

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices Through May 2015

July 9, 2015

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PRICE BRIEF

Health care price growth stable near all-time lows

HIGHLIGHTS

- ▲ Health care prices in May 2015 were 1.1% higher than in May 2014, equal to the revised April year-over-year change. The May 2015 12-month moving average fell to 1.4% from 1.5% in April.
- ▲ Year-over-year hospital prices rose 0.7% in May, up from 0.5% in April. Physician and clinical services prices fell 1.1%, just as it did last month, the steepest drop seen in Altarum Institute’s data series extending back to 1990. Home health care prices rose 1.0% in May, above the April rate of 0.9%. Prescription drug prices rose 5.3%, down from 5.6% in April.
- ▲ Economy-wide price indexes were mixed in May. The Consumer Price Index (CPI) rose from -0.2% to 0.0% year over year, while the medical CPI fell from 2.9% to 2.8%. The final-demand Producer Price Index (PPI) was -1.1% in May, up from -1.3%. In April, the gross domestic product (GDP) deflator (GDPD) growth held at 0.9% (May GDP data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 4.1% in May, above its 12-month moving average of 3.6%.

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

	May 2013	May 2014	Apr 2015	May 2015
Health Care Price Index (HCPI)	1.1%	1.7%	1.1%	1.1%
GDPD	1.4%	1.7%	0.9%	**
HCPI-GDPD	-0.3%	0.0%	0.3%	**
Addendum				
Health care spending	3.6%	4.8%	6.5%	6.0%
Health care utilization	2.4%	3.1%	5.3%	4.9%
CPI—medical	2.2%	2.8%	2.9%	2.8%
CPI—all items	1.4%	2.1%	-0.2%	-0.0%

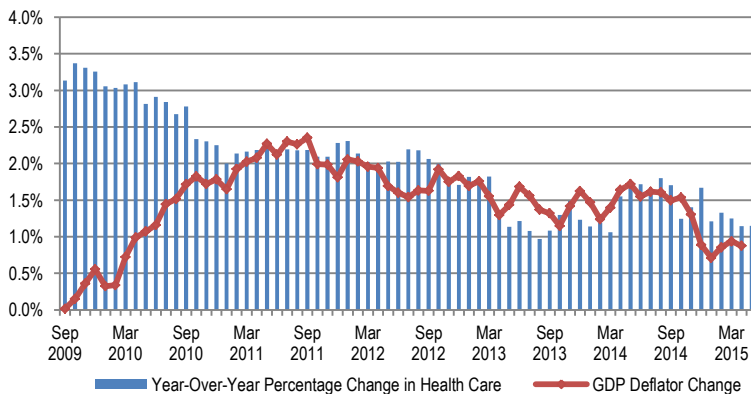
Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. HCPI is a composite price index designed to measure overall price changes for personal health care spending and is patterned after the price index developed by the Centers for Medicare & Medicaid Services (CMS). Details are provided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

HEALTH CARE AND ECONOMY-WIDE PRICES

In May 2015, the HCPI rose 1.1% from May 2014. The 12-month moving average of 1.4% is near the all-time low for Altarum data (1.2%) but, until this month, had been generally rising since March 2014 (though stable lately). The HCPI shows a steady decline from October 2009 at 3.4%, followed by 2 years oscillating near 2% growth, a sharp decline to about 1%, a 6-month increase to around 1.5%, and a recent drop to levels near 1.25% (with the exception of a spike in December 2014; Exhibit 1). Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009, peaked at 2.4% in September 2011, and fell to 0.7% in early 2015 before returning to 0.9% in April (May GDP data are not yet available). Exhibit 5 shows long-term comparisons.

