

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through February 2016

April 8, 2016

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PRICE BRIEF

Health care price acceleration continues

HIGHLIGHTS

- ▲ Health care prices in February 2016 were 1.7% higher than in February 2015, up from 1.6% in January and the highest rate since September 2014. The February 2016 12-month moving average held at 1.2%.
- ▲ Year-over-year hospital price growth fell to 1.0% from 1.2% in January. Physician and clinical services prices rose 1.3%, the same rate as in January, but a sharp break from negative growth seen in 2015. Drug price growth rose to 3.4% from 3.0% in January, reclaiming the title as the fastest growing price component.
- ▲ Economy-wide price indices accelerated except for the Consumer Price Index (CPI), which fell to 1.0% growth from 1.4% in January. The final-demand Producer Price Index (PPI) grew 0.0%, up from -0.2% in January, the Medical CPI growth rose from 3.0% to 3.5%, and the gross domestic product deflator (GDPD) growth rose to 1.5% in January from 1.3% in December (February data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.2% in February, below its 12-month moving average of 3.4%. The latter figure has fallen for 4 consecutive months.

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

	Feb 2014	Feb 2015	Jan 2016	Feb 2016
Health Care Price Index (HCPI)	1.2%	1.1%	1.6%	1.7%
GDPD	1.4%	1.1%	1.5%	*
HCPI-GDPD	-0.2%	0.1%	0.1%	*
Addendum				
Health care spending	3.8%	6.7%	4.4%	4.7%
Health care utilization	2.6%	5.6%	2.8%	3.0%
CPI—medical	2.3%	2.3%	3.0%	3.5%
CPI—all items	1.1%	0.0%	1.4%	1.0%

Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI 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.

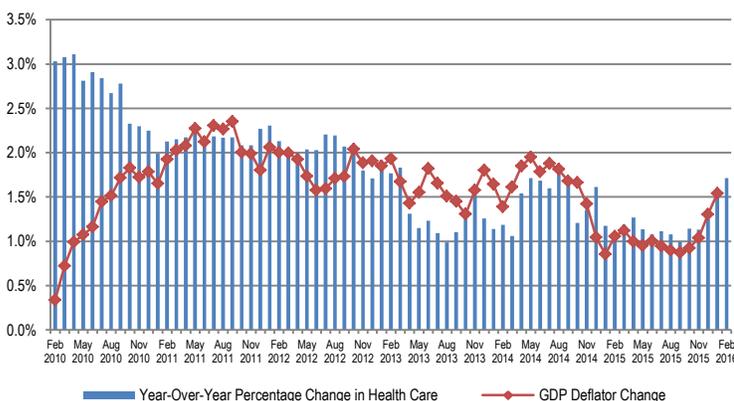
* Data are not yet available.

HEALTH CARE AND ECONOMY-WIDE PRICES

In February 2016, the Health Care Price Index (HCPI) rose 1.7% from February 2015. The 12-month moving average of 1.2% is up from its all-time low for Altarum data (1.1% in December). The HCPI shows a decline from 3.4% in October 2009, then 2 years oscillating near 2% growth, a sharp decline to about 1%, an increase in 2014 to around 1.5%, and recent very low growth that appears to be ending (Exhibit 1). The 1.7% rate is the highest since September 2014. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and stood at 1.5% in January 2016; it and the HCPI growth rates appear to be closely tracking each other. Exhibit 5 shows long-term comparisons.

Since the start of the recession in December 2007, health care prices have increased 17.4%, while prices in the economy as a whole (using the GDPD) have increased 12.6% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector continue to exert downward pressure on health care prices, although this story is now changing. In February, the CPI rose 1.0%, down from 1.4% in January, and the medical CPI, emphasizing out-of-pocket prices, rose to 3.5% from 3.0%. The final-demand PPI growth rate for February, at 0.0%, is up from the January reading of -0.2%. By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth, and emerging wage/price pressures appear to be trending upward.

