

August 14, 2020

Health care price growth trending higher amidst spending rebound

HIGHLIGHTS

- ▲ Health care prices in July 2020 rose 2.4% from July 2019. Significant data revisions and a return to more normal spending levels drove the index near multi-year highs, but caution is warranted given odd spending weights.
- ▲ Year-over-year hospital price growth rose to 3.5% in July, its highest rate since April 2010. Physician price growth was 1.0% and annual drug price growth fell from 2.0% in June to 1.7% in July. Other indexes showed modest or no changes on an annual basis between June and July.
- ▲ Economy-wide price growth was largely stable. The Consumer Price Index (CPI) rose from 0.6% annual growth to a still low 1.0% in July, and the final-demand Producer Price Index (PPI) growth was -0.4%, vs. -0.8% in June. The gross domestic product deflator growth (GDPD) was a low 0.6% in June.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at -10.3% in June—significantly below its 12-month average of -4.0%.

	July 2018	July 2019	June 2020	July 2020
Health Care Price Index (HCPI)	1.9%	1.4%	2.2%	2.4%
GDP Deflator (GDPD)	2.8%	1.6%	0.6%	**
HCPI - GDPD	-1.0%	-0.2%	1.6%	**
Addendum				
Personal health care spending	4.9%	4.1%	-7.5%	**
Health care utilization	3.0%	2.7%	-9.8%	**
Medical Consumer Price Index (MCPI)	1.9%	2.6%	5.1%	5.0%
Consumer Price Index – all items (CPI)	2.9%	1.8%	0.6%	1.0%
Producer Price Index – Final Demand (PPI)	3.4%	1.6%	-0.8%	-0.4%

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 below. Numbers may not subtract properly due to rounding.

**Data not available

Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among vulnerable and publicly insured populations. 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. This work was made possible through generous support from the Robert Wood Johnson Foundation.

The Health Sector Economic IndicatorsSM 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), Ani Turner, George Miller, PhD, Matt Daly, PhD, and Corwin Rhyan contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.



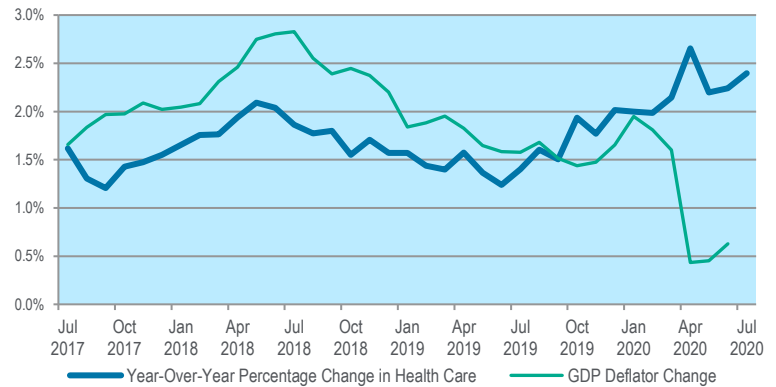
DISCUSSION

In July 2020, annual growth in the Health Care Price Index (HCPI) was 2.4%, a dramatic increase from our reporting last month of 0.4% annual growth in June. While underlying price indexes have increased, the main factor for the index is a return to more normal weights with the rebound in health spending (Exhibits 1 and 4).

We again highlight the Medical Care CPI that, at 5.0% annual growth in July, was only a tenth lower than the June rate—the highest since December 2007. An important component of the MCPI is health insurance which has been growing near 20% annually (Exhibit 9). In fact, the 20.7% annual rate in February 2020 was the all-time high reading. Yet if anything, we would expect this to be higher since it is based on a “retained earnings” methodology, and we have seen copious quantities of earnings given much lower than expected benefit payouts (though these are now increasing). The Health Insurance Fee, to be phase-out after 2020, is also boosting this indicator. Economy-wide price measures and the GDPD are showing muted growth, indicating that COVID-19 is putting upward pressure on retail health prices and downward pressure on most other items.

