

July 17, 2020

Total price growth again distorted by health care spending upheaval

HIGHLIGHTS

- ▲ Health care prices in June 2020 rose 0.4% from June 2019, a dramatic drop from recent months as the index continues to exhibit the effects of rapidly changing spending levels and their impact on the weighted average.
- ▲ Year-over-year hospital price growth rose to 3.1% in June, a high rate last seen in March 2013. Annual physician price growth rose to 0.9% in June from 0.4% in May, and annual drug price growth rose to 2.0% in June from 1.3% in May. Other indexes were mostly unchanged, though something is off with other personal care (-23.2%).
- ▲ Economy-wide price growth was largely stable. The Consumer Price Index (CPI) rose from 0.1% annual growth to a still very low 0.6% in June, and the final-demand Producer Price Index (PPI) growth was minus 0.8%, equal to the May rate. The gross domestic product deflator growth (GDPD) was a low 0.7% in May.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at minus 19.2% in May—significantly below its 12-month average of minus 2.7%.

	June 2018	June 2019	May 2020	June 2020
Health Care Price Index (HCPI)	2.0%	1.3%	2.3%	0.4%
GDP Deflator (GDPD)	2.8%	1.7%	0.7%	**
HCPI - GDPD	-0.8%	-0.4%	1.6%	**
Addendum				
Personal health care spending	4.8%	5.0%	-16.5%	-16.7%
Health care utilization	2.8%	3.7%	-18.7%	-17.1%
Medical Consumer Price Index (MCPI)	2.5%	2.0%	4.9%	5.1%
Consumer Price Index – all items (CPI)	2.9%	1.6%	0.1%	0.6%
Producer Price Index – Final Demand (PPI)	3.3%	1.61%	-0.8%	-0.8%

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

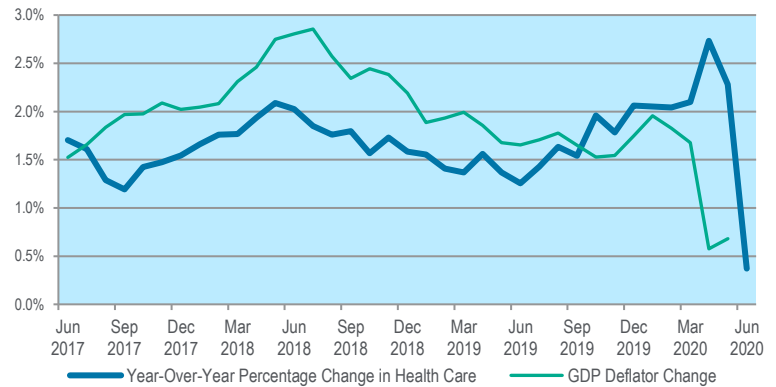
In June 2020, annual growth in the Health Care Price Index (HCPI) was 0.4%, a dramatic drop from 2.3% in May and 2.7% in April, and readings between 1.5% and 2.0% pre-COVID-19 (Exhibits 1 and 4). This low HCPI does not reflect falling component price growth. Spending component weights and aggregate indexes are having an outside influence on the HCPI (Exhibits 2 and 3). The CPI and Medical Care CPI (MCPI) are used for items that don't have good matching price indexes. The CPI has been growing slowly and the MCPI has been growing rapidly. The 5.1% annual rate in June is the highest since December 2007.

An important component of the MCPI is health insurance which has been growing near 20% annually – a function of an estimator highlighting the Health Insurance Fee that was reinstated for 2020 (the 20.7% annual rate in February 2020 was the all-time high reading; it has barely fallen to 19.4% in June (Exhibit 9)). 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 (Exhibits 1 and 10).

Price growth for two sectors is noteworthy. The total annual price growth of 3.1% for **hospitals** is the highest since March 2013. This is being driven by Medicare, with a June annual rate of 3.9%, the highest since September 2018 (Exhibit 7), and the “other” category that includes self-pay, military (Tricare), Veterans Affairs, and worker’s compensation provided by government payers, which grew by 7.2% in June. This may be reflecting more uninsured individuals being hospitalized. The private insurance rate has been stable with a June rate of 2.6%. The 2.0% growth for **prescription drugs** in June is low but compare it to negative rates seen in most of 2019 (Exhibit 2).

