

June 12, 2020

Pandemic spending gyrations distort overall price growth

HIGHLIGHTS

- ▲ Health care prices in May 2020 rose 3.2% from May 2019, up a tenth from the April rate, but well above the rates seen before the COVID-19 pandemic. For the most part, this reflects the weighting scheme of the Health Care Price Index (HCPI) rather than underlying price index behavior.
- ▲ Year-over-year hospital price growth rose to 2.7% in May compared to 2.3% in April. Annual physician price growth fell to 0.4% from 0.8% in April, and annual drug price growth rose to 1.3% in May from 1.1% in April.
- ▲ Economy-wide prices showed mostly lower growth. The Consumer Price Index (CPI) saw 0.1% annual growth, the lowest rate since September 2015, and the final-demand Producer Price Index (PPI) growth was minus 0.8% (though up from -1.2% in April). The gross domestic product deflator growth (GDPD) was 0.9% in April.
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at -33.7% in April February—significantly below its 12-month average of minus 1.0%.

	May 2018	May 2019	Apr 2020	May 2020
Health Care Price Index (HCPI)	2.1%	1.4%	3.1%	3.2%
GDP Deflator (GDPD)	2.7%	1.7%	0.9%	**
HCPI - GDPD	-0.7%	-0.3	2.2%	**
Addendum				
Personal health care spending	4.7%	5.3%	-30.1%	**
Health care utilization	2.6%	3.9%	-33.2%	**
Medical Consumer Price Index (MCPI)	2.4%	2.1%	4.8%	4.9%
Consumer Price Index – all items (CPI)	2.8%	1.8%	0.3%	0.1%
Producer Price Index – Final Demand (PPI)	3.1%	2.1%	-1.2%	-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

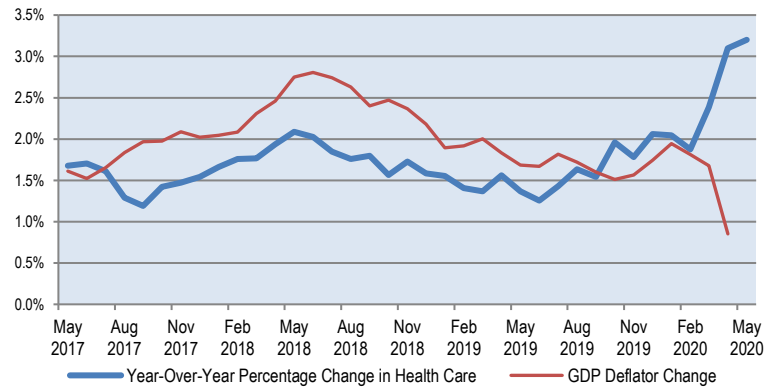
In May 2020, annual growth in the Health Care Price Index was 3.2%, much higher than readings before COVID-19 that were at or below 2% (Exhibit 1 and 4). The 12-month moving average is 2.0%. We analyzed the bizarre phenomenon of dramatically declining health care spending for hospitals and doctors leading to large increases in the HCPI. There are two forces: 1) some of the other categories have higher price growth, e.g., nursing home care and other personal health care (Exhibits 2 and 3) – their added weight pushes the HCPI higher; and 2) the Medical Care CPI is used for items that don't have good matching price indexes, and lately the MCPI has been growing rapidly.

The 4.9% annual rate in May is the highest since December 2002. An important component of the MCPI is health insurance which has been growing around 20% annually – a function of an indirect estimator that is currently 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 19.7% in May). In contrast, the CPI, at 0.1% annual growth in May was the lowest since May 2005, and the final-demand PPI annual growth at -1.2% in April and -0.8% in May, are the two lowest readings since December 2015. The GDPD is also plummeting signaling that COVID-19 is putting upward pressure on retail health prices and downward pressure on most other items (food is a glaring exception).

Plunging health care utilization is no secret with lower discretionary care (and some that is clearly not) compensating for COVID-19 related expenditures (Exhibits 5, 6, and 8). Utilization is now slowly returning.

