

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through September 2015

November 12, 2015

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PRICE BRIEF

Health care price growth back to historic low 1.0%

HIGHLIGHTS

- ▲ Health care prices in September 2015 were 1.0% higher than in September 2014, down from 1.2% in August, and returned to the multi-decade low hit in August 2013. The September 2015 12-month moving average dropped to 1.2%, tying the all-time low for our data.
- ▲ Year-over-year hospital prices rose 0.7% in September, the lowest rate since June. Physician and clinical services prices fell 1.1% and have been near -1% for 9 straight months. Prescription drug prices rose 4.2%, down from the multi-decade high of 6.4% in December 2014.
- ▲ Economy-wide price indexes showed flat or lower growth in September. The Consumer Price Index (CPI) did not change year over year, and the medical CPI rose 2.5% for the fourth straight month. The final-demand Producer Price Index (PPI) fell -1.1%, down from -0.8% in September. The gross domestic product (GDP) deflator (GDPD) growth was 0.9% in September, exhibiting nine straight months near 1.0% growth.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.7% in August, below its 12-month moving average of 4.1%, the highest since December 2003.

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

| | Sep 2013 | Sep 2014 | Aug 2015 | Sep 2015 |
|---------------------------------------|----------|----------|----------|----------|
| Health Care Price Index (HCPI) | 1.1% | 1.7% | 1.2% | 1.0% |
| GDPD | 1.4% | 1.7% | 0.9% | 0.9% |
| HCPI-GDPD | -0.4% | 0.0% | 0.3% | 0.1% |
| Addendum | | | | |
| Health care spending | 4.2% | 5.7% | 5.7% | 5.5% |
| Health care utilization | 3.1% | 4.0% | 4.5% | 4.5% |
| CPI—medical | 2.4% | 2.0% | 2.5% | 2.5% |
| CPI—all items | 1.2% | 1.7% | 0.2% | 0.0% |

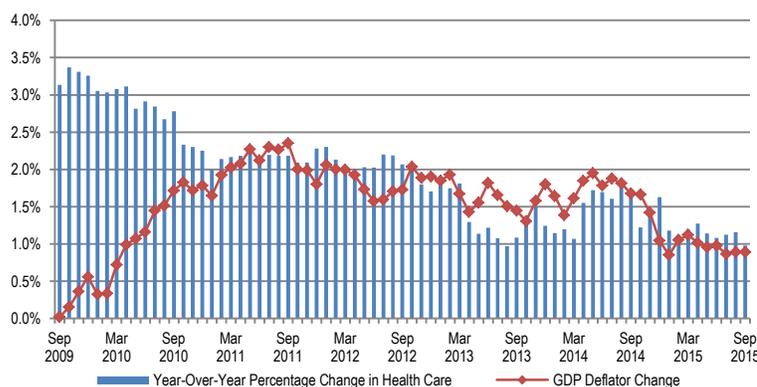
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In September 2015, the HCPI rose 1.0% from September 2014. The 12-month moving average of 1.2% has returned to the all-time low for Altarum data after hitting a 1.5% rate over much of the past year. 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 now 9 months at 1.2% or lower (with the exception of a spike in December 2014; Exhibit 1). Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and has fallen to 0.9% in September 2015. Note that this recent GDPD growth is the lowest since March 2010. Exhibit 5 shows long-term comparisons.

