Economic commentary

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Healthcare and the U.S. economy

Structural pressures, labor constraints and the productivity imperative

Key Insights

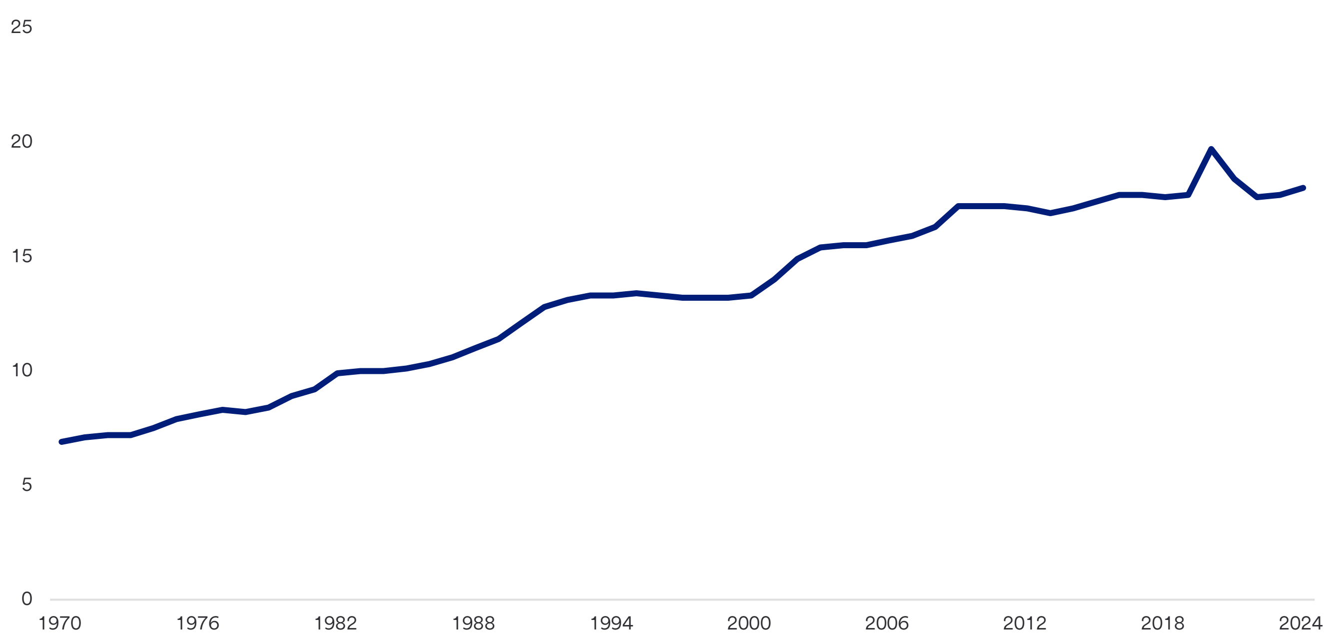
The U.S. healthcare sector sits at the intersection of powerful structural forces shaping the broader economy. Healthcare spending now accounts for roughly 18% of U.S. GDP and more than one in ten jobs, giving the sector an outsized influence on inflation dynamics, labor markets and long-term fiscal pressures.[1,2]

- **At the same time, healthcare providers and insurers operate in an environment of strong and durable demand, supported by long-running demographic trends. An aging population is steadily increasing utilization, providing a high degree of revenue visibility across much of the healthcare system. Against this backdrop, organizations face a set of closely linked challenges – persistent affordability concerns, structural labor shortages and slow productivity growth – that shape financial performance and strategic decision-making.**
- **Productivity improvements are therefore becoming less about expanding margins and more about positioning organizations to operate efficiently in a high-utilization environment. Technology adoption, particularly in administrative workflows and care coordination, may offer incremental but meaningful gains. While near-term improvements are likely to be uneven and capital-intensive, they also reflect an expanding opportunity set rather than retrenchment.**
- **Understanding how these dynamics differ across hospitals, physician practices and insurers is essential – not only for assessing sector-specific pressures, but also for appreciating healthcare's growing role as a structurally expanding pillar of the U.S. economy.**

Healthcare’s expanding role in the U.S. economy

Healthcare has steadily grown from a large sector into a macro-critical one. Total healthcare spending reached approximately $5.3 trillion in 2024, rising more than 7% for a second consecutive year and representing about 18% of U.S. gross domestic product.1 That share has increased persistently over several decades, underscoring that healthcare’s expansion reflects long-running structural forces rather than cyclical dynamics.

