

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through March 2016

May 12, 2016

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PRICE BRIEF

Health care price acceleration stalls

HIGHLIGHTS

- ▲ Health care prices in March 2016 were 1.5% higher than in March 2015, down from 1.7% in February, the first drop since September 2015. The March 2016 12-month moving average was at 1.2% for the third month.
- ▲ Year-over-year hospital price growth held steady at 1.0%. Physician and clinical services prices rose a scant 0.6%, down from 1.3% in February. Drug price growth rose to 3.6% from 3.4% in February, making it easily the fastest growing price component.
- ▲ Economy-wide price indices uniformly decelerated. The Consumer Price Index (CPI) fell to 0.9% growth from 1.0% in February and the final-demand Producer Price Index (PPI) fell to -0.1% from 0.0%. The Medical CPI growth fell from 3.5% to 3.3%, and the gross domestic product deflator (GDPD) growth fell to 0.9% from 1.3% in February.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.4% in March, below its 12-month moving average of 3.2%. The latter figure has fallen for five consecutive months.

HEALTH CARE AND ECONOMY-WIDE PRICES

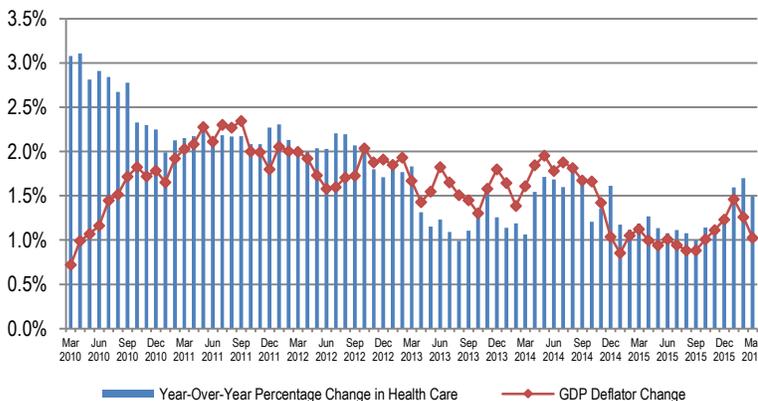
In March 2016, the Health Care Price Index (HCPI) rose 1.5% from March 2015. The 12-month moving average of 1.2% is barely above its all-time low for Altarum data (1.1% in December 2015). The HCPI shows a decline from 3.4% in October 2009, then two years oscillating near 2% growth, a sharp decline to about 1%, an increase in 2014 to around 1.5%, and recent very low growth that may be ending (Exhibit 1). Yet, the 1.5% rate represents a pause after five months of acceleration. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and has now fallen sharply to 1.0% in March 2016. The HCPI growth rates are roughly tracking the GDPD rates. Exhibit 5 shows long-term comparisons.

	Mar 2014	Mar 2015	Feb 2016	Mar 2016
Health Care Price Index (HCPI)	1.1%	1.2%	1.7%	1.5%
GDPD	1.6%	1.1%	1.3%	1.0%
HCPI-GDPD	-0.5%	0.1%	0.4%	0.5%
Addendum				
Health care spending	4.0%	6.6%	4.7%	4.7%
Health care utilization	3.0%	5.4%	3.1%	3.2%
CPI—medical	2.2%	2.5%	3.5%	3.3%
CPI—all items	1.5%	-0.1%	1.0%	0.9%

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.

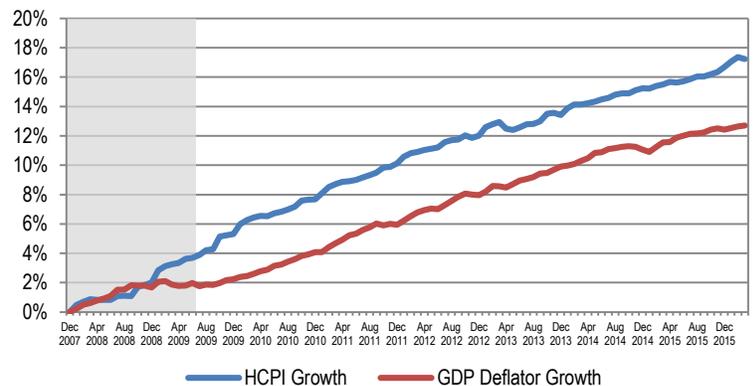
Since the start of the recession in December 2007, health care prices have increased 17.2%, while prices in the economy as a whole (using the GDPD) have increased 12.7% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector continue to exert downward pressure on health care prices. We were ready to proclaim an end to this story, but the data have interceded! In March, the CPI rose 0.9%, down from 1.0% in February, and the medical CPI, emphasizing out-of-pocket prices, fell to 3.3% from 3.5%. The final-demand PPI growth rate for March, at -0.1%, fell from the February reading of 0.0%. By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth. While wage pressures appear to be trending upward, they are still not manifesting themselves in the price data.

