

ALTARUM CENTER FOR VALUE IN HEALTH CARE

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices through February 2020

PRICE BRIEF

March 13, 2020 ▲ Health care price growth steady at 2%; the calm before the storm?

HIGHLIGHTS

- ▲ Health care prices in February 2020 rose 2.0% from February 2019, down a tenth from the January annual rate of 2.1%.
- ▲ Year-over-year hospital price growth fell to 2.3% from a high 2.7% rate in January. Annual physician price growth was 0.8%, and annual drug price growth was 2.4% in February, the fifth straight positive reading after negative growth in 2019.
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) saw 2.3% annual growth vs. 2.5% in January and the final-demand Producer Price Index (PPI) growth fell to 1.3% in February from 2.1% in January. The gross domestic product deflator growth (GDPD) was 1.8% in January vs. 1.7% in December 2019 (data lag by one month).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.8% in January—four tenths below its 12-month average.

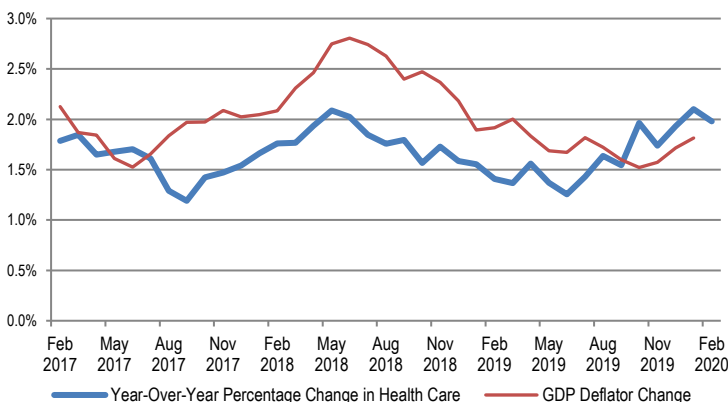
| Health Care Prices and Related Statistics: 12-Month Growth Rates | | | | |
|--|----------|----------|----------|----------|
| | Feb 2018 | Feb 2019 | Jan 2020 | Feb 2020 |
| Health Care Price Index (HCPI) | 1.8% | 1.4% | 2.1% | 2.0% |
| GDPD | 2.1% | 1.9% | 1.8% | ** |
| HCPI-GDPD | -0.3% | -0.5% | 0.3% | ** |
| Addendum | | | | |
| Health care spending | 3.7% | 5.4% | 5.4% | ** |
| Health care utilization | 1.9% | 4.0% | 3.3% | ** |
| CPI—medical | 1.8% | 1.7% | 4.5% | 4.6% |
| CPI—all items | 2.2% | 1.5% | 2.5% | 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 February 2020, the Health Care Price Index (HCPI) rose 2.0% above February 2019, down a tenth from the January annual rate. The 12-month moving average rose to 1.7% in January. The HCPI declined from 3.2% in October 2009, hit a historic low of 1.0% in December 2015, and is now at or above 2.0% for only the 7th month 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. After mostly trending down, the annual growth rate stood at 1.8% in January 2020.

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



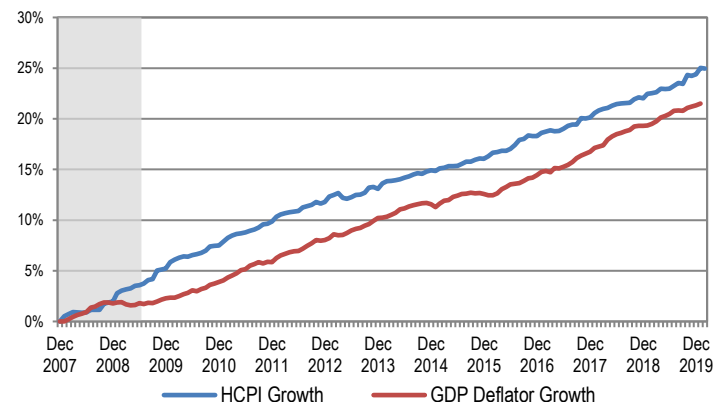
Source: Altarum analysis of monthly BLS data.

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 25.0%, while economy-wide prices (using the GDPD) have increased 21.5% (Exhibit 2). This cumulative gap remains amazingly 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. With likely price jolts via COVID-19, all bets are off on future trends for these data.

The CPI rose 2.3% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 4.6% annual growth, equal to December's 3+ year high. The final-demand PPI growth dropped to 1.3% in February from a 2.1% rate in January.

