



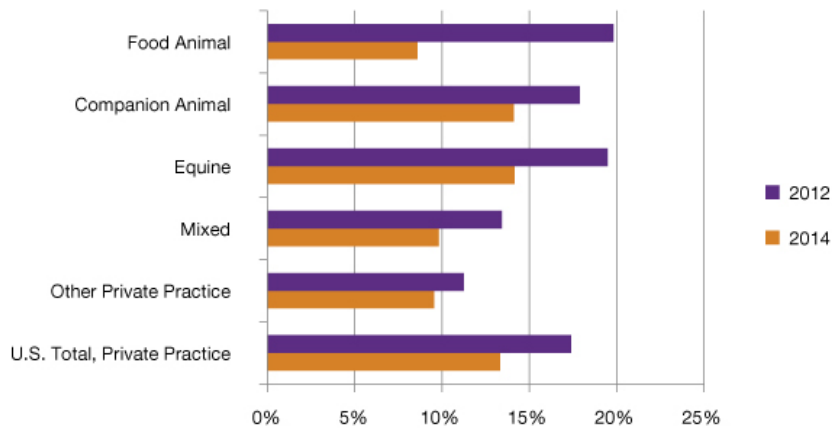
2015 AVMA Report on Veterinary Capacity: Summary

Are there too many veterinarians? Some in the profession think so. But if you take a closer look at the numbers, that's not necessarily the case. In fact, the American Veterinary Medical Association takes the position that there are not too many veterinarians in the workforce.

What the U.S. veterinary profession is experiencing is a situation of excess capacity, in which a certain percentage of veterinarians' capacity to provide services is going unused. Excess capacity means that services are being provided in excess of the quantity demanded at a specific price.

Excess capacity in 2014 has declined relative to 2012. According to the 2012 AVMA Workforce Survey, excess capacity in private practices was 17.2 percent. Feeding this number into the AVMA Workforce Model and reweighting by both state and employment sector resulted in a baseline excess capacity of 12.5 percent. According to the 2014 AVMA Capacity Survey, total excess capacity in private practice was 13.3 percent. Again, updating this initial value in the AVMA Workforce Model and reweighting gave an estimate of industrywide excess capacity of 7.7 percent in 2014.

Excess Capacity by Practice Type



The concept of excess capacity is new to the veterinary profession, having been first introduced in the 2013 AVMA Workforce Study. The confusion over the difference between an oversupply of veterinarians and excess capacity continues to linger in the profession. The difference between the two is the use of price in determining what excess capacity is versus oversupply.

In most industries, the term used is “capacity utilization” rather than excess capacity. That is, understanding the capacity of a business to produce output, and then reporting how much of this capacity is being utilized. Excess capacity is the unused portion of total capacity.

This report focuses on the capacity of the market for veterinary services. In the three vertically related veterinary markets – the market for veterinary education, the market for veterinarians and the market for veterinary services – the market for veterinary services is a combination of the need for veterinary medical services, skills and training that veterinarians have to offer, and the ability of the profession to provide those services by educating, training and certifying medical professionals. The demand for veterinary services comes from a variety of sources, including consumers, government and industry.

Three components comprise excess capacity: demand, supply and price. Changing any one of these factors will change the level of excess capacity. While some past workforce studies have addressed oversupply, the difference in our latest research, while subtle, is important. In general, an oversupply of the quantity of service that can be provided usually exceeds the demand, regardless of price. But this is not the case in veterinary services. The need for veterinary services continues to outpace the ability to supply those services. However, that need is not captured as demand because those services are not available at prices that adequately compensate veterinarians for the time and effort they’ve invested. There is little disagreement that there are companion and food animal, equine and various non-animal related veterinary services that are needed but not provided. Take, for instance, the number of animals that do not receive regular veterinary care or appropriate vaccinations, or the monitoring and prevention of zoonotic diseases. So what we are really experiencing in the profession is excess capacity, not oversupply.

Excess capacity is a Key Performance Indicator for the veterinary profession. Projections for the years 2014 to 2024 indicate that excess capacity will decline over that period. This implies that supply and demand in the veterinary services market are moving toward alignment, even as the number of new veterinarians will continue to grow through 2018 before reaching a plateau. The forecast predicts that excess capacity will decline to 5.7 percent in 2017 and remain flat through the remaining forecast period, which ends in 2025.

Key assumptions driving this forecast include the flattening of the growth rate in the number of new veterinarians after 2018, continued growth in the GDP over the entire period and an increasing retirement rate for veterinarians.

Macroeconomic conditions in the economy have been steadily improving, and this economic growth has led to increased demand for many goods and services. This demand increase has increased the price of livestock. Using U.S. Department of Agriculture projections, the number of livestock will increase significantly from current levels, leading to a greater demand for food animal veterinarians.

Second, the improving macroeconomic picture has also increased the forecast for government spending, meaning more public positions for veterinarians will be opened. And third, with the rising costs of education and the decline in veterinary school applicants, the market for education is nearly in equilibrium. This decreases the forecast for new graduates from 2 percent growth per year to no growth after 2018. This forecast regarding the number of graduates is a key component of the decreasing excess capacity estimate.

Changes in these three assumptions account for approximately half of the decline in forecast excess capacity. The other half of the decline in excess capacity is due to the newest estimates of current excess capacity, which is about two percentage points lower than in 2012.

The most important factors in measuring excess capacity are prices of veterinary services and consumer incomes.