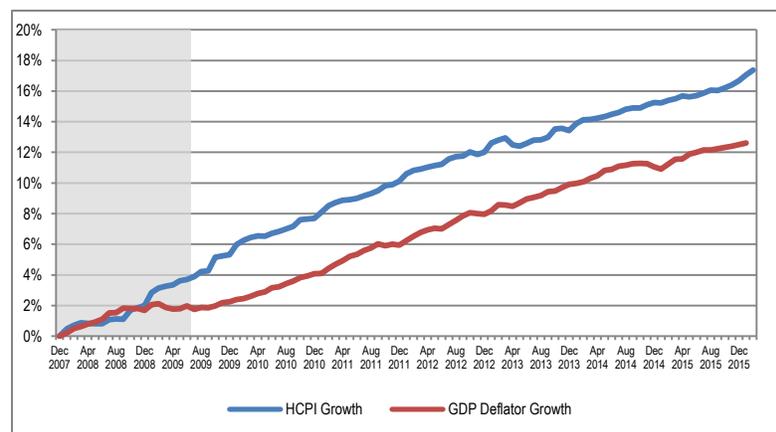
Exhibit 1. Year-over-Year Growth Rates in HCPI and GDPD



Source: Altarum analysis of monthly BLS data.

Note: This exhibit 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.

Note: Shading indicates the recession period.

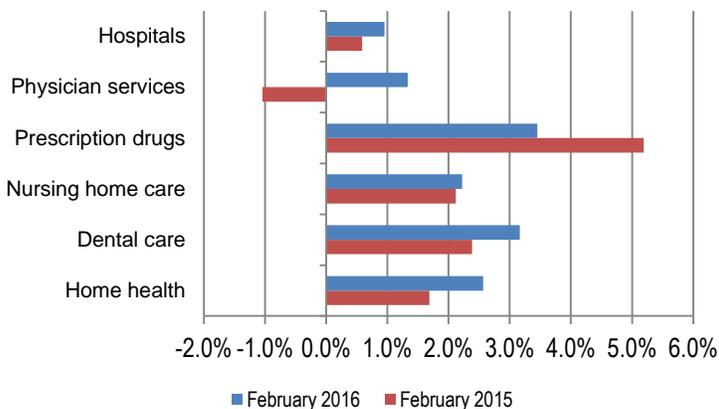
HEALTH CARE PRICES BY CATEGORY

Comparing February 2016 with February 2015, price growth for prescription drugs (3.4%) is once again growing at the highest rate, ahead of dental services (3.2%—the highest since November 2013) and other personal health care (3.1%—the highest since August 2011). The price change for hospital care decreased to 1.0% from 1.2%, and physician price growth held at 1.3%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but four price components offset it this month: drugs, dental, home health care and other personal health care. Annual inflation rate comparisons—February 2016 year over year versus February 2015 year over year—show increases for every category except for prescription drugs (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 higher for the aggregate HCPI and for 7 of the 10 price categories. The HCPI growth rate appears poised for modest future increases.

Medicare and Medicaid hospital prices grew less quickly than private-sector prices. Hospital price growth for Medicare patients fell from 1.4% in January to 0.9% in February. For Medicaid patients, hospital price growth fell to -2.5% in February from -2.2% in January. For private patients, hospital price growth rose to 2.4% in February (the highest rate since this breakdown became available in June 2015) from 2.2% in January. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was steady at 5.0% in February (data not shown). At this new high rate of 2.4%, private payment growth for hospitals is of concern and bears close monitoring. This is especially relevant when viewing the continuing divergence with public rates as measured on a cumulative basis. Specifically, since June 2014, hospital prices for Medicare, Medicaid, and private pay patients have grown -1.5%, -2.3%, and 4.3%, respectively.

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.¹

- ▲ Exhibit 6 displays year-over-year growth rates in personal health care spending broken out by price and utilization. The historic, downward trend in health spending growth that began in 2002 was due mainly to declining utilization growth, followed by very low price growth. A resurgence of utilization, now moderating, has reversed the spending trend. The readings for February 2016 are 4.7% spending growth and 3.0% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though 2015 shows substantial moderation). Per capita utilization in February rose at an annual rate of 2.2%, below its 12-month average of 3.4%. Higher utilization fits with expanded health insurance coverage and stronger economy-wide employment. On a 12-month average basis, utilization for hospitals has risen 2.7%, home health care is up 6.5%, physician services have risen 5.7%, the prescription drug rate is up 3.9%, nursing care has risen 1.1%, and dental care utilization is up 1.2%.

