005–06		8.3	6.4

(a) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Sources: AIHW health expenditure database and ABS 2007a.

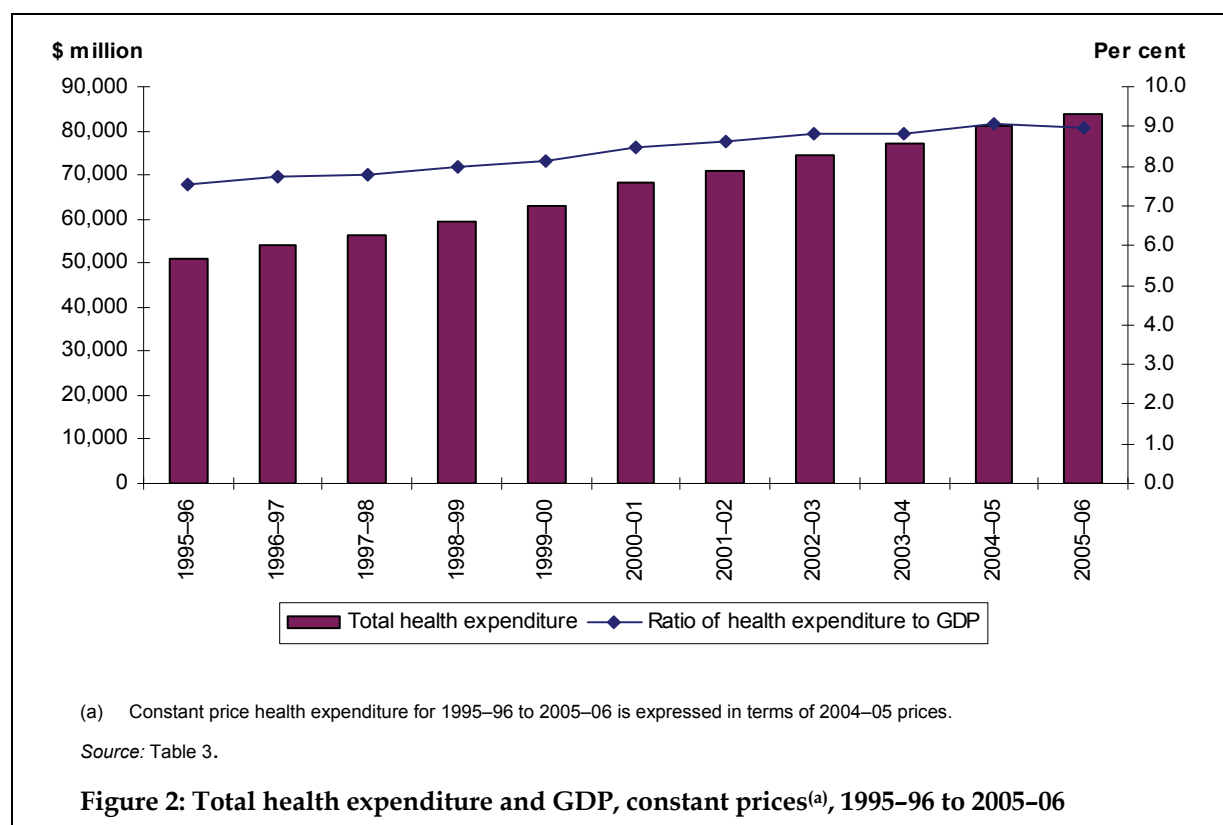
Table 3: Total health expenditure and GDP, constant prices^(a), and annual growth rates, 1995–96 to 2005–06

Year	Total health expenditure		GDP	
	Amount (\$m)	Growth rate (%)	Amount (\$m)	Growth rate (%)
1995–96	50,948	..	647,659	..
1996–97	54,015	6.0	673,099	3.9
1997–98	56,266	4.2	703,258	4.5
1998–99	59,393	5.6	739,629	5.2
1999–00	62,786	5.7	769,045	4.0
2000–01	68,090	8.4	784,017	1.9
2001–02	70,802	4.0	813,542	3.8
2002–03	74,334	5.0	839,187	3.2
2003–04	^(b) 77,036	3.6	873,197	4.1
2004–05	81,125	5.3	896,568	2.7
2005–06	83,601	3.1	922,772	2.9
Average annual growth rate				
1995–96 to 1997–98		5.1		4.2
1997–98 to 2002–03		5.7		3.6
1995–96 to 2005–06		5.1		3.6

(a) Constant price health expenditure for 1995–96 to 2005–06 is expressed in terms of 2004–05 prices.

