

January 17, 2020 ▲ Health care price growth ticks up; drug prices spike to 3.0% annual rise

HIGHLIGHTS

- ▲ Health care prices in December 2019 rose 1.9% from December 2018, up a tenth from the November annual rate of 1.8%.
- ▲ Year-over-year hospital price growth was 2.1%, down from 2.4% in November. Annual physician price growth remained at 0.6%. Annual drug price growth was 3.0% in December, the third straight positive reading and its highest rate since June 2018.
- ▲ Economy-wide price indices were mostly up. The Consumer Price Index (CPI) rose to 2.3% annual growth from 2.1% in November and the final-demand Producer Price Index (PPI) rose to 1.3% in December from 1.1% in November. The gross domestic product deflator growth (GDPD) was flat at 1.6% in November.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.3% in November—four tenths above its 12-month average.

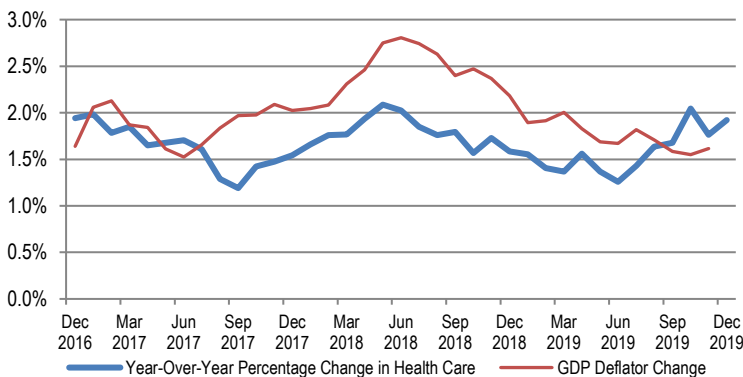
Health Care Prices and Related Statistics: 12-Month Growth Rates				
	Dec 2017	Dec 2018	Nov 2019	Dec 2019
Health Care Price Index (HCPI)	1.5%	1.6%	1.8%	1.9%
GDPD	2.0%	2.2%	1.6%	**
HCPI-GDPD	-0.5%	-0.6%	0.1%	**
Addendum				
Health care spending	4.1%	3.4%	5.7%	**
Health care utilization	2.5%	1.8%	3.9%	**
CPI—medical	1.8%	2.0%	4.2%	4.6%
CPI—all items	2.1%	1.9%	2.1%	2.3%

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

HEALTH CARE AND ECONOMY-WIDE PRICES

In December 2019, the Health Care Price Index (HCPI) rose 1.9% above December 2018, up one tenth from the November annual rate of 1.8%. The 12-month moving average, stood at 1.6% for the 3rd straight month. The HCPI declined from 3.2% in October 2009, hit a historic low of 1.0% in December 2015, and has eclipsed 2.0% in only 4 months 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. It has been trending down and the annual growth rate stood at 1.6% in November 2019.

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



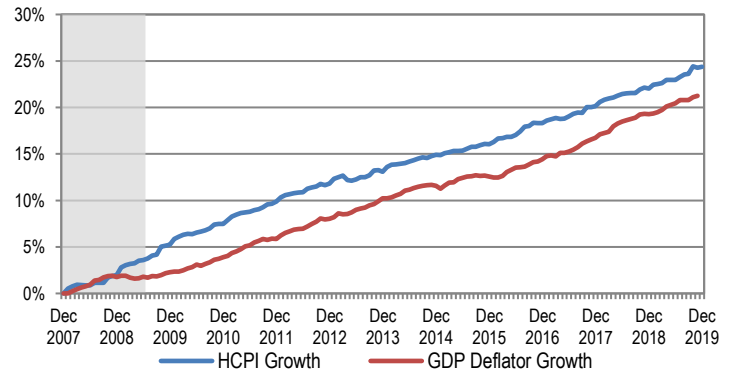
Source: Altarum analysis of monthly BLS data.

Note: This exhibit compares monthly prices with the same month from the previous year.

Since the start of the recession in December 2007, health care prices have increased 24.4%, while economy-wide prices (using the GDPD) have increased 21.2% (Exhibit 2). This cumulative gap is surprisingly low, but the historically long streak of 26 months with HCPI growth below GDPD growth—began in July 2017—ended with the September 2019 data. Bad news if this persists.

