

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

**Insights from Monthly Price Indices through January 2015**

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**PRICE BRIEF**

March 13, 2015

**First-ever fall in hospital prices drives down Health Care Price Index**

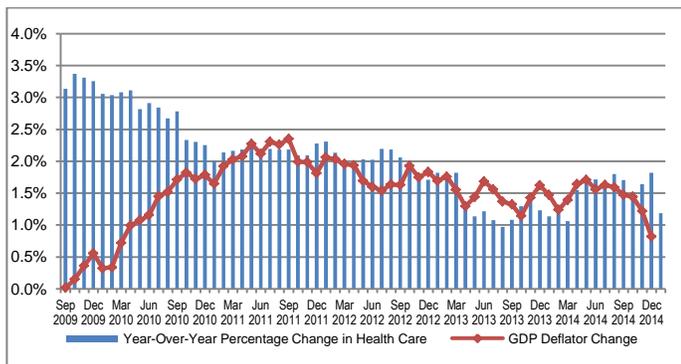
**HIGHLIGHTS**

- ▲ Health care prices in January 2015 were 1.2% higher than in January 2014, dramatically lower than the December year-over-year change of 1.8%. The January 2015 12-month moving average held at 1.5%.
- ▲ Year-over-year hospital prices fell 0.1% in January, much less than the December gain of 0.9%, and the only month of decline recorded since this series began in 1992. Physician and clinical services prices were flat, after rising 0.6% in December. Home health care prices continued their rebound from their earlier negative growth trend, recording a 1.2% rate in January, below the December rate of 1.9%. Prescription drug prices rose 5.6%, down from a 22-year peak of 6.4% in December.
- ▲ Economy-wide price indexes were sharply lower in January. The Consumer Price Index (CPI) decreased from 0.8% to -0.1% year-over-year, the gross domestic product (GDP) deflator fell from 1.2% to 0.8% in December (January GDP data are not yet available), and the final demand Producer Price Index (PPI) plummeted to 0.0% from 1.1%. The Medical CPI fell to 2.6% from 3.0%.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.6% in January, above its 12-month moving average of 2.5%.

**HEALTH CARE AND ECONOMY-WIDE PRICES**

In January 2015, the Health Care Price Index (HCPI) rose 1.2% above January 2014. The 12-month moving average of 1.5% is near the all-time low for our data (1.2%), but it has now risen for 10 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, a sharp decline to about 1%, a 9-month rise above 1.5%, and finally a dramatic drop this month (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator (GDPD), trended upward beginning in September 2009, peaked at 2.4% in September 2011, and fell to 0.8% in December 2014. 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: Compares monthly prices with the same month from the previous year.

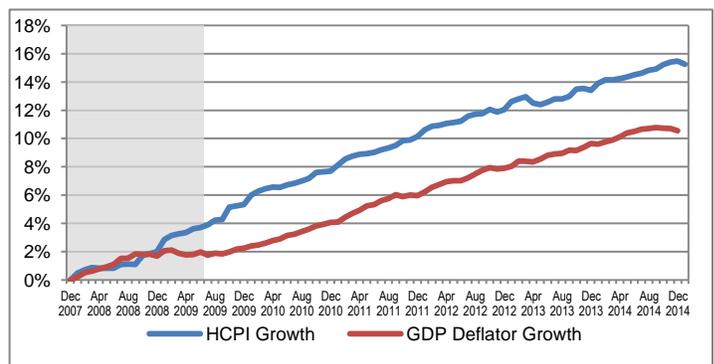
**Health Care Prices and Related Statistics: 12-Month Growth Rates**

	January 2013	January 2014	December 2014	January 2015
HCPI	1.8%	1.1%	1.8%	1.2%
GDPD	1.7%	1.5%	0.8%	**
HCPI – GDPD	0.1%	-0.3%	1.0%	**
<b>Addendum</b>				
Health care spending	3.7%	4.1%	5.2%	5.5%
Health care utilization	1.9%	2.9%	3.4%	4.4%
CPI—Medical	3.1%	2.1%	3.0%	2.6%
CPI—All Items	1.6%	1.6%	0.8%	-0.1%

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. Numbers may not subtract properly due to rounding.  
\*\*Data not available

Since the start of the recession in December 2007, health care prices have increased by 15.3%, while prices in the economy as a whole (using the GDPD) have increased by 10.5% (Exhibit 2). Low economy-wide inflation has exerted particularly strong downward pressure on health care prices. In January, the CPI fell to -0.1% from 0.8%, and the Medical CPI, emphasizing out-of-pocket prices, fell from 3.0% to 2.6%. In December, the GDPD fell to 0.8% from 1.2%, and the final-demand PPI plummeted to 0.0% from 1.1%. Health care price growth is quite low by historical standards, but we are moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices.

