

**Health Sector Economic Indicators<sup>SM</sup>**

**Insights from Monthly Price Indices through November 2014**

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**PRICE BRIEF**

January 15, 2015

**Health care price growth stabilizes at low level**

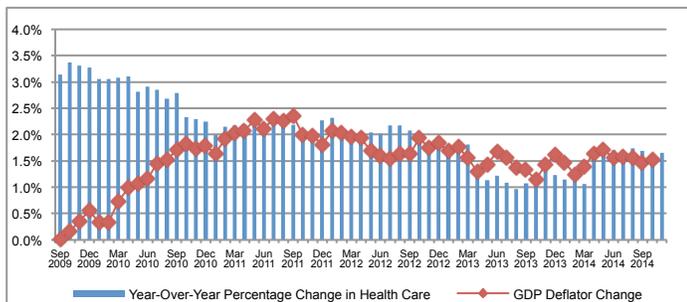
**HIGHLIGHTS**

- ▲ Health care prices in November 2014 were 1.6% higher than in November 2013, higher than the October year-over-year change of 1.5%. The November 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 November, equal to the October value, a more-than-16-year low. Physician and clinical services prices grew 0.6%, below the October rate of 0.8%. Home health care prices rebounded from its earlier negative growth trend, recording a 1.4% rate in November, equal to the October rate, its highest reading since December 2012. Prescription drug prices rose 4.6%, up from 4.1% in October, its highest rate since April 2010.
- ▲ Economy-wide price indexes were mixed in November. The Consumer Price Index (CPI) decreased from 1.7% to 1.3% year over year, the Medical CPI rose to 2.5% from 2.1%, and the final demand Producer Price Index (PPI) fell one tenth to 1.4%. (November GDP 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 2.4% in November, equal to its 12-month moving average.

**HEALTH CARE AND ECONOMY-WIDE PRICES**

In November 2014, the Health Care Price Index (HCPI) rose 1.6% above November 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 8 straight months, the first increasing trend since January 2012. The HCPI shows a steady decline from October 2009 at 3.4%, followed by 2 years oscillating near 2% growth, with a sharp, sustained decline to about 1%, and now its 8-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 October 2014. (November GDP data are not yet available.) Exhibit 5 shows long-term comparisons.

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



Source: Altarum analysis of monthly Bureau of Labor Statistics (BLS) data.  
Note: Compares monthly prices with the same month from the previous year.

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

	November 2012	November 2013	October 2014	November 2014
<b>Health Care Price Index (HCPI)</b>	1.8%	1.5%	1.5%	1.6%
<b>GDP Deflator (GDPD)</b>	1.7%	1.4%	1.5%	**
<b>HCPI - GDPD</b>	0.1%	0.0%	0.0%	**
<b>Addendum</b>				
<b>Health care spending</b>	4.3%	4.5%	5.1%	4.7%
<b>Health care utilization</b>	2.5%	3.0%	3.5%	3.1%
<b>CPI-Medical</b>	3.4%	2.2%	2.1%	2.5%
<b>CPI-All Items</b>	1.8%	1.2%	1.7%	1.3%

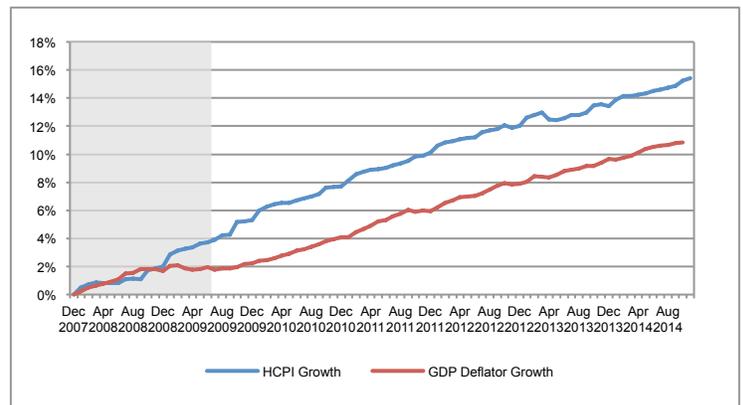
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. Health care price index is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided on page 4.

