

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through November 2015

January 15, 2015

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PRICE BRIEF

Health care price growth stuck in neutral—what’s not to like?

HIGHLIGHTS

- ▲ Health care prices in November 2015 were 1.1% higher than in November 2014, down from 1.2% in October. The November 2015 12-month moving average held at 1.2%, tying the all-time low for our data.
- ▲ Year-over-year hospital price growth fell to 1.4% from 1.5% in October. Physician and clinical services prices fell 1.0% and have been near -1% for 11 straight months, driven by the loss of Medicaid-enhanced payments. Drug price growth continued moderating from the high of 6.4% in December 2014 to 3.4% in November 2015.
- ▲ Economy-wide price indexes showed mixed growth in November. The Consumer Price Index (CPI) rose 0.5% year over year (from 0.2% in October), and the medical CPI dropped to 2.9% from 3.0%. The final-demand Producer Price Index (PPI) fell 1.1%, up from -1.6% in October. The gross domestic product (GDP) deflator (GDPD) growth was 0.9% in October (November data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.0% in November, below its 12-month moving average of 4.0%. The latter figure shows stabilizing from the 4.1% rate in October, the highest since December 2003.

	Nov 2013	Nov 2014	Oct 2015	Nov 2015
Health Care Price Index (HCPI)	1.5%	1.4%	1.2%	1.1%
GDPD	1.6%	1.4%	0.9%	*
HCPI-GDPD	-0.1%	-0.1%	0.2%	*
Addendum				
Health care spending	4.2%	5.7%	5.3%	4.9%
Health care utilization	2.7%	4.3%	4.2%	3.8%
CPI—medical	2.2%	2.5%	3.0%	2.9%
CPI—all items	1.2%	1.3%	0.2%	0.5%

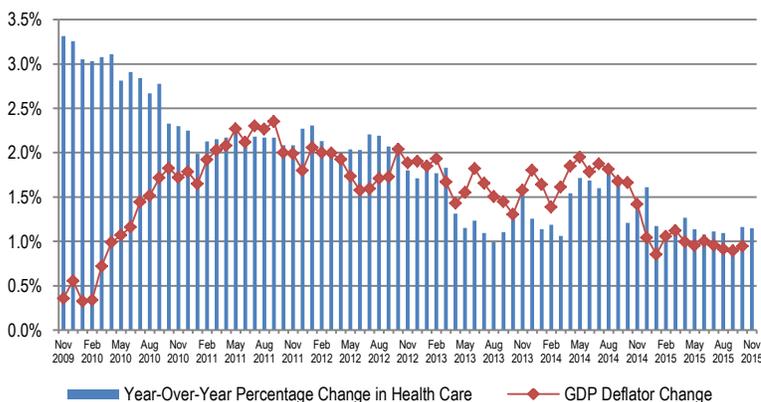
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In November 2015, the HCPI rose 1.1% from November 2014. The 12-month moving average of 1.2% (for the third straight month), is equal 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 recent low growth (with the exception of a spike in December 2014; Exhibit 1). Revised data now show September 2015 as the lowest rate in our data (0.9%) for the HCPI. 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 a 0.9% rate in October 2015. Exhibit 5 shows long-term comparisons.

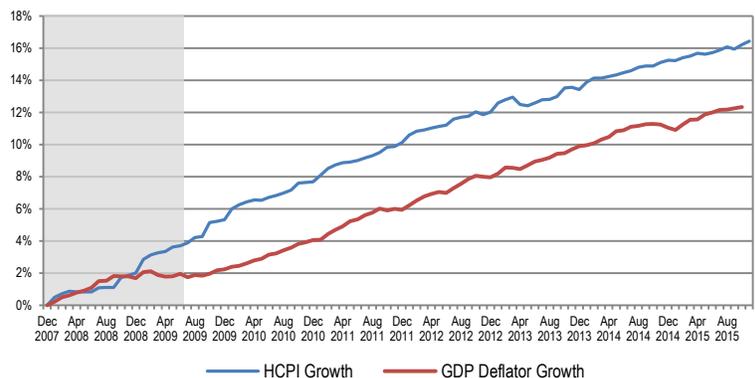
Since the start of the recession in December 2007, health care prices have increased by 16.4% while prices in the economy as a whole (using the GDPD) have increased by 12.3% (Exhibit 2). Low economy-wide inflation, via commodity prices, coupled with structural changes in the health sector, continue to exert downward pressure on health care prices. In November, the CPI rose by 0.5%, up from 0.2% in October, and the Medical CPI, emphasizing out-of-pocket prices, fell by a 10th to 2.9%. The final-demand PPI growth rate for November, at -1.1%, is up from the October reading of -1.6%, an all-time low for this series begun in 2010. By historical standards, health care price growth remains very low but is still above growth of economy-wide prices.