The CPI rose 2.3% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 4.6% annual growth, its highest rate since September 2016. The final-demand PPI growth rose to 1.3% in December from a low 1.1% rate in November.

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.

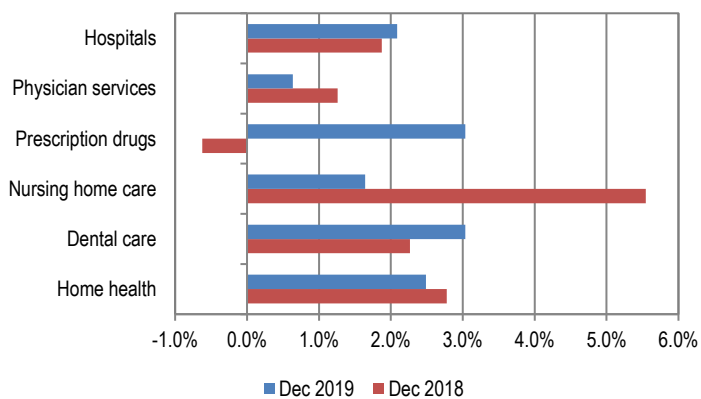
HEALTH CARE PRICES BY CATEGORY

In December 2019, the annual price growth for dental care and for prescription drugs, at 3.0% were the highest categories, while other non-durable medical products showed the lowest growth at 0.5%. Year-over-year price growth for hospital care rose fell three tenths to 2.1% in December, down from 6+ year high of 2.8% in October. Annual inflation rate comparisons—December 2019 year over year versus December 2018 year over year—show hospitals, drugs and dental care higher, with the other 3 main categories 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 but only for 4 of 10 detailed price categories, including hospitals, drugs, nursing care and durable medical products.

Medicare and Medicaid hospital prices typically grow more slowly than private-sector prices. Annual hospital price growth in December for Medicare patients was 2.4% (up from 2.1% in November), -0.1% for Medicaid patients (steady from November), and 2.8% for private pay patients—down further from the high October rate of 4.4%. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was -3.3% in December, 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 8.2%, -0.4%, and 14.3%, 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 has moderated since then but is now trending higher. The November 2019 readings are 5.7% spending growth and 3.9% utilization growth.
- ▲ Exhibit 7 shows implicit per capita utilization growth and highlights the decline between 2002 and 2010, then sharp growth due to ACA expansion, and an upward though jagged trend since 2017. Total per capita utilization in November rose at an annual rate of 3.3%—4 tenths above its 12-month average of 2.9%. On a 12-month average basis, utilization for hospitals rose 3.0%, home health care is down to -0.7% growth, physician services rose 2.1%, the prescription drug rate is 7.1%, nursing care rose 2.1%, and dental care utilization is down by -0.3%.

DISCUSSION

In December 2019, annual growth in the Health Care Price Index (HCPI) was 1.9%, up one tenth from the November rate. The 12-month average showed an HCPI growth of 1.6% in 2019, down from 1.8% in 2018, and equal to the rates for 2016 and 2017. A central issue is whether we are in the early stages of an acceleration with a 3-month growth of 1.9% (at an annual rate) to end 2019.

As expected, the annual private hospital price growth fell from 4.4% in October (the highest rate since the private only series was created in 2014) to 3.8% in November and now 2.8% for December. This deceleration clearly kept the HCPI from higher growth. Not expected was the spike in the annual price growth for prescription drugs at 3.0% in December from 0.5% in November and 1.0% in October. Nevertheless, the average price growth for 2019 was -0.2%, compared to 1.6% in 2018. Thus, even with the December spike, 2019 showed the lowest drug price growth since 1972. We may be at the cusp of accelerating price growth as [drug makers have raised prices in the new year](#). We will see the extent to which this is reflected in the January data to be released in mid-February.

The historically long streak of 26 months whereby health care prices grew more slowly than economy-wide prices ended with the September data. If this persists, i.e., reverts to the historically normal dynamic, it would likely lead to higher economy-wide inflation and higher health care spending. Nonetheless, other instances during this longest expansion in U.S. history when health care prices seemed poised to accelerate turned out to be short lived.

A final note concerns high MCPI growth. On an annual basis, it was 4.6% in December, up from 4.2% in November, and the highest growth rate since September 2016. This is likely reflecting higher drug price growth and is, in any case, not a welcome sign for consumers.

