

# Health Sector Economic Indicators<sup>SM</sup>

## Insights from Monthly National Price Indices Through July 2015

September 11, 2015

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### PRICE BRIEF

## Health care price growth stuck at low 1.1% rate for 4<sup>th</sup> consecutive month

### HIGHLIGHTS

- ▲ Health care prices in July 2015 were 1.1% higher than in July 2014, for the 4<sup>th</sup> consecutive month. The July 2015 12-month moving average held at 1.3%, after the June rate was revised from its initial 1.4% print.
- ▲ Year-over-year hospital prices rose 0.9% in July, the highest since September 2014. Physician and clinical services prices fell 1.1%, around -1% for the 7<sup>th</sup> straight month. Prescription drug prices rose 4.4%, down from 4.8% in June and 6.4% in December 2014.
- ▲ Economy-wide price indexes changed modestly in July. The Consumer Price Index (CPI) rose from 0.1% to 0.2% year over year, while the medical CPI, at 2.5%, was equal to June. The final-demand Producer Price Index (PPI) was -0.8% in July, down from -0.7%. The gross domestic product (GDP) deflator (GDPD) growth was 0.8% in June, the lowest rate since March 2010.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.6% in July, below its 12-month moving average of 3.9%.

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

	Jul 2013	Jul 2014	Jun 2015	Jul 2015
<b>Health Care Price Index (HCPI)</b>	1.1%	1.6%	1.1%	1.1%
<b>GDPD</b>	1.7%	1.9%	0.8%	**
<b>HCPI-GDPD</b>	-0.6%	-0.3%	0.3%	**
<b>Addendum</b>				
<b>Health care spending</b>	3.6%	5.4%	5.5%	5.5%
<b>Health care utilization</b>	2.5%	3.8%	4.4%	4.3%
<b>CPI—medical</b>	1.9%	2.6%	2.5%	2.5%
<b>CPI—all items</b>	2.0%	2.0%	0.1%	0.2%

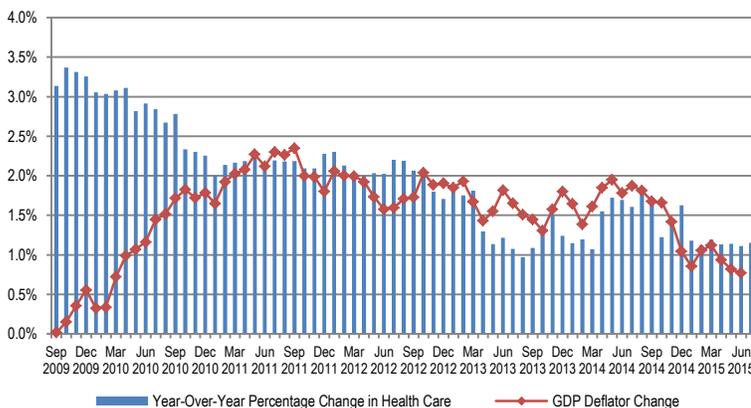
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details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

### HEALTH CARE AND ECONOMY-WIDE PRICES

In July 2015, the HCPI rose 1.1% from July 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 7 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 recently fallen to 0.8% in June, its lowest rate since March 2010 (July GDP data are not yet available). Exhibit 5 shows long-term comparisons.

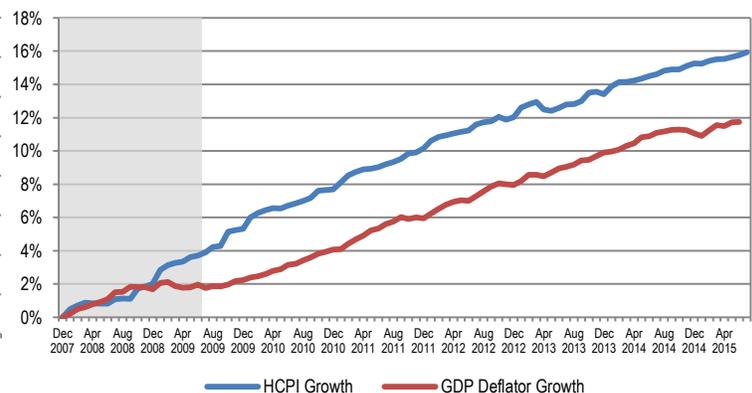
Since the start of the recession in December 2007, health care prices have increased by 15.9% while prices in the economy as a whole (found by using the GDPD) have increased by 11.7% (Exhibit 2). Low economy-wide inflation, via commodity prices, has exerted downward pressure on health care prices, but the causality appears to go both ways. In July, the CPI rose to 0.2% from 0.1% and the Medical CPI, emphasizing out-of-pocket prices, was constant at 2.5%. The final-demand PPI was -0.8% versus -0.7% in June, and the GDPD held at 0.8% in June year over year. 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.

