

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

Insights from Monthly Price Indices through March 2014

May 8, 2014

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**PRICE BRIEF**

## Health care price growth barely above all-time low

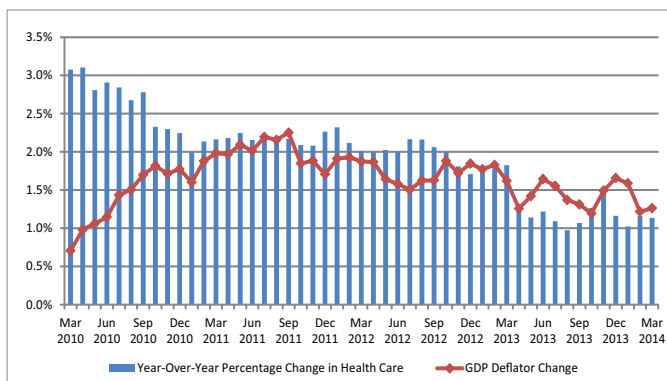
### HIGHLIGHTS

- ▲ Health care prices in March 2014 were 1.1% higher than in March 2013, only one tenth above the all-time low, and the March 2014 12-month moving average, at 1.2%, represents a new all-time low for our data.
- ▲ Year over year, hospital prices – a key price index driver – grew 1.3% in March, equal to the February rate. Physician and clinical services prices grew 0.2% after two months of flat activity, and home health care prices continued a year-long negative growth trend, recording a -0.5% rate in March. Prescription drug prices rose 2.1%, moderating from the February 2.6% rate.
- ▲ Economy-wide price indexes were mixed in March. The Consumer Price Index (CPI) rose to 1.5%, year over year, from 1.1% in February; the Medical CPI fell to 2.2% from 2.3%, and the new Producer Price Index (PPI) for final demand rose 1.4% vs. 0.9% in February. The gross domestic product (GDP) deflator rose to 1.3% in March from 1.2% in February.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth, year over year, at 5.1% in March, above its 1-year average gain of 3.0%, suggesting a further acceleration in utilization.

### HEALTH CARE AND ECONOMY-WIDE PRICES

In March 2014, the health care price index (HCPI) rose 1.1% above March 2013. The 12-month moving average of 1.2% is a new all-time low for our data. The HCPI shows a steady decline from January 2010, at 3.1%, followed by 2 years oscillating near 2% growth, with a sharp and now sustained decline to about 1%, save for the November 2013 spike (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 1.3% in March 2014. 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**

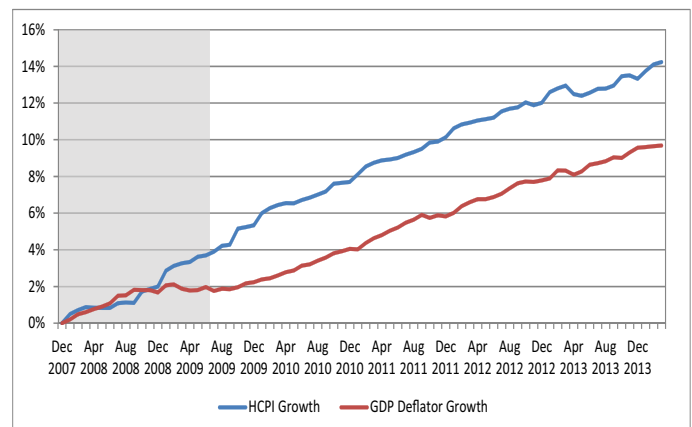
|                                | Mar. 2012 | Mar. 2013 | Feb. 2014 | Mar. 2014 |
|--------------------------------|-----------|-----------|-----------|-----------|
| Health Care Price Index (HCPI) | 2.0%      | 1.8%      | 1.2%      | 1.1%      |
| GDP Deflator (GDPD)            | 1.9%      | 1.6%      | 1.2%      | 1.3%      |
| HCPI - GDPD*                   | 0.1%      | 0.2%      | -0.1%     | -0.1%     |
| <b>Addendum</b>                |           |           |           |           |
| Personal health care spending  | 4.4%      | 3.4%      | 6.0%      | 6.6%      |
| Health care utilization        | 2.4%      | 1.6%      | 4.9%      | 5.5%      |
| CPI-Medical                    | 3.5%      | 3.1%      | 2.3%      | 2.2%      |
| CPI-All items                  | 2.7%      | 1.5%      | 1.1%      | 1.5%      |

