

ALTARUM CENTER FOR VALUE IN HEALTH CARE

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices through November 2019

PRICE BRIEF

December 13, 2019 ▲ Health care price growth decelerates due to hospital prices; Rx prices barely rise

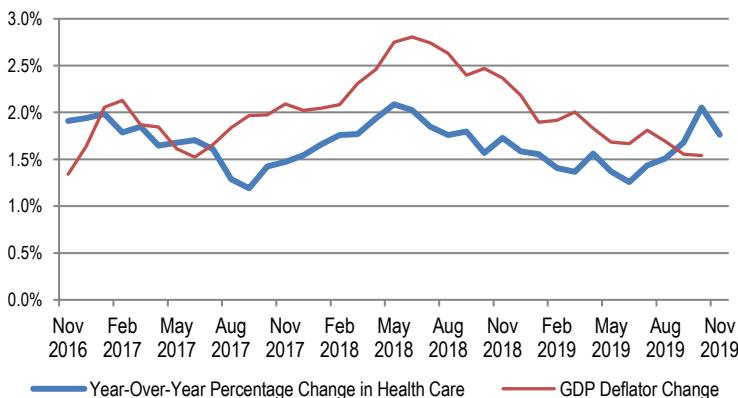
HIGHLIGHTS

- ▲ Health care prices in November 2019 rose 1.8% from November 2018, cooling from the high October annual rate of 2.1%.
- ▲ Year-over-year hospital price growth was 2.4%, also down from its high October rate of 2.8%. Annual physician price growth remained at 0.6%. Annual drug price growth was 0.5 in November, down from 1.0% in October, and the second positive annual reading since April 2019.
- ▲ Economy-wide price indices were mixed. The Consumer Price Index (CPI) rose to 2.1% growth from 1.8% annual growth in November and the final-demand Producer Price Index (PPI) stayed at 1.1%, its lowest rate since October 2016. The gross domestic product deflator growth (GDPD) fell to 1.5% in October from 1.6% in September.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 3.0% in October—three tenths above its 12-month average.

HEALTH CARE AND ECONOMY-WIDE PRICES

In November 2019, the Health Care Price Index (HCPI) rose 1.8% above November 2018, down three-tenths from the October annual rate of 2.1%. The 12-month moving average, stood at 1.5% for the 5th 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 long-term comparisons). 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. The annual rate was 1.5% in October 2019 (but is subject to revision).

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.

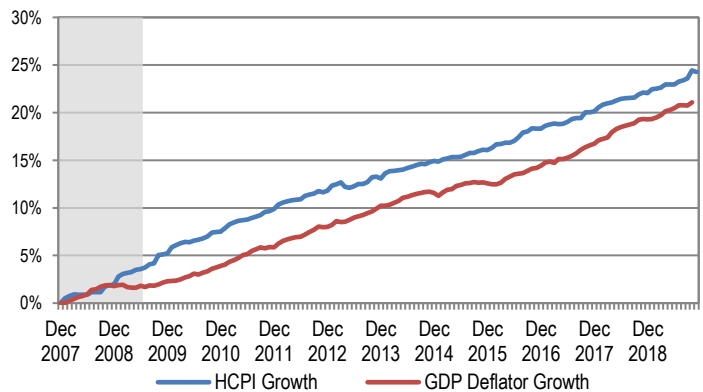
	Nov 2017	Nov 2018	Oct 2019	Nov 2019
Health Care Price Index (HCPI)	1.5%	1.7%	2.1%	1.8%
GDPD	2.1%	2.4%	1.5%	**
HCPI-GDPD	-0.6%	-0.6%	0.5%	**
Addendum				
Health care spending	4.2%	3.3%	5.7%	**
Health care utilization	2.8%	1.6%	3.6%	**
CPI—medical	1.7%	2.0%	4.3%	4.2%
CPI—all items	2.2%	2.2%	1.8%	2.1%

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 24.3%, while economy-wide prices (using the GDPD) have increased 21.1% (Exhibit 2). This cumulative gap is surprisingly low, but the historically long streak of 26 months with HCPI growth below GDPD growth, begun in July 2017, appears to be over with the September 2019 data. We will closely watch this.

The CPI rose 2.1% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 4.2% annual growth, down from the high annual rate of 4.3% in October. The final-demand PPI growth was steady at 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.