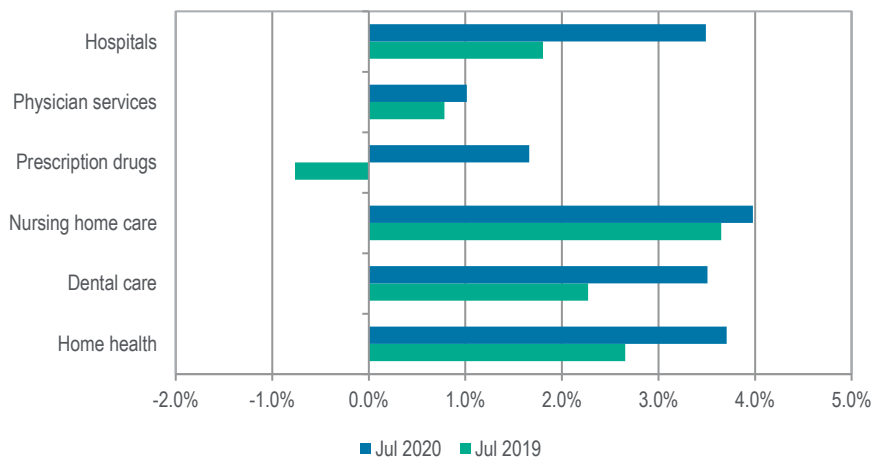
But the big (and strange) news this month is the surge in hospital prices, especially for Medicare and Medicaid patients. The annual growth for total hospital prices, at 3.5% is a 10-plus year high. However, the 4.7% annual rate for Medicare patients is the highest since March 2008, and even stranger, the rate for Medicaid patients, at 4.7%, is the highest since January 2003 (Exhibit 7). In contrast, the hospital price growth for private pay patients fell from 2.6% in June to 2.2% in July. Clearly, Covid-19 is pressuring these public prices higher but it remains to be analyzed the mechanism and the duration for these surges (we will investigate this for next month’s brief).

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



Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

Exhibit 2. Year-over-Year Price Growth for Selected Health Categories



Health care spending has rebounded and in some areas is approaching par to pre-Covid readings (Exhibits 5, 6, and 8). [A timelier indicator for ambulatory visits](#), extending to July 26, 2020, shows a less than 10% decline from March 1, 2020, though a massive cumulative deficit. Will the health care utilization and spending rebound continue? We don’t know but we are concerned about the country’s continuing inability to quash new daily cases,

and the risks of reopening businesses and schools in that environment are substantial.



PRICE GROWTH BY DETAILED CATEGORIES

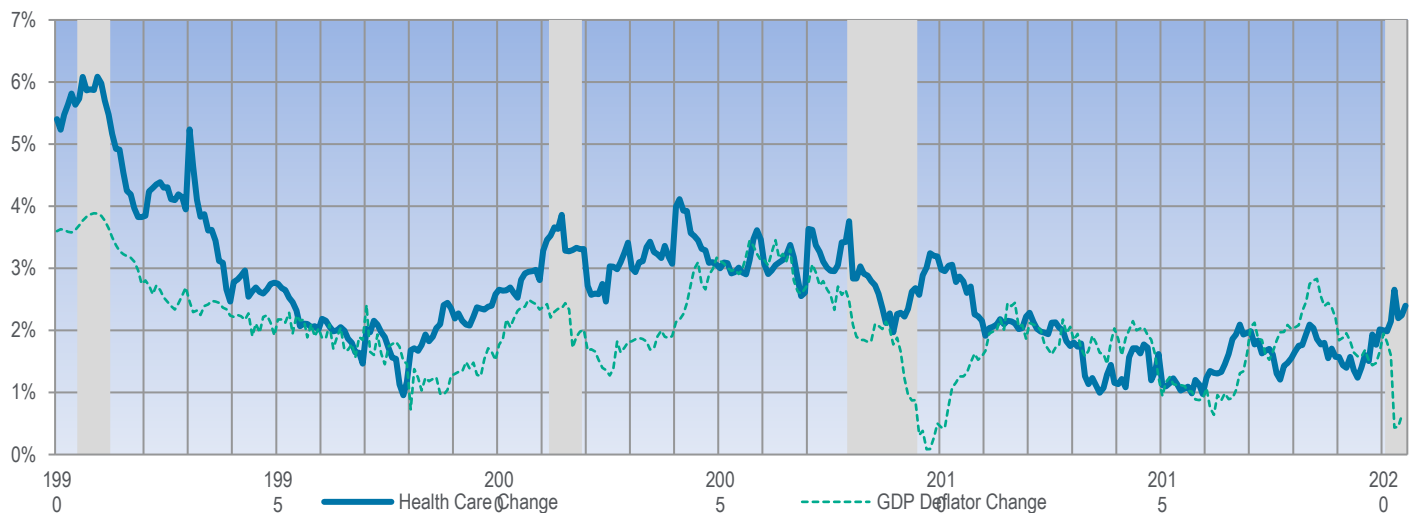
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending July 2018	Ending July 2019	Ending July 2020
Health Care Price Index (HCPI)	1.9%	1.4%	2.4%
Hospital care	2.7%	1.8%	3.5%
Physician and clinical services	0.8%	0.8%	1.0%
Prescription drugs	0.9%	-0.8%	1.7%
Nursing home care	3.5%	3.7%	4.0%
Dental Services	3.1%	2.3%	3.5%
Home health care	2.2%	2.7%	3.7%
Other professional services	0.7%	0.5%	1.4%
Other personal health care	1.9%	2.1%	2.7%
Other nondurable medical products	-1.6%	0.5%	-1.0%
Durable medical equipment	1.9%	1.5%	0.4%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDPD