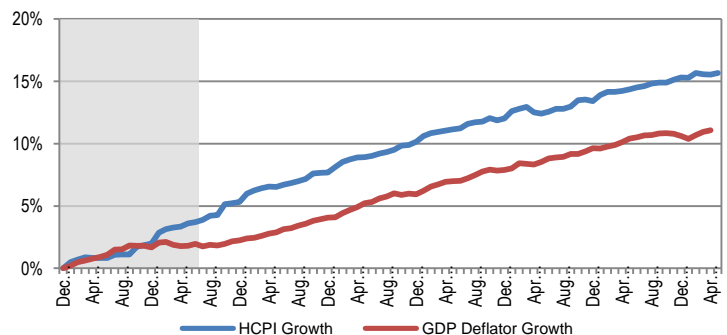
Since the start of the recession in December 2007, health care prices have increased by 15.7%, while prices in the economy as a whole (found by using the GDPD) have increased by 11.1% (Exhibit 2). Low economy-wide inflation has exerted downward pressure on health care prices, but the causality appears to go both ways. In May, the CPI rose to 0.0% from -0.2% and the Medical CPI, emphasizing out-of-pocket prices, fell from 2.9% to 2.8%. The final-demand PPI was -1.1%, which was actually up from -1.3%, and the GDPD held at 0.9% in April (May GDP data are not yet available). Health care price growth is very low by historical standards, but we are moving past the recent and rare episode of health care prices growing more slowly than economy-wide prices.

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



Source: Altarum analysis of monthly BLS data.
Note: 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, LLC.
Note: Shading indicates the recession period.

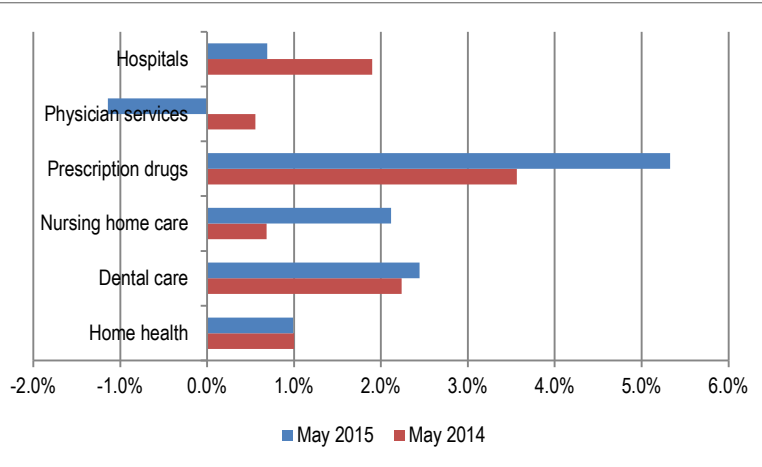
HEALTH CARE SPENDING BY CATEGORY

Comparing May 2015 with May 2014, price growth for prescription drugs was by far the highest at 5.3%, followed by dental care at 2.4%. Nursing home care rose to 2.1%. The price change for hospital care rose slightly to a still very low 0.7%, and physician price growth fell 1.1% for the second consecutive month—a rate not seen in the history of Altarum’s data series going back to 1990. Hospital price growth plays a dominant role in the HCPI due to its large spending weight. Coupled with negative price growth for physicians and other lower growth rates, it resulted in no change to the HCPI rate. Annual inflation rate comparisons—May 2015 year over year versus May 2014 year over year—show a mixed pattern, with hospital, physician, and home health care growth flat or lower and the other categories higher (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 down for the aggregate HCPI index and for seven of the ten price categories. Nevertheless, we expect growth for hospital prices to tick up, resulting in moderate growth in the near term HCPI.

Medicare and Medicaid prices grew less quickly than “other” prices, which include private payment. Hospital prices for Medicare patients rose by 0.1% to -2.6% and for Medicaid held at 0.0%. For “other” patients, price growth rose 0.2% in May to 2.6% (data not shown). As we have noted for many months in this space, consolidation has not translated to an increasing rate of hospital price growth, at least not at the national level. Beginning with June 2015 data (released on July 15), we will obtain year-over-year results for the new series that breaks out hospital (and other providers) by payer into private and other. This will help us detect specific effects on hospital prices from consolidation or other factors.