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.

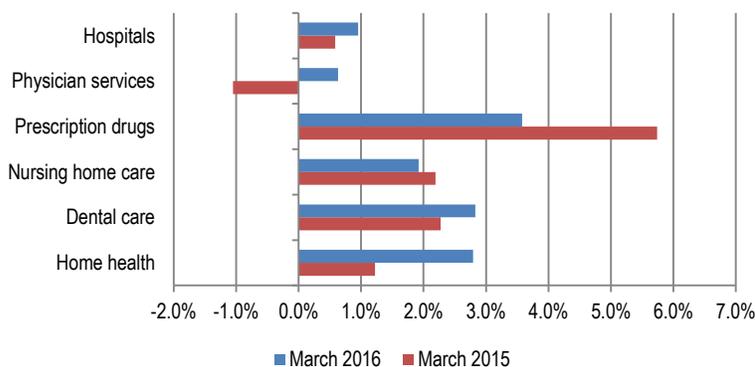
HEALTH CARE PRICES BY CATEGORY

Comparing March 2016 with March 2015, price growth for prescription drugs, at 3.6% (the highest rate since October 2015), is easily the fastest growing price category, ahead of dental services and home health care, each at 2.8%. The price change for hospital care held at 1.0%, and physician price growth fell sharply to 0.6% from 1.3% in February. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, and with only three health price components exhibiting increased growth (drugs, home health care and other non-durable medical products), the HCPI was bound to decline. Annual inflation rate comparisons—March 2016 year over year versus March 2015 year over year—show increases for every category except for prescription drugs and nursing home care (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data and may be a leading indicator, is higher for the aggregate HCPI and for seven of the ten price categories. The HCPI growth rate appears poised for modest future increases, though that prediction last month did not pan out!

Medicare and Medicaid hospital prices grew less quickly than private-sector prices. Hospital price growth for Medicare patients fell from 0.9% in February to 0.7% in March. For Medicaid patients, hospital price growth rose to -2.3% in March from -2.5% in February. For private patients, hospital price growth fell to 2.3% in March from 2.4% in February. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was steady at 5.0% in March (data not shown). Prices for privately insured patients are growing modestly, but this disguises the growing cumulative gap between public and private payments. Specifically, since June 2014 (when the private only data series was created), hospital prices for Medicare, Medicaid, and private pay patients have grown -1.6%, -2.2%, and 4.3%, 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 mainly to declining utilization growth, followed by very low price growth. A resurgence of utilization, now moderating, has reversed the spending trend. The readings for March 2016 are 4.7% spending growth and 3.2% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, its recent growth, and even more recent moderation. Per capita utilization in March rose at an annual rate of 2.4%, below its 12-month average of 3.2%. On a 12-month average basis, utilization for hospitals has risen 2.3%, home health care is up 7.2%, physician services have risen 5.5%, the prescription drug rate is up 3.8%, nursing care has risen 1.2%, and dental care utilization is up 1.3%.

DISCUSSION

In March 2016, the HCPI rose 1.5% above the February 2015 level (down from the 1.7% rate in February), representing a pause in the acceleration this series has exhibited since December 2015. The 12-month moving average of 1.2% is unchanged from February, but one-tenth higher than the December rate of 1.1%, which is the all-time low for our data.

Price growth for physician and clinical services fell sharply to 0.6% from 1.3% in February. Price growth for prescription drugs is up to 3.6%, the highest rate since October 2015. With steady growth for hospital prices at a very low 1.0%, and an insufficient push from the other price categories, it is reasonable that the aggregate HCPI took a step back.

Even after increases since September 2015, health care inflation is still extraordinarily low for this stage of the business cycle recovery. March 2016 was the 81st month of economic expansion, following the recession, making this the fourth longest in U.S. history!

While we believe that wage pressures will ultimately push prices moderately higher, it is clear that special factors are at work. New research analyzes the way in which Medicare is keeping the lid on both healthcare and overall inflation.² Perhaps most surprisingly, except where there is high provider concentration, there is growing evidence that public price pressures spill over to private prices.