\* Numbers may not subtract due to rounding.

\*\* Data not yet available.

Since the start of the recession in December 2007, health care prices have increased by 15.4%, 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 November, the CPI fell to 1.3% from 1.7%, and the Medical CPI, which emphasizes out-of-pocket prices, rose from 2.1% to 2.5%. In October, the GDP deflator held at 1.5%, and the final-demand PPI dropped from 1.5% growth in October to 1.4% in November. While health care price growth is still quite low by historical standards, we seem to be moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices. The massive drop in oil prices is a wild card for all prices, even those for health care.

**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 the recession period.

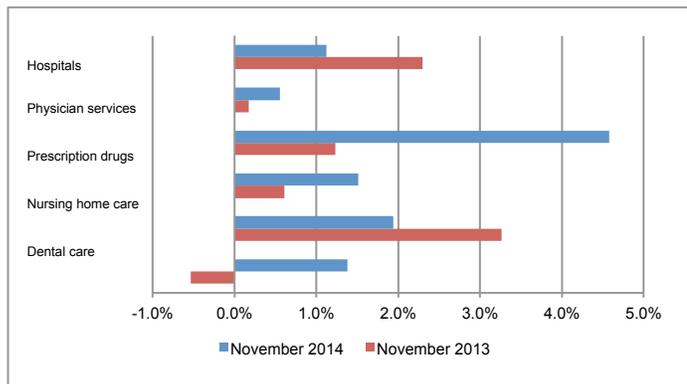
**HEALTH CARE PRICES BY CATEGORY**

Comparing November 2014 with November 2013, price growth for prescription drugs was the highest at 4.6%, followed by dental care at 1.9% and nursing home care at 1.5%. Hospital care prices held at 1.1%, and physician price growth fell from 0.8% to 0.6%. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. However, it appears that drug and device price growth compensated for low hospital and physician growth to nudge the HCPI a fifth higher. Annual inflation rate comparisons—November 2014 year-over-year versus November 2013 year-over-year—continue 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 3 months of data and may be a leading indicator, is mostly lower across the price categories, but it is up both for hospitals and the aggregate HCPI index. This raises a quandary, with an expected pickup in the growth for hospital prices weighed against slower growth for the economy-wide indexes with, again, that energy price wild card. The safest bet is a “push”: December 2014 HCPI staying at or near the 1.6% reading.

Medicare and Medicaid prices usually grow more slowly than “other” prices, which include private payment. Hospital prices for Medicare and Medicaid patients rose by 0.7% and -0.1%, respectively, down 0.1% from October for Medicare and up 0.8% for Medicaid. For other patients, price growth rose slightly in November to 2.0% from 1.9% in October (data not shown). These two most recent readings for the “other” hospital PPI are the lowest since this series began in January 2002. This is a remarkable outcome, and for the time being, it should quiet those predicting higher prices emanating from provider consolidation. This does not, of course, represent a position on whether hospital prices are “too high.”

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



Source: Altarum analysis of monthly Bureau of Labor Statistics (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.<sup>1</sup>

- ▲ 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 each factor. The readings for November 2014 are 4.7% spending growth and 3.1% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth through November and highlights the decline between 2002 and 2010 and its recent growth. Per capita utilization in November is rising at an annual rate of 2.4%, equal to its 12-month average. This steady or declining utilization trend somewhat contrasts with expanded health insurance coverage. However, the fourth-quarter 2014 data are preliminary until the release of the Quarterly Services Survey data in mid-March. On a 12-month average, utilization for hospitals has risen by 2.2%, home health is up by 2.5%, physician services has risen 2.1%, the prescription drug rate has risen 6.5%, and nursing care is up 1.5%, but dental care utilization has fallen by 0.6%.