¹ Altarum Spending Brief 1/17/20: November 2019 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

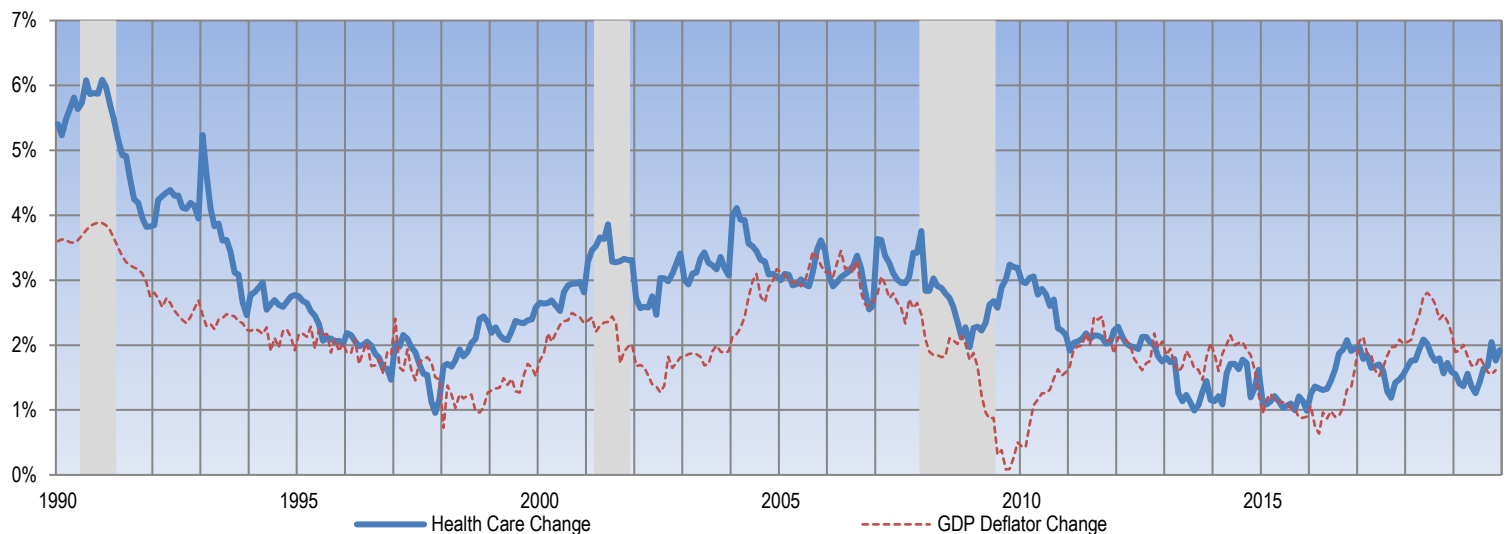
	Ending December 2017	Ending December 2018	Ending December 2019
HCPI	1.5%	1.6%	1.9%
Hospital care	2.2%	1.9%	2.1%
Physician and clinical services	0.0%	1.3%	0.6%
Prescription drugs	2.8%	-0.6%	3.0%
Nursing home care	2.1%	5.5%	1.6%
Dental services	1.5%	2.3%	3.0%
Home health care	1.0%	2.8%	2.5%
Other professional services	2.1%	0.1%	0.8%
Other personal health care	0.5%	2.2%	1.9%
Other nondurable med. products	0.7%	-0.4%	0.5%
Durable medical equipment	0.4%	1.6%	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.

