

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through August 2016

October 14, 2016

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PRICE BRIEF

Health care prices continue acceleration – will we return to 2% rates?

HIGHLIGHTS

- ▲ Health care prices in August 2016 were 1.9% above the August 2015 rate, up 0.2 from July, and the highest growth since October 2012. The August 2016 12-month moving average rose to 1.4% from 1.3%.
- ▲ Year-over-year hospital price growth rose to 0.9%, from 0.8% in July. Physician and clinical services prices held at a scant 0.1% rate. Drug price growth surged to 6.3% (from 5.2% in June), its highest reading since December 2014, easily the fastest growing price component.
- ▲ Economy-wide price indices were mixed. The Consumer Price Index (CPI) rose to 1.1% growth from 0.8%, the final-demand Producer Price Index (PPI) rose to 0.0% from -0.2%, but the gross domestic product deflator (GDPD) growth fell to 1.1% (in July). The Medical CPI growth rate rose from 4.0% to 4.9%, the highest since January 2008.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.0% in August, below its 12-month moving average of 3.1%.

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

	Aug. 2014	Aug. 2015	Jul. 2016	Aug. 2016
Health Care Price Index (HCPI)	1.8%	1.1%	1.7%	1.9%
GDPD	2.0%	1.0%	1.1%	**
HCPI-GDPD	-0.2%	0.1%	0.6%	**
Addendum				
Health care spending	5.7%	5.1%	5.7%	5.7%
Health care utilization	4.0%	4.0%	4.0%	3.8%
CPI—medical	2.1%	2.5%	4.0%	4.9%
CPI—all items	1.7%	0.2%	0.8%	1.1%

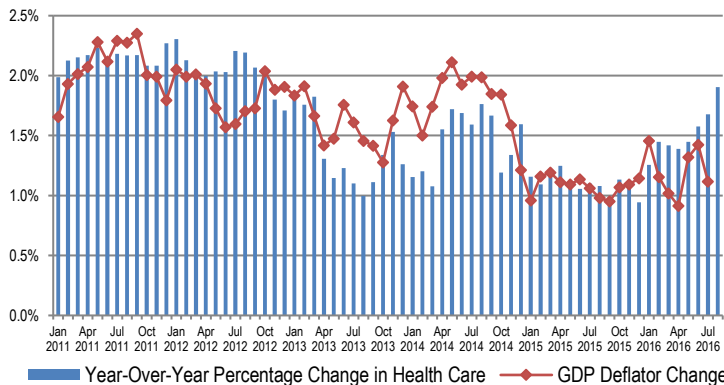
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In August 2016, the Health Care Price Index (HCPI) rose 1.9% from August 2015. The July 12-month moving average at 1.4%, is a tenth higher than in July, and the highest since May 2015. The HCPI shows a steady decline from 3.4% in October 2009, then two years oscillating near 2% growth. 2013 saw a sharp decline to about 1%, followed by an increase in 2014 to around 1.5%. Historically low growth in 2015 ended with 2016 data (Exhibit 1). The HCPI now appears poised for higher growth, perhaps to 2+%. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and is at 1.1% year over year in July 2016 (August data are not available). The HCPI growth rates were tracking the GDPD rates, but have exceeded them over the past 6 months. Exhibit 5 shows long-term comparisons.

