

ALTARUM CENTER FOR VALUE IN HEALTH CARE

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices through October 2019

PRICE BRIEF

November 14, 2019 ▲ Health care price growth surges on hospital prices; Rx prices rise after 5 months

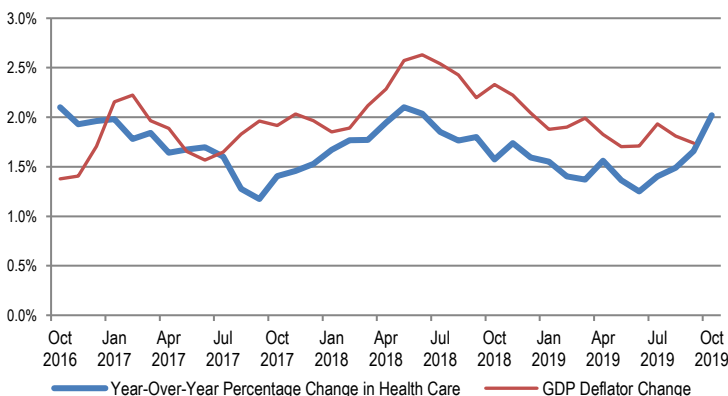
HIGHLIGHTS

- ▲ Health care prices in October 2019 rose 2.0% above October 2018, the highest annual rate since June 2018.
- ▲ Year-over-year hospital price growth was 2.8%, its highest rate since March 2013. Annual physician price growth fell to 0.6% in October from 0.8% in September. Annual drug price growth was 1.0% in October, up from -1.1% in September, and the first positive annual reading since April 2019.
- ▲ Economy-wide price indices were mixed. The Consumer Price Index (CPI) rose to 1.8% growth from 1.7% annual growth in October and the final-demand Producer Price Index (PPI) fell to 1.1%, its lowest rate since October 2016. The gross domestic product deflator growth (GDPD) rose to 1.7% in September from 1.8% in August (September data are unavailable).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.9% in September—one-tenth above its 12-month average.

HEALTH CARE AND ECONOMY-WIDE PRICES

In October 2019, the Health Care Price Index (HCPI) rose 2.0% above October 2018, up three-tenths from the September annual rate of 1.7%. The 12-month moving average, stood at 1.5% for the 4th 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, including the rate for October (Exhibit 1 and Exhibit 5 for 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 2.6% in June 2018. The annual rate was 1.7% in September 2019.

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.

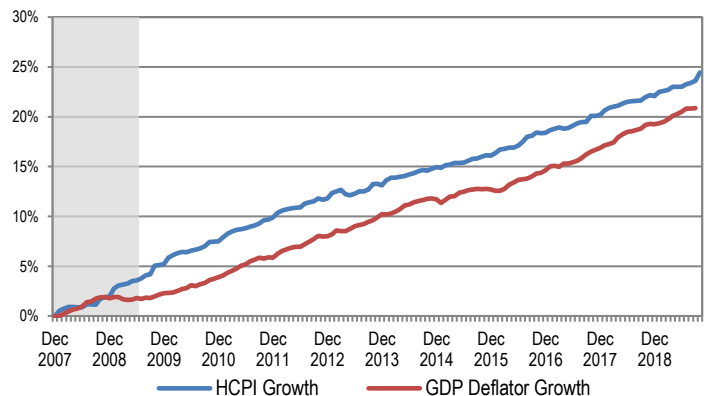
	Oct 2017	Oct 2018	Sep 2019	Oct 2019
Health Care Price Index (HCPI)	1.4%	1.6%	1.7%	2.0%
GDPD	1.9%	2.3%	1.7%	**
HCPI-GDPD	-0.5%	-0.8%	-0.1%	**
Addendum				
Health care spending	4.2%	4.0%	5.2%	**
Health care utilization	2.8%	2.5%	3.5%	**
CPI—medical	1.7%	1.7%	3.5%	4.3%
CPI—all items	2.0%	2.5%	1.7%	1.8%

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 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 24.4%, while economy-wide prices (using the GDPD) have increased 20.9% (Exhibit 2). This cumulative gap is surprisingly low, but the historically long streak of 27 months with HCPI growth below GDPD growth, begun in July 2017, may be over. We will carefully monitor this with the October GDPD estimates from [Macroeconomic Advisers](#) out later this month.

In October, the CPI rose 1.8% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 4.3% annual growth, the highest rate since September 2016. The final-demand PPI growth for September fell three-tenths to 1.1%.

