

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

## Insights from Monthly National Price Indices Through April 2016

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### PRICE BRIEF

June 10, 2016

## Health care prices stable for now with low hospital price growth

### HIGHLIGHTS

- ▲ Health care prices in April 2016 were 1.5% higher than in April 2015, unchanged from the March 2016 rate. The April 2016 12-month moving average was at 1.2% for the third straight month.
- ▲ Year-over-year hospital price growth fell to 0.8% from 1.0% in March. Physician and clinical services prices rose a scant 0.6%, the same rate recorded in March. Drug price growth rose to 4.0% from 3.6% in March, making it easily the fastest growing price component.
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) rose to 1.1% from 0.9% growth in March and the final-demand Producer Price Index (PPI) rose to 1.2% from 0.5%. The Medical CPI growth fell from 3.3% to 3.0%, and the gross domestic product deflator (GDPD) growth fell to 1.0% from 1.3% in February.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year-over-year at 2.3% in April, below its 12-month moving average of 3.1%. The latter figure has fallen for six consecutive months.

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

	Apr. 2014	Apr. 2015	Mar. 2016	Apr. 2016
Health Care Price Index (HCPI)	1.5%	1.3%	1.5%	1.5%
GDPD	1.8%	1.0%	1.0%	**
HCPI-GDPD	-0.3%	0.3%	0.5%	**
<b>Addendum</b>				
Health care spending	4.4%	6.2%	4.6%	4.6%
Health care utilization	2.9%	5.0%	3.1%	3.1%
CPI—medical	2.4%	2.9%	3.3%	3.0%
CPI—all items	2.0%	-0.2%	0.9%	1.1%

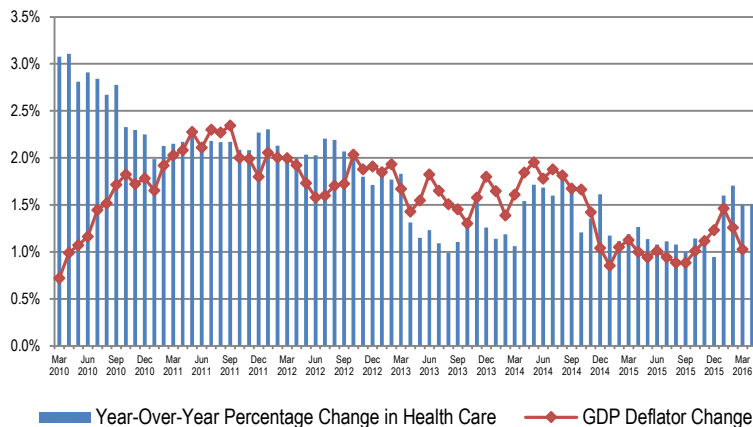
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

### HEALTH CARE AND ECONOMY-WIDE PRICES

In April 2016, the Health Care Price Index (HCPI) rose 1.5% from April 2015. The 12-month moving average of 1.2% is almost identical to what was seen in March. The HCPI shows a decline from 3.4% in October 2009, then two years oscillating near 2% growth, a sharp decline to about 1%, an increase in 2014 to around 1.5%, and recent very low growth that may be ending (Exhibit 1). The 1.5% rate holds steady for the second month after five 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 has now fallen sharply to 1.0% in March 2016. The HCPI growth rates were roughly tracking the GDPD rates, but have exceeded them recently. Exhibit 5 shows long-term comparisons.

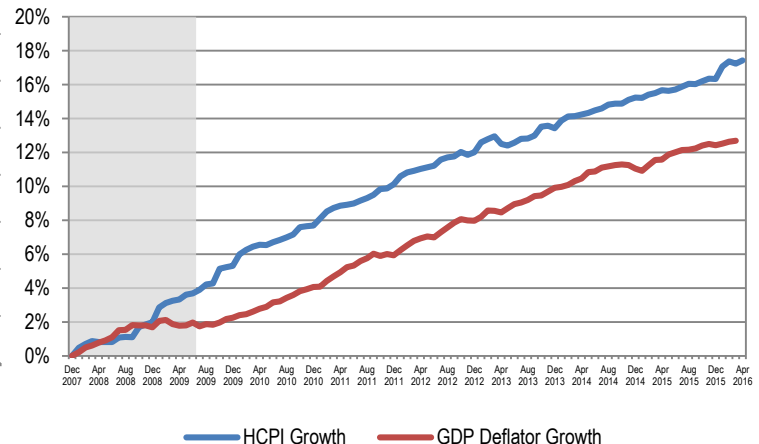
Since the start of the recession in December 2007, health care prices have increased 17.4%, while prices in the economy as a whole (using the GDPD) have increased 12.7% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector continue to exert downward pressure on health care prices. In April, the CPI rose 1.1%, up from 0.9% in March, and the medical CPI, emphasizing out-of-pocket prices, fell to 3.0% from 3.3%. The final-demand PPI growth rate for April, at 1.2%, grew sharply from the March reading of 0.5%. By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth. Wage pressures appear to be trending upward, they are still not manifesting themselves in the price data due to the specific role of hospital price growth.