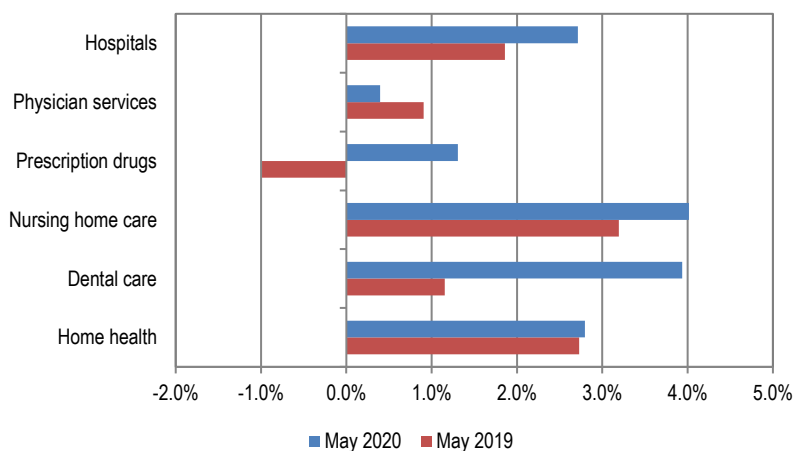
This week, the National Bureau of Economic Activity (the official arbiter) [declared February 2020 as the peak of the prior economic expansion which also makes it the beginning of the recession](#) (indicated in Exhibits 4 – 6). The longest expansion in U.S. history (128 months) is over. We are hopeful that the current recession, unprecedented

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



in its cause, global coordination, and severity will be brief, and that the we can soon begin the next recovery out of the massive hole that's been dug.

With this new HSEI format, our aim is even less text than previously and more latitude for new exhibits as warranted. We would love to hear from you about this and related matters!



PRICE GROWTH BY DETAILED CATEGORIES

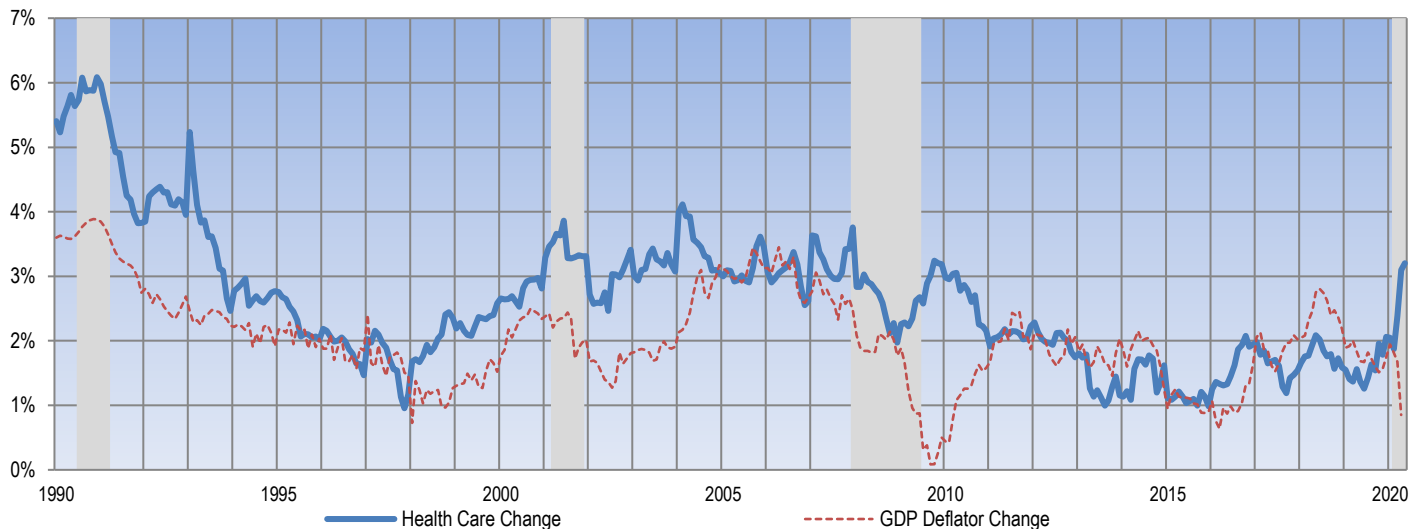
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending May 2018	Ending May 2019	Ending May 2020
Health Care Price Index (HCPI)	2.1%	1.4%	3.2%
Hospital care	2.7%	1.9%	2.7%
Physician and clinical services	0.5%	0.9%	0.4%
Prescription drugs	3.7%	-1.0%	1.3%
Nursing home care	3.3%	3.2%	4.0%
Dental Services	3.3%	1.2%	3.9%
Home health care	2.2%	2.7%	2.8%
Other professional services	0.6%	0.5%	1.0%
Other personal health care	1.4%	2.1%	3.5%
Other nondurable medical products	-0.9%	-0.2%	-0.5%
Durable medical equipment	0.3%	2.3%	-0.3%

