Lowest hospital price growth in 16 years pushes down health inflation

HIGHLIGHTS

▲ Health care prices in October 2014 were 1.5% higher than in October 2013 and less than the September year-over-year change of 1.7%. The October 2014 12-month moving average rose to 1.5%, the highest since August 2013, continuing its upward trend since March 2014.

▲ Year-over-year hospital prices grew 1.1% in October, the lowest increase since September 1998. Physician and clinical services grew 0.8%, equal to the September 2014 rate. Prescription drug prices rose 4.1%, up from the September 3.8% rate.

▲ Economy-wide price indexes were relatively steady in October. The Consumer Price Index (CPI) remained at 1.7%, year over year; the Medical CPI rose slightly, to 2.1% from 2.0%; and the final demand Producer Price Index (PPI) fell a tenth to 1.5%. (October gross domestic product data are not yet available to produce GDP deflator values for the month).

▲ Combining price and health spending data shows implicit per capita health care utilization growth, year over year, at 1.7% in October, below its 12-month moving average gain of 2.2%.

HEALTH CARE AND ECONOMY-WIDE PRICES

In October 2014, the health care price index (HCPI) rose 1.5% above October 2013. 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 seven straight months, the first increasing trend since January 2012. The HCPI shows a steady decline from October 2009, at 3.4%, followed by two years oscillating near 2% growth, with a sharp, sustained decline to near 1% (save for the November 2013 spike), and now its seven-month rise above 1.5% (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator, trended up beginning in September 2009, peaked at 2.4% in September 2011, and was at 1.5% in September 2014. (October GDP data are not yet available.) Exhibit 5 shows long-term comparisons.

Since the start of the recession in December 2007, health care prices have increased by 15.2%, while prices in the economy as a whole (using the GDP deflator) have increased by 10.8% (Exhibit 2). Low economy-wide inflation continues to exert downward pressure on health care prices. In October, the CPI held at 1.7%, the Medical CPI (which emphasizes out-of-pocket prices) rose from 2.0% to 2.1%, and the final demand PPI fell a tenth, to 1.5%. In September, the GDP deflator also grew by 1.5%. Health care price growth is still quite low by historical standards, but it is no longer growing more slowly than economy-wide prices as it was in 2013.

Exhibit 1. Year-Over-Year Growth Rates in Health Care Price Index and GDP Deflator

Source: Altarum analysis of monthly BLS data

Exhibit 2. Health Care Price Index and GDP Deflator, Cumulative Percentage Change Since December 2007

Source: Altarum analysis of monthly BLS price data and monthly GDP deflator data published by Macroeconomic Advisers, LLC.

Note: Shading indicates recession period
HEALTH CARE PRICES BY CATEGORY

Comparing October 2014 with October 2013, price growth for prescription drugs was the highest, at 4.1%, followed by other personal health care at 2.5%, and dental services at 2.0%. Hospital care prices fell to 1.1%, and physician price growth held at 0.8%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, thus its 15-year low growth rate was the main reason the HCPI fell, as most other categories saw increases. Annual inflation rate comparisons – October 2014 year-over-year versus October 2013 year-over-year – continues a reversal from previous months, where now price growth is higher for each category, except dental care and hospitals, for the recent year compared with 2013 (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest three months of data (and may be a leading indicator), is mixed across the price categories, but it is down substantially for hospitals, physicians, dental care, and the aggregate HCPI. With stable growth expected for the economy-wide indexes and a likely increase in the hospital component, we expect a slightly higher HCPI next month.

Medicare and Medicaid prices usually grow more slowly than “other” prices (which include private payment). Hospital prices for Medicare and Medicaid patients changed by 0.8% and -0.9%, respectively (down 0.7% from September for Medicare and up 0.3% for Medicaid). For other patients, price growth fell to 1.9%, from 2.4% in September (data not shown). This other rate, representing mostly private payment, is the lowest since September 1998. There is no evidence that provider consolidation is boosting hospital price growth.

