

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through June 2016

August 12, 2016

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PRICE BRIEF

Health care price growth ticks up to 1.6%

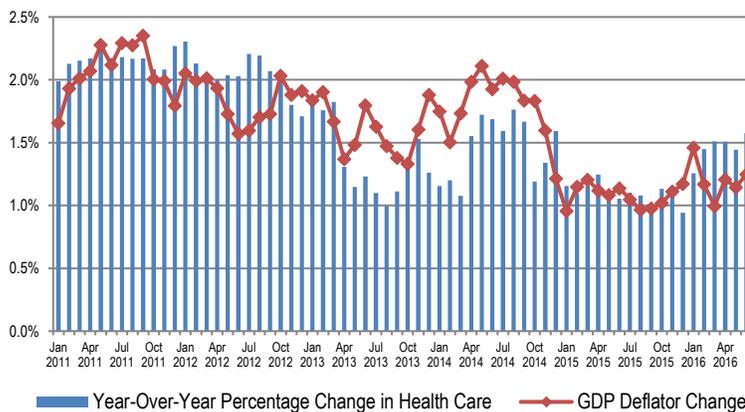
HIGHLIGHTS

- ▲ Health care prices in June 2016 were 1.6% higher than in June 2015, up 0.2 from a revised May rate (initially reported as 1.5%). The June 2016 12-month moving average rose to 1.3%, the highest since July 2015.
- ▲ Year-over-year hospital price growth rose to 1.0%, the same rate as May. Physician and clinical services prices rose 0.3%, also the same rate as May. Drug price growth surged to 4.4% (from 3.3% in May), its highest reading since August 2015, easily the fastest growing price component.
- ▲ Economy-wide price indices were steady to higher. The Consumer Price Index (CPI) was steady at 1.0% growth and the final-demand Producer Price Index (PPI) spiked from -0.1% to 0.3%. The Medical CPI growth rose from 3.2% to 3.6%, and the gross domestic product deflator (GDPD) growth rose to 1.2% from 1.1% in May.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.9% in June, below its 12-month moving average of 3.0%. The latter figure has fallen for ten consecutive months.

HEALTH CARE AND ECONOMY-WIDE PRICES

In June 2016, the Health Care Price Index (HCPI) rose 1.6% from June 2015. The June 12-month moving average at 1.3%, is a tenth higher than May, and the highest since July 2015. The HCPI shows a steady decline from 3.4% in October 2009, then two years oscillating near 2% growth. 2013 saw a sharp decline to about 1%, followed by an increase in 2014 to around 1.5%. Historically low growth in 2015 is now ending (Exhibit 1). After a pause, the HCPI appears to be poised for modestly higher growth. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and is at 1.2% year over year in June 2016. The HCPI growth rates were roughly tracking the GDPD rates, but have exceeded them over the past 5 months. Exhibit 5 shows long-term comparisons.

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.

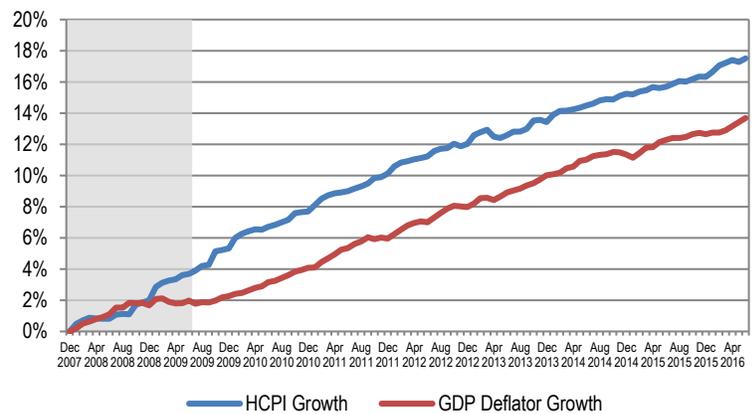
Health Care Prices and Related Statistics: 12-Month Growth Rates