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.



Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components

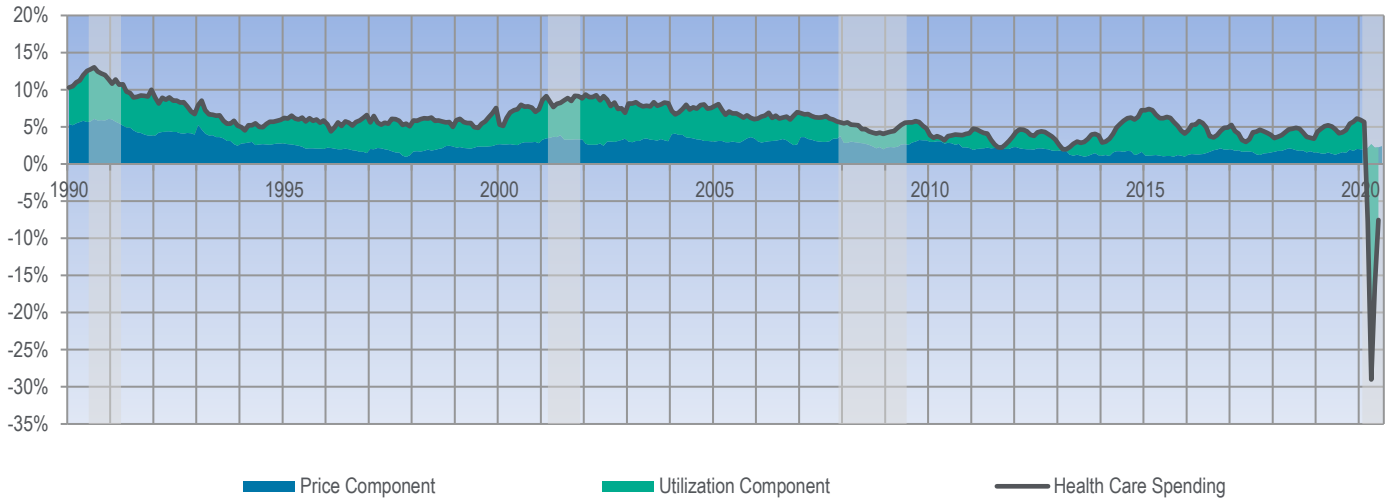
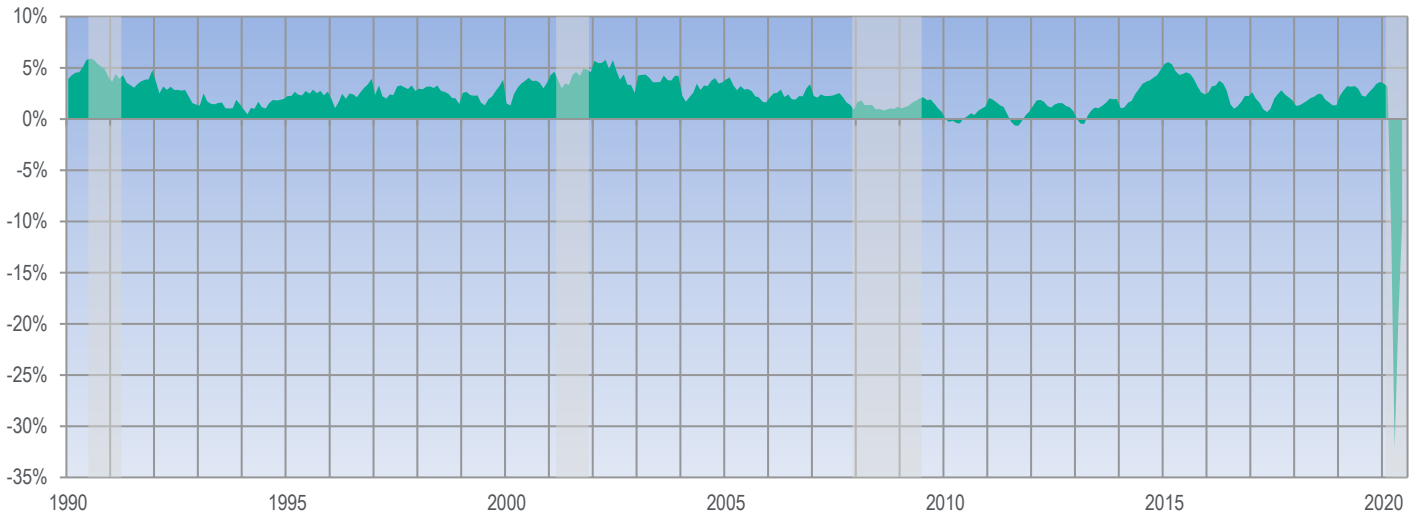