DISCUSSION

In February 2016, the HCPI rose 1.7% above the February 2015 level (up from the 1.6% rate in January), the highest reading since September 2014. The 12-month moving average of 1.2% is unchanged from January, but one-tenth higher than the December rate of 1.1%, which is the all-time low for our data series.

Price growth for physician and clinical services has bounced back from yearlong readings near -1.0% to a growth rate of 1.3% in January and February. Price growth for prescription drugs is up to 3.4% (from 2.4% in December). While hospital prices usually drive overall health care prices, in February, hospital price growth fell to 1.0% from 1.2% in January. It was drug prices, dental services prices (up 3.2%—the highest rate since November 2013), and other personal health care (up 3.1%—the highest growth since August 2011) that pushed the HCPI higher.

Moderate hospital price growth reflects contained public prices and modestly rising private prices. We only have 9 months of annual price growth for private hospital patients, but the current reading of 2.4% is the highest in that time span. On a cumulative basis, the divergence between private and public price growth is rising rapidly and bears close monitoring. For what it’s worth, total hospital margins are at 30-plus year highs.²

Even after steady increases since September 2015, health care and economy-wide inflation are still low for this stage of the business cycle recovery. February 2016 was the 80th month of economic expansion following the recession. While 2015 represented the lowest health care price growth in the 55-year history of the National Health Expenditure Accounts, the trend is now changing for both health and economy-wide prices. We believe that higher economy-wide price growth will provide room for health care prices to grow more quickly, perhaps to the 2% range.

Nonetheless, after spurring in conjunction with expanded health insurance coverage via the Affordable Care Act, health care spending growth receded throughout 2015. Perhaps the demise of historically slow spending growth is overblown, and utilization control can offset slowly rising price growth!

¹ Altarum Spending Brief #16-4: February 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Medicare Payment Advisory Commission (2016). *Report to Congress – Medicare Payment Policy*, Washington, DC, March.

PRICE GROWTH BY DETAILED CATEGORIES

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

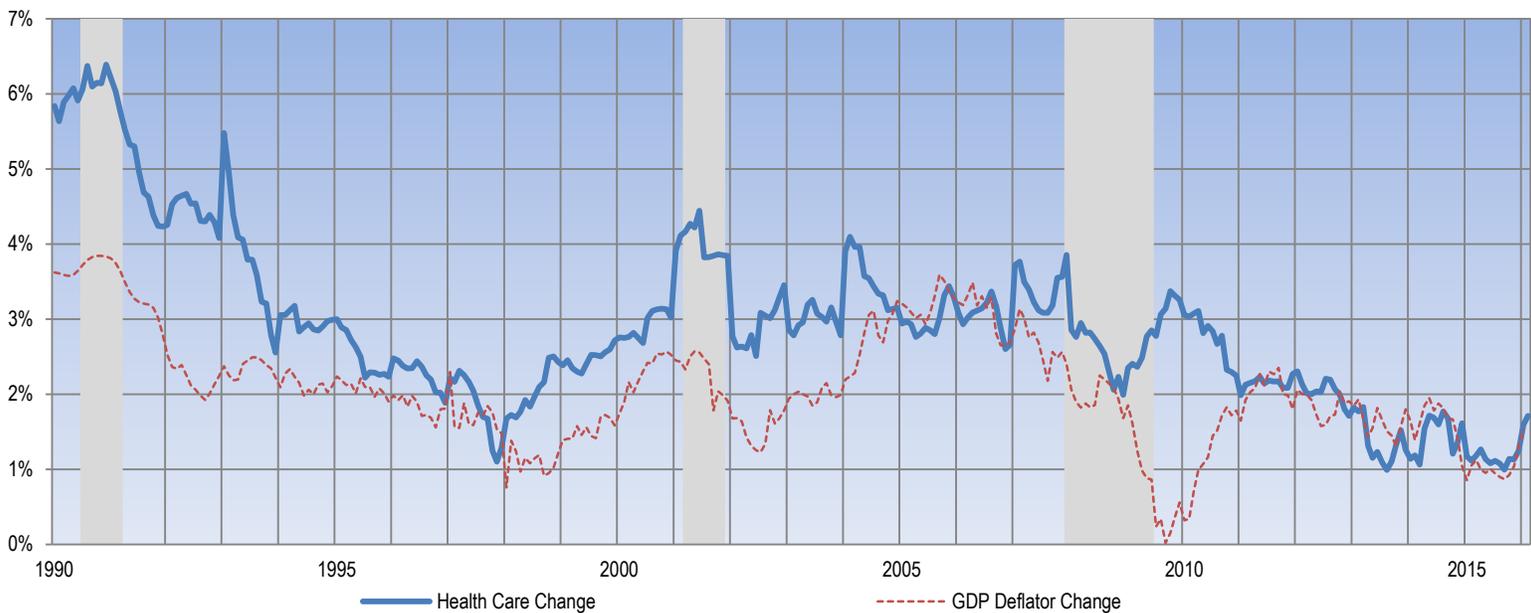
	Year Ending February 2014	Year Ending February 2015	Year Ending February 2016
HCPI	1.2%	1.1%	1.7%
Hospital care	1.3%	0.6%	1.0%
Physician and clinical services	0.2%	-1.0%	1.3%
Prescription drugs	2.6%	5.2%	3.4%
Nursing home care	0.6%	2.1%	2.2%
Dental services	2.5%	2.4%	3.2%
Home health care	-0.6%	1.7%	2.6%
Other professional services	1.4%	1.2%	0.4%
Other personal health care	2.6%	1.6%	3.1%
Other nondurable medical products	-0.8%	0.2%	-1.8%
Durable medical equipment	0.0%	0.3%	0.5%

