

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through January 2017

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PRICE BRIEF

March 17, 2017

Health price growth remains at 2.1% rate; Prescription price growth moderating

HIGHLIGHTS

- ▲ Health care prices in January 2017 rose 2.1% above January 2015, the fifth consecutive month at that rate.
- ▲ Year-over-year hospital price growth fell one-tenth to 1.5%. Physician and clinical services price growth accelerated to 0.5% from 0.1% growth in December. Annual drug price growth in January fell to a 6.1% rate. It is down from its 7.0% high reached in November 2016.
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) rose to 2.5% growth in January from 2.1% in December, the final-demand Producer Price Index (PPI) held steady at 1.6%, and the gross domestic product deflator (GDPD) rose to 1.8% growth in December from 1.5% in November.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year spurting to 3.2% in January, equal to its 12-month moving average.

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

	Jan. 2015	Jan. 2016	Dec. 2016	Jan. 2017
Health Care Price Index (HCPI)	1.2%	1.3%	2.1%	2.1%
GDPD	1.0%	1.5%	1.8%	**
HCPI-GDPD	0.2%	-0.2%	0.3%	**
Addendum				
Health care spending	7.1%	5.2%	6.0%	6.0%
Health care utilization	5.9%	3.9%	3.9%	3.9%
CPI—medical	2.6%	3.0%	4.1%	3.9%
CPI—all items	-0.1%	1.4%	2.1%	2.5%

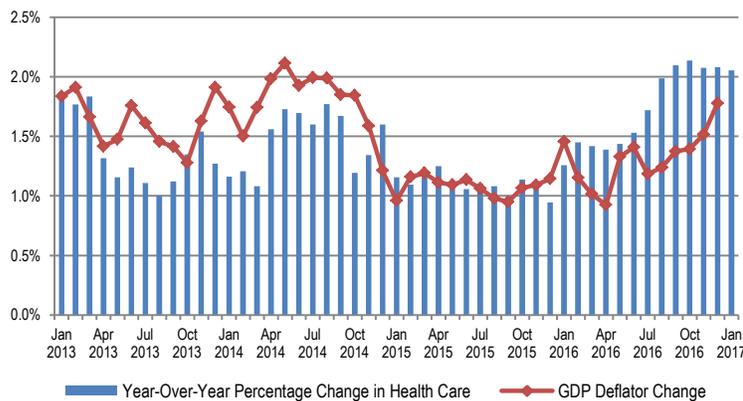
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In January 2017, the Health Care Price Index (HCPI) rose 2.1% above January 2016. The 12-month moving average, at 1.8% growth, is one-tenth higher than December and the highest rate since May 2013. The HCPI declined steadily from 3.4% in October 2009, oscillated near 2% growth for 2 years, ultimately hit historic lows of roughly 1% in 2015, and through 2016 exhibited a sharp increase (Exhibit 1). After eclipsing the 2% rate for the first time since October 2012 in September 2016, we expected it to trend higher, but it now appears to be stuck at barely above 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 1.8% year-over-year growth as of December 2016. HCPI growth rates have been above GDPD rates since February 2016. Exhibit 5 shows long-term comparisons.

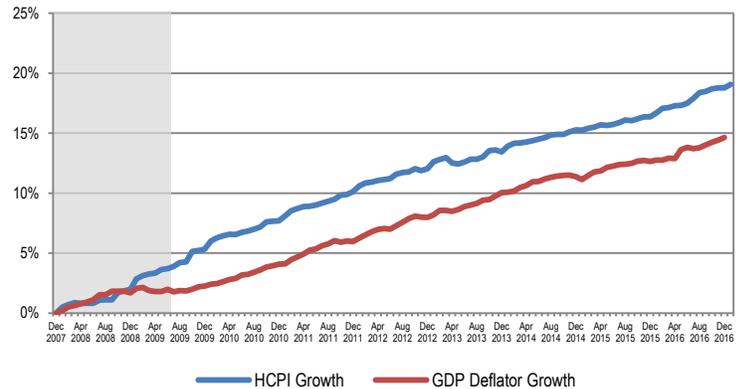
Since the start of the recession in December 2007, health care prices have increased 19.1%, while prices in the economy as a whole (using the GDPD) have increased 14.6% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector are no longer putting downward pressure on health care prices, but there is more stability than we have been expecting following the record lows hit in 2015. In January, the CPI rose 2.5% above the previous year, the highest rate since March 2012! The medical CPI, emphasizing out-of-pocket prices, fell to 3.9% from 4.1% growth in December. The final-demand PPI growth rate for January held steady at 1.6%, its highest rate since September 2014.

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.

