

Health Sector Economic IndicatorsSM

Insights from Monthly Price Indices through December 2014

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PRICE BRIEF

February 12, 2015

Health care price growth ticks up despite 16-year hospital growth low

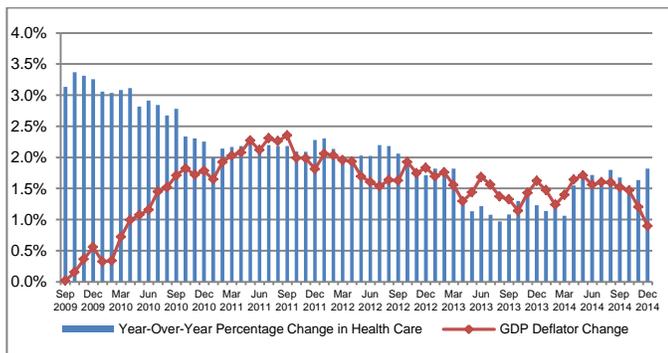
HIGHLIGHTS

- ▲ Health care prices in December 2014 were 1.8% higher than in December 2013, higher than the November year-over-year change of 1.6%. The December 2014 12-month moving average held at 1.5%, the highest since August 2013, continuing its upward trend since March 2014.
- ▲ Year-over-year hospital prices grew 0.9% in December, less than the November value of 1.1%, a more-than-16-year low. Physician and clinical services prices grew 0.6%, the same as November. Home health care prices rebounded from their earlier negative growth trend, recording a 1.9% rate in December, above the November rate of 1.4%, their highest reading since July 2009. Prescription drug prices rose 6.4%, well up from 4.6% in November, a rate not seen since 1992.
- ▲ Economy-wide price indexes were mostly down in December. The Consumer Price Index (CPI) decreased from 1.3% to 0.8% year over year, the GDP deflator fell from 1.2% to 0.9%, and the final demand Producer Price Index (PPI) fell to 1.1% from 1.4%. The Medical CPI rose to 3.0% from 2.5%.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.8% in December, above its 12-month moving average of 2.4%.

HEALTH CARE AND ECONOMY-WIDE PRICES

In December 2014, the Health Care Price Index (HCPI) rose 1.8% above December 2013. The 12-month moving average of 1.5% is near the all-time low for our data (1.2%), but it has now risen for 9 straight months, the first increasing trend since January 2012. 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%, and now its 9-month rise above 1.5% (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator (GDPD), trended up beginning in September 2009, peaked at 2.4% in September 2011, and fell to 0.9% in December 2014. 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: Compares monthly prices with the same month from the previous year.

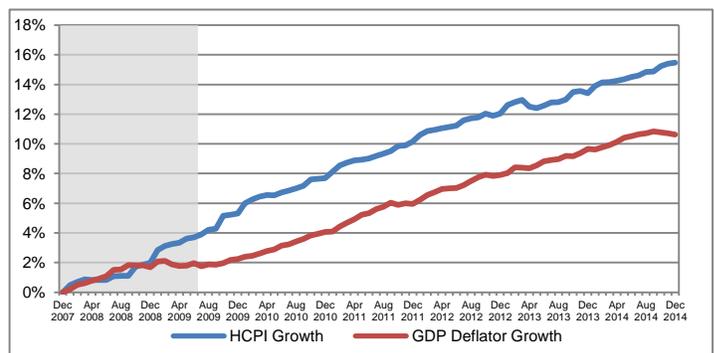
Health Care Prices and Related Statistics: 12-Month Growth Rates

	December 2012	December 2013	November 2014	December 2014
HCPI	1.7%	1.2%	1.6%	1.8%
GDPD	1.8%	1.6%	1.2%	0.9%
HCPI – GDPD	-0.1%	-0.4%	0.4%	0.9%
Addendum				
Health care spending	3.4%	4.5%	4.8%	5.4%
Health care utilization	1.7%	3.2%	3.2%	3.5%
CPI—Medical	3.2%	2.0%	2.5%	3.0%
CPI—All Items	1.7%	1.5%	1.3%	0.8%

Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. Health care price index 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.

Since the start of the recession in December 2007, health care prices have increased by 15.5%, while prices in the economy as a whole (using the GDPD) have increased by 10.6% (Exhibit 2). Low economy-wide inflation continues to exert downward pressure on health care prices. In December, the CPI fell to 0.8% from 1.3%, but the Medical CPI, emphasizing out-of-pocket prices, rose from 2.5% to 3.0%. In December, the GDPD fell dramatically to 0.9% from 1.2%, and the final-demand PPI fell to 1.1%. Health care price growth is still low by historical standards, but we are moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices. The massive drop in oil prices is a wild card for all prices, even those for health care.

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.