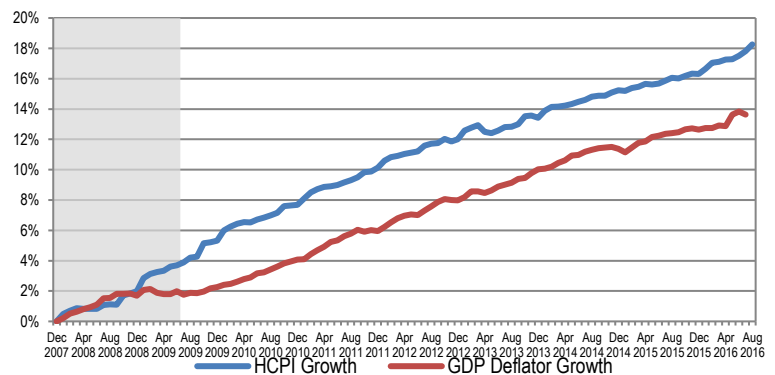
Since the start of the recession in December 2007, health care prices have increased 18.3%, while prices in the economy as a whole (using the GDPD) have increased 13.6% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector have put downward pressure on health care prices, but this pattern now appears to be changing. In August, the CPI rose 1.1%, up from 0.8%, and the medical CPI, emphasizing out-of-pocket prices, rose from 4.0% in July to 4.9% in August, its highest rate since January 2008 (though BLS experts told us that these data may have been skewed by low response rates). The final-demand PPI growth rate for August rose from -0.2% to 0.0%. By historical standards, health care price growth remains very low but it is once again higher than economy-wide price growth.

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.

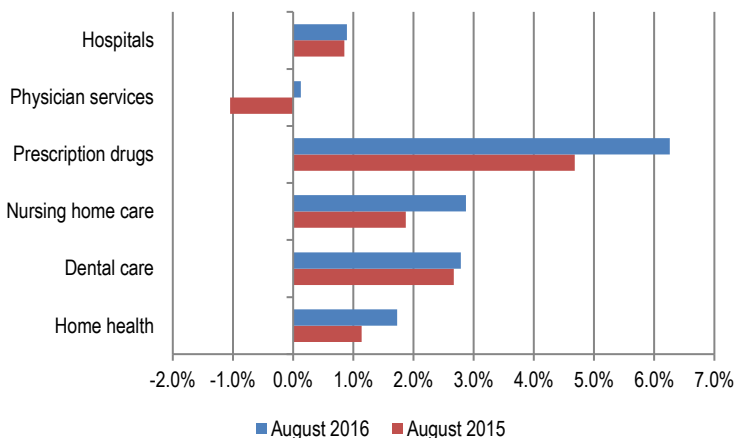
HEALTH CARE PRICES BY CATEGORY

Comparing August 2016 with August 2015, price growth for prescription drugs, at 6.3%, up from the July rate of 5.2%, is easily the fastest growing price category, far above the next highest, other personal health care, which grew by 3.9%. The price change for hospital care rose to a still low 0.9% rate in August, and physician price growth stayed flat at a very low 0.1% rate. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. Its small increase plus higher drug, dental, other personal health care, and other non-durable medical products price growth, boosted the HCPI from 1.7% in July to 1.9% in August. Annual inflation rate comparisons—August 2016 year over year versus August 2015 year over year—show all six categories higher, though three of the differentials are small (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data, is higher for the aggregate HCPI and for six of the ten price categories, especially drugs and the physician category. We continue to think that hospital price growth could surprise to the upside, pulling the HCPI along with it.

Medicare and Medicaid hospital prices continue to grow less quickly than private-sector prices. Hospital price growth for Medicare patients was lower at -0.3% in August, rose to -0.1% from -0.4% for Medicaid patients, and rose to 2.6% from 2.4% for private patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth rose to 0.5% from 0.2% (data not shown). Prices for privately-insured patients are growing moderately, but there is a growing cumulative gap between public and private 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 -1.6%, -1.9%, and 5.5%, 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 has reversed the spending trend. The readings for August 2016 are 5.7% spending growth and 3.8% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth and moderation. Per capita utilization in August rose at an annual rate of 3.0%, below its 12-month average of 3.1%. On a 12-month average basis, utilization for hospitals rose 2.6%, home health care is up 4.7%, physician services rose 5.4%, the prescription drug rate is up 1.4%, nursing care rose 1.5%, and dental care utilization is up 2.8%.

