April 12, 2019 ▲ Low hospital and drug price growth drive down overall health care price growth to 1.2%

**HIGHLIGHTS**

▲ Health care prices in March 2019 rose 1.2% above March 2018, its lowest growth rate since September 2017.

▲ Year-over-year hospital price growth was 1.6%, down from 1.9% in February. Physician price growth fell from 0.7% in February to 0.5%. Drug price growth at -0.4% in March was up from -1.2% in February (the lowest growth since September 1972!)

▲ Economy-wide price indices showed higher growth. The Consumer Price Index (CPI) rose from 1.5% in February to 1.9% in March and the final-demand Producer Price Index (PPI) rose to 2.2% growth from 1.9% in February. Data delays imply that our most recent gross domestic product deflator (GDPD) is for January (+1.9%), above the December rate of 2.1%.

▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.2% in January—above its 12-month average of 1.9%.

**HEALTH CARE AND ECONOMY-WIDE PRICES**

In March 2019, the Health Care Price Index (HCPI) rose 1.2% above March 2018. The 12-month moving average was steady at 1.7%. The HCPI declined from 3.2% in October 2009, hit a historic low of 1.0% in December 2015, and increased through 2016. After falling and rising again, it is now surprisingly trending down (Exhibit 1). Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009 (at 0.1%), peaked at 2.4% in September 2011 before trending down. It fell to a 1.9% annual rate in January, down from its post-recession high of 2.6% in June 2018. Exhibit 5 shows long-term comparisons.

Since the start of the recession in December 2007, health care prices have increased 22.5%, while economy-wide prices (using the GDPD) have increased 19.3% (Exhibit 2). This cumulative gap is amazingly low and may be narrowing. We are approaching the record for consecutive months with the HCPI growth below the GDPD growth (20 months in 2013–2014). Through January 2019 (with missing recent GDPD data), we count 19 months of this phenomenon. In March, the CPI rose 1.9% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 1.7% annual growth. The final-demand PPI growth for March rose to 2.2% from 1.9% in February.

**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

In March 2019, the annual price growth for nursing home care, at 5.3%, was easily the highest category, and other non-durable products was the lowest at -1.6%. While still negative at -0.4%, drug price growth is higher than the February rate of -1.2%, its lowest since September 1972. Year-over-year price growth for hospital care fell from 1.9% to 1.6% in March, its lowest rate since September 2017. Physician services growth fell to 0.5% from 0.7% in February. Annual inflation rate comparisons—March 2019 year over year versus March 2018 year over year—show physician services and nursing home care higher, with the other 4 main categories lower (Exhibit 3, with additional detail in Exhibit 4).

Price momentum, which highlights the latest 3 months of data, is higher for the aggregate HCPI and for 5 of 10 price categories, including hospitals and prescription drugs.

Medicare and Medicaid hospital prices typically grow slower than private-sector prices (despite a recent anomaly). Annual hospital price growth for Medicare patients was 2.4% in March, up from 1.9% in February, rose to 0.1% from 0.3% for Medicaid patients, and fell sharply to 1.7% in March from 2.8% in February for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth fell to 2.3% from 2.7% in February.

There is a large cumulative gap when public prices are compared to private ones. Specifically, since June 2014 when BLS created the private-only data series, cumulative hospital prices for Medicare, Medicaid, and private pay patients have grown by 6.0, 0.9, and 11.6%, respectively (data not shown).

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

<table>
<thead>
<tr>
<th>Category</th>
<th>March 2019</th>
<th>March 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospitals</td>
<td>6.0%</td>
<td>5.6%</td>
</tr>
<tr>
<td>Physician services</td>
<td>4.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>1.6%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Nursing home care</td>
<td>3.0%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Dental care</td>
<td>1.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Home health</td>
<td>1.0%</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

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 to declining utilization growth, followed by low price growth. Utilization surged in 2014 and 2015 and has erratically fallen since. The readings for January 2019 are 4.1% spending growth and 2.8% utilization growth.

▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth, and moderation around 2%. Per capita utilization in January rose at an annual rate of 2.2%—above its 12-month average of 1.9%. On a 12-month average basis, utilization for hospitals rose 0.7%, home health care is up 3.1%, physician services rose 3.3%, the prescription drug rate is 2.2%, nursing care rose 1.5%, and dental care utilization is up 2.1%.

DISCUSSION

In March 2019, annual growth in the HCPI was 1.2%, its lowest rate since September 2017. The 12-month moving average stood at 1.7% in March, equal to the February rate.

The HCPI was pulled down by decreased hospital price growth (from 1.9% in February to 1.6% in March), which was in turn impacted by the private pay hospital price growth which fell sharply from 2.8% in February to 1.7% in March. The story last month was a year-over-year drug price growth of -1.2%, the lowest rate since September 1972. While still negative at -0.4%, drug prices this month had a smaller effect on the HCPI. A fall in the price growth for physician services from 0.7% to 0.5% also brought down the HCPI. To add more detail to the drug price story, we note that the 12-month moving average now stands at 0.9% growth. This is low, but not historically so since the rate was 0.6% in calendar year 2013.

The big news for overall health care prices remains the phenomenon of economy-wide prices growing more quickly than the HCPI—19 months and counting, and only 1 month from tying the record. We have likely already broken this record, but unfortunately, we do not have the latest data estimate to back it up due to remnants of the partial federal government shutdown. Despite the missing data, the ongoing stretch of health care price growth is lower than economy-wide price growth is history making (see Exhibit 5). And, as we note each month, health care inflation is surprisingly low for this stage of the economic recovery. March 2019 was the 11th month of expansion following the Great Recession, yet the HCPI growth is substantially below 2% (and falling).

We expect continued downward pressure on economy-wide prices as economic growth appears to be moderating. To repeat the closing theme from last month, will health care prices growing more slowly than economy-wide prices become the new normal? If so, this has massive consequences for the central aims of health care policy to bring down the cost burden and improve coverage.

¹Altarum Spending Brief 4/12/19: January 2019 Data. Note: The Spending Brief covers all health care spending; this Price Brief covers personal health care.
PRICE GROWTH BY DETAILED CATEGORIES

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

<table>
<thead>
<tr>
<th></th>
<th>Ending March 2017</th>
<th>Ending March 2018</th>
<th>Ending March 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCPI</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Hospital care</td>
<td>1.5%</td>
<td>2.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Physician and clinical services</td>
<td>0.6%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>4.7%</td>
<td>1.9%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Nursing home care</td>
<td>3.0%</td>
<td>1.7%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Dental services</td>
<td>2.1%</td>
<td>3.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Home health care</td>
<td>0.5%</td>
<td>2.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Other professional services</td>
<td>3.3%</td>
<td>0.3%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Other personal health care</td>
<td>2.4%</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Other nondurable med. products</td>
<td>1.2%</td>
<td>0.2%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Durable medical equipment</td>
<td>0.5%</td>
<td>0.0%</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

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 GDPD

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

Altarum 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.
Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. In large part, this work was made possible through support from the Robert Wood Johnson Foundation.
The Health Sector Economic Indicators® reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Paul Hughes-Cromwick, at 734-302-4616 or paul.hughes-cromwick@altarum.org.
Paul Hughes-Cromwick (principal author); Corey Rhyam, George Miller, PhD, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, press@altarum.org. For more information, visit https://altarum.org/solution/health-sector-spending.
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.