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 downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, followed by very low price growth and a resurgence of utilization. The readings for May 2015 are 6.0% spending growth and 4.9% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth and highlights the decline between 2002 and 2010 and its recent accelerating growth.² Per capita utilization in May is rising at an annual rate of 4.1%, above its 12-month average of 3.6%. This rising utilization trend accords with expanded health insurance coverage and stronger economy-wide employment. On a 12-month average, utilization for hospitals has risen 4.9%, home health is up 2.4%, physician services has risen 2.8%, the prescription drug rate is up 5.6%, nursing care is up 1.2%, and dental care utilization has risen 0.9%.

DISCUSSION

In May 2015, the HCPI rose 1.1% above that of May 2014, the same rate as in April (after downward revision), and only a tenth higher than the decade-plus low of 1.0% growth registered in August 2013. The 12-month moving average of 1.4% has been roughly stable for 9 months, after increases beginning in April 2014. The big news this month is continued negative price growth for physician and clinical services, at -1.1% in May and the same rate in April—the lowest reading since 1996. As reported last month, BLS experts told us that this reflects the end of the Patient Protection and Affordable Care Act provision for higher payments to primary care doctors under Medicaid. Hospital price growth ticked up to a still low rate of 0.7%. While nonetheless elevated, price growth for prescription drugs moderated to 5.3%, now comfortably below its multi-decade high of 6.4% reached in December 2014.

For the HCPI as a whole, only 3 of the 10 components saw increases in price growth: hospitals, home health, and nursing homes, limited to two-tenths for the first two and one-tenth for the third.

It is repetitive to say, but still true, that health care and economy-wide inflation are extremely low for this stage of the business cycle recovery. May 2015 was the 71st month of economic expansion following the recession, yet we are barely off the decade-plus HCPI low. A return to 2% growth for the HCPI now seems even further off in the future. Nevertheless, with health care employment booming, and significantly higher health care utilization, renewed wage-price pressure seems inevitable, especially for hospitals.

¹ Altarum Institute Spending Brief #15-7: May 2015 Data. Please note: The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Hempstead, K (2015, June 30). Big jump in health care services spending in Q1 2015, but prices stay low. Retrieved from http://www.rwjf.org/en/library/research/2015/05/big-jump-in-health-care-services-spending-in-Q1-2015-but-prices-stay-low.html?cq_ck=1435670970732.

PRICE GROWTH BY DETAILED CATEGORIES

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

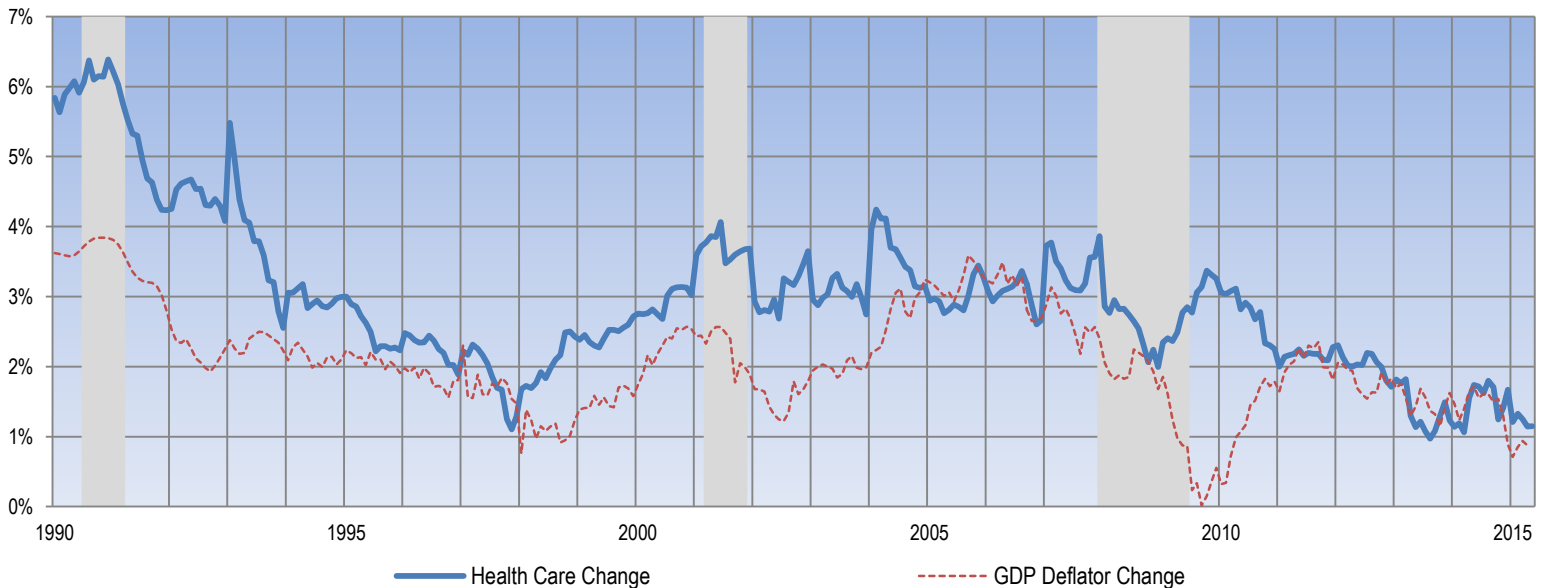
	Ending May 2013	Ending May 2014	Ending May 2015
HCPI	1.1%	1.7%	1.1%
Hospital care	1.9%	1.9%	0.7%
Physician and clinical services	0.0%	0.6%	-1.1%
Prescription drugs	-0.1%	3.6%	5.3%
Nursing home care	0.8%	0.7%	2.1%
Dental services	3.6%	2.2%	2.4%
Home health care	-0.2%	1.0%	1.0%
Other professional services	1.3%	1.2%	1.2%
Other personal health care	2.6%	2.8%	1.5%
Other nondurable medical products	0.3%	-0.8%	-0.7%
Durable medical equipment	-0.5%	1.0%	-0.3%