**DISCUSSION**

In November 2014, the HCPI rose 1.6% above November 2013, one tenth higher than the October rate, and the eighth month exceeding 1.5%, after nearly a year of historically low rates (near 1.0%). The 12-month moving average of 1.5% is stable for the third month, following seven consecutive increases. The big news for the month is the continuing low hospital price growth—at 1.1%, the same as in October—the lowest rate since September 1998. The “other” non-Medicare, non-Medicaid hospital payer rate of 2.0% is up one tenth from the October rate, but these two readings are the lowest since this index was created in January 2002. On the other side is price growth for prescription drugs, which, at 4.6%, is the highest since April 2010.

For the HCPI as a whole, there appears to be a standoff between low hospital/physician price growth and high growth for drugs and medical devices. This would seem to be a good time to predict a higher HCPI for December and beyond, but economy-wide inflation, especially the astonishing oil price behavior, presents a compelling contrary argument. Health care and economy-wide inflation are quite low for this stage of the business cycle recovery. November 2014 was the 65<sup>th</sup> month of economic expansion following the recession. We do not expect new price-growth lows in this cycle, but we also do not see high price growth, and even a return to 2% growth for the HCPI seems far off in the future.

There are signs of a pickup in health utilization that would ultimately lead to price pressures. We saw this with services in the third quarter of 2014 via the Quarterly Services Survey, and we know that specialty and other drugs are driving higher prices. On a real-time basis, it appears that we are facing an above average flu season. Finally, some Wall Street analysts are quite bullish on for-profit hospitals, expecting strong performance as more Americans become insured via the Patient Protection and Affordable Care Act and from economic growth.<sup>2</sup>

<sup>1</sup> Altarum Institute Spending Brief #15-1: November 2014 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

<sup>2</sup> Giacobbe R, Carter C, Ryne A. *Hospitals: Don't Sell 'Em Short as Year 2 of Reform Should Pack Healthy Punch*. Credit Suisse, Equity Research, Healthcare Facilities; January 8, 2015. [https://doc.research-and-analytics.csfb.com/docView?sourceid=em&document\\_id=x609236&serialid=bN6DF4xTeoikHVJzieWbEOx4WDvOERC%2fHg58OsMaHI%3d](https://doc.research-and-analytics.csfb.com/docView?sourceid=em&document_id=x609236&serialid=bN6DF4xTeoikHVJzieWbEOx4WDvOERC%2fHg58OsMaHI%3d). Accessed January 14, 2015.

