

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through June 2017

August 11, 2017

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PRICE BRIEF

Health price growth falls to 1.5%

HIGHLIGHTS

- ▲ Health care prices in June 2017 rose 1.5% above June 2016, the lowest annual growth rate since May 2016.
- ▲ Year-over-year hospital price growth fell to 1.4%, from 1.5% in May. Physician and clinical services price growth rose by one-tenth to a still low 0.6% rate. Annual drug price growth also fell one-tenth to a 3.8% rate, well below its 20+ year high of 7.0% recorded in November 2016.
- ▲ Economy-wide price indices exhibited lower growth. The Consumer Price Index (CPI) fell to 1.6% growth in June from 1.9% in May, the final-demand Producer Price Index (PPI) fell to 2.0% from 2.4%, and the gross domestic product deflator (GDPD) fell from 1.3% to 1.2%.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.4% in June, slightly above its 12-month average of 2.2%.

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

	June 2015	June 2016	May 2017	June 2017
Health Care Price Index (HCPI)	1.1%	1.5%	1.6%	1.5%
GDPD	1.1%	1.4%	1.3%	1.2%
HCPI-GDPD	-0.1%	0.1%	0.2%	0.2%
Addendum				
Health care spending	6.1%	5.0%	4.4%	4.6%
Health care utilization	5.0%	3.5%	2.8%	3.1%
CPI—medical	2.5%	3.5%	2.7%	2.7%
CPI—all items	0.1%	1.0%	1.9%	1.6%

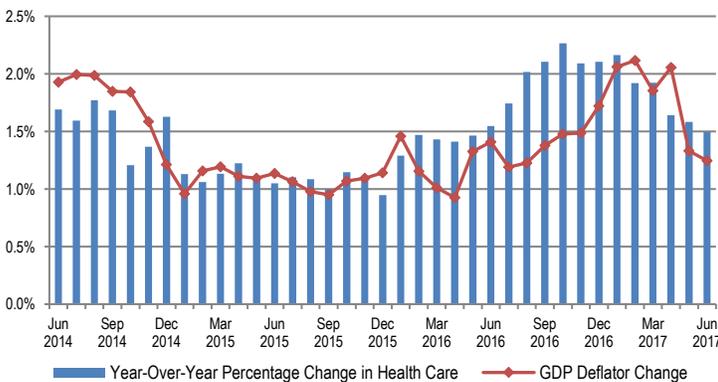
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In June 2017, the Health Care Price Index (HCPI) rose 1.5% above June 2016. The 12-month moving average, at 1.9% growth, is unchanged for 4 months. The HCPI declined from 3.4% in October 2009, oscillated near 2% growth for 2 years, hit a historic low of 0.9% in December 2015, and increased sharply through 2016 but has now reversed that surge (Exhibit 1). We thought that the HCPI would stay above 2% and even trend higher. Instead, we now see five straight months below that rate. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and stands at 1.2% year-over-year growth as of June 2017. The HCPI growth rate is mostly tracking the GDPD rate. Exhibit 5 shows long-term comparisons.

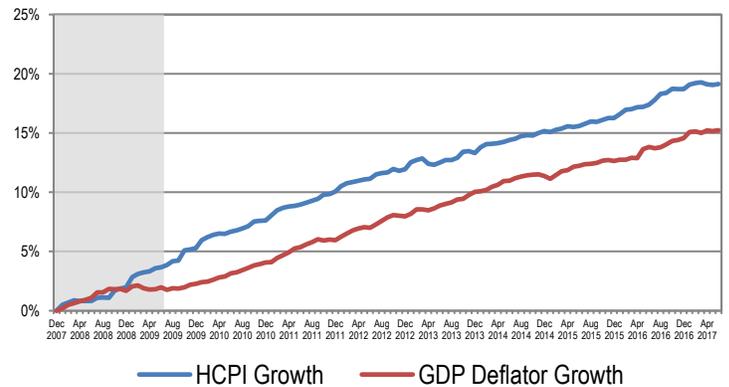
Since the start of the recession in December 2007, health care prices have increased only 19.1% (up one-tenth since May), while prices in the economy as a whole (using the GDPD) have increased 15.2% (Exhibit 2). Per last month, low economy-wide inflation and structural changes in the health sector are putting downward pressure on health care prices, and Affordable Care Act repeal and replace uncertainty appears to be having a meaningful effect. In June, the CPI rose 1.6% above the previous year (down from 1.9% in May), and the medical CPI, emphasizing out-of-pocket prices, stayed at 2.7% growth, its lowest rate since December 2015. The final-demand PPI growth rate for June fell to 2.0%, from 2.4% in May.

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.