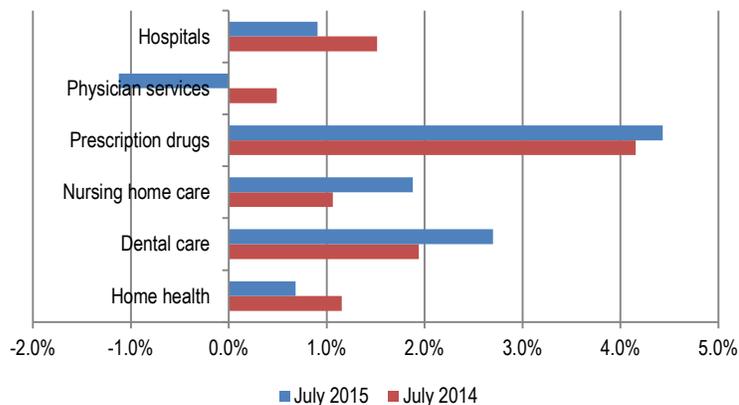
## HEALTH CARE SPENDING BY CATEGORY

Comparing July 2015 with July 2014, price growth for prescription drugs was by far the highest at 4.4%, followed by dental services at 2.7%. The price change for hospital care rose to a still low 0.9%, 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 rise was offset by decreases in the price growth of home health, prescription drugs and durable medical equipment. Annual inflation rate comparisons—July 2015 year over year versus July 2014 year over year—show a mixed pattern, with hospital, physician, and home health care growth lower and the other 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 fall to a historic low, 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 0.3% to -2.1%, and for Medicaid were up to 0.9% from 0.1%. For “other” patients, price growth rose 0.2% in July to 2.6% (data not shown). This month, for the second time ever, we have year-over-year results splitting “other” into private and other providers (e.g., Veterans, TriCare, self-pay). The growth rates are 1.9% (from 2.1%) and 10.9% (from 6.0%), respectively. While private rates are relatively low, hospital consolidation may be helping them to stay well above the very low public rates.<sup>1</sup>

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



Source: Altarum analysis of monthly BLS data.

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<sup>1</sup> MedPAC. (2015, July 24). BLS hospital price data should be used with caution. Retrieved from <http://medpac.gov/blog/july-2015/2015/07/24/bls-hospital-price-data-should-be-used-with-caution>.

<sup>2</sup> Altarum Institute Spending Brief #15-9: July 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

<sup>3</sup> Altarum Institute Labor Brief #15-9: August 2015 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.<sup>2</sup>

- ▲ 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 July 2015 are 5.5% spending growth and 4.3% 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 July is rising at an annual rate of 3.6%, below its 12-month average of 3.9%. 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 4.7%, home health is up 2.3%, physician services has risen 4.8%, the prescription drug rate is up 5.8%, nursing care has risen 1.1%, and dental care utilization is up 1.2%.

## DISCUSSION

In July 2015, the HCPI rose 1.1% above that of July 2014, the 4<sup>th</sup> month at this rate and only a 10<sup>th</sup> higher than the decade-plus low of 1.0% growth registered 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 10<sup>th</sup> above its all-time low for Altarum data (1.2%). The continued negative price growth for physician and clinical services, at -1.1% (only a 10<sup>th</sup> 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 0.9% rate, is the highest since September 2014. Price growth for prescription drugs continued moderating to 4.4% from its multi-decade high of 6.4% reached in December 2014. Dental services price growth, at 2.7%, is the highest since January 2014. Prices for durable medical equipment actually fell by 0.5%, the lowest rate since May 2013.

It is repetitive to say, but still true, that health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. July 2015 was the 73<sup>rd</sup> 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 4<sup>th</sup> longest in post-World War II history!)

A return to 2% growth for the HCPI now seems even further off in the future due in part to worldwide effects of low commodity prices. Yet economic growth for the U.S. economy came in at a high 3.7% for the second quarter of 2015, the overall labor market is strong, and health sector employment is booming.<sup>3</sup> At some point, we expect that health care prices must accelerate but we simply do not seem to be approaching that point!

Please note that August PPI data will come out on September 11. We will provide updates via our Twitter feed.