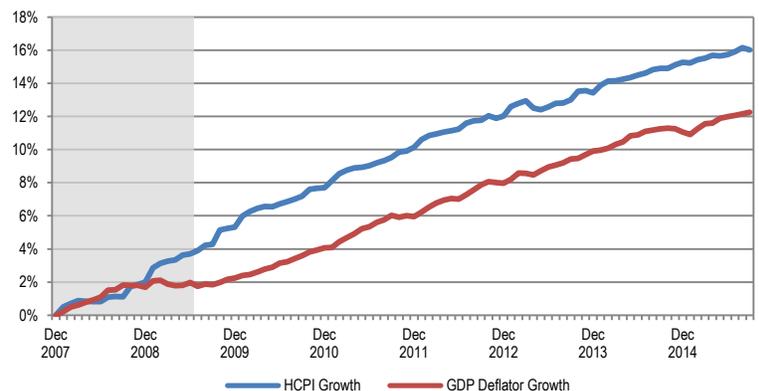
Since the start of the recession in December 2007, health care prices have increased by 16.0% while prices in the economy as a whole (found by using the GDPD) have increased by 12.3% (Exhibit 2). Low economy-wide inflation, via commodity prices, has exerted downward pressure on health care prices, but the causality appears to go both ways. In September, the CPI did not change, down from 0.2% in August, and the Medical CPI, emphasizing out-of-pocket prices, stayed at 2.5% for the fourth straight month. The final-demand PPI growth rate for September, at -1.1%, tied the all-time low for this series begun in 2010. Health care price growth is very low by historical standards but is still rising at or slightly above the rate of economy-wide prices.

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



Source: Altarum analysis of monthly Bureau of Labor Statistics 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 Bureau of Labor Statistics price data and monthly GDPD data published by Macroeconomic Advisers, LLC.
Note: Shading indicates the recession period.

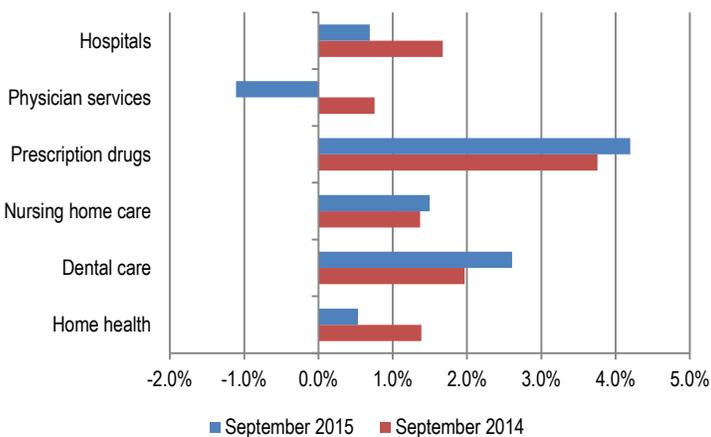
HEALTH CARE PRICES BY CATEGORY

Comparing September 2015 with September 2014, price growth for prescription drugs was by far the highest at 4.2%, followed by dental services at 2.6%. The price change for hospital care fell sharply to 0.7% from 1.0%, and physician price growth fell 1.1%—barely above the -1.2% rate in June, the lowest reading in the history of Altarum’s data series going back to 1990. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. Its fall and the declines in growth for all but two indexes led to the aggregate health care price index falling back to its historic low. Annual inflation rate comparisons—September 2015 year over year versus September 2014 year over year—show a mixed pattern, with hospital, physician, and home health care growth lower and the other three 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 up for the aggregate HCPI index and for 4 of the 10 price categories. The HCPI growth rate may not have bottomed out after all and is certainly not poised for a large rise.

Medicare and Medicaid prices grew less quickly than “other” prices, which include private payment. Hospital prices for Medicare patients rose by 0.1% to -1.3% and for Medicaid patients fell sharply to -1.8% from -0.4% in August. For private patients, price growth was unchanged at 2.1%. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), price growth fell from 10.8% to 6.8% (data not shown). Although private rates are relatively low, we track this closely to monitor the effects of hospital consolidation.

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



Source: Altarum analysis of monthly Bureau of Labor Statistics 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 health care spending broken out by price and utilization. The historic, 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 September 2015 are 5.5% spending growth and 4.5% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though moderating recently). Per capita utilization in September rose at an annual rate of 3.7%, below its 12-month average of 4.10%. 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 4.8%, home health is up 3.5%, physician services has risen 5.3%, the prescription drug rate is up 5.0%, nursing care has risen 1.7%, and dental care utilization is up 1.4%.

