

ALTARUM CENTER FOR VALUE IN HEALTH CARE

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices through March 2020

PRICE BRIEF

April 15, 2020 ▲ COVID-19 impact delayed; health care price growth steady at 2%

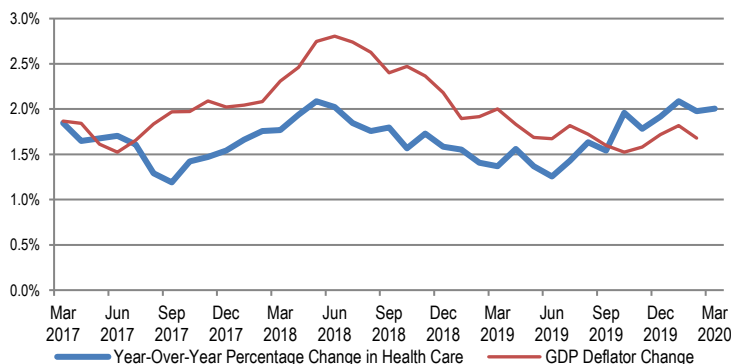
HIGHLIGHTS

- ▲ Health care prices in March 2020 rose 2.0% from March 2019, equal to the February annual rate.
- ▲ Year-over-year hospital price growth rose to 2.5% from 2.3% in February. Annual physician price growth was 0.8%, and annual drug price growth was 1.5% in March, the sixth straight positive reading after negative growth in 2019.
- ▲ Economy-wide price indices showed much lower growth. The Consumer Price Index (CPI) saw 1.5% annual growth, the lowest rate since February 2019, and the final-demand Producer Price Index (PPI) growth fell to 0.7% in March from 1.3% in February (its lowest rate since September 2016). The gross domestic product deflator growth (GDPD) was 1.7% in February, down a tenth from January (data lag by one month).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.8% in February—five tenths below its 12-month average.

HEALTH CARE AND ECONOMY-WIDE PRICES

In March 2020, the Health Care Price Index (HCPI) rose 2.0% above March 2019, equal to the February annual rate. The 12-month moving average was steady at 1.7%. The HCPI declined from 3.2% in October 2009, hit a historic low of 1.0% in December 2015, and is now at or above 2.0% for only the 8th month since then (Exhibit 1; Exhibit 5 has the long-term series). Economy-wide price inflation, as measured by the GDPD, trended upward beginning in September 2009 at 0.1%, peaked at 2.4% in September 2011, and was lower or stable until hitting its post-recession high of 2.8% in June 2018. After mostly trending down, the annual growth rate stood at 1.7% in February 2020.

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.

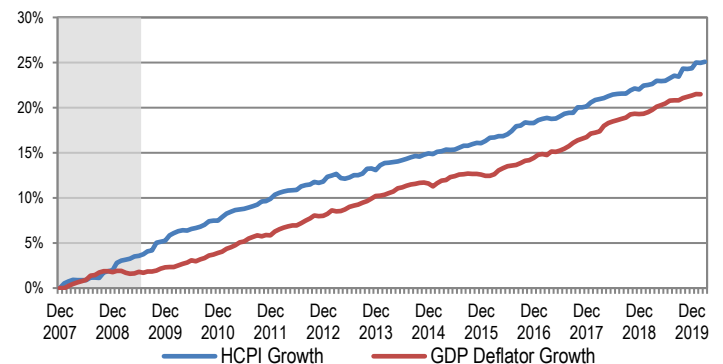
	Mar 2018	Mar 2019	Feb 2020	Mar 2020
Health Care Price Index (HCPI)	1.8%	1.4%	2.0%	2.0%
GDPD	2.3%	2.0%	1.7%	**
HCPI-GDPD	-0.5%	-0.6%	0.3%	**
Addendum				
Health care spending	3.9%	5.7%	5.3%	**
Health care utilization	2.2%	4.3%	3.3%	**
CPI—medical	2.0%	1.7%	4.6%	4.7%
CPI—all items	2.4%	1.9%	2.3%	1.5%

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.
**Data not available

Since the start of the recession in December 2007, health care prices have increased 25.1%, while economy-wide prices (using the GDPD) have increased 21.5% (Exhibit 2). This cumulative gap remains amazingly low, but the historically long streak of 27 months with HCPI growth below GDPD growth—began in July 2017—ended with the October 2019 data. With wild price behavior expected, there is no predicting future trends for these data.

The CPI rose 1.5% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 4.7% annual growth, the highest rate since September 2016. The final-demand PPI growth dropped to 0.7%, the lowest rate since September 2016.

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.

