

Health Sector Economic IndicatorsSM

Insights from Monthly Price Indices through April 2014

www.altarum.org

June 12, 2014

PRICE BRIEF

Health care inflation up in April

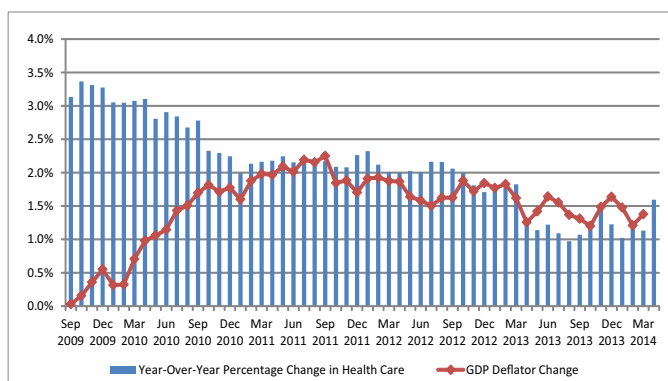
HIGHLIGHTS

- ▲ Health care prices in April 2014 were 1.6% higher than in April 2013, well above the March rate of 1.1%. The April 2014 12-month moving average, at 1.2%, is just above the all-time low for our data.
- ▲ Year over year, hospital prices – a key price index driver – grew 2.1% in April, above the March rate of 1.3%. Physician and clinical services prices grew 0.6%; and home health care prices rebounded from a year-long negative growth trend, recording a positive 0.4% rate in April. Prescription drug prices rose 2.4%, an increase from the March 2.1% rate.
- ▲ Economy-wide price indexes were up in April. The Consumer Price Index (CPI) rose to 2.0%, year over year, from 1.5% in March; the Medical CPI rose to 2.4% from 2.2%, the new Producer Price Index (PPI) for final demand rose to 2.1% from 1.4% in March, and the gross domestic product (GDP) deflator rose to 1.4% in March from 1.2% in February (April GDP data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth, year over year, at 4.5% in April, but this conflicts with other data we have received.

HEALTH CARE AND ECONOMY-WIDE PRICES

In April 2014, the health care price index (HCPI) rose 1.6% above April 2013. While the 12-month moving average of 1.2% is only fractionally above the all-time low for our data, it is the first rise since January 2012. The HCPI shows a steady decline from October 2009, at 3.4%, followed by 2 years oscillating near 2% growth, and then a sharp drop to about 1% beginning in May 2013, save for spikes in November 2013 and now April 2014 (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator, trended up beginning in September 2009, peaked at 2.2% in September 2011, and was at 1.4% in March 2014 (April GDP data are not yet available). Exhibit 5 shows long-term comparisons.

Exhibit 1. Year-Over-Year Growth Rates in Health Care Price Index and GDP Deflator



Source: Altarum analysis of monthly BLS data
Compares monthly prices with the same month from the previous year

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

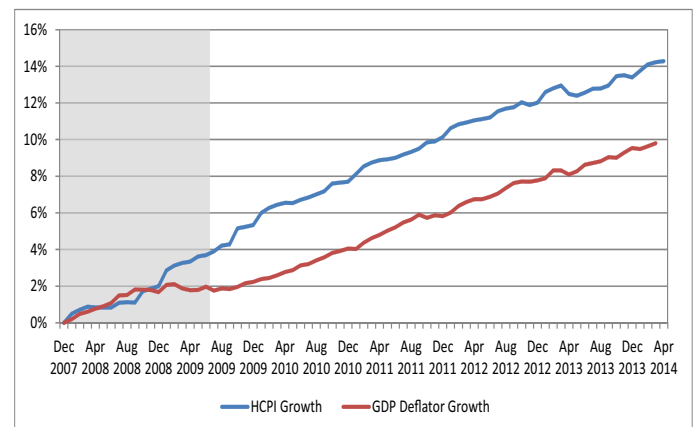
	Apr. 2012	Apr. 2013	Mar. 2014	Apr. 2014
Health Care Price Index (HCPI)	2.0%	1.3%	1.1%	1.6%
GDP Deflator (GDPD)	1.9%	1.3%	1.4%	**
HCPI - GDPD*	0.1%	0.0%	-0.2%	**
Addendum				
Personal health care spending	4.2%	3.4%	6.5%	6.9%
Health care utilization	2.2%	2.1%	5.3%	5.3%
CPI-Medical	3.4%	2.7%	2.2%	2.4%
CPI-All items	2.3%	1.1%	1.5%	2.0%

*Numbers may not subtract due to rounding
**Data not yet available

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.

