

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

*Insights from Monthly Price Indices Through March 2015*

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**PRICE BRIEF**

May 13, 2015

**Health Care Price Growth Takes Surprising Leg Down with Physician Price Decline**

**HIGHLIGHTS**

- ▲ Health care prices in March 2015 were 1.3% higher than in March 2014, a surprising fall from the February year-over-year change of 1.4%. The March 2015 12-month moving average held at 1.5%.
- ▲ Year-over-year hospital prices rose 0.4% in March, equal to February's. Physician and clinical services prices fell 0.6%, the steepest drop in nearly 20 years. Home health care prices rose 1.2% in March, below the February rate of 1.5%. Prescription drug prices rose 5.7%, up from 5.2% in February.
- ▲ Economy-wide price indexes were mostly lower in March. The Consumer Price Index (CPI) fell from 0.0% to -0.1% year-over-year, the gross domestic product (GDP) deflator fell to 0.8% from 0.9%, and the final-demand Producer Price Index (PPI) fell from -0.6% to -0.8%. The Medical CPI rose from 2.3% to 2.5%.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 4.9% in March, above its 12-month moving average of 3.2%.

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

	March 2013	March 2014	February 2015	March 2015
<b>HCPI</b>	1.8%	1.1%	1.4%	1.3%
<b>GDPD</b>	1.6%	1.4%	0.9%	0.8%
<b>HCPI – GDPD</b>	0.3%	-0.3%	0.5%	0.5%
<b>Addendum</b>				
<b>Health care spending</b>	3.1%	3.9%	6.7%	7.0%
<b>Health care utilization</b>	1.3%	2.9%	5.3%	5.7%
<b>CPI—medical</b>	3.1%	2.2%	2.3%	2.5%
<b>CPI—all items</b>	1.5%	1.5%	0.0%	-0.1%

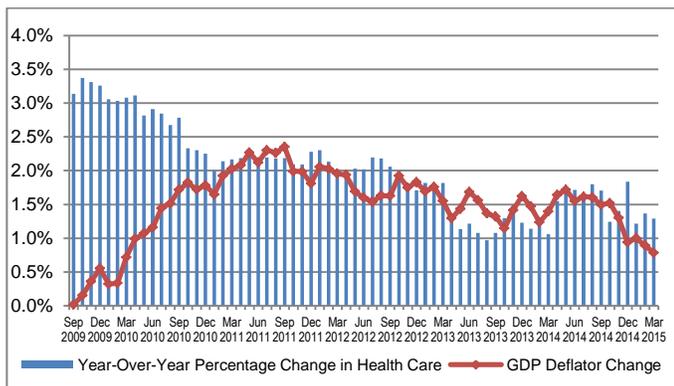
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics (BLS) data. Health care price index is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services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

**HEALTH CARE AND ECONOMY-WIDE PRICES**

In March 2015, the Health Care Price Index (HCPI) rose 1.3% from March 2014. The 12-month moving average of 1.5% is near the all-time low for Altarum data (1.2%) but has been generally rising since March 2014. The HCPI shows a steady decline from October 2009 at 3.4%, followed by 2 years oscillating near 2% growth, a sharp decline to about 1%, a 6-month increase to around 1.5%, and a recent drop to levels near 1.25% (with the exception of a spike in December 2014; Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator (GDPD), trended upward beginning in September 2009, peaked at 2.4% in September 2011, and fell to 0.8% by March 2015. Exhibit 5 shows long-term comparisons.

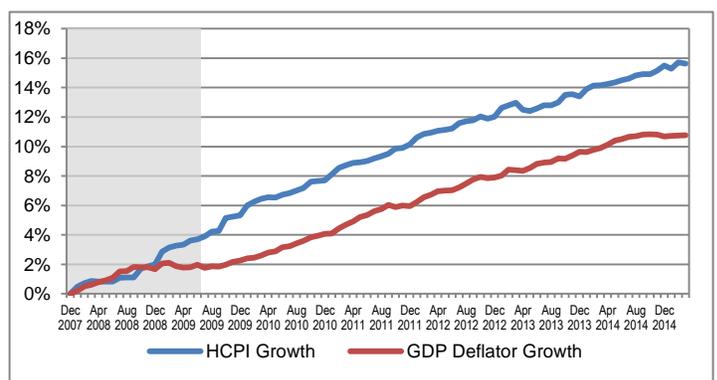
Since the start of the recession in December 2007, health care prices have increased by 15.6%, while prices in the economy as a whole (found by using the GDPD) have increased by 10.8% (Exhibit 2). Low economy-wide inflation has exerted strong downward pressure on health care prices. In March, the CPI fell to -0.1% from 0.0% and the Medical CPI, emphasizing out-of-pocket prices, rose from 2.3% to 2.5%. The GDPD fell to a low 0.8% growth and the final-demand PPI in March fell to -0.8%, its seventh consecutive decline. Health care price growth is low by historical standards, but we are moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices.