Healthcare spending as a percent of GDP



Source: Centers for Medicare & Medicaid Services, U.S Bank Economics

Importantly, rising healthcare spending is not solely a story of higher prices. It also reflects durable and growing demand, driven by population aging, rising prevalence of chronic conditions and advances in treatment that expand the scope of care. Relative to many parts of the economy, healthcare demand is less sensitive to economic slowdowns, providing a degree of stability and revenue visibility that is uncommon in most cyclical industries.

Employment trends reinforce healthcare’s outsized role. The sector employs roughly 17 million workers – about 11% of total U.S. employment – and has been a consistent source of job growth in recent years, even as hiring in other industries has slowed.2 As a result, healthcare labor dynamics increasingly shape economy-wide wage trends and inflation pressures, while also positioning the sector as a central anchor of overall employment growth.

Healthcare's expanding footprint also has important fiscal implications. Medicare and other public healthcare programs represent a growing share of federal spending, reflecting both rising healthcare utilization and the aging of the population. As more Americans enter older age cohorts – and remain there for longer – healthcare will continue to play a central role in long-term budget dynamics, reinforcing its importance not only as a social priority but as a core component of the U.S. economic outlook.

Taken together, these factors position healthcare as a structurally expanding industry operating within a high-utilization environment. While cost pressures and labor constraints pose real challenges, the sector's growth reflects strong underlying demand and a steadily widening role in the broader economy – conditions that shape both its opportunities and its constraints going forward.

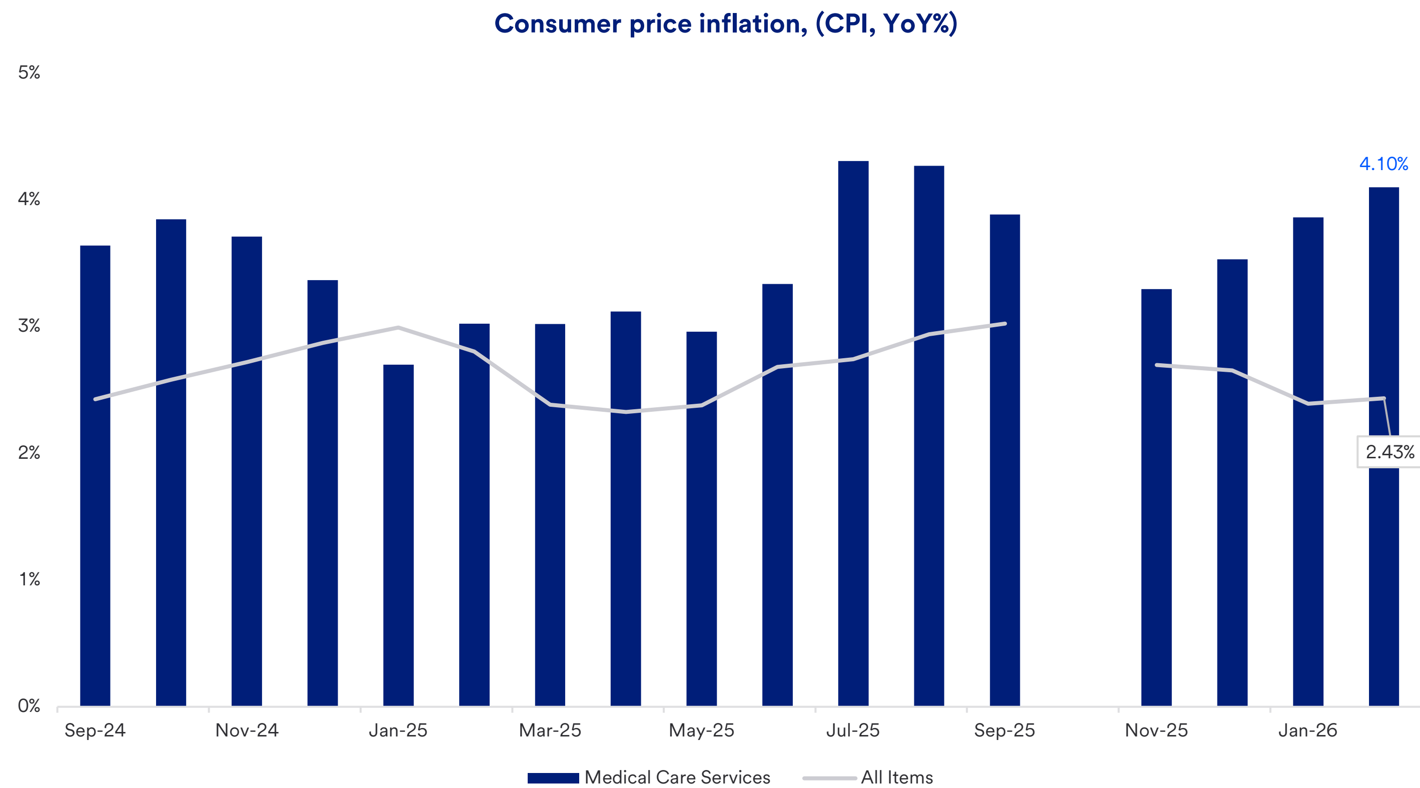
Affordability pressures and inflation dynamics