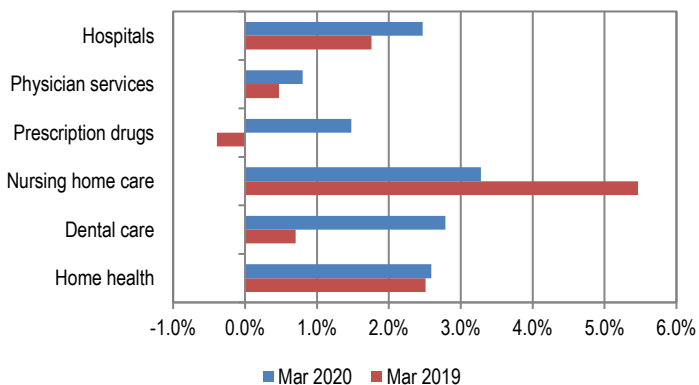
HEALTH CARE PRICES BY CATEGORY

In March 2020, the annual price growth for nursing facilities, at 3.3% was the highest category, while other non-durable medical products showed the lowest growth at 0.6%. The hospital rate at 2.5% rose from 2.3% in February. Drug price growth slipped to 1.5% in March vs. 2.4% in February—low rates but not negative like they were in 2019. Annual inflation rate comparisons—March 2020 year over year versus March 2019 year over year—show five of six main categories higher, with only nursing home care lower (Exhibit 3, with additional detail in Exhibit 4).

Price momentum, which highlights the latest 3 months of data, is higher for the aggregate HCPI and for 4 of 10 detailed price categories, including hospitals, drugs, nursing care and other professional services.

Medicare and Medicaid hospital prices typically grow more slowly than private-sector prices. Annual hospital price growth in March for Medicare patients was 3.1% (same as in February), -1.3% for Medicaid patients (down from -1.1%), and 3.0% for private pay patients (up from 2.6% in February). For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was -2.2% in March, a series showing oddly negative price growth since May 2019. There is a large *cumulative* gap comparing public prices to private ones. Since June 2014 when BLS created the private-only data series, cumulative hospital prices for Medicare, Medicaid, and private pay patients have grown by 9.2%, -0.4%, and 15.2%, respectively (data not shown).

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

Health care utilization and intensity can be imputed from the price data combined with Altarum’s monthly health spending estimates.¹

- ▲ Exhibit 6 displays year-over-year growth rates in personal health care spending broken out by price and utilization. Utilization surged in 2014 and 2015 and, after moderating, is clearly trending higher. The February 2020 readings are 5.3% spending growth and 3.3% utilization growth.
- ▲ Exhibit 7 shows implicit per capita utilization growth and highlights the decline between 2002 and 2010, sharp growth due to ACA expansion in 2014-15, and a jagged upward trend since 2017. Total per capita utilization in December rose at an annual rate of 2.8%—5 tenths below its 12-month average of 3.3%. On a 12-month average basis, utilization for hospitals rose 3.2%, home health care showed -1.7% growth, physician services rose 2.8%, the prescription drug rate is 7.6%, nursing care rose 3.2%, and dental care utilization rose 0.9%.

DISCUSSION

In March 2020, annual growth in the Health Care Price Index was 2.0%, equal to the February rate, and only the 8th time at or above 2% since September 2012. The 12-month moving average was stable at 1.7%. Per last month, while the HCPI does appear to be trending upward—for the third time since the historic low of 1% hit in December 2015 (see Exhibits 1 and 5)—and we were ready to predict a rise to a more “normal” 3% rate, who knows how the vicious spread of COVID-19 will affect prices?

We now see six consecutive months of positive price growth for drugs following historically low growth in 2019. With the 1.5% annual rate in March 2020, the 6-month annual average is 1.8%.

The MCPI grew at an annual rate of 4.7% in March, the highest since September 2016. This includes a huge 20.6% annual growth in health insurance, a function of an [indirect estimator](#) used by the Bureau of Labor Statistics that appears to be emphasizing the Health Insurance Fee that, while eliminated in 2021, was brought back to life for 2020. Insurer profits may also be playing a role. In contrast, the final-demand PPI growth dropped to 0.7%, its lowest rate since September 2016. Does this portend an environment whereby COVID-19 puts upward pressure on *retail* health prices and downward pressure on *wholesale* health prices?

We have our first significant for-profit insurer data point with the release of first quarter 2020 earnings from United Healthcare, which topped analysts’ forecasts. Discretionary care was indeed down sufficiently to compensate for COVID-19 expenditures, at least through March.

We are confident in saying that the longest economic expansion in U.S. history ended in March 2020, though the [National Bureau of Economic Activity](#) (the official arbiter) may wait a few months before its official declaration. Thus, we witnessed a recovery that lasted 128 months with a record [113 consecutive months of job creation](#).

¹ Altarum Spending Brief 4/15/20: February 2020 Data. Note: The Spending Brief covers all health care spending; this Price Brief covers personal health care.