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

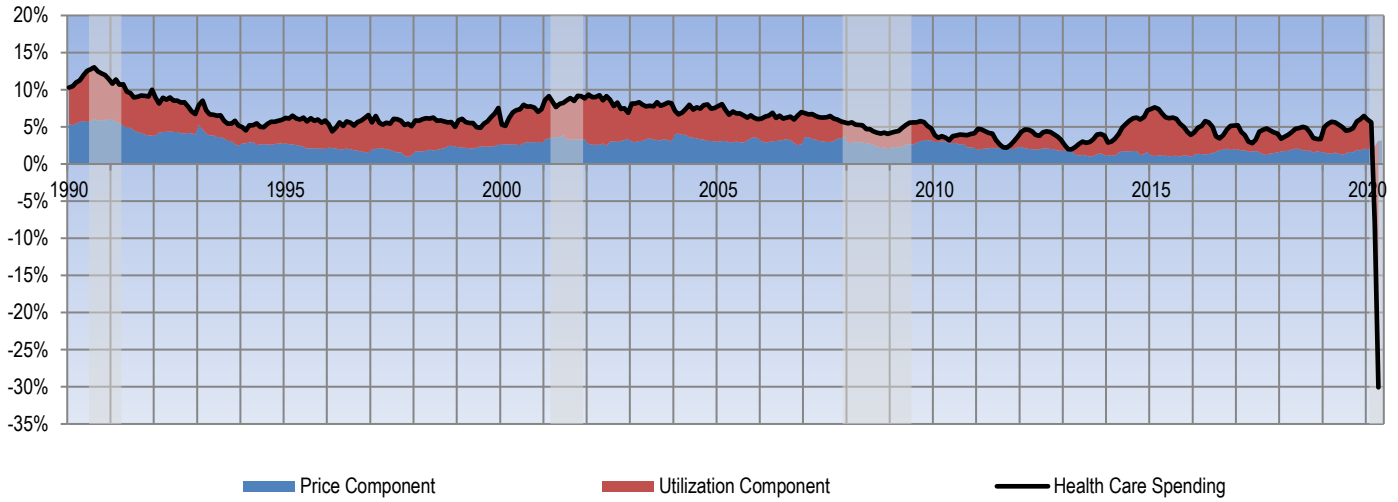
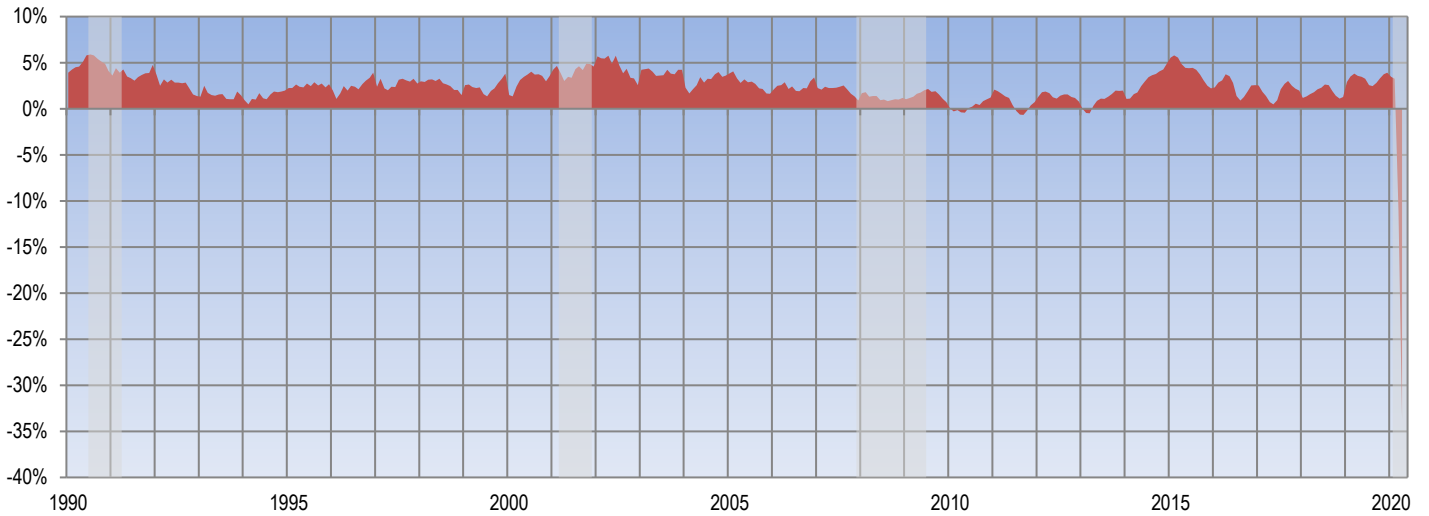