| | Jun. 2014 | Jun. 2015 | May. 2016 | Jun. 2016 |
|---------------------------------------|-----------|-----------|-----------|-----------|
| Health Care Price Index (HCPI) | 1.7% | 1.1% | 1.4% | 1.6% |
| GDPD | 1.9% | 1.1% | 1.1% | 1.2% |
| HCPI—GDPD | -0.2% | -0.1% | 0.3% | 0.3% |
| Addendum | | | | |
| Health care spending | 5.2% | 5.4% | 5.4% | 5.3% |
| Health care utilization | 3.5% | 4.4% | 3.9% | 3.7% |
| CPI—medical | 2.6% | 2.5% | 3.2% | 3.6% |
| CPI—all items | 2.1% | 0.1% | 1.0% | 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.

Since the start of the recession in December 2007, health care prices have increased 17.5%, while prices in the economy as a whole (using the GDPD) have increased 13.7% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector continue to exert downward pressure on health care prices. In June, the CPI rose 1.0%, the same rate as in May, and the medical CPI, emphasizing out-of-pocket prices, rose to 3.6% from 3.2%. The final-demand PPI growth rate for June spurted to 0.3% from -0.1% in May, and while still quite low, it is the highest annual rate since December 2014. By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth and appears poised to slowly increase.

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.

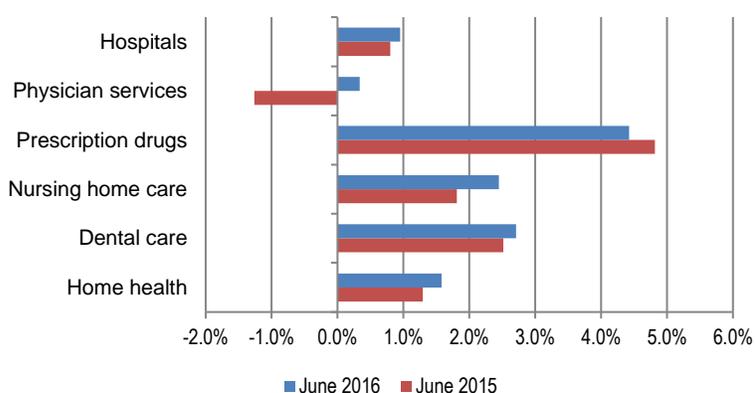
HEALTH CARE PRICES BY CATEGORY

Comparing June 2016 with June 2015, price growth for prescription drugs, at 4.4%, up sharply from the May rate of 3.3%, is easily the fastest growing price category, far above dental services which grew by 2.7%. The price change for hospital care was steady at a low 1.0% rate in June, and physician price growth was also steady at an extraordinarily low 0.3% rate. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but its constant rate was balanced by higher drug and other non-durable medical products price growth, to boost the HCPI from 1.4% in May to 1.6% in June. Annual inflation rate comparisons—June 2016 year over year versus June 2015 year over year—show five of the six categories higher, with only prescription drugs breaking the trend, though most of the differentials are small (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data and may be a leading indicator, is lower for the aggregate HCPI and for five of the ten price categories, including the hospital and physician categories. This points to HCPI flat-lining, but our instincts are that hospital price growth could surprise to the upside, pulling the HCPI along with it.

Medicare and Medicaid hospital prices grew less quickly than private-sector prices. Hospital price growth for Medicare patients was steady at -0.2% in June. For Medicaid patients, hospital price growth was also steady at -0.7% in June. For private patients, hospital price growth rose a tenth from 2.5% in May to 2.6% in June. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth remained at 0.3% (data not shown). Prices for privately-insured patients are growing modestly, but this disguises the growing cumulative gap between public and private 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 -1.6%, -2.2%, and 4.6%, 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 June 2016 are 5.3% spending growth and 3.7% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, recent growth, and more recent moderation. Per capita utilization in May rose at an annual rate of 2.9%, below its 12-month average of 3.0%. On a 12-month average basis, utilization for hospitals has risen 2.0%, home health care is up 4.9%, physician services have risen 5.4%, the prescription drug rate is up 2.3%, nursing care has risen 0.4%, and dental care utilization is up 2.8%.