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.

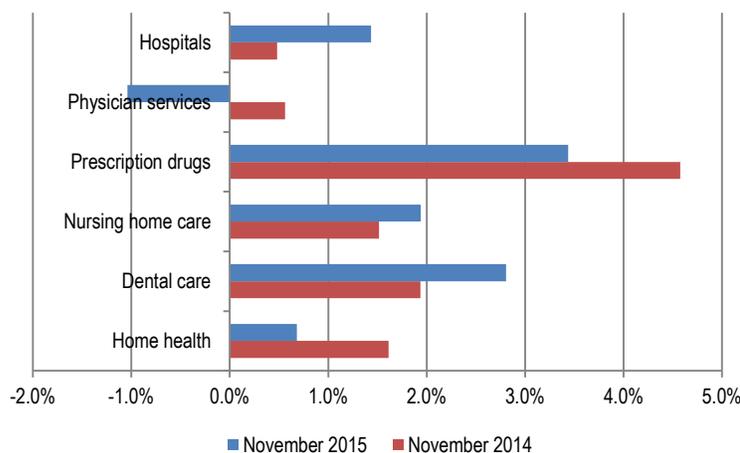
HEALTH CARE PRICES BY CATEGORY

Comparing November 2015 with November 2014, price growth for prescription drugs remained the highest at 3.4% (though this represents a steady moderation from the multi-decade high of 6.4% in December 2014), followed by dental services at 2.8%. The price change for hospital care slipped to 1.4% from 1.5%, and physician price growth fell 1.0%—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 moderation and mostly stable changes for the other components explain the slightly lower aggregate health care price index. Annual inflation rate comparisons—November 2015 year over year versus November 2014 year over year—show an entirely mixed pattern, with hospital, nursing home, and dental care growth higher and the other three 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 unchanged for the aggregate HCPI index and up for 7 of the 10 price categories. The HCPI growth rate appears ready for modest future increases, but where have you heard that before?

Medicare and Medicaid prices grew less quickly than “other” prices, which include private payment. Hospital prices for Medicare patients fell slightly from 1.3% in October to 1.2% in November, following the large fiscal year 2016 Prospective Payment System reset. For Medicaid patients, price growth fell to -1.5% from -1.1%. For private patients, price growth was 2.3%, the highest since this series began in June 2015. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), price growth fell from 6.2% to 6.0% (data not shown). Although private payment growth rates seem low at 2.3%, we will track the possibly growing divergence with public rates.

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.¹

- ▲ 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 4.9% spending growth and 3.8% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though it appears to be moderating throughout 2015). Per capita utilization in November rose at an annual rate of 3.0%, below its 12-month average of 4.0%. 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 4.2%, home health is up 5.2%, physician services has risen 6.0%, the prescription drug rate is up 4.5%, nursing care has risen 1.5%, and dental care utilization is up 0.9%.

DISCUSSION

In November 2015, the HCPI rose 1.1% above the November 2014 level, rising from the 1.2% rate in October, but it remains close to the 0.9% rate in September that, following revisions, is the historic low for this series. The 12-month moving average of 1.2% ties a low for our data series. Note, however, that when taken out to a second decimal place, the rates for October and November barely differ: 1.16% (rounding to 1.2%) versus 1.15% (rounding to 1.1%).