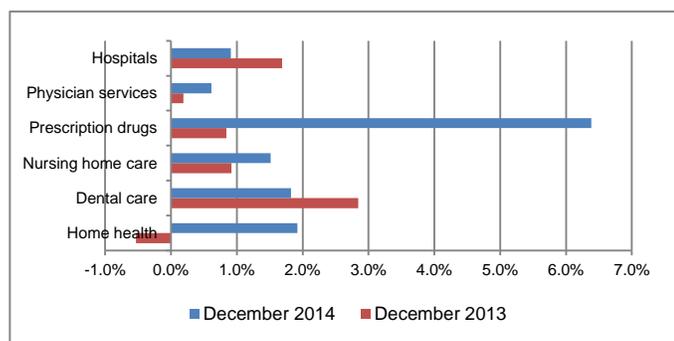
HEALTH CARE PRICES BY CATEGORY

Comparing December 2014 with December 2013, price growth for prescription drugs was by far the highest at 6.4%, followed by home health care at 1.9% and dental care at 1.8%. Hospital care prices dropped to 0.9% from 1.1%, and physician price growth held at 0.6%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. However, it appears that drug, home health and other categories compensated for low hospital and physician growth to push the HCPI up by two-tenths. Annual inflation rate comparisons—December 2014 year-over-year versus December 2013 year-over-year—show price growth higher for each category, except dental care and hospitals, for the recent year compared with 2013 (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 mixed across the price categories, but it is up both for hospitals and the aggregate HCPI index. We expect a pickup in the growth for hospital prices from the current low, but that may not be enough to raise the overall HCPI for January 2015 with economy-wide price pressure.

Medicare and Medicaid prices grow more slowly than “other” prices, which include private payment. Hospital prices for Medicare and Medicaid patients changed by -0.7% and 0.4%, respectively, down 1.4% from November for Medicare and up 0.5% for Medicaid. For other patients, price growth held steady in December at 2.0% (data not shown). These three most recent readings for the “other” hospital PPI are the lowest since this series began in January 2002. This is remarkable, and for the time being, it should quiet those predicting higher prices emanating from hospital consolidation.

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 health care spending broken out by price and utilization. The downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, followed by very low price growth and now a balanced mix of each factor. The readings for December 2014 are 5.4% spending growth and 3.5% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth through December and highlights the decline between 2002 and 2010, and its recent growth. Per capita utilization in December is rising at an annual rate of 2.8%, above its 12-month average of 2.4%. This rising utilization trend accords with expanded health insurance coverage. However, the fourth-quarter 2014 data are preliminary until the release of the Quarterly Services Survey data in mid-March. On a 12-month average, utilization for hospitals has risen by 2.3%, home health is up by 2.5%, physician services has risen 2.0%, the prescription drug rate has risen 6.6%, and nursing care is up 1.4%, but dental care utilization has fallen by 0.4%.

DISCUSSION

In December 2014, the HCPI rose 1.8% above December 2013, two tenths higher than the October rate and the ninth month exceeding 1.5% after nearly a year of historically low rates (near 1.0%). The 12-month moving average of 1.5% is stable for the fourth month, after increases beginning in April 2014. The big news for the month is the minimal hospital price growth—at 0.9%, the lowest rate since September 1998. The “other” non-Medicare, non-Medicaid, hospital payer rate of 2.0%, is up one-tenth from the October rate, but these three recent readings are the lowest since this index was created in January 2002. On the other side is price growth for prescription drugs, which, at 6.4%, is the highest since 1992!

For the HCPI as a whole, there appears to be a standoff between low hospital/physician price growth and higher growth especially for drugs. This would seem to be a good time to predict a higher HCPI for January and beyond, but economy-wide inflation, especially the astonishing oil price behavior, provides a stark countervailing effect. Health care and economy-wide inflation are quite low for this stage of the business cycle recovery. December 2014 was the 66th month of economic expansion following the recession. We do not expect new price-growth lows in this cycle, but we also do not see high price growth, and a return to 2% growth for the HCPI seems far off in the future.

There are signs of a pickup in health utilization that would ultimately lead to price pressures. We saw this with services in the third quarter of 2014 via the Quarterly Services Survey, and we know that specialty and other drugs are driving higher prices. We are also facing an above-average flu season. Finally, two public hospital companies that have reported fourth quarter 2014 results (Community Health Systems Inc. and HCA Holdings, Inc.) each show higher volume as more Americans become insured via the Patient Protection and Affordable Care Act and from robust economic growth.

¹ Altarum Institute Spending Brief #15-2: December 2014 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 December 2012	Ending December 2013	Ending December 2014
HCPI	1.7%	1.2%	1.8%
Hospital Care	2.5%	1.7%	0.9%
Physician and clinical services	0.3%	0.2%	0.6%
Prescription drugs	1.9%	0.8%	6.4%
Nursing home care	1.9%	0.9%	1.5%
Dental services	2.8%	2.8%	1.8%
Home health care	1.6%	-0.5%	1.9%
Other professional services	0.8%	2.1%	2.0%
Other personal health care	2.7%	2.1%	2.6%
Other nondurable medical products	0.7%	-1.3%	-0.2%
Durable medical equipment	1.1%	-0.2%	1.8%

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.