**PRICE GROWTH BY DETAILED CATEGORIES**

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

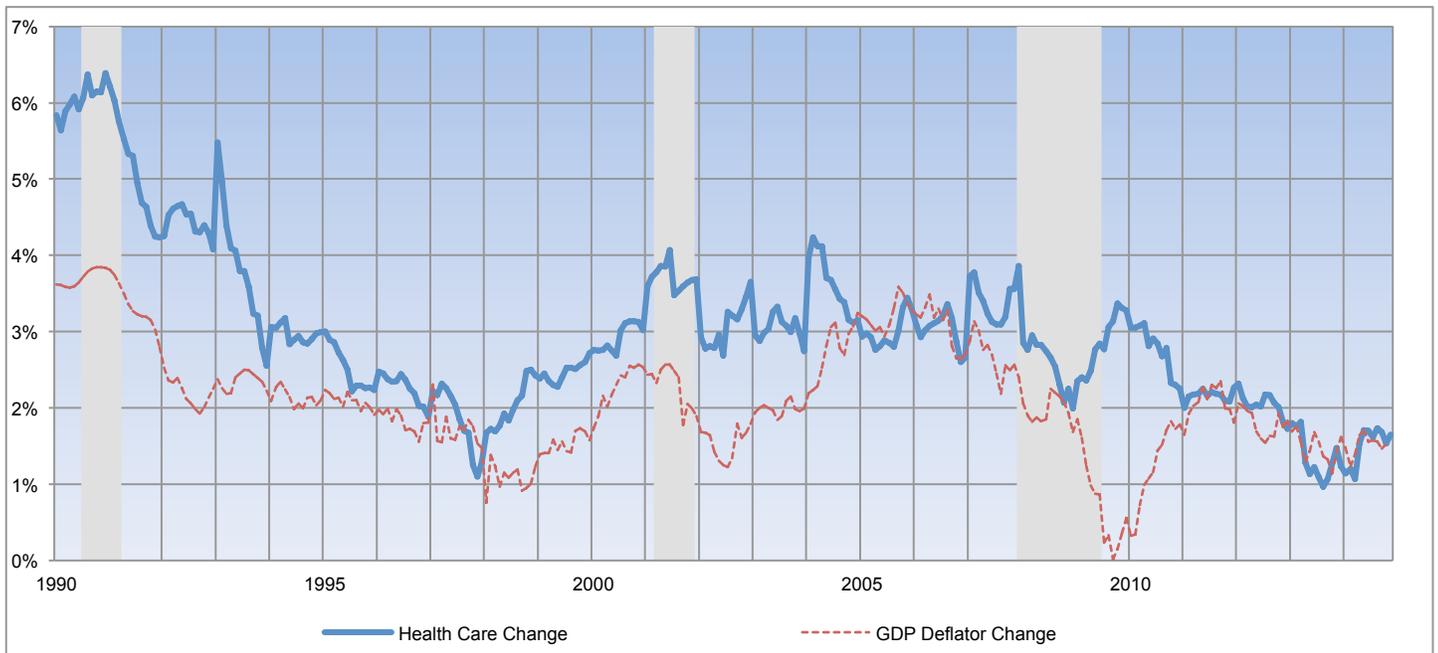
	Ending November 2012	Ending November 2013	Ending November 2014
Health Care Price index	1.8%	1.5%	1.6%
Hospital Care	2.3%	2.3%	1.1%
Physician and clinical services	0.5%	0.2%	0.6%
Prescription drugs	2.8%	1.2%	4.6%
Nursing home care	2.3%	0.6%	1.5%
Dental services	2.5%	3.3%	1.9%
Home health care	1.6%	-0.5%	1.4%
Other professional services	1.0%	2.1%	1.9%
Other personal health care	2.9%	2.0%	2.2%
Other non-durable medical products	0.9%	-0.5%	-1.4%
Durable medical equipment	0.7%	-0.1%	1.7%

Source: Altarum analysis of monthly BLS data.

Notes: 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 Deflator



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

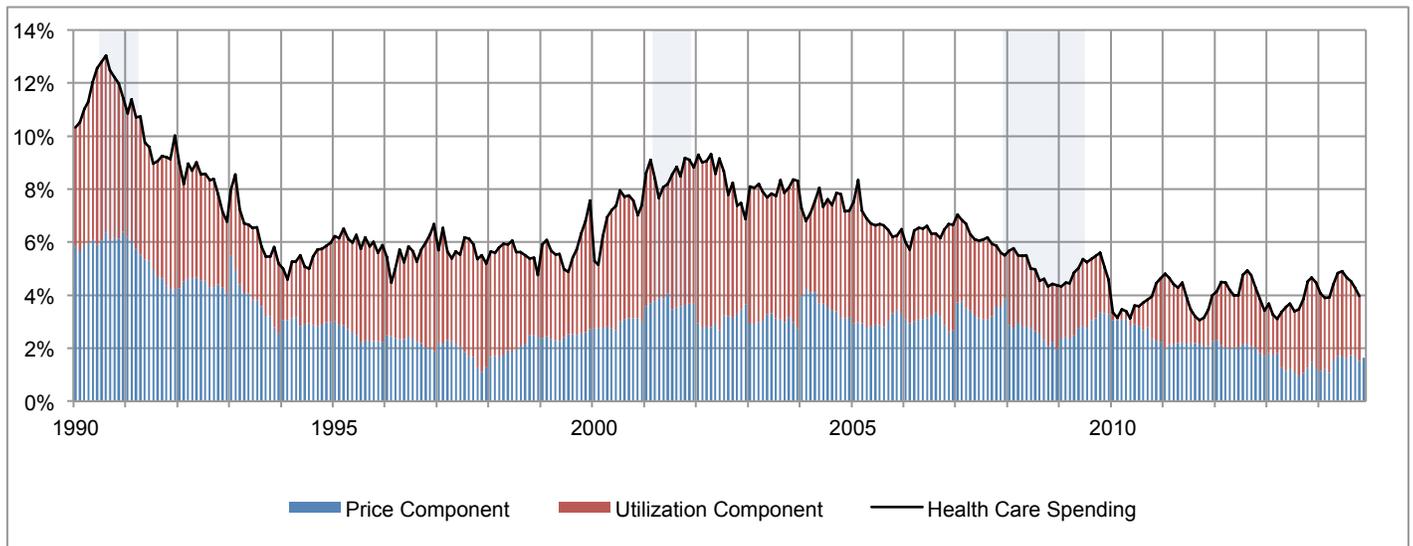
Note: Lightly shaded bars denote recession periods.

