

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

## Insights from Monthly National Price Indices Through July 2016

September 9, 2016

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### PRICE BRIEF

## Health care prices accelerate to still-low 1.7%

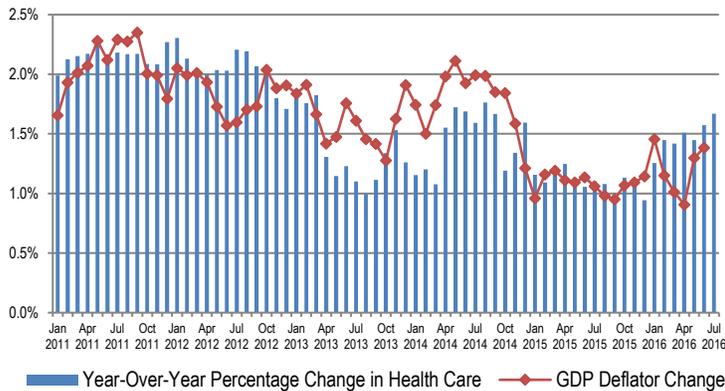
### HIGHLIGHTS

- ▲ Health care prices in July 2016 were 1.7% higher than in July 2015, up 0.1 from the June rate, and the highest growth since September 2014. The July 2016 12-month moving average rose to 1.3% from 1.2%.
- ▲ Year-over-year hospital price growth fell to 0.8%, from 1.0% in June. Physician and clinical services prices rose by 0.1%, down from 0.3%. Drug price growth surged to 5.2% (from 4.4% in June), its highest reading since May 2015, easily the fastest growing price component.
- ▲ Economy-wide price indices were mixed. The Consumer Price Index (CPI) fell to 0.8% growth from 1.0%, the final-demand Producer Price Index (PPI) fell to -0.2% from 0.3%, but the gross domestic product deflator (GDPD) growth rose to 1.4% from 1.3% in May. The Medical CPI rate rose from 3.6% to 4.0%, the highest since September 2012.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.5% in July, below its 12-month moving average of 2.9%.

### HEALTH CARE AND ECONOMY-WIDE PRICES

In July 2016, the Health Care Price Index (HCPI) rose 1.7% from July 2015. The July 12-month moving average at 1.3%, is a tenth higher than June, and the highest since July 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). After a pause, the HCPI appears to be poised for modestly higher growth. 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 1.4% year over year in June 2016 (July data are not yet available). The HCPI growth rates were roughly tracking the GDPD rates, but have exceeded them over the past 5 months. Exhibit 5 shows long-term comparisons.

**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.

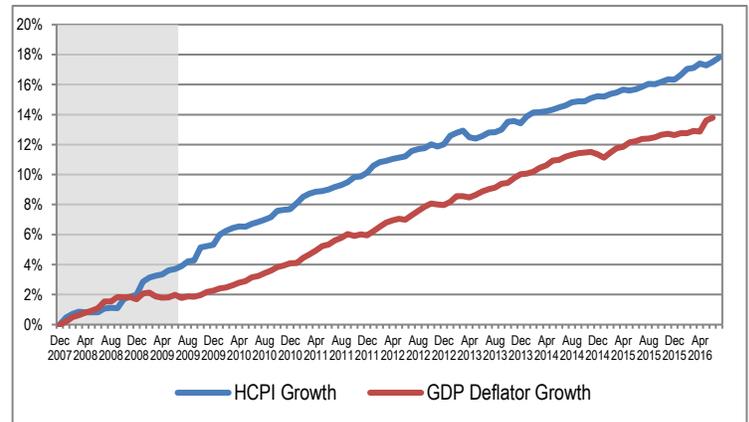
**Health Care Prices and Related Statistics: 12-Month Growth Rates**

	Jul. 2014	Jul. 2015	Jun. 2016	Jul. 2016
<b>Health Care Price Index (HCPI)</b>	1.6%	1.1%	1.6%	1.7%
<b>GDPD</b>	2.0%	1.1%	1.4%	**
<b>HCPI—GDPD</b>	-0.4%	0.0%	0.2%	**
<b>Addendum</b>				
Health care spending	5.4%	5.4%	5.2%	4.9%
Health care utilization	3.8%	4.3%	3.7%	3.3%
CPI—medical	2.6%	2.5%	3.6%	4.0%
CPI—all items	2.0%	0.2%	1.0%	0.8%

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.