(b) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Sources: AIHW health expenditure database and ABS 2007a.



The health to GDP ratio can increase during a period for one or both of the following reasons:

- The level of use of health goods and services can grow at a higher rate than the growth in the use of all goods and services in the economy (a volume effect).
- Price changes in the health sector can be higher than the economy-wide price changes. This is a price effect and is called 'excess health inflation'.

These two components are shown in the last two columns of Table 4. The second last column is the differential real volume growth and shows the increase or decrease in the volume of health goods and services relative to the increase or decrease in the GDP volume. The last column is excess health inflation and shows the increase or decrease in the price of health goods and services compared to price changes in the economy as a whole.

In 2005–06, the health to GDP ratio was 9.0%, slightly down from 9.05% of GDP in 2004–05, and up from 7.5% of GDP in 1995–96. The change in the health to GDP ratio from 2004–05 to 2005–06 was –0.6% (Table 4). This comprised a 0.1% increase in the volume of health goods and services relative to the increase in GDP volume and a 0.8% decrease in the price of health goods and services above price increases in the general economy. The change in the health to GDP ratio between

2004–05 and 2005–06 was therefore due to an increase in the volume of health goods and services and a decrease in the relative cost of these goods and services.

In contrast, in 2004–05 the change in the health to GDP ratio was 2.8% (Table 4), comprising a 2.6% faster increase in the volume of health goods and services relative to the increase in GDP volume and a 0.3% increase in the price of health goods and services above price increases in the general economy.

Table 4: Components of growth in the health expenditure to GDP ratio, 1995–96 to 2005–06, per cent