¹ Altarum Spending Brief #16-5: March 2016 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Clemens, J, Gottlieb, JD, Shapiro, AH (2016). Medicare Payment Cuts Continue to Restrain Inflation. *FRBSF Economic Letter*, 2016-15, May 9. Available at: <http://www.frbsf.org/economic-research/files/el2016-15.pdf>

PRICE GROWTH BY DETAILED CATEGORIES

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

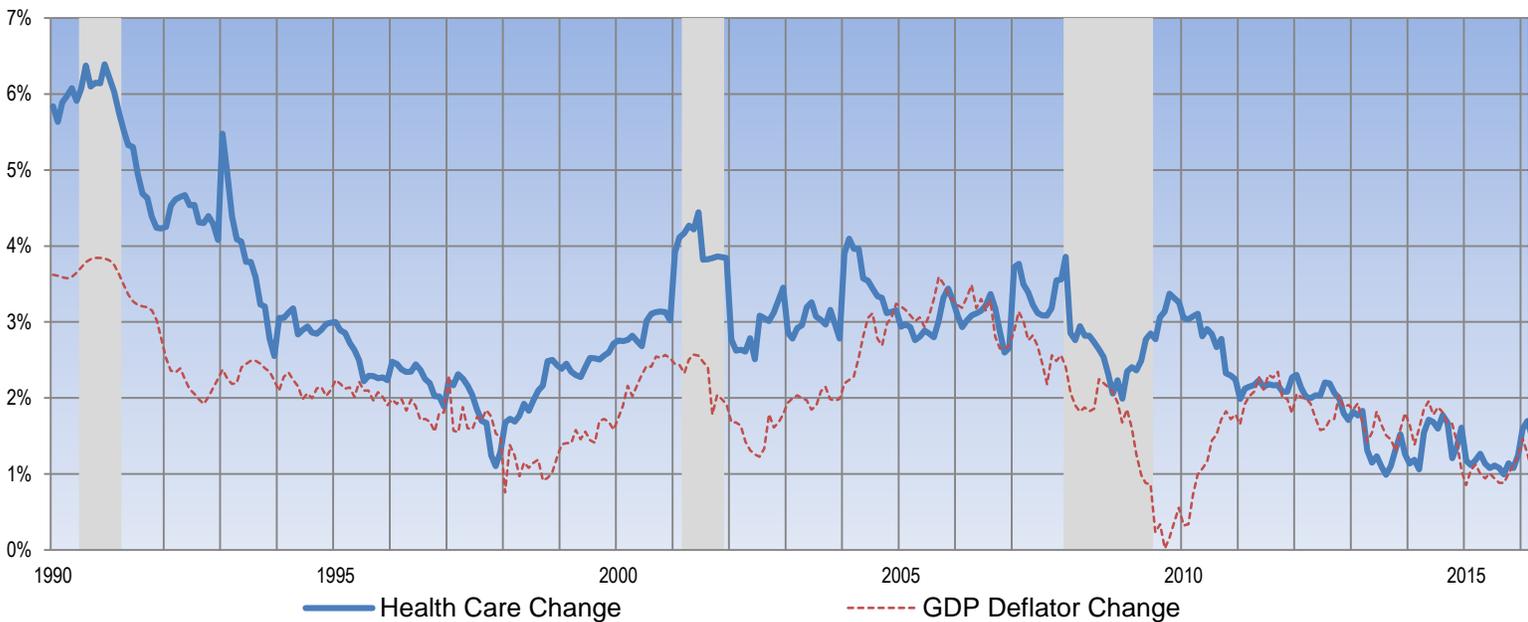
	Ending March 2014	Ending March 2015	Ending March 2016
HCPI	1.1%	1.2%	1.5%
Hospital care	1.2%	0.6%	1.0%
Physician and clinical services	0.1%	-1.0%	0.6%
Prescription drugs	2.1%	5.7%	3.6%
Nursing home care	0.5%	2.2%	1.9%
Dental services	2.2%	2.3%	2.8%
Home health care	-0.2%	1.2%	2.8%
Other professional services	1.1%	1.2%	0.3%
Other personal health care	2.4%	1.7%	2.7%
Other nondurable medical products	-0.9%	-0.3%	-1.6%
Durable medical equipment	0.1%	0.0%	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.