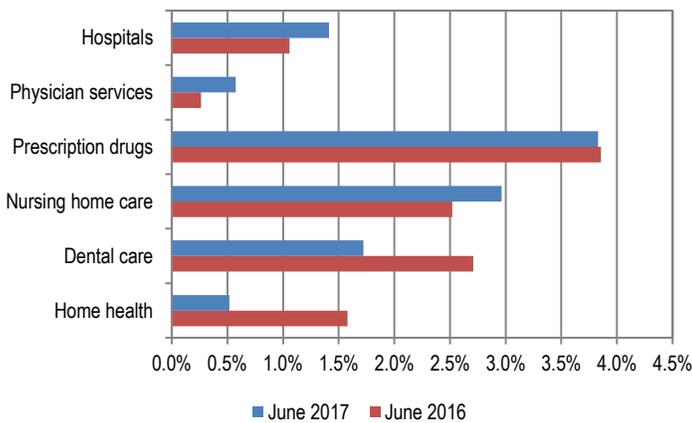
HEALTH CARE PRICES BY CATEGORY

In June 2017, the annual price growth for prescription drugs, at 3.8%, was easily the fastest growing category, higher than nursing home care at 3.0% growth (the 2nd highest), and well above durable medical equipment (DME) which actually saw an annual price decline (-0.6%)! Hospital price growth fell to 1.4%, from 1.5% in May, and physician price growth increased to 0.6% from 0.5% in May. Those two categories’ growth play a large role in the HCPI due to their high spending weight. Combine the DME negative rate and it’s easy to see why the aggregate index fell to 1.5% growth in June. Annual inflation rate comparisons—June 2017 year over year versus June 2016 year over year—show 3 categories higher (hospitals, physician services, and nursing home care), and the other 3 lower (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 six of the ten price categories. These data argue for a stable or even lower HCPI print in the July data.

Medicare and Medicaid hospital prices typically grow less quickly than private-sector prices. Hospital price growth for Medicare patients was steady at 0.9% in June, and also steady at 1.5% for Medicaid patients, and fell for private pay patients, from 2.0% in May to 1.8% in June. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was steady at 4.1% (data not shown). While hospital prices for privately-insured patients are growing slowly (the June 2017 rate is the lowest since the creation of the private-only series in June 2014), there is a large cumulative gap compared to public payments. Specifically, since June 2014, cumulative hospital prices for Medicare, Medicaid, and private pay patients have grown by -0.7%, -0.9%, and 7.1%, respectively.

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



Source: Altarum analysis of monthly BLS data.

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¹ Altarum Spending Brief #17-8: June 2017 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² CMS Newsroom, available at: <https://www.cms.gov/Newsroom/Newsroom-Center.html>

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 very low price growth. Utilization surged in 2014 and 2015, but has now stabilized. The readings for June 2017 are 4.6% 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 a jagged 2+ year moderation. Per capita utilization in May rose at an annual rate of 2.4%—above its 12-month average of 2.2%. On a 12-month average basis, utilization for hospitals rose 2.7%, home health care is up 2.2%, physician services rose 4.5%, the prescription drug rate is down 1.5%, nursing care rose 0.2%, and dental care utilization is up 1.8%.

DISCUSSION

In June 2017, the HCPI rose by 1.5% compared to a year earlier, down one-tenth from May, and the lowest annual growth rate since May 2016. The 12-month moving average of the HCPI stands at 1.9% for the fifth straight month. Where only a few months ago, we were expecting the index to stay above 2% growth and trend higher, it has now clearly reversed course. Per last month, in addition to the uncertainty surrounding continuing efforts to repeal, replace, or even repair(?) the Affordable Care Act, economy-wide prices are putting renewed downward pressure on the health sector. This is visible for the durable medical equipment price growth in June (-0.6%), though this represents a small share of personal health care spending.

We pay close attention to the hospital and physician components of the price index. The former fell from 1.5% growth in May to 1.4% in June; the latter increased to a still very low 0.6% growth rate. These categories helped to barely push the HCPI rate down, with a small assist from prescription drugs whose growth fell one-tenth to 3.8% in June.

As we note each month, health care inflation is quite low for this stage of the economic recovery. June 2017 was the 96th month of expansion following the Great Recession, yet we see declining HCPI growth!

Hospital prices for privately-insured patients exhibited an annual growth rate of 1.8% in June, the lowest reading since this specific category was created in June 2014. Looking ahead, in early August, the Centers for Medicare & Medicaid Services finalized 2018 payment rates for skilled nursing, hospice, inpatient rehabilitation, and the inpatient prospective payment system.² We will discuss this further in upcoming months, but the takeaway for now is that the government, via statute and regulatory activity, does not appear eager to take the pressure off of payments.