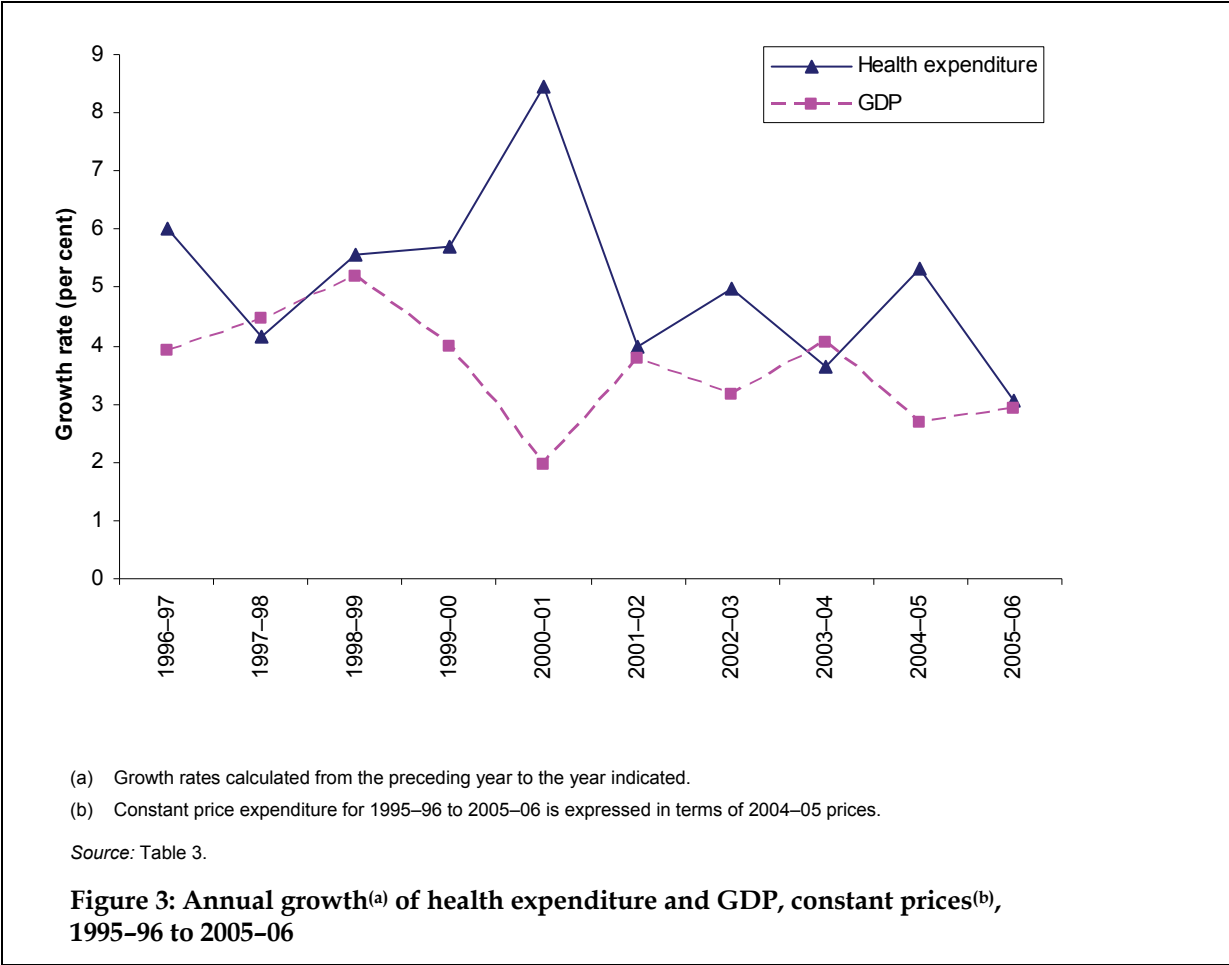
Year	Ratio of health expenditure to GDP (current prices)	Change in ratio of health expenditure to GDP	Differential real volume growth ^(a)	Excess health inflation
1995–96	7.54	..	..	..
1996–97	7.72	2.4	2.0	0.4
1997–98	7.76	0.5	–0.3	0.8
1998–99	7.98	2.8	0.4	2.5
1999–00	8.13	1.9	1.7	0.2
2000–01	8.46	4.0	6.4	–2.2
2001–02	8.62	2.0	0.2	1.8
2002–03	8.82	2.3	1.8	0.5
2003–04	8.80	–0.2	–0.4	0.2
2004–05	9.05	2.8	2.6	0.3
2005–06	8.99	–0.6	0.1	–0.8

(a) The ratio of the relative change of total health expenditure in constant prices to the relative change of GDP in constant prices, expressed in percentage terms.

Sources: AIHW health expenditure database and ABS 2007a.

In 2005-06, estimates indicate that real health and real GDP expenditure increased respectively by 3.1% and 2.9% (Table 3); a negative (0.8%) excess health inflation figure contributed to a declining nominal growth (Table 5). The health expenditure growth rate for 2005-06 (3.1%) was the lowest for the decade and compares to 8.4% in 2000-01 and 6.0% in 1996-97 (Table 1).

Both GDP and health expenditure grew in every year from 1995-96 to 2005-06 (Table 3 and Figure 3). Apart from 2003-04, real health expenditure has grown more strongly than real GDP in every year since 1998-99. The greatest difference in the annual rate of growth of real health expenditure and real GDP, 6.5% was in 2000-01 (Table 3).



Health inflation

The differences in the rate at which health prices move and the general level of inflation in the economy as a whole can have a strong influence on the health to GDP ratio. The general level of inflation is measured using the ABS implicit price deflator for GDP, and health inflation is indicated using the total health price index (Table 5). Australia’s health inflation has tended to move ahead of the general level of inflation in most years, with the notable exception of 2005-06. Between 1995-96 and 2005-06, the average rate of general inflation was 2.7% per year (Table 5).