DISCUSSION

In June 2016, the HCPI rose 1.6% above the June 2015 level. While only a 0.2 increase from May, the HCPI is at its highest rate since December 2014. Reflecting this upward trend, the 12-month moving average rose by 0.1 to 1.3%, its highest rate since July 2015. Thus, after a period of stalling growth following its December 2015 all-time low of 0.9%, the index may be ready to rise to a more normal 2% rate. Yet, upward price momentum will be difficult to achieve unless the hospital and physician growth rates rise from quite low levels: 1.0% for the former and an even lower 0.3% for the latter. At 4.4% growth, from 3.3% in May, prescription drug prices are at their highest level since August 2015.

Health care inflation continues to be extraordinarily low for this stage of the business cycle recovery. June 2016 was the 84th month of economic expansion following the recession. While the U.S. economy appears to be steadily growing (though at a historically low rate²), factors internal to the health sector, plus external developments, e.g., oil prices, are exerting downward pressure on health care price growth.

We believe that emerging wage pressures will ultimately push price growth modestly higher, but, per the above, the big question is whether hospital price growth trends higher, either because of more liberal public prices, or from factors such as consolidation on the private side. On August 2, the Centers for Medicare and Medicaid Services (CMS) released their final rule for the Hospital Inpatient Prospective Payment System for fiscal year 2017. Even for hospitals meeting the hospital quality reporting and other requirements, the payment rate is slated to rise only 0.95%.³ It appears that any hospital payment windfall will have to occur on the private side!

¹ Altarum Spending Brief #16-8: June 2016 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² See Morath, E. (2016). U.S. in Weakest Recovery Since '49. *The Wall Street Journal*, July 30, 2016. Available at http://topics.wsj.com/documents/print/WSJ_A001-20160730.pdf

³ CMS fact sheet available at <https://www.cms.gov/Newsroom/MediaReleaseDatabase/Fact-sheets/2016-Fact-sheets-items/2016-08-02.html>

