

Health Sector Economic IndicatorsSM

Insights from Monthly Price Indices through August 2014

September 17, 2014

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PRICE BRIEF

Health care price growth moderate and steady

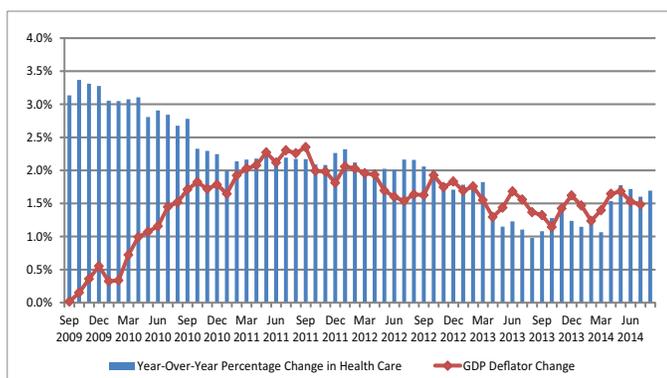
HIGHLIGHTS

- ▲ Health care prices in August 2014 were 1.7% higher than in August 2013, a tenth higher than the July year-over-year reading. The August 2014 12-month moving average rose to 1.4%, the highest since October 2013, continuing the trend since March 2014.
- ▲ Year-over-year hospital prices – a key price index driver – grew 1.7% in August, a tenth higher than July, but below the June rate of 1.9%. Physician and clinical services prices grew 0.8%, well above the July 0.4% rate, and the highest since October 2012. Home health care prices continued a five-month rebound from a year-long negative growth trend, recording a 1.2% rate in July. Prescription drug prices rose 3.6%, down from the July 4.2% rate, which was the highest rate since March 2012.
- ▲ Economy-wide price indexes were steady to lower in August. The Consumer Price Index (CPI) fell three tenths to 1.7%, year over year; the Medical CPI fell to 2.1% from 2.6%; the final demand Producter Price Index rose a tenth to 1.8%, and the gross domestic product (GDP) deflator was 1.5% in July and June (August data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth, year over year, at 1.4% in July, below its 12-month moving average gain of 2.0%.

HEALTH CARE AND ECONOMY-WIDE PRICES

In August 2014, the health care price index (HCPI) rose 1.7% above August 2013. The 12-month moving average of 1.4% is near the all-time low for our data (1.2%), but it has now risen for five straight months, the first increasing trend since January 2012. The HCPI shows a steady decline from October 2009, at 3.4%, followed by 2 years oscillating near 2% growth, with a sharp, sustained decline to about 1% (save for the November 2013 spike), and now its 5-month rise above 1.5% (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator, trended up beginning in September 2009, peaked at 2.4% in September 2011, and was at 1.5% in July 2014 (August data are not yet available). Exhibit 5 shows long-term comparisons.

Exhibit 1. Year-Over-Year Growth Rates in Health Care Price Index and GDP Deflator



Source: Altarum analysis of monthly BLS data
Compares monthly prices with the same month from the previous year

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

	Aug. 2012	Aug. 2013	July 2014	Aug. 2014
Health Care Price Index (HCPI)	2.2%	1.0%	1.6%	1.7%
GDP Deflator (GDPD)	1.6%	1.4%	1.5%	**
HCPI - GDPD*	0.5%	-0.4%	0.1%	**
Addendum				
Personal health care spending	4.2%	3.6%	4.0%	3.7%
Health care utilization	2.0%	2.6%	2.4%	2.0%
CPI-Medical	4.1%	2.3%	2.6%	2.1%
CPI-All items	1.7%	1.5%	2.0%	1.7%