\*Numbers may not subtract due to rounding

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 14.2%, while prices in the economy as a whole (using the GDP deflator) have increased by 9.7% (Exhibit 2). Low economy-wide inflation continues to exert downward pressure on health care price growth. The Finished Goods PPI, CPI, and GDP deflator rose, compared with February (1.4% from 0.9%, 1.5% from 1.1%, and 1.3% from 1.2%, respectively), but these numbers are quite low by historical standards. Also, the Medical CPI, which emphasizes out-of-pocket prices, saw growth fall from 2.3% to 2.2%, year over year, comparing February with March. We are experiencing a rare period 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

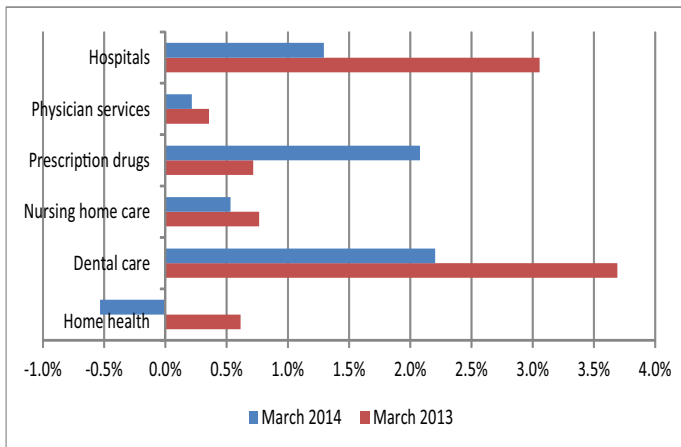
Note: Shading indicates recession period

### HEALTH CARE PRICES BY CATEGORY

Comparing March 2014 with March 2013, dental services price growth was the highest, at 2.2% (though its lowest value since July 2012), followed closely by prescription drugs, at 2.1%. Hospital price growth remained at 1.3%, while physician price growth increased to 0.2% after 2 flat months. Hospital price growth plays a dominant role in the HCPI as a result of its spending weight, and its small March increase was barely enough to keep the overall HCPI above its historic low. Annual inflation rate comparisons – March 2014 year over year versus March 2013 year over year – highlight the sharp slowdown in price growth for each category, except prescription drugs (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 up for most categories (although down for hospitals), suggesting no further future lows of the HCPI.

Medicare and Medicaid prices usually grow more slowly than “other” prices (which include private payment). Hospital prices for Medicare and Medicaid patients fell by 0.2% and 0.3%, respectively (they were -0.1% and -0.4, respectively, in February). For other patients, price growth rose to 3.1%, from 3.0% in February (data not shown). While analysts continue to express concern about the potential pricing power from provider consolidation, there is, as yet, scant evidence of this.

**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.<sup>1</sup>

- ▲ Exhibit 6 displays year-over-year growth rates in health care spending broken out by price and utilization. The downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, but it now reflects very low price growth (and is apparently reversing). The readings for March 2014 are 6.9% spending growth and 5.8% utilization growth – utilization is dominating price and is accelerating.
- ▲ Exhibit 7 shows per capita utilization growth through March and highlights the decline between 2002 and 2010. Per capita utilization is rising at an annual rate of 5.1%, well above its 12-month average of 3.0%, confirming a long-expected acceleration of utilization. On a 12-month average, utilization for hospitals has risen by 3.6%, home health has risen 5.6%, physician services has risen 3.2%, the prescription drug rate has risen 5.9%, nursing care has risen 0.2%, while dental utilization has declined by 5.5%.