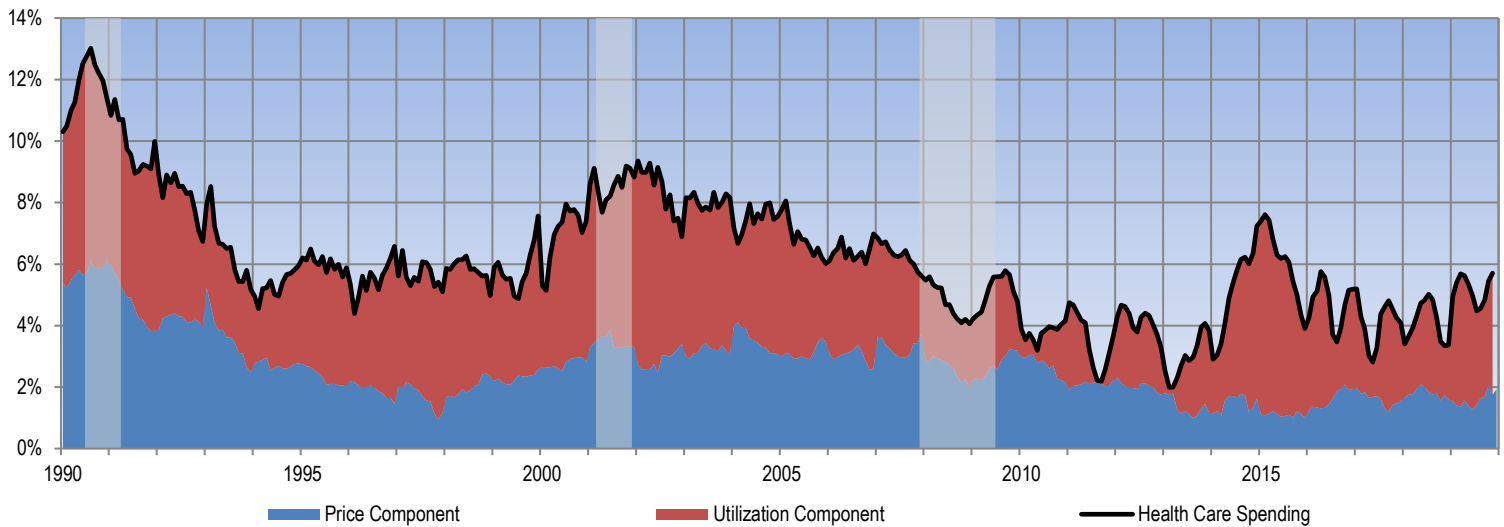
Note: Lightly shaded bars denote recession periods.

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 734-302-4616 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>.

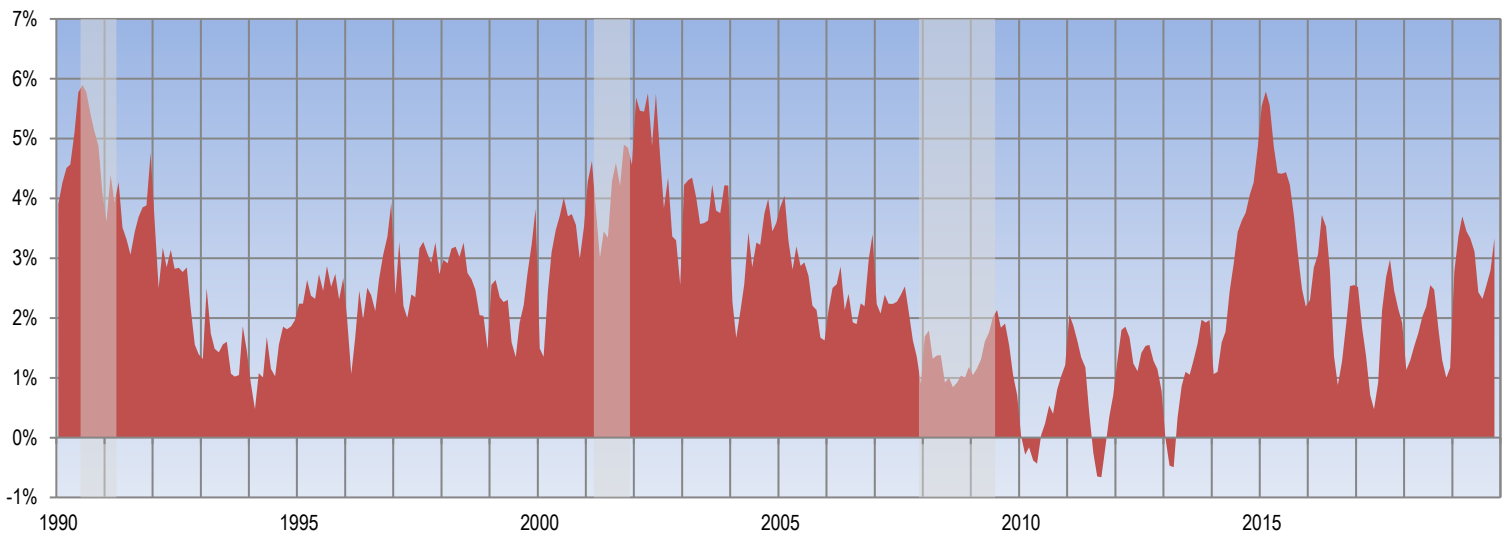
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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 (NHS). 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 NHS, 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.