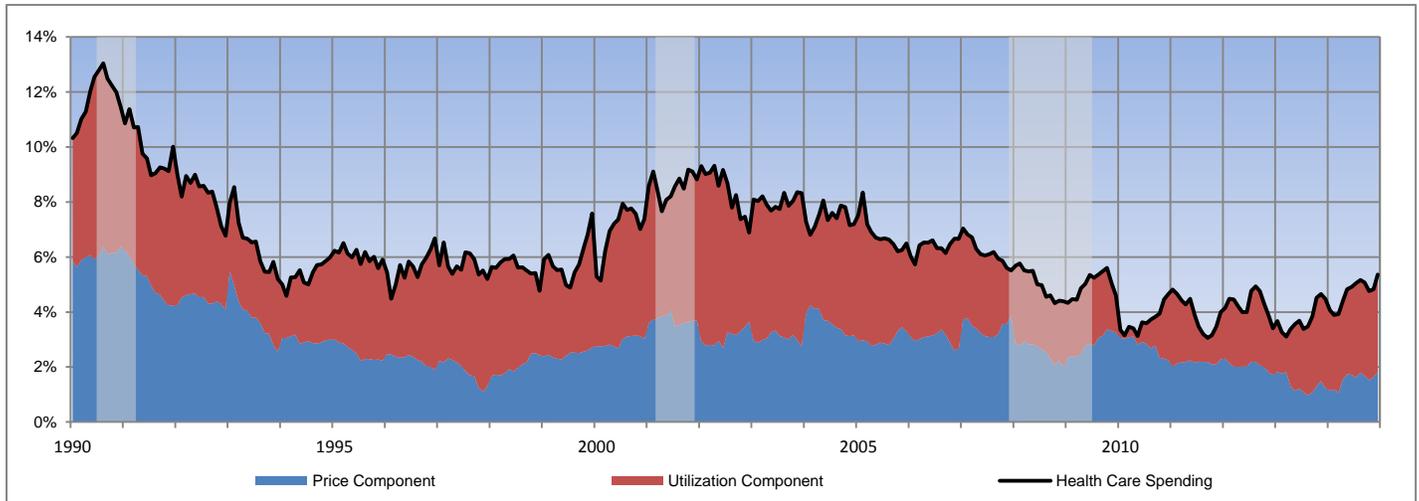
Note: Lightly shaded bars denote recession periods.

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 Institute'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.

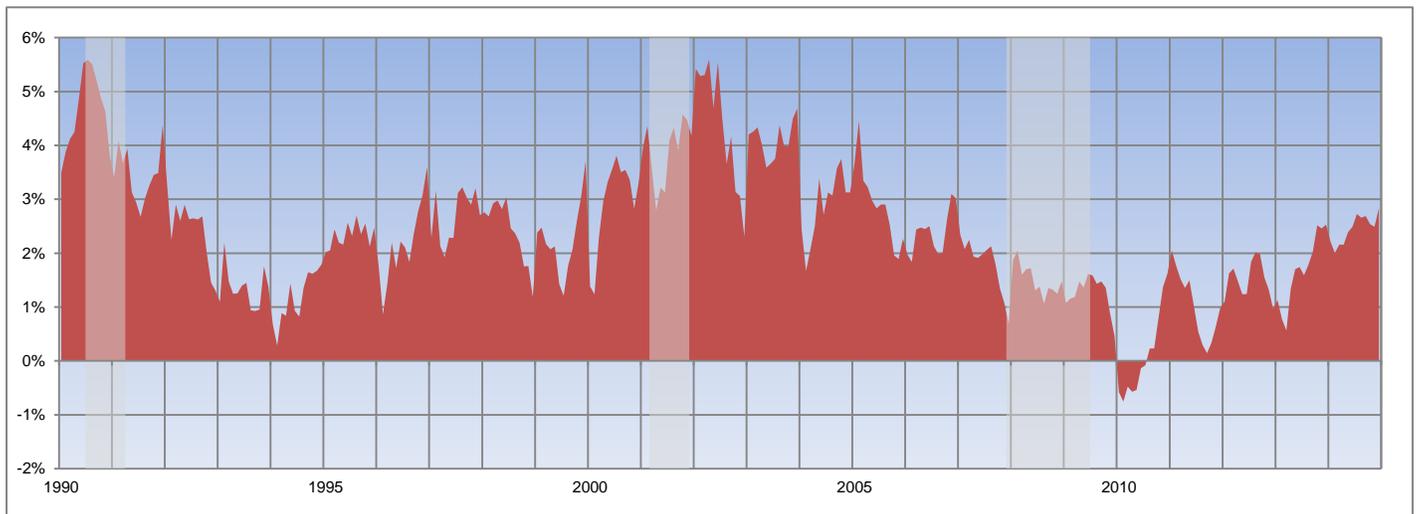
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); 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 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, *National Health Expenditures Accounts: Methodology Paper, 2013—Definitions, Sources, and Methods*, Washington, DC: Centers for Medicare & Medicaid Services, 2014. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-13.pdf>. The HCPI is calculated using BLS data on Producer Price Indices for hospital, physician, nursing home, and home health components, and CPIs for prescription drugs, and other remaining items. Following NHSG, we use the GDP deflator 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.