### DISCUSSION

In March 2014, the HCPI rose 1.1% above March 2013, only a tenth higher than the all-time low for this series, first achieved in August 2013. The 12-month moving average of 1.2% is a new all-time low. With hospital price growth holding steady at 1.3% and most of the other components showing little change in price growth, the scant increase for physician services (from 0.0% to 0.2%) barely drove the index above the all-time low.

For extremely low economy-wide inflation, and the near historically low health care price growth, it is unclear which is the cart and which is the horse. Nevertheless, as we have pointed out on numerous occasions, this behavior is remarkable, given that March 2014 was the 57th month of economic expansion following the recessionary low. Government reimbursement policies that account for presumed productivity increases explain a part of low price growth (most recently affecting acute hospital care).<sup>2</sup> As the Affordable Care Act increases insurance coverage for both public and private insurance, and that translates to increased utilization, we certainly expect price pressure to awaken from its slumber.

Much has been made of increased health spending growth in 2014, which, according to our price data, must result from accelerating health care utilization. There are signs of this from pharmaceuticals,<sup>3</sup> but the evidence from for-profit company reports is mixed. We look forward to corroboration of this perceived utilization, especially on the hospital side, in the coming months.

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<sup>1</sup> 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.

<sup>2</sup> As the PwC Health Research Institute states, “The proposed Medicare reductions underscore two prevailing concepts of the new health economy: that the federal government wants to improve the industry as a purchaser of care, not a regulator, and that hospitals will have to shoulder more financial risk moving forward.” See: <http://view.edistribution.pwc.com/?j=feca10757264017d&cm=fe9a13707565017971&cls=fe25107773650474761d73&cl=febe137470670d78&cs=fe5b11737265047b7c11&jb=ffcf14&ju=fe6015787466007e761d&r=0>

<sup>3</sup> Giacobbe, Ralph, Jonathan Chan, Allison Ryne, and Chris Carter (2014). Something’s Brewin’ - Analysis of Select Script Trends Shows Recent Acceleration. Credit Suisse Equity Research – Managed Care and Healthcare Facilities, April 27. Available at: [https://doc.research-and-analytics.csfb.com/docView?sourceid=em&document\\_id=x564525&serialid=Xc9ZqwK99jIRDwJ0IwmJ\]cLp3A1jN%2bE1sc%2fpAwUA3A%3d](https://doc.research-and-analytics.csfb.com/docView?sourceid=em&document_id=x564525&serialid=Xc9ZqwK99jIRDwJ0IwmJ]cLp3A1jN%2bE1sc%2fpAwUA3A%3d)