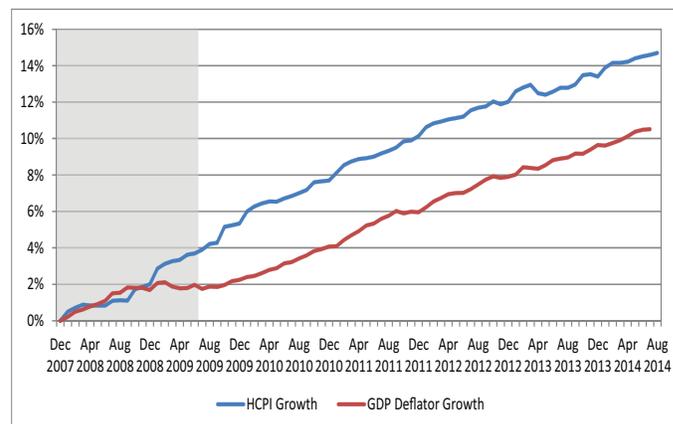
*Numbers may not subtract due to rounding

**Data not yet available

Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. Health care price index 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.

Since the start of the recession in December 2007, health care prices have increased by 14.7%, while prices in the economy as a whole (using the GDP deflator) have increased by 10.5% (Exhibit 2). Low economy-wide inflation continues to exert downward pressure on health care prices, although the latter are now trending at about 0.6 percentage points above the historic lows of 2013. In August, the CPI fell three tenths to 1.7%, the Medical CPI (which emphasizes out-of-pocket prices) dropped sharply to 2.1% from 2.6% in July, while the GDP deflator held at 1.5% in July, and the final demand Producer Price Index rose to 1.8% from 1.7% in July. While health care price growth is still quite low by historical standards, it appears we are moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices.

Exhibit 2. Health Care Price Index and GDP Deflator, Cumulative Percentage Change Since December 2007



Source: Altarum analysis of monthly BLS price data and monthly GDP deflator data published by Macroeconomic Advisers, LLC

Note: Shading indicates recession period

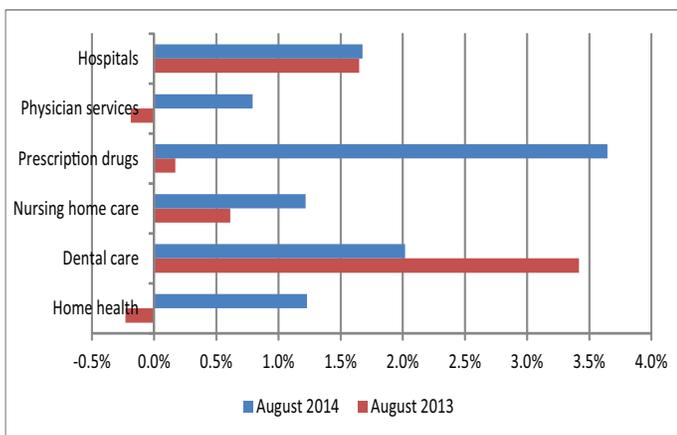
HEALTH CARE PRICES BY CATEGORY

Comparing August 2014 with August 2013, price growth for prescription drugs was the highest, at 3.6% (though down from 4.2% in July which was the highest rate since March 2012), followed by other personal health care at 2.6%, and dental at 2.0%. Hospital care price growth rose a tenth to 1.7% and physician price growth rose from 0.4% to 0.8%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, and its small rise plus the larger physician price growth brought up the HCPI. Annual inflation rate comparisons – August 2014 year-over-year versus August 2013 year-over-year – continues a reversal from previous months, where now price growth is higher for each category, except dental care, for the recent year compared with 2013 (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 mixed across the price categories, but is down substantially for hospitals, physicians, dental, and the aggregate HCPI. Modest price growth in the near term is looking like the new norm.

Medicare and Medicaid prices usually grow more slowly than “other” prices (which include private payment). Hospital prices for Medicare and Medicaid patients rose by 1.7% and -1.2%, respectively (same as July for Medicare and down 0.8% for Medicaid). For other patients, price growth rose to 2.3% from 2.2% in July (data not shown). Analysts have been predicting higher prices from provider consolidation for some time, but this national data shows a steady public vs. other price growth differential.

