

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through August 2015

October 8, 2015

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PRICE BRIEF

Has health care price growth bottomed? Rate rises to still very low 1.2%

HIGHLIGHTS

- ▲ Health care prices in August 2015 were 1.2% higher than in August, up from 1.1% in July and the first rise since a 1.3% rate in April. The August 2015 12-month moving average held at 1.3%.
- ▲ Year-over-year hospital prices rose 1.0% in August, the highest since September 2014. Physician and clinical services prices fell 1.0% and have been near -1% for 8 straight months. Prescription drug prices rose 4.7%, the first rise since the multi-decade high of 6.4% in December 2014.
- ▲ Economy-wide price indexes grew at stable rates in August. The Consumer Price Index (CPI) rose 0.2%, year over year, for the second straight month, and the medical CPI rose 2.5% for the third straight month. The final-demand Producer Price Index (PPI) was -0.8% in August, the same rate as in July. The gross domestic product (GDP) deflator (GDPD) growth was 0.9% in July, down a 10th from the June rate.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.8% in August, below its 12-month moving average of 4.0%, the highest since January 2004.

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

	Aug 2013	Aug 2014	Jul 2015	Aug 2015
Health Care Price Index (HCPI)	1.0%	1.8%	1.1%	1.2%
GDPD	1.5%	1.8%	0.9%	**
HCPI-GDPD	-0.5%	0.0%	0.3%	**
Addendum				
Health care spending	3.8%	5.6%	5.8%	5.7%
Health care utilization	2.8%	3.9%	4.7%	4.5%
CPI—medical	2.3%	2.1%	2.5%	2.5%
CPI—all items	1.5%	1.7%	0.2%	0.2%

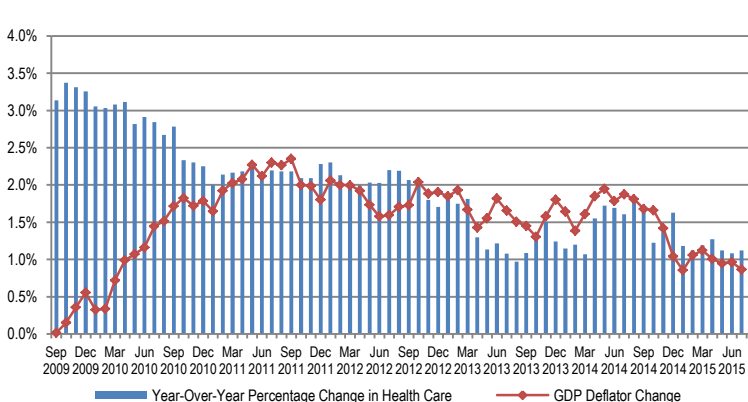
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details 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 August 2015, the HCPI rose 1.2% from August 2014. The 12-month moving average of 1.3% has fallen to near the all-time low for Altarum data (1.2%) after flirting with a 1.5% rate over 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 8 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 July from 1.0% in June (July GDP data are not yet available). Note that this recent GDPD growth is the lowest since 2010. Exhibit 5 shows long-term comparisons.

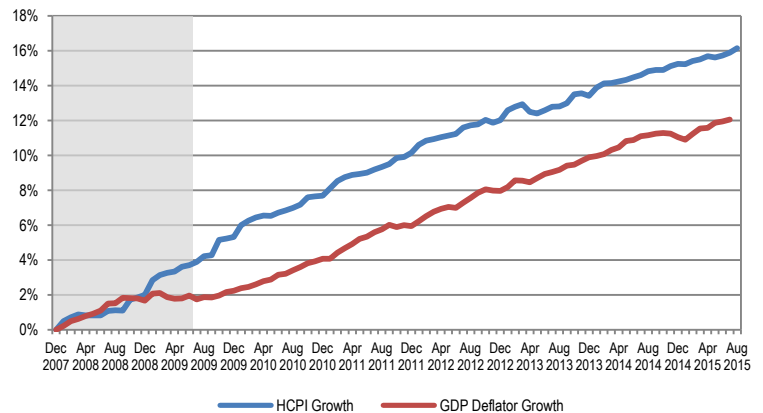
Since the start of the recession in December 2007, health care prices have increased by 16.1% while prices in the economy as a whole (found by using the GDPD) have increased by 12.1% (Exhibit 2). Low economy-wide inflation, via commodity prices, has exerted downward pressure on health care prices, but the causality appears to go both ways. In August, the CPI rose 0.2% (the same rate as July) and the Medical CPI, emphasizing out-of-pocket prices, was constant at 2.5% for the third straight month. The final-demand PPI growth rate for August, at -0.8%, equaled the July figure. Health care price growth is very low by historical standards, but we are about 1½ years past the 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 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.

