

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through May 2015

August 13, 2015

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PRICE BRIEF

Health care price growth at 1.1% for 3rd month

HIGHLIGHTS

- ▲ Health care prices in June 2015 were 1.1% higher than in June 2014, the third consecutive month at that rate. The June 2015 12-month moving average held at 1.4%, the same as the May level.
- ▲ Year-over-year hospital prices rose 0.7% in June, equal to the May rate. Physician and clinical services prices fell 1.2%, a tenth lower than May and the steepest drop seen in Altarum Institute’s data series extending back to 1990. Other non-durable medical products prices fell 1.6%. Prescription drug prices rose 4.8%, down from 5.3% in May.
- ▲ Economy-wide price indexes changed modestly in June. The Consumer Price Index (CPI) rose from 0.0% to 0.1% year over year, while the medical CPI fell from 2.8% to 2.5%. The final-demand Producer Price Index (PPI) was -0.7% in June, up from -1.1%, and the gross domestic product (GDP) deflator (GDPD) growth held at a very low 0.9%.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.7% in June, below its 12-month moving average of 3.9%.

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

| | Jun 2013 | Jun 2014 | May 2015 | Jun 2015 |
|---------------------------------------|----------|----------|----------|----------|
| Health Care Price Index (HCPI) | 1.2% | 1.7% | 1.1% | 1.1% |
| GDPD | 1.8% | 1.8% | 0.9% | 0.9% |
| HCPI-GDPD | -0.6% | -0.1% | 0.2% | 0.2% |
| Addendum | | | | |
| Health care spending | 3.8% | 5.4% | 5.7% | 5.5% |
| Health care utilization | 2.6% | 3.7% | 4.5% | 4.4% |
| CPI—medical | 2.1% | 2.6% | 2.8% | 2.5% |
| CPI—all items | 1.8% | 2.1% | 0.0% | 0.1% |

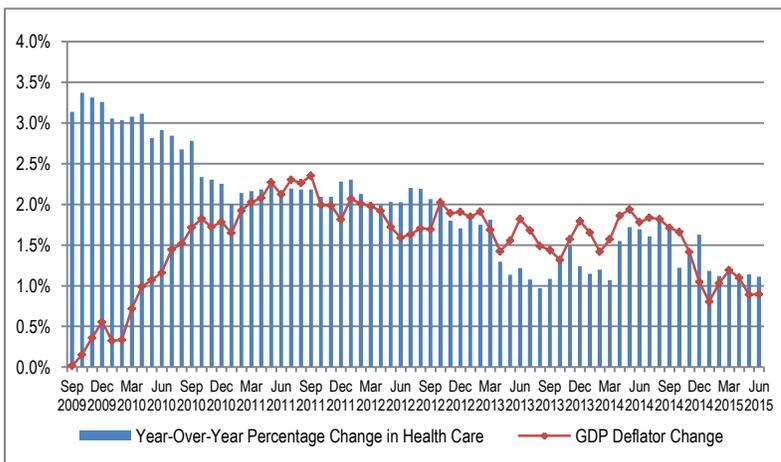
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In June 2015, the HCPI rose 1.1% from June 2014. The 12-month moving average of 1.4% is near the all-time low for Altarum data (1.2%) but, had been rising since March 2014 until the past few months. 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 6-month increase to around 1.5%, and now 6 months at 1.2% or lower (with the exception of a spike in December 2014; Exhibit 1). Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and fell to 0.8% in early 2015, barely below its current 0.9% reading. Exhibit 5 shows long-term comparisons.