DISCUSSION

In September 2015, the HCPI rose 1.0% above that of September 2014, falling from the 1.2% rate in August and representing a return to the historic low rate first seen in August 2013. The 12-month moving average of 1.2% also ties a low for our data series.

The continued negative price growth for physician and clinical services, at -1.1% (only 0.1% above its lowest reading in Altarum’s data series going back to 1990), continues to push down the HCPI. Hospital price growth falling to 0.7% from 1.0% in August, and price growth for prescription drugs moderating to 4.2%, were also large contributors to the unusually low HCPI reading.

Health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. September 2015 was the 75th month of economic expansion following the recession, yet we are stuck at the decade-plus HCPI low. It is difficult to see any upsurge in the next few months. The October University of Michigan consumer sentiment survey showed inflation expectations equal to the low set in September 2002—a data series that has been around since 1979! For the health sector, there is no let-up in the pricing pressure from the government; for example, home health care prices announced on October 29 indicate a 1.4% reduction in payments for calendar year 2016.

A return to 2% growth for the HCPI is now even more remote than it has been. However, these are prices, not underlying costs or spending. Accordingly, abstracting from possible mismeasurement issues, changes in spending must reflect health care utilization (see our accompanying spending brief). There are signs of moderation in utilization, perhaps reflecting an improving insurance pool and moving past pent-up demand from early Patient Protection and Affordable Care Act enrollees. We will learn much more about this on December 10 with the release of the Quarterly Services Survey covering the period July through September. If, indeed, utilization growth is trending down, it is even more difficult to see from where health care pricing pressure will emanate.

¹ Altarum Institute Spending Brief #15-11: September 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

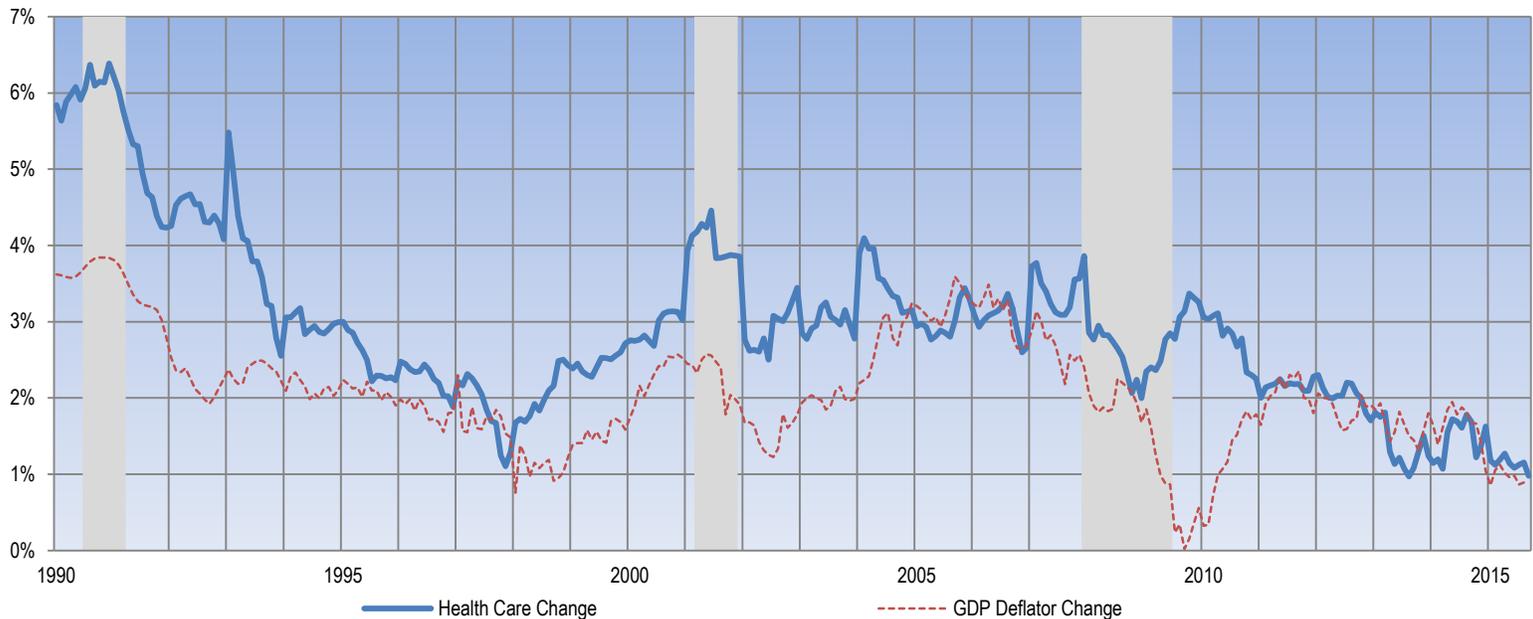
| | Year Ending September 2013 | Year Ending September 2014 | Year Ending September 2015 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| HCPI | 1.1% | 1.7% | 1.0% |
| Hospital care | 1.8% | 1.7% | 0.7% |
| Physician and clinical services | -0.2% | 0.8% | -1.1% |
| Prescription drugs | 0.4% | 3.8% | 4.2% |
| Nursing home care | 0.8% | 1.4% | 1.5% |
| Dental services | 3.5% | 2.0% | 2.6% |
| Home health care | -0.5% | 1.4% | 0.5% |
| Other professional services | 2.0% | 0.7% | 1.3% |
| Other personal health care | 1.8% | 2.7% | 1.7% |
| Other nondurable medical products | -0.4% | 0.6% | -2.0% |
| Durable medical equipment | 1.1% | 0.4% | -0.4% |