Since the start of the recession in December 2007, health care prices have increased by 14.3%, while prices in the economy as a whole (using the GDP deflator) have increased by 9.8% (Exhibit 2). Low economy-wide inflation has exerted downward pressure on health care price growth, but this story may be ending. The final demand PPI, CPI, and Medical CPI each rose, compared with March (2.1% from 1.4%, 2.0% from 1.5%, and 2.4% from 2.2%, respectively), but these numbers remain quite low by historical standards, although the PPI reading was the highest since March 2012. We may be moving past this recent and rare experience of health care prices growing more slowly than economy-wide prices.

Exhibit 2. Health Care Price Index and GDP Deflator, Cumulative Percentage Change Since December 2007



Source: Altarum analysis of monthly BLS price data and monthly GDP deflator data published by Macroeconomic Advisers, LLC

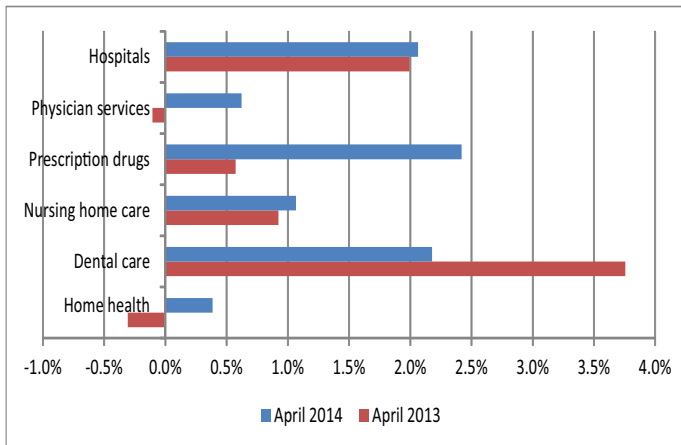
Note: Shading indicates recession period

HEALTH CARE PRICES BY CATEGORY

Comparing April 2014 with April 2013, prescription drug price growth was the highest, at 2.4%, followed closely by dental services, at 2.2% and hospital prices at 2.1%. Physician price growth increased to 0.6%. Annual inflation rate comparisons – April 2014 year over year versus April 2013 year over year – show a reversal from past months where now price growth is higher for each category, except dental care, for the recent year compared with a year earlier (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 split down the middle, but it is higher for the total HCPI (2.3%) and much higher for prescription drugs (7.3%).

Medicare and Medicaid prices usually grow more slowly than “other” prices, which include private payment. Hospital prices for Medicare patients grew by 1.8% in April while Medicaid prices fell by 0.1% (these were -0.2% and -0.3%, respectively, in March). For other patients, price growth held at 3.1% (data not shown). There remains little evidence that provider consolidation has translated into noticeably increased prices.

Exhibit 3. Year-Over-Year Price Growth for Selected Health Categories



Source: Altarum analysis of monthly BLS data

PRICES, SPENDING, AND UTILIZATION

Trends in health care utilization (and intensity) can be computed from the price data combined with Altarum monthly health spending estimates.¹

- ▲ Exhibit 6 displays year-over-year growth rates in health care spending broken out by price and utilization.
- ▲ Exhibit 7 shows per capita utilization growth through April and highlights the decline between 2002 and 2010. Per capita utilization has generally risen since then.

While we retain these two exhibits in this brief, we must include a disclaimer, given new data we have received indicating that the associated surge in spending (and hence, in what would be the resultant implicit utilization) did not occur. Quarterly Services Survey data, released on June 11, show very low spending growth for the first quarter of 2014. Even with a ramp up in April from increased health insurance coverage under the Affordable Care Act, it is quite unlikely that spending growth exceeds 6%, in which case, per capita utilization would be less than 4% (subtracting about 1.5% for price growth and 0.7% for population growth). See our blog on this topic at www.altarum.org/decelerate.

DISCUSSION

In April 2014, the HCPI rose 1.6% above April 2013, a fairly sharp increase from the all-time low for this series of 1.0%, first achieved in August 2013. The 12-month moving average of 1.2% is fractionally above the all-time low, but it represents the first increase since January 2012. Hospital price growth rising to 2.1% (from 1.3% in March) has a large effect due to its spending weight. Most of the other components showed small increases, which, with the hospital increase, account for the rise in total health care price growth.

While health care and economy-wide inflation are remarkably low for this stage of a business cycle recovery – April 2014 was the 58th month of economic expansion following the recessionary low – there are growing signs that we are moving beyond the cyclical inflation lows. We are not predicting a price surge, but rather a return to more normal rates. And this growth should be pushed along by utilization growth as the Affordable Care Act increases insurance coverage for both public and private insurance. A recent example comes from IMS drug data showing overall prescription volume up 3.2%, year over year, for the week ended May 30th.² Nevertheless, structural forces appear to be restraining price growth and, even with increased coverage, overall utilization will likely increase only gradually.