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.

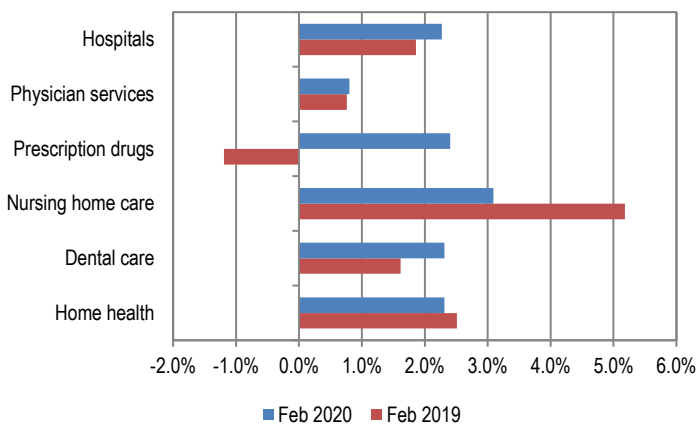
HEALTH CARE PRICES BY CATEGORY

In February 2020, the annual price growth for nursing facilities, at 3.1% was the highest category, while other non-durable medical products showed the lowest growth at -0.1%. The hospital rate at 2.3% fell back from a high 2.7% reading in January. Drug price growth has stabilized at 2.4% in February vs. 2.5% in January. Annual inflation rate comparisons—February 2020 year over year versus February 2019 year over year—show hospitals, physicians, drugs and dental care higher, and the other 2 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 3 of 10 detailed price categories, including hospitals, drugs, and home health care.

Medicare and Medicaid hospital prices typically grow more slowly than private-sector prices. Annual hospital price growth in February for Medicare patients was 3.1% (up from 2.9% in January), -1.1% for Medicaid patients (down from -0.8%), and 2.6% for private pay patients (down sharply from 3.9% in January). For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was -3.0% in February, 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 9.3%, -0.4%, and 15.0%, 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, after moderating, is now trending higher. The January 2020 readings are 5.4% spending growth and 3.3% utilization growth.
- ▲ Exhibit 7 shows implicit per capita utilization growth and highlights the decline between 2002 and 2010, sharp growth due to ACA expansion in 2014-15, and a jagged upward trend since 2017. Total per capita utilization in December rose at an annual rate of 2.8%—4 tenths below its 12-month average of 3.2%. On a 12-month average basis, utilization for hospitals rose 3.3%, home health care showed -0.5% growth, physician services rose 2.5%, the prescription drug rate is 7.7%, nursing care rose 2.8%, and dental care utilization rose 0.1%.

DISCUSSION

In February 2020, annual growth in the Health Care Price Index was 2.0%, down a tenth from the December rate, and only the 7th time at or above 2% since September 2012. Per this upward trend, the 12-month moving average rose to 1.7% from 1.6% in January.

HCPI growth is reflecting three main components: hospitals, physicians (though growth is still low) and drugs. While there does appear to be an upward trend in the HCPI—for the third time since the historic low of 1% hit in December 2015 (see Exhibits 1 and 5)—and we were ready to presume a rise to a more “normal” 3% rate, all bets are off with the vicious spread of COVID-19.

We now see five consecutive months of positive price growth for drugs following historically low growth in 2019. With the 2.4% annual rate in February 2020, the 5-month average is 1.9%.

The MCPI showed 4.6% annual growth in February, equal to the December 2019 rate, which was the highest since September 2016. This includes 20.7% annual growth in health insurance, a function of an [indirect estimator](#) used by the Bureau of Labor Statistics that appears to be emphasizing the Health Insurance Fee that, while eliminated in 2021, was brought back to life for 2020. Insurer profits may also be playing a role.

Anything we say about COVID-19 and health care prices would surely be premature. It seems clear that there will be pressure on retail health care prices, but otherwise there are large countervailing forces. Providers will likely see surges from COVID-19 patients, but experts are also predicting (guessing) that significant discretionary care will be delayed. Emergency public policies may serve to lower costs of care by limiting out of pocket burdens, and even, perhaps, make insurers and hospitals whole.

A final financial note. Since mid-2019, we have highlighted this longest economic expansion in U.S. history. Will March 2020 go down as the month it ended?

