

ALTARUM CENTER FOR VALUE IN HEALTH CARE

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices through September 2019

PRICE BRIEF

October 17, 2019 ▲ Health care price growth ticks up but remains below economy-wide inflation

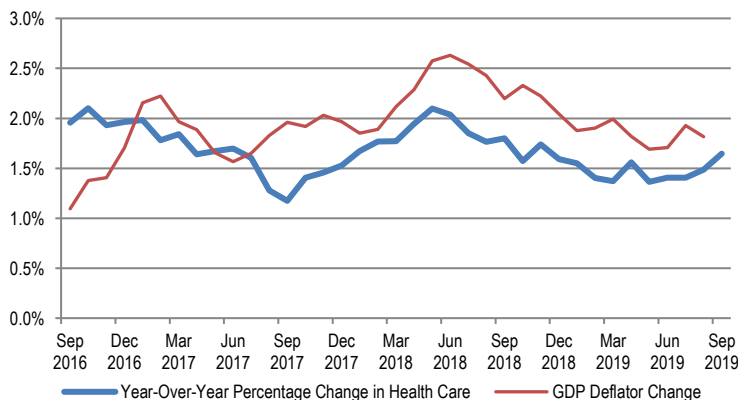
HIGHLIGHTS

- ▲ Health care prices in September 2019 rose 1.6% above September 2018, up a tenth from the August 2019 annual rate.
- ▲ Year-over-year hospital price growth was 2.3%, up from 2.0% in August. Annual physician price growth rose to 0.8% in September from 0.5% in August. Drug price growth was -1.1% in September, down from its August annual rate of -0.7%. The 12-month moving average of -0.5% is the lowest rate since 1972!
- ▲ Economy-wide price indices showed lower or stable growth. The Consumer Price Index (CPI) was stable at 1.7% annual growth in September and the final-demand Producer Price Index (PPI) fell to 1.4%, its lowest rate since November 2016. The gross domestic product deflator growth (GDPD) fell from 1.9% in August to 1.8% in July (September data are unavailable).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.7% August–equal to its 12-month average.

HEALTH CARE AND ECONOMY-WIDE PRICES

In September 2019, the Health Care Price Index (HCPI) rose 1.6% above September 2018, up a tenth from the August annual rate of 1.5%. The 12-month moving average, at 1.5% was equal to the August rate. 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 3 months since then. It appears to be oscillating near 1.5% (Exhibit 1). 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 1.8% in August 2019. Exhibit 5 shows long-term comparisons.

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.

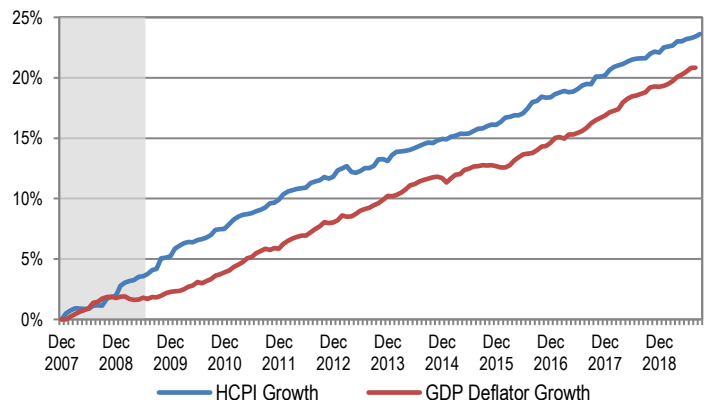
	Sep 2017	Sep 2018	Aug 2019	Sep 2019
Health Care Price Index (HCPI)	1.2%	1.8%	1.5%	1.6%
GDPD	2.0%	2.2%	1.8%	**
HCPI-GDPD	-0.8%	-0.4%	-0.3%	**
Addendum				
Health care spending	4.5%	4.8%	4.8%	**
Health care utilization	3.3%	3.0%	3.3%	**
CPI—medical	1.6%	1.7%	3.5%	3.5%
CPI—all items	2.2%	2.3%	1.7%	1.7%

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 23.6%, while economy-wide prices (using the GDPD) have increased 20.8% (Exhibit 2). This cumulative gap remains amazingly low. The historically long streak of 26 months with HCPI growth below GDPD growth, begun in July 2017, is still alive. We will see if this continues when we get September GDPD estimates from [Macroeconomic Advisers](#) later this month.

In September, the CPI rose 1.7% above the previous year, and the medical CPI, emphasizing out-of-pocket prices, showed 3.5% annual growth, the highest rate since March 2017. The final-demand PPI growth for September fell four-tenths to 1.4%.