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.

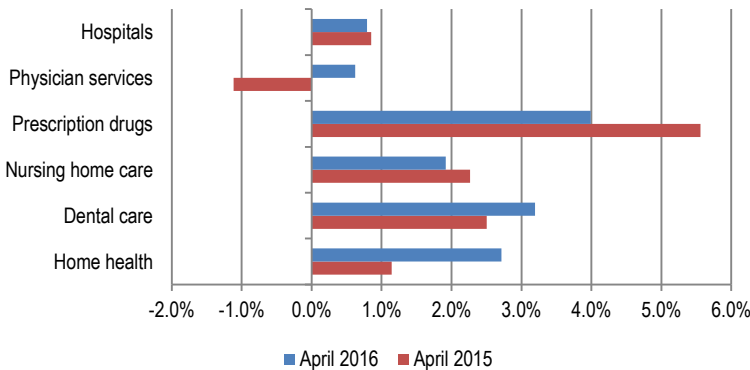
### HEALTH CARE PRICES BY CATEGORY

Comparing April 2016 with April 2015, price growth for prescription drugs, at 4.0% (the highest rate since September 2015), is easily the fastest growing price category, ahead of dental services which grew at 3.2%. The price change for hospital care dropped to 0.8% from an already low 1.0% rate in March (the last time it was lower came in September 2015, at 0.7%), and physician price growth remained at 0.6%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, and its falling price growth compensated for small increases in six of the health price components, to keep the HCPI steady at 1.5% growth. Annual inflation rate comparisons—April 2016 year-over-year versus April 2015 year-over-year—show a mixed profile with three categories higher and three lower (Exhibit 3, with additional detail in Exhibit 4). Of special note is price growth for home health care which averaged 1.2% in 2015 and has risen to 2.4% so far in 2016.

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. The HCPI growth rate will respond to near-term changes in hospital prices, especially whether they will bounce up from recent lows.

Medicare and Medicaid hospital prices grew less quickly than private-sector prices. Hospital price growth for Medicare patients fell steeply from 0.7% in March to -0.1% in April. For Medicaid patients, hospital price growth remained the same at -2.3% in April. For private patients, hospital price growth increased to 2.5% in April from 2.3% in March. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was steady at 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 4.5%, 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.<sup>1</sup>

- ▲ 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 April 2016 are 4.6% spending growth and 3.1% 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 April rose at an annual rate of 2.3%, below its 12-month average of 3.1% and the same rate as in March. On a 12-month average basis, utilization for hospitals has risen 2.0%, home health care is up 7.7%, physician services have risen 5.3%, the prescription drug rate is up 3.6%, nursing care has risen 1.2%, and dental care utilization is up 1.4%.

### DISCUSSION

In April 2016, the HCPI rose 1.5% above the April 2015 level, the same rate measured in March. There were indications that the HCPI was slowly rising after its December 2015 low, but the index is now stalled due to low hospital price growth (at 0.8%, the lowest since September 2015). The 12-month moving average of 1.2% is unchanged from March, and only one-tenth higher than the January 2016 rate of 1.1%, which is the all-time low for our data.

Price growth for physician and clinical services held steady at the low 0.6% March rate, but prescription drug price growth is up to 4.0%, the highest rate since September 2015. Dental price growth (3.2%) has been slowly rising since hitting 1.8% in December 2014, and home health care price growth is up sharply in 2016 (2.4% at an annual rate) as compared to 1.2% for all of 2015.

Health care inflation continues to be extraordinarily low for this stage of the business cycle recovery. April 2016 was the 82<sup>nd</sup> month of economic expansion, following the recession, now comfortably the fourth longest in U.S. history.

We believe that wage pressures will ultimately push prices moderately higher, and that may already be showing in the final-demand PPI series, which in the last 3 months has risen from -1.2%, to 0.5%, to 1.2%, all measured year-over-year. The same non-health drivers that put downward pressure on health care prices may be about to reverse course. Nonetheless, the key factor, as always, will be whether hospital price growth trends higher in the next few months, and how this breaks down between private and public payers.