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.

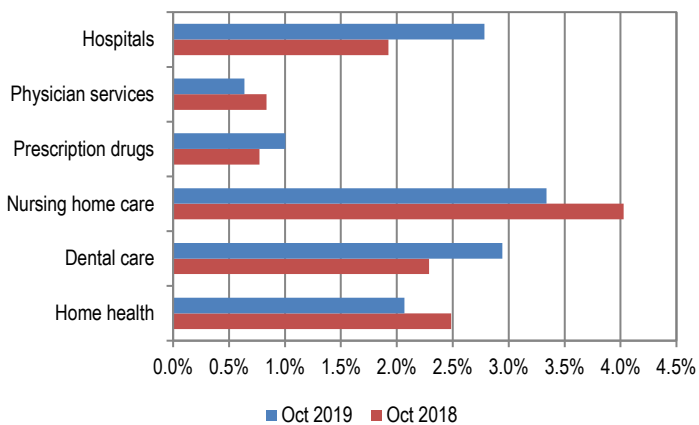
HEALTH CARE PRICES BY CATEGORY

In October 2019, the annual price growth for nursing care, at 3.3% was the highest category, while physician and clinical services price growth at 0.6% was the lowest, showing a drop of two-tenths from September. Annual prescription drug prices rose 1.0%, the first positive rate since April 2019, and the highest since September 2018. Year-over-year price growth for hospital care rose five-tenths to 2.8% in October—its highest growth since March 2013. Annual inflation rate comparisons—October 2019 year over year versus October 2018 year over year—show hospitals, prescription drugs and dental care higher, with the other 3 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 7 of 10 detailed price categories, including hospitals, physicians, nursing care, drugs, and other non-durable medical products.

Medicare and Medicaid hospital prices typically grow slower than private-sector prices. Annual hospital price growth for Medicare patients was 2.1% in October (the first month of the new Inpatient PPS fiscal year), was -0.1% for Medicaid patients, and 4.4% for private pay patients, up sharply from 3.1% in September. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth was -2.2% in October, less negative than the -2.8% annual rate in September. 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 16.2%, 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

Trends in health care utilization and intensity can be computed 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 may now be trending higher. The September 2019 readings are 5.2% spending growth and 3.5% 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 September rose at an annual rate of 2.9%—one-tenth above its 12-month average. On a 12-month average basis, utilization for hospitals rose 2.4%, home health care is up 0.6%, physician services rose 2.6%, the prescription drug rate is 6.8%, nursing care rose 1.6%, and dental care utilization is up 0.7%.

DISCUSSION

In October 2019, annual growth in the Health Care Price Index (HCPI) was 2.0%, up three-tenths from the September rate, and the highest reading since June 2018. Clearly the main factor was annual hospital price growth, up 2.8%, the highest rate since March 2013. In turn, this was driven by private hospital price growth of 4.4%—the highest rate since the private only series was created in 2014. The annual price growth for prescription drugs rose dramatically from -1.1% in September to 1.0% in October. As noted above, this was the first positive annual reading since April 2019 and the highest rate since September 2018. Nonetheless, the 12-month moving average of -0.5% (equal to the September rate), remains the lowest since 1972. Given the amazingly low prescription drug price growth since July 2018, we will carefully monitor the data to see if this month’s rise is only a blip. But, as noted last month, the prices for [many high-profile drugs are not falling](#), and considerable consternation persists around the *level* of drug prices.

The historically long streak of 27 months whereby economy-wide prices have grown more quickly than health care prices appears to be ending. If so, this would revert to the normal situation (see Exhibit 5), and it would once again mean that health care price growth is 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. October 2019 was the 124th month of expansion (firmly the longest in U.S. history) following the Great Recession, and perhaps the HCPI is now poised to accelerate.

As we noted last month, and continuing this month, two items bear scrutiny when the November data are released: does the private hospital price growth of 4.4% represent a (bad) trend and why is the MCPI rising so quickly (4.3%—the highest since September 2016)? U.S. health care *prices* are high but continued low *growth* has brought some relief. With October’s spurt, is this situation reversing?

