

**Health Sector Economic Indicators<sup>SM</sup>**

**Insights from Monthly Price Indices Through February 2015**

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**PRICE BRIEF**

April 10, 2015

**Health Care Price Growth Modestly Higher**

**HIGHLIGHTS**

- ▲ Health care prices in February 2015 were 1.4% higher than in February 2014, above the January year-over-year change of 1.2%. The February 2015 12-month moving average held at 1.5%.
- ▲ Year-over-year hospital prices rose 0.4% in February, rebounding from last month's fall of 0.1% (the only month of decline recorded since this series began in 1992). Physician and clinical services prices were flat, as they were in January. Home health care prices continued their rebound from their earlier negative growth trend, recording a 1.5% rate in February, above the January rate of 1.2%. Prescription drug prices rose 5.2%, down from 5.6% in January.
- ▲ Economy-wide price indexes were flat to down in February. The Consumer Price Index (CPI) increased from -0.1% to 0.0% year-over-year, the gross domestic product (GDP) deflator held at 0.9 in January (February GDP data are not yet available), and the final-demand Producer Price Index (PPI) fell from 0.0% to -0.6%. The Medical CPI fell from 2.6% to 2.3%.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 4.6% in February, above its 12-month moving average of 3.0%.

**Health Care Prices and Related Statistics: 12-Month Growth Rates**

	February 2013	February 2014	January 2015	February 2015
HCPI	1.8%	1.2%	1.2%	1.4%
GDPD	1.8%	1.2%	0.9%	**
HCPI – GDPD	0.0%	0.0%	0.3%	**
<b>Addendum</b>				
Health care spending	3.3%	3.9%	6.5%	6.7%
Health care utilization	1.5%	2.7%	5.3%	5.3%
CPI—Medical	3.1%	2.3%	2.6%	2.3%
CPI—All Items	2.0%	1.1%	-0.1%	0.0%

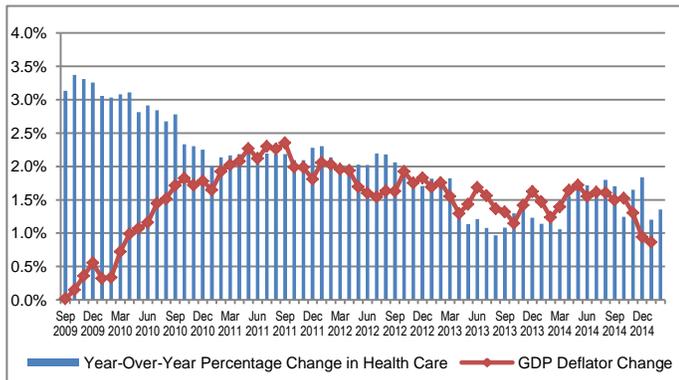
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. Health care price index is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided on page 4.  
Numbers may not subtract properly due to rounding.  
\*\*Data not available

**HEALTH CARE AND ECONOMY-WIDE PRICES**

In February 2015, the Health Care Price Index (HCPI) rose 1.4% above February 2014. The 12-month moving average of 1.5% is near the all-time low for our data (1.2%), but it has now risen for 11 straight months, the first increasing trend since January 2012. The HCPI shows a steady decline from October 2009 at 3.4%, followed by 2 years oscillating near 2% growth, a sharp decline to about 1%, a 9-month rise above 1.5%, and a dramatic drop last month followed by the current uptick (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator (GDPD), trended upward beginning in September 2009, peaked at 2.4% in September 2011, and fell to 0.9% by January 2015. Exhibit 5 shows long-term comparisons.