Health inflation during that period averaged 3.1% per year, giving an excess health inflation rate of 0.4% per year. From 2004–05 to 2005–06, general inflation (the GDP implicit price deflator) was 4.7% – the highest it has been since 2000–01. The high level of the GDP deflator was mostly due to the higher prices received for Australia’s exports in this year. A better measure of the actual price increases faced by consumers (rather than the GDP deflator) is the price increase in total final consumption expenditure which was 3.0% in 2005–06 (ABS 2007a).

Table 5: Annual rates of health inflation, 1995–96 to 2005–06 (per cent)

Period	Health inflation ^(a)	General inflation ^(b)	Excess health inflation
1995–96 to 1996–97	1.7	1.3	0.4
1996–97 to 1997–98	2.1	1.3	0.8
1997–98 to 1998–99	2.6	0.1	2.5
1998–99 to 1999–00	2.3	2.1	0.2
1999–00 to 2000–01	2.5	4.8	-2.2
2000–01 to 2001–02	4.7	2.9	1.8
2001–02 to 2002–03	3.5	3.0	0.5
2002–03 to 2003–04	3.5	3.3	0.2
2003–04 to 2004–05	4.2	3.9	0.3
2004–05 to 2005–06	3.9	4.7	-0.8
Average annual rates of inflation			
1995–96 to 1997–98	1.9	1.3	0.6
1997–98 to 2002–03	2.6	2.5	0.5
1995–96 to 2005–06	3.1	2.7	0.4

(a) Based on the total health price index (see Glossary).

(b) Based on the implicit price deflator for GDP (see Appendix D).

Note: Components may not add to totals due to rounding.

Sources: AIHW health expenditure database and ABS 2007a.

2.2 Health expenditure per person

As the population grows, it could be anticipated that health expenditure must also increase, to maintain the average level of health goods and services available to each person in the community. By examining health expenditure on a per person basis, the influence of changes in the overall size of the population is removed from the analysis.

During 2005–06, estimated per person health expenditure averaged \$4,226, which was \$225 more per person than the previous year (Table 6). Real growth in per person health expenditure between 1995–96 and 2005–06 averaged 3.8% per year, compared with 5.1% for total national health expenditure (Tables 1 and 6). The difference between these two growth rates is the result of growth in the overall size of the Australian population.

Table 6: Average health expenditure per person^(a), current and constant prices^(b), and annual growth rates, 1995–96 to 2005–06

Year	Amount (\$)		Growth rate over previous year (%)	
	Current	Constant	Current	Constant
1995–96	2,146	2,800	..	..
1996–97	2,286	2,932	6.5	4.7
1997–98	2,407	3,022	5.3	3.1
1998–99	2,577	3,156	7.1	4.4
1999–00	2,754	3,297	6.9	4.5
2000–01	3,023	3,531	9.8	7.1
2001–02	3,247	3,624	7.4	2.6
2002–03	3,485	3,758	7.3	3.7
2003–04 ^(c)	3,692	3,847	6.0	2.4
2004–05	4,001	4,001	8.4	4.0
2005–06	4,226	4,066	5.6	1.6
Average annual growth rate				
1995–96 to 1997–98			5.9	3.9
1997–98 to 2002–03			7.7	4.5
1995–96 to 2005–06			7.0	3.8

(a) Based on annual mean resident population (see Appendix G).

(b) Constant price health expenditure for 1995–96 to 2005–06 is expressed in terms of 2004–05 prices.

(c) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Source: AIHW health expenditure database.

2.3 Health expenditure in states and territories

Average health expenditure per person varies from state to state because of different socioeconomic and demographic profiles, and the mix of public and private providers in each state and territory. In addition, health expenditure is influenced by the different health policy initiatives pursued by each State and territory government and the Australian Government. Consequently, while health expenditure per person is similar across most populations, there are differences between the states and territories in the way health expenditure is distributed.