<sup>1</sup> Altarum Spending Brief #16-6: April 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**

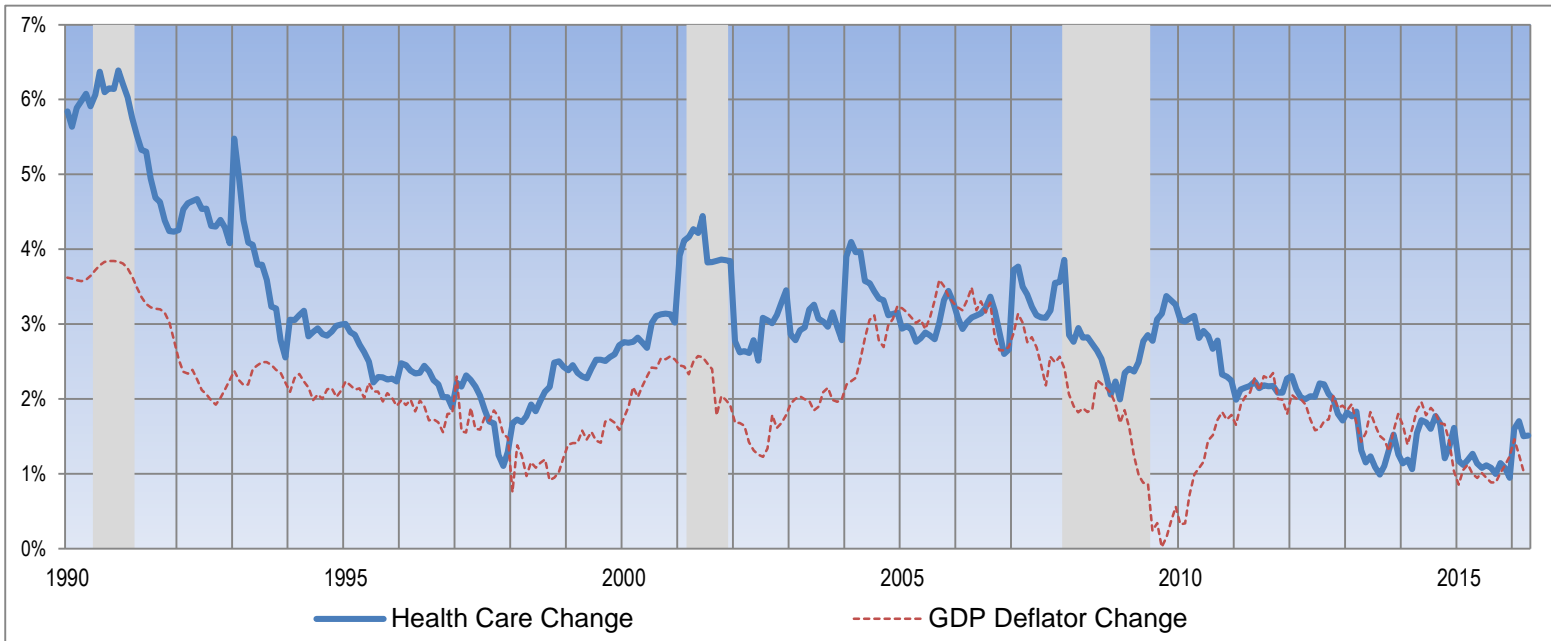
	Ending April 2014	Ending April 2015	Ending April 2016
HCPI	1.5%	1.3%	1.5%
Hospital care	2.0%	0.9%	0.8%
Physician and clinical services	0.6%	-1.1%	0.6%
Prescription drugs	2.4%	5.6%	4.0%
Nursing home care	0.9%	2.3%	1.9%
Dental services	2.2%	2.5%	3.2%
Home health care	0.9%	1.1%	2.7%
Other professional services	0.9%	1.5%	0.4%
Other personal health care	2.5%	1.6%	2.8%
Other nondurable medical products	-1.0%	-0.6%	-1.5%
Durable medical equipment	-0.1%	-0.1%	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.