¹ Altarum Spending Brief 11/15/19: September 2019 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

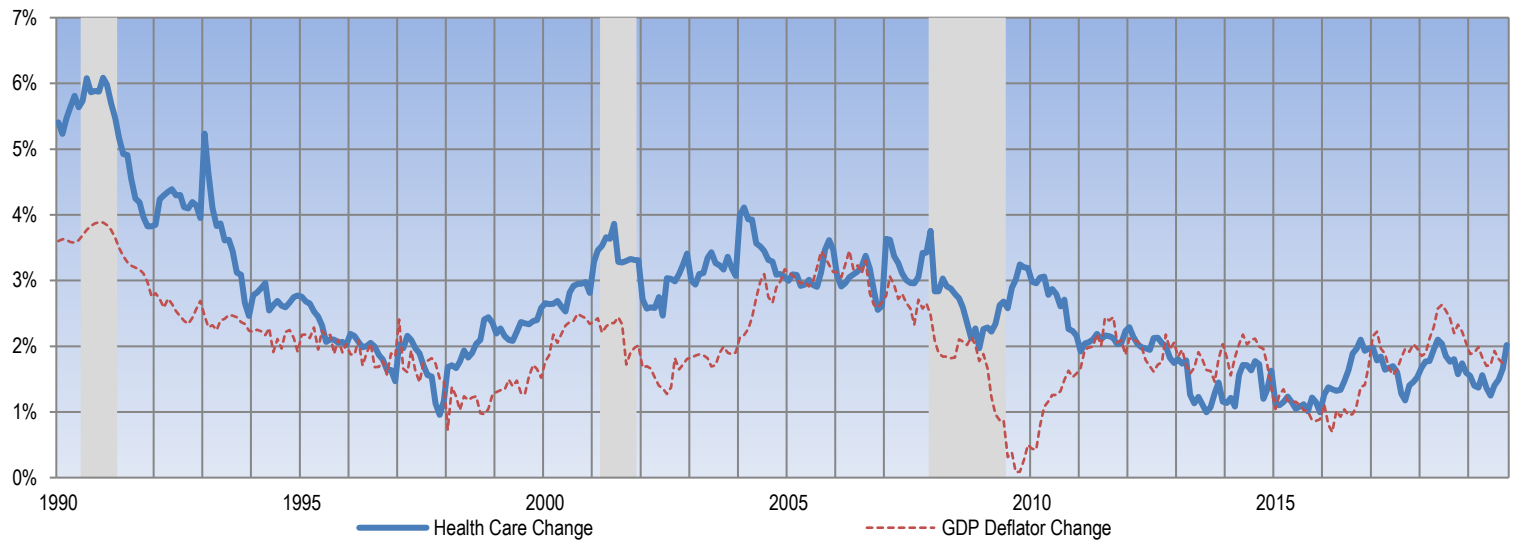
	Ending October 2017	Ending October 2018	Ending October 2019
HCPI	1.4%	1.6%	2.0%
Hospital care	2.1%	1.9%	2.8%
Physician and clinical services	0.6%	0.8%	0.6%
Prescription drugs	1.0%	0.8%	1.0%
Nursing home care	2.0%	4.0%	3.3%
Dental services	1.6%	2.3%	2.9%
Home health care	1.1%	2.5%	2.1%
Other professional services	2.5%	-0.2%	1.1%
Other personal health care	1.1%	2.0%	1.7%
Other nondurable med. products	0.4%	0.2%	1.0%
Durable medical equipment	0.6%	1.4%	1.2%

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.

