

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

## Insights from Monthly National Price Indices Through January 2016

March 11, 2016

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### PRICE BRIEF

## Health care prices accelerate

### HIGHLIGHTS

- ▲ Health care prices in January 2016 were 1.6% higher than in January 2015, up from 1.3% in December, and the highest rate since December 2014. The January 2016 12-month moving average rose to 1.2%, from 1.1% in December, which was an all-time low for Altarum Institute data.
- ▲ Year-over-year hospital price growth fell to 1.2% from 1.5% in December. Physician and clinical services prices rose 1.3%, a sharp break from negatives rates in 2015. Drug price growth rose to 3.0% from 2.4% in December, breaking a 4-month string of lower readings.
- ▲ Economy-wide price indices accelerated in January. The Consumer Price Index (CPI) rose 1.4% year over year, from 0.7% in December; the final-demand Producer Price Index (PPI) grew -0.2%, up from -1.0% in December; and the gross domestic product deflator (GDPD) growth rose to 1.3% in December (January data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.5% in January, below its 12-month moving average of 3.7%. The latter figure is down from the 4.1% rate in October, the highest since December 2003.

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

	Jan 2014	Jan 2015	Dec 2015	Jan 2016
Health Care Price Index (HCPI)	1.1%	1.2%	1.3%	1.6%
GDPD	1.6%	0.9%	1.3%	*
HCPI-GDPD	-0.5%	0.3%	-0.1%	*
<b>Addendum</b>				
Health care spending	3.8%	6.5%	4.6%	4.9%
Health care utilization	2.6%	5.3%	3.4%	3.3%
CPI—medical	2.1%	2.6%	2.6%	3.0%
CPI—all items	1.6%	-0.1%	0.7%	1.4%

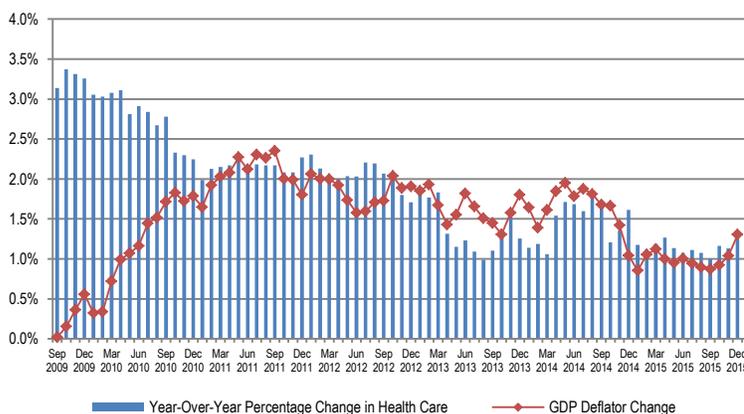
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

### HEALTH CARE AND ECONOMY-WIDE PRICES

In January 2016, the HCPI rose 1.6% from January 2015. The 12-month moving average of 1.2% is up from its all-time low for Altarum data (1.1% in December). The HCPI shows a decline from 3.4% in October 2009, then 2 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 appears to be ending (Exhibit 1). The 1.6% rate is the highest since December 2014. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and stood at 1.3% in December 2015; it also appears to be rising from very low rates. Exhibit 5 shows long-term comparisons.

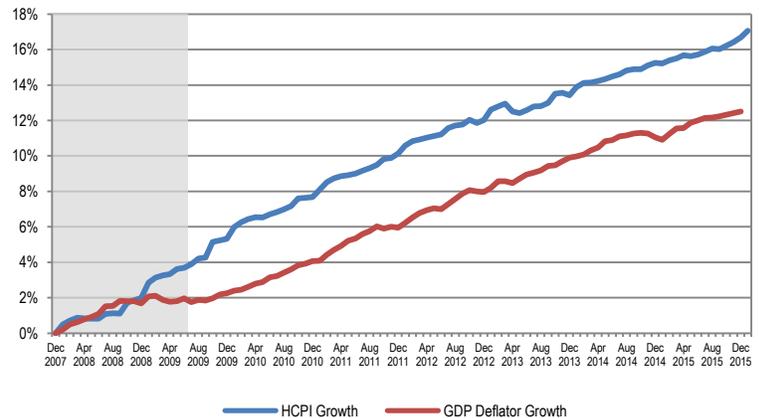
Since the start of the recession in December 2007, health care prices have increased 17.1%, while prices in the economy as a whole (using the GDPD) have increased 12.5% (Exhibit 2). Low economy-wide inflation, coupled with structural changes in the health sector, continues to exert downward pressure on health care prices, though this story may be changing. In January, the CPI rose 1.4%, up from 0.7% in December and the medical CPI, emphasizing out-of-pocket prices, rose to 3.0% from 2.6%. The final-demand PPI growth rate for January, at -0.2%, is up from the December reading of -1.0%. By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth, and emerging wage/price pressures appear to be trending upward.