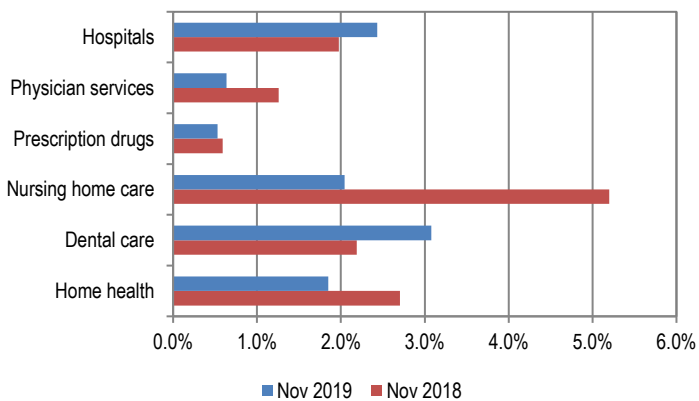
HEALTH CARE PRICES BY CATEGORY

In November 2019, the annual price growth for dental care, at 3.1% was the highest category, while prescription drugs showed the lowest growth at 0.5%, down from 1.0% in October. Year-over-year price growth for hospital care rose fell four tenths to 2.4% in November, down from 6+ year high of 2.8% in October. Nursing care price growth sharply moderated from 3.3% in October to 2.0% in November. Annual inflation rate comparisons—November 2019 year over year versus November 2018 year over year—show hospitals and dental care higher, with the other 4 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 and for 6 of 10 detailed price categories, including hospitals, physicians, nursing care, drugs, and other non-durable medical products.

Medicare and Medicaid hospital prices typically grow more slowly than private-sector prices. Annual hospital price growth in November for Medicare patients was 2.1%, -0.1% for Medicaid patients, and 3.8% for private pay patients—down from the high October rate of 4.4%. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was -3.1% in November, a series showing 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 7.9%, -0.4%, and 15.5%, 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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¹ Altarum Spending Brief 12/13/19: October 2019 Data. Note: The Spending Brief covers all health care spending; this Price Brief covers personal health care.

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 October 2019 readings are 5.7% spending growth and 3.6% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) 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. Per capita utilization in October rose at an annual rate of 3.0%—3 tenths above its 12-month average of 2.7%. On a 12-month average basis, utilization for hospitals rose 2.7%, home health care is down to -0.8% growth, physician services rose 2.2%, the prescription drug rate is 6.8%, nursing care rose 1.3%, and dental care utilization is up 0.5%.

DISCUSSION

In November 2019, annual growth in the Health Care Price Index (HCPI) was 1.8%, down three-tenths from the October rate which was revised up to 2.1%—the highest reading since May 2018. Just as high hospital price growth boosted the HCPI in October, it helped to cool it in November, going from 2.8% (the highest since March 2013) to 2.4% annual growth. Similarly, the private hospital price growth fell from 4.4%—the highest rate since the private only series was created in 2014 to 3.8%. Annual price growth for prescription drugs was 0.5% in November and 1.0% in October. Even with 2 consecutive growth months, the 12-month moving average stayed at -0.5% (equal to the October rate), thus it remains as the lowest since 1972. As we continue to note, and with the official National Health Expenditure Accounts data for 2018 released last week, the prices for many specialty drugs are rising and [drug spending growth is high](#).

The historically long streak of 26 months whereby economy-wide prices grew more quickly than health care prices appears to have ended with the September data. If so, this would revert to the normal situation (see Exhibit 5), and it would imply that health care price growth is once again contributing to higher economy-wide price growth. As we note each month, health care inflation is quite low for this stage of the economic recovery. November 2019 was the 125th month of expansion following the Great Recession, and the November data stymied the October growth above 2%.

A final note concerns high MCPI growth. On an annual basis, it was 4.3% in October and fell a tenth to 4.2% in November. The 4.3% rate was the highest since September 2016. We will watch this, hospital price growth and drug price growth when we get the December price data in mid-January 2020. Happy New Year!