PRICE GROWTH BY DETAILED CATEGORIES

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

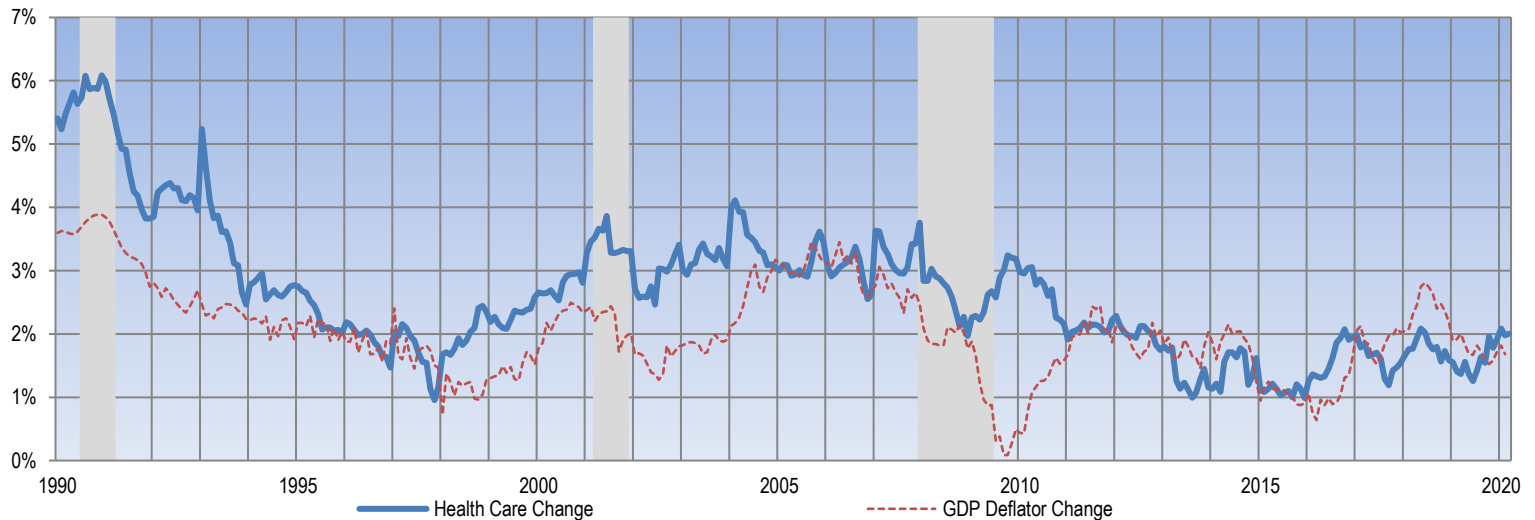
	Ending March 2018	Ending March 2019	Ending March 2020
HCPI	1.8%	1.4%	2.0%
Hospital care	2.6%	1.8%	2.5%
Physician and clinical services	0.4%	0.5%	0.8%
Prescription drugs	1.9%	-0.4%	1.5%
Nursing home care	1.7%	5.5%	3.3%
Dental services	3.7%	0.7%	2.8%
Home health care	2.6%	2.5%	2.6%
Other professional services	0.3%	0.8%	0.8%
Other personal health care	1.6%	1.7%	2.3%
Other nondurable med. products	0.2%	-1.6%	0.6%
Durable medical equipment	0.0%	1.1%	1.0%

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.

