

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through May 2016

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PRICE BRIEF

July 15, 2016

Health care prices grow at 1.5% for third straight month

HIGHLIGHTS

- ▲ Health care prices in May 2016 were 1.5% higher than in May 2015, the same rate as in March and April. The May 2016 12-month moving average was at 1.2% for the fourth straight month.
- ▲ Year-over-year hospital price growth rose to 1.0% from 0.8% in April. Physician and clinical services prices rose only 0.3%, from 0.6% in April. Drug price growth fell to 3.3% from 4.0% in April, barely retaining its status as the fastest growing price component.
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) fell to 1.0% from 1.1% growth in April and the final-demand Producer Price Index (PPI) fell to -0.1% from 0.0%. The Medical CPI growth rose from 3.0% to 3.2%, and the gross domestic product deflator (GDPD) growth rose to 1.2% from 1.0% in March.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.8% in May, below its 12-month moving average of 3.2%. The latter figure has fallen for seven consecutive months.

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

	May 2014	May 2015	Apr 2016	May 2016
Health Care Price Index (HCPI)	1.7%	1.1%	1.5%	1.5%
GDPD	2.0%	0.9%	1.2%	**
HCPI-GDPD	-0.2%	0.2%	0.3%	**
Addendum				
Health care spending	5.0%	5.8%	5.3%	5.0%
Health care utilization	3.3%	4.7%	3.8%	3.5%
CPI—medical	2.8%	2.8%	3.0%	3.2%
CPI—all items	2.1%	0.0%	1.1%	1.0%

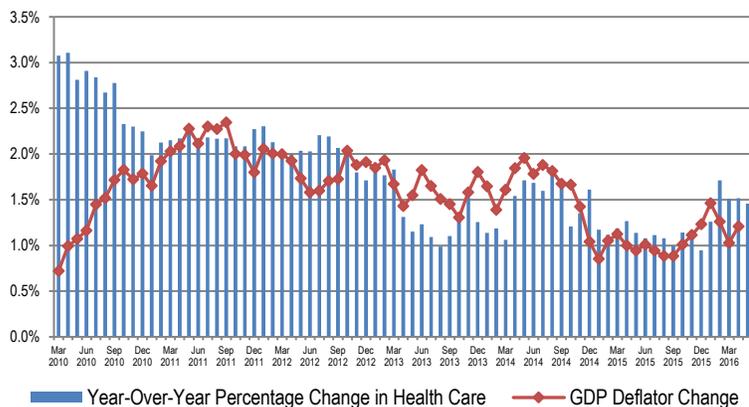
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In May 2016, the Health Care Price Index (HCPI) rose 1.5% from May 2015. The May 12-month moving average of 1.2% is the fourth straight month at that level. 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%. Very low growth in 2015 is now ending (Exhibit 1). The 1.5% rate holds steady for the third month after two months of acceleration. 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 April 2016. The HCPI growth rates were roughly tracking the GDPD rates, but have exceeded them recently. Exhibit 5 shows long-term comparisons.

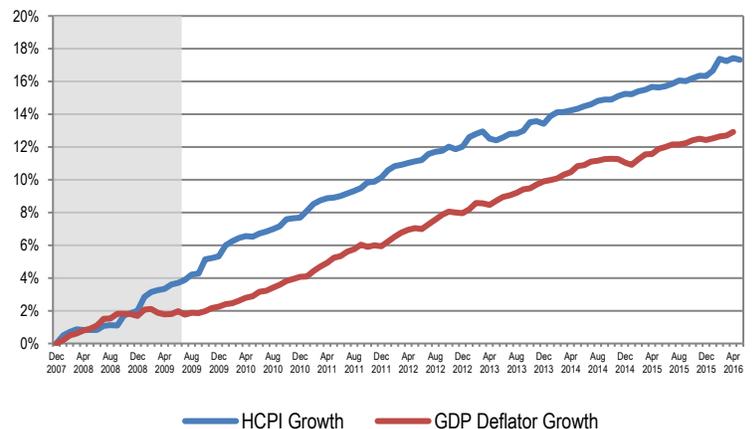
Since the start of the recession in December 2007, health care prices have increased 17.3% (actually falling in May!), while prices in the economy as a whole (using the GDPD) have increased 12.9% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector continue to exert downward pressure on health care prices. In May, the CPI rose 1.0%, down from 1.1% in April, and the medical CPI, emphasizing out-of-pocket prices, rose to 3.2% from 3.0%. The final-demand PPI growth rate for May stood at -0.1%, down from the April reading of 0.0%. By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth. Economy-wide wage pressures appear to be trending upward, but it remains to be seen when they will manifest themselves in the health care price data.

