

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

## Insights from Monthly National Price Indices Through October 2015

December 11, 2015

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### PRICE BRIEF

## Health care price up from historic September low

### HIGHLIGHTS

- ▲ Health care prices in October 2015 were 1.2% higher than in October 2014, up from 1.0% in September, a rate that tied the multi-decade low hit in August 2013. The October 2015 12-month moving average dropped to 1.2%, tying the all-time low for our data.
- ▲ Year-over-year hospital price growth surged to 1.5% in October, from 0.7% in September and the highest rate since September 2014. Physician and clinical services prices fell 1.1% and have been near -1% for 10 straight months, driven by the loss of Medicaid enhanced payments.
- ▲ Economy-wide price indexes showed mixed growth in October. The Consumer Price Index (CPI) rose 0.2% year over year (from 0% in September), and the medical CPI spurted to 3.0% from 2.5%. The final-demand Producer Price Index (PPI) fell -1.6%, down from -1.1% in September. The gross domestic product (GDP) deflator (GDPD) growth was 0.8% in September (October data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.5% in October, below its 12-month moving average of 4.1%, the highest since December 2003.

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

	Oct 2013	Oct 2014	Sep 2015	Oct 2015
Health Care Price Index (HCPI)	1.3%	1.2%	1.0%	1.2%
GDPD	1.3%	1.7%	0.8%	*
HCPI-GDPD	0.0%	-0.5%	0.2%	*
<b>Addendum</b>				
Health care spending	4%	5.4%	5.5%	5.4%
Health care utilization	2.8%	4.2%	4.5%	4.2%
CPI—medical	2.3%	2.1%	2.5%	3.0%
CPI—all items	1.0%	1.7%	0.0%	0.2%

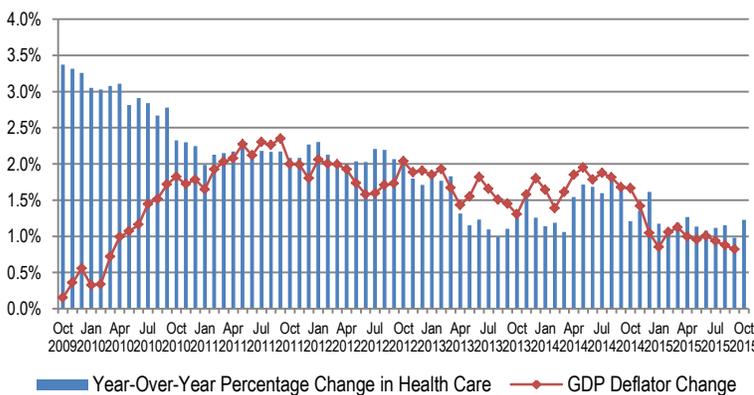
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

### HEALTH CARE AND ECONOMY-WIDE PRICES

In October 2015, the HCPI rose 1.2% from October 2014. The 12-month moving average of 1.2% (unchanged from September), has returned to the all-time low for Altarum data first seen in March 2014. 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 109 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 has fallen to a revised 0.8% rate in September 2015. Note that this recent GDPD growth is the lowest since March 2010. Exhibit 5 shows long-term comparisons.

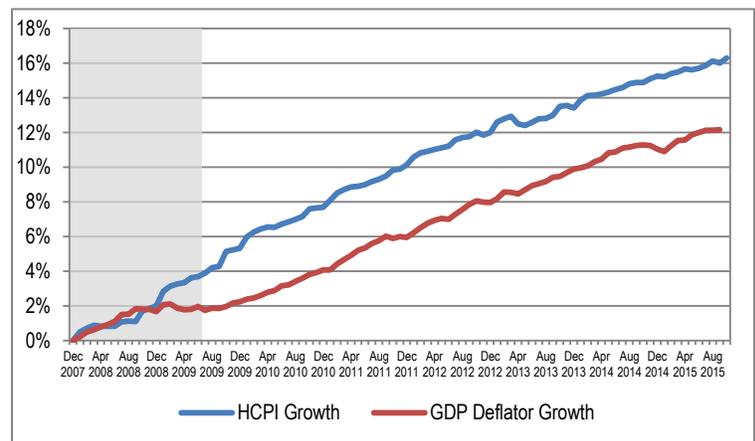
Since the start of the recession in December 2007, health care prices have increased by 16.3% while prices in the economy as a whole (using the GDPD) have increased by 12.2% (Exhibit 2). Low economy-wide inflation, via commodity prices, continues to exert downward pressure on health care prices. In October, the CPI rose by 0.2%, up from 0.0% in September, and the Medical CPI, emphasizing out-of-pocket prices, jumped to 3.0%, after four months at 2.5%. The final-demand PPI growth rate for October, at -1.6%, is an all-time low for this series begun in 2010. Health care price growth is very low by historical standards but is rising faster than economy-wide prices and may be poised to drift up.