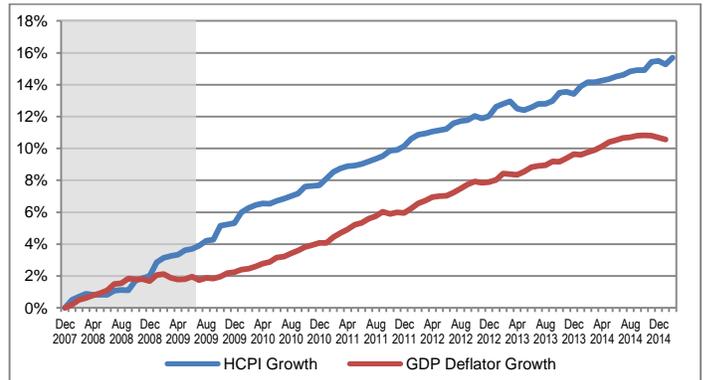
Since the start of the recession in December 2007, health care prices have increased by 15.7%, while prices in the economy as a whole (using the GDPD) have increased by 10.6% (Exhibit 2). Low economy-wide inflation has exerted strong downward pressure on health care prices. In February, the CPI rose from -0.1% to 0.0% and the Medical CPI, emphasizing out-of-pocket prices, fell from 2.6% to 2.3%. In January, the GDPD held at a low 0.9% growth and the final-demand PPI in February fell to -0.6% from 0.0%. Health care price growth is low by historical standards, but we are moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices.

**Exhibit 1. Year-over-Year Growth Rates in HCPI and GDPD**



Source: Altarum Institute analysis of monthly BLS data.  
Note: Compares monthly prices with the same month from the previous year.

**Exhibit 2. HCPI and GDPD, Cumulative Percentage Change Since December 2007**



Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers, LLC.  
Note: Shading indicates the recession period.

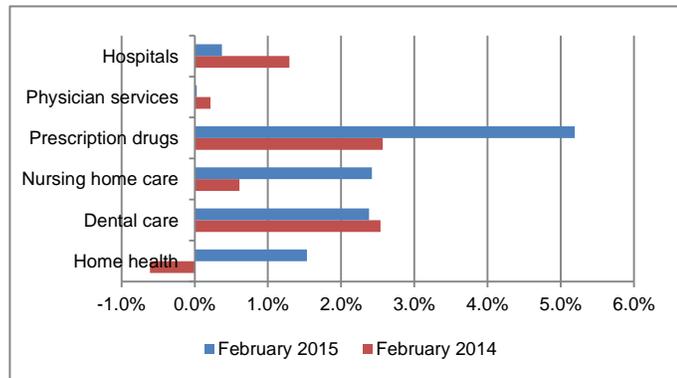
### HEALTH CARE PRICES BY CATEGORY

Comparing February 2015 with February 2014, price growth for prescription drugs was by far the highest at 5.2%, followed by nursing home care and dental care at 2.4%. The hospital care price change rose from -0.1% to a still very low 0.4%, and physician price growth remained at 0.0%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight; and it, coupled with no price growth for physicians, resulted in modest HCPI growth despite increases in growth of six other categories. Annual inflation rate comparisons—February 2015 year over year versus February 2014 year over year—show a mixed pattern, with hospital, physician, and dental care growth lower and the other categories higher (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest 3 months of data and may be a leading indicator, is mostly lower across the price categories and flat for the aggregate HCPI index. We expect growth for hospital prices to remain low in the near term, which translates to continued moderate growth for the HCPI.

Medicare and Medicaid prices grew more slowly than “other” prices, which include private payment. Hospital prices for Medicare and Medicaid patients both rose by 0.2%, to -2.7% and 0.1%, respectively. For “other” patients, price growth rose in February from 1.6% to 2.3% (data not shown). Unfortunately, the government only produces PPIs by payer for hospitals. Yet these data dramatically show very low hospital price growth despite waves of consolidation. Curiously, MedPAC reported extremely high hospital margins despite such low price growth.

**Exhibit 3. Year-over-Year Price Growth for Selected Health Categories**



Source: Altarum analysis of monthly BLS data.