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 health care spending broken out by price and utilization. The downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, followed by very low price growth, and now a more balanced mix of both factors. The readings for July 2014 are 3.7% spending growth and 2.0% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth through July and highlights the decline between 2002 and 2010 and its recent growth. Per capita utilization in July is rising at an annual rate of 1.4%, below its 12-month average of 2.0%. While this declining utilization trend contrasts with expanded health insurance coverage, Quarterly Services Survey data released on September 9 indicate that spending (and hence utilization) for the second quarter of 2014 will be upwardly revised. On a 12-month average, utilization for hospitals has risen by 1.0%, home health is up by 2.7%, physician services has risen 2.9%, the prescription drug rate has risen 5.8%, and nursing care is up 1.2%, while dental utilization has fallen by 1.4%.

DISCUSSION

In August 2014, the HCPI rose 1.7% above August 2013, a tenth higher than the July rate, and a sharp increase from the first 3 months of 2014, which averaged 1.1% (the second quarter of 2014 averaged 1.7% growth). The 12-month moving average of 1.4% is only two tenths above its historic low of 1.2% in March 2014, but this is the fifth consecutive month of increases for this series after steady declines since January 2012. Hospital price growth rose to 1.7% from 1.6% in July, and combined with a sharp rise in physician price growth though still quite low (0.8% from 0.4% in July), this was largely responsible for pushing the aggregate HCPI higher. Growth in prescription drug prices moderated to 3.6% in August, from 4.2% in July, which was the highest reading since March 2012, and which followed negative price growth data as recently as July 2013. Other components saw only modest changes in price growth.

Health care and economy-wide inflation are quite low for this stage of the business cycle recovery. August 2014 was the 62nd month of economic expansion following the recession. We do not expect new price-growth lows in this cycle, but we also do not see high price growth, and even a return to 2% growth for the HCPI seems far off in the future.

We delayed issuing this price brief to wait for new CMS projections issued on September 3, as well as spending survey data released on September 11, both of which are instrumental for our spending brief.¹ These data plus private sector reports indicate that there has indeed been higher health care utilization in the second quarter of 2014, as insurance coverage increases and the economy continues its slow expansion. We will have a much better picture when the U.S. Bureau of Economic Analysis releases its personal income and outlays data on September 29, and we issue our new spending brief shortly thereafter.

¹ Altarum Institute Spending Brief #14-09: July 2014 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

PRICE GROWTH BY DETAILED CATEGORIES

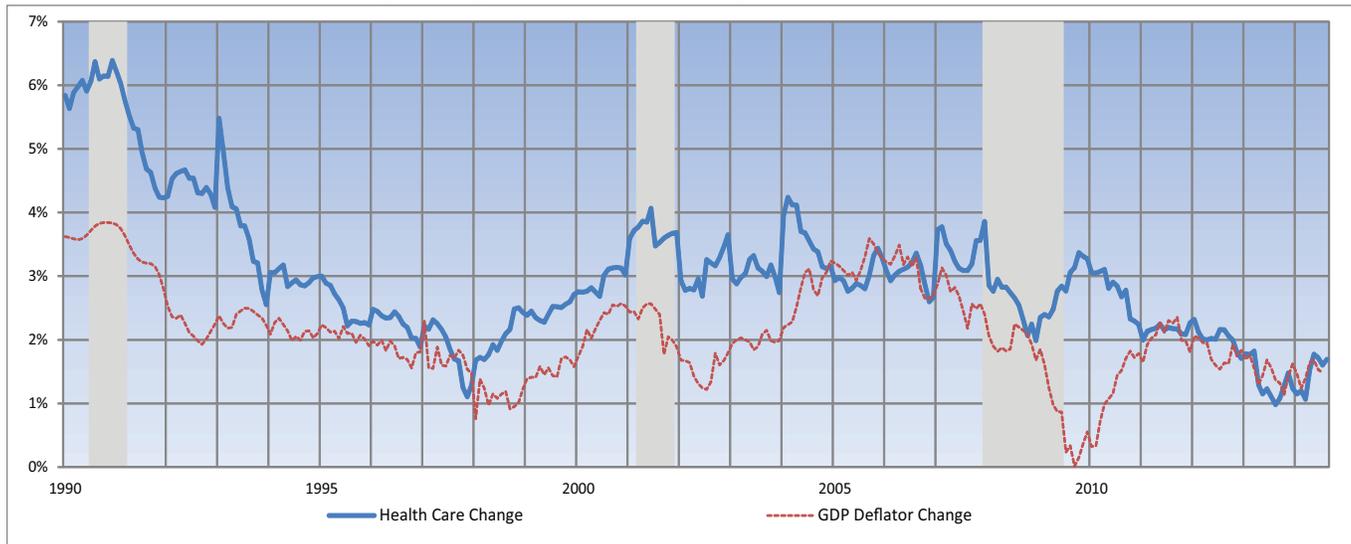
Exhibit 4. Annualized Percentage Change in Prices for the Major Components of National Health Expenditures