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¹ Altarum Institute Spending Brief #14-05: March 2014 Data. **Please note:** The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Giacobbe, Ralph (2014). *Daily Health Investor Email*, June 11.

PRICE GROWTH BY DETAILED CATEGORIES

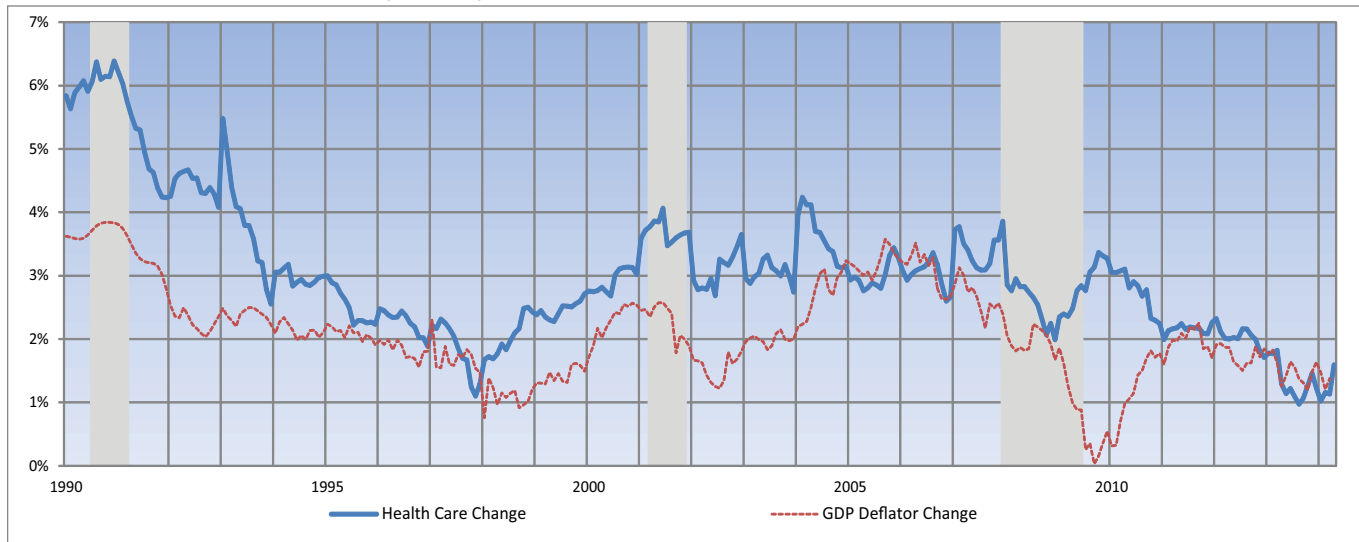
Exhibit 4. Annualized Percentage Change in Prices for the Major Components of National Health Expenditures

	Ending April 2012	Ending April 2013	Ending April 2014
Health care price index	2.0%	1.3%	1.6%
Hospital care	2.4%	2.0%	2.1%
Physician and clinical services	1.4%	-0.1%	0.6%
Prescription drugs	3.7%	0.6%	2.4%
Nursing home care	0.9%	0.9%	1.1%
Dental services	2.0%	3.8%	2.2%
Home health care	0.7%	-0.3%	0.4%
Other professional services	1.0%	1.5%	0.9%
Other personal health care	2.1%	2.7%	2.4%
Other non-durable medical products	-0.7%	0.8%	-1.0%
Durable medical equipment	0.8%	1.1%	-0.1%

Source: Altarum analysis of monthly Bureau of Labor Statistics (BLS) data
 Notes: Compares monthly prices with the same month from the previous year

TIME SERIES TRACKER

Exhibit 5. Year-Over-Year Percentage Change in Health Prices Compared with the GDP Deflator



Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data
 Note: Lightly shaded bars denote recession periods