Since the start of the recession in December 2007, health care prices have increased 17.8%, while prices in the economy as a whole (using the GDPD) have increased 13.8% (Exhibit 2). Low economy-wide inflation and structural changes in the health sector continue to exert downward pressure on health care prices. In July, the CPI rose 0.8%, down from 1.0%, but the medical CPI, emphasizing out-of-pocket prices, rose to 4.0% from 3.6%, its highest rate since September 2012. The final-demand PPI growth rate for July dropped to -0.2% from 0.3% in June (which had been its highest annual rate since December 2014). By historical standards, health care price growth remains very low but mostly exceeds economy-wide price growth and appears poised to slowly increase.

**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.

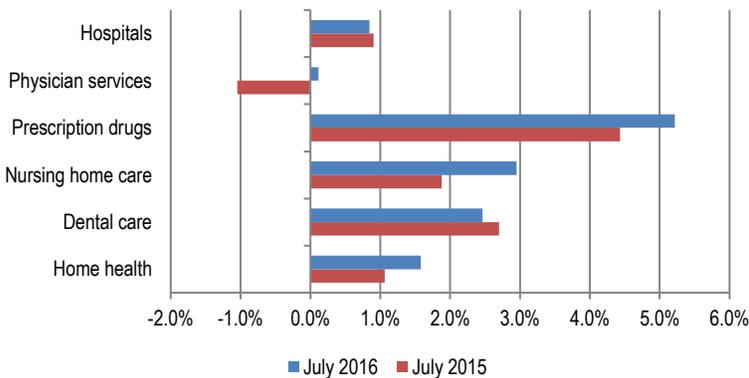
**HEALTH CARE PRICES BY CATEGORY**

Comparing July 2016 with July 2015, price growth for prescription drugs, at 5.2%, up from the June rate of 4.4%, is easily the fastest growing price category, far above nursing home care which grew by 3.0%. The price change for hospital care fell to a very low 0.8% rate in July, and physician price growth also fell to an extraordinarily low 0.1% rate. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, but its lower rate was balanced by higher drug, nursing home care, other professional services, and durable medical equipment price growth, to barely boost the HCPI from 1.6% in June to 1.7% in July. Annual inflation rate comparisons—July 2016 year over year versus July 2015 year over year—show four of the six categories higher, with hospitals and dental care against the trend, though most of the differentials are small (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data, is lower for the aggregate HCPI and for seven of the ten price categories, including the hospital and physician categories. Even with this strong deflationary signal, we still think 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 steady at -0.2% in July, rose to -0.4% from -0.7% for Medicaid patients, and fell to 2.4% from 2.6% for private patients in July. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth fell to 0.2% from 0.3% (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%, -2.1%, and 4.7%, 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.<sup>1</sup>

- ▲ 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, now moderating, has reversed the spending trend. The readings for July 2016 are 4.9% spending growth and 3.3% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then growth followed by recent moderation. Per capita utilization in July rose at an annual rate of 2.5%, below its 12-month average of 2.9%. On a 12-month average basis, utilization for hospitals has risen 2.0%, home health care is up 5.0%, physician services have risen 5.3%, the prescription drug rate is up 1.8%, nursing care has risen 0.3%, and dental care utilization is up 3.0%.