	Ending August 2012	Ending August 2013	Ending August 2014
Health care price index	2.2%	1.0%	1.7%
Hospital care	2.7%	1.6%	1.7%
Physician and clinical services	0.9%	-0.2%	0.8%
Prescription drugs	4.0%	0.2%	3.6%
Nursing home care	1.2%	0.6%	1.2%
Dental services	2.4%	3.4%	2.0%
Home health care	0.6%	-0.2%	1.2%
Other professional services	1.3%	1.5%	1.2%
Other personal health care	1.9%	2.5%	2.6%
Other non-durable medical products	2.0%	-0.8%	-0.6%
Durable medical equipment	1.7%	0.4%	0.9%

Source: Altarum analysis of monthly Bureau of Labor Statistics (BLS) data
 Notes: Compares monthly prices with the same month from the previous year

TIME SERIES TRACKER

Exhibit 5. Year-Over-Year Percentage Change in Health Prices Compared with the GDP Deflator



Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data
 Note: Lightly shaded bars denote recession periods

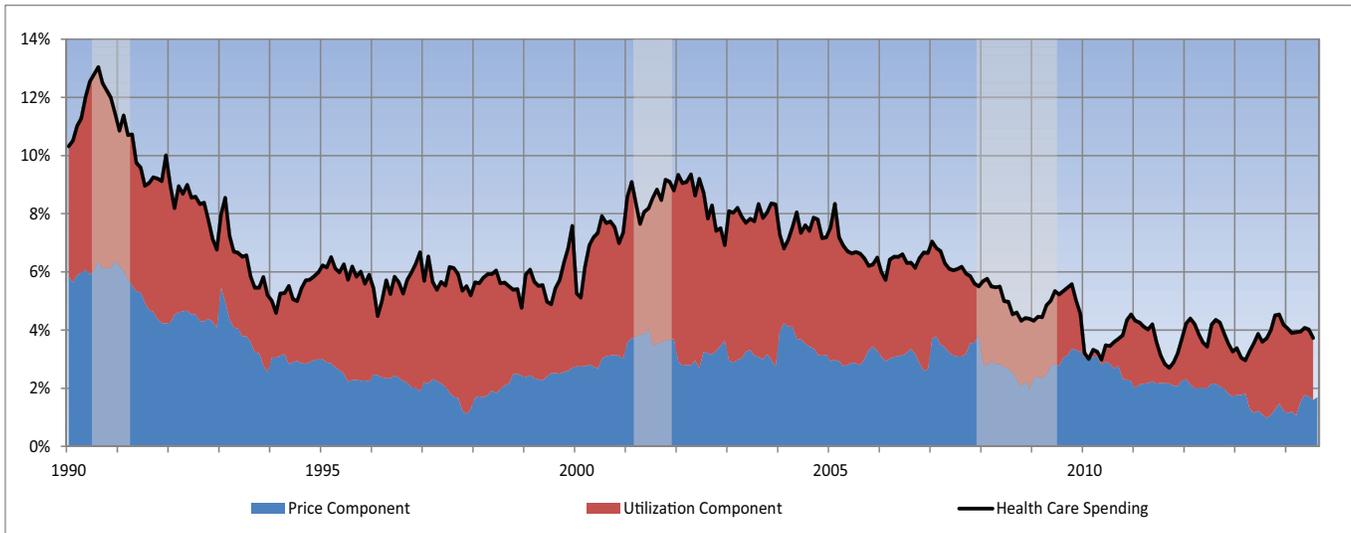
Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute’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, 571-733-5709, ken.schwartz@altarum.org.