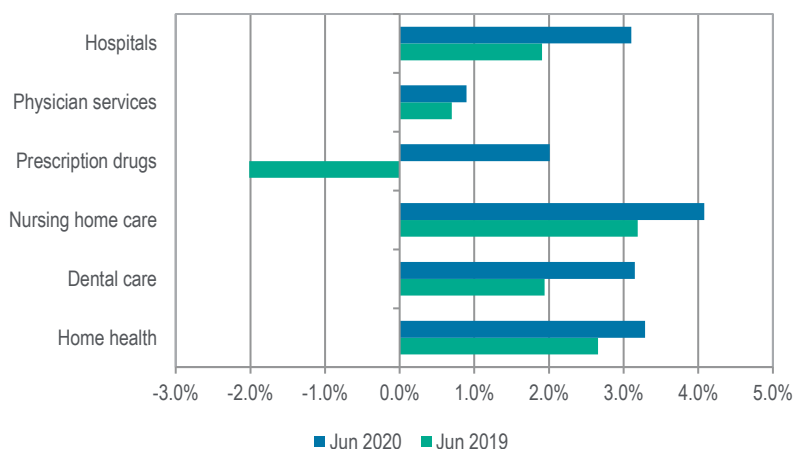
Even with recent recovery, now threatened by renewed COVID-19 case growth, utilization will not stabilize any time soon (Exhibits 5, 6, and 8). This was highlighted yesterday with the release of huge earnings for the 2nd quarter from the massive insurer United Health. Earnings were driven by lower utilization which is only slowly recovering.

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



The National Bureau of Economic Research declared a new recession beginning February 2020. We hope it will be brief, and the next recovery from a giant hole can begin soon, but data for the 2nd quarter of 2020, to be released at the end of July, is likely to show a 30%+ GDP decline!

We very much appreciate any feedback on our new HSEI format!



PRICE GROWTH BY DETAILED CATEGORIES

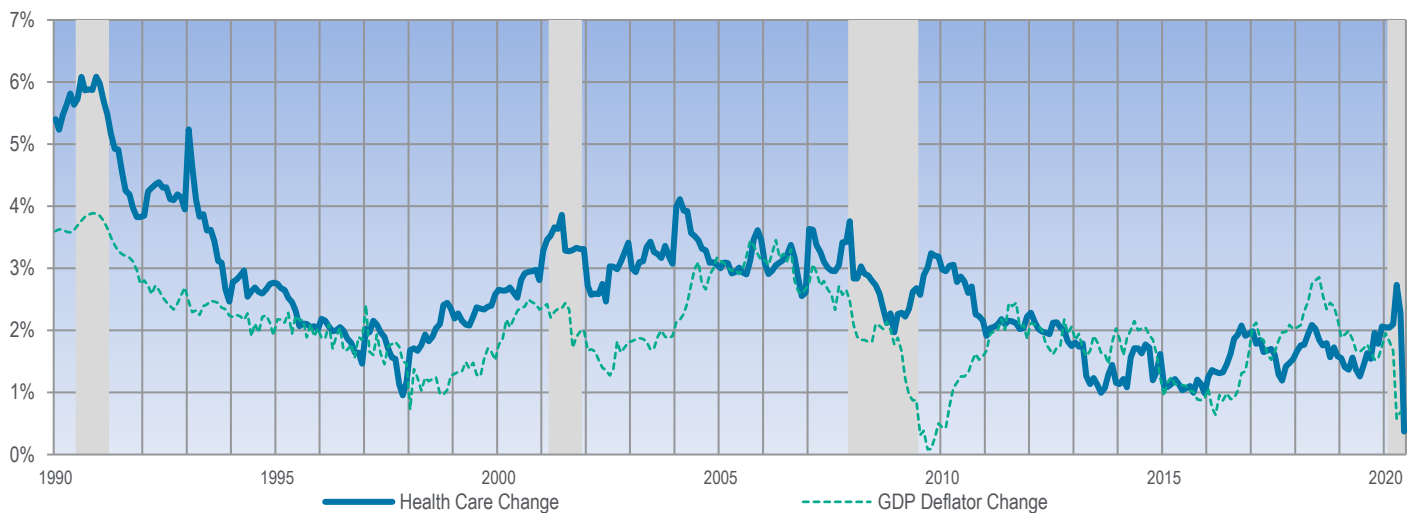
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending June 2018	Ending June 2019	Ending June 2020
Health Care Price Index (HCPI)	2.0%	1.3%	0.4%
Hospital care	2.5%	1.9%	3.1%
Physician and clinical services	0.6%	0.7%	0.9%
Prescription drugs	3.2%	-2.0%	2.0%
Nursing home care	3.2%	3.2%	4.1%
Dental Services	3.4%	1.9%	3.2%
Home health care	2.2%	2.7%	3.3%
Other professional services	0.7%	0.5%	1.3%
Other personal health care	1.7%	2.1%	-23.2%
Other nondurable medical products	-0.6%	-0.2%	-1.0%
Durable medical equipment	1.4%	2.4%	-0.5%