PRICE GROWTH BY DETAILED CATEGORIES

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

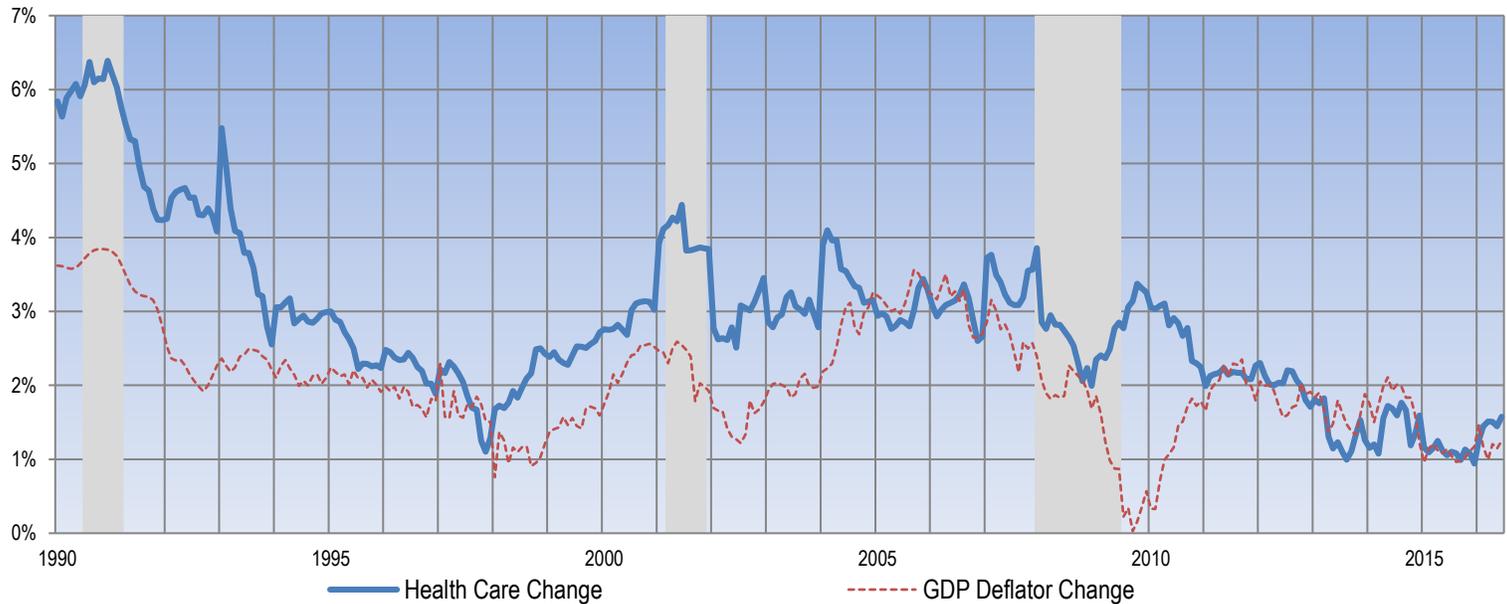
| | Ending June 2014 | Ending June 2015 | Ending June 2016 |
|-----------------------------------|------------------|------------------|------------------|
| HCPI | 1.7% | 1.1% | 1.6% |
| Hospital care | 1.8% | 0.8% | 1.0% |
| Physician and clinical services | 0.5% | -1.3% | 0.3% |
| Prescription drugs | 4.1% | 4.8% | 4.4% |
| Nursing home care | 0.8% | 1.8% | 2.4% |
| Dental services | 2.1% | 2.5% | 2.7% |
| Home health care | 1.0% | 1.3% | 1.6% |
| Other professional services | 1.5% | 0.6% | 1.0% |
| Other personal health care | 2.8% | 2.0% | 2.6% |
| Other nondurable medical products | -1.0% | -1.6% | -0.5% |
| Durable medical equipment | 0.7% | 0.0% | 0.6% |

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.

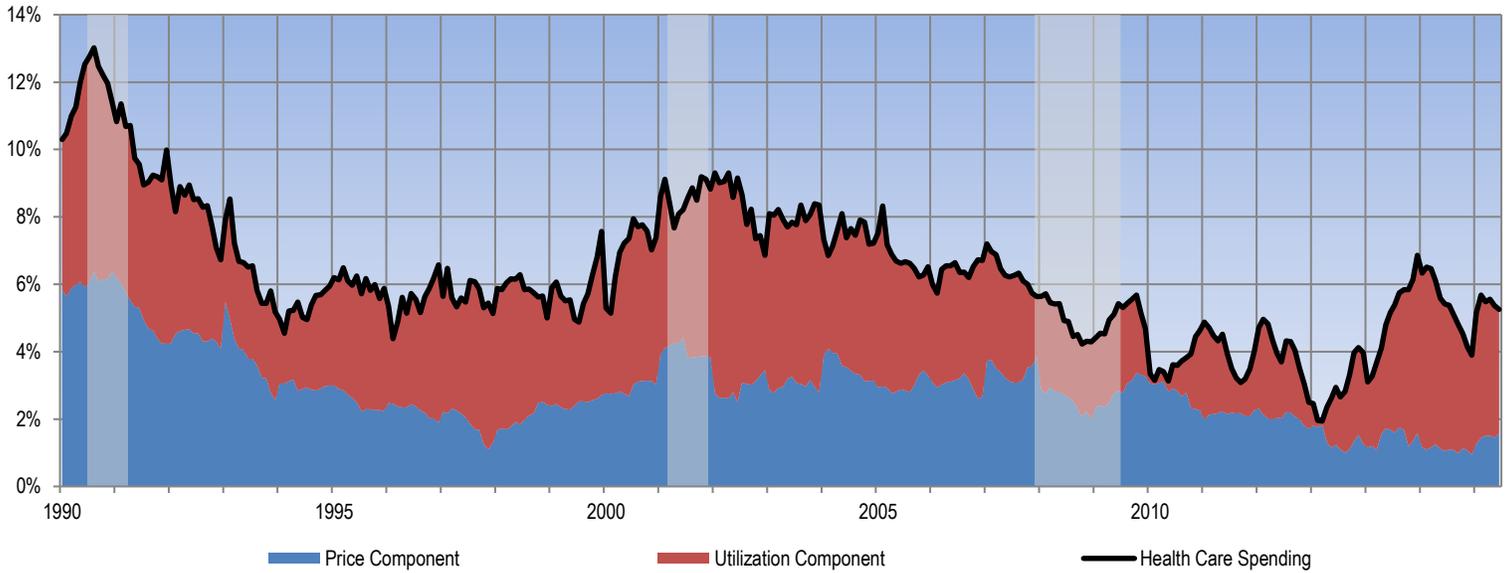
Note: Lightly shaded bars denote recession periods.

