

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through April 2017

June 8, 2017

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PRICE BRIEF

Health price growth exhibits surprising plunge to 1.6%

HIGHLIGHTS

- ▲ Health care prices in April 2017 rose 1.6% above April 2016, down from 1.9% in March, and the lowest annual growth rate since June 2016.
- ▲ Year-over-year hospital price growth rose one-tenth to 1.8% and physician and clinical services price growth rose from 0.4% to 0.5% in April. Annual drug price growth in April fell to a 3.1% rate, continuing its fall from the 20+ year high of 7.0% in November 2016.
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) fell to 2.2% growth in April from 2.4% in March, the final-demand Producer Price Index (PPI) rose to 2.5% from 2.3% (the highest rate since February 2012), and the gross domestic product deflator (GDPD) rose to 2.1% from 1.9% in March.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 1.9% in April, below its 12-month average of 2.8%.

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

	Apr. 2015	Apr. 2016	Mar. 2017	Apr. 2017
Health Care Price Index (HCPI)	1.2%	1.4%	1.9%	1.6%
GDPD	1.1%	0.9%	1.9%	2.1%
HCPI-GDPD	0.1%	0.5%	0.0%	-0.4%
Addendum				
Health care spending	6.8%	6.0%	4.9%	4.2%
Health care utilization	5.6%	4.6%	3.0%	2.6%
CPI—medical	2.9%	3.0%	3.5%	3.0%
CPI—all items	-0.2%	1.1%	2.4%	2.2%

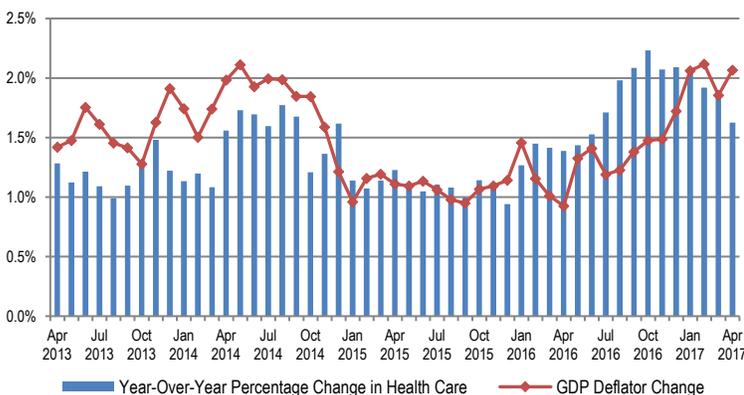
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In April 2017, the Health Care Price Index (HCPI) rose 1.6% above April 2016. The 12-month moving average, at 1.9% growth, is unchanged from its March reading. The HCPI declined from 3.4% in October 2009, oscillated near 2% growth for 2 years, hit historic lows of roughly 1% in 2015, and exhibited a sharp increase through 2016 that is now (unexpectedly) falling (Exhibit 1). After eclipsing the 2% rate in September 2016 for the first time since September 2012, we expected it to trend higher, but once again, it is solidly below 2%. 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 2.1% year-over-year growth as of April 2017. The HCPI growth rate is again below the GDPD rate, a rare occurrence. Exhibit 5 shows long-term comparisons.

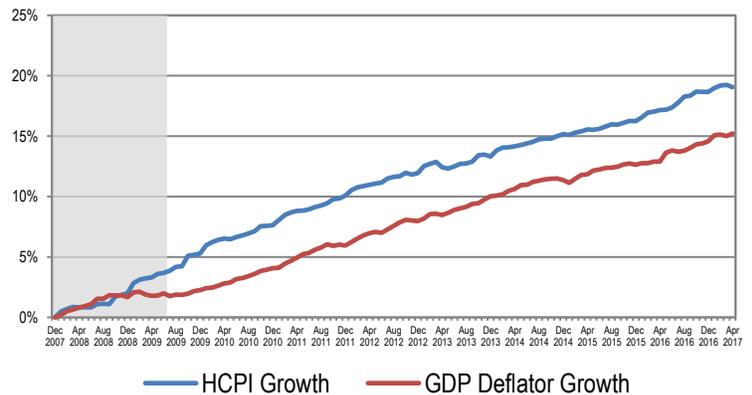
Since the start of the recession in December 2007, health care prices have increased only 19.1%, while prices in the economy as a whole (using the GDPD) have increased 15.2% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector may no longer be putting downward pressure on health care prices, but our expectation of higher HCPI rates have not come to pass, and extensive uncertainty affecting the health sector economy continues. In April, the CPI rose 2.2% above the previous year, down from a five-year high rate of 2.7% in February. The medical CPI, emphasizing out-of-pocket prices, fell to 3.0% growth. The final-demand PPI growth rate for March rose to 2.5%, its highest rate since February 2012, though, at least for now, clearly not translating through to an increase in consumer prices.