**Exhibit 1. Year-over-Year Growth Rates in HCPI and GDPD**



Source: Altarum Institute analysis of monthly BLS data.  
Note: 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, LLC.  
Note: Shading indicates the recession period.

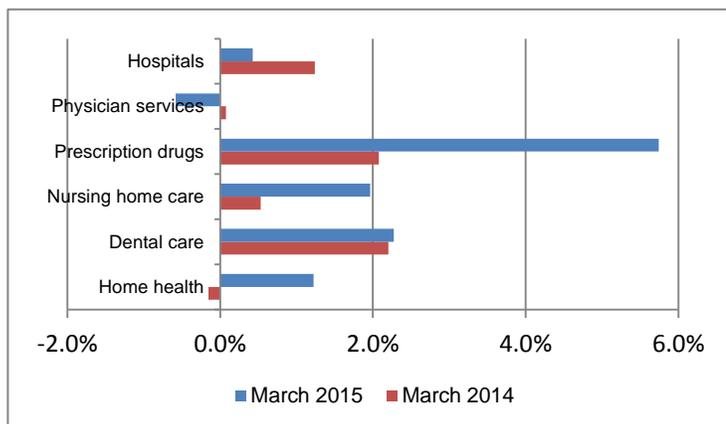
### HEALTH CARE PRICES BY CATEGORY

Comparing March 2015 with March 2014, price growth for prescription drugs was by far the highest at 5.7%, followed by dental care at 2.3%. Nursing home care dropped to 2.0%. The price change for hospital care remained at a very low 0.4%, and physician price growth fell from 0.0% to -0.6%—a rate not seen since 1996! Hospital price growth plays a dominant role in the HCPI due to its large spending weight; and it, coupled with negative price growth for physicians and other lower growth rates, resulted in the modest HCPI rate decline. Annual inflation rate comparisons—March 2015 year over year versus March 2014 year over year—show a mixed pattern, with hospital and physician growth lower and the other categories higher (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 mostly lower across the price categories, including for the aggregate HCPI index. We expect growth for hospital prices to tick up but any growth in the near term HCPI should be moderate.

Medicare and Medicaid prices grew more quickly than “other” prices, which include private payment. Hospital prices for Medicare patients rose by 0.1% to -2.6% and for Medicaid rose by 0.2% to 0.3%. For “other” patients, price growth held steady in March at 2.3% (data not shown). Unfortunately, the government produces PPIs by payer only for hospitals. As we have noted for many months in this space, consolidation has not translated to an increasing rate of hospital price growth, at least not at the national level. Beginning with June 2015 data, we will obtain year-over-year results for the new hospital by private payer series. This will help us detect specific effects on hospital prices from consolidation or other factors.

**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 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, followed by very low price growth and a resurgence of utilization. The readings for March 2015 are 7.0% spending growth and 5.7% utilization growth. Note that while spending data for the first quarter of 2015 are preliminary, the surge in spending and hence utilization at the close of 2014 reflects updated information.
- ▲ Exhibit 7 shows per capita utilization growth through December and highlights the decline between 2002 and 2010 and its recent high growth. Per capita utilization in March is rising at an annual rate of 4.9%, far above its 12-month average of 3.2%. This rising utilization trend accords with expanded health insurance coverage, and stronger economy-wide employment. On a 12-month average, utilization for hospitals has risen by 4.4%, home health is up by 2.4%, physician services has risen 1.9%, the prescription drug rate has risen 6.2%, nursing care is up 2.0%, and dental care utilization has risen by 0.5%.

### DISCUSSION

In March 2015, the HCPI rose 1.3% above that of March 2014, a tenth below the February rate and only three-tenths higher than the decade-plus low of 1.0% growth registered in August 2013. The 12-month moving average of 1.5% has been stable for 7 months, after increases beginning in April 2014. The big news this month is a plunge to -0.6% growth for physician and clinical services from 0.0% in February—the lowest reading since 1996. In addition, hospital price growth remained constant at a very low rate of 0.4%. In contrast, price growth for prescription drugs, at 5.7%, is the second highest reading since February 2002.

For the HCPI as a whole, only 2 of the 10 components saw increases in price growth, prescription drugs, and other personal health care.

Health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. In particular, the PPI final demand index fell to -0.8% in March, the seventh consecutive fall for this measure. March 2015 was the 69<sup>th</sup> month of economic expansion following the recession, yet we are barely off the decade-plus HCPI low. A return to 2% growth for the HCPI now seems even further off in the future.