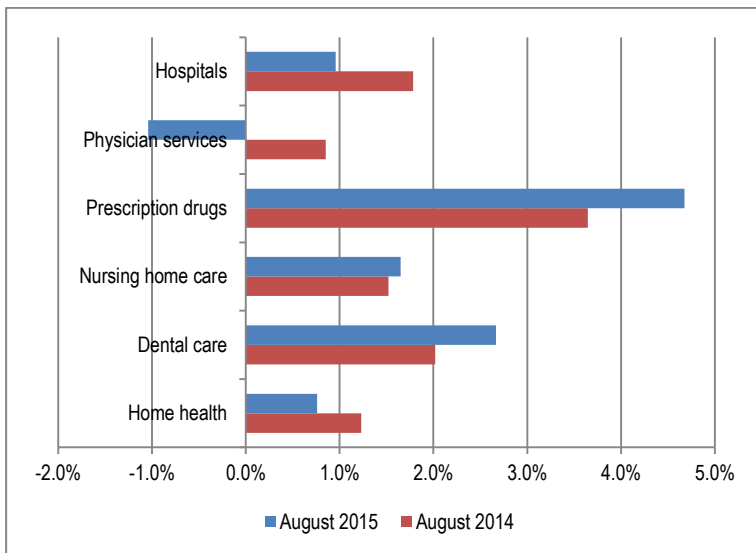
HEALTH CARE SPENDING BY CATEGORY

Comparing August 2015 with August 2014, price growth for prescription drugs was by far the highest at 4.7%, followed by dental services at 2.7%. The price change for hospital care rose to a still low 1.0%, and physician price growth fell 1.0%—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 rise and stable or moderate price growth in most of the other indexes, led to the small aggregate health care price index increase. Annual inflation rate comparisons—August 2015 year over year versus August 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 down for the aggregate HCPI index and for 7 of the 10 price categories. The HCPI growth rate may not have bottomed 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 0.7% to -1.4%, and hospital prices for Medicaid patients were down to -0.4 from 0.9%. For “other” patients, price growth rose 0.2% in August to 2.8% (data not shown). This is the third month ever when we have year-over-year results splitting “other” into private and other providers (e.g., Veterans, TRICARE, self-pay). The growth rates are 2.1% (from 1.9%) and 10.8% (from 10.9%), respectively. While private rates are relatively low, hospital consolidation may be helping them to stay well above the very low public rates.

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’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 August 2015 are 5.7% spending growth and 4.5% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though moderating recently). Per capita utilization in August is rising at an annual rate of 3.8%, below its 12-month average of 4.0%. This rising utilization trend accords with expanded health insurance coverage and stronger economy-wide employment, but some of the unmet needs may now have been treated and healthier individuals are now gaining coverage. On a 12-month average, utilization for hospitals has risen 4.6%, home health is up 3.0%, physician services has risen 5.2%, the prescription drug rate is up 5.4%, nursing care has risen 1.7%, and dental care utilization is up 1.4%.