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 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.

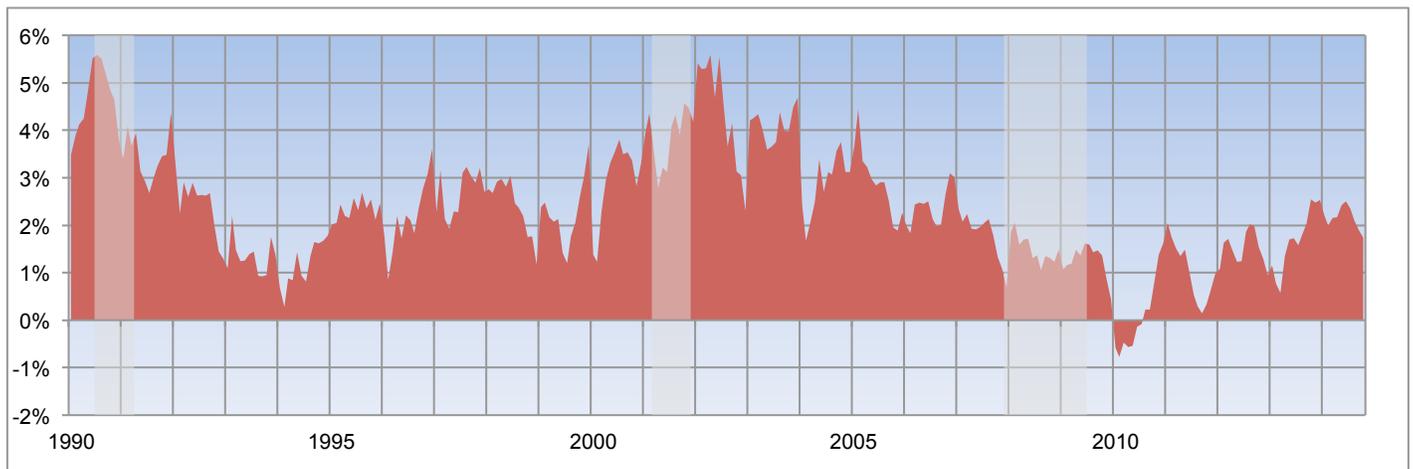
*The Health Sector Economic Indicators*<sup>SM</sup> reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or [charles.roehrig@altarum.org](mailto:charles.roehrig@altarum.org). 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](mailto:ken.schwartz@altarum.org). For more information, visit [www.altarum.org/cshs](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 National Health Expenditures, 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 consumer price index are well documented. Information on the CMS index is presented in: U.S. Department of Health and Human Services, *National Health Expenditures Accounts: Methodology Paper, 2013-Definitions, Sources, and Methods*, Washington, DC: Centers for Medicare & Medicaid Services, 2014. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-13.pdf>. The HCPI is calculated using BLS data on Producer Price Indices for hospital, physician, nursing home, and home health components, and Consumer Price Indices for prescription drugs, and other remaining items. Following NHSG, we use the GDP deflator rather than the Consumer Price Index 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.