PRICE GROWTH BY DETAILED CATEGORIES



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

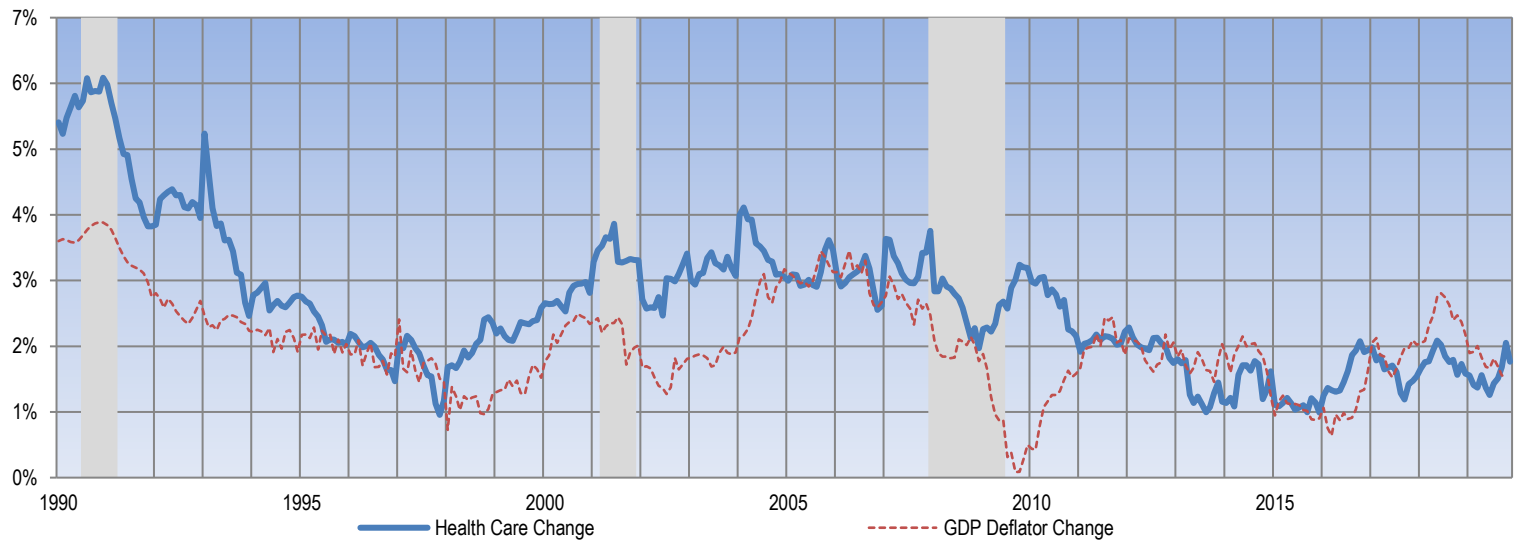
	Ending November 2017	Ending November 2018	Ending November 2019
HCPI	1.5%	1.7%	1.8%
Hospital care	2.1%	2.0%	2.4%
Physician and clinical services	0.1%	1.3%	0.6%
Prescription drugs	2.2%	0.6%	0.5%
Nursing home care	2.4%	5.2%	2.0%
Dental services	1.6%	2.2%	3.1%
Home health care	1.2%	2.7%	1.8%
Other professional services	2.2%	0.0%	0.7%
Other personal health care	0.7%	2.1%	1.7%
Other nondurable med. products	0.6%	0.5%	0.8%
Durable medical equipment	0.8%	1.2%	1.5%