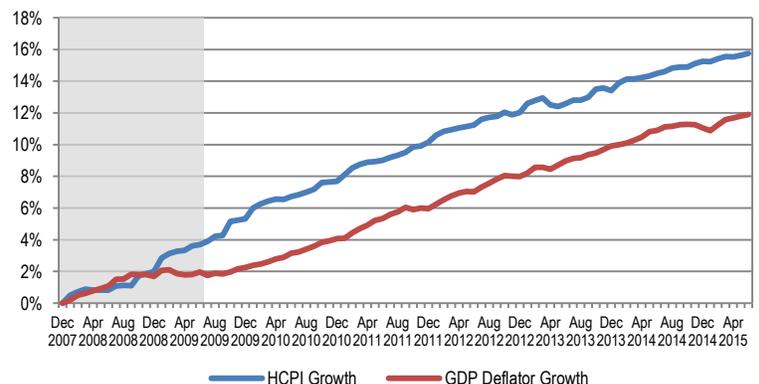
Since the start of the recession in December 2007, health care prices have increased by 15.8% while prices in the economy as a whole (found by using the GDPD) have increased by 11.9% (Exhibit 2). Low economy-wide inflation has exerted downward pressure on health care prices, but the causality appears to go both ways. In June, the CPI rose to 0.1% from 0.0% and the Medical CPI, emphasizing out-of-pocket prices, fell from 2.8% to 2.5%. The final-demand PPI was -0.7%, which was actually up from -1.1%, and the GDPD held at 0.9% in June year over year. Health care price growth is very low by historical standards, but we are about 1½ years past the 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 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.

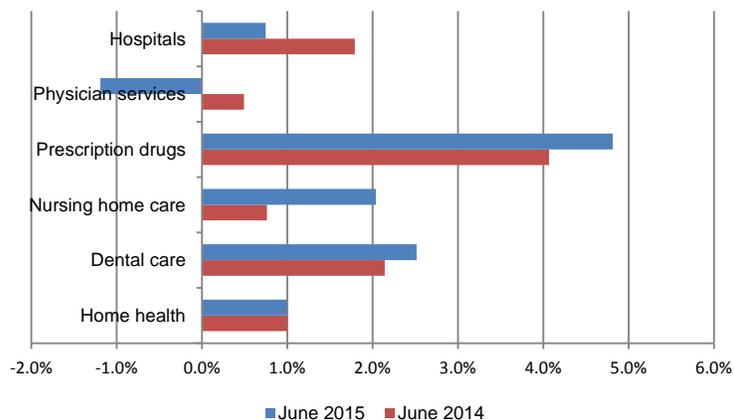
HEALTH CARE SPENDING BY CATEGORY

Comparing June 2015 with June 2014, price growth for prescription drugs was by far the highest at 4.8%, followed by dental care at 2.5%. The price change for hospital care was stable at a very low 0.7%, and physician price growth fell 1.2%—a rate not seen in the history of Altarum’s data series going back to 1990. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. Coupled with negative price growth for physicians and a mixed bag for other categories’ growth rates, there was no change to the HCPI rate. Annual inflation rate comparisons—June 2015 year over year versus June 2014 year over year—show a mixed pattern, with hospital, physician, and home health care growth lower or flat 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 down for the aggregate HCPI index and for 5 of the 10 price categories. Even if the HCPI growth rate does not fall to a historic low, we see no evidence that a large rise is imminent.

Medicare and Medicaid prices grew less quickly than “other” prices, which include private payment. Hospital prices for Medicare patients rose by 0.2% to -2.4%, and hospital prices for Medicaid were up to 0.1% from 0.0%. For “other” patients, price growth fell 0.2% in June to 2.4% (data not shown). This month, for the first time ever, we have year-over-year results splitting other into private and other providers (e.g., Veterans, TriCare, self-pay). The growth rates are 2.1% and 6.0%, respectively. One could argue that this low private growth rate indicates that hospital consolidation is not affecting prices. However, a 2.1% private growth rate is high compared to economy-wide price indexes, wages, and the public price growth rates, and there are technical factors suggesting that private hospital price growth remains an important public policy issue.¹

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.²

- ▲ Exhibit 6 displays year-over-year growth rates in health care spending broken out by price and utilization. The historic, downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, followed by very low price growth and a resurgence of utilization. The readings for June 2015 are 5.5% spending growth and 4.4% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though moderating recently). Per capita utilization in June is rising at an annual rate of 3.7%, below its 12-month average of 3.9%. This rising utilization trend accords with expanded health insurance coverage and stronger economy-wide employment, but some of the unmet needs may now have been treated and healthier individuals are now gaining coverage. On a 12-month average, utilization for hospitals has risen 4.6%, home health is up 1.8%, physician services has risen 4.7%, the prescription drug rate is up 6.0%, nursing care is up 1.4%, and dental care utilization has risen 1.19%.

