

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through March 2017

www.altarum.org

PRICE BRIEF

May 11, 2017

Health price growth stuck in neutral at 1.9%

HIGHLIGHTS

- ▲ Health care prices in March 2017 rose 1.9% above March 2016, equal to the February annual growth rate.
- ▲ Year-over-year hospital price growth rose one-tenth to 1.7% and physician and clinical services price growth rose from 0.2% to 0.4% in March. Annual drug price growth in March fell to a 4.7% rate, continuing its fall from the 20+ year high of 7.0% in November 2016.
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) fell to 2.4% growth in March from 2.7% in February, the final-demand Producer Price Index (PPI) rose to 2.3% from 2.2% (the highest rate since March 2012), and the gross domestic product deflator (GDPD) fell to 1.9% from 2.1% in February.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.8% in March, below its 12-month average of 3.1%.

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

	Mar. 2015	Mar. 2016	Feb. 2017	Mar. 2017
Health Care Price Index (HCPI)	1.1%	1.4%	1.9%	1.9%
GDPD	1.2%	1.0%	2.1%	1.9%
HCPI-GDPD	-0.1%	0.4%	-0.2%	0.1%
Addendum				
Health care spending	7.2%	5.5%	5.4%	5.4%
Health care utilization	6.1%	4.0%	3.5%	3.5%
CPI—medical	2.5%	3.3%	3.5%	3.5%
CPI—all items	-0.1%	0.9%	2.7%	2.4%

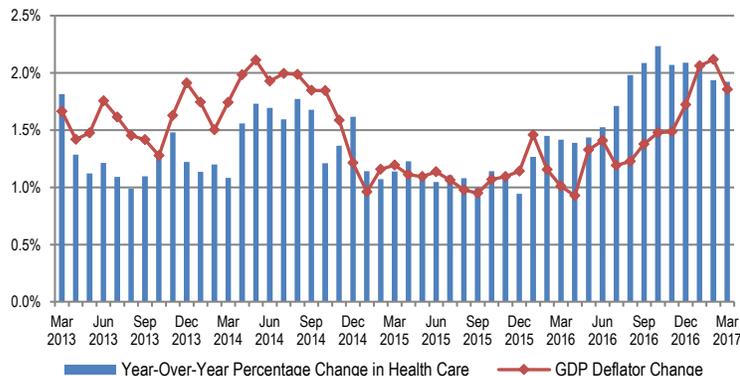
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In March 2017, the Health Care Price Index (HCPI) rose 1.9% above February 2016. The 12-month moving average, at 1.9% growth, is at its highest rate since April 2013. The HCPI declined from 3.4% in October 2009, oscillated near 2% growth for 2 years, ultimately hit historic lows of roughly 1% in 2015, and exhibited a sharp increase through 2016 that is now tapering off (Exhibit 1). After eclipsing the 2% rate in September 2016 for the first time since September 2012, we expected it to trend higher, but once again, it has fallen below 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 1.9% year-over-year growth as of March 2017. The HCPI growth rates are once again tracking those of the GDPD. Exhibit 5 shows long-term comparisons.

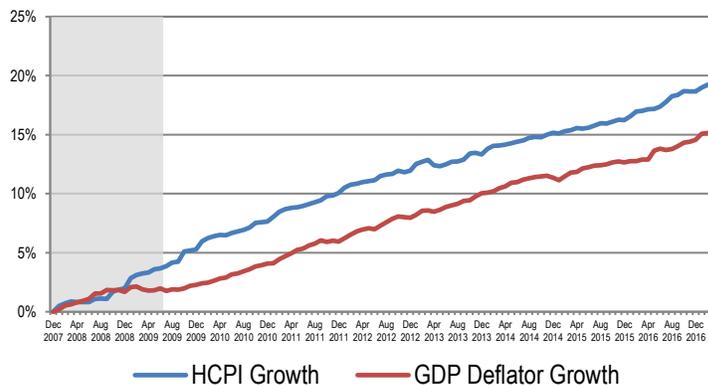
Since the start of the recession in December 2007, health care prices have increased 19.3%, while prices in the economy as a whole (using the GDPD) have increased 15.0% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector may no longer be putting downward pressure on health care prices, but our expectation of higher HCPI rates have not played out, and clearly there is extensive uncertainty affecting the health sector economy. In March, the CPI rose 2.4% above the previous year, down from a five-year high rate of 2.7% in February. The medical CPI, emphasizing out-of-pocket prices, was stable at 3.5% growth. The final-demand PPI growth rate for March rose only a tenth to 2.3%, but this is still its highest rate since March 2012!

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.