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 GDPD



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

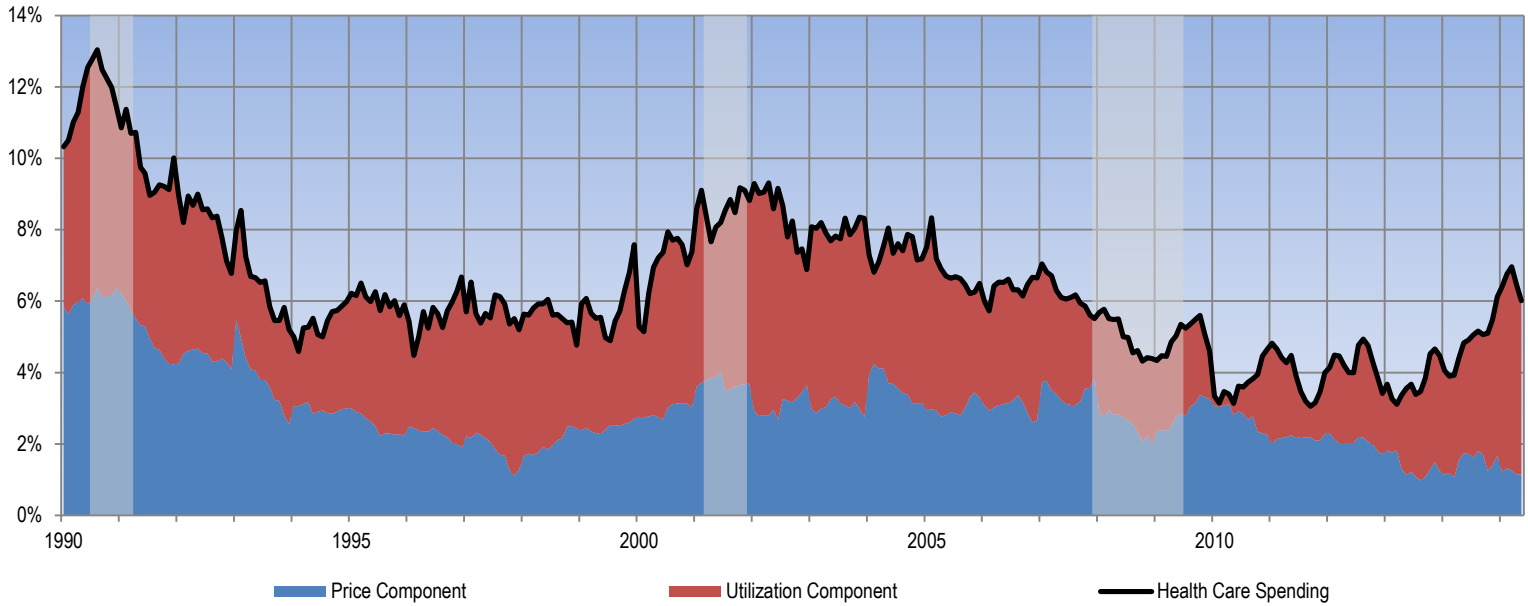
Note: Lightly shaded bars denote recession periods.