Source: Altarum analysis of monthly Bureau of Labor Statistics 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 Bureau of Labor Statistics price data and Macroeconomic Advisers GDP data.

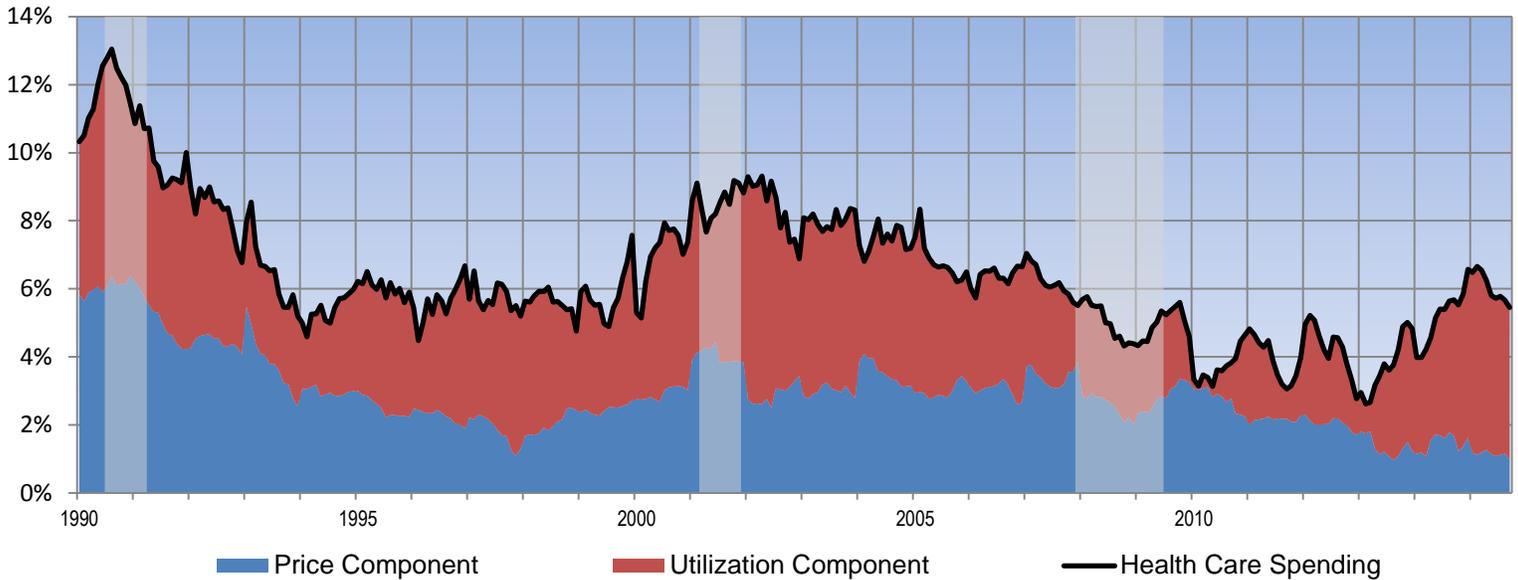
Note: Lightly shaded bars denote recession periods.