Prices are important in many ways. The price that the consumer pays will determine how much or how often they seek veterinary care. The price, or salary, that veterinary clinics pay veterinarians is determined along with the number of hours that veterinarians are willing to work. Generally, a higher level of salary is associated with a higher willingness to work. While the AVMA believes that the market for education is at or very near equilibrium (the availability of seats is equal to the number of students willing to pay for them), there does not yet seem to be a decline in demand for veterinary education. As with any market, rising prices for products (seats) and declining willingness of consumers (students) to pay could eventually lead to the most expensive seats being unfilled.

The forecast of the supply of veterinarians is dependent entirely on the number of new graduates. We have developed an independent forecast for the total number of new graduates in each year of the forecast horizon. The AVMA is aware that Midwestern University and Lincoln Memorial University will begin graduating classes of 102 and 89, respectively, beginning in 2018. The expansion of educational capacity is already underway at several U.S. schools, including the University of Georgia, Texas A&M and Oregon State University. While an expansion of capacity is not equal to an expansion in class size, and we have not forecast that this expanded capacity will produce an expanded number of graduates over the next decade, the increased capacity at these schools does provide an opportunity to increase the number of applicants who are willing to pay for a veterinary education. And, because these seats will be offered at a price lower than the current equilibrium price, expansion in class size is certainly possible.

However, with the market for education at or near equilibrium, and the forecast of continued increase in education costs, expansion in the number of total seats can only occur if there is an expansion in the willingness of applicants to pay more for the current seats. Our evidence suggests just the opposite, that the willingness of applicants to pay may be declining, and thus, we have held the total number of graduates constant after 2018 when the new graduates from Midwestern and Lincoln Memorial come on line. This is not to say that schools with the capacity to expand seats will not do so, but rather that to do so may come at the expense of a contraction in the number of higher priced seats.

In reality, after Midwestern University and Lincoln Memorial begin graduating students in 2018, it is unlikely that any additional, new universities will be opening. Further, because of the increasing costs for education and the current equilibrium in the market for education, current veterinary colleges are unlikely to remodel or add a substantial number of new seats in the near future unless they can reduce the cost per seat. Even then, they will likely substitute less expensive seats for more expensive seats at other colleges as the willingness to pay for seats (at higher prices) declines. For this reason we think that the number of graduates will top out at about 4,290 (from all sources) beginning in the year 2019, and not increase for the remainder of the forecast period.

Looking at the largest segment of the veterinary services market, which employs two-thirds of the veterinarians in the U.S. today, companion animal medicine will continue to struggle with excess capacity as prices rise faster than inflation. Companion animal practitioners' income depends on the demands by pet-owning households for their pet's health care. Those demands depend on many factors. In general, the primary determinants are: household incomes indicated by measures of Gross Domestic Product per capita; pets per household; and the fees charged by veterinarians compared to the costs of alternative sources of pet health care.

According to the Bureau of Labor Statistics, the fees charged for veterinary services has risen, on average, 5.3 percent annually every year since 1997. The prices people have paid for the same bundle of veterinary services have thus doubled since 1997. In contrast, all other market prices have risen much slower, between 2 percent and 3 percent, on average, during the same period.

The data and analyses elsewhere in this report do not indicate that a situation of excess demand or insufficient capacity exists in the market for companion animal health care today. A more likely explanation is that the rising veterinary services price index is the result of fee increases, which may have been counterproductive in the context of persistent excess capacity.

The Bayer Veterinary Care Usage Study, completed in 2011, suggested that one of the six most important factors that appeared to have contributed to the decrease in veterinary visit numbers was the cost of veterinary care. The study noted that, "many pet owners expressed shock at the size and frequency of price increases at their veterinary clinics."

Economic theory would suggest that, in response to fee or price increases, especially where those increases exceed the general price index for all goods and services, some clients will simply pay the higher fees and will not reduce patronage. However, others will take their pets to a veterinarian less often, and some will stop patronizing veterinarians altogether. The evidence shows that a significant number of households stop patronizing veterinarians when prices increase.

Demand, which is the combination of all price and quantity points, is increased as income increases. The recent recession drastically reduced income and thus caused a reduction in demand for veterinary services. As the price that veterinarians were charging for their services prior to the recession increased, the quantity of those services demanded dropped precipitously. The recession caused a reduction in the demand for veterinary services; a reduction in the quantity demanded at every price. Thus, any increase in real price (a rise in veterinary prices at a pace faster than the increase in inflation) during the recession would further exacerbate the decline in the quantity of services demanded. How much the drop in income and price each affected the drop in demand for veterinary services is unknown as a result of the lack of knowledge about price and income elasticities.

Identifying the level of excess capacity that is a problem in the veterinary practice is of little use without understanding why it has occurred and what strategies can be used to ameliorate its adverse effects on practice profitability. Three strategies are possible: 1) reduce supply, 2) increase demand or 3) lower the price (or reduce the growth) of price-elastic services. Each of these strategies will provide a certain level of benefits at a cost. Understanding the relative benefits and costs of each strategy is imperative before a decision is made.

Many veterinarians have argued for a reduction in the number of veterinarians to reduce the supply of veterinary services and thus reduce excess capacity and increase practice profitability. Others have advocated for the increase in demand by increasing client visits and compliance. Still others have advocated for continued increase in prices. While it may be possible that any one of these may work, as yet there is not sufficient evidence to suggest which strategy or combination of strategies will produce the greatest return on investment. This is the point of the AVMA Workforce Model, to develop methods and processes whereby these different strategies can be measured and compared. This process will not be easy to develop, nor can it be developed in a short period of time. A workforce model that provides the appropriate strategies to improve the long-term sustainability of veterinary practices will require a continued effort with participation from every veterinarian in the profession.