**PRICE GROWTH BY DETAILED CATEGORIES**

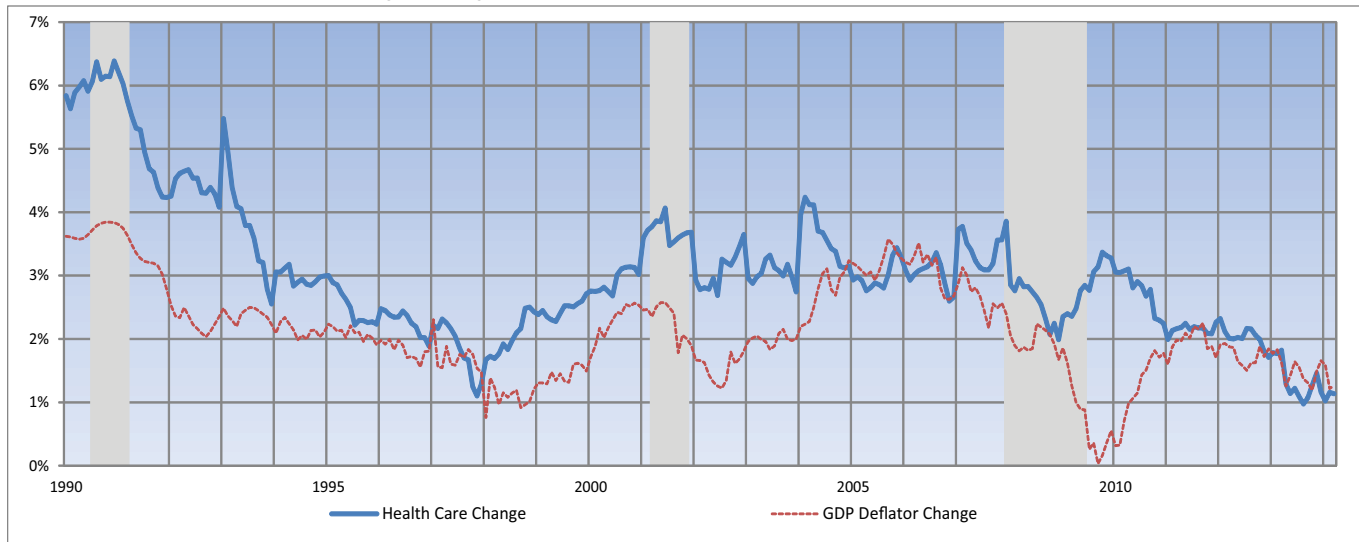
**Exhibit 4. Annualized Percentage Change in Prices for the Major Components of National Health Expenditures**

|                                    | Ending March<br>2012 | Ending March<br>2013 | Ending March<br>2014 |
|------------------------------------|----------------------|----------------------|----------------------|
| Health care price index            | 2.0%                 | 1.8%                 | 1.1%                 |
| Hospital care                      | 2.2%                 | 3.1%                 | 1.3%                 |
| Physician and clinical services    | 1.5%                 | 0.4%                 | 0.2%                 |
| Prescription drugs                 | 4.2%                 | 0.7%                 | 2.1%                 |
| Nursing home care                  | 1.4%                 | 0.8%                 | 0.5%                 |
| Dental services                    | 2.2%                 | 3.7%                 | 2.2%                 |
| Home health care                   | 0.5%                 | 0.6%                 | -0.5%                |
| Other professional services        | 1.1%                 | 1.6%                 | 1.1%                 |
| Other personal health care         | 2.1%                 | 2.7%                 | 2.3%                 |
| Other non-durable medical products | 0.1%                 | -0.1%                | -0.9%                |
| Durable medical equipment          | 0.5%                 | 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

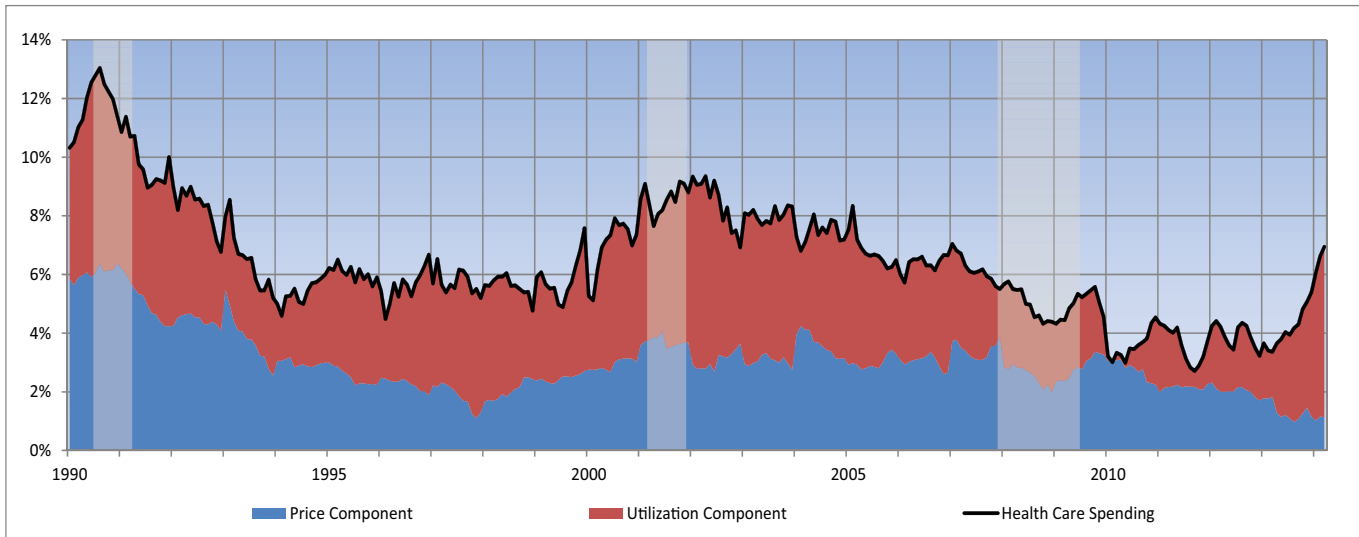
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The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute’s research on investigating the cost growth trends and key drivers of U.S. health spending and to formulate policy strategies to help bend the cost growth curve.