Estimates of health expenditure on a state and territory basis have been done since 1996–97. The highest real growth in recurrent health expenditure, between 2003–04 and 2005–06, occurred in the Northern Territory (12.0%) where real recurrent health expenditure increased from \$886 million in 2003–04 to \$992 million in 2005–06. The lowest growth occurred in Tasmania (5.8%), where real recurrent health expenditure increased from \$1,613 million to \$1,707 million during that period (Table 8). Growth in health expenditure is the result of extra services provided per person and population growth.

Table 7: Total recurrent health expenditure^(a), current prices, for each state and territory, all sources of funds, 1996–97 to 2005–06 (\$ million)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97	13,495	9,968	7,087	3,577	3,010	1,143	703	450	39,433
1997–98	14,243	10,509	7,496	3,977	3,183	1,113	733	506	41,759
1998–99	15,754	11,071	7,890	4,147	3,509	1,137	863	523	44,892
1999–00	16,581	12,153	8,589	4,523	3,852	1,233	1,007	590	48,528
2000–01	18,064	13,767	9,789	5,103	4,183	1,339	933	632	53,810
2001–02	19,774	15,204	10,394	5,568	4,542	1,576	1,051	683	58,792
2002–03	21,187	16,664	11,298	6,281	5,068	1,502	1,169	771	63,941
Break in series									
2003–04 ^(b)	23,293	17,129	12,258	6,825	5,503	1,548	1,274	852	68,682
2004–05	25,440	18,825	13,431	7,519	5,977	1,669	1,403	932	75,196
2005–06	26,951	19,992	14,819	7,962	6,351	1,775	1,506	1,034	80,389

(a) The recurrent expenditure estimates in this table cannot be compared with total expenditure estimates in Table 7 of *Health expenditure Australia 2004–05* (AIHW (2006a)).

(b) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

Table 8: Total recurrent health expenditure^(a), constant prices^(b), for each state and territory, all sources of funds, and per cent change, 1996–97 to 2005–06 (\$ million)

Year	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Australia
1996–97	17,582	13,073	9,122	4,606	3,809	1,441	930	578	51,140
1997–98	18,155	13,431	9,460	5,018	3,979	1,383	946	639	53,011
1998–99	19,562	13,782	9,724	5,100	4,284	1,374	1,087	641	55,554
1999–00	20,045	14,752	10,357	5,437	4,596	1,466	1,230	707	58,589
2000–01	21,311	16,263	11,555	6,000	4,889	1,562	1,113	741	63,432
2001–02	22,242	17,088	11,644	6,234	5,070	1,764	1,188	762	65,994
2002–03	22,987	18,063	12,203	6,787	5,470	1,622	1,265	832	69,229
Break in series									
2003–04 ^(c)	24,335	17,881	12,760	7,107	5,732	1,613	1,328	886	71,641
2004–05	25,440	18,825	13,431	7,519	5,977	1,669	1,403	932	75,196
2005–06	25,869	19,216	14,264	7,655	6,105	1,707	1,446	992	77,254
Growth rate (%)									
2003–04 to									
2005–06	6.3	7.5	11.8	7.7	6.5	5.8	8.9	12.0	7.8

(a) The recurrent expenditure estimates in this table cannot be compared with total expenditure estimates in Table 8 of *Health expenditure Australia 2004–05* (AIHW (2006a)).

(b) Constant price health expenditure for 1996–97 to 2005–06 is expressed in terms of 2004–05 prices.

(c) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Note: Components may not add to totals due to rounding.

Source: AIHW health expenditure database.

