Talking point

Weak investment in the healthcare system

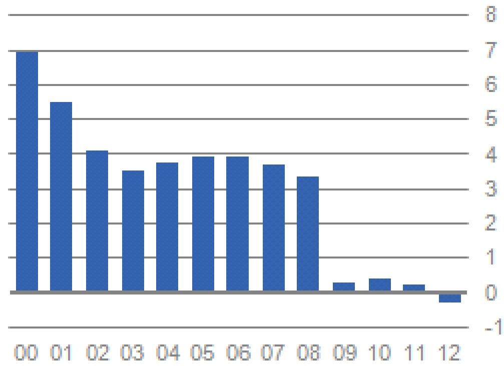
March 30, 2015

Since around 2009, the German healthcare system has been characterised by weak investment. One reason is that public subsidies for the sector have been reduced. This development harbours risks, for only a regular renewal of medical appliances and equipment is likely to ensure the high quality of treatment in Germany in the long term. By contrast, lower investments in the building stock would primarily mean a reduction in the current hospital overcapacities.

Investments are the basis for the future viability and innovative strength of a sector. In the last few years, the different economic sectors in Germany have varied considerably with regard to investment activity. For instance, net fixed assets in manufacturing declined by 1.4% between 2000 and 2012. By contrast, the services sectors were more investment-friendly. Here, net fixed assets rose by 13.8% in the period mentioned above. Particularly high increases were registered by business service providers (+37.9%) as well as transportation and storage (+32.1%). In the area of public services, education and health, net fixed assets rose slightly below average (+9.8%). Financial services and insurance providers had to put up with significant losses (12.6%).

Surplus investment fell sharply

Gross fixed asset investments minus write-downs in German healthcare, EUR bn



Source: Federal Statistical Office

Decline in investment from 2009

Within the public services, education and health sector, the healthcare segment has been characterised by two distinct phases of development. While between 2000 and 2008 gross fixed capital formation was consistently much higher than write-downs, this difference narrowed perceptibly from the recession year 2009. In 2012 write-downs even exceeded capital spending. In sum, net fixed assets barely more than stagnated from 2009 to 2012, while they rose by 2.5% in services sectors as a whole. In the end, healthcare lived on its reserves during this period.

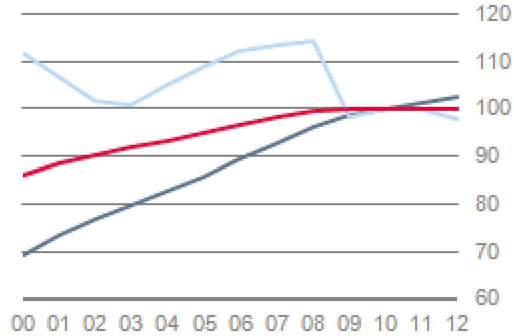
The longer-term development of healthcare has shown that net fixed assets in plant and equipment have risen much more quickly than net fixed assets in the area of buildings (2000 to 2012: 39% vs 10%). However, from 2009 to 2012, growth in both asset groups almost came to a standstill (2009 to 2012: -0.7% and +0.4%). This was probably mainly due to the dependence of capital spending of healthcare on public and especially municipal subsidies. These declined in the wake of the economic and financial crisis.

Advances in medical technology as well as the possibilities of invoicing new treatment methods may well have been the major drivers for the initially quicker growth of net fixed assets in the area of plant and equipment. However, as medical appliances and other equipment are publicly subsidised as well, absolute gross fixed capital formation declined strongly since 2008 (2012 vs 2008: 18.1%). In addition, regulatory uncertainties in healthcare are likely to have impeded substantial investment in new plant. Finally, this reflects an interesting phenomenon in healthcare: while the investment carried out relatively strongly depends on the state of the economy, total capital spending on health in Germany (including spending of private households) has been rising relatively steadily for years.

The low investment activity of the last few years harbours risks for the future development of healthcare. Only a regular renewal of medical appliances and equipment is likely to secure the high quality of treatment in Germany in the long term. Furthermore, in the event of declining investment, there is a risk that new treatment methods cannot be used; technical progress in the sector would be slowed.

Net fixed assets flat since 2009

German healthcare sector, price-adjusted, 2010=100



Source: Federal Statistical Office

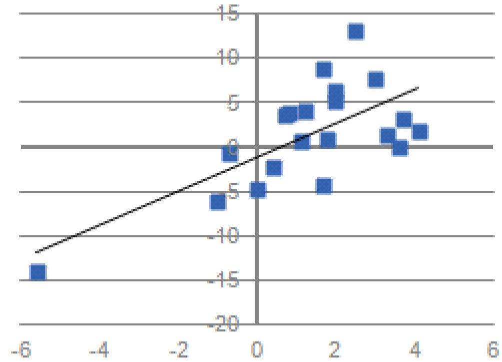
The risks outlined above mainly refer to investment in the area of plant and equipment. In contrast, a decline in net fixed assets in the building stock portfolio would primarily reduce the current hospital overcapacities. Such a capacity reduction is in line with the targets of the key issues paper on hospital reform, which a joint federal-Länder working group under the leadership of the Federal Ministry of Health had presented at the end of 2014. The paper could trigger an improvement in investment activity at the hospital level.

Public subsidies: a bottleneck

Many public operators of healthcare institutions cannot make sufficiently high investments due to their tight financial situation. By contrast, privately operated institutions are better placed in terms of their own financing possibilities in many cases. One main reason for this is probably the fact that average personnel and material expenses in private hospitals are lower than in public institutions. The quicker reduction in hospital capacity intended by politicians could lead to an improvement of the financial situation of the remaining institutions. The investment funds available would be spread across a smaller number of hospitals; this would also facilitate greater specialisation by individual hospitals. Thus, gross fixed assets could be higher than write-downs in healthcare in the long term. Further efficiency measures, e.g. inter-municipal purchasing alliances for public health institutions, would also increase the scope for investments. However, according to the most recent surveys, only roughly 30% of public hospitals are considered to be able to invest without public subsidies. At the regional level, further closures of hospitals are therefore likely for economic reasons; between 2000 and 2012, the number of hospitals already fell by around 250 (11%).

Healthcare: capital spending on the economy

x axis: GDP, real, DE, % yoy
y axis: GFCF* healthcare, real, DE, % yoy



*Gross fixed capital formation

Sources: Federal Statistical Office, Deutsche Bank Research

Currently, healthcare facilities in Germany are still in a relatively good state. As the healthcare sector in Germany – not least as a result of demographic developments – remains a growth market all in all and increasing numbers of cases are foreseeable, investment activity in the sector must be raised in the long term to ensure that the usual and desired quality standards are maintained. This requires both targeted state commitment and fundamental process optimisation, as well as a change of strategy in the sector.

For further information on the subject of investment at sectoral level please see: Heymann, Eric (2014) Investment activity in Germany at sectoral level. Deutsche Bank Research.

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