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.

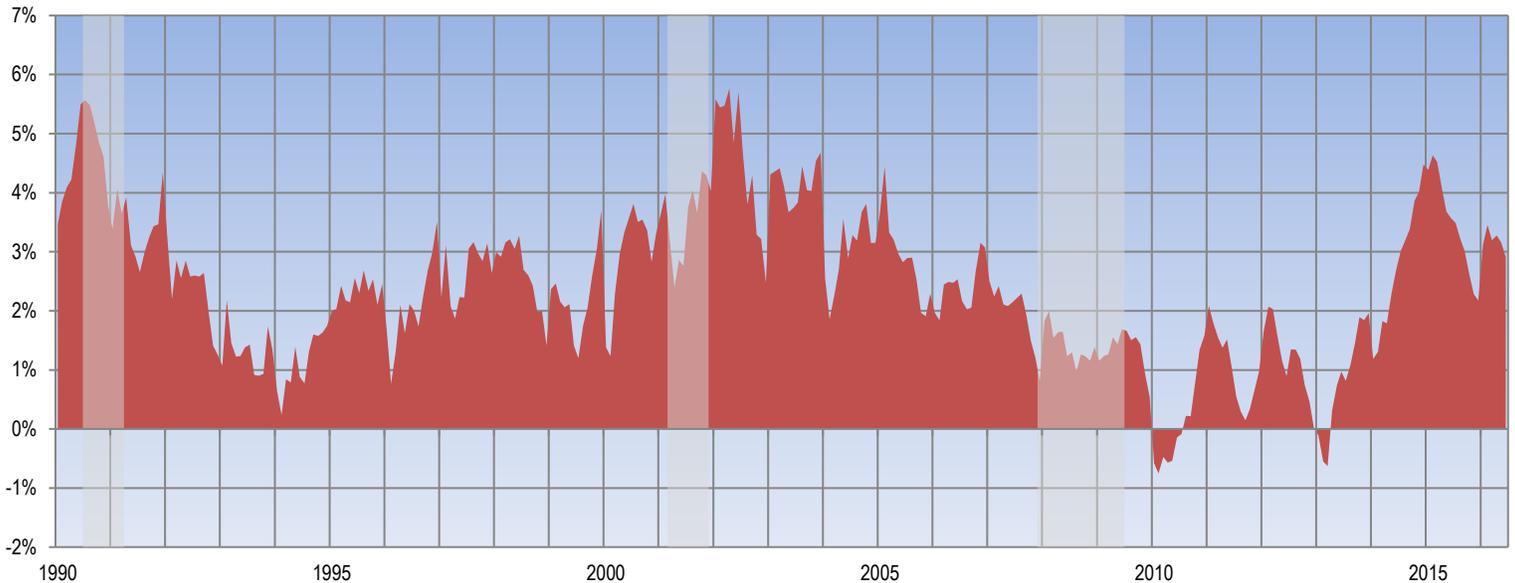
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 202-772-5062, ken.schwartz@altarum.org. For more information, visit <http://www.altarum.org/csahs>.

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.