

Health Sector Economic IndicatorsSM

Insights from Monthly Price Indices through January 2014

www.altarum.org

March 13, 2014

PRICE BRIEF

After minor blip, health care price growth back to historic low

HIGHLIGHTS

- ▲ Health care prices in January 2014 were 1.0% higher than in January 2013, equal to the all-time low in our series and last recorded in October 2013.¹ The January 2014 12-month moving average, at 1.2%, represents a new all-time low for our data.
- ▲ Year over year, hospital prices – a key price index driver – grew 1.1% in January, four-tenths below the December rate. Physician and clinical services prices were flat, following a two-tenths growth last month, and home health care prices continued a 10-month negative growth trend, recording a -0.2% rate in January. “Other” nondurable medical products also showed a price decline this month, at -1.0%.
- ▲ Economy-wide price indexes rose modestly in January. The Consumer Price Index (CPI) rose to 1.6% year over year, from 1.5% in December; the Medical CPI rose to 2.1%; from 2.0%, and the new Producer Price Index (PPI) for final demand increased 1.2% in January, from 1.1%. The gross domestic product (GDP) deflator rose 1.6% in December, from 1.4% in November.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth, year over year, at 2.2% in December, above its 1-year average gain of 1.9%, suggesting a pick-up in utilization.

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

	Jan. 2012	Jan. 2013	Dec. 2013	Jan. 2014
Health Care Price Index (HCPI)	2.3%	1.8%	1.1%	1.0%
GDP Deflator (GDPD)	1.9%	1.8%	1.6%	**
HCPI - GDPD*	0.4%	0.0%	-0.4%	**
Addendum				
Personal health care spending	3.7%	3.2%	4.3%	4.1%
Health care utilization	1.4%	1.4%	3.2%	3.1%
CPI-Medical	3.6%	3.1%	2.0%	2.1%
CPI-All items	2.9%	1.6%	1.5%	1.6%

*Numbers may not subtract due to rounding

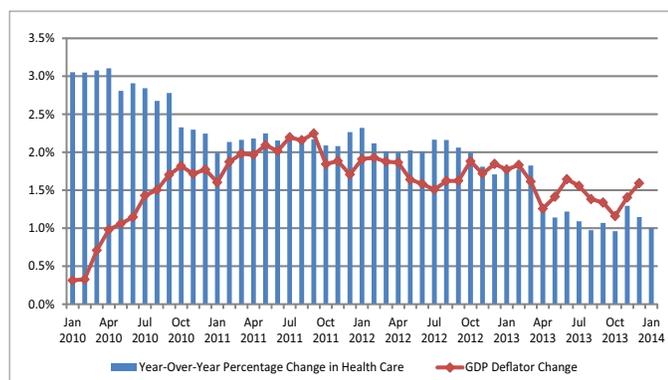
**Data not available yet

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.

HEALTH CARE AND ECONOMY-WIDE PRICES

In January 2014, the health care price index (HCPI) rose 1.0% above January 2013, equal to the lowest value in the 50-plus years of national health expenditure accounting. The 12-month moving average of 1.2% is a new all-time low for our data. The HCPI shows a steady decline from January 2010, at 3.1%, followed by 2 years oscillating near 2% growth, with a sharp and now sustained decline to about 1% (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator, trended up beginning in September 2009, peaked at 2.2% in September 2011, and was at 1.6% in December 2013. (January 2014 GDP figures are not yet available.) Exhibit 5 shows long-term comparisons.

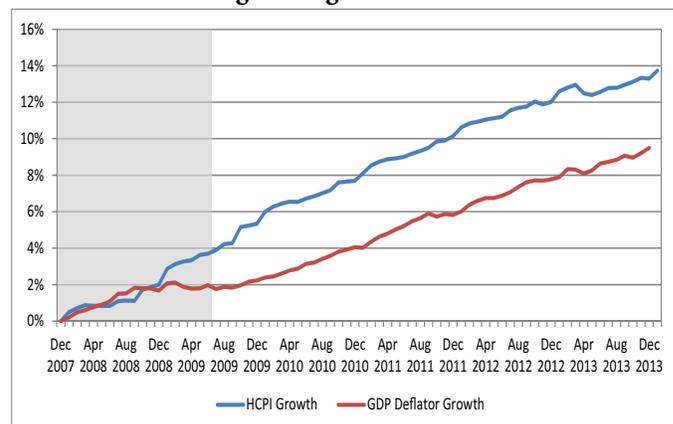
Exhibit 1. Year-Over-Year Growth Rates in Health Care Price Index and GDP Deflator



Source: Altarum analysis of monthly BLS data
Compares monthly prices with the same month from the previous year

Since the start of the recession in December 2007, health care prices have increased by 13.3% while prices in the economy as a whole (using the GDP deflator) have increased by 9.4% (Exhibit 2). Surprisingly low economy-wide inflation (especially at this point of an economic expansion), continues to exert downward pressure on health care price growth. The Finished Goods PPI growth rose to 1.2%, and the Medical CPI grew by 2.0%, only a tenth above its all-time low reached in July 2013.