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

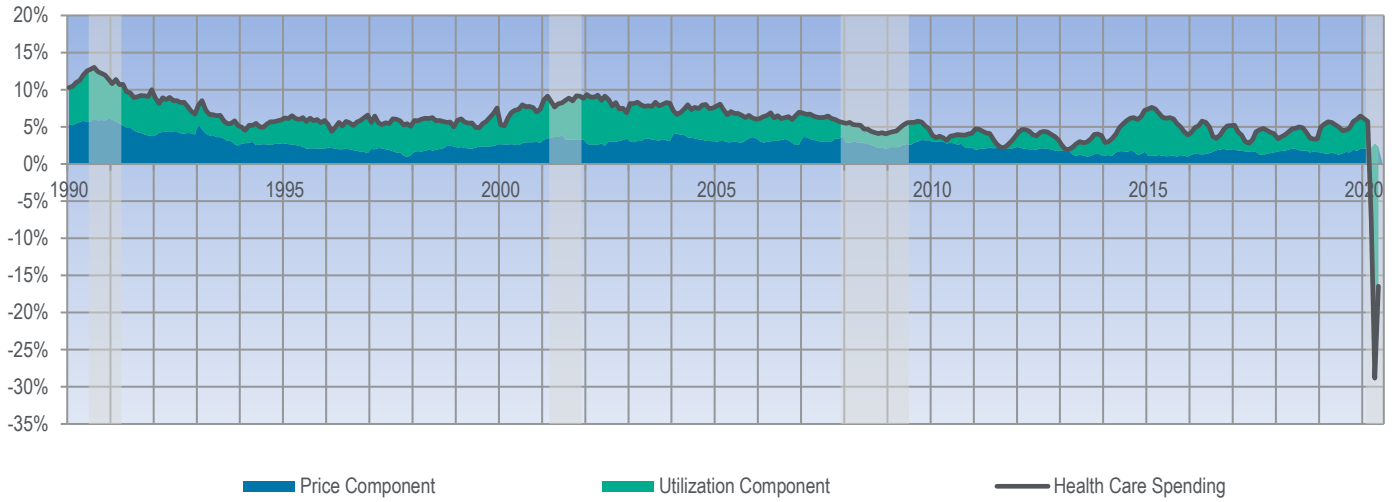
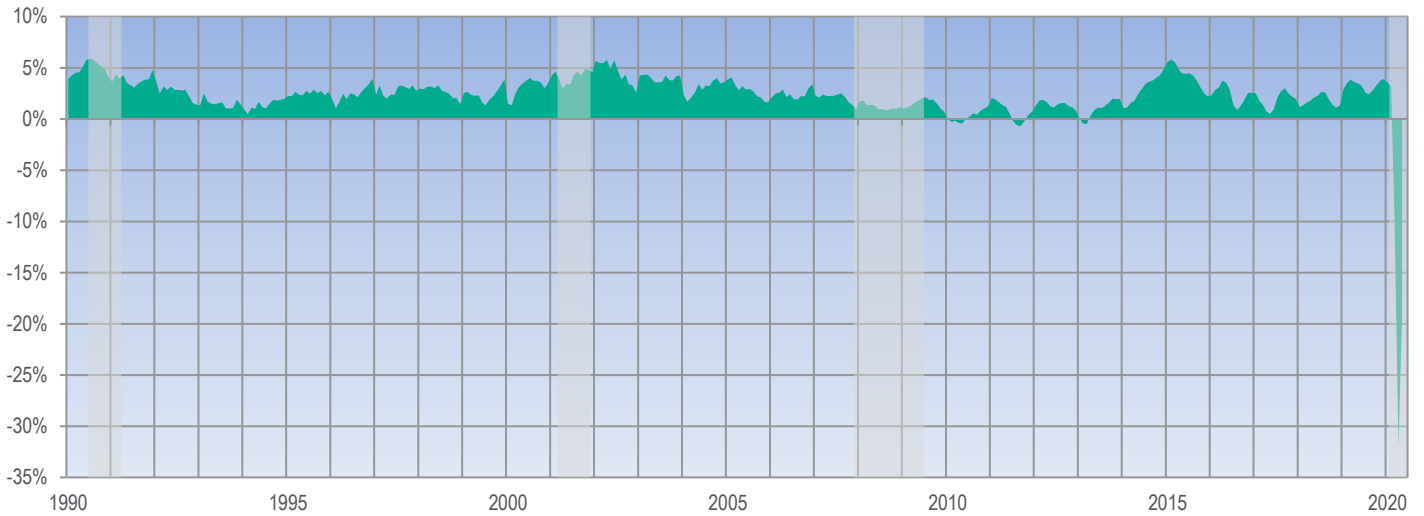


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altatum calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods.



