

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through February 2017

April 13, 2017

www.altarum.org

PRICE BRIEF

Health price growth unexpectedly falls back to below 2%

HIGHLIGHTS

- ▲ Health care prices in February 2017 rose 1.9% above February 2016, following 3 months at a rate of 2.1%.
- ▲ Year-over-year hospital price growth rose one-tenth to 1.6%, but physician and clinical services price growth dropped to 0.2% from 0.5% growth in January. Annual drug price growth in February fell to a 5.2% rate, down from its 20+ year high of 7.0% reached in November 2016.
- ▲ Economy-wide price indices exhibited growth. The Consumer Price Index (CPI) rose to 2.7% growth in February from 2.5% in January, the final-demand Producer Price Index (PPI) rose to 2.2% from 1.6%, and the gross domestic product deflator (GDPD) held steady at 1.9% growth, but it has been on an upward trajectory since July 2016.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.7% in February, well below its 12-month average of 3.1%.

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

	Feb. 2015	Feb. 2016	Jan. 2017	Feb. 2017
Health Care Price Index (HCPI)	1.1%	1.4%	2.1%	1.9%
GDPD	1.2%	1.2%	1.9%	1.9%
HCPI-GDPD	-0.1%	0.3%	0.2%	0.0%
Addendum				
Health care spending	7.3%	5.7%	5.9%	5.4%
Health care utilization	6.2%	4.2%	3.8%	3.4%
CPI—medical	2.3%	3.5%	3.9%	3.5%
CPI—all items	0.0%	1.0%	2.5%	2.7%

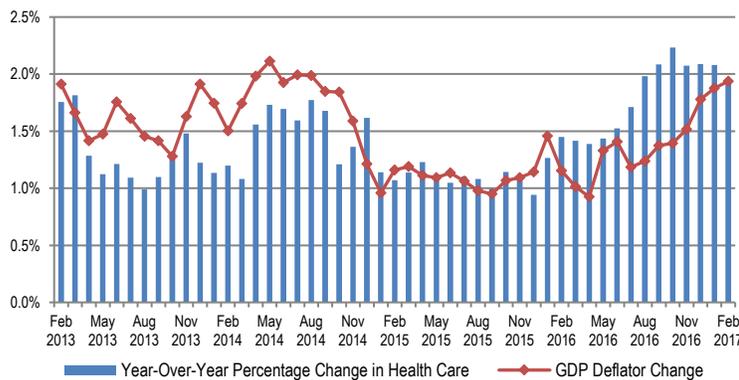
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In February 2017, the Health Care Price Index (HCPI) rose 1.9% above February 2016. The 12-month moving average, at 1.8% growth, is equal to the January rate, after increasing steadily for 14 months. The HCPI declined from 3.4% in October 2009, oscillated near 2% growth for 2 years, ultimately hit historic lows of roughly 1% in 2015, and exhibited a sharp increase through 2016 that now appears to be cooling (Exhibit 1). After eclipsing the 2% rate in September 2016 for the first time since October 2012, we expected it to trend higher, but once again, it has fallen below 2%. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and stands at 1.9% year-over-year growth as of February 2017. The HCPI growth rates have eclipsed those of the GDPD since February 2016, but that story is now over. Exhibit 5 shows long-term comparisons.

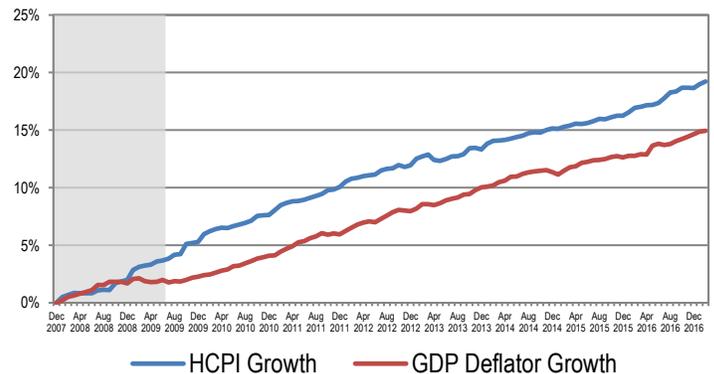
Since the start of the recession in December 2007, health care prices have increased 19.2%, while prices in the economy as a whole (using the GDPD) have increased 14.9% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector are no longer putting downward pressure on health care prices. Yet, our expectation of higher HCPI rates have not played out, and clearly there is extensive uncertainty under the new presidential administration. In February, the CPI rose 2.7% above the previous year, the highest rate since February 2012. The medical CPI, emphasizing out-of-pocket prices, fell to 3.5% from 3.9% growth in January. The final-demand PPI growth rate for February rose to 2.2%, its highest rate since March 2012!