Healthcare inflation has consistently exceeded broader inflation, placing sustained pressure on households, employers and government budgets. Medical care services inflation has continued to run above headline CPI in recent years, reflecting a combination of rising labor costs, pharmaceutical pricing power and administrative complexity.

Healthcare demand is also relatively inelastic. Unlike discretionary spending categories, medical care is often difficult to defer, particularly for older populations and those managing chronic conditions. At the same time, pricing remains opaque, limiting consumers' ability to comparison shop or adjust utilization in response to rising costs.

Affordability pressures are unevenly distributed. Lower-income households tend to face higher effective burdens due to cost-sharing requirements, limited access to employer-sponsored coverage and reduced capacity to absorb out-of-pocket expenses. Geographic disparities further complicate the picture, with rural areas often facing higher effective costs due to provider shortages and limited competition.

Taken together, these dynamics help explain why healthcare continues to exert upward pressure on inflation – even as inflation in other service categories has cooled.



Source: Bureau of Labor Statistics (BLS), U.S. Bank Economics

Labor: A structural constraint, not a cyclical one

Labor dynamics sit at the center of healthcare's economic challenges. The same demographic forces that are increasing demand for care are also constraining supply. Older populations consume more healthcare services, while a large share of the healthcare workforce itself is nearing retirement age.

These demographic headwinds interact with several structural bottlenecks:

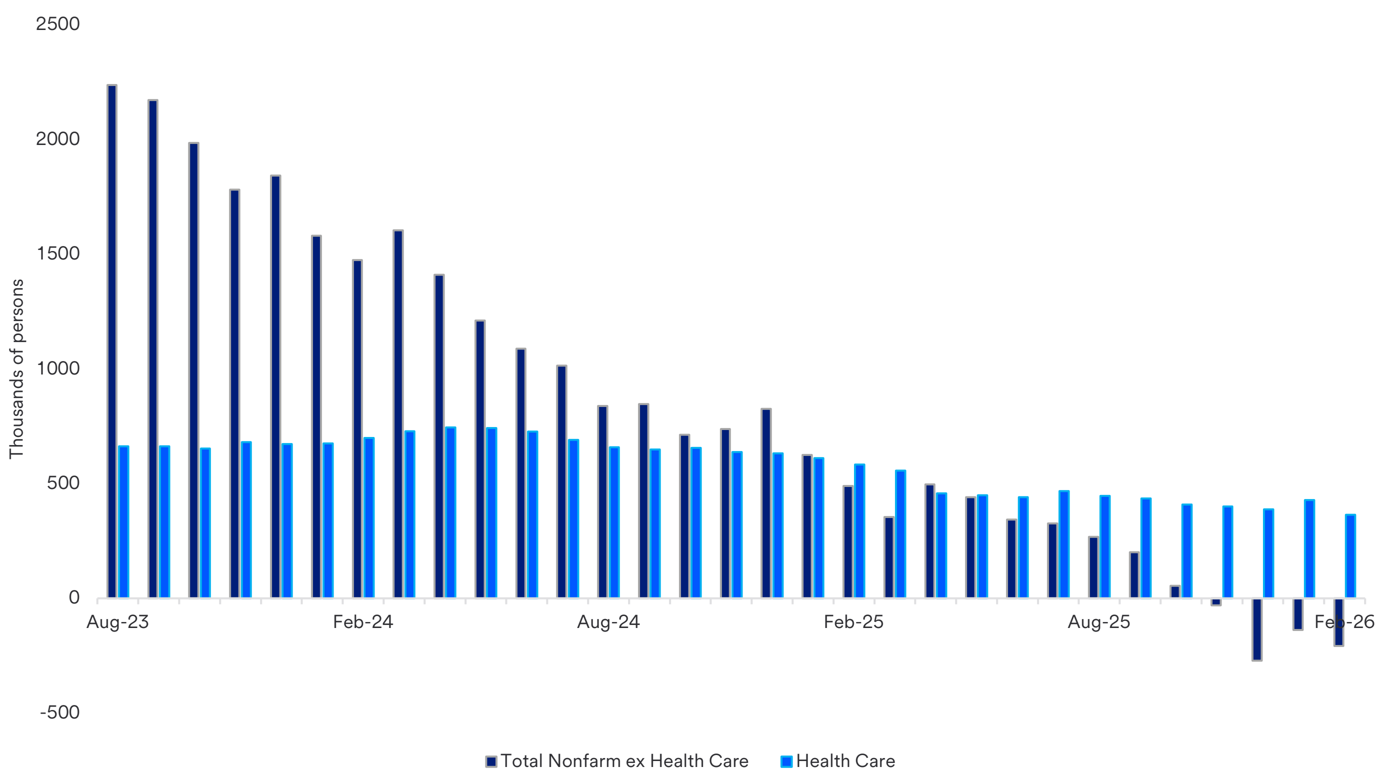
- **Workforce pipelines remain constrained.** Limits on residency slots have not kept pace with population growth and aging, effectively capping the number of new physicians entering practice. Nursing education faces similar challenges due to faculty shortages and limited clinical training capacity.
- **Immigration has historically provided an important offset,** particularly for underserved and rural areas. However, policy changes and rising barriers have reduced this stabilizing force.
- **Regional disparities persist,** with staffing shortages most acute in rural areas and parts of the South, exacerbating access and cost challenges.

As a result, wage growth across healthcare occupations – nurses, physicians, support staff and administrative workers – has been running above the economy-wide average.

Because healthcare is highly labor-intensive, these wage pressures tend to feed directly into higher costs. Unlike many other sectors, healthcare providers have limited ability to substitute capital for labor quickly or to meaningfully reduce staffing without affecting care delivery.

At the same time, healthcare's labor challenges reflect the sector's relative insulation from broader economic slowdowns. Employment demand remains closely tied to utilization rather than discretionary spending, and over time, technological disruption in other industries may modestly expand the pool of workers considering healthcare-adjacent roles. While training and credentialing requirements limit near-term relief, these dynamics may provide longer-run support to workforce supply.

Annual employment growth, total nonfarm excluding healthcare vs. healthcare



Source: Bureau of Labor Statistics (BLS), U.S. Bank Economics

Why productivity is so elusive in healthcare

Productivity is both the most important and most difficult dimension of healthcare economics to assess.

Output in healthcare is inherently hard to measure. Services are heterogeneous, quality improvements are difficult to observe in real time and outcomes often depend on patient behavior and long-term health trajectories. Simple volume measures – visits, procedures, admissions – risk understating improvements in care, while outcome-based measures introduce attribution challenges and long time horizons.