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



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

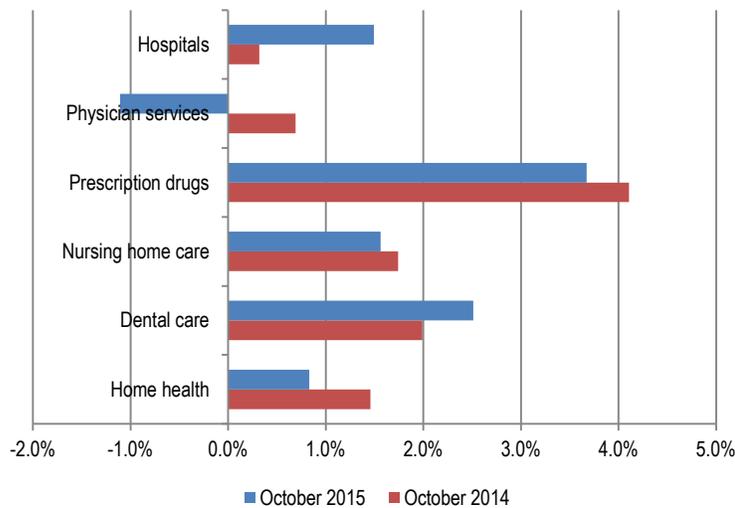
## HEALTH CARE PRICES BY CATEGORY

Comparing October 2015 with October 2014, price growth for prescription drugs remained the highest at 3.7% (though this represents a steady moderation from the multi-decade high of 6.4% in December 2014), followed by dental services at 2.5%. The price change for hospital care rose sharply to 1.5% from 0.7%, and physician price growth fell 1.1%—barely above the -1.2% rate in June, the lowest reading 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. Its sharp rise almost entirely accounts for the aggregate health care price index jumping to a 6-month high. Annual inflation rate comparisons—October 2015 year over year versus October 2014 year over year—show a mixed pattern, with hospital and dental care growth higher and the other four categories lower (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 up for the aggregate HCPI index and for 4 of the 10 price categories. The HCPI growth rate appears ready for modest future increases though quite removed from “normal” rates above 2%.

Medicare and Medicaid prices grew less quickly than “other” prices, which include private payment. Hospital prices for Medicare patients rose dramatically from -1.3% in September to 1.3% in October, due to fiscal year 2016 Prospective Payment System (PPS) resetting. For Medicaid patients, price growth rose to -1.1% from -1.8% in September. For private patients, price growth was 2.1% for third straight month. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), price growth fell from 6.8% to 6.2% (data not shown). Although growth private rates are relatively low, we track this closely to monitor the effects of hospital consolidation.<sup>1</sup>

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



Source: Altarum analysis of monthly Bureau of Labor Statistics 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>2</sup>

- ▲ 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 October 2015 are 5.4% spending growth and 4.2% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though moderating recently). Per capita utilization in October rose at an annual rate of 3.5%, below its 12-month average of 4.1%. This rising utilization trend accords with expanded health insurance coverage and stronger economy-wide employment. On a 12-month average basis, utilization for hospitals has risen 4.8%, home health is up 4.1%, physician services has risen 5.4%, the prescription drug rate is up 4.7%, nursing care has risen 1.7%, and dental care utilization is up 1.1%.

## DISCUSSION

In October 2015, the HCPI rose 1.2% above the October 2014 level, rising from the 1.0% rate in September that tied the historic low first seen in August 2013. The 12-month moving average of 1.2% ties a low for our data series.

The continued negative price growth for physician and clinical services (at -1.1%, only 0.1% above its lowest reading in Altarum’s data series going back to 1990), and a continuing moderating trend for prescription drug prices (a steady fall to 3.7% growth in October from 6.4% in December 2014), were not able to restrain the aggregate HCPI index. Hospital price growth surging from 0.7% in September to the October rate of 1.5% was clearly the culprit. Digging deeper, the increase in hospital price growth stems from a bounce for Medicare patients, from -1.3% in September to 1.3% in October—clearly a function of the fiscal year 2016 PPS reset.