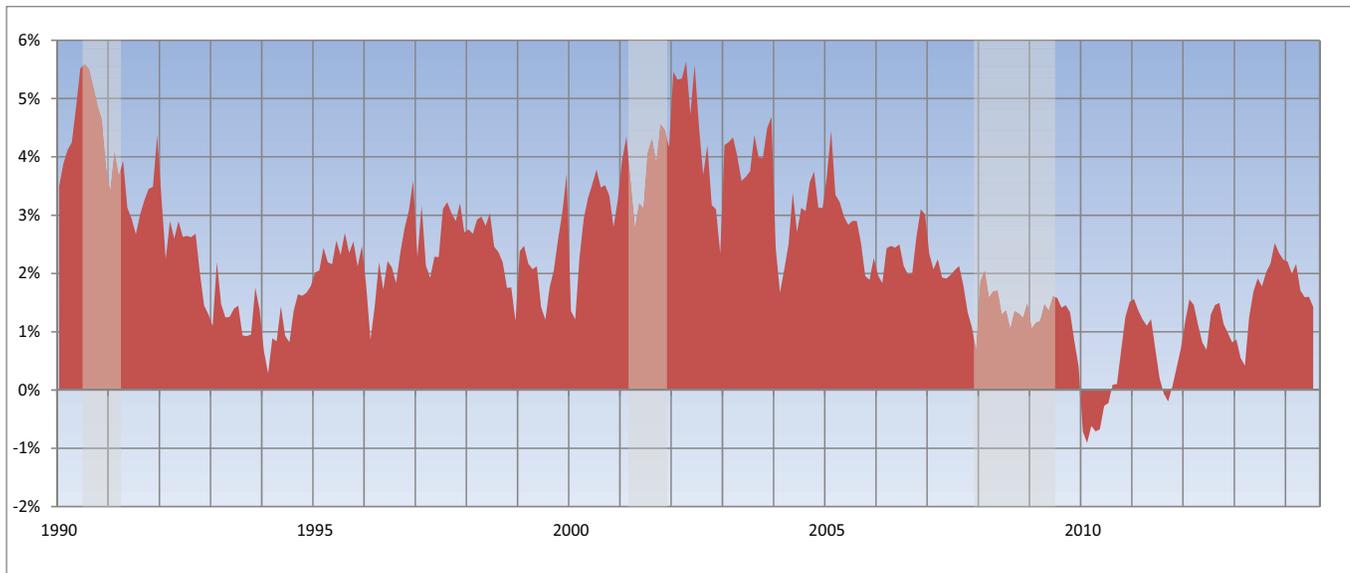
For more information, visit www.altarum.org/csahs.

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 consumer price index are well documented. Information on the CMS index is presented in: U.S. Department of Health and Human Services, *National Health Expenditures Accounts: Methodology Paper, 2012-Definitions, Sources, and Methods*, Washington, DC: Centers for Medicare & Medicaid Services, 2014. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-12.pdf>. The HCPI is calculated using BLS data on Producer Price Indices for hospital, physician, nursing home, and home health components, and Consumer Price Indices for prescription drugs, and other remaining items. Following NHSG, we use the GDP deflator rather than the Consumer Price Index 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.