

ALTARUM CENTER FOR VALUE IN HEALTH CARE

Health Sector Economic IndicatorsSM

Insights from Monthly National Price Indices through August 2019

PRICE BRIEF

September 20, 2019 ▲ Health care price growth ticks up to still low 1.5%; drug prices still falling

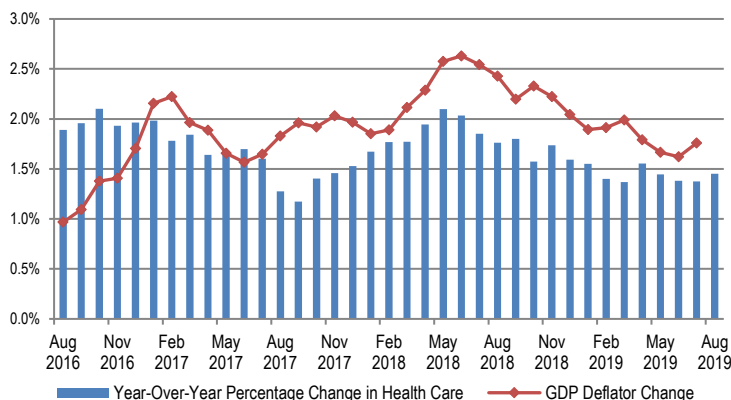
HIGHLIGHTS

- ▲ Health care prices in August 2019 rose 1.5% above August 2018, up one-tenth from the July 2019 annual rate of 1.4%.
- ▲ Year-over-year hospital price growth was 2.0%, down from 2.1% in July. Annual physician price growth rose to 0.5% in August from 0.2% in July. Drug price growth was -0.7% in August, “up” from its July annual rate of -0.8%. The 12-month moving average was -0.4% in July, the lowest rate since 1972!
- ▲ Economy-wide price indices showed mixed growth. The Consumer Price Index (CPI) fell from 1.8% in July to 1.7% in August and the final-demand Producer Price Index (PPI) rose one-tenth to 1.8% in August. The gross domestic product deflator (GDPD) rose from 1.6% in June to 1.8% in July (August data are not available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at 2.6% in July—below its 12-month average of 2.7%.

HEALTH CARE AND ECONOMY-WIDE PRICES

In August 2019, the Health Care Price Index (HCPI) rose 1.5% above August 2018, up one-tenth from the July annual rate of 1.4%. The 12-month moving average, at 1.5% was equal to the July 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 stabilizing around 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 July 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.

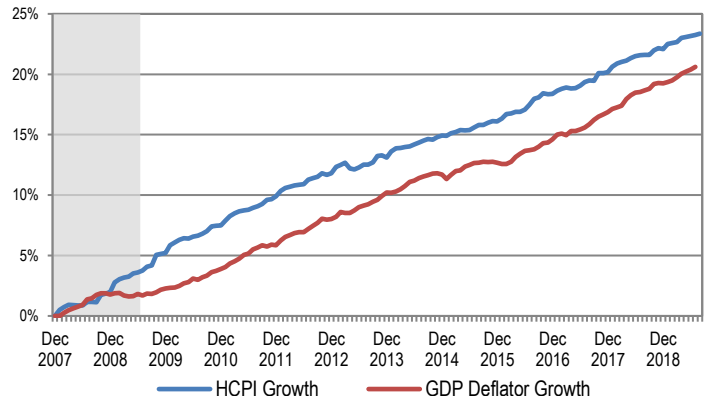
Health Care Prices and Related Statistics: 12-Month Growth Rates				
	Aug 2017	Aug 2018	Jul 2019	Aug 2019
Health Care Price Index (HCPI)	1.3%	1.8%	1.4%	1.5%
GDPD	1.8%	2.4%	1.8%	**
HCPI-GDPD	-0.6%	-0.7%	-0.4%	**
Addendum				
Health care spending	4.3%	5.4%	4.6%	**
Health care utilization	3.1%	3.6%	3.2%	**
CPI—medical	1.8%	1.5%	2.6%	3.5%
CPI—all items	1.9%	2.7%	1.8%	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 23.4%, while economy-wide prices (using the GDPD) have increased 20.6% (Exhibit 2). This cumulative gap is amazingly low. The historically long streak of 25 months with the HCPI growth below the GDPD growth, begun in July 2017, is alive as of July 2019, with no immediate sign of ending.

In August, 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 since March 2017. The final-demand PPI growth for August rose one-tenth from July to 1.8%.

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.