Despite these measurement challenges, healthcare has historically realized slower observable productivity growth than many other sectors, in part because quality, customization and labor intensity are central to care delivery rather than easily standardized outputs. Several structural features reinforce this dynamic:

- Payment systems often reward volume rather than efficiency.
- Fragmented delivery leads to duplicated tests and poor coordination.
- Information systems remain siloed.
- Regulatory and administrative burdens consume provider time without always improving outcomes.
- Limited price competition in many markets reduces pressure to improve efficiency.

Technology – particularly AI and automation – has the potential to begin shifting this dynamic. Near-term gains are most likely in reducing administrative burdens, improving scheduling and capacity management, and supporting clinical decision-making. While these gains are likely to be incremental and uneven, they represent a meaningful opportunity to raise effective output in a high-demand environment.

Margin pressure by business model

While healthcare's macro pressures are broadly shared, their financial implications differ meaningfully across business models.

Hospitals

Hospitals are the most exposed to labor cost pressures. Staffing accounts for the largest share of operating expenses, and persistent shortages have structurally pushed wages higher. At the same time, hospitals often face limits on their ability to fully pass higher costs through to payers – especially in markets with a higher share of public reimbursement, where rates are administratively set and lag input inflation.

Productivity improvements offer a potential offset but are difficult to realize quickly. Recent investments have disproportionately improved administrative efficiency rather than clinical throughput. In the near term, technology is more likely to stabilize margins than meaningfully expand them.

Hospitals are also uniquely exposed to coverage changes. Reductions in ACA subsidies or Medicaid enrollment can increase uncompensated care, particularly for systems serving lower-income populations. Hospitals serving higher-income, commercially insured markets tend to be more insulated.

Physician practices

Physician practices face many of the same labor pressures, but with different margin dynamics. Smaller, independent practices often lack the scale and bargaining power to absorb rising labor costs, contributing to ongoing consolidation into larger groups and hospital-owned practices.

That said, physician practices are generally less exposed to uncompensated care. Services are typically scheduled and reimbursed on a per-visit basis, allowing practices to require coverage or upfront payment. Coverage losses therefore tend to affect patient volumes more than margins.

Productivity improvements may also be more attainable. Automation of scheduling, coding, documentation and prior authorization can reduce overhead per visit. AI-enabled tools that reduce administrative burden can raise effective output per physician, helping support margins even when reimbursement growth is limited.

Insurers

Insurers face a different set of trade-offs. Higher provider wages and prices feed through to higher medical claims, pressuring medical loss ratios. While insurers can often respond by raising premiums, flexibility is constrained in more regulated and price-sensitive markets – particularly the ACA exchanges.

The expiration of enhanced ACA subsidies introduces additional risk. Healthier enrollees may exit as premiums rise, shrinking membership and worsening the risk pool. Because margins in the individual market are already thin, even moderate shifts in enrollment or mix can have an outsized impact on earnings.

Compared with providers, insurers are far less exposed to uncompensated care. Their margin risk is driven more by enrollment, utilization and pricing discipline. Insurers also tend to be further along in adopting data analytics and automation, which may help mitigate cost pressures over time.

Conclusion:

Healthcare’s economic challenges are structural, not temporary. Demographic pressures, labor constraints and slow productivity growth are likely to persist, reinforcing the sector’s growing influence on inflation, labor markets, and fiscal sustainability.

At the same time, these challenges coexist with robust and growing demand, giving the healthcare industry a level of revenue stability that many sectors lack. The unifying theme across the industry is that productivity gains are increasingly essential – not to respond to weak fundamentals, but to translate sustained utilization into durable financial performance.

In an environment of elevated labor costs and constrained reimbursement growth, organizations that can reduce administrative friction, deploy staff more effectively and use technology to raise effective output will be better positioned – not necessarily to expand margins, but to prevent erosion and operate successfully within an expanding healthcare economy.

For a sector that now sits at the core of the U.S. economy, these dynamics are no longer just healthcare issues. They are macroeconomic ones.

Footnotes:

1. Centers for Medicare and Medicaid Services
2. Bureau of Labor Statistics