

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through December 2015

February 16, 2016

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PRICE BRIEF

Health care price growth finally ticking up?

HIGHLIGHTS

- ▲ Health care prices in December 2015 were 1.2% higher than in December 2014, up from 1.1% in November. The December 2015 12-month moving average fell to 1.1%, a new all-time low for our data.
- ▲ Year-over-year hospital price growth rose to 1.5% from 1.4% in November. Physician and clinical services prices fell 0.1%, a sharp break from 11 straight months near -1%. Drug price growth continued moderating from the high of 6.4% in December 2014 to 2.4% in December 2015, down from 3.4% in November.
- ▲ Economy-wide price indices showed mostly higher inflation in December. The Consumer Price Index (CPI) rose 0.7% year over year (from 0.5% in November), and the medical CPI dropped to 2.6% from 2.9%. The final-demand Producer Price Index (PPI) was -1.0%, up from -1.1% in November. Gross domestic product (GDP) deflator (GDPD) growth was 1.3% in December, up from 1.0% in November.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.8% in December, below its 12-month moving average of 3.9%. The latter figure shows stabilizing from the 4.1% rate in October, the highest since December 2003.

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

	Dec 2013	Dec 2014	Nov 2015	Dec 2015
Health Care Price Index (HCPI)	1.3%	1.6%	1.1%	1.2%
GDPD	1.8%	1.0%	1.0%	1.3%
HCPI-GDPD	-0.5%	0.6%	0.1%	-0.1%
Addendum				
Health care spending	4.0%	6.4%	5.1%	4.8%
Health care utilization	2.8%	4.8%	4.0%	3.5%
CPI—medical	2.0%	3.0%	2.9%	2.6%
CPI—all items	1.5%	0.8%	0.5%	0.7%

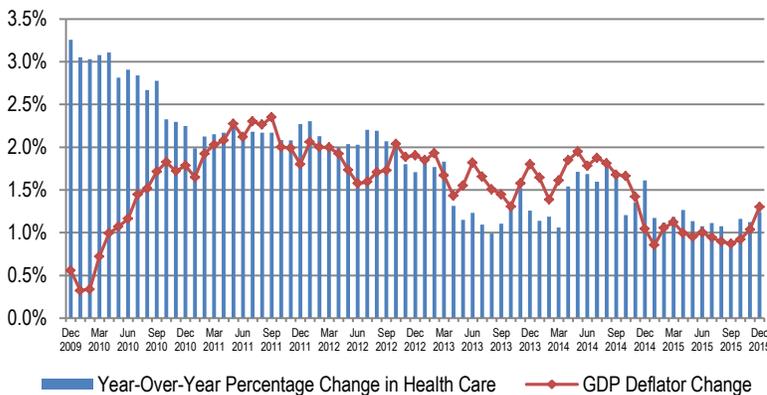
Source: Altarum Institute analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details 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 December 2015, the HCPI rose 1.2% from December 2014. The 12-month moving average of 1.1% is an all-time low for Altarum data, and it is likely the lowest rate since official national health accounts began in 1960. The HCPI shows a steady decline from 3.4% in October 2009, followed by 2 years oscillating near 2% growth, a sharp decline to about 1%, a 6-month increase to around 1.5%, and now recent low growth (with the exception of a spike in December 2014; see Exhibit 1). Revised data now show September 2015 as the lowest rate in our data (0.9%) for the HCPI. Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and stood at 1.3% in October 2015. Exhibit 5 shows long-term comparisons.