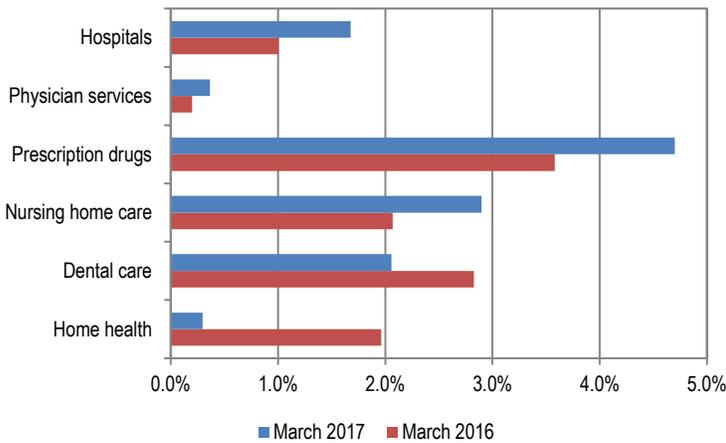
HEALTH CARE PRICES BY CATEGORY

Comparing March 2017 with March 2016, price growth for prescription drugs, at 4.7%, is easily the fastest growing category. It is far above the next two highest, nursing home care and other professional services, which grew by 2.9% and 3.3% respectively. Dental care price growth rebounded to 2.1% after the strange 1.3% rate in February, the lowest reading in our nearly 3 decade data series! Hospital price growth rose one-tenth to 1.7% in March and physician price growth rose to 0.4% from 0.2% in February. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but the lower price growth for prescription drugs and other personal health care balanced increases for hospitals and others, to lead to a stable HCPI rate. Annual inflation rate comparisons—March 2017 year over year versus March 2016 year over year—show 4 categories higher (hospitals, physician services, prescription drugs, and nursing home care), and the other 2 lower (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 four of the ten price categories. Even with lower hospital and prescription drug momentum, we will (again!) be surprised if the HCPI fails to rise above 2% growth in April.

Medicare and Medicaid hospital prices typically grow less quickly than private-sector prices. Hospital price growth for Medicare patients stayed at 1.2% in March, held steady at 2.3% for Medicaid patients (unexpectedly high), and rose to 2.5% from 2.4% for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth rose to 2.1% from 1.8% in February (data not shown). While prices for privately-insured patients continue to 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 by -0.4%, 0.0%, and 7.1%, respectively.

Exhibit 3. Year-over-Year Price Growth for Selected Health Categories



Source: Altarum analysis of monthly BLS data.

Follow us on Twitter: @ALTARUM_CSHS

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 in 2014 and 2015, but is now more stable. The readings for March 2017 are 5.4% spending growth and 3.5% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth and a jagged 2 plus-year moderation. Per capita utilization in March rose at an annual rate of 2.8%, below its 12-month average of 3.1%. On a 12-month average basis, utilization for hospitals rose 3.8%, home health care is up 2.9%, physician services rose 5.3%, the prescription drug rate is -1.4%, nursing care rose 2.7%, and dental care utilization is up 1.6%.

DISCUSSION

In March 2017, the HCPI rose by 1.9% compared to a year earlier—equal to the February rate, but an unexpected stall after 6 months at or above 2%. The 12-month moving average of the HCPI rose to 1.9%, its highest reading since April 2013, reflecting the 2 plus-year run-up. We had been expecting the HCPI to trend above 2% growth, but instead it has shown a fairly steady decline from its recent high of 2.2% in October 2016. We also expected the HCPI to grow faster than the GDP deflator, as it had for 12 straight months, and representing the historical norm. So much for those expectations!

We pay close attention to the hospital and physician components of the price index. The former rose from 1.6% growth in February to 1.7% in March; the latter rose from 0.2% to 0.4%. At 4.7%, annual prescription drug price growth has retreated from the more than 24-year high rate of 7.0% recorded in October 2016. Last month we noted the bizarre 1.3% dental care price growth, the lowest rate in our nearly 3-decade series. This month, it has returned to a more normal, though still low, rate of 2.1%.

As we note each month, health care inflation is quite low for this stage of the economic recovery. March 2017 was the 93rd month of expansion following the Great Recession, now comfortably the third longest in U.S. history!

With new uncertainty injected into the health economy via the House passage of the American Health Care Act, but no definitive plan for Senate activity, it is anyone’s guess as to how health care providers and their pricing strategies will respond. Moreover, while economy-wide price growth is steady or increasing (for example, the final-demand PPI growth rate for March at 2.3% represents a five-year high), perhaps the new normal for health care prices is to grow roughly in line with economy-wide prices. Indeed, analysts have been decrying for years (decades?) that health care prices in the U.S. are abnormally and unsustainably high. Perhaps forces are finally at work to change this longstanding dynamic.