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.

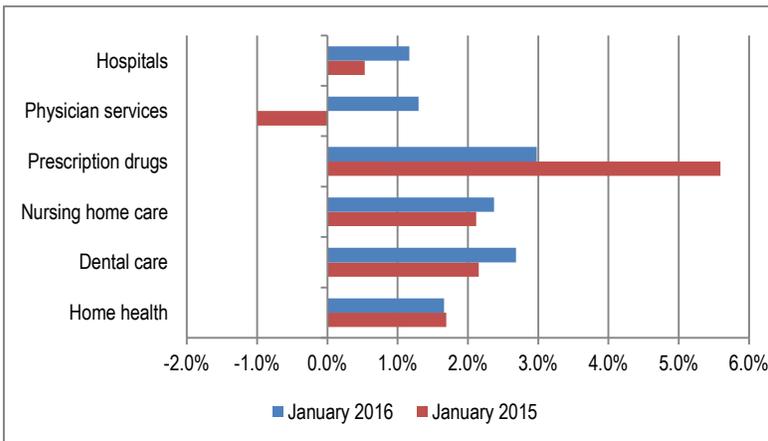
### HEALTH CARE PRICES BY CATEGORY

Comparing January 2016 with January 2015, price growth for prescription drugs (3.0%) is once again growing at the highest rate, ahead of dental services (2.7%) and other personal health care (2.6%). The price change for hospital care decreased to 1.2% from 1.5%, and physician price growth rose sharply from -0.1% to 1.3%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but physician growth offset it this month—a function of Medicaid prices stabilizing after a year of negative rates due to the removal of (temporary) Medicaid-enhanced primary care payments. Higher price growth for home health care and durable medical equipment also drove up the aggregate health care price index. Annual inflation rate comparisons—January 2016 year over year versus January 2015 year over year—show a mixed pattern, with hospital care, physician services, nursing home care, and dental care growth higher and the other two 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 higher for the aggregate HCPI index and for 5 of the 10 price categories. The HCPI growth rate appears poised for modest future increases but to levels that are still relatively low.

Medicare and Medicaid prices grew less quickly than private-sector prices. Hospital price growth for Medicare patients fell from 1.5% in December to 1.4% in January. For Medicaid patients, price growth fell to -2.2% in January from -1.2% in December. For private patients, price growth held steady at 2.2%. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), price growth fell sharply from 6.1% in December to 5.0% in January (data not shown). Although private payment growth rates seem low at 2.2%, we closely monitor the continuing divergence with public rates, especially on a cumulative basis.

### 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’s monthly health spending estimates.<sup>1</sup>

- ▲ 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 due mainly to declining utilization growth, followed by very low price growth and a resurgence of utilization (itself now moderating). The readings for January 2015 are 4.9% spending growth and 3.3% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though 2015 shows substantial moderation). Per capita utilization in December rose at an annual rate of 2.5%, below its 12-month average of 3.7%. Higher utilization fits with expanded health insurance coverage and stronger economy-wide employment. On a 12-month average basis, utilization for hospitals has risen 3.6%, home health care is up 6.0%, physician services have risen 5.9%, the prescription drug rate is up 3.9%, nursing care has risen 1.0%, and dental care utilization is up 0.6%.

### DISCUSSION

In January 2016, the HCPI rose 1.6% above the January 2015 level—up from the 1.2% rate in December—the highest reading since December 2014. The 12-month moving average of 1.2% is up one-tenth from its all-time low for our data series—the first increase since December 2014.

Price growth for physician and clinical services has bounced back from yearlong readings near -1.0% to a growth rate of 1.3% in January. However, rather than a large increase in prices, this reflects the stabilization of Medicaid rates now that a year has passed since the removal of enhanced primary care payments during 2014. Price growth for prescription drugs is up to 3.0% (from 2.4% in December), but far below previous rates going back to April 2014.

While hospital prices nearly always drive overall health care prices, this month the quirky Medicaid physician component of the total physician index pushed up the HCPI. The higher HCPI also got help from home health care, other professional services, and medical product price rises. As we have noted, moderate hospital price growth reflects largely contained public prices and modestly rising private prices. We only have 8 months of annual price growth for private hospital payment, but the current reading of 2.2% is barely below the high of 2.3% seen in November 2015. This bears close monitoring in relation to public-sector prices.

Health care and economy-wide inflation are quite low for this stage of the business cycle recovery. January 2016 was the 79<sup>th</sup> month of economic expansion following the recession. Although 2015 is likely the lowest year of health care price growth in the 55-year history of the National Health Expenditure Accounts, the trend seems to be changing for both health and economy-wide prices. We believe that higher economy-wide price growth will provide some space for health care prices to grow more quickly.