DISCUSSION

In August 2015, the HCPI rose 1.2% above that of August 2014, rising a 10th from the 1.1% rate that had prevailed for 3 months. The 1.2% growth rate is still, however, only a 10th higher than the decade-plus low of 1.0% growth registered 2 years ago in August 2013. The 12-month moving average of 1.3% has been stable for the past 2 months, after trending toward 1.5% for 10 months, and is now only a 10th above its all-time low for Altarum data (1.2% in March and April 2014). The continued negative price growth for physician and clinical services, at -1.0% (only two 10^{ths} above its lowest reading in Altarum’s data series going back to 1990), continues to push down the HCPI. Hospital price growth, while still at a low 1.0% rate, is the highest since September 2014. Price growth for prescription drugs rose to 4.7% after 7 months of moderating following its multi-decade high of 6.4% reached in December 2014. Dental services price growth, at 2.7%, the same as in July, is the highest since January 2014. Prices for durable medical equipment actually fell by 0.5%, the same as for July, the lowest rate since May 2013.

As we are fond of saying, health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. August 2015 was the 74th month of economic expansion following the recession, yet we are barely off the decade-plus HCPI low. (Note also that this expansion is now the fourth longest in post-World War II history.)

A return to 2% growth for the HCPI is nowhere in sight, due in part to worldwide effects of low commodity prices. Nevertheless, the health sector is now the main driver of U.S. employment gains, and health insurance coverage has increased dramatically under the Patient Protection and Affordable Care Act.² It is reasonable to expect significantly higher healthcare price growth stemming from much higher utilization, but the environment so far has not supported such reasoning.

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¹ Altarum Institute Spending Brief #15-10: August 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Smith, J., & Medalia, C. (2015). *U.S. Census Bureau, Current Population Reports, P60-253, Health Insurance Coverage in the United States: 2014*. Washington, DC: Government Printing Office.

PRICE GROWTH BY DETAILED CATEGORIES

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

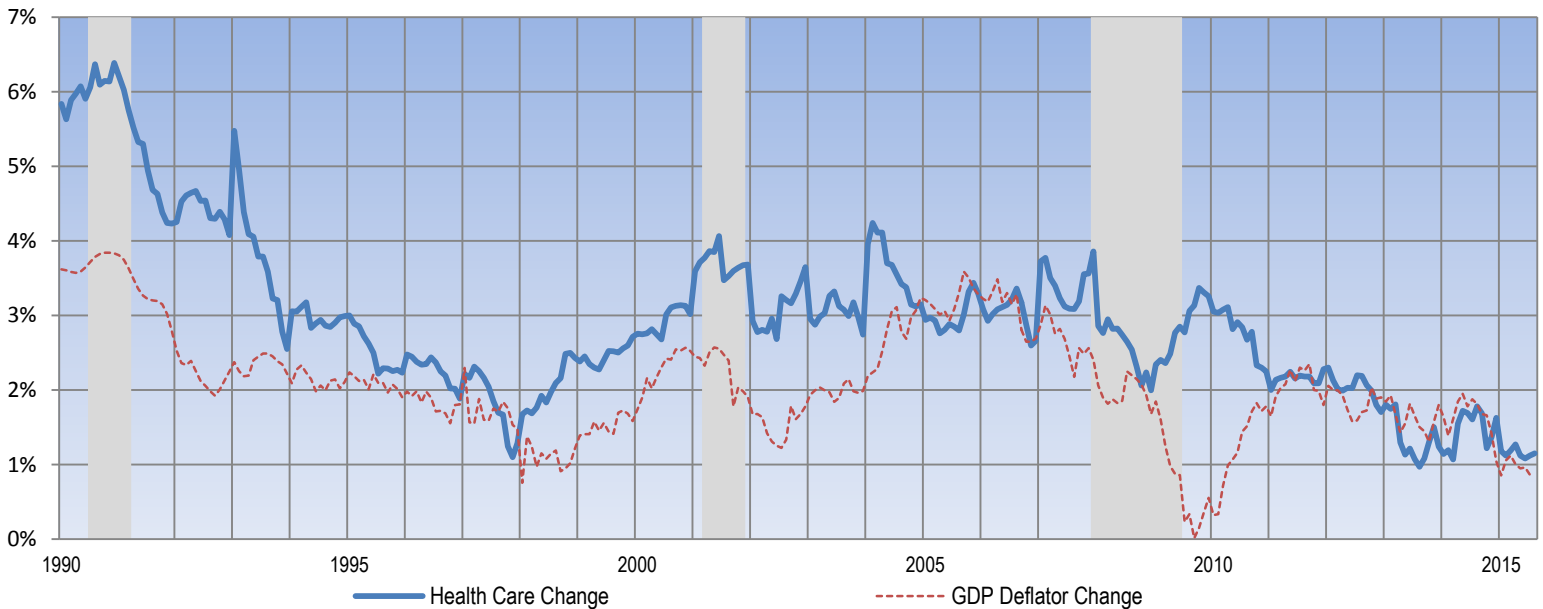
	Ending August 2013	Ending August 2014	Ending August 2015
HCPI	1.0%	1.8%	1.2%
Hospital care	1.6%	1.8%	1.0%
Physician and clinical services	-0.2%	0.9%	-1.0%
Prescription drugs	0.2%	3.6%	4.7%
Nursing home care	0.6%	1.5%	1.6%
Dental services	3.4%	2.0%	2.7%
Home health care	-0.2%	1.2%	0.8%
Other professional services	1.5%	1.2%	1.1%
Other personal health care	2.5%	2.5%	2.0%
Other nondurable medical products	-0.8%	-0.6%	-0.7%
Durable medical equipment	0.4%	0.9%	-0.5%