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

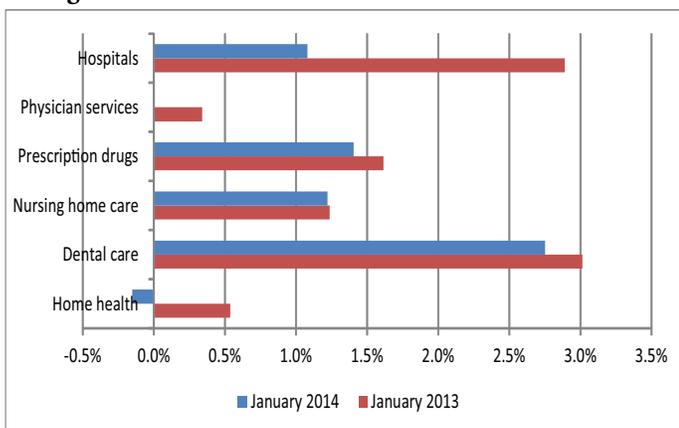
Note: Shading indicates recession period

HEALTH CARE PRICES BY CATEGORY

Comparing January 2014 with January 2013, dental care price growth remained the highest, at 2.8% (although the lowest reading for it since December 2012). Prescription drug price growth had been the highest (4.0% as recently as August 2012), then declined to -0.1% in July (its record low), and has now risen to a growth of 1.4%. Hospital price growth fell to 1.1%, its lowest reading since September 1998, while physician price growth fell two-tenths, to 0.0%. Hospital price growth plays a dominant role in the HCPI as a result of its spending weight, and its low January reading was complemented by moderate growth or outright declines in other categories. Annual inflation rate comparisons – January 2014 year over year versus January 2013 year over year – highlight the sharp slowdown in price growth for each category, except dental care (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 evenly split among 10 price categories (5 lower, 5 higher), suggesting that price growth will hold near historic lows.

Medicare and Medicaid prices usually grow more slowly than “other” prices (which include private payment). January data show some moderation. Hospital prices for Medicare and Medicaid patients both fell by 0.2% (lower than the November rate for Medicare and higher for Medicaid). For other patients, price growth fell to 2.8% (from 4.0% in December – data not shown). As we’ve previously stressed, the large private–public differential warrants monitoring due to pricing power potentially arising from provider consolidation.

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 monthly health spending estimates.²

- ▲ 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, but it now reflects very low price growth. The readings for January 2014 are 5.1% spending growth and 2.9% utilization growth – utilization is dominating price and appears to be growing.
- ▲ Exhibit 7 shows per capita utilization growth through December and highlights the decline between 2002 and 2010. Per capita utilization is rising at an annual rate of 2.2%, above its 12-month average of 1.9%, beginning to confirm a long-expected acceleration of utilization. On a 12-month average, utilization for hospitals has risen by 2.0%, home health is up 6.0%, physician utilization has risen 2.2%, the prescription drug rate has risen 4.6%, while nursing home and dental utilization show declines (-0.6% and -6.1%, respectively).

DISCUSSION

In January 2014, the HCPI rose 1.0% above January 2013, equal to the all-time low for this series, first achieved in August 2013 and again in October 2013. The 12-month moving average of 1.2% is a new all-time low. Low price growth by virtually every component, but particularly for hospitals – which at 1.1% is its lowest reading since September 1998 – is keeping the aggregate index contained.

We’ve predicted that this low rate would represent the bottom for this economic cycle. With signs of rising utilization, it would make sense to come off these historically low readings (there are signs of a rise in pharmacy³). Yet, for-profit companies continue to stress weak utilization as an excuse for disappointing earnings. Moreover, hospitals in particular seem more aggressive than ever at reducing costs and this will continue to pressure prices. Also, fortunately for patients, but not for hospitals, this is shaping up as a weak flu season.

While low price growth in the health sector is clearly worth celebrating, the picture may not be as rosy for the overall economy. Everyone knows this has been a disappointing economic recovery from the Great Recession. Less well known is that after extensive monetary stimulus, there is still concern from the highest level, (i.e., Federal Reserve Bank Governors and Presidents) that low U.S. inflation is a wild card and a puzzle. This low aggregate price growth is keeping the lid on health care prices 4½ years after the recession ended.

We certainly expect health sector price pressures to build as the newly insured, under the Affordable Care Act, begin to access care. But the ensuing lag may be great indeed, especially if it is counterbalanced by significant (and historic) provider cost restructuring.