**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.

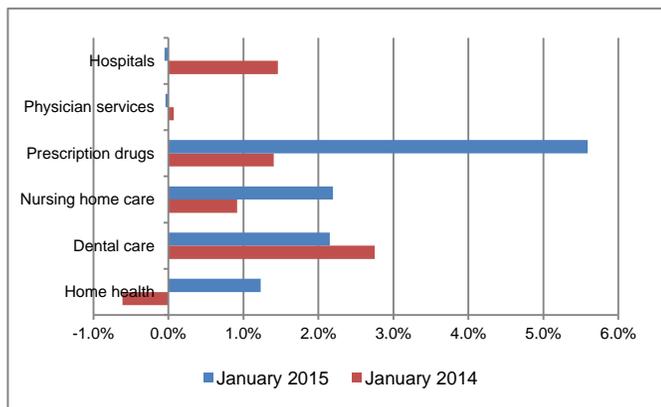
### HEALTH CARE PRICES BY CATEGORY

Comparing January 2015 with January 2014, price growth for prescription drugs was by far the highest at 5.6%, followed by nursing home health care and dental care at 2.2%. The hospital care price change dropped to -0.1% from 0.9%, and physician price growth dropped from 0.6% to 0.0%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, and it, coupled with no price growth for physicians, drove the HCPI lower. Annual inflation rate comparisons—January 2015 year over year versus January 2014 year over year—show a mixed pattern, with hospital, physician, and dental 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 mixed across the price categories but barely up both for hospitals and the aggregate HCPI index. Clearly, we expect a pickup in the growth for hospital prices from the current low, but we did last month as well. It is difficult to imagine a lower HCPI for February 2015, but who would have possibly foreseen a negative price growth for hospitals?

Medicare and Medicaid prices grew more slowly than “other” prices, which include private payment. Hospital prices for Medicare and Medicaid patients changed by -2.9% and -0.1%, respectively, down 2.2% from December for Medicare and down 0.5% for Medicaid. For “other” patients, price growth fell in January from 2.0% to 1.6% (data not shown). The January reading for both the “other” and Medicare hospital PPIs are the lowest since this series began in January 2002. The long predicted hospital price growth due to consolidation is nowhere to be found!

**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 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 balanced mix of each factor. The readings for January 2015 are 5.5% spending growth and 4.4% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth through December and highlights the decline between 2002 and 2010 and its recent growth. Per capita utilization in January is rising at an annual rate of 3.6%, above its 12-month average of 2.5%. This rising utilization trend accords with expanded health insurance coverage, and accord well with recently released Quarterly Services Survey data. On a 12-month average, utilization for hospitals has risen by 2.5%, home health is up by 2.4%, physician services has risen 1.8%, the prescription drug rate has risen 6.6%, and nursing care is up 1.6%, but dental care utilization has fallen by 0.2%.

### DISCUSSION

In January 2015, the HCPI rose 1.2% above that of January 2014, a whopping six-tenths lower than the December rate and within striking distance of the decade-plus low of 1.0% growth registered in August 2013. The 12-month moving average of 1.5% is stable for the fourth month, after increases beginning in April 2014. The big news is the first ever negative hospital price growth (-0.1%), along with the historically low hospital price growth for Medicare (-2.9%) and “other” payers (1.6%). In contrast, price growth for prescription drugs, at 5.6%, though down from 6.4% in December, is still the highest since May 2002.

For the HCPI as a whole, only 2 of the 10 components saw increases in price growth (nursing home care and dental services). Some of this downward pressure is related to economy-wide price behavior, seen most clearly with durable medical equipment price growth of only 0.2% and price growth for other nondurable medical products actually falling by 1.1%. Yet, the price behavior for hospitals and physicians suggests that something else is happening. Are we seeing the first signs of newfound health care efficiency via insurance exchanges, high-deductible health policies, transparency, and more keeping health care prices contained? Health care and economy-wide inflation are quite low for this stage of the business cycle recovery. January 2015 was the 67<sup>th</sup> month of economic expansion following the recession, yet we are barely off the decade-plus HCPI low. A return to 2% growth for the HCPI now seems further off in the future.

Nevertheless, new spending data show an increase in health care services spending that should lead to price pressures. We are also continuing an above-average flu season. Formerly, these pressures, expanded coverage, and a strengthening economy would push prices much higher. This is not, however, your grandfather’s health sector!