Table 9: Average recurrent health expenditure^(a) per person^(b), current prices, for each state and territory^(c), all sources of funds, 1996–97 to 2005–06 (\$)

Year	NSW	Vic	Qld	WA	SA	Tas	NT	Australia
1996–97	2,161	2,176	2,104	2,008	2,037	2,410	2,442	2,140
1997–98	2,258	2,276	2,190	2,199	2,143	2,353	2,685	2,243
1998–99	2,471	2,374	2,271	2,257	2,349	2,409	2,731	2,385
1999–00	2,571	2,577	2,432	2,428	2,564	2,614	3,040	2,548
2000–01	2,766	2,884	2,723	2,702	2,773	2,839	3,215	2,790
2001–02	2,993	3,144	2,830	2,908	2,995	3,338	3,439	3,009
2002–03	3,185	3,404	2,999	3,240	3,320	3,162	3,865	3,232
Break in series								
2003–04 ^(d)	3,480	3,456	3,174	3,467	3,582	3,221	4,240	3,430
2004–05	3,779	3,750	3,395	3,759	3,864	3,443	4,563	3,709
2005–06	3,970	3,927	3,660	3,905	4,070	3,633	4,954	3,965
Difference from national average (per cent)								
2005–06	0.1	-1.0	-7.7	-1.5	2.7	-8.4	25.0	

(a) The recurrent expenditure estimates in this table cannot be compared with total expenditure estimates in Table 9 of *Health expenditure Australia 2004–05* (AIHW (2006a)).

(b) Based on annual mean resident population (see Appendix G).

(c) ACT per person figures are not calculated, as the expenditure numbers for the ACT include substantial expenditures for NSW residents. Thus the ACT population is not the appropriate denominator.

(d) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Source: AIHW health expenditure database.