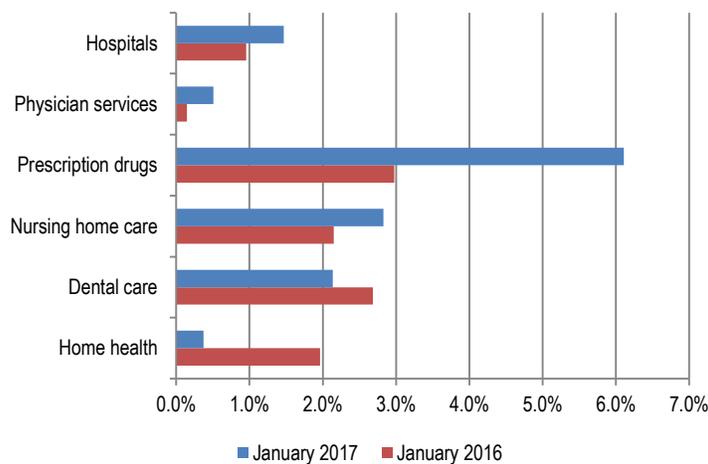
HEALTH CARE PRICES BY CATEGORY

Comparing January 2017 with January 2016, price growth for prescription drugs, at 6.1%, is the fastest growing price category. It is far above the next 2 highest, nursing home care and other professional services, which grew by 2.8% and 2.7%, respectively. Hospital price growth fell one-tenth to 1.5% in January, but physician price growth spurted to a still very low rate of 0.5% (it had been at 0.1% for 3 straight months). Hospital price growth plays a dominant role in the HCPI due to its large spending weight, and small offsetting changes in the other components explains the stable HCPI rate. Annual inflation rate comparisons—January 2017 year over year versus January 2016 year over year—show 4 of 6 categories higher, with dental care and home health bucking the trend (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 three of the ten price categories. Despite higher hospital and physician momentum, will we see a sixth month of 2.1% growth for the HCPI?

Medicare and Medicaid hospital prices typically grow less quickly than private-sector prices. Hospital price growth for Medicare patients rose to 0.9% in January from 0.7% in December, held steady at 2.2% for Medicaid patients (an uncharacteristically high rate), and fell from 2.8% to 2.5% for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth fell from 2.1% to 1.8% (data not shown). While prices for privately-insured patients show moderate growth, there is a large cumulative gap compared to public 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 -0.7%, -0.1%, and 6.8%, 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 to declining utilization growth, followed by very low price growth. Utilization surged, but now appears steadier. The readings for January 2017 are up sharply to 6.0% spending growth and 3.9% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth and a bumpy 2-year moderation. Per capita utilization in January rose at an annual rate of 3.2%, equal to its 12-month average. On a 12-month average basis, utilization for hospitals rose 3.7%, home health care is up 3.6%, physician services rose 5.4%, the prescription drug rate is -0.8%, nursing care rose 2.6%, and dental care utilization is up 1.6%.

DISCUSSION

In January 2017, the HCPI rose by 2.1% compared to a year earlier, the fifth consecutive month at this rate. The 12-month moving average of the HCPI rose by 0.1 to 1.8%, its highest rate since May 2013. When, in September 2016, the HCPI finally eclipsed the 2% rate for the first time since October 2012, we expected it to trend higher. However, it now seems stuck at a rate that is barely above 2%. Nevertheless, this is clearly more normal than the record low rates we experienced in 2015, and we also see a more normal outcome with health care prices having risen more quickly than economy-wide prices for the past year.

We pay close attention to the hospital and physician components of the price index. The former fell from 1.6% growth in December to 1.5% in January. The latter, steady at the extremely low growth rate of 0.1% for 3 straight months, spurted in January to a still low 0.5% rate. We will see if this a blip or the start of a trend. Meanwhile, at 6.1%, annual prescription drug price growth has retreated from the more than 24-year high rate of 7.0% seen in September and October of 2016.

As we note each month, health care inflation is still quite low for this stage of the economic recovery. January 2017 was the 91st month of expansion following the Great Recession.

While we continue to expect economy-wide price growth to push health care inflation higher, this prediction has been a loser for the past few months. The significant mystery is how the health economy, and with it, health prices, will be affected as policies aimed at rolling back the Affordable Care Act (ACA) are legislated and implemented. This may be a long way off, but it’s safe to assume that anticipatory effects will begin to ripple through the economy at the first signs of major changes to the ACA. Stay tuned!