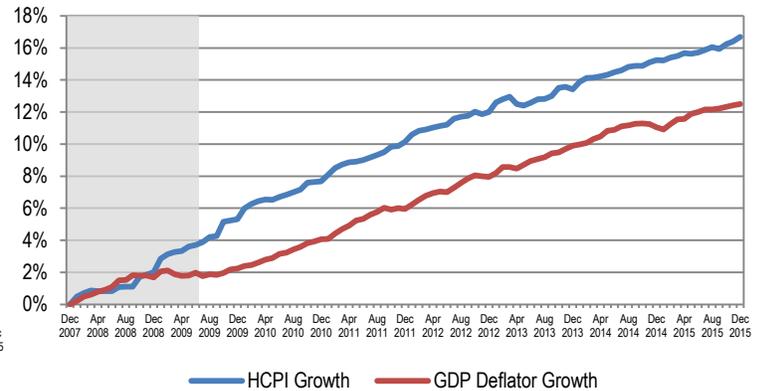
Since the start of the recession in December 2007, health care prices have increased 16.7%, while prices in the economy as a whole (using the GDPD) have increased 12.5% (Exhibit 2). Low economy-wide inflation, via commodity prices, coupled with structural changes in the health sector, continue to exert downward pressure on health care prices. In December, the CPI rose 0.7%, up from 0.5% in November, and the medical CPI, emphasizing out-of-pocket prices, fell to 2.6% from 2.9%. The final-demand PPI growth rate for December, at -1.0%, is up from the November reading of -1.1%. By historical standards, health care price growth remains very low but is still above growth of economy-wide prices, and emerging wage increases may be poised to change the story.

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.

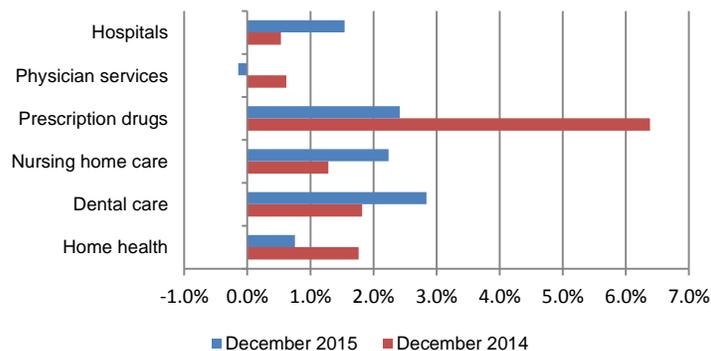
HEALTH CARE PRICES BY CATEGORY

Comparing December 2015 with December 2014, price growth for prescription drugs (2.4%) dropped it to third highest behind dental services (2.8%) and other personal health care (2.6%). This is the first time since April 2014 that price growth for prescription drugs did not lead the pack. The price change for hospital care increased to 1.5% from 1.4%, and physician price growth barely fell (-0.1%) after nearly a year of -1% readings. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. Its slight increase plus the physician price stabilization mostly account for the higher aggregate health care price index. Annual inflation rate comparisons—December 2015 year over year versus December 2014 year over year—show an entirely mixed pattern, with hospital, nursing home, and dental care growth higher and the other three categories lower (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 higher for the aggregate HCPI index, up for 7 of the 10 price categories, and unchanged for another. The HCPI growth rate appears ready for modest future increases, but you have certainly heard that before!

Medicare and Medicaid prices grew less quickly than “other” prices, which include private payment. Hospital price growth for Medicare patients rose from 1.2% in November to 1.5% in December, following the large fiscal year 2016 Prospective Payment System reset. For Medicaid patients, price growth rose to -1.2% from -1.5%. For private patients, price growth was 2.2%, retreating from the 6-month high of 2.3% last month. Finally, for “other” patients (e.g., Veterans, TRICARE, self-pay), price growth rose from 6.0% to 6.1% (data not shown). Although private payment growth rates seem low at 2.2%, we closely monitor the divergence with public rates, especially on a cumulative basis.

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.¹

- ▲ Exhibit 6 displays year-over-year growth rates in health care spending broken out by price and utilization. The historic, downward trend in health spending growth that began in 2002 was due mainly to declining utilization growth, followed by very low price growth and a resurgence of utilization. The readings for December 2015 are 4.8% spending growth and 3.5% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010 and its recent growth (though 2015 shows substantial moderation). Per capita utilization in December rose at an annual rate of 2.8%, below its 12-month average of 3.9%. This rising utilization trend fits with expanded health insurance coverage and stronger economy-wide employment. On a 12-month average basis, utilization for hospitals has risen 4.0%, home health care is up 5.6%, physician services has risen 6.1%, the prescription drug rate is up 4.3%, nursing care has risen 1.2%, and dental care utilization is up 0.8%.