Source: Altarum analysis of monthly BLS data.

Notes: This exhibit 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.

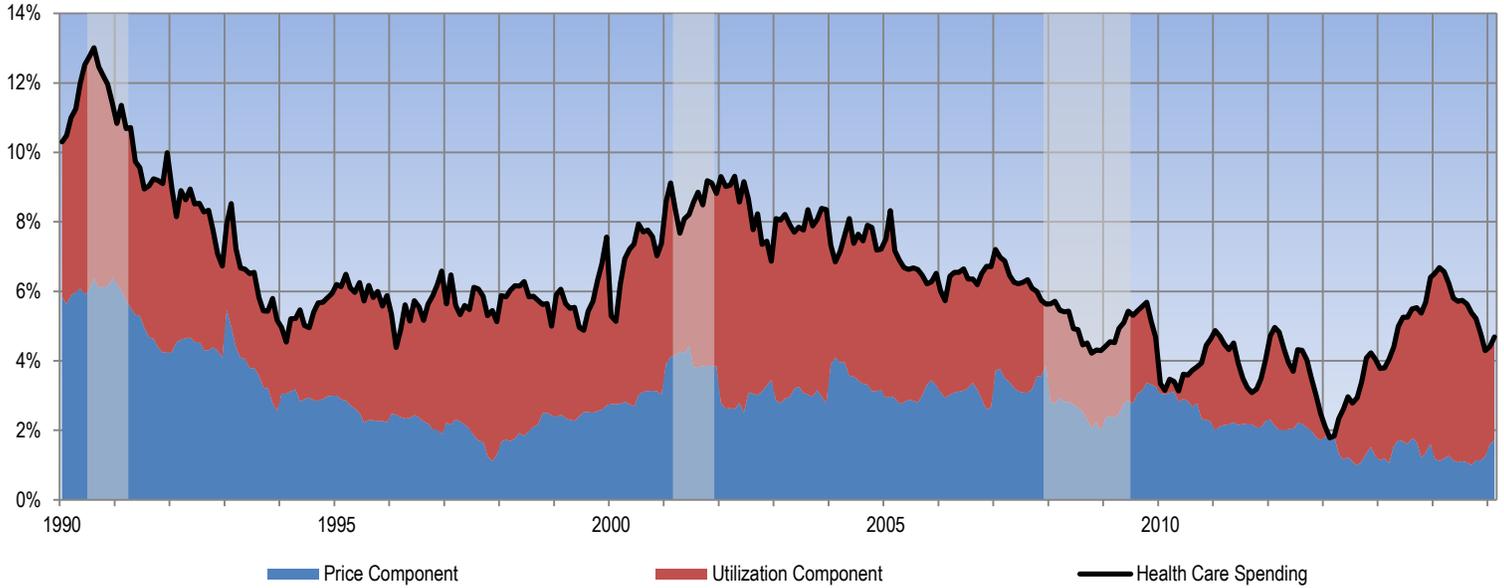
Note: Lightly shaded bars denote recession periods.