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.

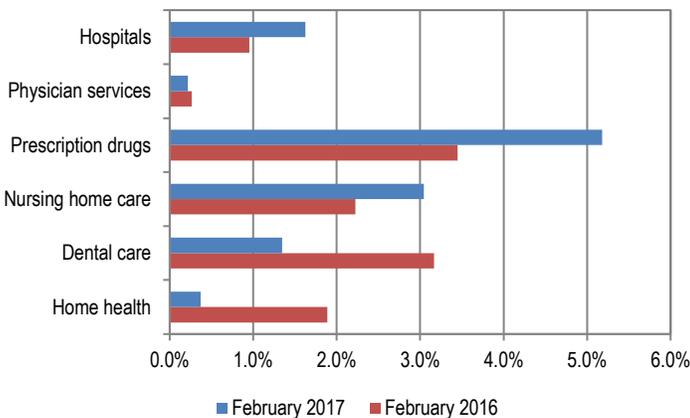
HEALTH CARE PRICES BY CATEGORY

Comparing February 2017 with February 2016, price growth for prescription drugs, at 5.2%, is easily the fastest growing category. It is far above the next two highest, nursing home care and other professional services, which each grew by 3.0%. Of note, dental care price growth plummeted to 1.3% in February, the lowest reading in our nearly 3 decade data series! Hospital price growth rose one-tenth to 1.6% in February, but physician price growth dropped to 0.2% from 0.5% in January. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but the lower price growth for physicians, prescription drugs, and dental care accounts for the falling HCPI rate. Annual inflation rate comparisons—February 2017 year over year versus February 2016 year over year—show 3 categories higher (hospitals, prescription drugs, and nursing home care), and the other 3 lower (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data, is lower for the aggregate HCPI and for six of the ten price categories. Even with lower hospital and prescription drug momentum, we will be surprised if the HCPI fails to rise above 2% growth next month.

Medicare and Medicaid hospital prices typically grow less quickly than private-sector prices. Hospital price growth for Medicare patients rose to 1.2% in February from 0.9% in January, rose to 2.3% from 2.2% for Medicaid patients (uncharacteristically high), and fell to 2.4% from 2.5% for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was stable at 1.8% (data not shown). While prices for privately-insured patients show moderate growth, there is a large cumulative gap compared to public payments. Specifically, since June 2014 (when the private-only data series was created), *cumulative* hospital prices for Medicare, Medicaid, and private pay patients have grown -0.4%, 0.0%, and 6.9%, respectively.

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



Source: Altarum analysis of monthly BLS data.

Follow us on Twitter: @ALTARUM_CSHS

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 to declining utilization growth, followed by very low price growth. Utilization surged, but now appears steadier. The readings for February 2017 are 5.4% spending growth and 3.4% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth and a jagged 2-year moderation. Per capita utilization in February rose at an annual rate of 2.7%, below its 12-month average of 3.1%. On a 12-month average basis, utilization for hospitals rose 3.8%, home health care is up 3.0%, physician services rose 5.3%, the prescription drug rate is -1.2%, nursing care rose 2.5%, and dental care utilization is up 2.0%.

DISCUSSION

In February 2017, the HCPI rose by 1.9% compared to a year earlier, an unexpected drop after 6 months at or above 2%. The 12-month moving average of the HCPI stayed at 1.8% following a steady rise since November 2015. After finally bouncing back from record low price growth in 2015, we expected the HCPI to blow past 2% growth and to trend higher still. We also expected the HCPI to grow faster than the GDP deflator, as it had for 12 straight months. Both expectations have not been met.

We pay close attention to the hospital and physician components of the price index. The former rose from 1.5% growth in January to 1.6% in February. The latter fell back to 0.2% growth after the 0.5% spurt seen in January. At 5.2%, annual prescription drug price growth has retreated from the more than 24-year high rate of 7.0% recorded in October 2016. Flying under the radar, dental care price growth has plummeted to 1.3% in February, the lowest rate in our nearly 3-decade data series!

As we note each month, health care inflation is quite low for this stage of the economic recovery. February 2017 was the 92nd month of expansion following the Great Recession, now the third longest in U.S. history!

We can only speculate that uncertainty under the new presidential administration—affecting everything from an as yet unsuccessful push to repeal and replace the Affordable Care Act, to widely discussed policies to lower prescription drug prices, to pushing back on the “value imperative” via potentially slowing the implementation of Medicare bundled payments—has somehow resulted in lower health care price growth. To the extent that economy-wide prices accelerate (and they have with both the CPI and PPI hitting annual growth rates not seen since early 2012), we presume the pause in health care price growth will be temporary. As we implored last month, stay tuned!