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

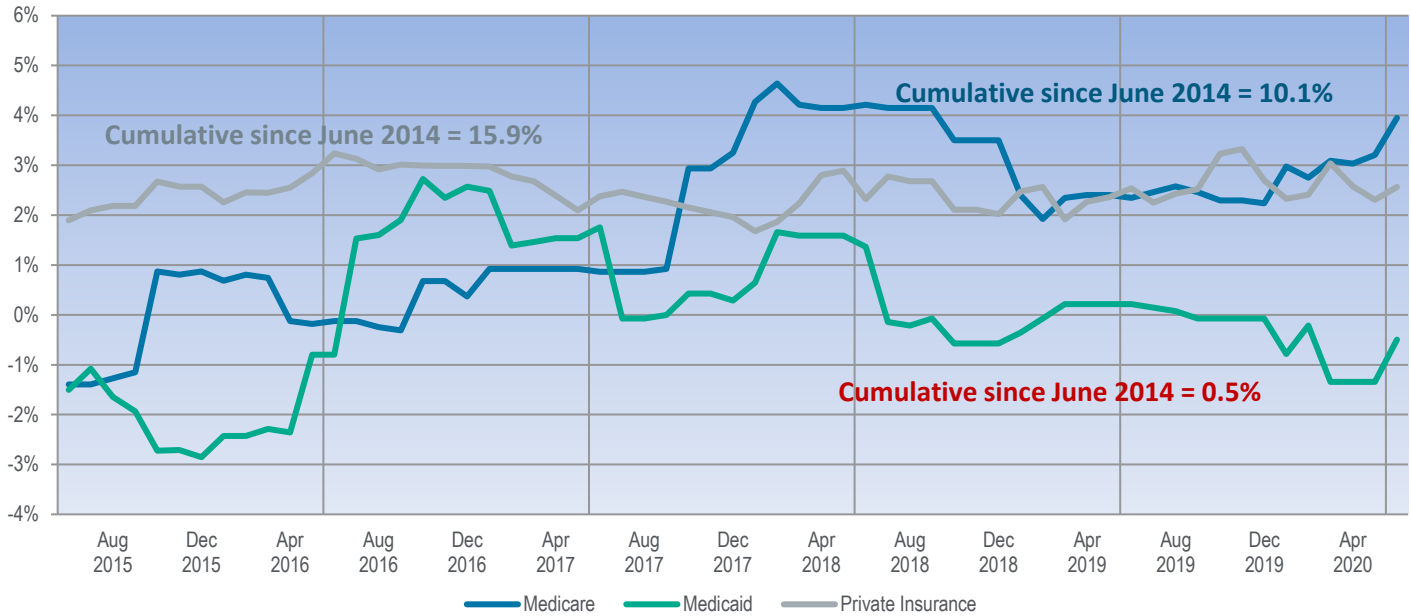


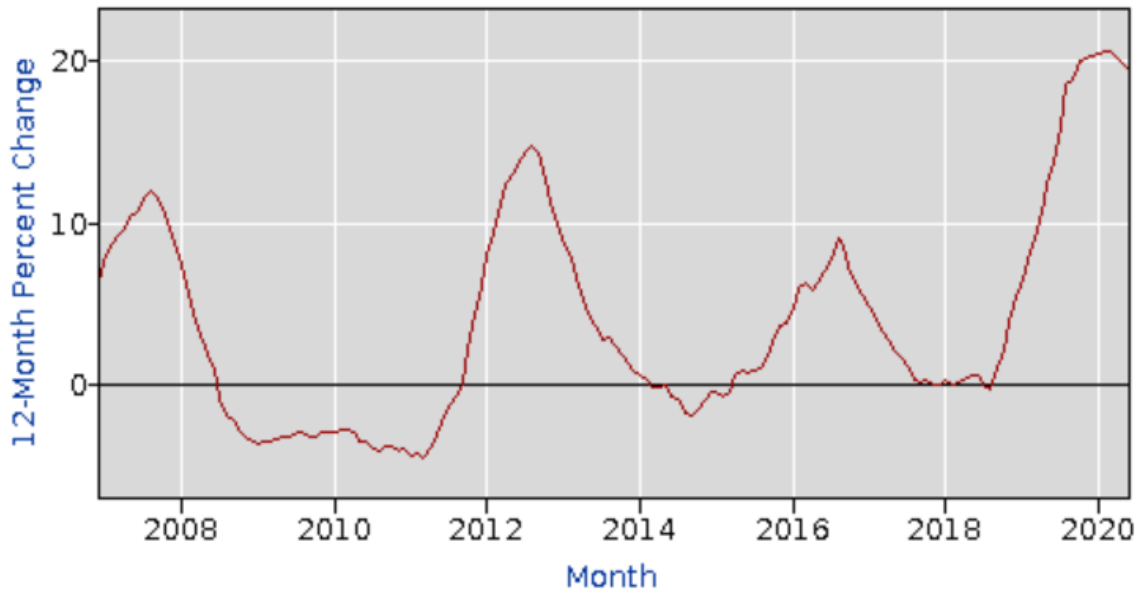
Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	May 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-19.2%	-20.5%	-2.7%
Hospital care	-28.6%	-31.6%	-5.8%
Physician and clinical services	-16.4%	-19.6%	-2.4%
Prescription drugs	3.4%	6.3%	7.2%
Nursing home care	-12.7%	-5.1%	1.1%
Dental Services	-48.5%	-47.4%	-10.9%
Home health care	-16.6%	-16.2%	-6.1%