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altarum calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods.



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

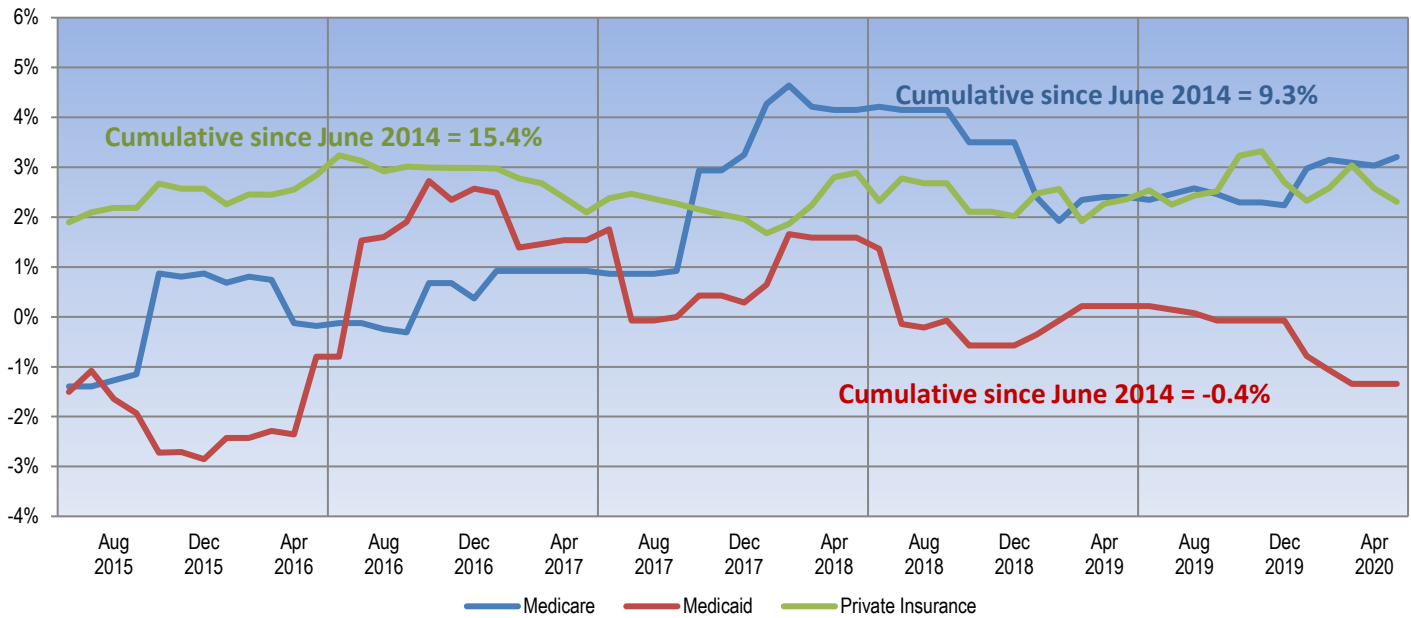


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	April 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-33.7%	-13.8%	-1.0%
Hospital care	-43.4%	-19.6%	-2.6%
Physician and clinical services	-42.2%	-16.5%	-1.9%
Prescription drugs	3.5%	7.3%	7.6%
Nursing home care	1.6%	2.4%	2.9%
Dental Services	-64.4%	-30.8%	-7.1%
Home health care	-36.4%	-17.1%	-6.3%
Other professional services	-51.7%	-23.7%	-2.2%
Other personal health care	0.9%	1.9%	2.0%
Other nondurable medical products	-5.3%	2.4%	3.3%
Durable medical equipment	-20.8%	-9.4%	0.3%

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