<sup>1</sup> Altarum Institute Spending Brief #15-3: January 2015 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

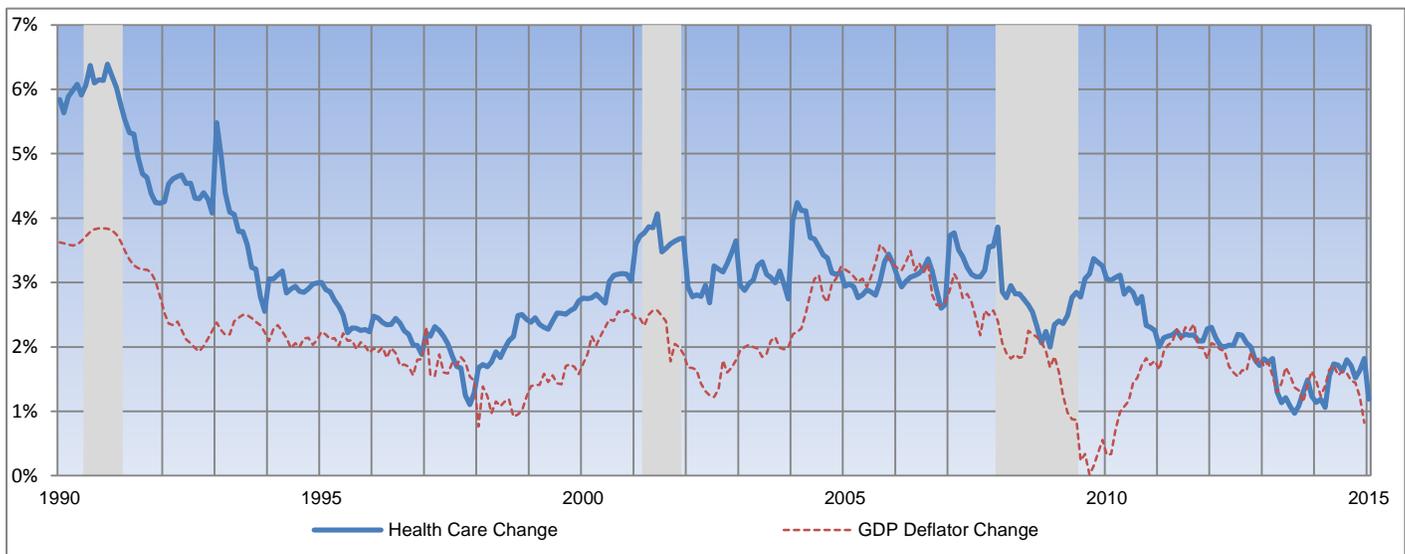
	Ending January 2013	Ending January 2014	Ending January 2015
HCPI	1.8%	1.1%	1.2%
Hospital Care	2.9%	1.5%	-0.1%
Physician and clinical services	0.3%	0.1%	0.0%
Prescription drugs	1.6%	1.4%	5.6%
Nursing home care	1.2%	0.9%	2.2%
Dental services	3.0%	2.8%	2.2%
Home health care	0.5%	-0.6%	1.2%
Other professional services	1.3%	1.7%	1.1%
Other personal health care	2.4%	2.6%	1.9%
Other nondurable medical products	0.8%	-1.0%	-1.1%
Durable medical equipment	1.0%	0.0%	0.2%

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.