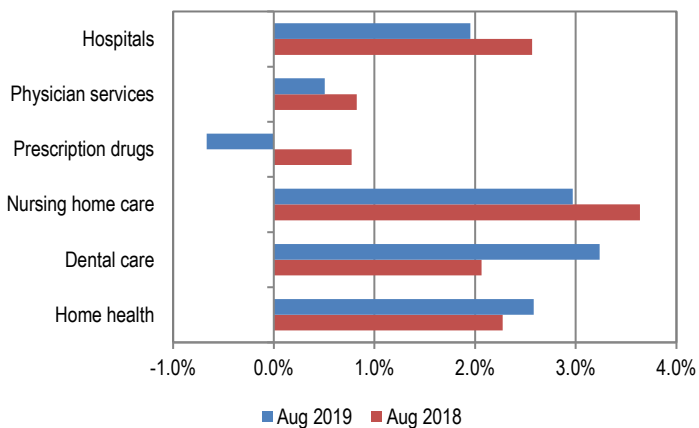
HEALTH CARE PRICES BY CATEGORY

In August 2019, the annual price growth for dental services, at 3.2% was the highest category, while drug price growth at -0.7% was the lowest, though up from the 52-year low of -2.0% in June. Year-over-year price growth for hospital care fell one-tenth to 2.0% in August. Physician services growth rose to 0.5% in August from 0.2% in July. Annual inflation rate comparisons—August 2019 year over year versus August 2018 year over year—show dental services and home health higher, with the other 4 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 6 of 10 detailed price categories, including hospitals, prescription drugs, and physician services.

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 August, equal to the July rate, was 0.1% for Medicaid patients, up from -0.4% in July, and fell to 2.3% growth in August from 2.9% growth in July for private pay patients. For “other” patients (e.g., Veterans, TRICARE, self-pay), hospital price growth plummeted to -3.1% from -2.8% in July. 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 13.8%, 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 July 2019 are 4.6% spending growth and 3.2% utilization growth.
- ▲ Exhibit 7 shows per capita (implicit) utilization growth and highlights the decline between 2002 and 2010, then sharp growth, and oscillation around 2% (though higher now). Per capita utilization in July rose at an annual rate of 2.6%—below its 12-month average of 2.7%. On a 12-month average basis, utilization for hospitals rose 2.2%, home health care is up 2.7%, physician services rose 2.7%, the prescription drug rate is 5.8%, nursing care rose 1.6%, and dental care utilization is up 0.2%.

DISCUSSION

In August 2019, annual growth in the Health Care Price Index (HCPI) was 1.5%, up one-tenth from the July rate. Mostly modest component growth changes led to an uptick in the HCPI, though physician price growth went from 0.2% in July to 0.5% in August, dental services rose from 2.3% to 3.2% in August, and other non-durable medical products saw price growth rise from 0.5% to 2.6%. The annual price growth for prescription drugs “rose” from -0.8% to -0.7%. We have observed exceptionally slow growth in prescription drug prices since July 2018, and the 12-month moving average now stands at -0.4%—a 47-year low. We had predicted this situation would reverse due to lower comparison values (12 months earlier), but the source drug index has barely budged, e.g., it was 134.28 in January 2019, and it currently stands at 134.67. This [Stat news item](#) adds detail to the phenomenon of wholesale and net drug prices falling, though many brand-name drug prices are still rising as noted last month.

Overall health care prices (though not capturing “intensity”), continue to grow more slowly than economy-wide prices, bringing this historically long streak to 25 months as of July 2019 (see Exhibit 5). This behavior is stark, and it is still little appreciated that health care price growth no longer drives up economy-wide price growth (the converse is true). And, as we note each month, health care inflation is amazingly low for this stage of the economic recovery. August 2019 was the 122nd month of expansion ([the longest in U.S. history](#)) following the Great Recession, yet the HCPI growth is steady near 1.5%.

A final point comes from the [University of Michigan Consumer Sentiment Index](#), preliminary results for September (9/13/19): *The long-term inflation rate was the lowest ever recorded, although it has been recorded four times in 2019 and once at the close of 2016.* U.S. health care prices are *extremely* high, but there is little evidence to suggest they will grow quickly in the next several months.