**DISCUSSION**

In July 2016, the HCPI rose 1.7% above the July 2015 level. While only a 0.1 increase from June, the HCPI is at its highest rate since September 2014. Reflecting this upward trend, the 12-month moving average rose by 0.1 to 1.3%, its highest rate since July 2015. Thus, after hitting its December 2015 all-time low of 0.9%, the index may be ready to rise to a more normal 2% rate. As we said last month, price acceleration will be difficult to achieve unless the hospital and physician growth rates rise from quite low levels: 0.8% for the former and an incredibly low 0.1% for the latter. At 5.2% growth, from 4.4% in June, prescription drug prices are at their highest level since May 2015.<sup>2</sup>

Health care inflation continues to be extraordinarily low for this stage of the business cycle recovery. July 2016 was the 85<sup>th</sup> month of economic expansion following the recession. While the U.S. economy appears to be steadily growing (though at a disappointingly slow rate), factors internal to the health sector are keeping the lid on health care price growth. One noteworthy data point is the surging MCPI, which rose by 4.0% in July, its highest rate since September 2012. This signals a rise in external factors, and pricing for health goods not covered by insurance.

We continue to believe that emerging wage pressures will ultimately push price growth modestly higher, but, per the above, the big question is whether hospital price growth trends higher. With small administered price increases on the public side, such growth would need to stem from the private side, begging the question of the pricing power due to provider consolidation.

<sup>1</sup> Altarum Spending Brief #16-9: July 2016 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

<sup>2</sup> For a fascinating perspective on the future, see Aitken, M, E Berndt, D Cutler, M Kleinrock and L Maini (2016). Has the Era of Slow Growth for Prescription Drugs Ended? *Health Affairs*, 35(9), September. Available at <http://content.healthaffairs.org/content/35/9/1595.abstract?etoc>

**PRICE GROWTH BY DETAILED CATEGORIES**

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

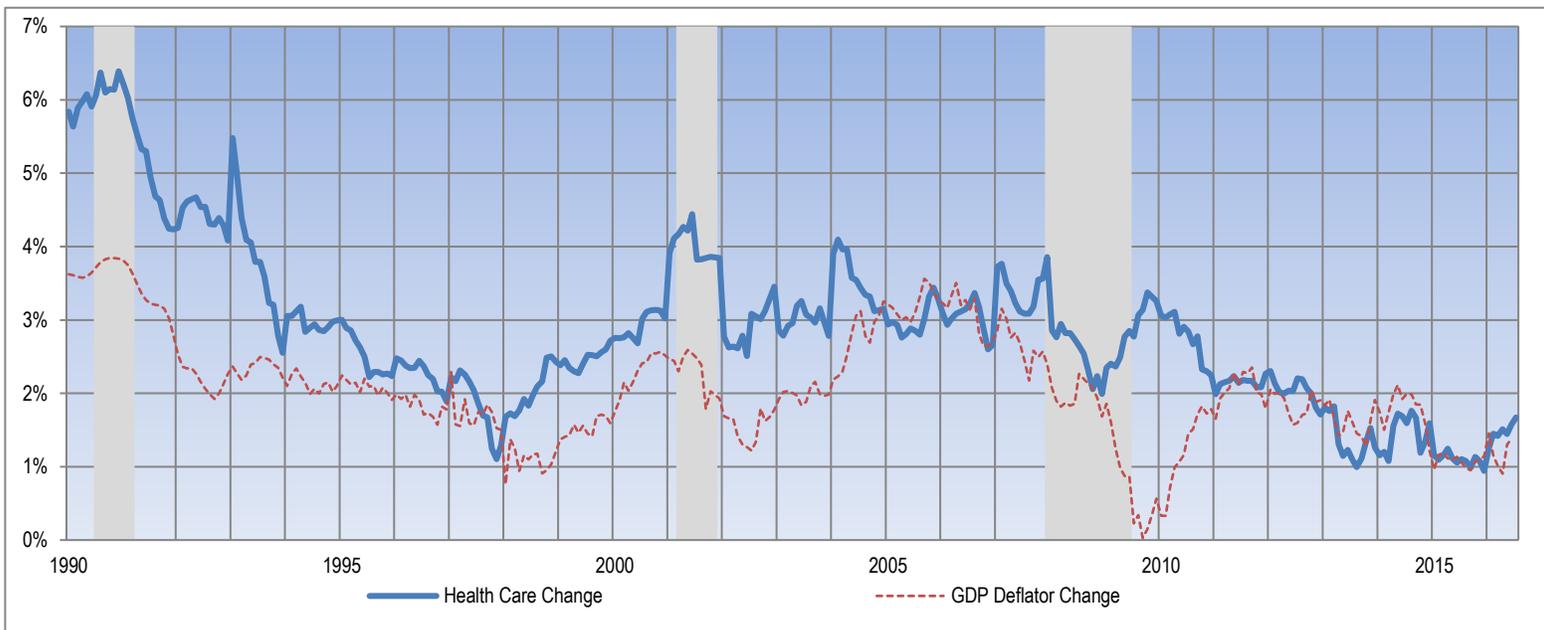
	Ending July 2014	Ending July 2015	Ending July 2016
HCPI	1.6%	1.1%	1.7%
Hospital care	1.5%	0.9%	0.8%
Physician and clinical services	0.5%	-1.0%	0.1%
Prescription drugs	4.2%	4.4%	5.2%
Nursing home care	1.1%	1.9%	3.0%
Dental services	1.9%	2.7%	2.5%
Home health care	1.2%	1.1%	1.6%
Other professional services	1.6%	0.5%	1.8%
Other personal health care	2.6%	2.1%	2.9%
Other nondurable medical products	-0.7%	-1.2%	-1.6%
Durable medical equipment	0.8%	-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.