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.

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.

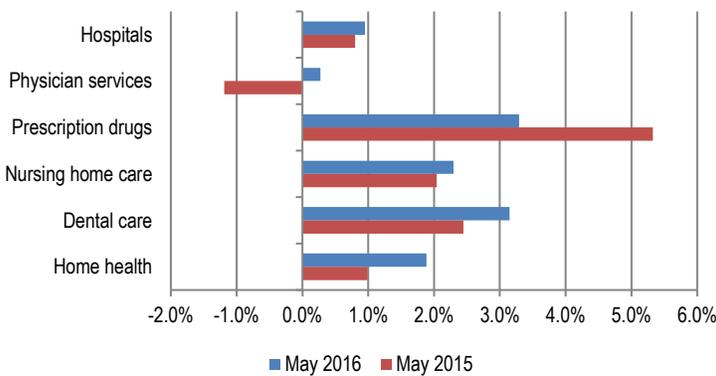
HEALTH CARE PRICES BY CATEGORY

Comparing May 2016 with May 2015, price growth for prescription drugs, at 3.3%, while down sharply from the April rate of 4.0%, is the fastest growing price category, just ahead of dental services which grew at 3.1%. The price change for hospital care rose from 0.8% to a still-low rate of 1.0% in May, and physician price growth fell to 0.3% (its lowest rate since January 2016) from 0.6% in April. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but its small increase was balanced by the lower physician, prescription drug, and home health price growth to keep the HCPI steady at 1.5% growth. Annual inflation rate comparisons—May 2016 year over year versus May 2015 year over year—show all but one 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 higher for the aggregate HCPI and for six of the ten price categories, but not for the dominant hospital and physician categories, so we take this as a “push” with the safest bet being a constant growth rate for the HCPI.

Medicare and Medicaid hospital prices grew less quickly than private-sector prices. Hospital price growth for Medicare patients fell from -0.1% in April to -0.2% in May. For Medicaid patients, hospital price growth rose sharply from -2.3% in April to -0.7% in May. For private patients, hospital price growth remained steady at 2.5%. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth fell dramatically to 0.3% from 5.0% in April (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 May 2016 are 5.0% spending growth and 3.5% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, its recent growth, and even more recent moderation. Per capita utilization in May rose at an annual rate of 2.8%, below its 12-month average of 3.2%. On a 12-month average basis, utilization for hospitals has risen 2.2%, home health care is up 6.5%, physician services have risen 5.7%, the prescription drug rate is up 3.4%, nursing care has risen 0.6%, and dental care utilization is up 2.1%.

DISCUSSION

In May 2016, the HCPI rose 1.5% above the May 2015 level, the third consecutive month at this rate. There were indications that the HCPI was slowly rising after its December 2015 low of 0.9%, but the index is now stalled due largely to lower price growth for physicians (0.3% compared to 0.6% in April) and prescription drugs (3.3% compared to 4.0% in April), and only slightly higher hospital price growth (from 0.8% to 1.0% in May). Home health care price growth also fell sharply from 2.7% in April to 1.9% in May, but other professional services rose sharply from 0.4% in April to 1.4% in May. The 12-month moving average of the HCPI at 1.2% growth represents the fourth consecutive month at that rate, and only one-tenth higher than the January 2016 rate of 1.1%, which is the all-time low for our data.

Health care inflation continues to be extraordinarily low for this stage of the business cycle recovery. May 2016 was the 83rd month of economic expansion following the recession. While the U.S. economy appears to be steadily growing (though at a low rate), which would naturally lead to price pressures, countervailing international factors are keeping the lid on price growth, at least for now.

We believe that emerging wage pressures will ultimately push price growth modestly higher, but the key factor, as always, will be whether hospital price growth trends higher, and how this breaks down between private and public payers. While this brief captures all of the data released last month, yesterday we learned that the final-demand PPI rose sharply in June, bringing the 12-month change to 0.3%. Nonetheless, the same report shows year-over-year hospital price growth to be steady at 1.0%, which buttresses our view that the HCPI is not heading to 2% growth anytime soon.