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

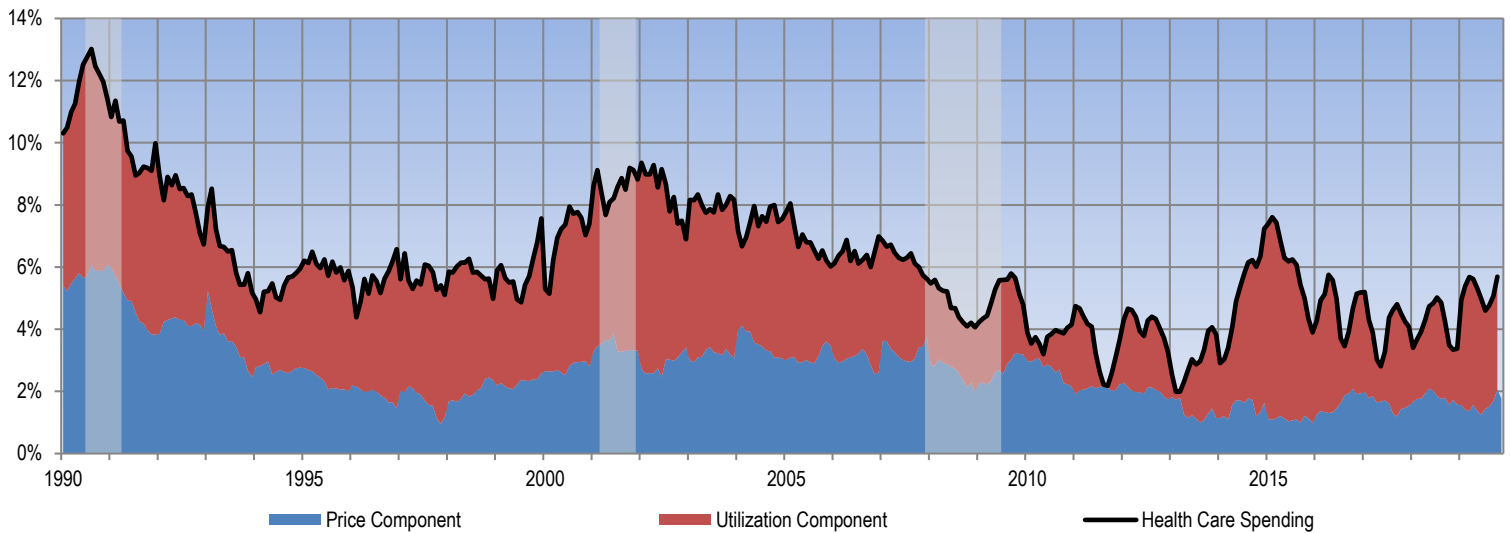


Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data.

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>.

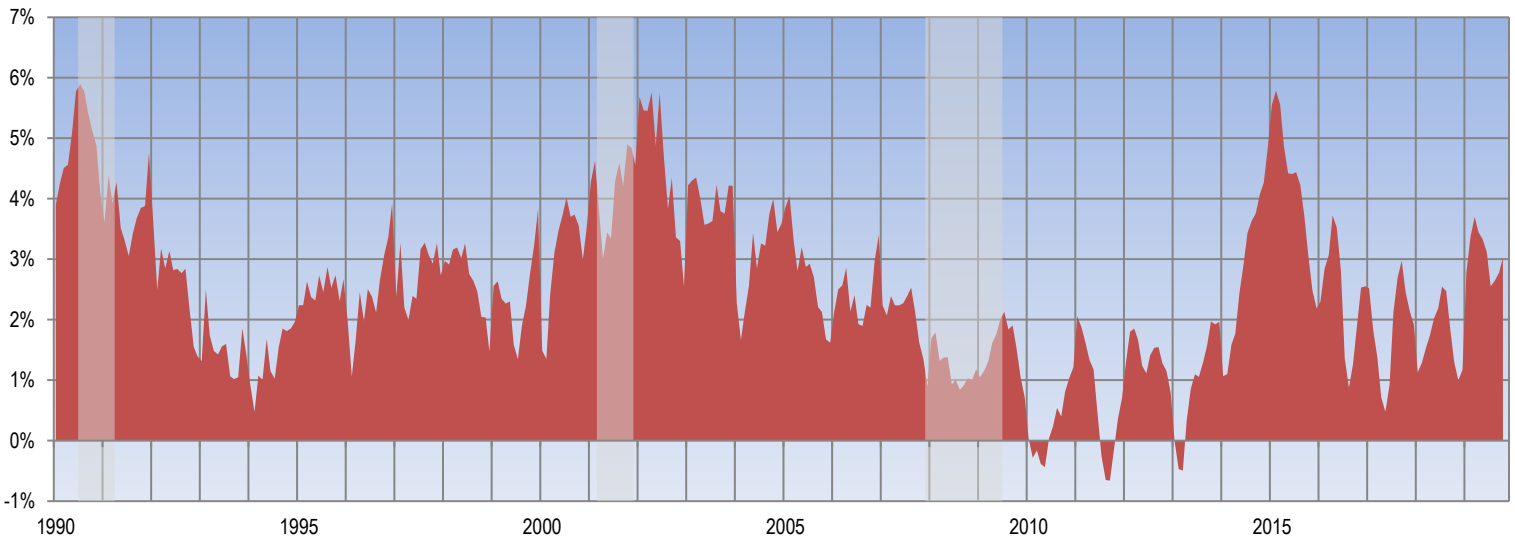
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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 (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. (2017). *National Health Expenditure Accounts: Methodology Paper, 2017—Definitions, Sources, and Methods*. Washington, DC: Centers for Medicare & Medicaid Services. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-17.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.