¹ Altarum Spending Brief 3/12/20: January 2020 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

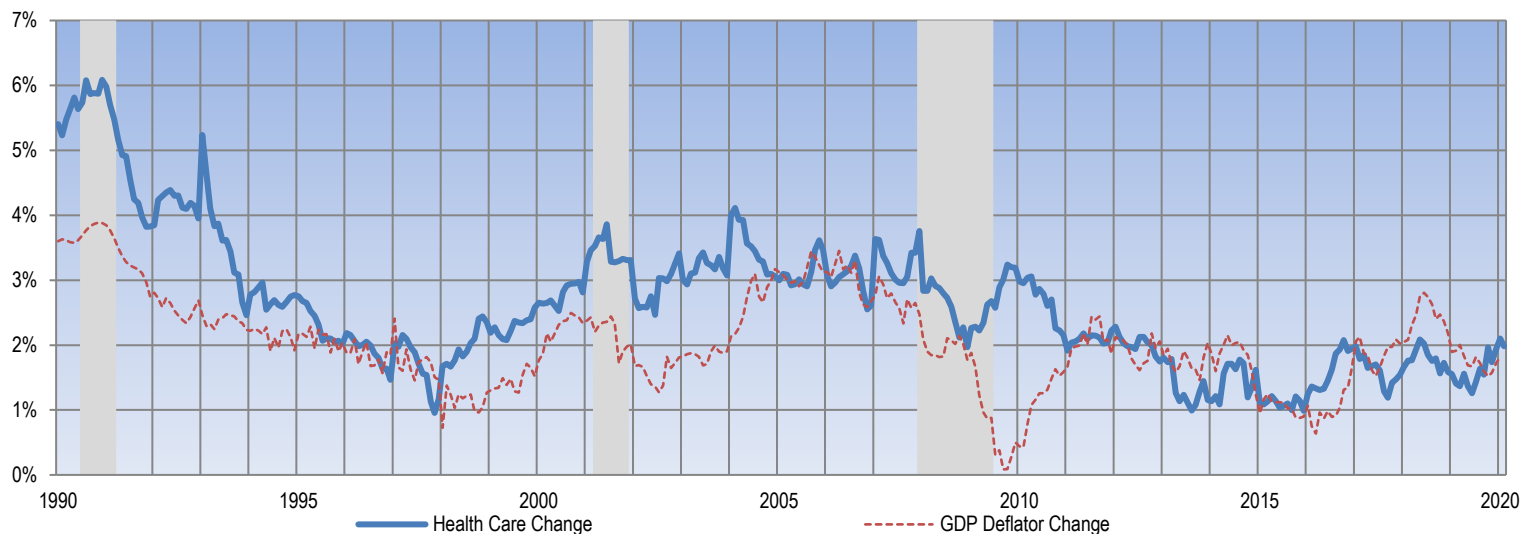
| | Ending February 2018 | Ending February 2019 | Ending February 2020 |
|---------------------------------|----------------------|----------------------|----------------------|
| HCPI | 1.8% | 1.4% | 2.0% |
| Hospital care | 2.7% | 1.9% | 2.3% |
| Physician and clinical services | 0.3% | 0.8% | 0.8% |
| Prescription drugs | 2.1% | -1.2% | 2.4% |
| Nursing home care | 2.0% | 5.2% | 3.1% |
| Dental services | 3.0% | 1.6% | 2.3% |
| Home health care | 2.7% | 2.5% | 2.3% |
| Other professional services | -0.3% | 1.4% | 1.0% |
| Other personal health care | 1.2% | 1.9% | 1.8% |
| Other nondurable med. products | -0.1% | -0.8% | -0.1% |
| Durable medical equipment | 0.7% | 0.7% | 0.3% |

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.