¹ Altarum Spending Brief #16-7: May 2016 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

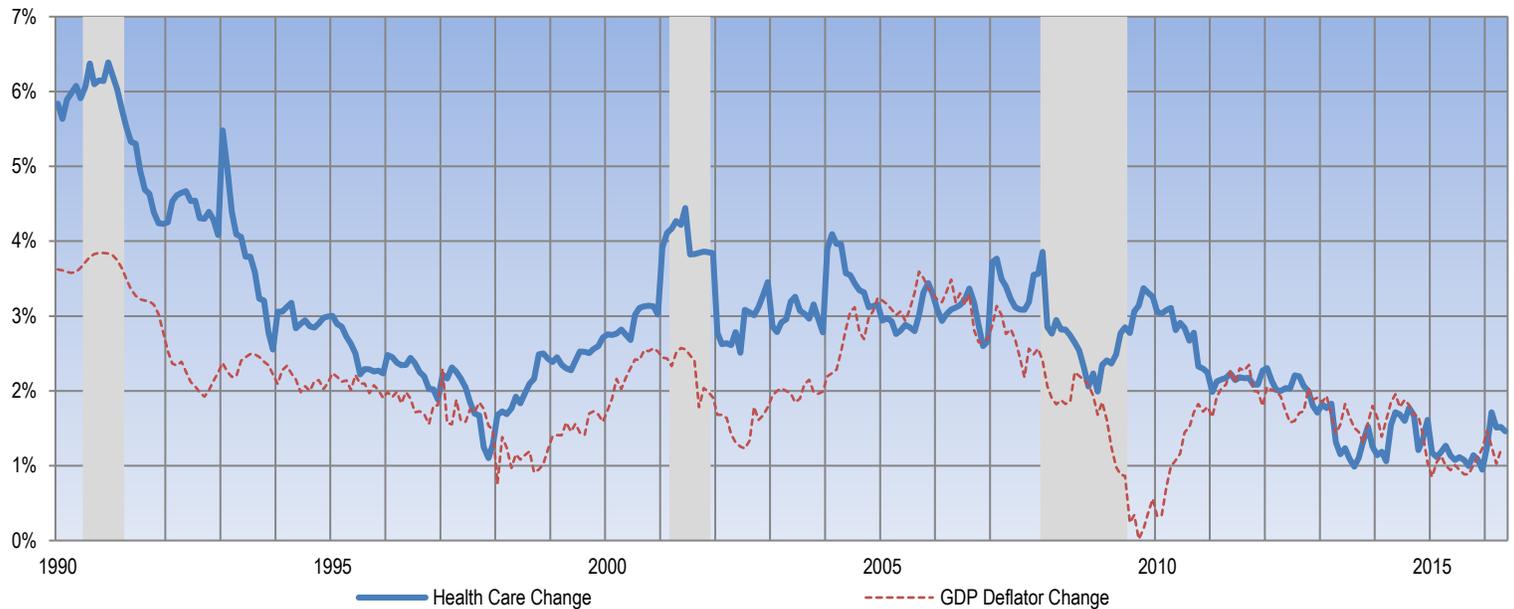
	Ending May 2014	Ending May 2015	Ending May 2016
HCPI	1.7%	1.1%	1.5%
Hospital care	1.9%	0.8%	1.0%
Physician and clinical services	0.6%	-1.2%	0.3%
Prescription drugs	3.6%	5.3%	3.3%
Nursing home care	0.7%	2.0%	2.3%
Dental services	2.2%	2.4%	3.1%
Home health care	1.0%	1.0%	1.9%
Other professional services	1.2%	1.2%	1.4%
Other personal health care	2.8%	1.7%	2.7%
Other nondurable medical products	-0.8%	-0.7%	-1.3%
Durable medical equipment	1.0%	-0.3%	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 GDPD



Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data.