DISCUSSION

In December 2015, the HCPI rose 1.2% above the December 2014 level, up from the 1.1% rate in November, and continues to increase from its all-time low rate of 0.9% in September 2015. The 12-month moving average of 1.1% is an all-time low for our data series.

While still barely negative at 0.1%, price growth for physician and clinical services has bounced back from yearlong readings near -1.0%. Following a multidecade-high growth rate of 6.4% for prescription drugs in December 2014, we have seen steady moderation to its December 2015 rate of 2.4%.²

As always, hospital prices are the major driving force in overall health care prices; thus, the HCPI rise mostly reflects the slight increase in the rate of hospital price growth (from 1.4% to 1.5%), coupled with the aforementioned physician price stabilization. As we have noted, moderate hospital price growth reflects largely contained public prices and modestly rising private prices. We only have 6 months of private hospital payment annual price growth, but the current reading of 2.2% is barely below last month’s high of 2.3% and bears close monitoring in relation to public sector prices.

Health care and economy-wide inflation are quite low for this stage of the business cycle recovery. December 2015 was the 78th month of economic expansion following the recession.³ Nonetheless, 2015 is likely the lowest year of health care price growth in the 55-year history of the National Health Expenditure Accounts. Although some signs point to moderate future increases in the HCPI, especially recent acceleration of wages accompanying very high health sector hiring, extremely low economy-wide price growth will continue to exert downward pressure. Indeed, on February 10, 2016, Federal Reserve Board Chair Janet Yellen noted that some surveys of inflation expectations are at the low end of a reasonable range, and market-based inflation compensation is historically low.

To be sure, we are talking about prices here, not underlying costs or spending. We are concerned about higher health spending growth in 2015 as compared to 2014 (see our [spending brief](#)), but there is some solace that the 2015 trajectory shows a moderating trend during the year.

¹ Altarum Spending Brief #16-2: December 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² For interesting generic drug price analysis, see: Department of Health and Human Services. (2016). Understanding Recent Trends in Generic Drug Prices. *ASPE Issue Brief*, January 27.

³ For those curious about the potential demise of the current expansion given its length, see: Rudebusch, G. D. (2016). Will the Economic Recovery Die of Old Age? *FRBSF Economic Letter 2016-3*, February 8.