¹ Altarum Spending Brief #17-5: March 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

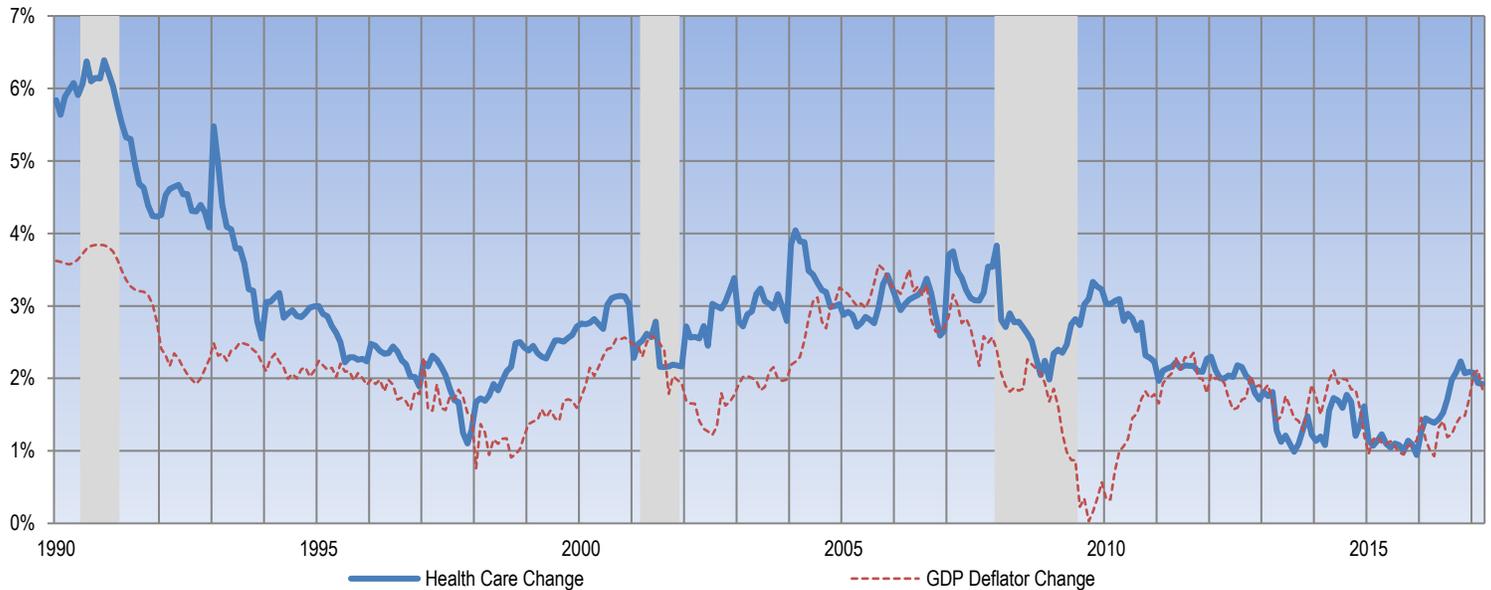
	Ending March 2015	Ending March 2016	Ending March 2017
HCPI	1.1%	1.4%	1.9%
Hospital care	0.6%	1.0%	1.7%
Physician and clinical services	-1.0%	0.2%	0.4%
Prescription drugs	5.7%	3.6%	4.7%
Nursing home care	2.2%	2.1%	2.9%
Dental services	2.3%	2.8%	2.1%
Home health care	1.2%	2.0%	0.3%
Other professional services	1.2%	0.3%	3.3%
Other personal health care	1.7%	2.9%	2.2%
Other nondurable medical products	-0.3%	-1.6%	1.2%
Durable medical equipment	0.0%	0.5%	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.