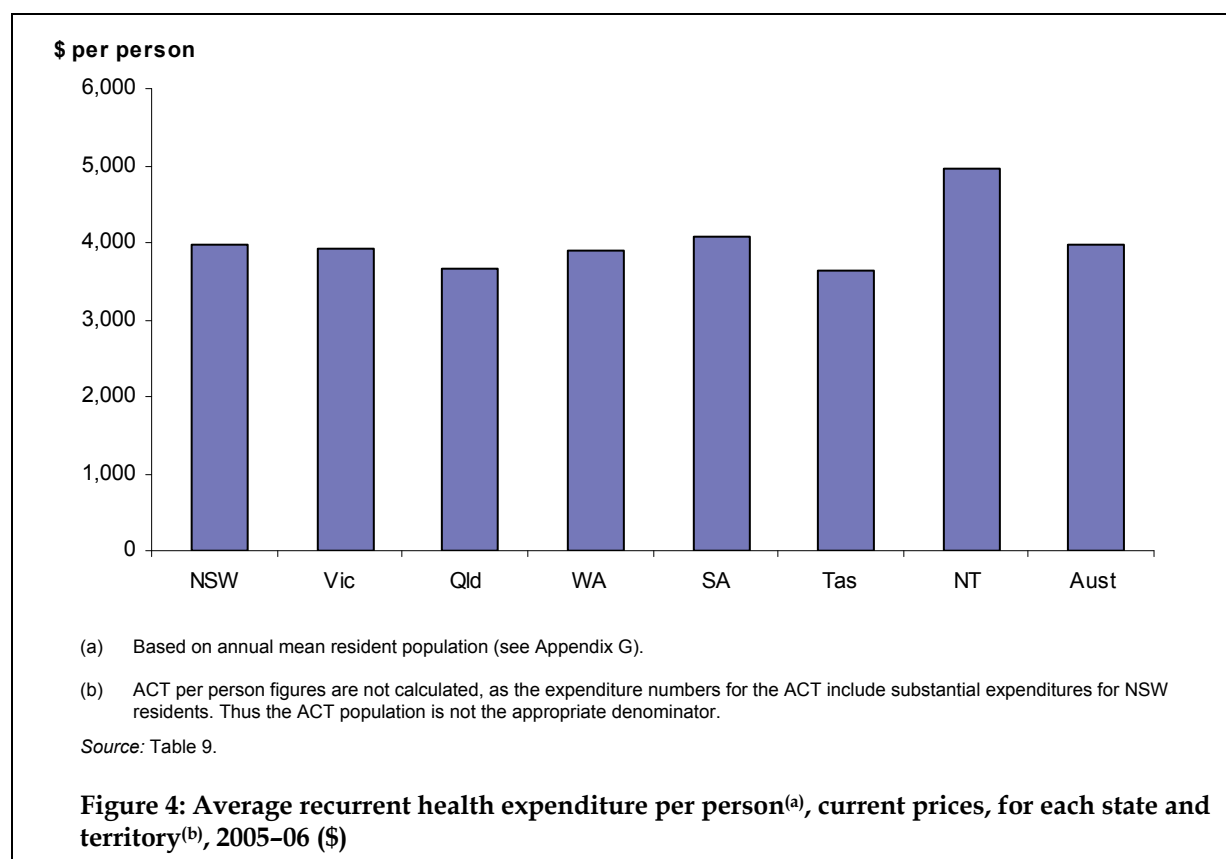


Table 10: Average recurrent health expenditure per person^(a), constant prices^(b), for each state and territory^(c), all sources of funds, 1996–97 to 2005–06 (\$)

Year	NSW	Vic	Qld	WA	SA	Tas	NT	Australia
1996–97	2,816	2,854	2,708	2,586	2,577	3,037	3,136	2,776
1997–98	2,878	2,908	2,764	2,774	2,678	2,924	3,393	2,847
1998–99	3,068	2,956	2,799	2,776	2,868	2,912	3,349	2,952
1999–00	3,108	3,128	2,933	2,918	3,060	3,108	3,639	3,077
2000–01	3,263	3,406	3,215	3,177	3,241	3,312	3,769	3,289
2001–02	3,367	3,534	3,171	3,257	3,343	3,735	3,840	3,378
2002–03	3,455	3,690	3,239	3,501	3,583	3,415	4,170	3,500
Break in series								
2003–04 ^(d)	3,636	3,608	3,303	3,611	3,731	3,356	4,409	3,577
2004–05	3,779	3,750	3,395	3,759	3,864	3,443	4,563	3,709
2005–06	3,810	3,775	3,523	3,755	3,912	3,495	4,752	3,758

(a) Based on annual mean resident population (see Appendix G).

(b) Constant price health expenditure for 1996–97 to 2005–06 is expressed in terms of 2004–05 prices.

(c) ACT per person figures are not calculated, as the expenditure numbers for the ACT include substantial expenditures for NSW residents. Thus the ACT population is not the appropriate denominator.

(d) Due to changes in methods, care must be taken comparing 2002–03 to 2003–04 (see section 7.3 in the Technical notes for further information).

Source: AIHW health expenditure database.

The per person recurrent health expenditure estimates must be treated with caution as the expenditure estimates often include costs of interstate patients, whereas the population used for the calculation is the resident population of the state.

This state-based health expenditure data include estimates of expenditure that have been funded by sources other than the state and territory governments. These include funding by the Australian Government, private health insurance funds, individuals (through out-of-pocket payments) and providers of injury compensation cover. This means that these estimates of expenditure within a state are not limited to the areas of responsibility of state and territory governments.

On a per person basis, in 2005–06, the estimated national average level of recurrent expenditure on health was \$3,965 per person (current prices). In 2005–06, Tasmania (\$3,633) had the lowest average level of expenditure – 8.4% below the national average (Table 9 and Figure 4). In 1996–97, Tasmania was 12.6% above the national average (calculated from Table 9). The Northern Territory (\$4,954) had 25% higher per person expenditure than the national average in 2005–06 (Table 9). New South Wales, Victoria and Western Australia were within 2% of the national average.

Average annual real growth in recurrent health expenditure per person over the period 2003–04 to 2005–06 was highest in the Northern Territory (3.8%) and lowest in Western Australia and Tasmania (both 2.0%). The national average for that period was 2.5% (Table 11).

To the greatest extent possible, the AIHW has applied consistent methods to derive estimates for the different states and territories. But there will be differences from one jurisdiction to another in the quality of the data on which these estimates are based. This means that, while some broad comparisons can be made, caution should be exercised when comparing the results for jurisdictions.