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

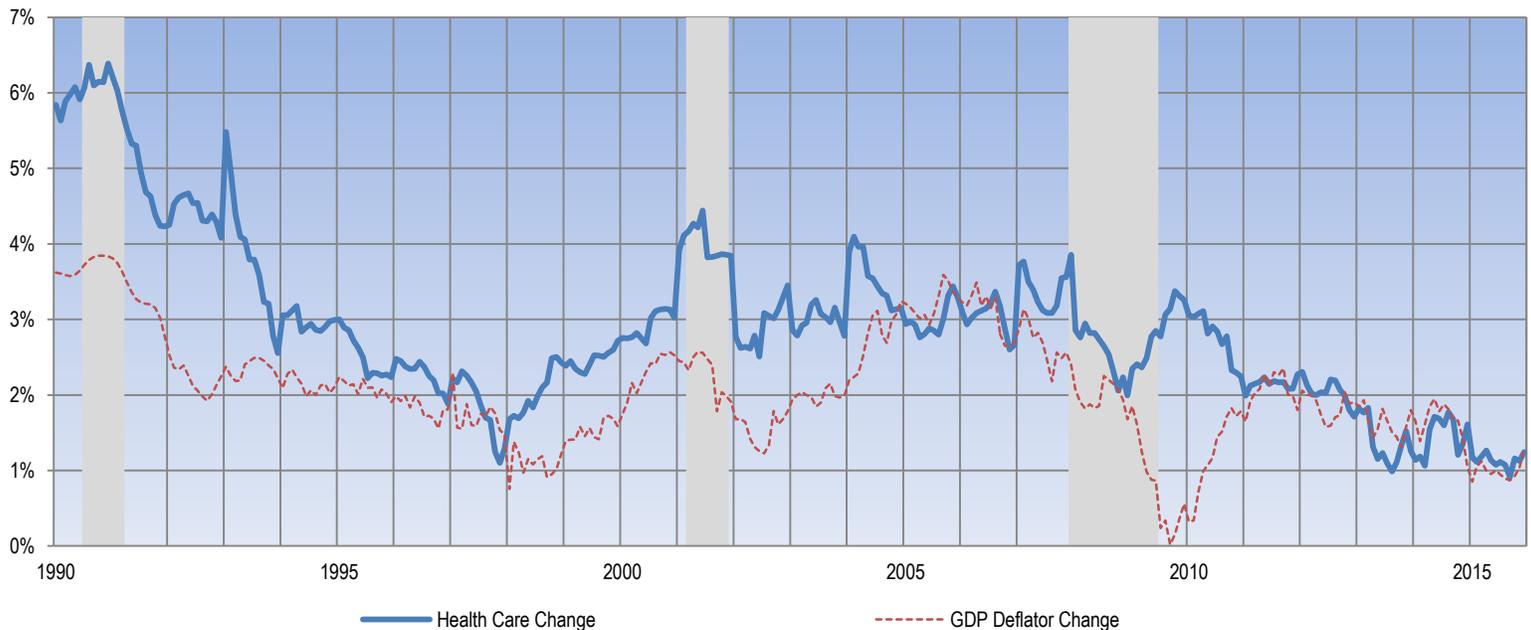
	Year Ending December 2013	Year Ending December 2014	Year Ending December 2015
HCPI	1.3%	1.6%	1.2%
Hospital care	1.7%	0.5%	1.5%
Physician and clinical services	0.2%	0.6%	-0.1%
Prescription drugs	0.8%	6.4%	2.4%
Nursing home care	0.9%	1.3%	2.2%
Dental services	2.8%	1.8%	2.8%
Home health care	-0.5%	1.8%	0.8%
Other professional services	2.1%	2.0%	-0.3%
Other personal health care	2.1%	2.6%	2.6%
Other nondurable medical products	-1.3%	-0.2%	-1.3%
Durable medical equipment	-0.2%	1.8%	-1.1%

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.

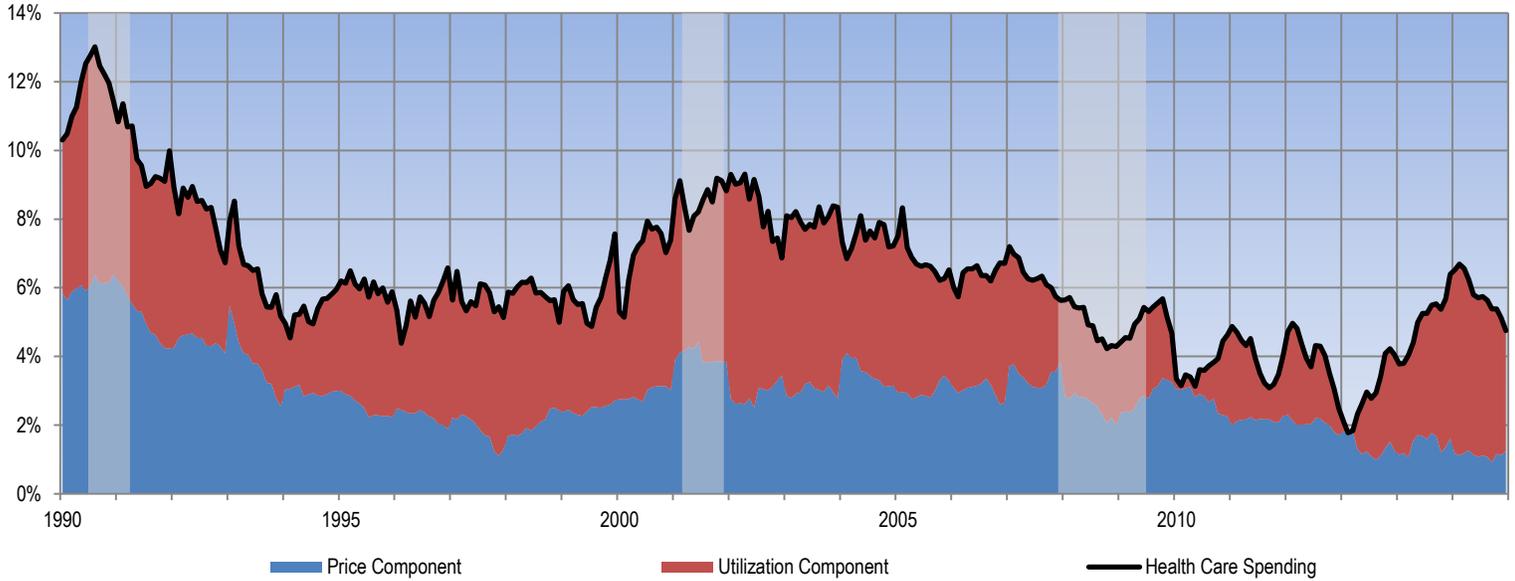
Note: Lightly shaded bars denote recession periods.