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### PRICES, SPENDING, AND UTILIZATION

Trends in health care utilization (and intensity) can be computed from the price data combined with Altarum’s monthly health spending estimates.<sup>1</sup>

- ▲ Exhibit 6 displays year-over-year growth rates in health care spending broken out by price and utilization. The downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, followed by very low price growth and now a resurgence of utilization. The readings for February 2015 are 6.7% spending growth and 5.3% utilization growth. Note that while January and February 2015 data are preliminary, the surge in utilization at the close of 2014 reflects updated information.
- ▲ Exhibit 7 shows per capita utilization growth through December and highlights the decline between 2002 and 2010 and its recent growth. Per capita utilization in February is rising at an annual rate of 4.6%, far above its 12-month average of 3.0%. This rising utilization trend accords with expanded health insurance coverage, and with recently released Quarterly Services Survey data. On a 12-month average, utilization for hospitals has risen by 3.6%, home health is up by 2.5%, physician services has risen 1.9%, the prescription drug rate has risen 6.5%, nursing care is up 1.8%, and dental care utilization has risen by 0.3%.

### DISCUSSION

In February 2015, the HCPI rose 1.4% above that of February 2014, a modest two-tenths higher than the January rate and only four-tenths higher than the decade-plus low of 1.0% growth registered in August 2013. The 12-month moving average of 1.5% is the same as it has been for 6 months, after increases beginning in April 2014. The big news is a five-tenths rise in hospital price growth from its first ever negative reading (-0.1%) to a still quite modest rate of 0.4%. In contrast, price growth for prescription drugs, at 5.2%, though down from 6.4% in December and 5.6% in January, is still the highest since May 2002.

For the HCPI as a whole, 7 of the 10 components saw increases in price growth. Thus, the modest hospital rate and flat physician rate are counteracting these other components.

Health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. February 2015 was the 68<sup>th</sup> month of economic expansion following the recession, yet we are barely off the decade-plus HCPI low. A return to 2% growth for the HCPI now seems further off in the future.

Nevertheless, new data show an increase in health care spending that should eventually drive prices higher, for the economy as a whole and for the health sector. We will be closely monitoring developing trends in the resurgence of utilization driven by expanded coverage and a strengthening economy.

<sup>1</sup> Altarum Institute Spending Brief #15-4: February 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

**PRICE GROWTH BY DETAILED CATEGORIES**

Exhibit 4. Annualized Percentage Change in Prices for the Major Components of National Health Expenditures

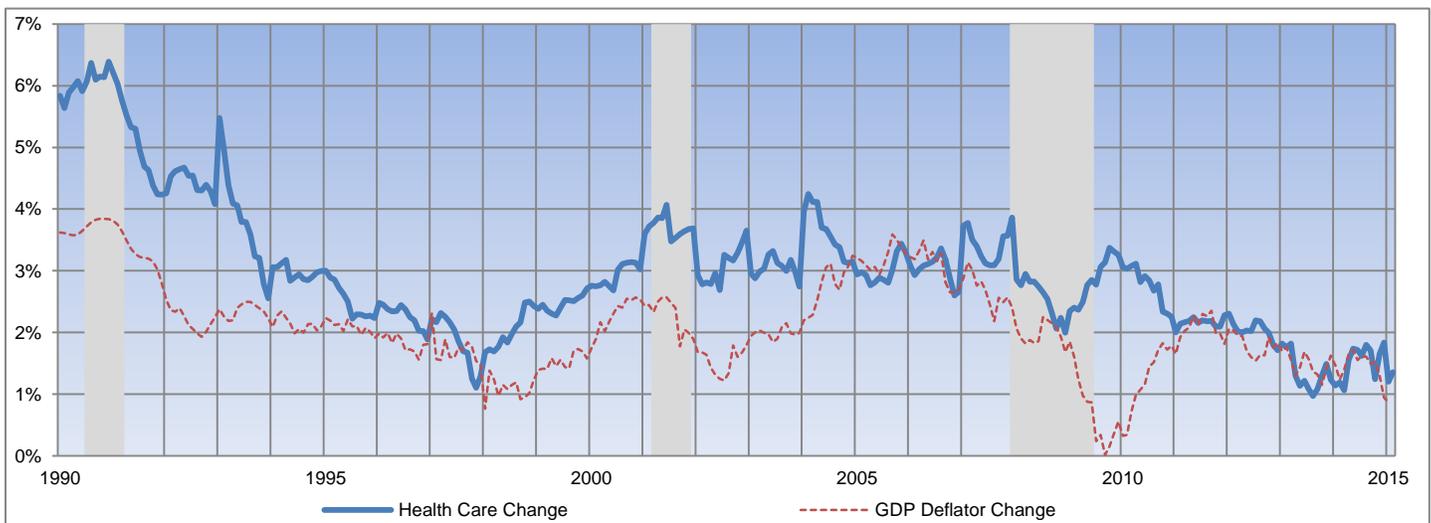
	Ending February 2013	Ending February 2014	Ending February 2015
HCPI	1.8%	1.2%	1.4%
Hospital care	3.1%	1.3%	0.4%
Physician and clinical services	0.3%	0.2%	0.0%
Prescription drugs	0.8%	2.6%	5.2%
Nursing home care	0.6%	0.6%	2.4%
Dental services	3.2%	2.5%	2.4%
Home health care	0.6%	-0.6%	1.5%
Other professional services	1.4%	1.4%	1.2%
Other personal health care	2.6%	2.6%	1.5%
Other nondurable medical products	0.7%	-0.8%	0.2%
Durable medical equipment	0.9%	0.0%	0.3%