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'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.

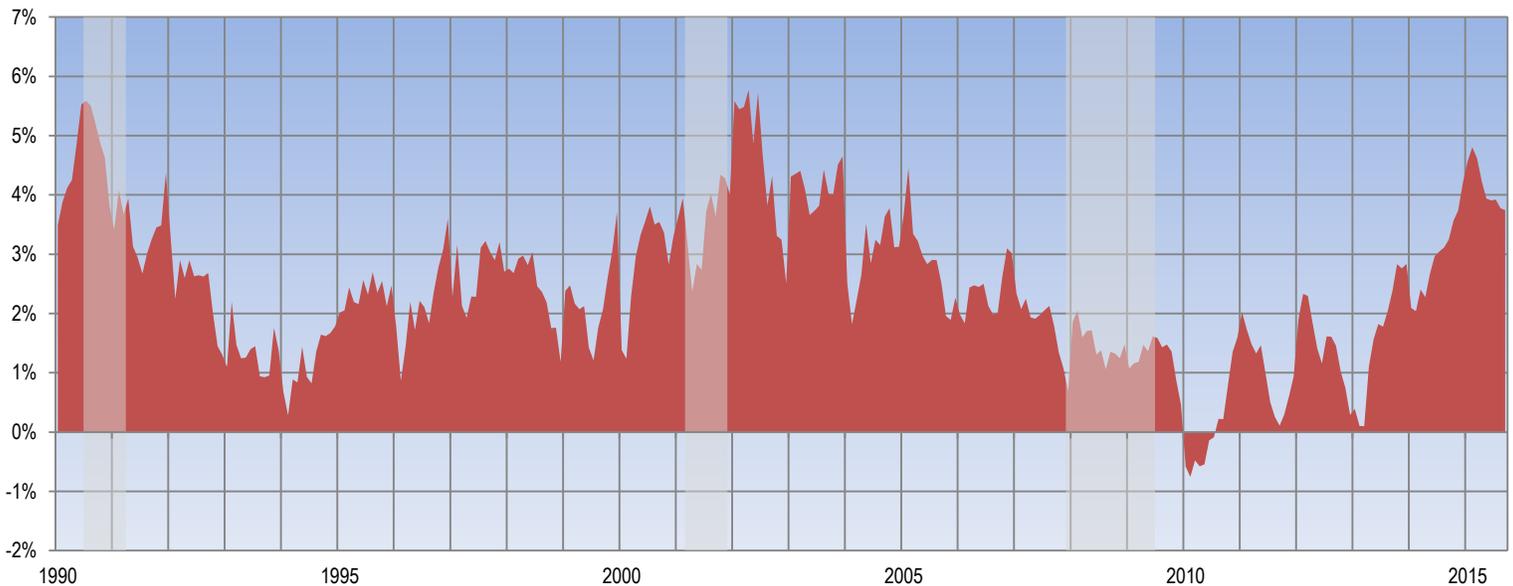
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); 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 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. (2014). *National Health Expenditures Accounts: Methodology Paper, 2013—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-13.pdf>. The HCPI is calculated by using Bureau of Labor Statistics 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.