¹ Altarum Spending Brief 9/20/19: July 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

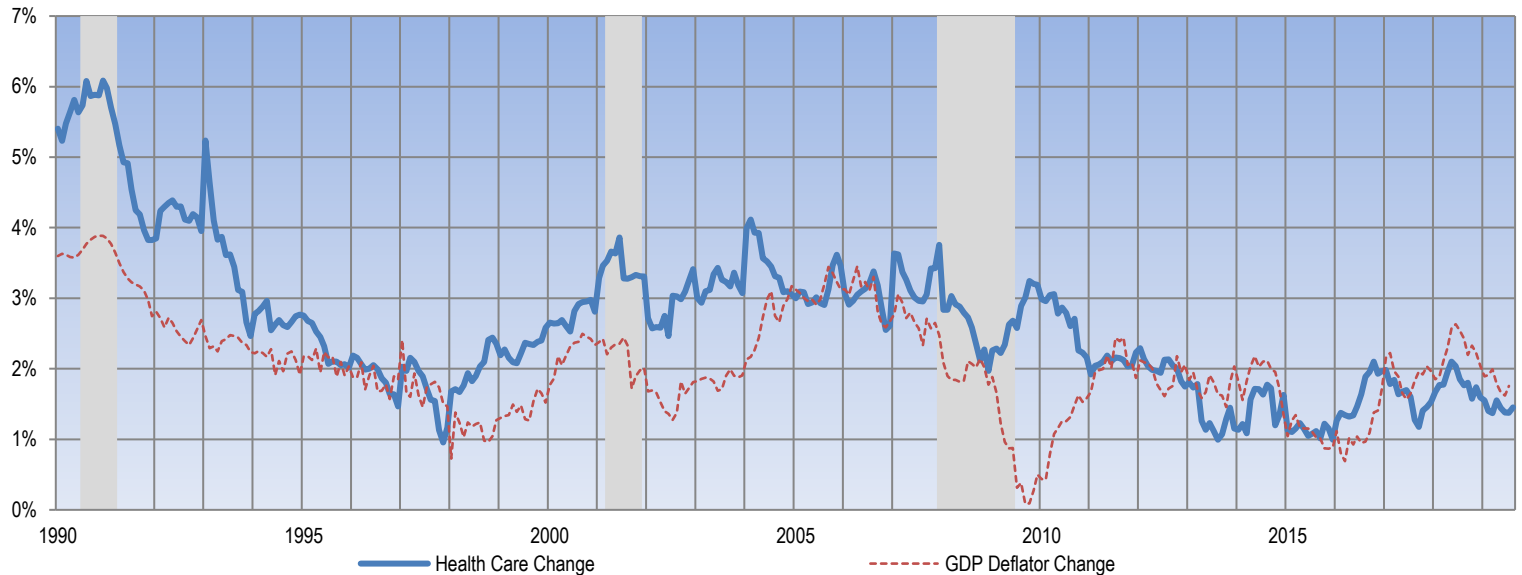
	Ending August 2017	Ending August 2018	Ending August 2019
HCPI	1.3%	1.8%	1.5%
Hospital care	1.4%	2.6%	2.0%
Physician and clinical services	0.5%	0.8%	0.5%
Prescription drugs	2.7%	0.8%	-0.7%
Nursing home care	1.9%	3.6%	3.0%
Dental services	1.6%	2.1%	3.2%
Home health care	1.1%	2.3%	2.6%
Other professional services	1.8%	0.6%	1.0%
Other personal health care	1.2%	1.9%	1.6%
Other nondurable med. products	1.6%	-1.6%	2.6%
Durable medical equipment	0.0%	0.8%	1.8%