Other professional services	-17.6%	-22.4%	-1.9%
Other personal health care	1.1%	1.4%	2.0%
Other nondurable medical products	0.4%	2.4%	3.2%
Durable medical equipment	-28.7%	-23.3%	-3.1%

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

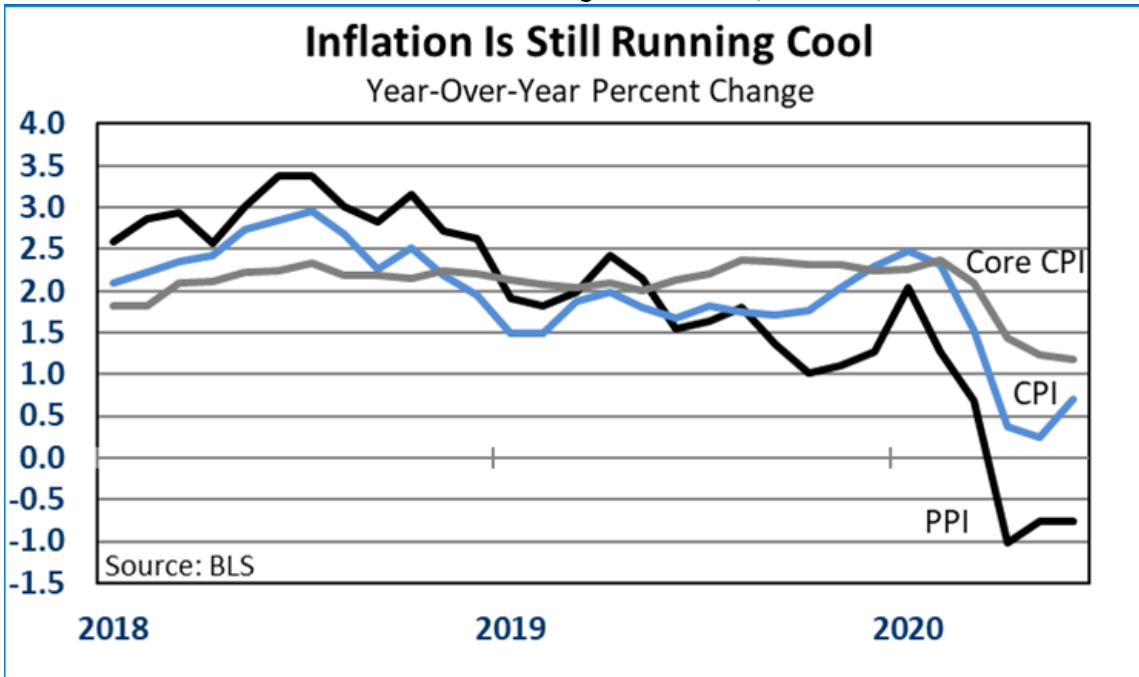


Exhibit 9. Year-Over-Year Percent Change in the Health Insurance CPI



Source: BLS.

Exhibit 10. Year-Over-Year Percent Change in the PPI, CPI and “Core” CPI



Source: Comerica Economics chart.