PRICE GROWTH BY DETAILED CATEGORIES

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

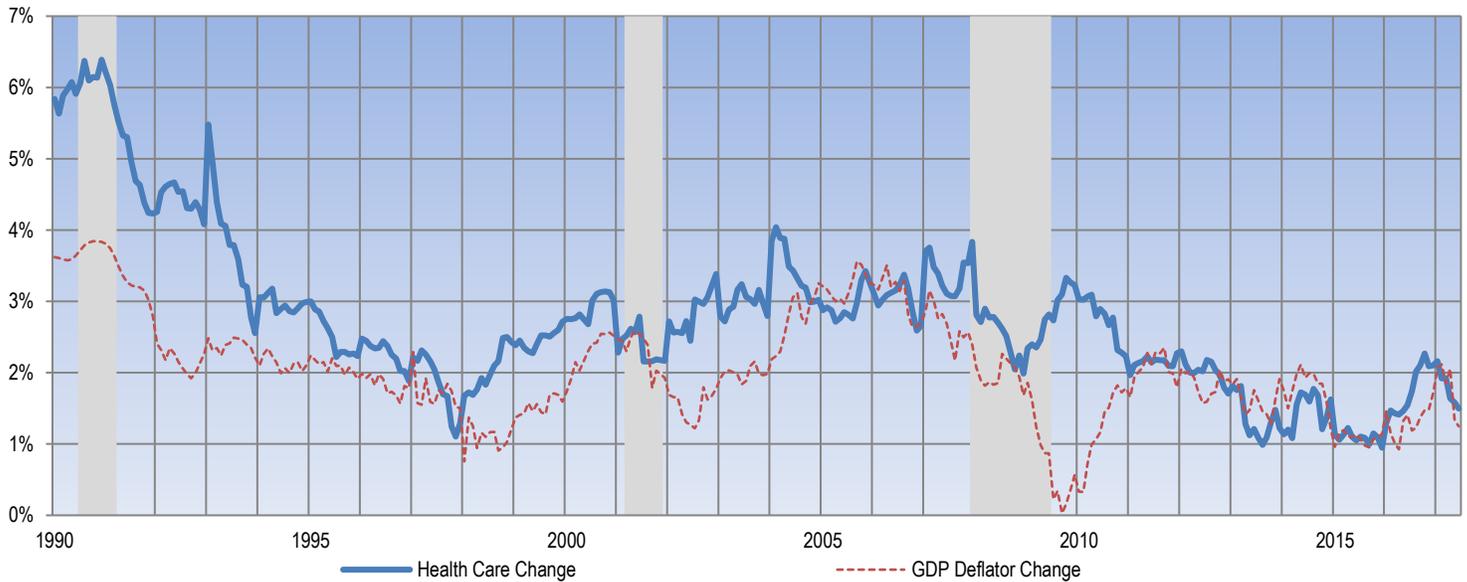
	Ending June 2015	Ending June 2016	Ending June 2017
HCPI	1.1%	1.5%	1.5%
Hospital care	0.8%	1.1%	1.4%
Physician and clinical services	-1.3%	0.3%	0.6%
Prescription drugs	4.8%	3.9%	3.8%
Nursing home care	1.8%	2.5%	3.0%
Dental services	2.5%	2.7%	1.7%
Home health care	1.3%	1.6%	0.5%
Other professional services	0.6%	1.0%	2.5%
Other personal health care	2.0%	3.0%	1.3%
Other nondurable medical products	-1.6%	-0.5%	1.3%
Durable medical equipment	0.0%	0.5%	-0.6%

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.