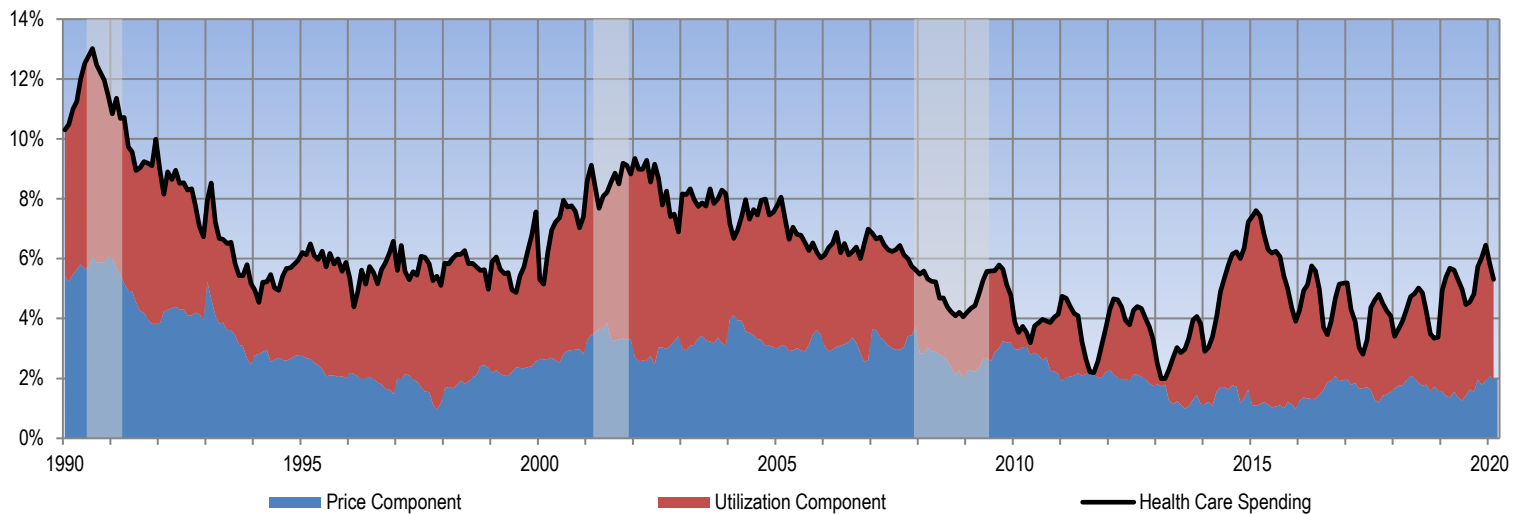
Note: Lightly shaded bars denote recession periods.

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

Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. In large part, this work was made possible through support from the Robert Wood Johnson Foundation.

The *Health Sector Economic Indicators*SM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact **Paul Hughes-Cromwick**, at 202-776-5110 or paul.hughes-cromwick@altarum.org. Paul Hughes-Cromwick (principal author); Corey Rhyan, George Miller, PhD, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, press@altarum.org. For more information, visit <https://altarum.org/solution/health-sector-spending>.

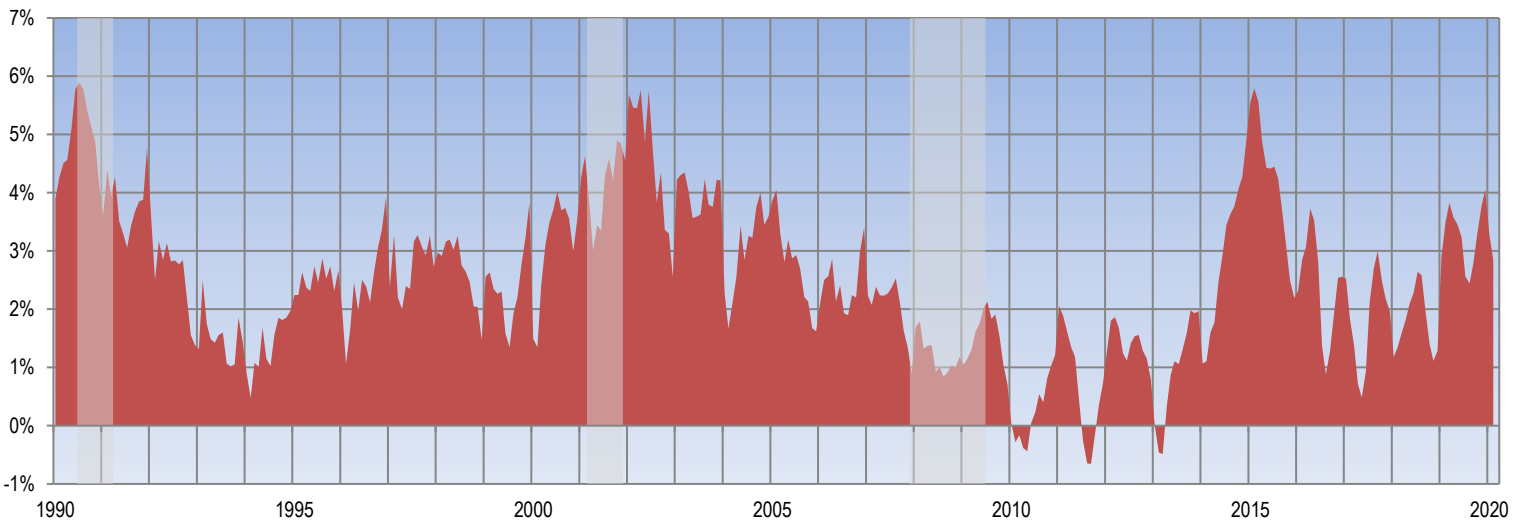
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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. (2019). *National Health Expenditure Accounts: Methodology Paper, 2018—Definitions, Sources, and Methods*. Washington, DC: Centers for Medicare & Medicaid Services. Retrieved from <http://www.cms.gov/files/document/definitions-sources-and-methods.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.