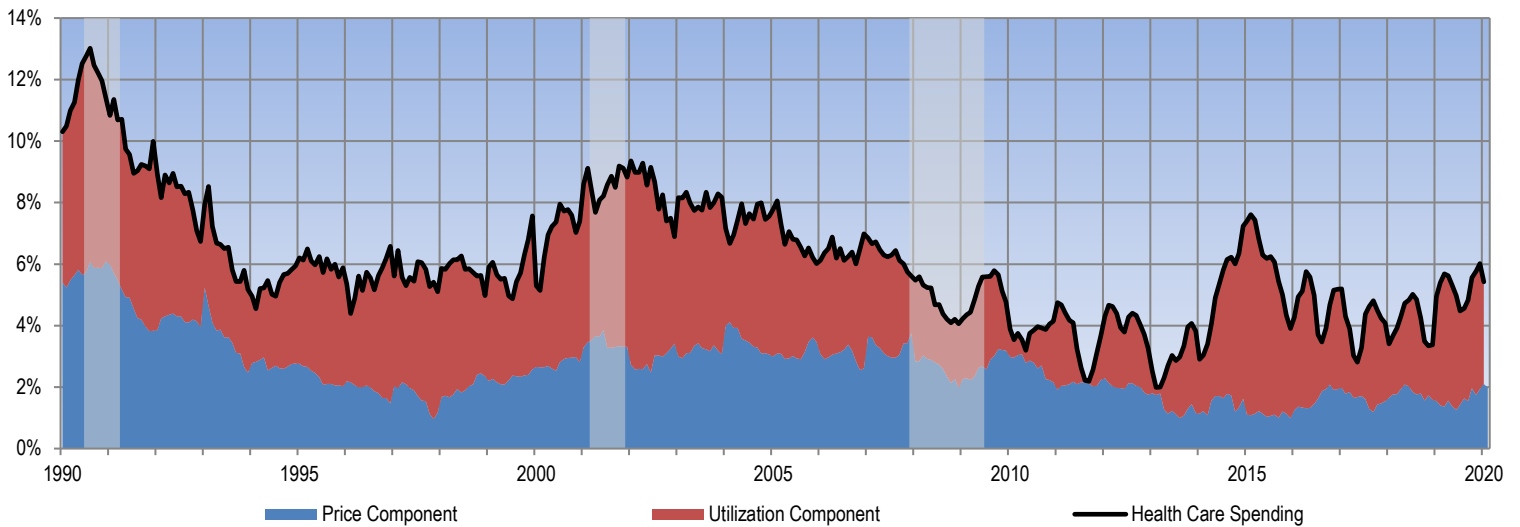
Note: Lightly shaded bars denote recession periods.

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 202-776-5110 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>.

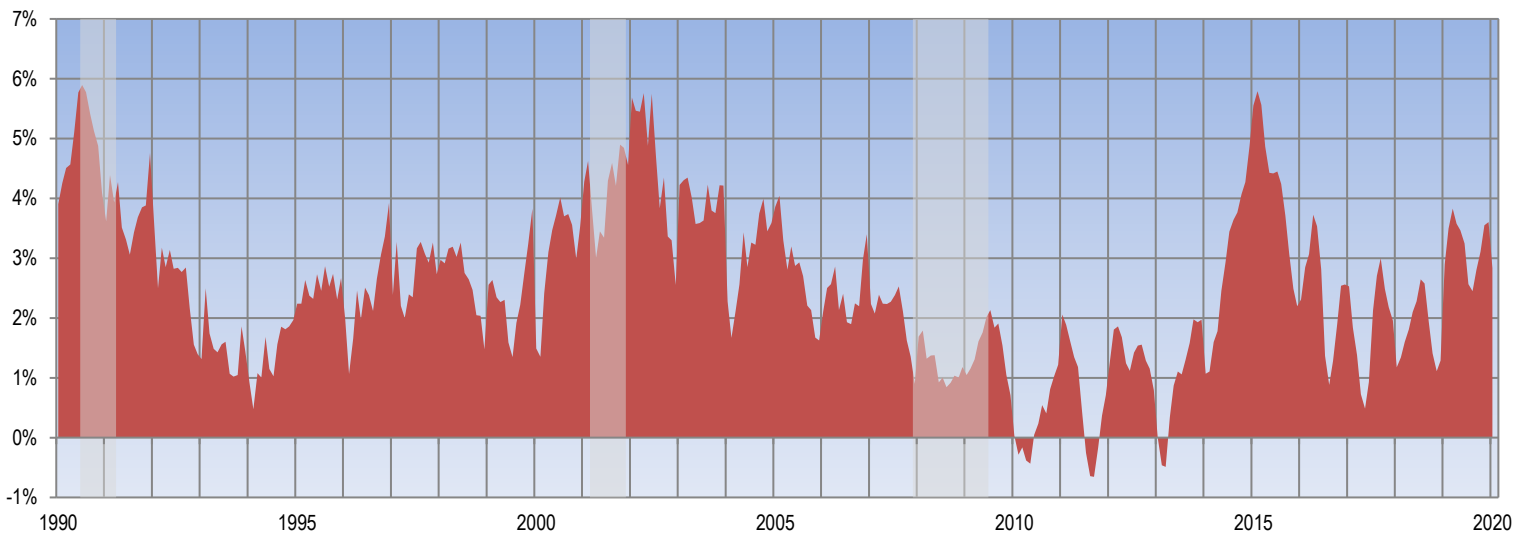
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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. (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.