Source: Altarum analysis of monthly BLS data.

Notes: Compares a given month's prices with those of the same month from the previous year.

**TIME SERIES TRACKER**

Exhibit 5. Year-over-Year Percentage Change in Health Prices Compared with the GDPD



Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data.

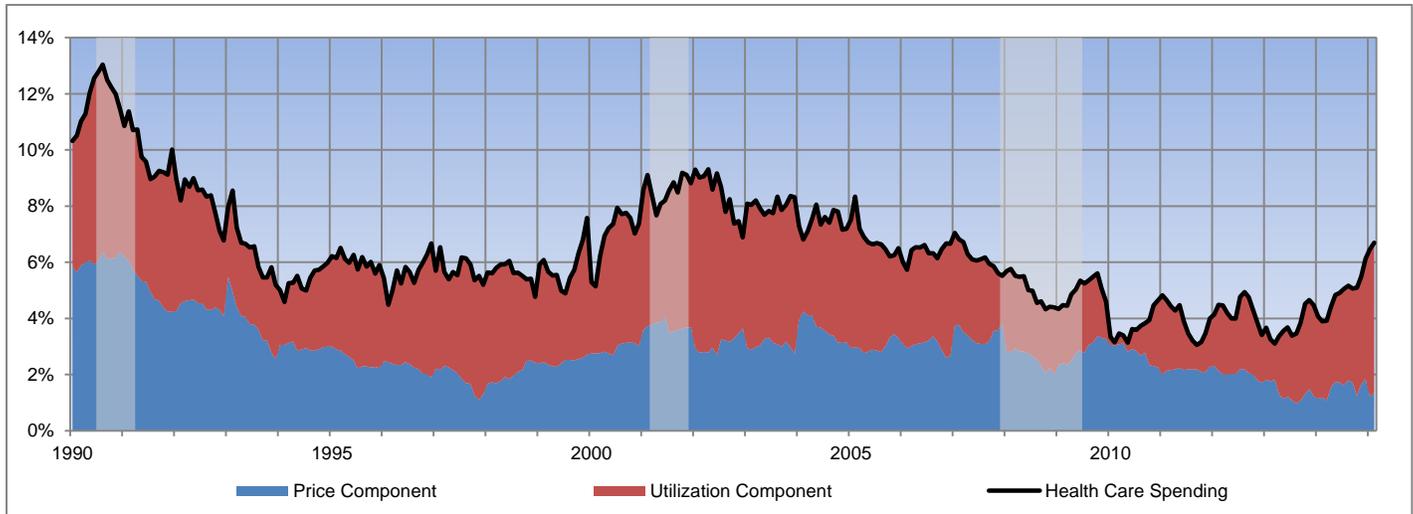
Note: Lightly shaded bars denote recession periods.

Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute's research on the cost growth trends and key drivers of U.S. health spending and to formulate policy strategies to help bend the cost growth curve.

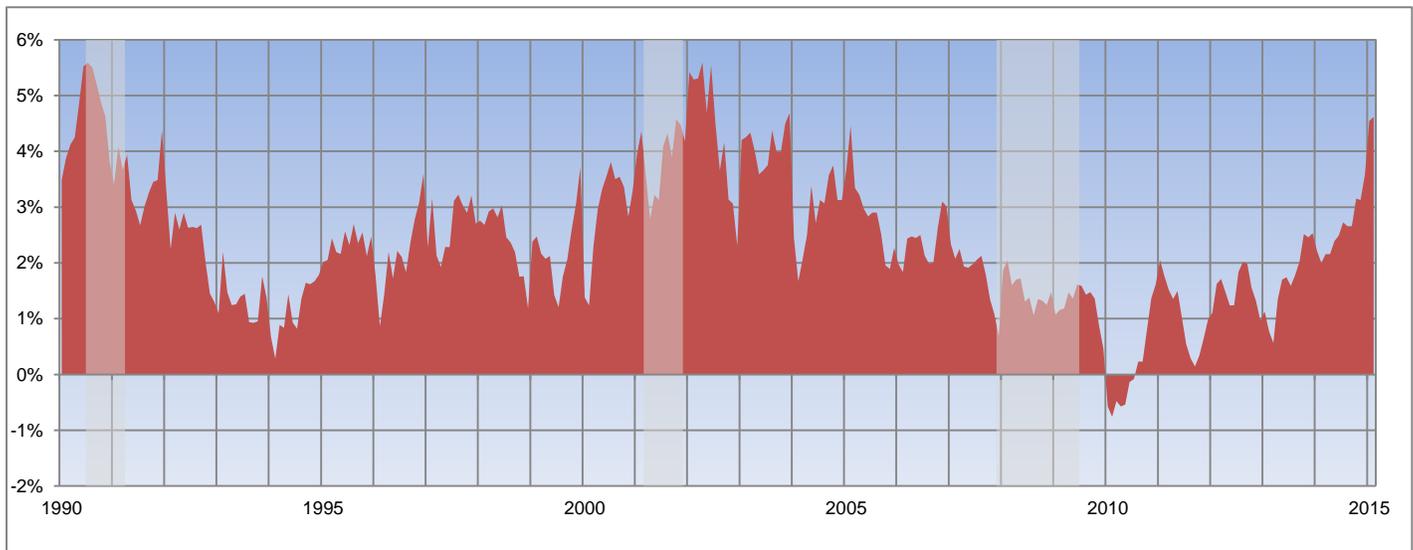
*The Health Sector Economic Indicators*<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 571-733-5709, [ken.schwartz@altarum.org](mailto:ken.schwartz@altarum.org). For more information, visit [www.altarum.org/cshs](http://www.altarum.org/cshs).

Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



Source: Altarum calculations from Health Sector Economic Indicators data.  
 Note: Lightly shaded bars denote recession periods.

Exhibit 7. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altarum calculations from Health Sector Economic Indicators data.  
 Note: Lightly shaded bars denote recession periods.

**Methods.** Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within National Health Expenditures, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the medical care component of the CPI are well-documented. Information on the CMS index is presented in the following source: U.S. Department of Health and Human Services, *National Health Expenditures Accounts: Methodology Paper, 2013—Definitions, Sources, and Methods*, Washington, DC: Centers for Medicare & Medicaid Services, 2014. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-13.pdf>. The HCPI is calculated by using BLS data on PPIs for hospital, physician, nursing home, and home health components; CPIs for prescription drugs; and other remaining items. Following NHSG, we use the GDPD rather than the CPI as our measure of economy-wide inflation. While this brief focuses on prices, it also incorporates data from our spending brief and shows the power of looking at prices and spending together. In particular, it reveals the striking role of utilization in health spending growth trends.