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.

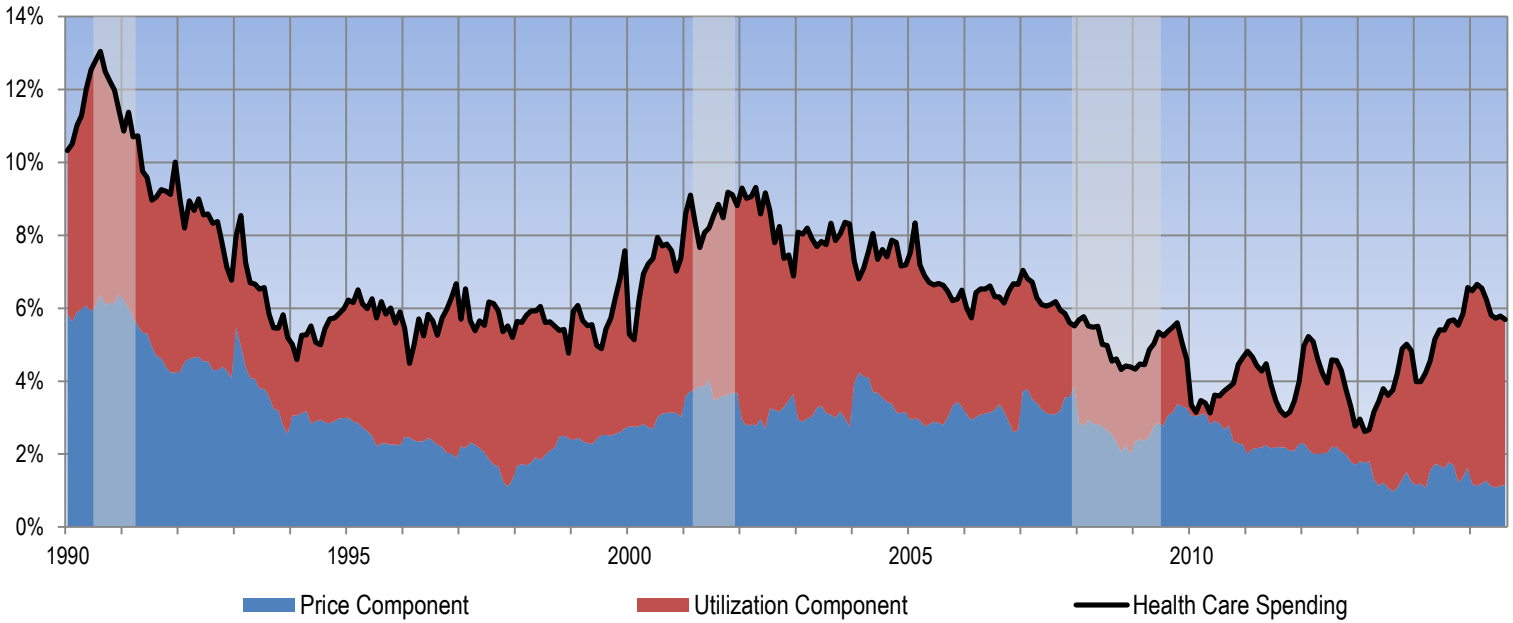
Note: Lightly shaded bars denote recession periods.