Altarum 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'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.

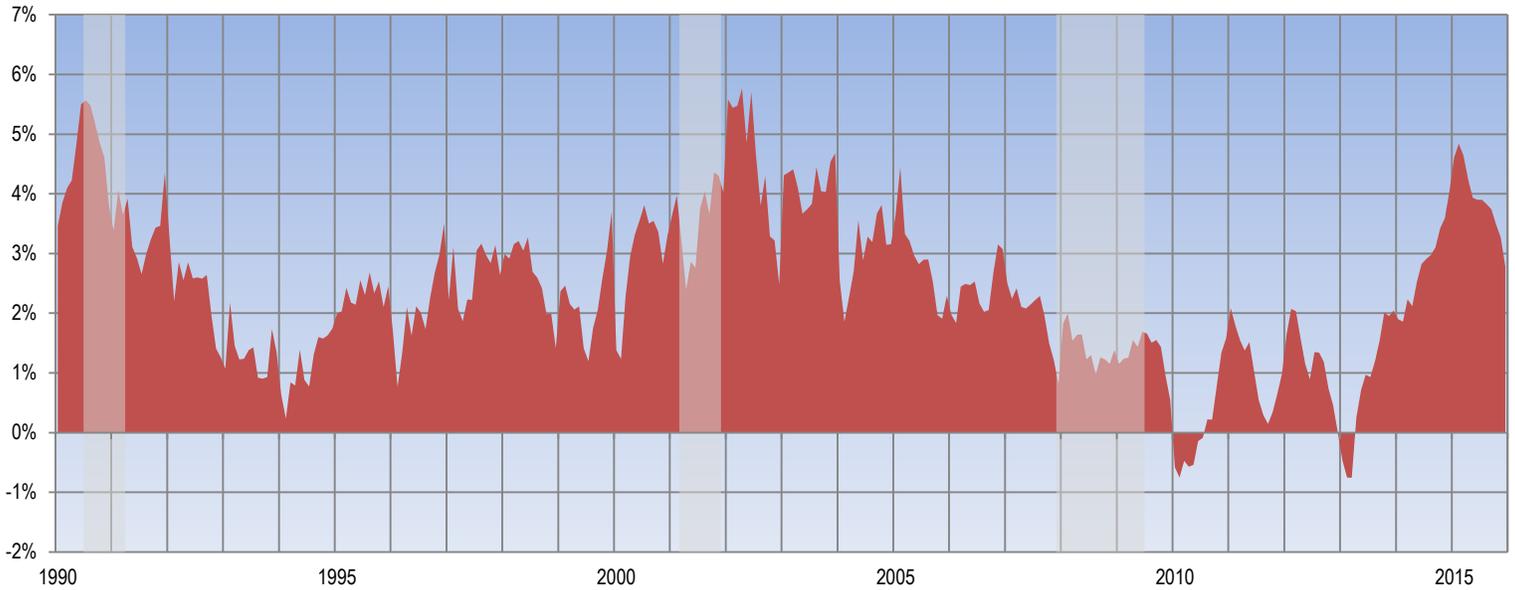
The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); George Miller, PhD; Ani Turner; and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 202-772-5062, ken.schwartz@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. (2015). *National Health Expenditure Accounts: Methodology Paper, 2014—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-14.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.