Health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. October 2015 was the 76<sup>th</sup> month of economic expansion following the recession, yet we are only 0.2 percentage points above the decade-plus HCPI low. There are, however, signs that moderate increases lie ahead for the HCPI given the spikes in both the October CPI and MCPI, and other indicators.

A return to 2% growth for the HCPI may be coming, but probably not until well into 2016. However, these are prices, not underlying costs or spending. While last week’s release of the official 2014 national health spending data generated significant news about a return to “the bad old days” of rapid growth, we have indications that these relatively high rates have been moderating (see our accompanying spending brief). Yet even with utilization growth trending down, there are signs of health care wage pressure that could push providers to increase prices.

<sup>1</sup> See the following for a new, fascinating analysis: Selden, T., Karaca, Z., Keenan, P., White, C., & Kronick, R. (2015) The growing difference between public and private payment rates for inpatient hospital care. *Health Affairs*, 34(12), 2147–2150.

<sup>2</sup> Altarum Institute Spending Brief #15-12: October 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**

	Year Ending October 2013	Year Ending October 2014	Year Ending October 2015
HCPI	1.3%	1.2%	1.2%
Hospital care	2.2%	0.3%	1.5%
Physician and clinical services	-0.2%	0.7%	-1.1%
Prescription drugs	0.5%	4.1%	3.7%
Nursing home care	0.8%	1.7%	1.6%
Dental services	3.3%	2.0%	2.5%
Home health care	-0.5%	1.5%	0.8%
Other professional services	2.0%	1.2%	0.7%
Other personal health care	1.9%	2.5%	2.1%
Other nondurable medical products	0.3%	-2.1%	0.2%
Durable medical equipment	0.9%	0.5%	-0.4%

Source: Altarum analysis of monthly Bureau of Labor Statistics 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 Bureau of Labor Statistics price data and Macroeconomic Advisers GDP data.

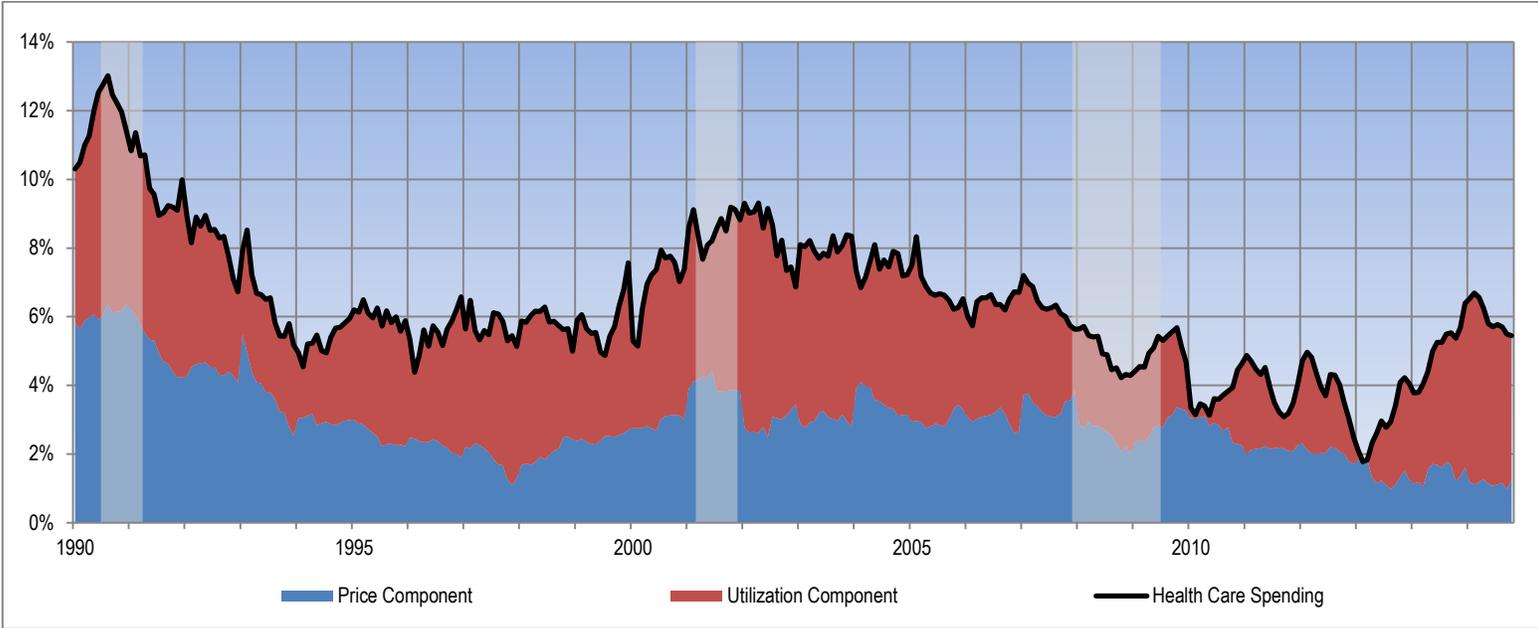
Note: Lightly shaded bars denote recession periods.