¹ Altarum Spending Brief #17-3: January 2017 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

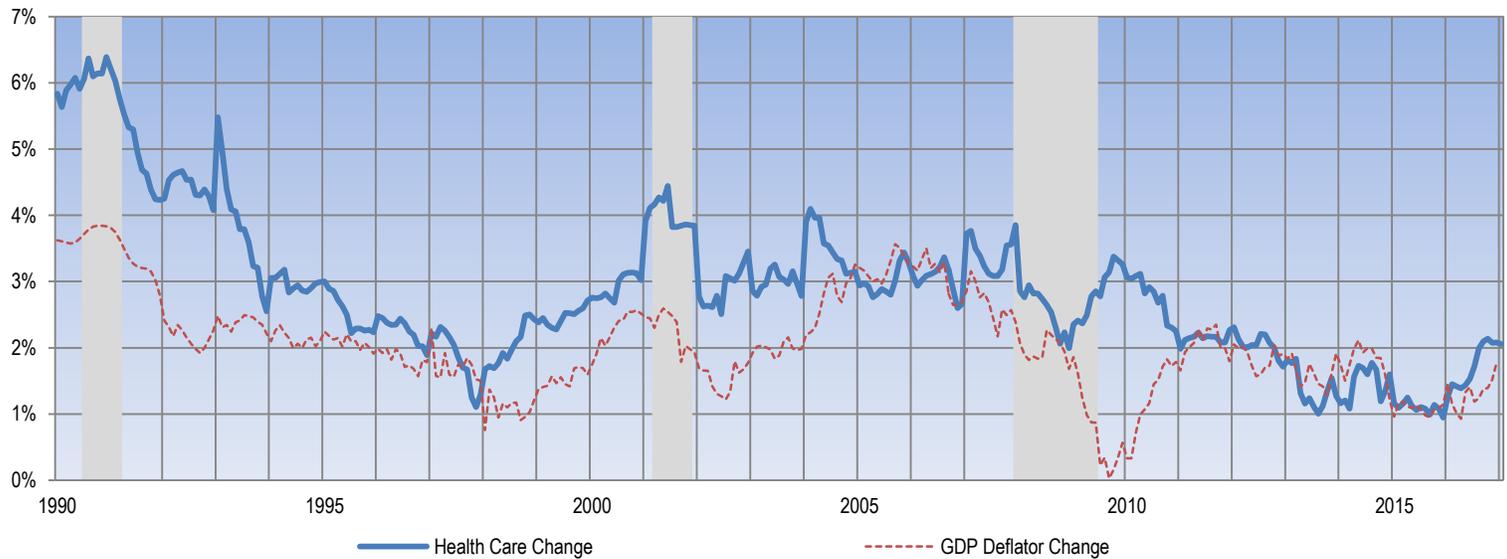
	Ending January 2015	Ending January 2016	Ending January 2017
HCPI	1.2%	1.3%	2.1%
Hospital care	0.5%	1.0%	1.5%
Physician and clinical services	-1.0%	0.1%	0.5%
Prescription drugs	5.6%	3.0%	6.1%
Nursing home care	2.1%	2.1%	2.8%
Dental services	2.2%	2.7%	2.1%
Home health care	1.7%	2.0%	0.4%
Other professional services	1.1%	0.5%	2.7%
Other personal health care	2.0%	2.8%	2.6%
Other nondurable medical products	-1.1%	-0.7%	0.1%
Durable medical equipment	0.2%	0.6%	0.4%

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.