Negative price growth for physician and clinical services (at -1.0%, only 0.2% 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 3.4% growth in November from 6.4% in December 2014) helped to restrain the aggregate HCPI index. As always, hospital prices are the major driving force; thus, the HCPI fall mostly reflects the slight decline in hospital price growth (from 1.5% to 1.4%). Nonetheless, this moderate hospital price growth reflects largely contained public prices and slowly rising private prices. We have only 6 months of private hospital payment annual price growth, but the new high of 2.3% bears close monitoring.

Health care and economy-wide inflation are extraordinarily low for this stage of the business cycle recovery. November 2015 was the 77th month of economic expansion following the recession, yet we are only 0.2 percentage points above the decade-plus HCPI low. While some signs point to moderate future increases in the HCPI, very low economy-wide price growth will continue to exert downward pressure. Is a roughly 1% growth rate for the HCPI the new normal? Exhibit 5 may give that impression, but now that the Federal Reserve has pushed interest rates higher for the first time in more than 9 years, this perspective could be premature. Moreover, with strong utilization stemming from increased insurance coverage, health care job gains are following suit (see our [labor brief](#)), and this would seem to put upward pressure on wages (though we have not seen much of that to date). To be sure, we are talking about prices here, not underlying costs or spending. We are surely concerned about higher health spending growth in 2015 as compared to 2014 (see our [spending brief](#)), but there is some solace that the 2015 trajectory shows a moderating trend during the year.

¹ Altarum Spending Brief #16-1: November 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 November 2013	Year Ending November 2014	Year Ending November 2015
HCPI	1.5%	1.4%	1.1%
Hospital care	2.3%	0.5%	1.4%
Physician and clinical services	0.2%	0.6%	-1.0%
Prescription drugs	1.2%	4.6%	3.4%
Nursing home care	0.6%	1.5%	1.9%
Dental services	3.3%	1.9%	2.8%
Home health care	-0.5%	1.6%	0.7%
Other professional services	2.1%	1.9%	-0.3%
Other personal health care	2.0%	2.5%	2.7%
Other nondurable medical products	-0.5%	-1.4%	-0.2%
Durable medical equipment	-0.1%	1.7%	-1.2%

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.

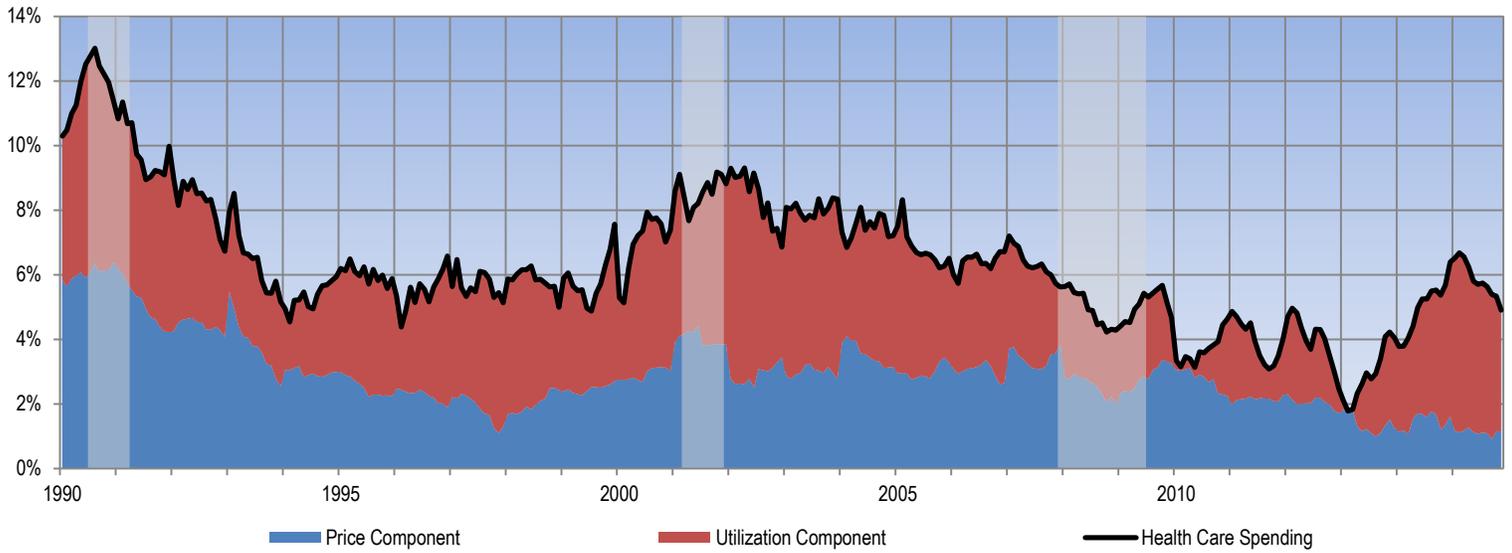
Note: Lightly shaded bars denote recession periods.