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

Source: Altarum analysis of monthly BLS data

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EXHIBIT 3. Year-Over-Year Price Growth for Selected Health Categories

Source: Altarum analysis of monthly BLS data

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 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 more balanced mix of both factors. The readings for October 2014 are 4.0% spending growth and 2.4% utilization growth.

▲ Exhibit 7 shows per capita utilization growth through October, and it highlights the decline between 2002 and 2010 and its recent growth. Per capita utilization in October is rising at an annual rate of 1.7%, below its 12-month average of 2.2%. On a 12-month average, utilization for hospitals has risen by 2.0%, home health is up by 2.0%, physician services has risen 1.9%, the prescription drug rate has risen 6.3%, nursing care is up 1.0%, while dental care utilization has fallen by 1.1%.

DISCUSSION

In October 2014, the HCPI rose 1.5% above October 2013, two-tenths lower than the September rate, and the lowest since March. The 12-month moving average of 1.5% is stable from September, following six consecutive increases. The big news for the month is lower hospital price growth, which, at 1.1%, fell six-tenths from the September rate and is the lowest since September 1998. In addition, the “other” non-Medicare, non-Medicaid, hospital payer rate of 1.9%, was also the lowest since September 1998. The most likely explanation is the beginning of the fiscal year when governmental prospective payment system rates kick in and private payment rates follow suit. While off its recent high of 4.2% recorded in July, prices for prescription drugs grew at a 4.1% clip in October, the highest growth for the health categories. Price growth for nursing home care, other professional services, and other personal health care, each rose in October causing the HCPI to not fall even further.

As we have been pointing out, health care and economy-wide inflation are quite low for this stage of the business cycle recovery. October 2014 was the 64th month of economic expansion following the recession, yet a return to 2% growth for the HCPI seems far off in the future.

In addition to economy-wide price pressures keeping the lid on health care price growth, there are early signs of a deceleration in prescription drug use that signals lower physician utilization. However, the Quarterly Services Survey data spanning July to September of 2014, released on December 10, shows an acceleration that bears monitoring.

1 Altarum Institute Spending Brief #14-12; October 2014 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

<table>
<thead>
<tr>
<th></th>
<th>Ending October 2012</th>
<th>Ending October 2013</th>
<th>Ending October 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health care price index</td>
<td>2.0%</td>
<td>1.3%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Hospital care</td>
<td>2.4%</td>
<td>2.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Physician and clinical services</td>
<td>0.8%</td>
<td>-0.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>3.6%</td>
<td>0.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Nursing home care</td>
<td>2.2%</td>
<td>0.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Dental services</td>
<td>2.5%</td>
<td>3.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Home health care</td>
<td>0.9%</td>
<td>0.5%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other professional services</td>
<td>1.2%</td>
<td>2.0%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Other personal health care</td>
<td>2.8%</td>
<td>1.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Other non-durable medical products</td>
<td>1.3%</td>
<td>0.3%</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Durable medical equipment</td>
<td>0.2%</td>
<td>0.9%</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Source: Altarum analysis of monthly Bureau of Labor Statistics (BLS) data

Note: Compares monthly prices with the same month from the previous year

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**TIME SERIES TRACKER**

Exhibit 5. Year-Over-Year Percentage Change in Health Prices Compared with the GDP Deflator

Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data

Note: Lightly shaded bars denote recession periods

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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™ 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: Ken Schwartz, 571-733-5709, ken.schwartz@altarum.org.

For more information, visit www.altarum.org/cshs.
**Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components**

![Graph showing personal health care spending growth by price and utilization components.](image)

Source: Altarum calculations from Health Sector Economic Indicators data

Note: Lightly shaded bars denote recession periods

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**Exhibit 7. Year-Over-Year Change in Per Capita Personal Health Care Utilization**

![Graph showing year-over-year change in per capita personal health care utilization.](image)

Source: Altarum calculations from Health Sector Economic Indicators data

Note: Lightly shaded bars denote recession periods

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