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.

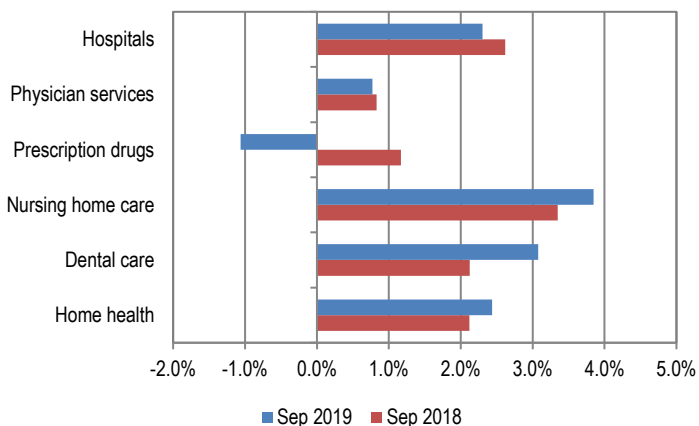
HEALTH CARE PRICES BY CATEGORY

In September 2019, the annual price growth for nursing care, at 3.8% was the highest category, while drug price growth at -1.1% was the lowest, though larger than the 52-year low of -2.0% in June. Year-over-year price growth for hospital care rose three tenths to 2.3% in September. Physician services growth rose to 0.8% from 0.5% in August. Annual inflation rate comparisons—September 2019 year over year versus September 2018 year over year—show nursing home care, dental care and home health 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 lower for the aggregate HCPI and for 5 of 10 detailed price categories, including hospitals, physicians, nursing care, home health and durable medical equipment.

Medicare and Medicaid hospital prices typically grow slower than private-sector prices (despite odd Medicare data in FY 2018 and 2019). Annual hospital price growth for Medicare patients was 2.5% in September, was -0.1% for Medicaid patients, and 3.1% for private pay patients, up sharply from 2.3% in August. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth plummeted was -2.8% in September, less negative than the -3.1% annual rate in August. 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 6.1%, -0.4%, and 14.7%, 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 erratically moderated since then. The readings for August 2019 are 4.8% spending growth and 3.3% 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 August rose at an annual rate of 2.7%—equal to its 12-month average. On a 12-month average basis, utilization for hospitals rose 2.3%, home health care is up 1.3%, physician services rose 2.6%, the prescription drug rate is 6.3%, nursing care rose 1.5%, and dental care utilization is up 0.9%.

DISCUSSION

In September 2019, annual growth in the Health Care Price Index (HCPI) was 1.6%, up a tenth from the August rate. Increases in the rates for hospitals (from 2.0% to 2.3% annual rate in September) and physicians (from 0.5% to a still low 0.8%) likely drove this small increase in the HCPI. The annual price growth for prescription drugs fell from -0.7% to -1.1%. We have seen incredibly low growth in prescription drug prices since July 2018, and the 12-month moving average now stands at -0.5%—a 47-year low. We expected this situation would reverse due to lower comparison values (12 months earlier), but this month’s source drug index fell to 133.62 from 134.67 in August. To hit 0% growth, the index would need to rise to 134.09 in October. But, the prices for many high-profile drugs are not falling, and considerable consternation persists around the *level* of drug prices.

Health care prices (excepting “intensity”), continue to grow more slowly than economy-wide prices, as they have for a historically long streak of 26 months as of August 2019 (see Exhibit 5). It is little appreciated over this period that health care price growth has been contributing to lower economy-wide price growth. And, as we note each month, health care inflation is amazingly low for this stage of the economic recovery. September 2019 was the 123rd month of expansion (the longest in U.S. history) following the Great Recession, yet the HCPI growth is anchored below 2%.

Two items will bear scrutiny in the October data: does the private hospital price growth of 3.1% represent a (bad) trend and why is the MCPI rising so quickly (3.5%)? A final point comes from preliminary results for October (10/11/19) from the [University of Michigan Consumer Sentiment Index](https://www.umich.edu/consumer-sentiment-index): the long-term inflation expectations fell to 2.2%, the lowest rate since this question began in 1979. U.S. health care *prices* are high but continued low *growth* may bring some relief to this issue.