DISCUSSION

In August 2016, the HCPI rose 1.9% above the August 2015 level. While only a 0.2 increase from July, the HCPI is now at its highest rate since October 2012. Reflecting this upward trend, the 12-month moving average rose by 0.1 to 1.4%, its highest rate since May 2015. Thus, after hitting its December 2015 all-time low of 0.9%, the index has roughly doubled, and is on the cusp of rising to a more “normal” 2% rate—or higher. It is also more normal that health care prices are rising more quickly than economy-wide prices. Yet, the two principal price components, hospital and physicians, are still growing remarkably slowly: 0.9% for the former and an incredibly low 0.1% for the latter. At 6.3% growth, up from 5.2% in July, prescription drug price growth is at its highest level since December 2014.

Health care inflation continues to be extraordinarily low for this stage of the business cycle recovery. August 2016 was the 86th month of economic expansion following the recession. While the U.S. economy appears to be steadily growing (though at a meager rate),² economy-wide factors and those internal to the health sector are restraining health care price growth. Per last month, we take notice of the MCPI spike, up 4.9% year over year in August, its highest rate since *January 2008*. While BLS experts told us that this might be distorted by a low response rate, it indicates pressure from external factors on prices for health items not covered by insurance.

We continue to believe that wage pressures will slowly push health price growth higher. Will hospital price growth increase from its extremely low rate? While the easy answer is yes, hospital all-payer margins are historically high, and both public and private payers will be looking for ways to put downward pressure on their reimbursement rates.

¹ Altarum Spending Brief #16-10: August 2016 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² For an interesting view on low GDP growth, see Fernald, J (2016). What is the New Normal for U.S. Growth? *FRBSF Economic Letter*, 2016-30, October 11. Available at <http://www.frbsf.org/economic-research/publications/economic-letter/2016/october/new-normal-for-gdp-growth/>

PRICE GROWTH BY DETAILED CATEGORIES

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

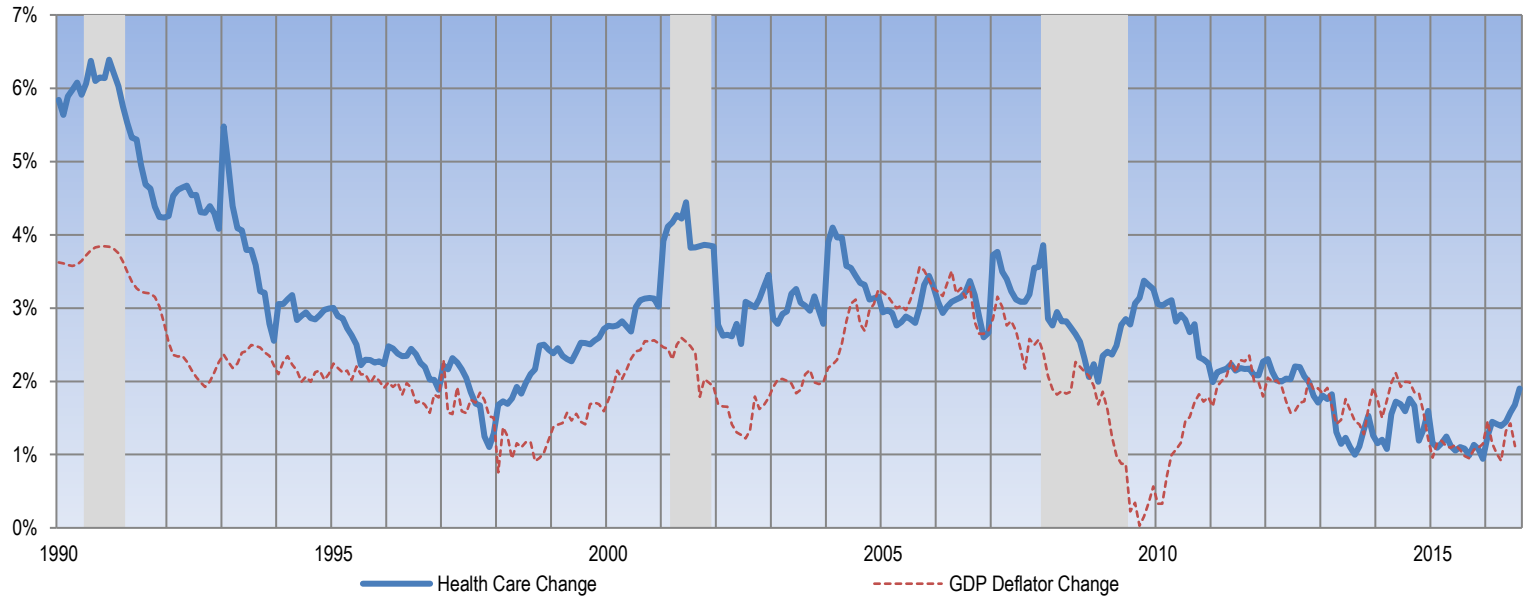
	Ending August 2014	Ending August 2015	Ending August 2016
HCPI	1.8%	1.1%	1.9%
Hospital care	1.8%	0.9%	0.9%
Physician and clinical services	0.9%	-1.0%	0.1%
Prescription drugs	3.6%	4.7%	6.3%
Nursing home care	1.5%	1.9%	2.9%
Dental services	2.0%	2.7%	2.8%
Home health care	1.2%	1.1%	1.7%
Other professional services	1.2%	1.1%	1.3%
Other personal health care	2.5%	2.1%	3.9%
Other nondurable medical products	-0.6%	-0.7%	-1.3%
Durable medical equipment	0.9%	-0.5%	1.0%