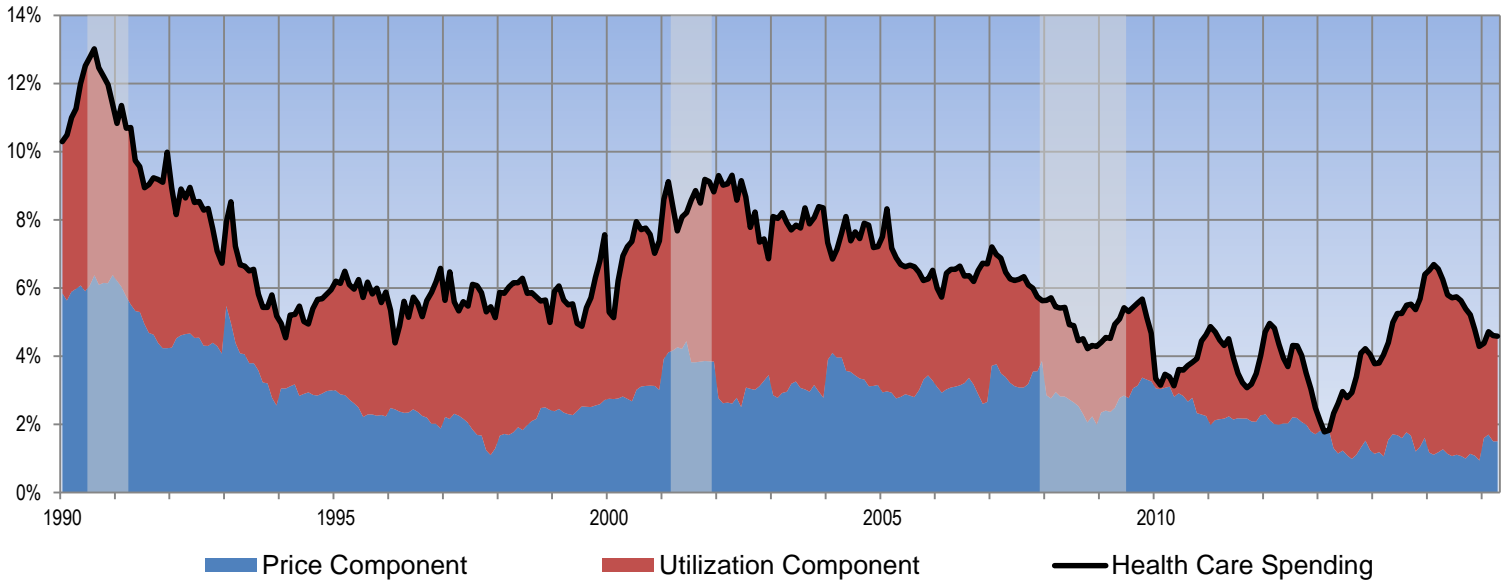
Note: Lightly shaded bars denote recession periods.

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.

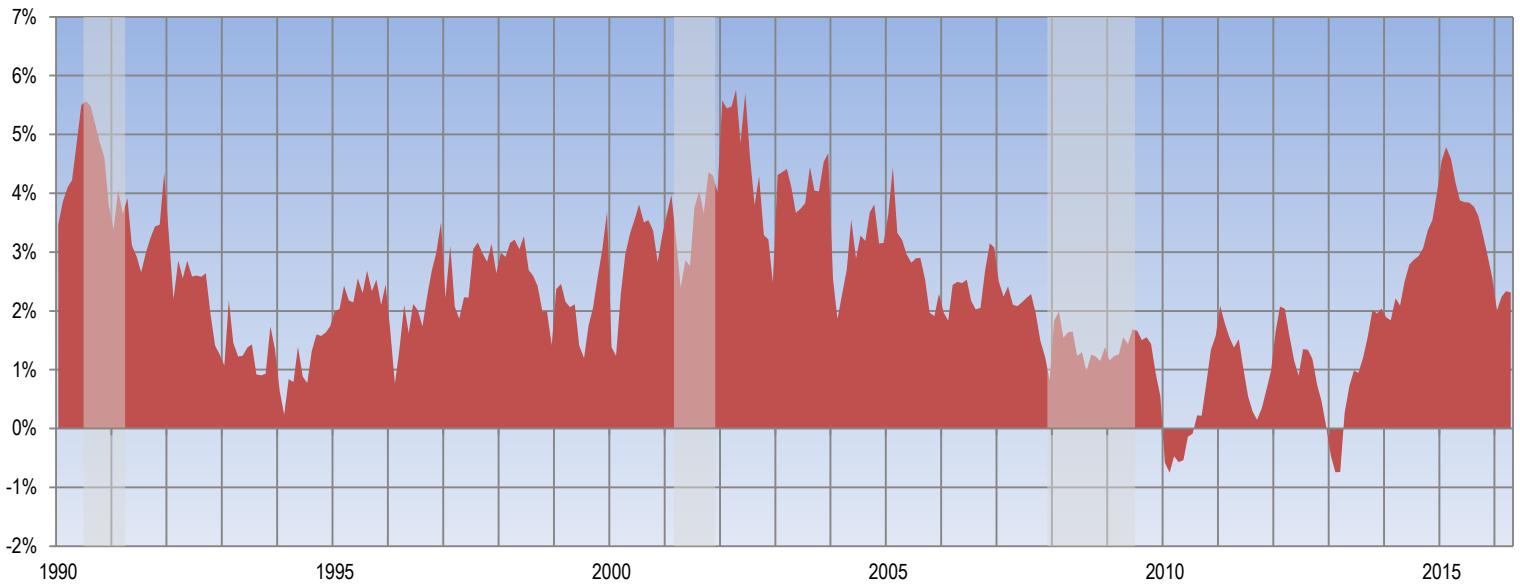
The *Health Sector Economic Indicators*<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). 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 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.