¹ Altarum Spending Brief 10/17/19: August 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

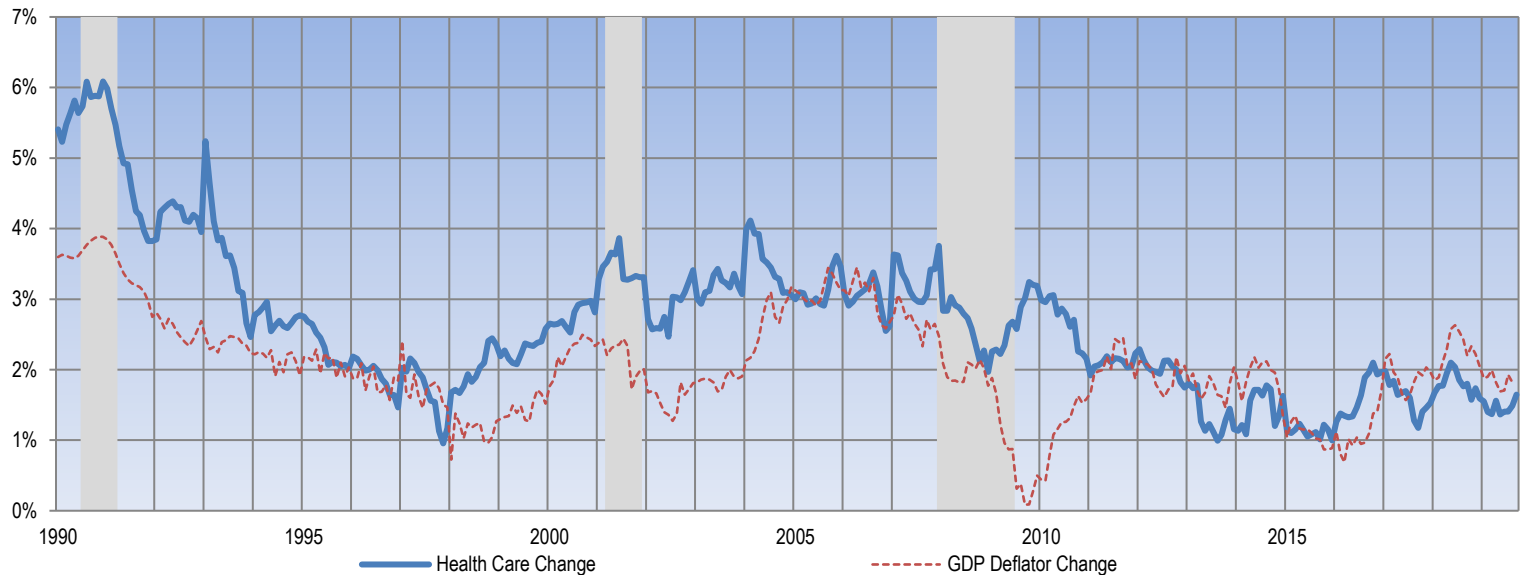
	Ending September 2017	Ending September 2018	Ending September 2019
HCPI	1.2%	1.8%	1.6%
Hospital care	1.4%	2.6%	2.3%
Physician and clinical services	0.5%	0.8%	0.8%
Prescription drugs	1.4%	1.2%	-1.1%
Nursing home care	2.3%	3.3%	3.8%
Dental services	1.5%	2.1%	3.1%
Home health care	1.4%	2.1%	2.4%
Other professional services	2.3%	0.0%	1.6%
Other personal health care	1.7%	1.8%	1.5%
Other nondurable med. products	-0.6%	-1.1%	2.6%
Durable medical equipment	0.5%	1.1%	0.8%

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.