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.

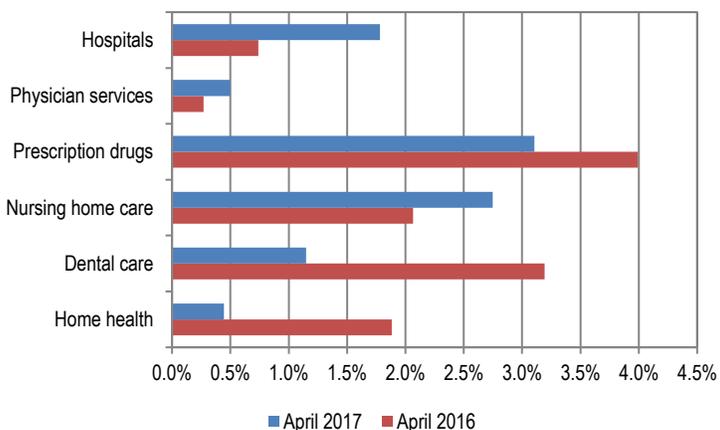
HEALTH CARE PRICES BY CATEGORY

In April 2017, the annual price growth for other professional services, at 3.2%, was the fastest growing category, breaking a streak going back to January 2016 where the prescription drug rate (currently at 3.1%) has been the highest. Dental care price growth mysteriously fell to 1.1%, the lowest reading in our nearly 3 decade-long data series! Hospital price growth rose one-tenth to 1.8% in April and physician price growth rose to 0.5% from 0.4% in March. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but this month it was easily outweighed by declining price growth in six other categories, especially drugs, dental services and medical products, hence the lower HCPI rate. Annual inflation rate comparisons—April 2017 year over year versus April 2016 year over year—show 3 categories higher (hospitals, physician services, and nursing home care), and the remaining 3 lower (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data, is lower for the aggregate HCPI and for four of the ten price categories. With lower hospital and physician momentum, the safest bet is for a stable to lower HCPI rate in May (despite our previous call for a higher trend!).

Medicare and Medicaid hospital prices typically grow less quickly than private-sector prices. Hospital price growth for Medicare patients fell to 0.9% in April (from 1.2% in March), fell to 1.5% for Medicaid patients (from 2.3%), and rose to 2.6% from 2.5% for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth rose sharply to 4.1% from 2.1% in March (data not shown). While hospital prices for privately-insured patients are growing moderately, there is a large cumulative gap compared to public payments. Specifically, since June 2014 (when BLS created the private-only data series), *cumulative* hospital prices for Medicare, Medicaid, and private pay patients have grown by -0.7%, -0.9%, and 7.3%, respectively.

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



Source: Altarum analysis of monthly BLS data.

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¹ Altarum Spending Brief #17-6: April 2017 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Pallarito, K (2017). “4 in 10 Job-Based Health Plans in U.S. Are Now ‘High-Deductible.’” *Health Day*, June 6. <https://consumer.healthday.com/public-health-information-30/misc-insurance-news-424/4-in-10-job-based-health-plans-in-u-s-are-now-high-deductible-723448.html>

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 to declining utilization growth, followed by very low price growth. Utilization surged in 2014 and 2015, but is now trending lower. The readings for April 2017 are 4.2% spending growth and 2.6% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth and a jagged 2+ year moderation. Per capita utilization in April rose at an annual rate of 1.9%, far below its 12-month average of 2.8%. On a 12-month average basis, utilization for hospitals rose 3.2%, home health care is up 3.3%, physician services rose 5.2%, the prescription drug rate is -1.5%, nursing care rose 1.9%, and dental care utilization is up 1.2%.

DISCUSSION

In April 2017, the HCPI rose by 1.6% compared to a year earlier, well below the March annual rate of 1.9%, and the lowest reading since June 2016. The 12-month moving average of the HCPI held steady at 1.9%. We had been expecting the HCPI to trend above 2% growth assuming that economy-wide prices were no longer putting downward pressure on health care prices. Instead the HCPI has shown a fairly steady decline from its recent high of 2.2% in October 2016. We also expected the HCPI to grow faster than the GDP deflator, as it had for 12 straight months, and following the historical norm. Yet more unrealized expectations!

We pay close attention to the hospital and physician components of the price index. The former rose from 1.7% growth in March to 1.8% in April; the latter rose from 0.4% to 0.5%. Yet, a large drop in the prescription drug rate (from 4.7% to 3.1%), a historically low dental services price growth of 1.1%, and other price growth declines served to pull down the HCPI rate.

As we note each month, health care inflation is quite low for this stage of the economic recovery. April 2017 was the 94th month of expansion following the Great Recession. Only two expansions in U.S. history have been longer, during the 1960s and the 1990s.