PRICE GROWTH BY DETAILED CATEGORIES

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

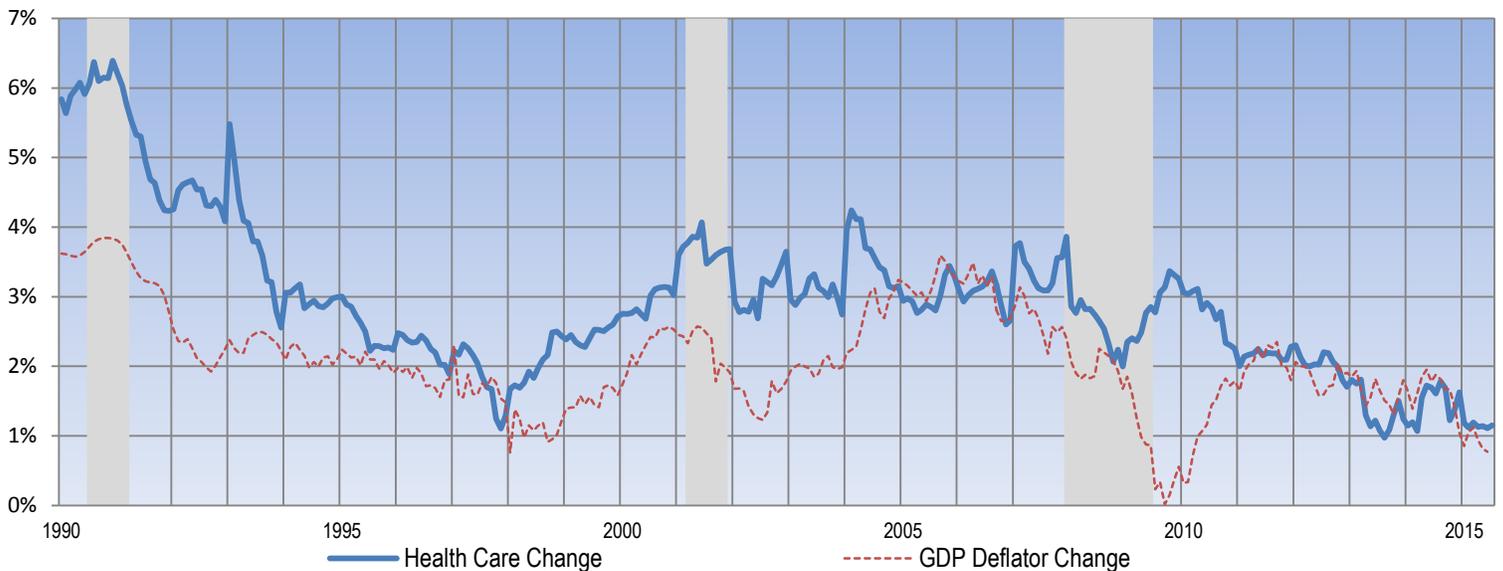
	Ending July 2013	Ending July 2014	Ending July 2015
HCPI	1.1%	1.6%	1.1%
Hospital care	1.7%	1.5%	0.9%
Physician and clinical services	0.1%	0.5%	-1.1%
Prescription drugs	-0.1%	4.2%	4.4%
Nursing home care	0.8%	1.1%	1.9%
Dental services	3.9%	1.9%	2.7%
Home health care	-0.2%	1.2%	0.7%
Other professional services	1.7%	1.6%	0.5%
Other personal health care	2.8%	2.6%	1.9%
Other nondurable medical products	0.0%	-0.7%	-1.2%
Durable medical equipment	0.2%	0.8%	-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.