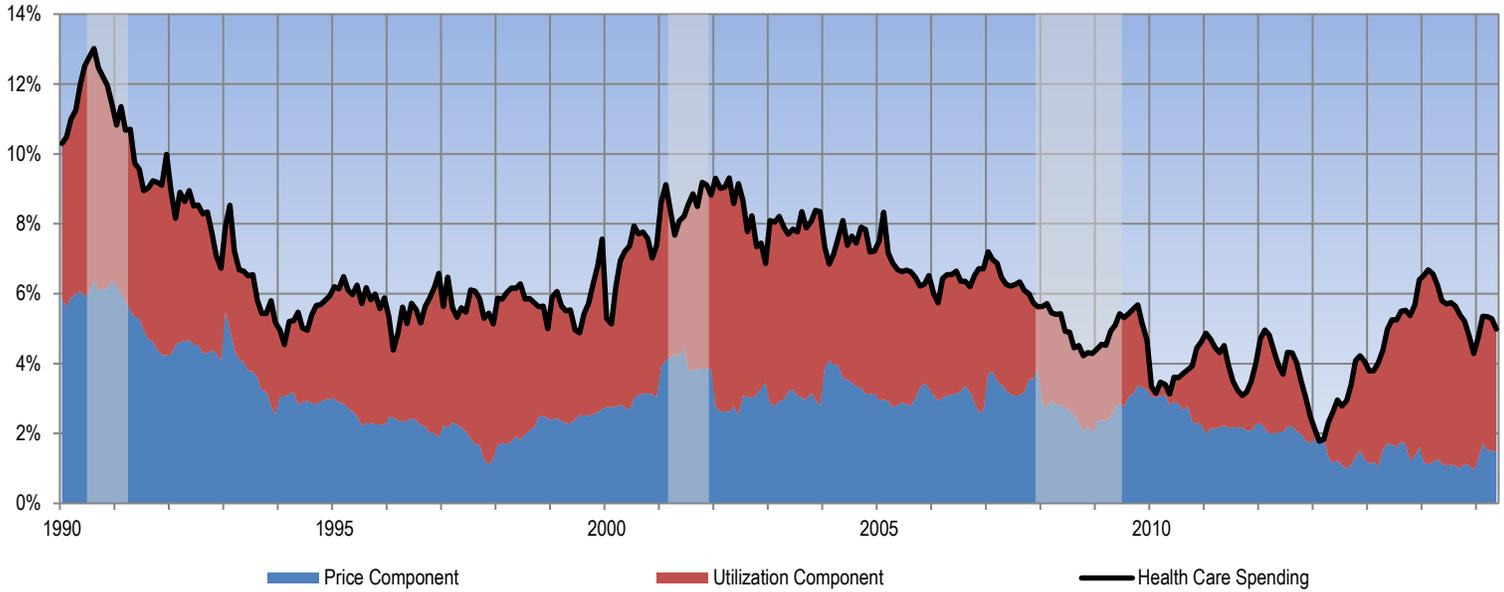
Note: Lightly shaded bars denote recession periods.

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, 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.

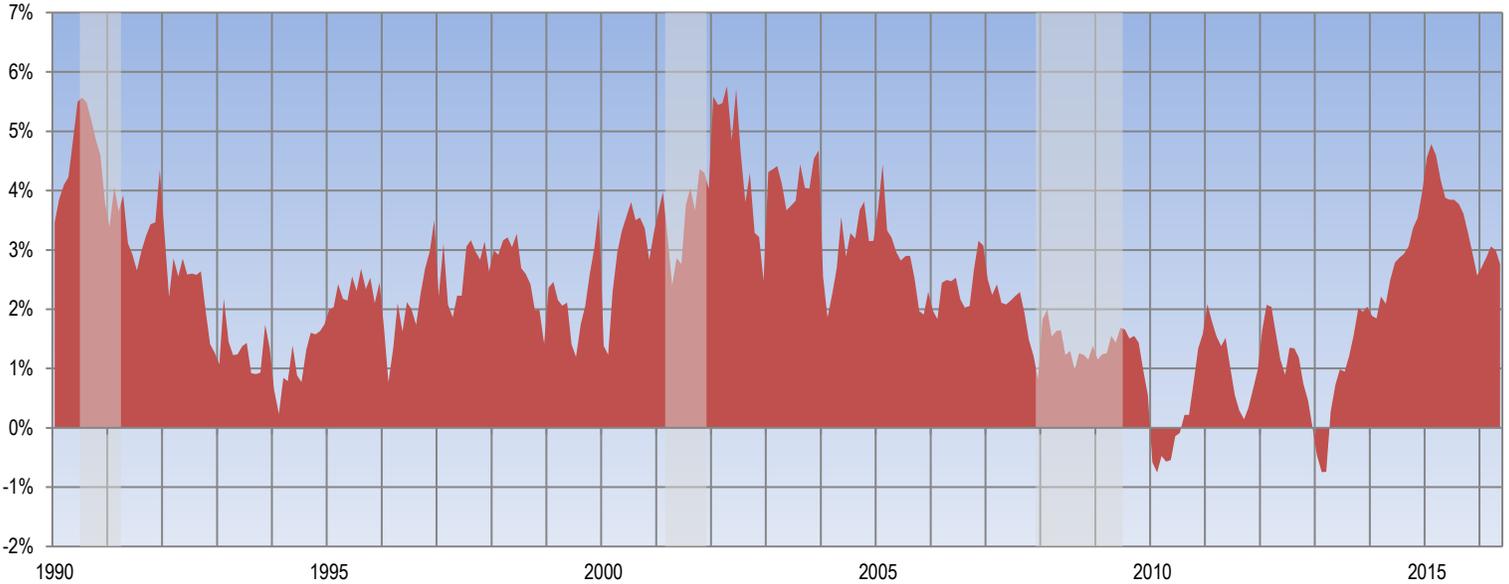
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); 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/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 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.