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altaram calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods.



Exhibit 7. Year-over-Year Hospital Price Growth by Payer

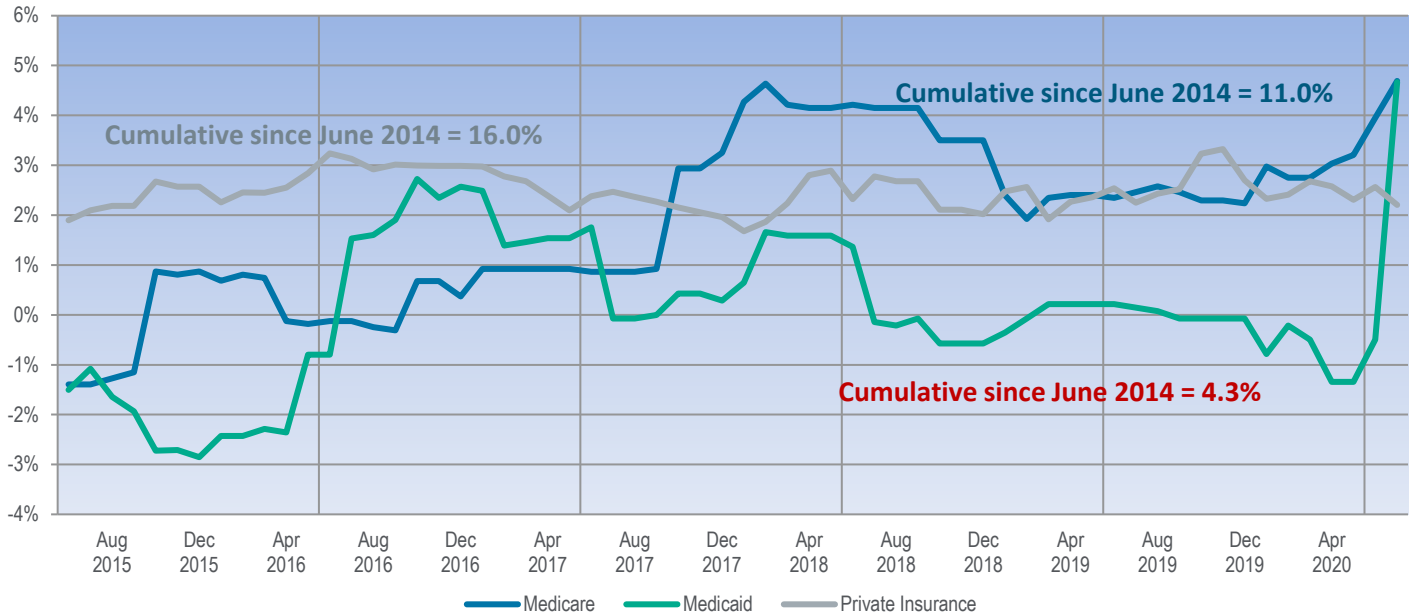


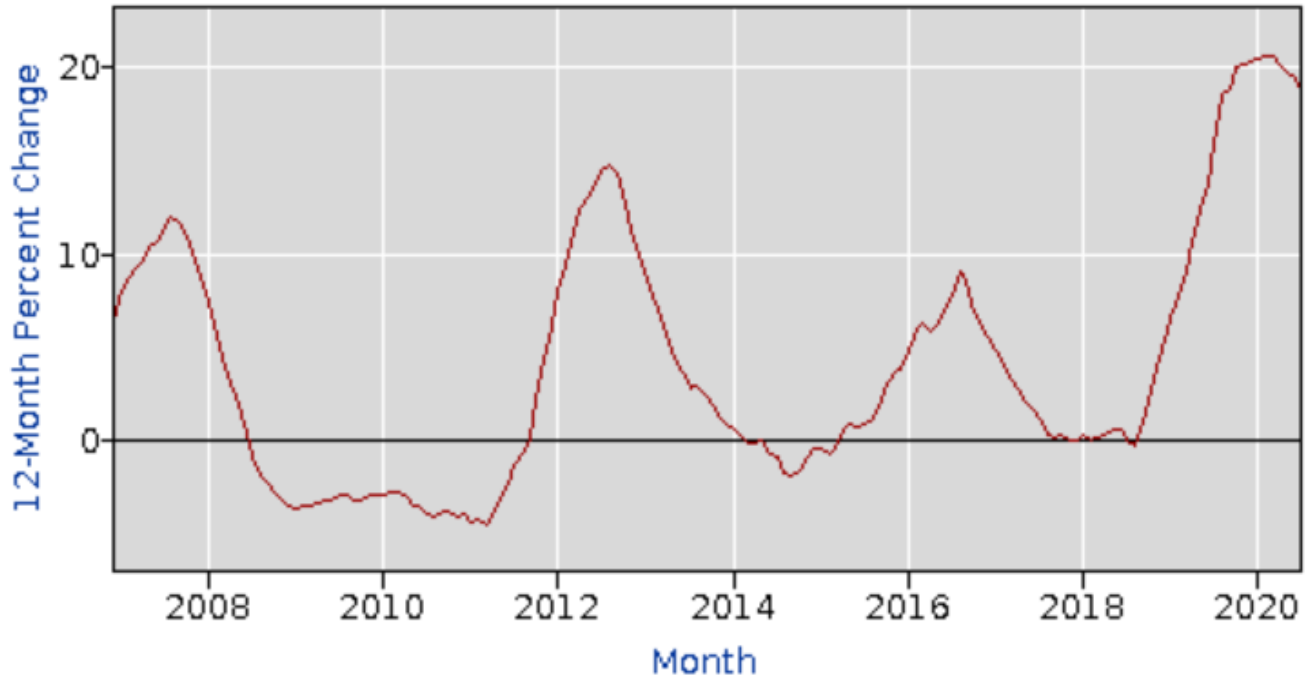
Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	June 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-10.3%	-20.5%	-4.0%
Hospital care	-16.7%	-30.2%	-7.5%
Physician and clinical services	-3.3%	-18.0%	-2.7%
Prescription drugs	3.1%	2.5%	5.9%
Nursing home care	-16.5%	-13.3%	-4.4%
Dental Services	-37.5%	-50.4%	-14.9%
Home health care	-9.7%	-14.8%	-2.7%
Other professional services	-9.0%	-21.4%	-2.9%
Other personal health care	1.9%	1.3%	2.0%
Other nondurable medical products	2.0%	0.0%	3.2%
Durable medical equipment	-21.2%	-24.6%	-5.3%

Source: Altarum analysis of monthly BLS data combined with Altarum HSEI spending data.



Exhibit 9. Year-Over-Year Percent Change in the Health Insurance CPI



Source: BLS.