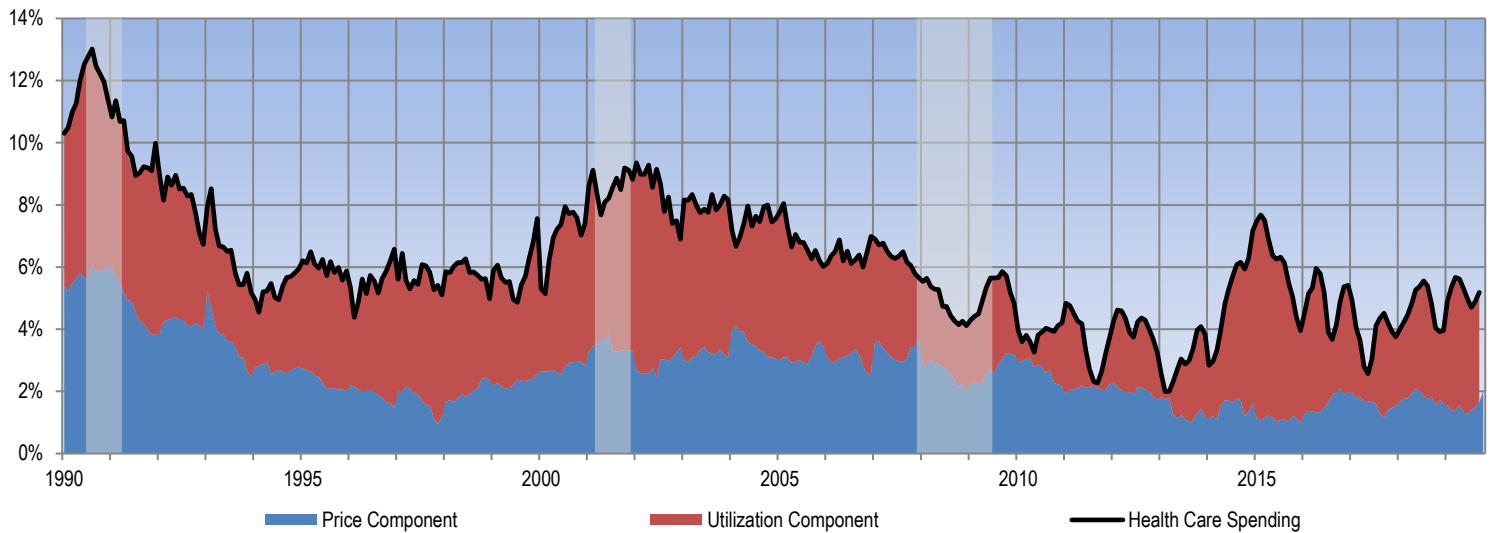
Note: Lightly shaded bars denote recession periods.

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 Rhyon, 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>.

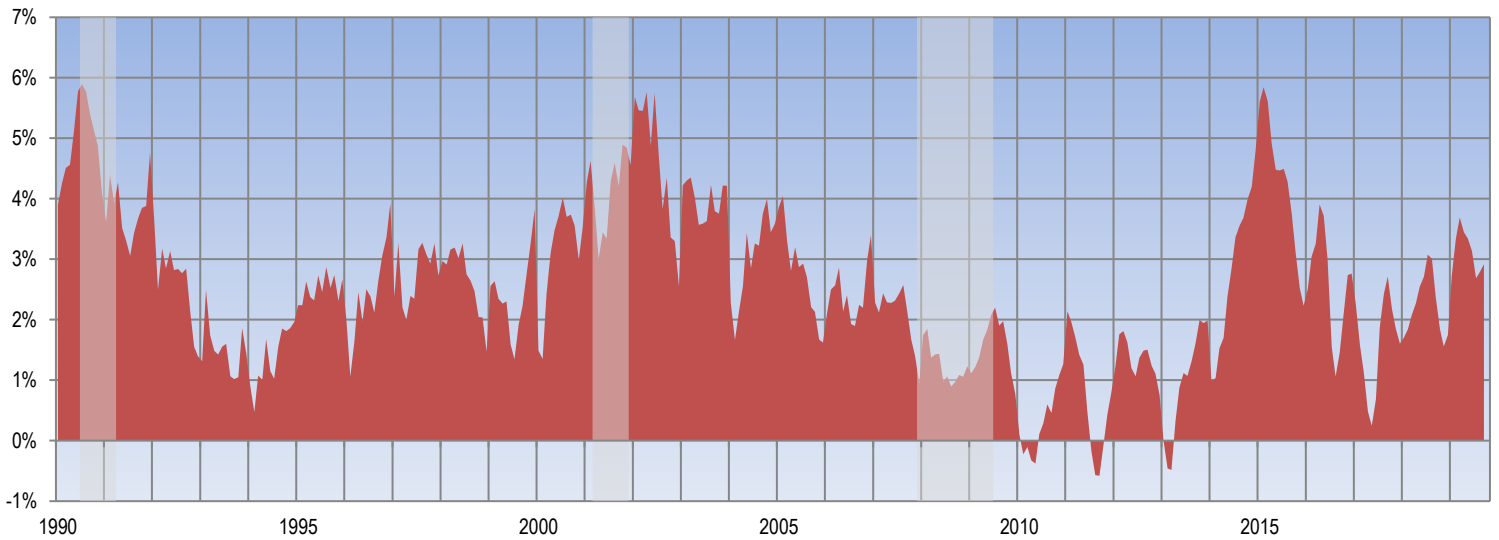
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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.