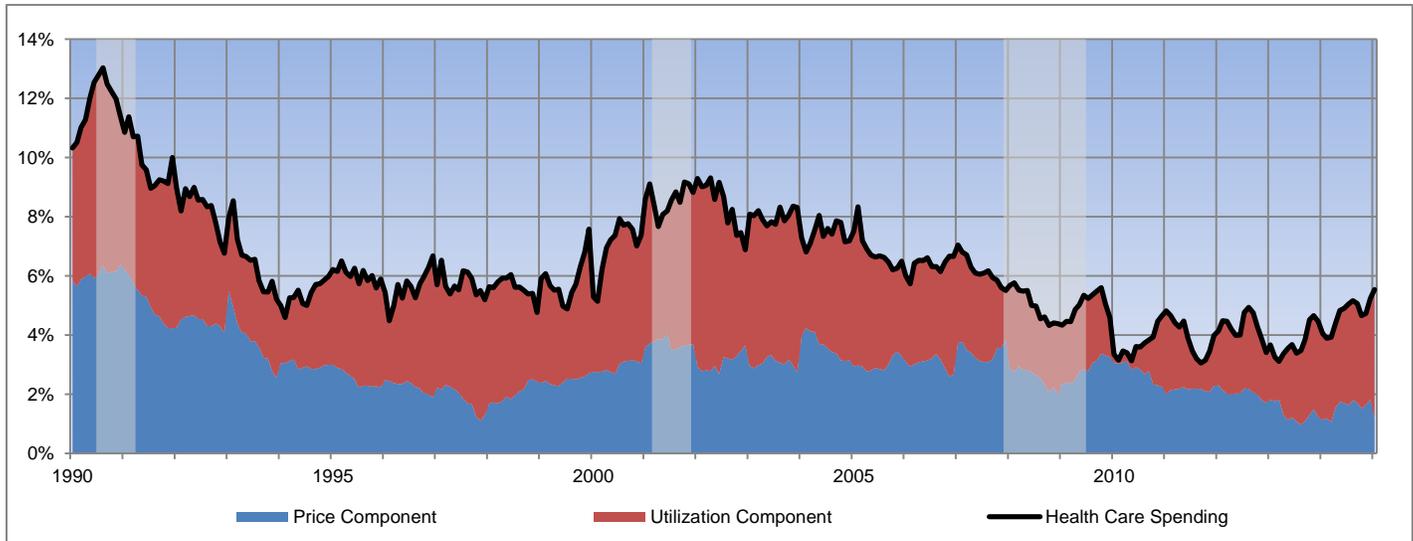
Note: Lightly shaded bars denote recession periods.

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 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.

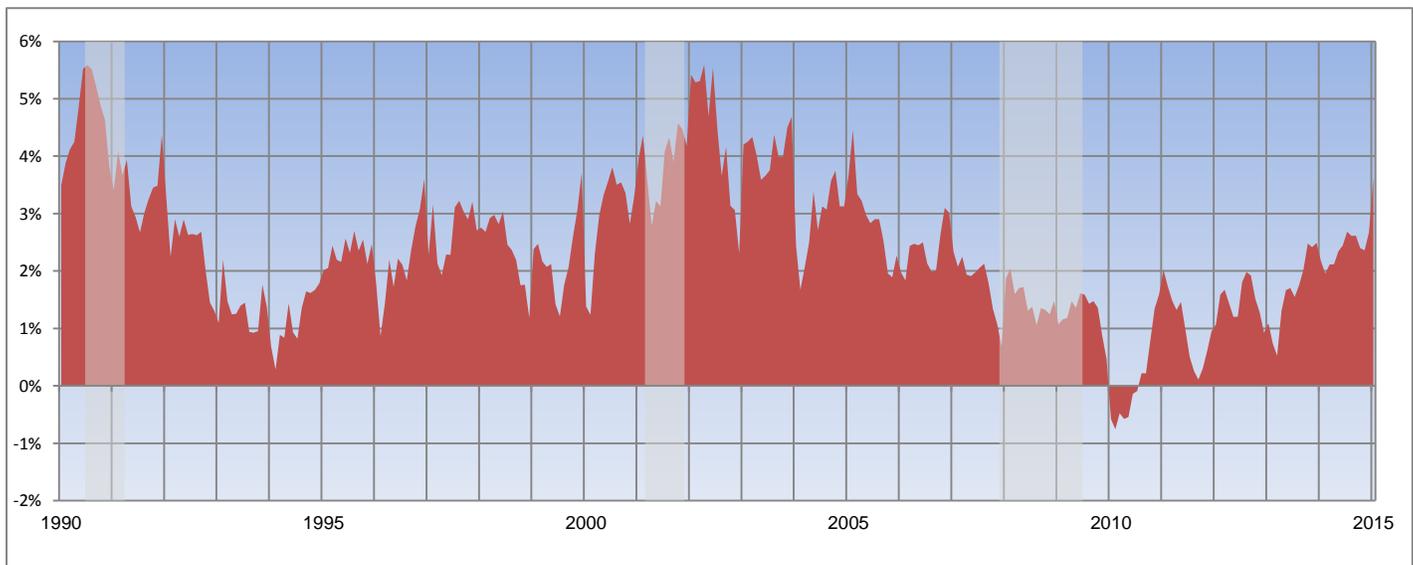
**The Health Sector Economic Indicators**<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). 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 [www.altarum.org/cshs](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, *National Health Expenditures Accounts: Methodology Paper, 2013—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-13.pdf>. The HCPI is calculated using BLS data on Producer Price Indices 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.