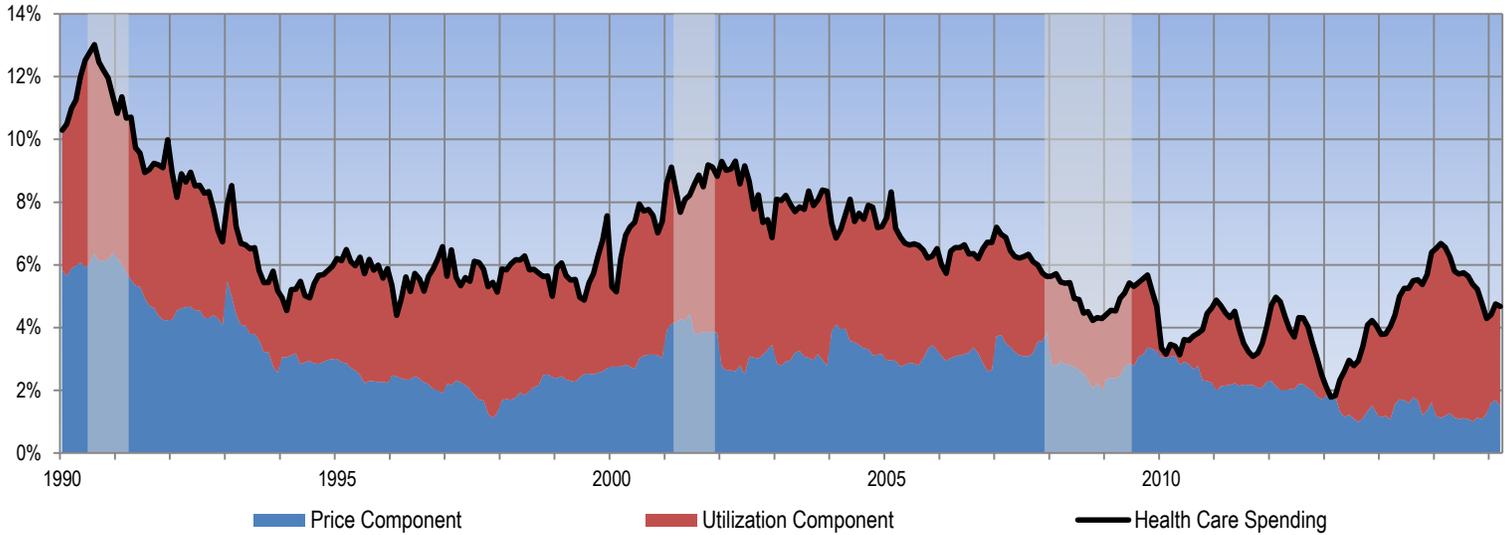
Note: Lightly shaded bars denote recession periods.

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.

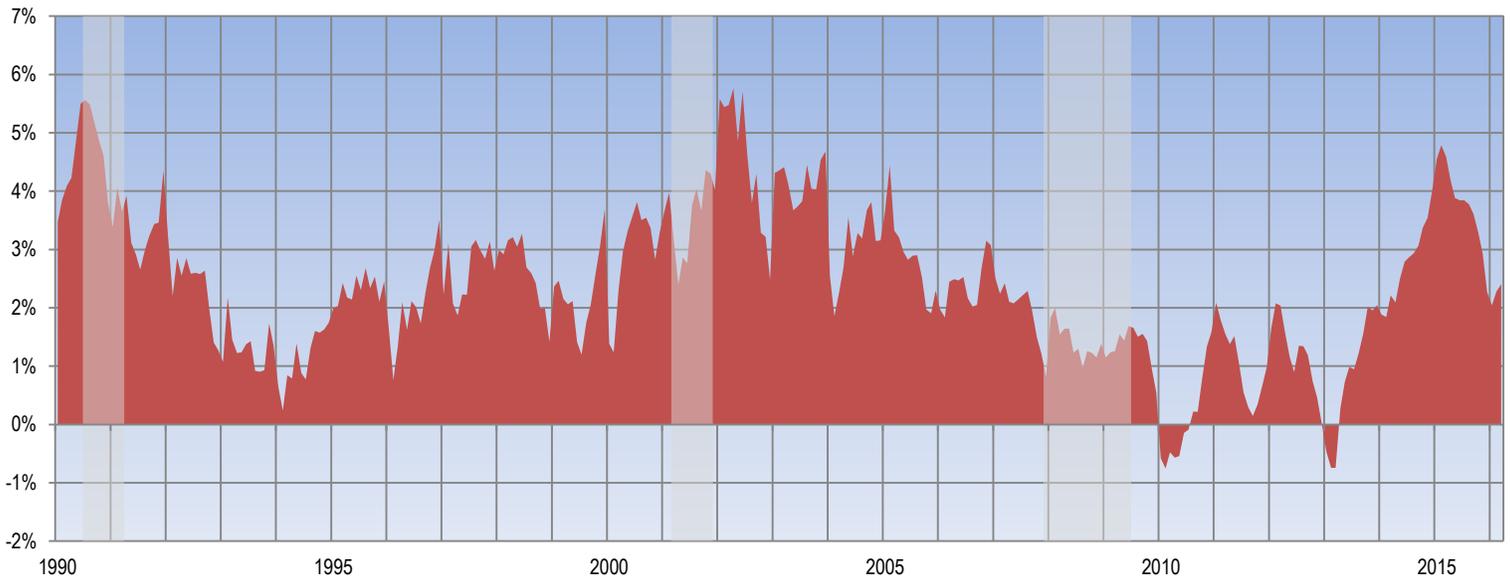
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author);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