DISCUSSION

In June 2015, the HCPI rose 1.1% above that of June 2014, the third month at this rate and only a tenth higher than the decade-plus low of 1.0% growth registered in August 2013. The 12-month moving average of 1.4% has been roughly stable for 10 months, after increases beginning in April 2014. The big news this month is continued negative price growth for physician and clinical services, at -1.2%, the lowest reading in Altarum’s data series going back to 1990. As reported for 2 months, BLS experts told us that this reflects the end of the Patient Protection and Affordable Care Act provision for higher payments to primary care doctors under Medicaid. Hospital price growth stayed at the low rate of 0.7%. While nonetheless elevated, price growth for prescription drugs moderated to 4.8%, now comfortably below its multi-decade high of 6.4% reached in December 2014.

For the HCPI as a whole, only 3 of the 10 components saw increases in price growth: dental services, other personal health care, and durable medical equipment, only up one-tenth, two-tenths, and three-tenths, respectively.

It is repetitive to say, but still true, that health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. June 2015 was the 72nd 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 even further off in the future. Moreover, there appears to be no letup in public payment pressure as seen in the fiscal year 2016 final Medicare inpatient rule.³ Nevertheless, with health care employment booming and higher health care utilization, renewed wage-price pressure seems inevitable, especially for hospitals, and this should at some point increase health care price growth.

¹ MedPAC. (2015, July 24). BLS hospital price data should be used with caution. Retrieved from <http://medpac.gov/blog/july-2015/2015/07/24/bls-hospital-price-data-should-be-used-with-caution>.
² Altarum Institute Spending Brief #15-8: June 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.
³ Centers for Medicare & Medicaid Services. (2015, July 31). Fiscal year 2016 final inpatient and long-term care hospital policy and payment changes (CMS-1632-F). Retrieved from <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2015-Fact-sheets-items/2015-07-31-4.html>.

PRICE GROWTH BY DETAILED CATEGORIES

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

| | Ending June 2013 | Ending June 2014 | Ending June 2015 |
|-----------------------------------|------------------|------------------|------------------|
| HCPI | 1.2% | 1.7% | 1.1% |
| Hospital care | 1.9% | 1.8% | 0.7% |
| Physician and clinical services | 0.2% | 0.5% | -1.2% |
| Prescription drugs | 0.1% | 4.1% | 4.8% |
| Nursing home care | 1.0% | 0.8% | 2.0% |
| Dental services | 3.6% | 2.1% | 2.5% |
| Home health care | -0.2% | 1.0% | 1.0% |
| Other professional services | 1.7% | 1.5% | 0.6% |
| Other personal health care | 2.5% | 2.8% | 1.7% |
| Other nondurable medical products | 0.5% | -1.0% | -1.6% |
| Durable medical equipment | -0.2% | 0.7% | 0.0% |

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.

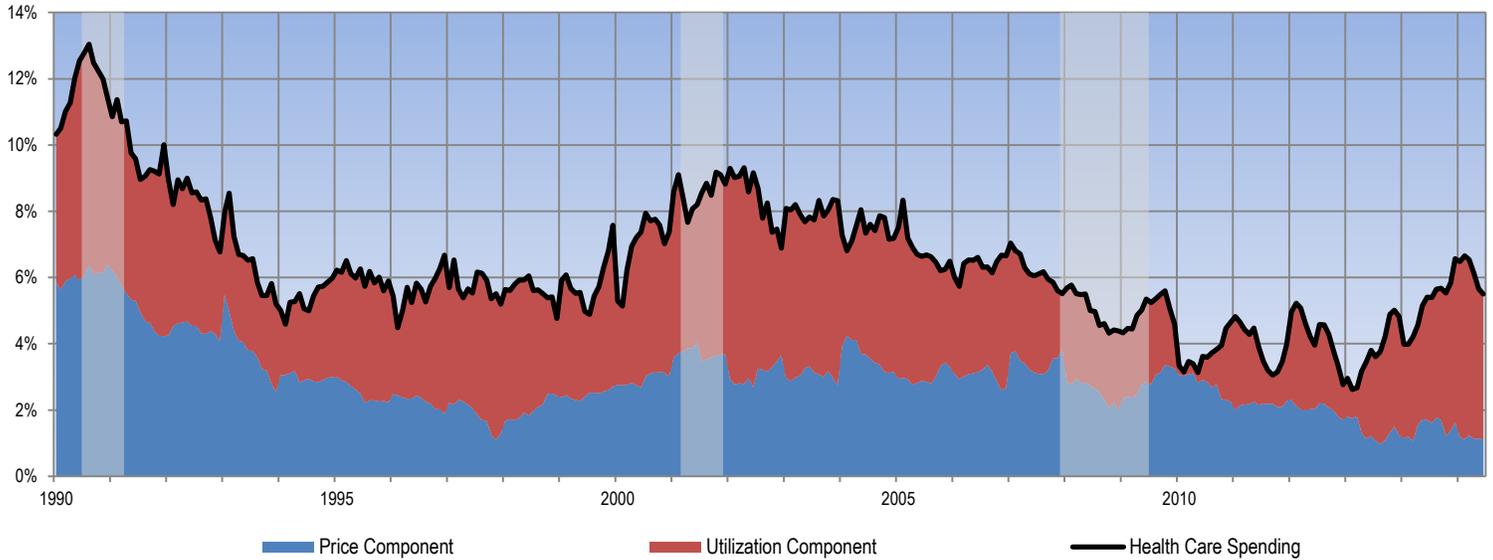
Note: Lightly shaded bars denote recession periods.