Private surveys are showing reduced utilization growth, and we again stress the uncertainty facing the health sector economy as legislative activity to repeal and replace the Affordable Care Act crawls forward. In addition, whereas we were convinced that economy-wide price pressures would begin to bubble into health care prices, we see that the CPI growth has declined to 2.2%, its lowest annual rate since December 2016, and while the final-demand PPI growth of 2.5% represents a 5+ year high, these earlier production stage prices are not yet carrying over to many output prices. The story may simply be that the secular increase in high-deductible insurance policies is increasing health care consumer shopping behavior.²

PRICE GROWTH BY DETAILED CATEGORIES

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

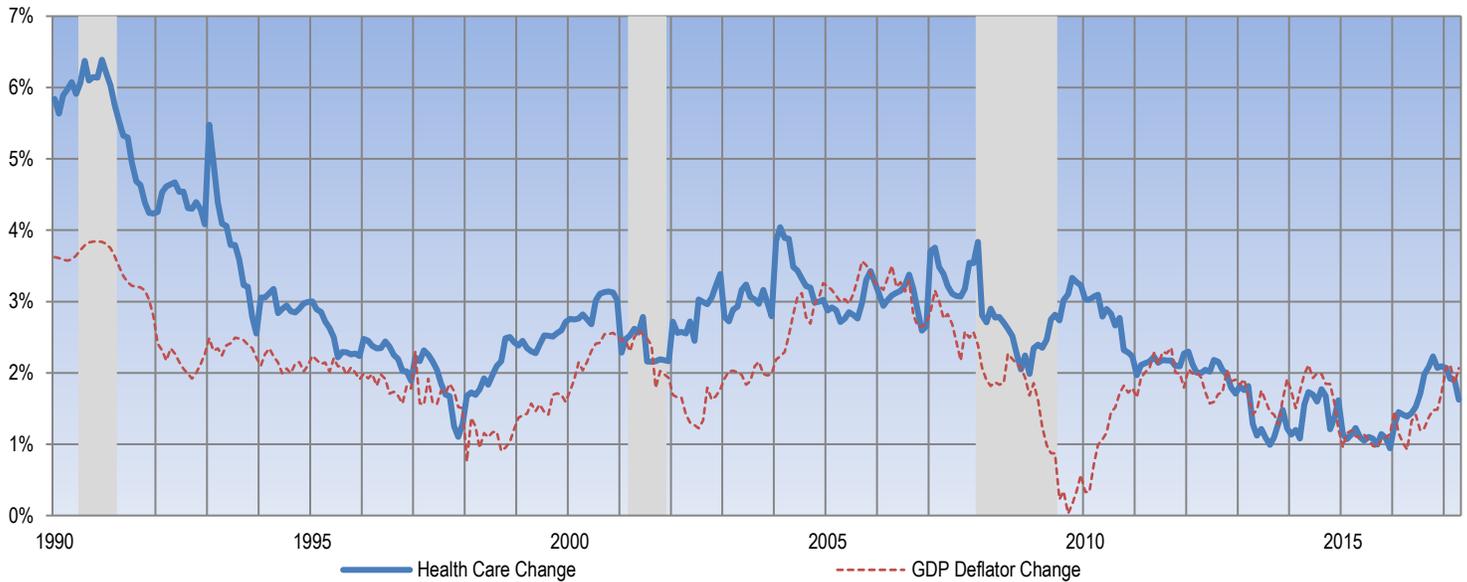
	Ending April 2015	Ending April 2016	Ending April 2017
HCPI	1.2%	1.4%	1.6%
Hospital care	0.9%	0.7%	1.8%
Physician and clinical services	-1.1%	0.3%	0.5%
Prescription drugs	5.6%	4.0%	3.1%
Nursing home care	2.3%	2.1%	2.7%
Dental services	2.5%	3.2%	1.1%
Home health care	1.1%	1.9%	0.4%
Other professional services	1.5%	0.4%	3.2%
Other personal health care	1.5%	3.1%	1.9%
Other nondurable medical products	-0.6%	-1.5%	0.8%
Durable medical equipment	-0.1%	0.5%	0.5%