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.

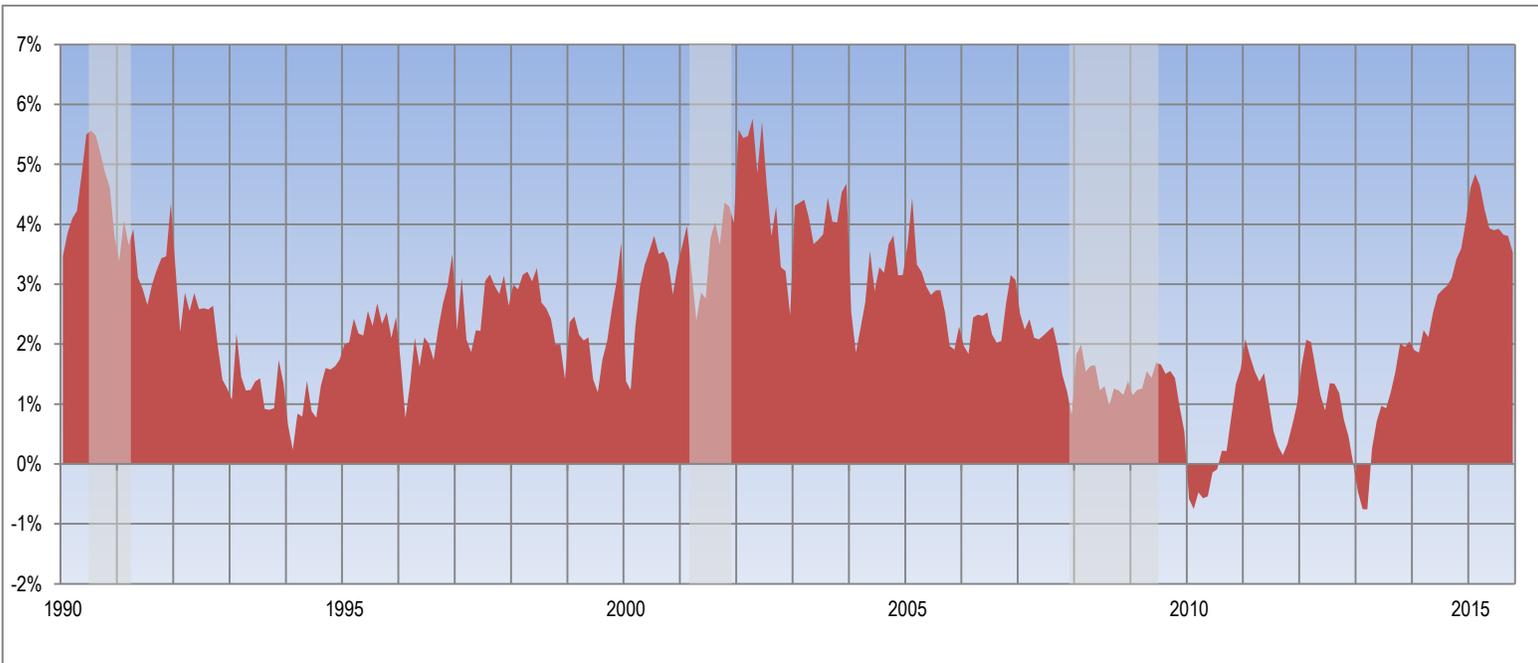
**The Health Sector Economic Indicators<sup>SM</sup>** reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 202-772-5062, [ken.schwartz@altarum.org](mailto: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. (2015). *National Health Expenditures 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 Bureau of Labor Statistics 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.