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'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.

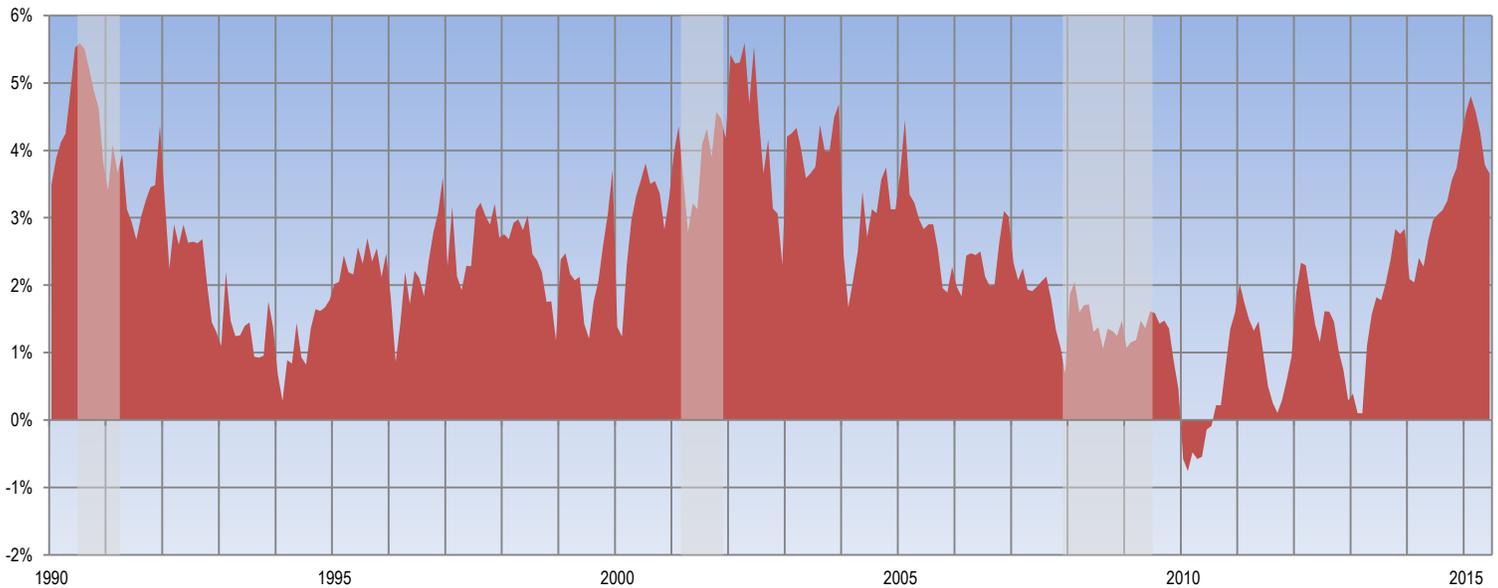
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 571-733-5709, 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 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. (2014). *National Health Expenditures Accounts: Methodology Paper, 2013—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-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.