Health care spending and hence our implicit measure of utilization are signaling a departure from the historically low growth rates witnessed between 2009 and 2013. We look forward to the release of the Quarterly Services Survey on June 10 for a more complete estimate of health spending in the first quarter of 2015 to determine, among other issues, if it reflects renewed health sector hiring.

<sup>1</sup> Altarum Institute Spending Brief #15-5: March 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

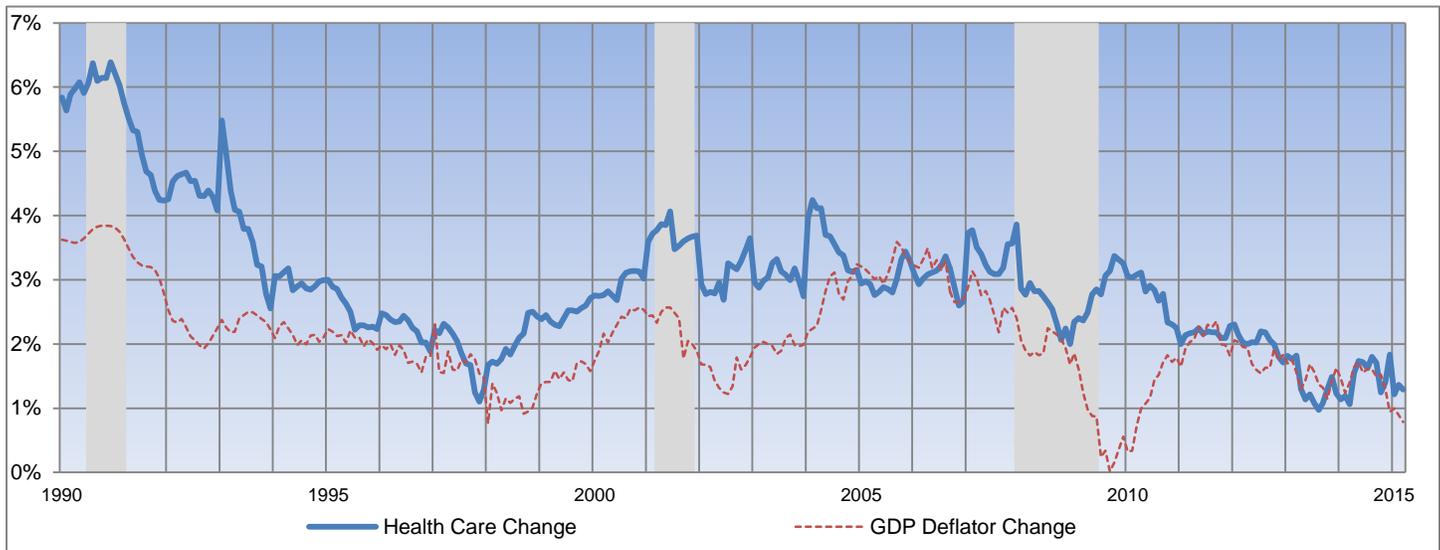
	Ending March 2013	Ending March 2014	Ending March 2015
HCPI	1.8%	1.1%	1.3%
Hospital care	3.1%	1.2%	0.4%
Physician and clinical services	0.4%	0.1%	-0.6%
Prescription drugs	0.7%	2.1%	5.7%
Nursing home care	0.8%	0.5%	2.0%
Dental services	3.7%	2.2%	2.3%
Home health care	0.6%	-0.2%	1.2%
Other professional services	1.6%	1.1%	1.2%
Other personal health care	2.7%	2.4%	1.6%
Other nondurable medical products	-0.1%	-0.9%	-0.3%
Durable medical equipment	1.1%	0.1%	0.0%

Source: Altarum analysis of monthly BLS data.

Notes: 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.