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.

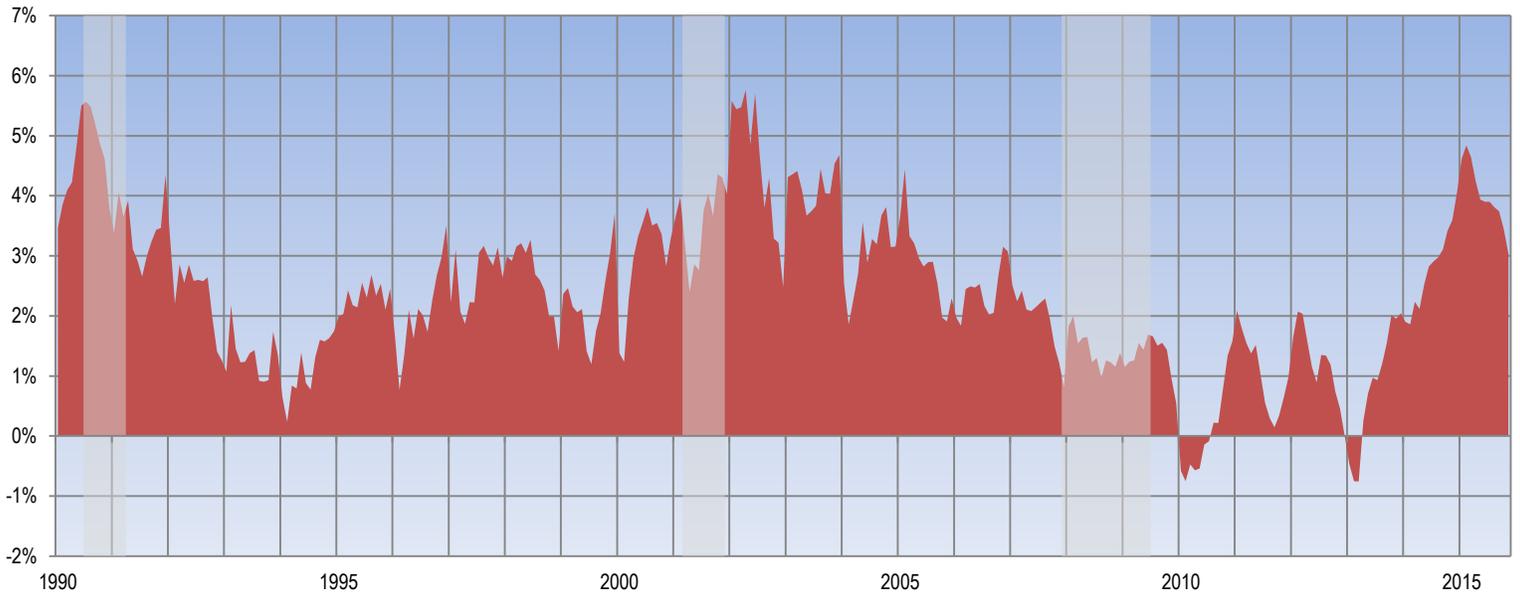
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author);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