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 GDP



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

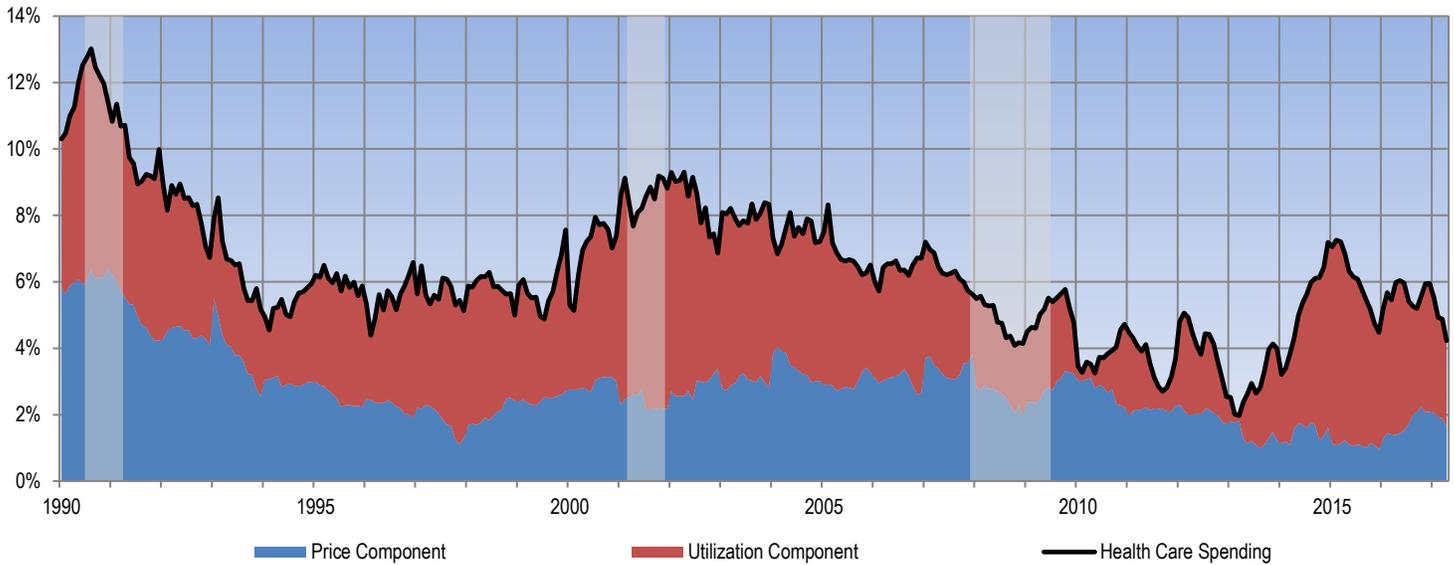
Note: Lightly shaded bars denote recession periods.

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.

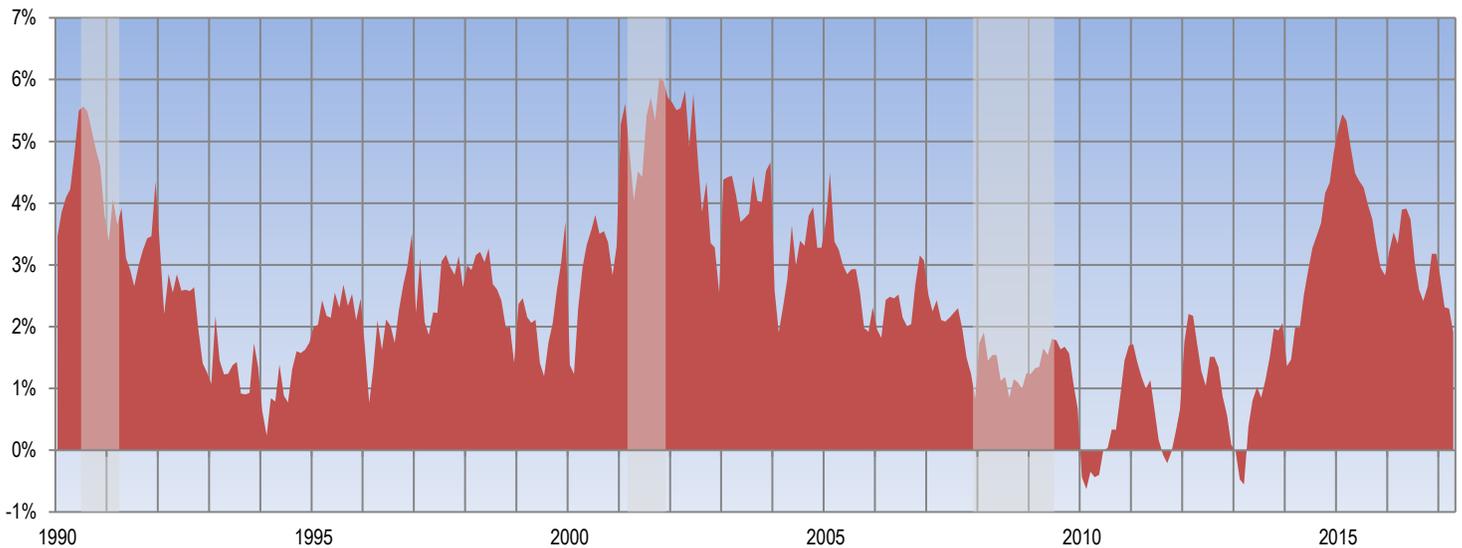
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, press@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. (2016). *National Health Expenditure Accounts: Methodology Paper, 2015—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-15.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.