Health Sector Economic Indicators™
Insights from Monthly National Price Indices through December 2018

PRICE BRIEF

January 18, 2019 ▲ Health care price growth down to 1.4% in December led by drugs; Full-year up slightly

HIGHLIGHTS

▲ Health care prices in December 2018 rose 1.4% above December 2017, down from 1.5% in November. The full-year rate was 1.8% compared to 1.6% in 2017 and 2016, and 1.1% in 2015 (record low).

▲ Year-over-year hospital price growth was 1.7%, equal to the November rate. Physician price growth at 1.3% in December was also unchanged from November. Drug price growth at -0.6% in December was the lowest annual rate since 1973!

▲ Economy-wide price indices were stable or down. The Consumer Price Index (CPI) fell to 1.9% in December from 2.2% in November and the final-demand Producer Price Index (PPI) was equal to its November rate at 2.5% in December. We do not have an update for the gross domestic product deflator (GDPD) due to the partial federal government shutdown.

▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.4% in November—above its 12-month average of 2.0%.

HEALTH CARE AND ECONOMY-WIDE PRICES

In December 2018, the Health Care Price Index (HCPI) rose 1.4% above December 2017. The 12-month moving average was steady at 1.8% in December. The HCPI declined from 3.2% in October 2009, hit a historic low of 1.0% in December 2015, and increased through 2016. Since then, growth readings above 2% are surprisingly short-lived and now 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 2.1% annual rate in October, 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 21.9%, while economy-wide prices (using the GDPD) have increased 18.9% (Exhibit 2). This cumulative gap is amazingly low and has even narrowed. It is unprecedented for health care price growth to be consistently below economy-wide price growth, as it has now been for 16 consecutive months (though we lack updated GDPD data). In December, the CPI rose 1.9% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 2.0% annual growth, up from 1.5% in August—its lowest rate in over 40 years! The final-demand PPI growth for December stayed at November’s rate of 2.5%.

Exhibit 1. Year-over-Year Growth Rates in HCPI and GDP

Exhibit 2. HCPI and GDPD, Cumulative Percentage Change Since December 2007

Source: Altarum analysis of monthly BLS data.

Note: This exhibit compares monthly prices with the same month from the previous year.

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 December 2018, the annual price growth for nursing home care, at 4.0%, was the highest category, and prescription drugs was the lowest at -0.6% (its lowest annual rate since 1973). Other non-durable medical products also saw very low price growth (-0.4%) in December. Annual price growth for both hospital care (1.7%) and physician services (1.3%) did not change in December from their November rates, but the physician rate was still the highest rate since April 2012. Annual inflation rate comparisons—December 2018 year over year versus December 2017 year over year—show hospitals and prescription drugs lower, with the other 4 main categories higher (Exhibit 3, with additional detail in Exhibit 4).

Price momentum, which highlights the latest 3 months of data, is lower for the aggregate HCPI and for 5 of 10 price categories.

Medicare and Medicaid hospital prices typically grow slower than private-sector prices, but we have over a year-long anomaly. Annual hospital price growth for Medicare patients was 2.8% in December, down from 2.9% in November, was stable at 0.6% for Medicaid patients, and rose to 2.1% from 1.9% for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was steady at 2.5% in December. Even with the Medicare anomaly (partially resolved with October 2018 Medicare payment updates), there remains 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 5.0%, -0.4%, and 11.3%, respectively (data not shown).

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

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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 is now mostly flat. The readings for November 2018 are 4.7% spending growth and 3.1% 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 November rose at an annual rate of 2.4%—above its 12-month average of 2.0%. On a 12-month average basis, utilization for hospitals rose 1.0%, home health care is up 3.2%, physician services rose 3.2%, the prescription drug rate is 1.1%, nursing care rose 1.2%, and dental care utilization is up 2.1%.

DISCUSSION

In December 2018, annual growth in the HCPI fell to 1.4% from 1.5% in November. The HCPI annual rate for 2018 was 1.8%, up from 1.6% in 2017 and 2016, and 1.1% in 2015 (the all-time low). The annual HCPI growth rate was last higher in 2012 when it was 2.0%.

The HCPI was pulled down by the lowest drug price growth rate since 1973, at -0.6%, while the big-ticket items of hospital and physician price growth remained stable from November to December. Before popping the champagne, it is worth noting that the full-year price growth for drugs was 1.6%, the lowest increase since 2013 (0.6%), but still positive. And low growth should never be confused with low levels. The big news for overall health care prices remains the anomaly of hospital price growth for Medicare patients exceeding the rate for private pay patients, though the gap is narrowing (the former was at 2.8%, the latter was at 2.1% for December).

We were all set to report another consecutive month of the HCPI growth remaining below economy-wide inflation, but while we are convinced this is the case, we do not have the latest data estimate to back it up. This is because our monthly GDP data comes from Macroeconomic Advisers by HIS Markit, and their model is missing input due to the partial federal government shutdown. Despite the missing data, the ongoing stretch of health care price growth coming in lower than economy-wide price growth is history making. And, as we note each month, health care inflation is surprisingly low for this stage of the economic recovery. December 2018 was the 114th month of expansion following the Great Recession, yet the HCPI growth is substantially below 2%.

We expect continued downward pressure on economy-wide price growth, especially with the ongoing shutdown, despite a very strong economic backdrop. It also seems likely that these and other forces that we still don’t fully understand will keep health care price growth low, which as we said last month, may shockingly become the new normal!

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1 Altarum Spending Brief 1/18/19: November 2018 Data. Note: The spending brief 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

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<tr>
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<th>Ending December 2016</th>
<th>Ending December 2017</th>
<th>Ending December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>HCPI</td>
<td>2.0%</td>
<td>1.5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Hospital care</td>
<td>1.5%</td>
<td>2.2%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Physician and clinical services</td>
<td>0.2%</td>
<td>0.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>6.2%</td>
<td>2.8%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Nursing home care</td>
<td>2.9%</td>
<td>2.1%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Dental services</td>
<td>2.7%</td>
<td>1.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Home health care</td>
<td>1.3%</td>
<td>1.0%</td>
<td>2.5%</td>
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<tr>
<td>Other professional services</td>
<td>2.2%</td>
<td>2.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Other personal health care</td>
<td>3.0%</td>
<td>0.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Other nondurable med. products</td>
<td>-0.6%</td>
<td>0.7%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Durable medical equipment</td>
<td>0.8%</td>
<td>0.4%</td>
<td>1.6%</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 IndicatorsSM 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.

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. (2016). National Health Expenditure Accounts: Methodology Paper, 2016—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-16.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.