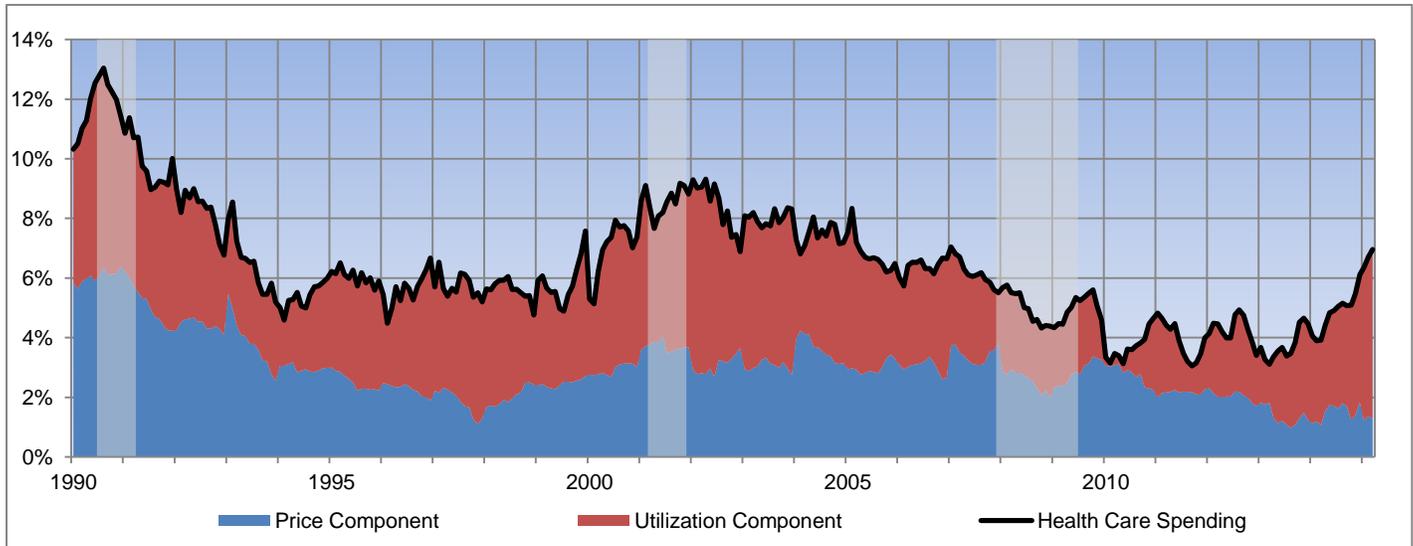
Note: Lightly shaded bars denote recession periods.

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, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute'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.

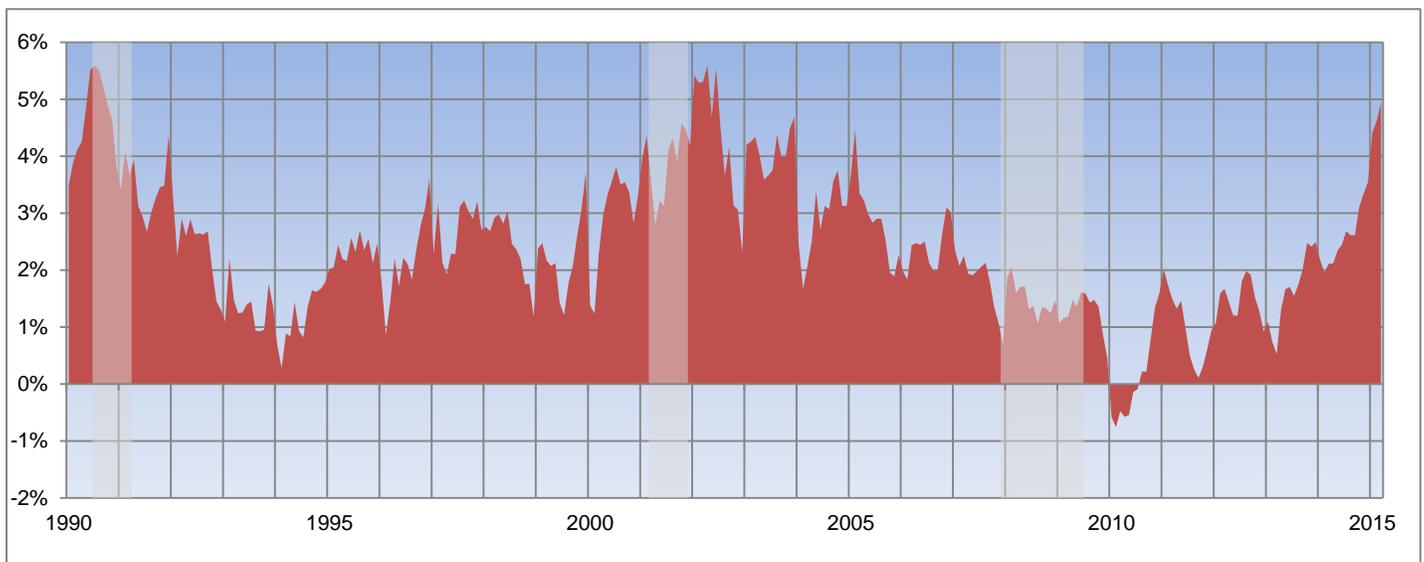
*The Health Sector Economic Indicators*<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 571-733-5709, [ken.schwartz@altarum.org](mailto:ken.schwartz@altarum.org). For more information, 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 CPI are well-documented. Information on the CMS index is presented in the following source: U.S. Department of Health and Human Services. *National Health Expenditures Accounts: Methodology Paper, 2013—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-13.pdf>. The HCPI is calculated by using BLS data on PPIs for hospital, physician, nursing home, and home health components; 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.