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.

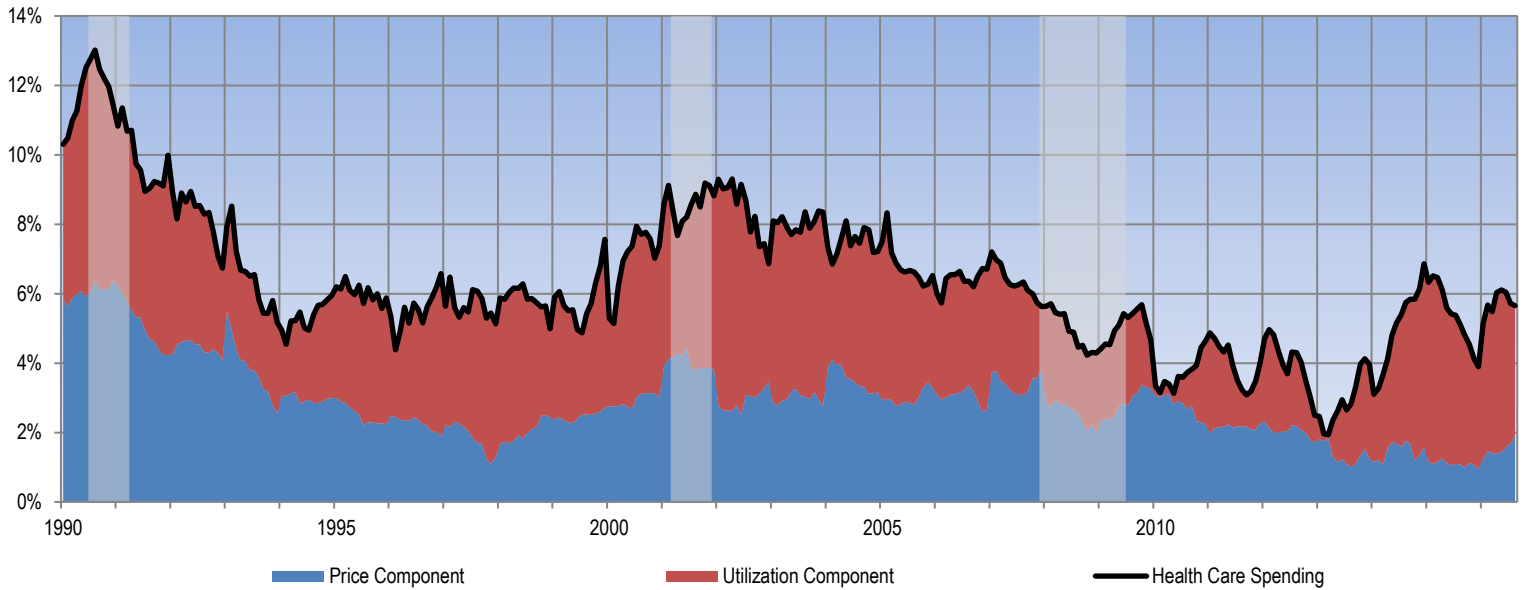
Note: Lightly shaded bars denote recession periods.