¹ Altarum Spending Brief #17-4: February 2017 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

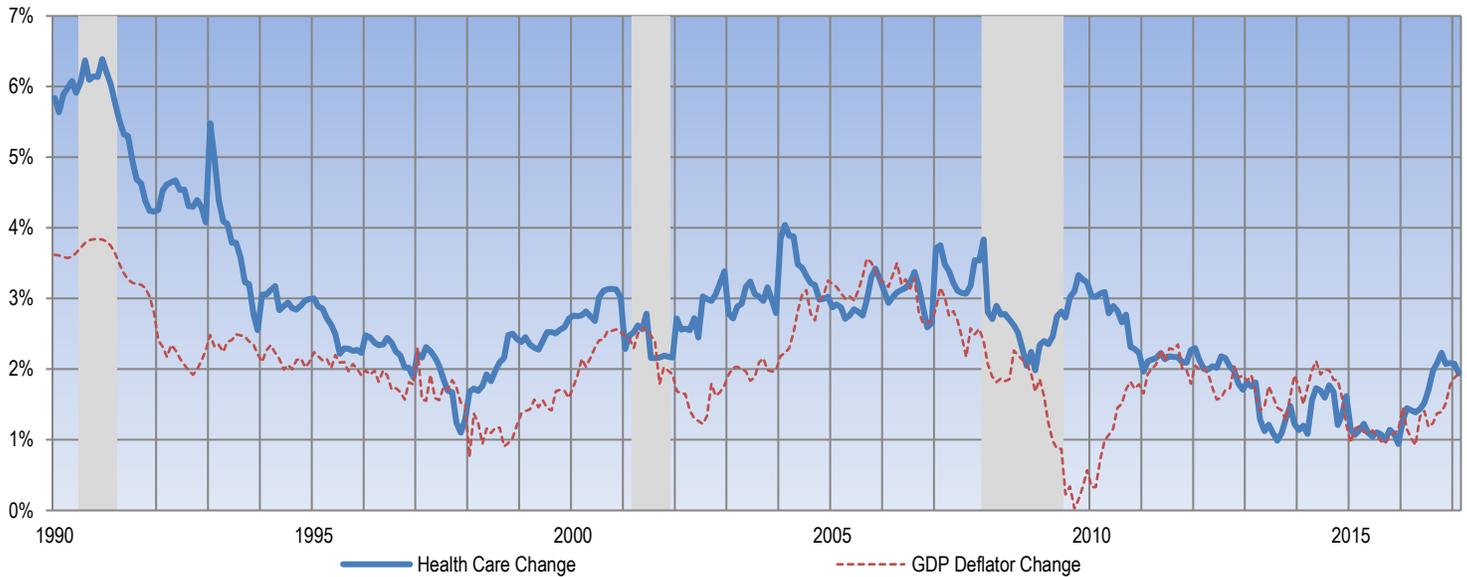
	Ending February 2015	Ending February 2016	Ending February 2017
HCPI	1.1%	1.4%	1.9%
Hospital care	0.6%	1.0%	1.6%
Physician and clinical services	-1.0%	0.3%	0.2%
Prescription drugs	5.2%	3.4%	5.2%
Nursing home care	2.1%	2.2%	3.0%
Dental services	2.4%	3.2%	1.3%
Home health care	1.7%	1.9%	0.4%
Other professional services	1.2%	0.4%	3.0%
Other personal health care	1.5%	3.1%	2.6%
Other nondurable medical products	0.2%	-1.8%	0.4%
Durable medical equipment	0.3%	0.5%	0.7%