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¹ Our monthly price series extends back to January 1990. However, we have annual data from the Centers for Medicare and Medicaid Services (CMS) extending back to 1960. The lowest recorded figure for the HCPI was 1.2% growth in 1961. “Historical” or “all-time” low claims are referencing this 50-plus year period.

² Altarum Institute Spending Brief #14-3: January 2014 Data. **Please note:** The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

³ Santangelo, G, Bailin, J & Hernandez, D (2014). Monthly Drug Tracker: February Rx Growth Rate Swings To Positive Territory Following Soft January. Credit Suisse Equity Research, March 13. Available at: https://doc.research-and-analytics.csfb.com/docView?sourceid=em&document_id=x557462&serialid=ym8QI4alYStqovGwsOSYQx0gWYGw4q2hVcQKnPgww9A%3d

PRICE GROWTH BY DETAILED CATEGORIES

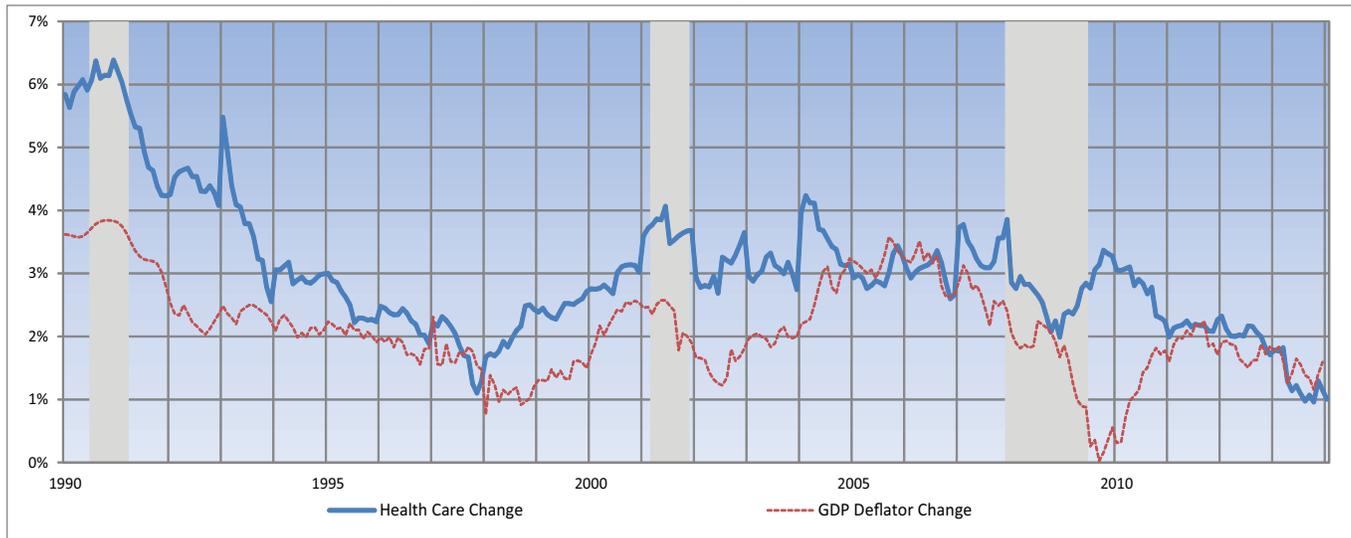
Exhibit 4. Annualized Percentage Change in Prices for the Major Components of National Health Expenditures

	Ending January 2012	Ending January 2013	Ending January 2014
Health care price index	2.3%	1.8%	1.0%
Hospital care	2.7%	2.9%	1.1%
Physician and clinical services	1.9%	0.3%	0.0%
Prescription drugs	4.2%	1.6%	1.4%
Nursing home care	0.9%	1.2%	1.2%
Dental services	2.3%	3.0%	2.8%
Home health care	0.4%	0.5%	-0.2%
Other professional services	0.9%	1.3%	1.7%
Other personal health care	2.6%	2.4%	2.4%
Other non-durable medical products	0.2%	0.8%	-1.0%
Durable medical equipment	0.3%	1.0%	0.0%

Source: Altarum analysis of monthly Bureau of Labor Statistics (BLS) data
 Notes: Compares monthly prices with 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