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'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.

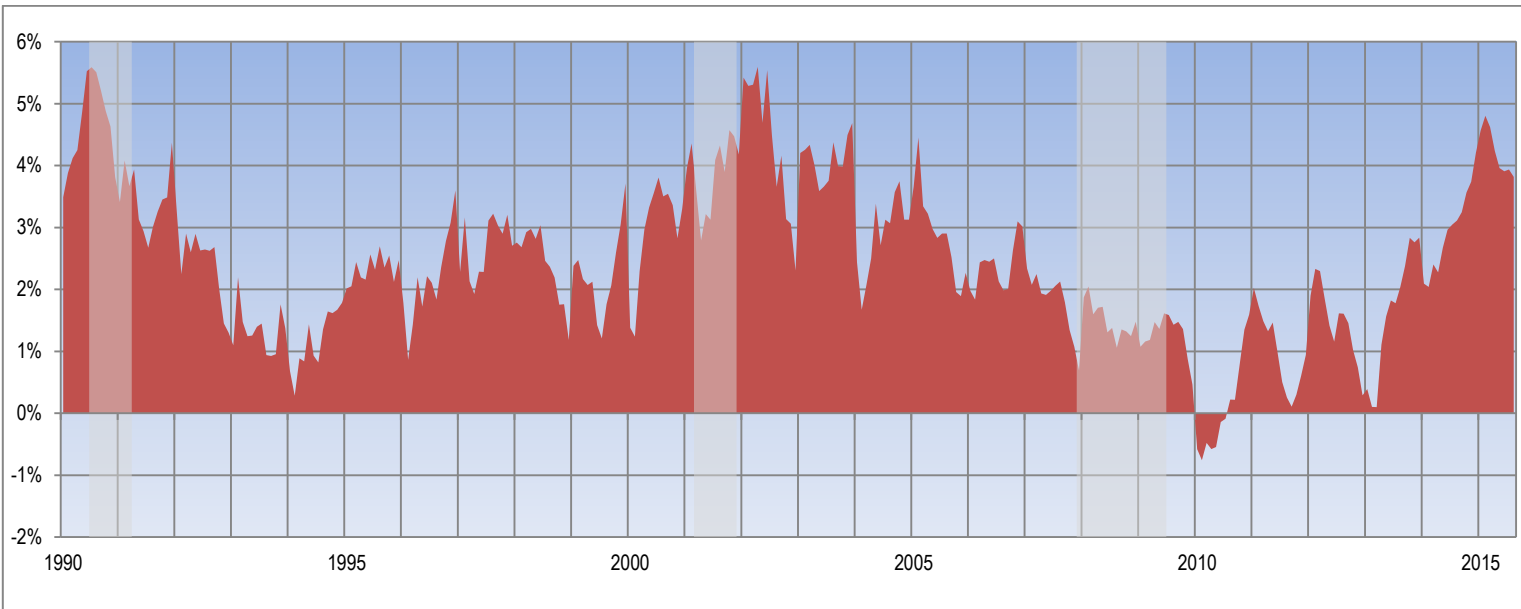
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); 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 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.