Table 11: Annual growth in recurrent health expenditure^(a) per person^(b), constant prices^(c), all sources of funding, by state and territory^(d), 1996–97 to 2005–06 (per cent)

Period	NSW	Vic	Qld	WA	SA	Tas	NT	Australia
1996–97 to 1997–98	2.2	1.9	2.1	7.3	3.9	–3.7	8.2	2.6
1997–98 to 1998–99	6.6	1.6	1.3	0.1	7.1	–0.4	–1.3	3.7
1998–99 to 1999–00	1.3	5.8	4.8	5.1	6.7	6.8	8.7	4.2
1999–00 to 2000–01	5.0	8.9	9.6	8.9	5.9	6.6	3.6	6.9
2000–01 to 2001–02	3.2	3.7	–1.4	2.5	3.2	12.8	1.9	2.7
2001–02 to 2002–03	2.6	4.4	2.2	7.5	7.2	–8.6	8.6	3.6
2002–03 to 2003–04	..	..	..	..	..	..	..	..
Break in series								
2003–04 to 2004–05	3.9	4.0	2.8	4.1	3.6	2.6	3.5	3.7
2004–05 to 2005–06	0.8	0.6	3.8	–0.1	1.2	1.5	4.1	1.3
Average annual growth rate								
1997–98 to 2002–03 ^(e)	3.7	4.9	3.2	4.8	6.0	3.2	4.2	4.2
2003–04 to 2005–06 ^(e)	2.4	2.3	3.3	2.0	2.4	2.0	3.8	2.5

(a) The recurrent expenditure estimates in this table can not be compared with total expenditure estimates in Table 10 of *Health expenditure Australia 2004–05* (AIHW (2006a)).

(b) Based on annual mean resident population (see Appendix G).

(c) Constant price health expenditure for 1996–97 to 2005–06 is expressed in terms of 2004–05 prices.

(d) ACT per person figures are not calculated, as the expenditure numbers for the ACT include substantial expenditures for NSW residents. Thus the ACT population is not the appropriate denominator.

(e) Australian Health Care Agreement periods.

Source: AIHW health expenditure database.

2.4 Sources of growth in real health expenditure

Expenditure on hospitals accounted for the largest proportion of real growth in recurrent health expenditure between 2003–04 and 2005–06 (42.0%) – public hospital services (37.8%) and private hospitals (4.2%). Expenditure on medications accounted for 16.5% of the growth and medical services accounted for 13.8% (calculated from Table 20). Most of the growth in medication expenditure occurred in 2003–04 (7.8% growth on previous year) and 2004–05 (7.1% growth), with just 1.6% growth in this area in 2005–06 (Table 20). Together, these three areas of expenditure accounted for 72% of the growth in expenditure during the last three years (calculated from Table 20). The combined expenditure of these three areas as a percentage of GDP rose in real terms from 5.9% in 2003–04 to 6.0% in 2005–06 (calculated from Tables 3 and 20).

2.5 Sources of nominal growth in health expenditure

The nominal (current price) growth in health expenditure can be analysed in terms of population growth, inflation and the real increase in expenditure per person. Real increase in expenditure per person is indicative of increases in service use per person.

Two factors contribute to nominal growth in health expenditure:

- the combined effects of general inflation and excess health inflation
- changes in the quantities of services used, reflecting either population growth (less significant in Australia's case) or more intensive per capita use of services.

Underlying these two factors are the effects of changes in the population's age structure, changes in the composition and relative prices of health goods and services, changes in technology and medical practice and general economic and social conditions.

Nominal health expenditure grew from \$39.0 billion in 1995-96 to \$86.9 billion in 2005-06 (Table 1). Of the \$47.8 billion increase, 40.2% (\$19.2 billion) was due to inflation, 15.3% (\$7.3 billion) was from population growth and 44.5% (\$21.3 billion) was due to an increase in real expenditure per person. The interactions between the three growth elements have been allocated in proportion to the size of each growth element.