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, systems-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum'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.

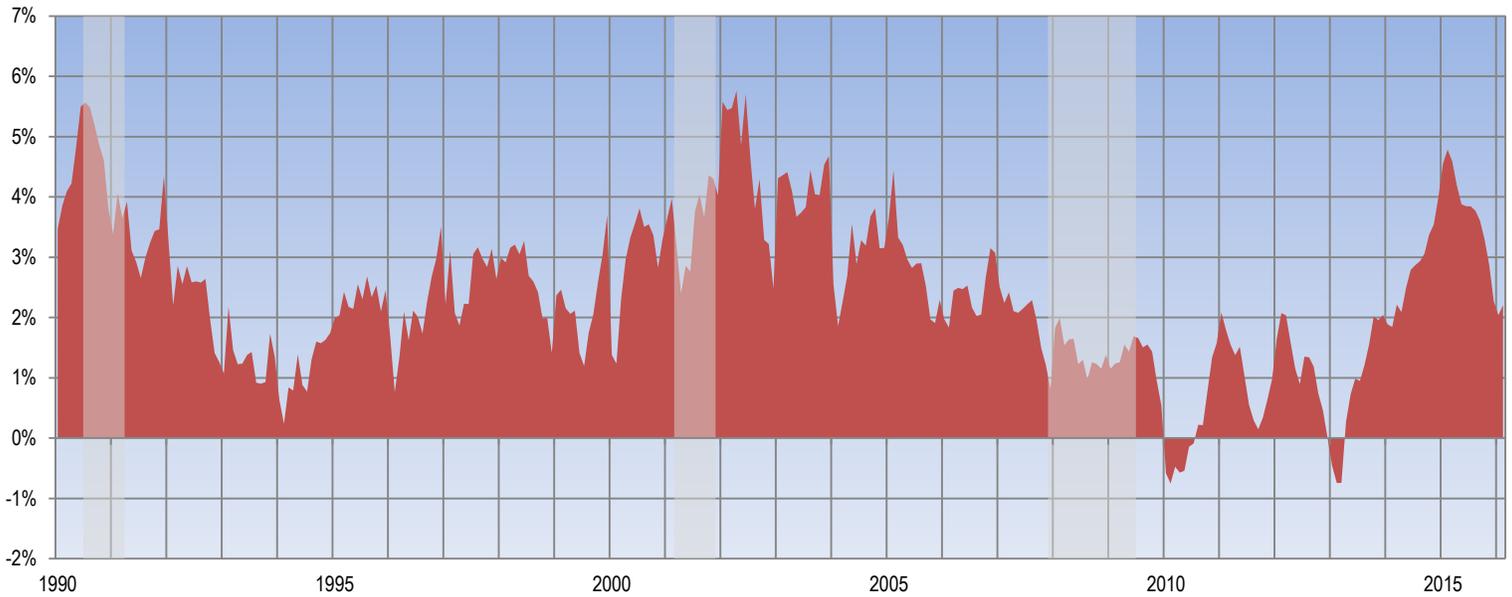
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 202-772-5062, ken.schwartz@altarum.org. For more information, visit <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 the National Health Expenditure Accounts, 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. (2015). *National Health Expenditure Accounts: Methodology Paper, 2014—Definitions, Sources, and Methods*. Washington, DC: Centers for Medicare & Medicaid Services. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-14.pdf>. The HCPI is calculated by using BLS data on PPIs for hospital, physician, nursing home, and home health components and 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.