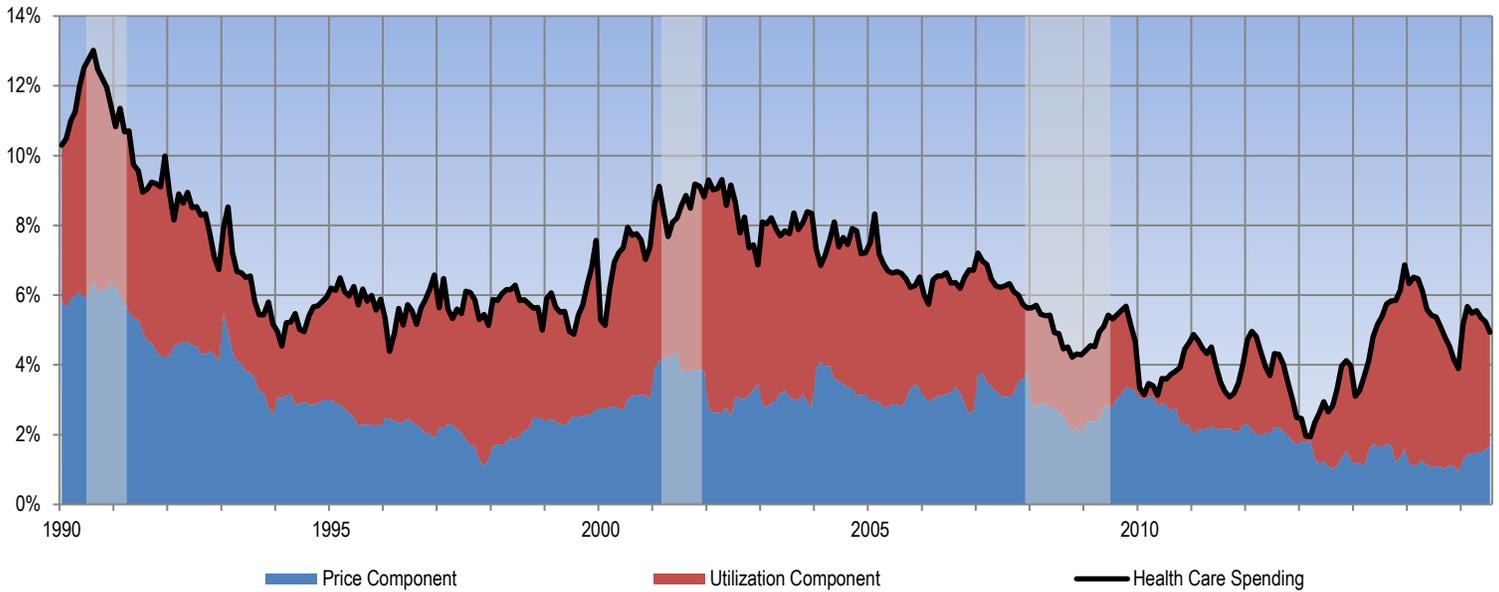
Note: Lightly shaded bars denote recession periods.