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 GDP



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

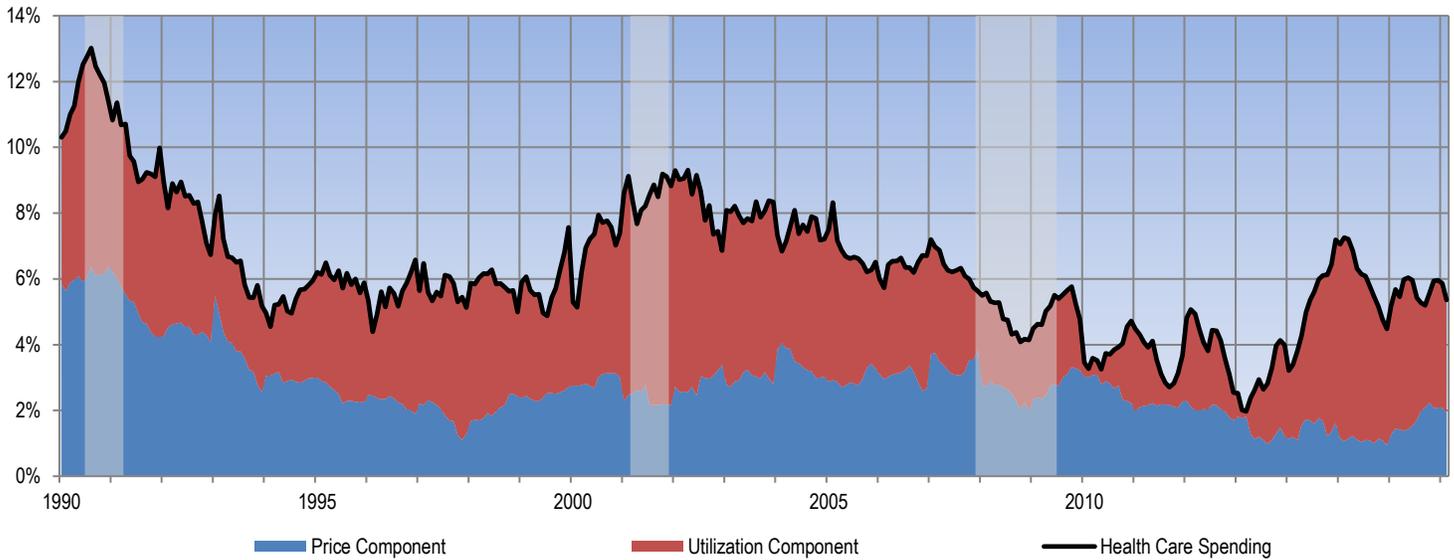
Note: Lightly shaded bars denote recession periods.

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.

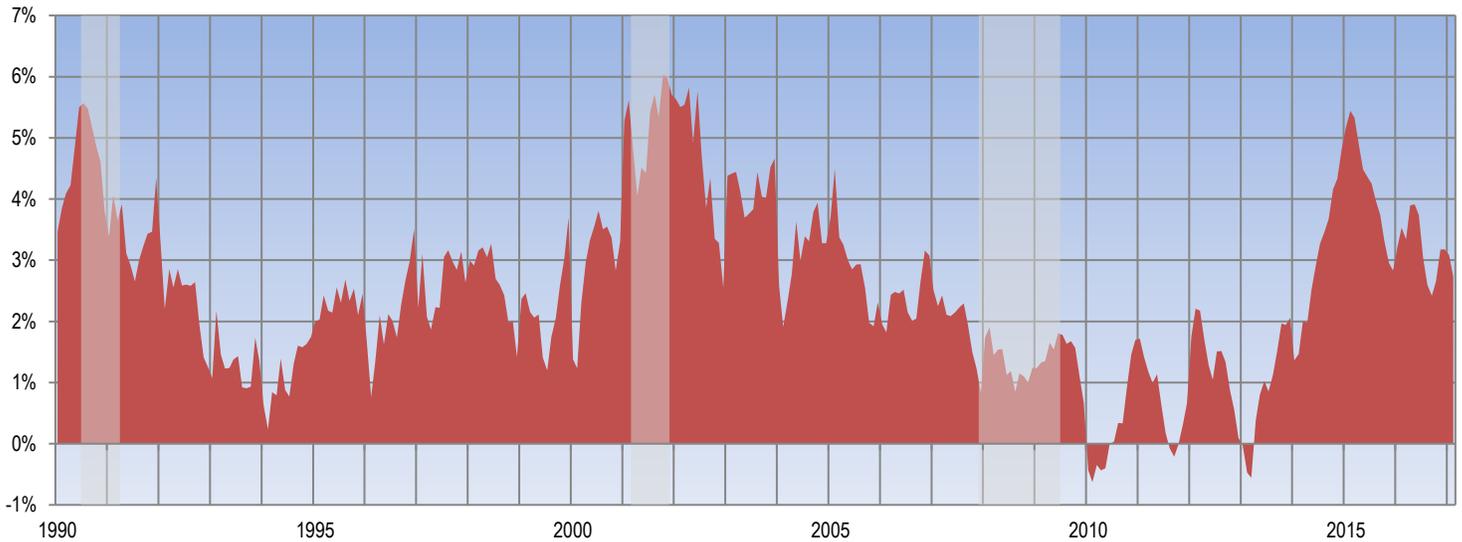
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, press@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. (2016). *National Health Expenditure Accounts: Methodology Paper, 2015—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-15.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.