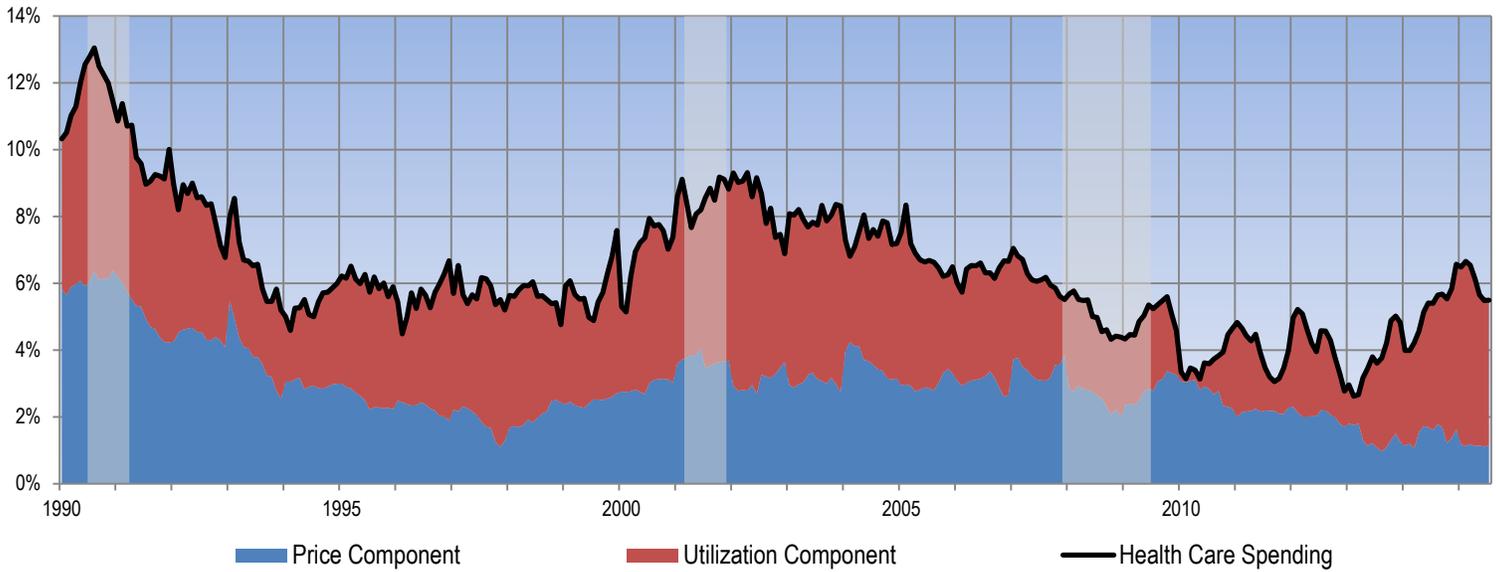
Note: Lightly shaded bars denote recession periods.

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.

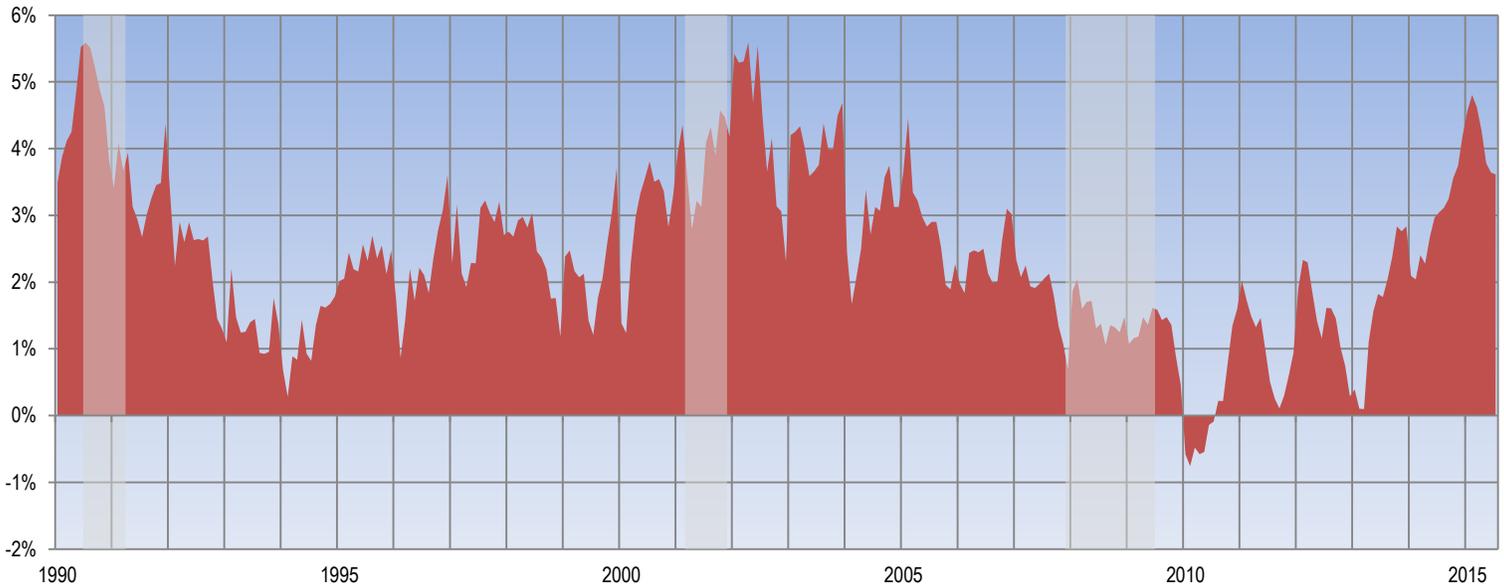
**The Health Sector Economic Indicators<sup>SM</sup>** reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). 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](mailto: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; 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.