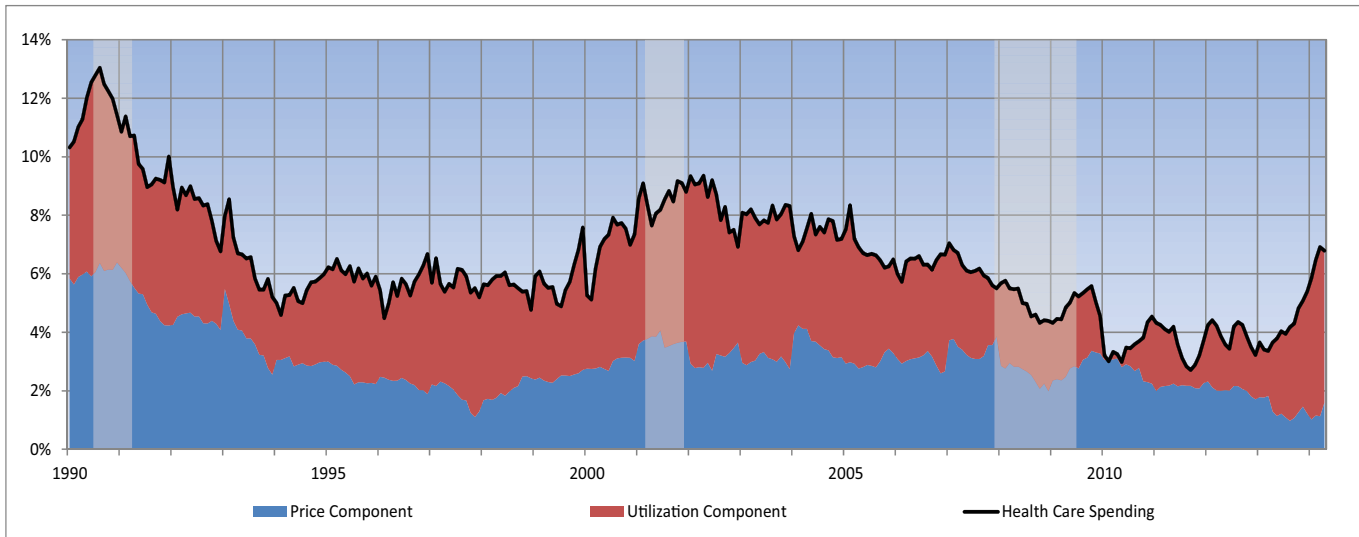
Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute’s research on investigating 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, 571-733-5709, ken.schwartz@altarum.org.

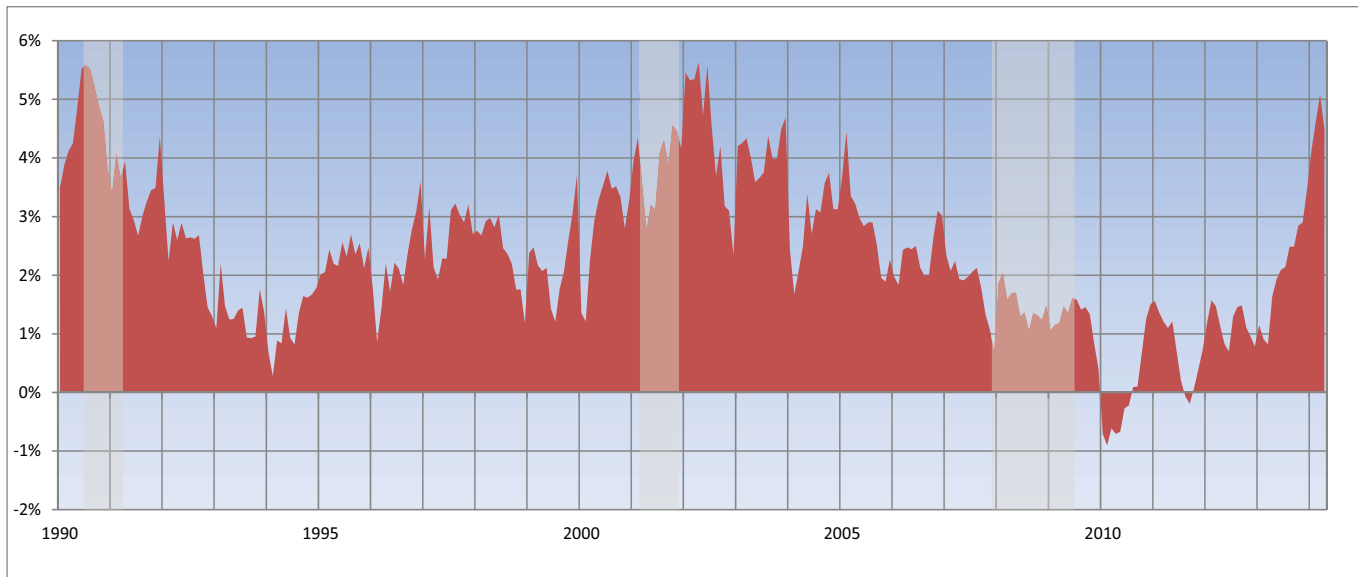
For more information, please visit www.altarum.org/cshs.

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 consumer price index are well documented. Information on the CMS index is presented in: U.S. Department of Health and Human Services, *National Health Expenditures Accounts: Methodology Paper, 2012-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-12.pdf>. The HCPI is calculated using BLS data on Producer Price Indices for hospital, physician, nursing home, and home health components, and Consumer Price Indices for prescription drugs, and other remaining items. Following NHSG, we use the GDP deflator rather than the Consumer Price Index 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.