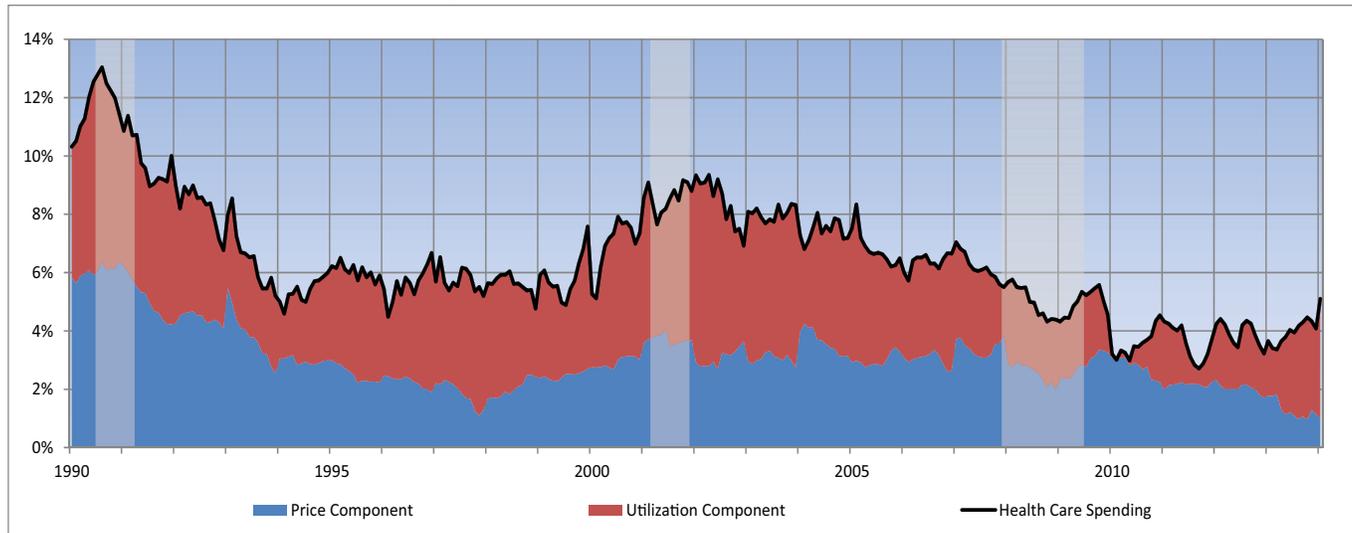
Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute’s research on investigating 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, 571-733-5709, ken.schwartz@altarum.org.

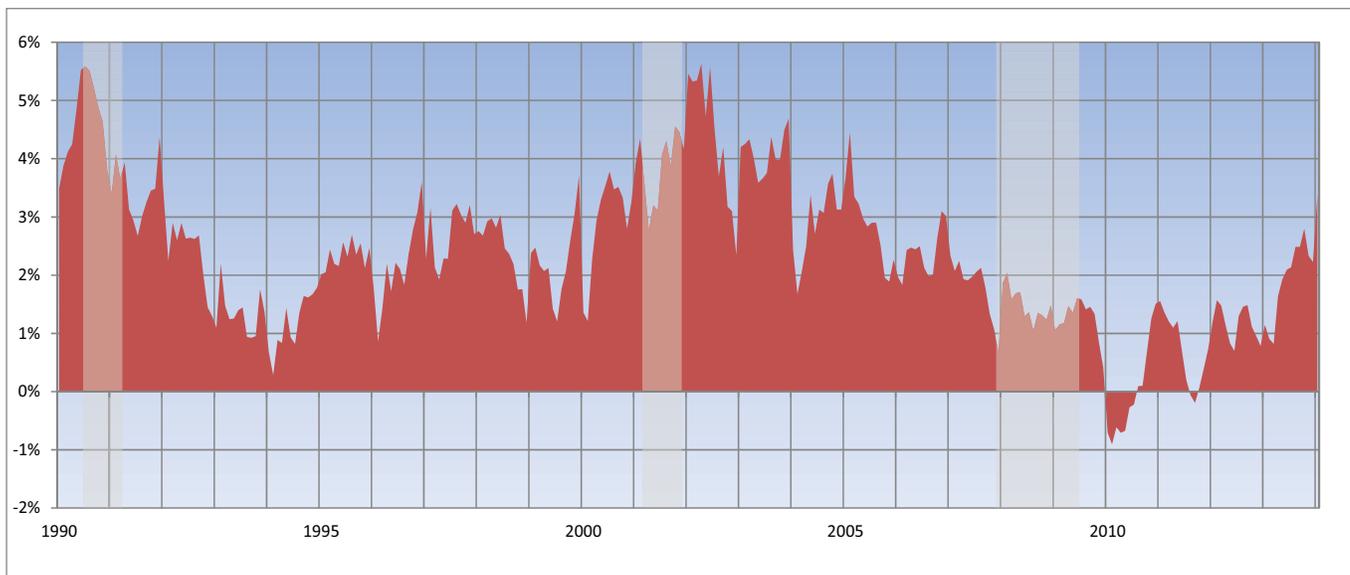
For more information, please visit www.altarum.org/cshs.

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, 2011-Definitions, Sources, and Methods*, Washington, DC: Centers for Medicare & Medicaid Services, 2013. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-11.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.