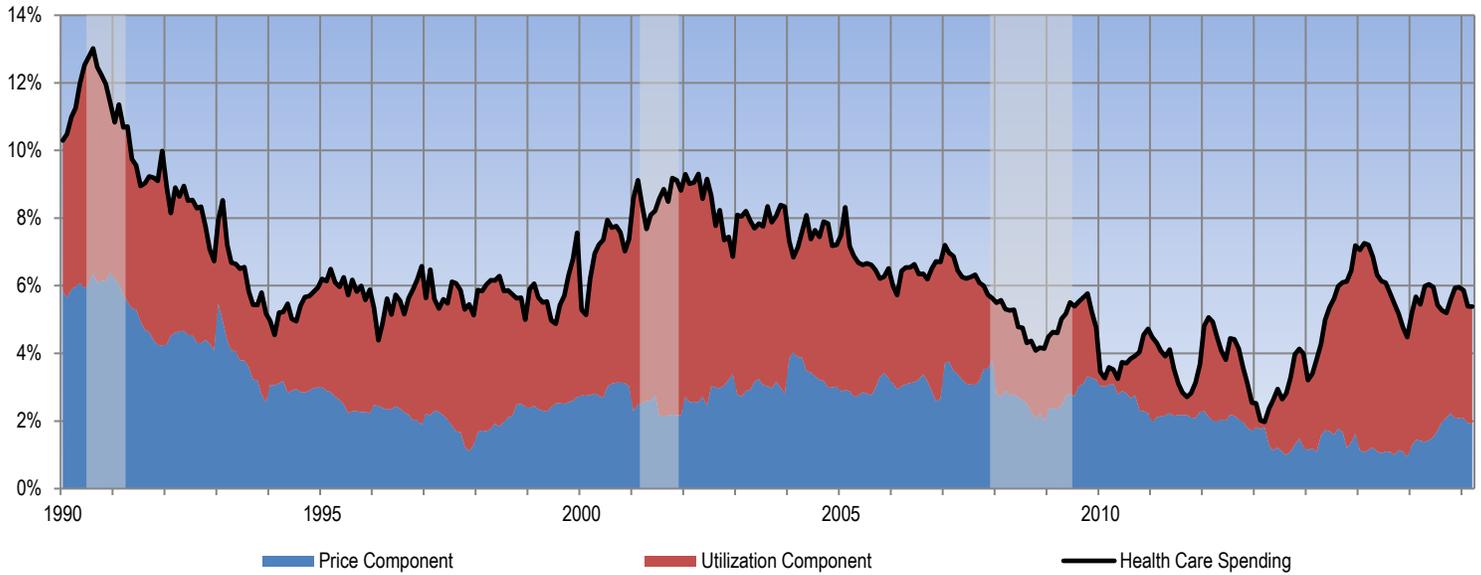
Note: Lightly shaded bars denote recession periods.

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.

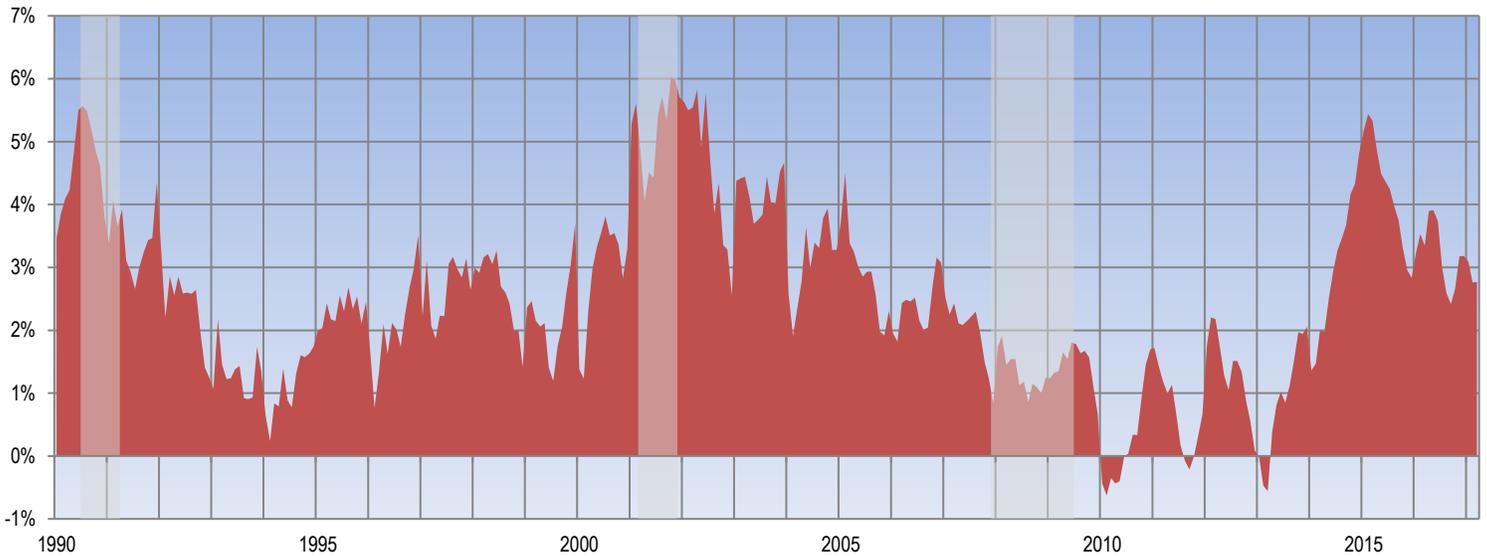
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author);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