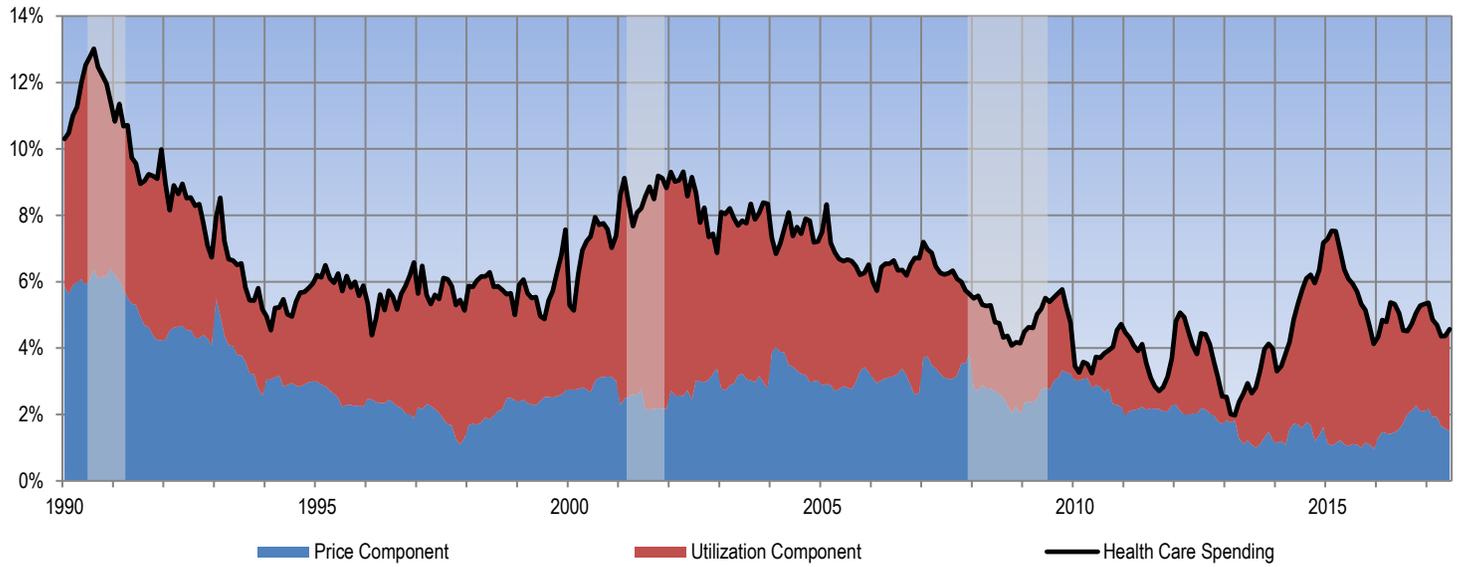
Note: Lightly shaded bars denote recession periods.

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.

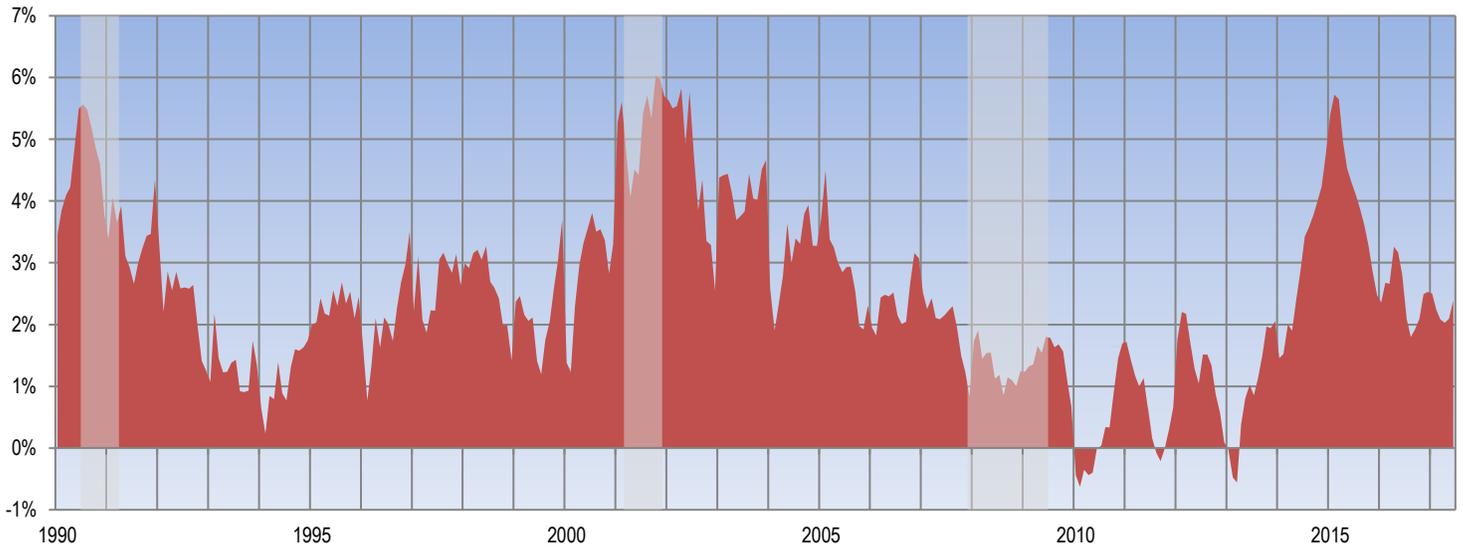
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); 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 <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. (2016). *National Health Expenditure Accounts: Methodology Paper, 2015—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-15.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.