To the extent that health care price growth returns to the 2% range or higher, further moderation in spending growth will require restraint on utilization. Otherwise, we could confront the bad old days of health spending growth.

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<sup>1</sup> Altarum Spending Brief #16-3: January 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**

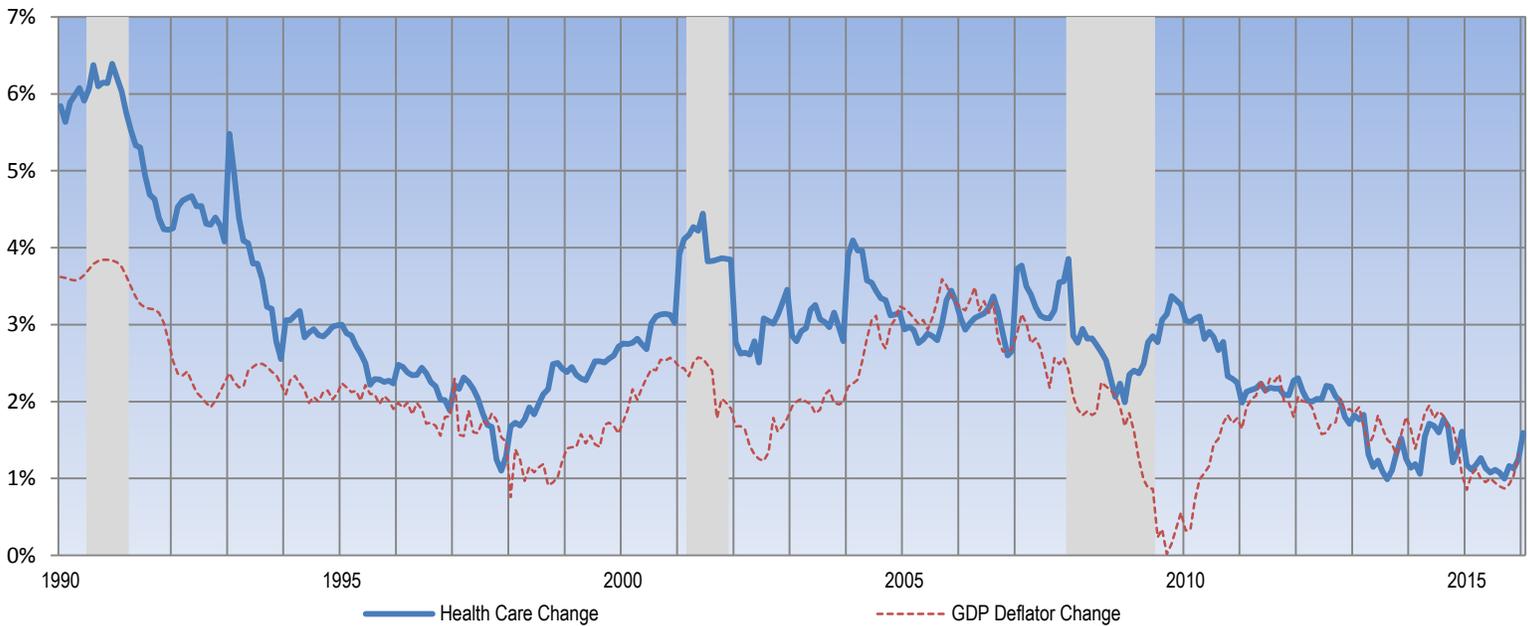
	Year Ending January 2014	Year Ending January 2015	Year Ending January 2016
HCPI	1.1%	1.2%	1.6%
Hospital care	1.5%	0.5%	1.2%
Physician and clinical services	0.1%	-1.0%	1.3%
Prescription drugs	1.4%	5.6%	3.0%
Nursing home care	0.9%	2.1%	2.4%
Dental services	2.8%	2.2%	2.7%
Home health care	-0.6%	1.7%	1.7%
Other professional services	1.7%	1.1%	0.5%
Other personal health care	2.6%	2.0%	2.6%
Other nondurable medical products	-1.0%	-1.1%	-0.7%
Durable medical equipment	0.0%	0.2%	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.