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.

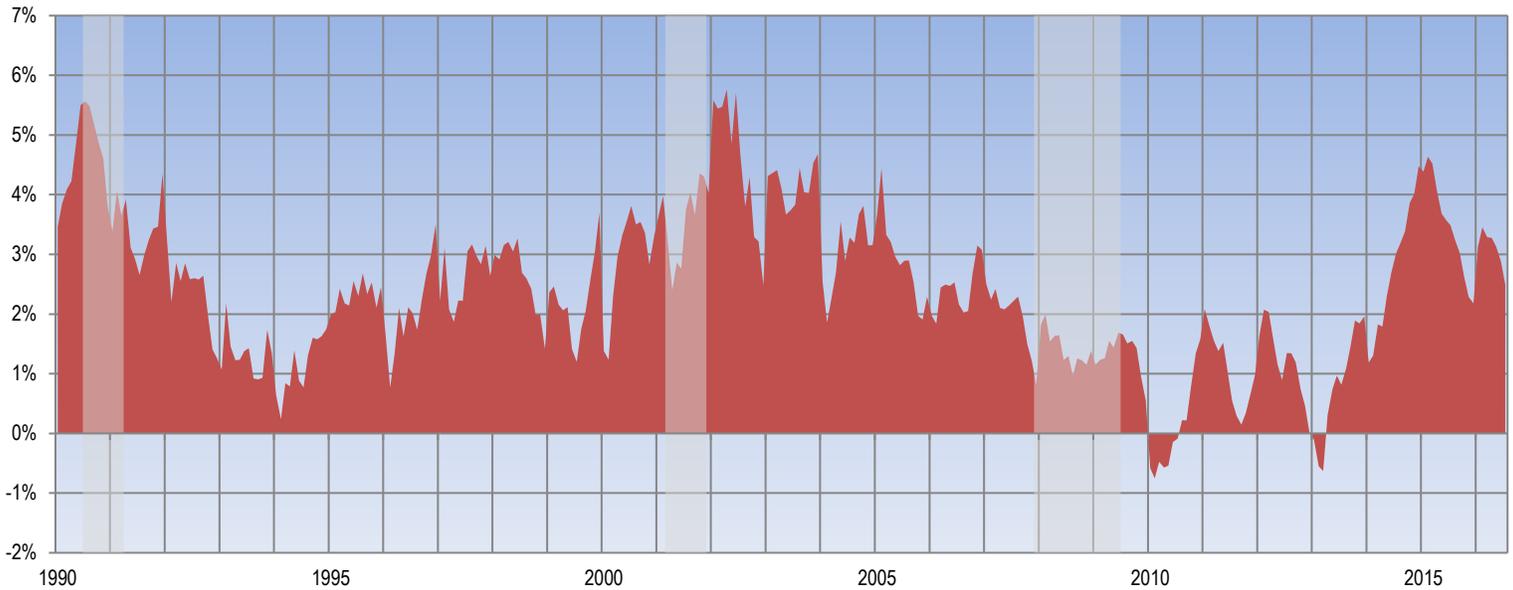
The *Health Sector Economic Indicators*<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 202-772-5062, [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 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.