*The Health Sector Economic Indicators*<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, 571-733-5709, [ken.schwartz@altarum.org](mailto:ken.schwartz@altarum.org).

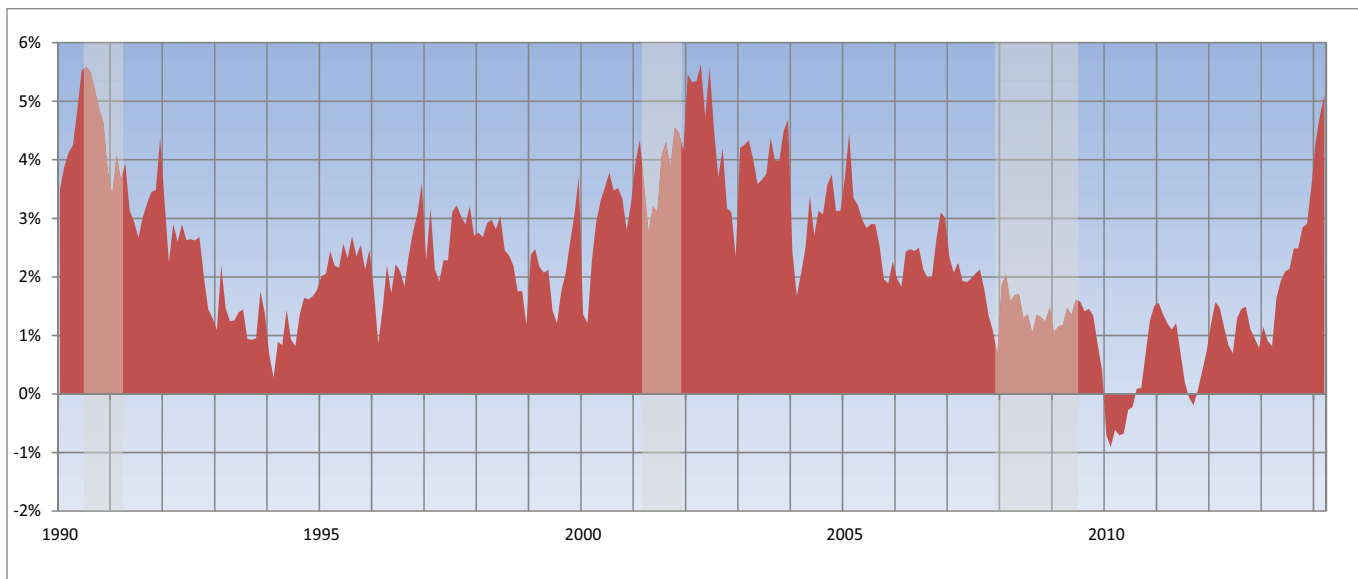
For more information, please visit [www.altarum.org/cshs](http://www.altarum.org/cshs).

**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 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.