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

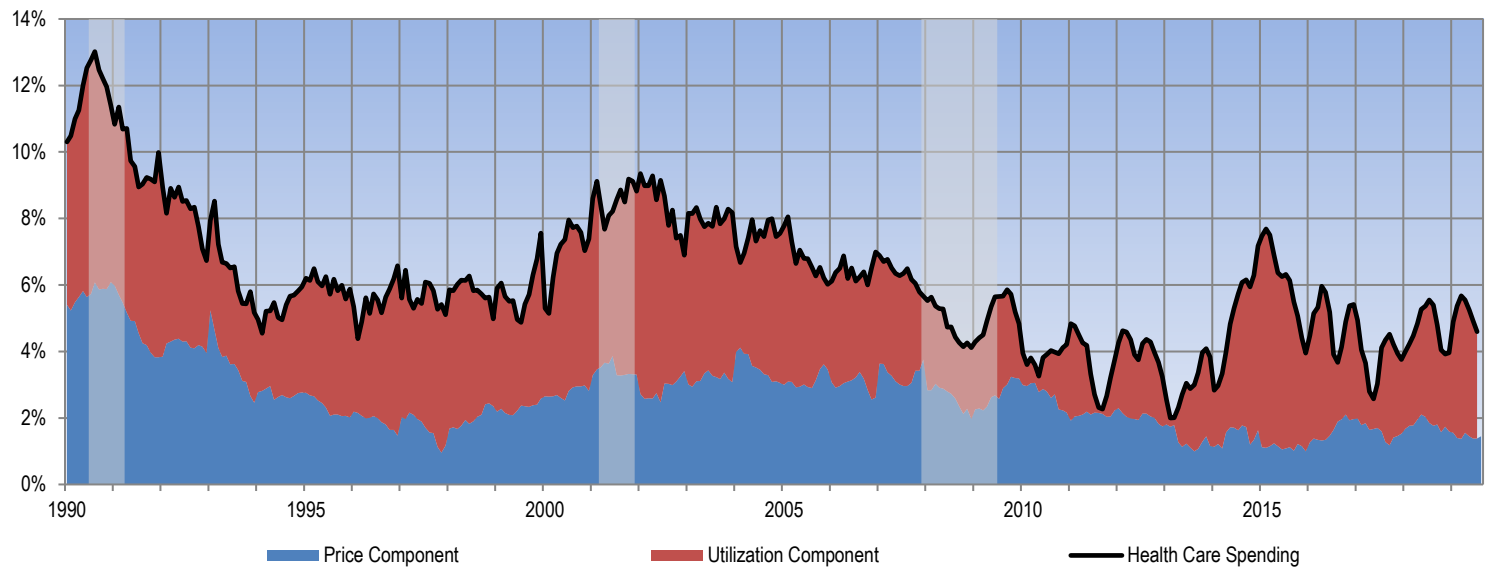


Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data.

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 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>.

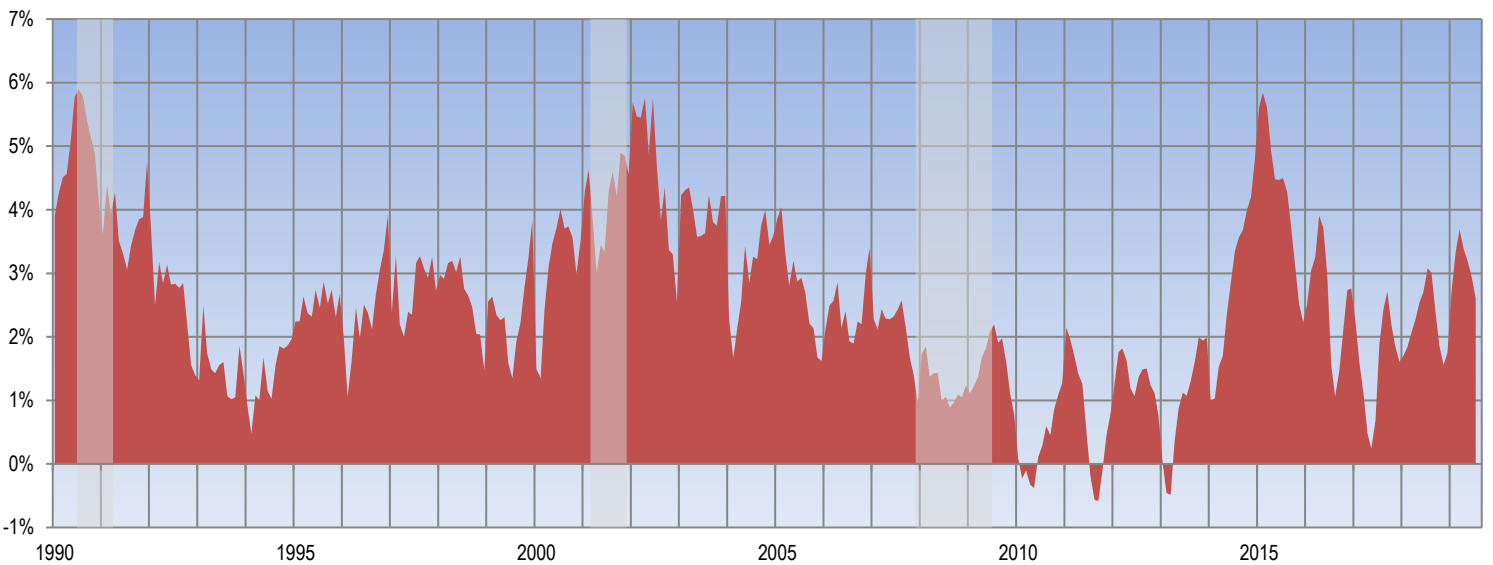
Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components



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.