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 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.

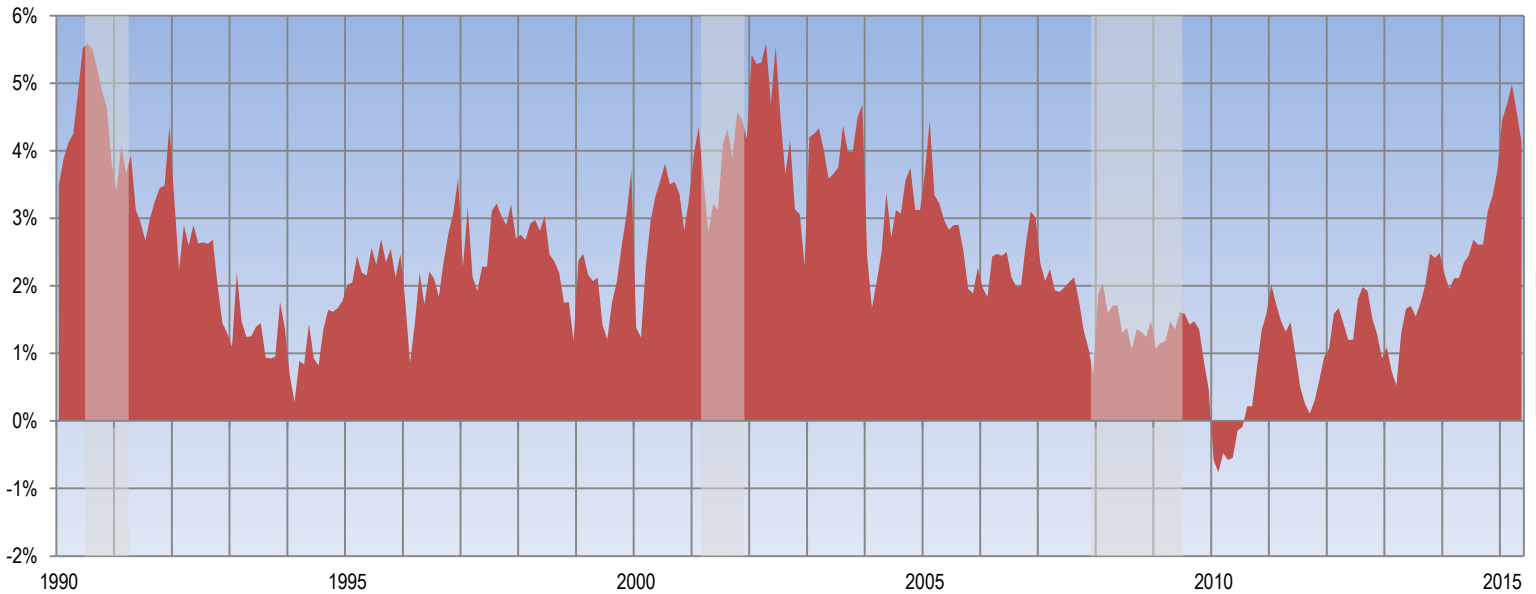
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author); 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 <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 CPI are well-documented. Information on the CMS index is presented in the following source: 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 by using BLS data on PPIs for hospital, physician, nursing home, and home health components; 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.