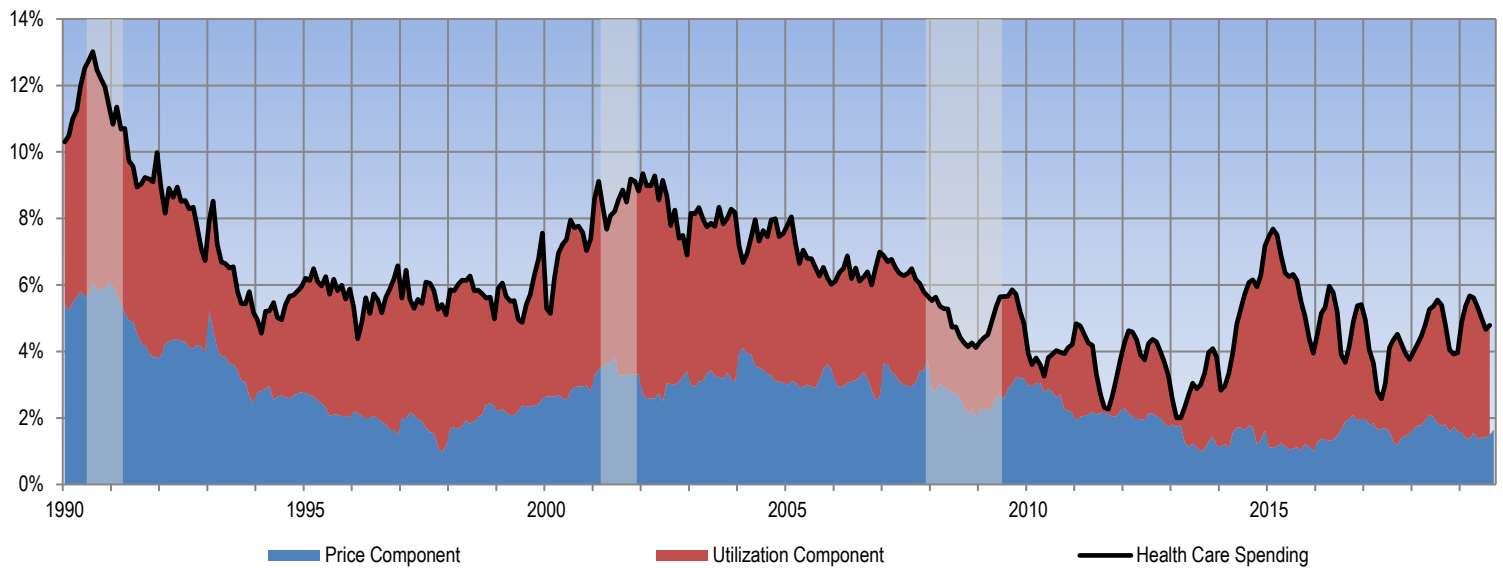
Note: Lightly shaded bars denote recession periods.

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>.

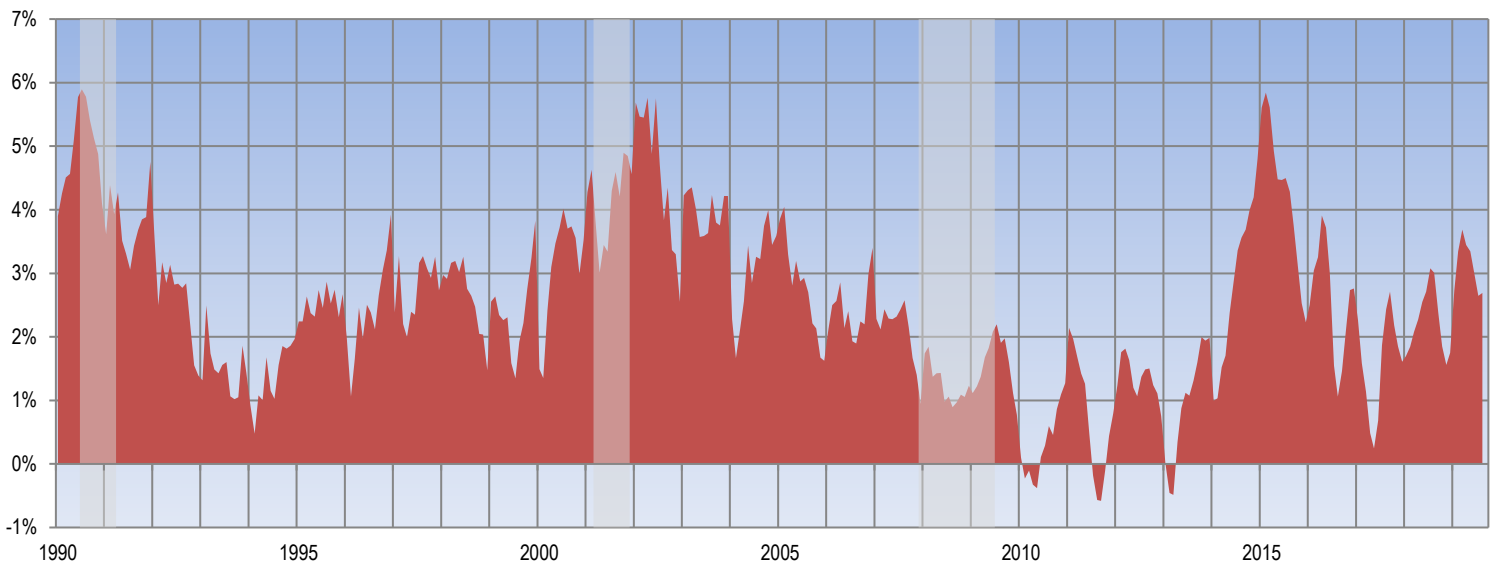
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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.