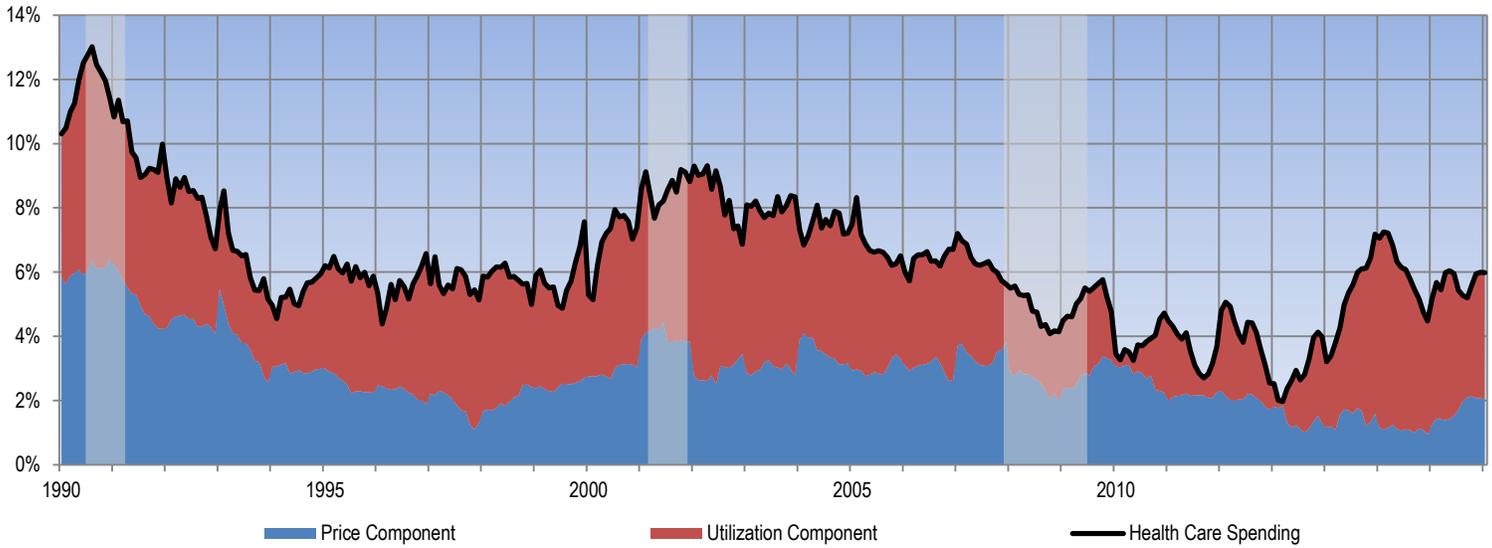
Note: Lightly shaded bars denote recession periods.

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.

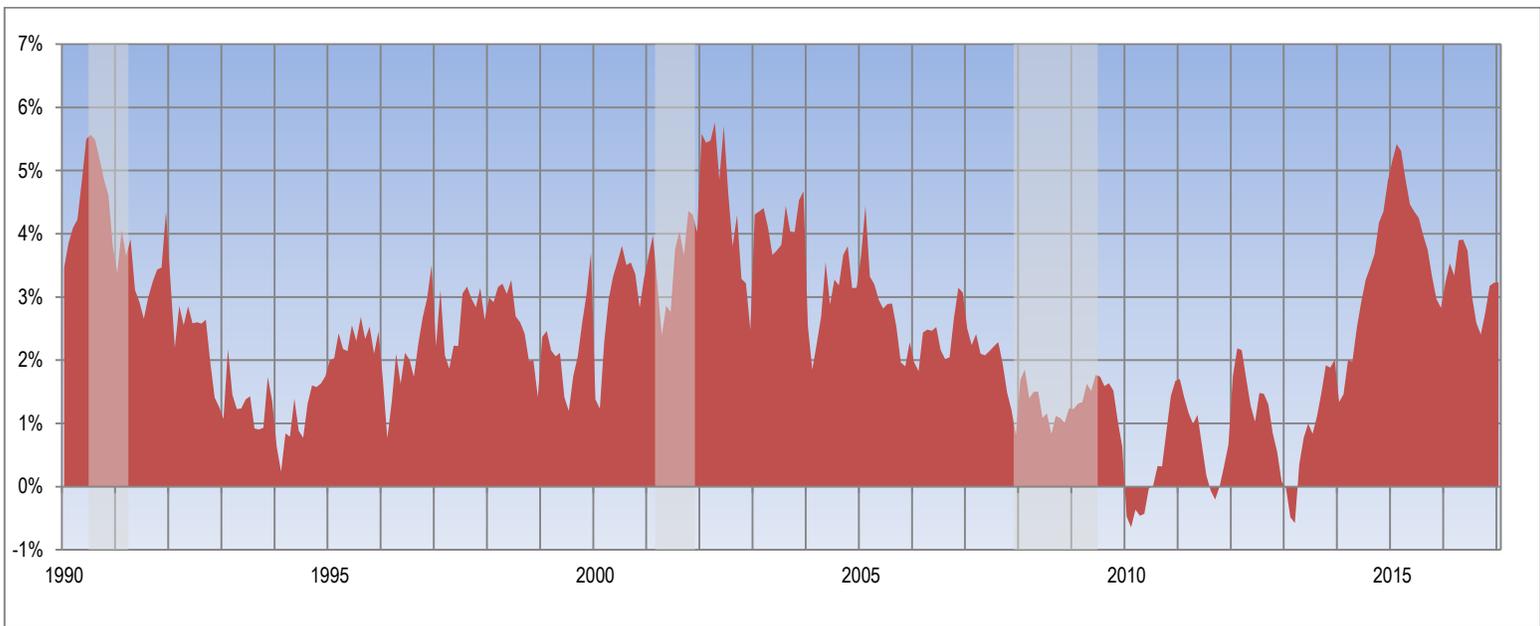
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author);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