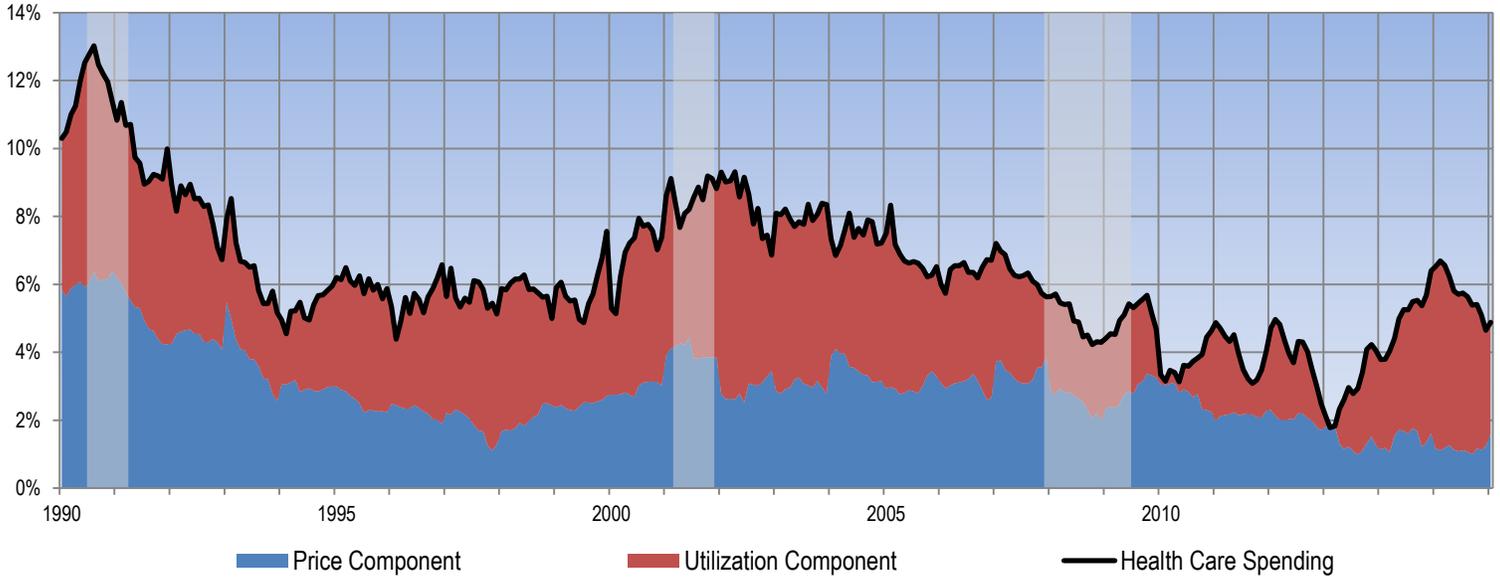
Note: Lightly shaded bars denote recession periods.

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.

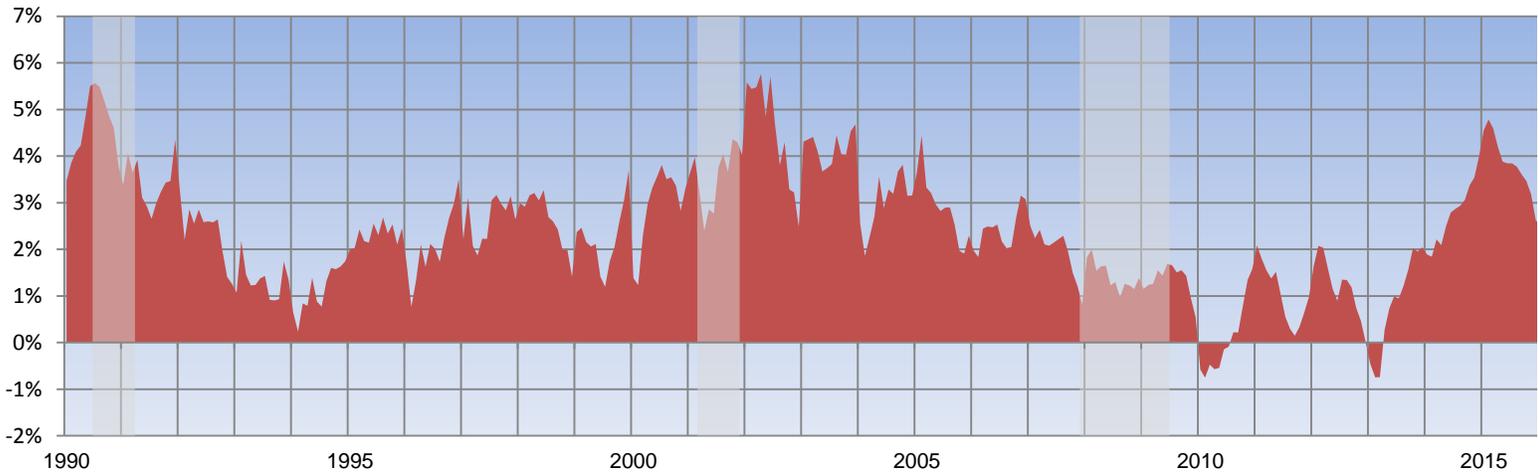
The *Health Sector Economic Indicators*<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org).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