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.

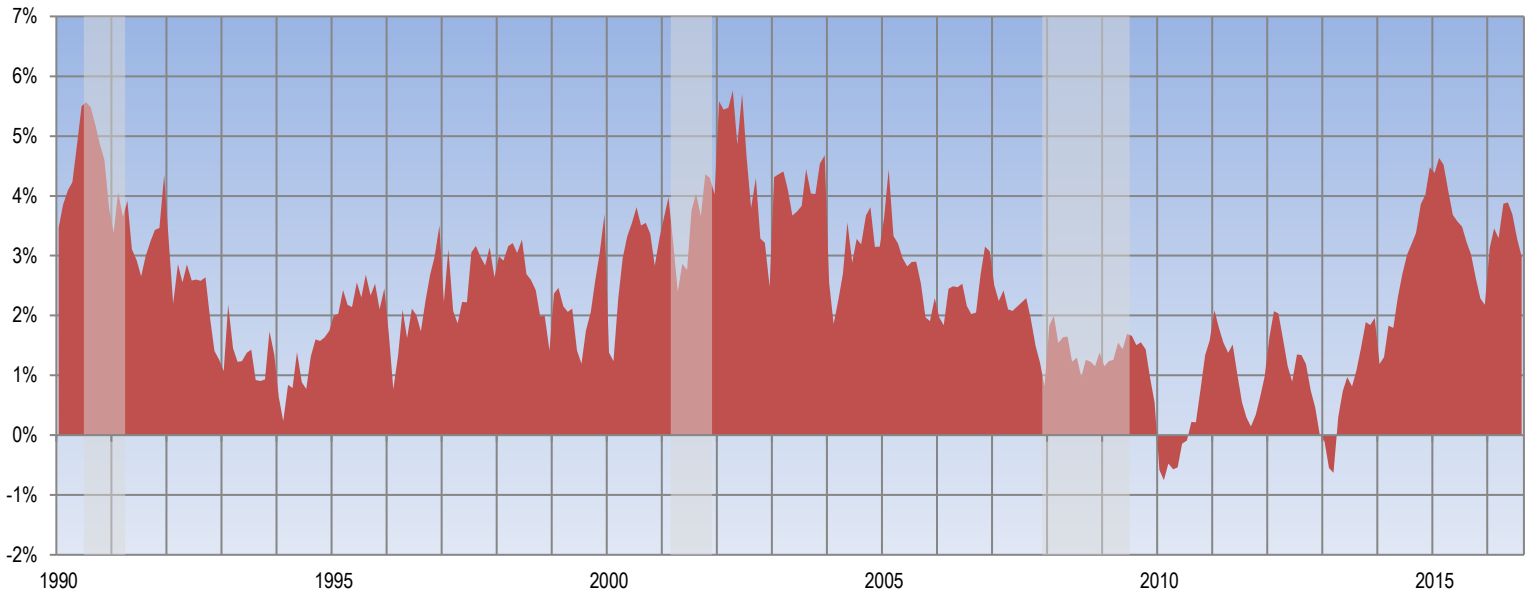
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author);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