

Health Sector Economic IndicatorsSM

Insights from Monthly Price Indices through May 2014

July 10, 2014

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PRICE BRIEF

Health care prices spurt in May

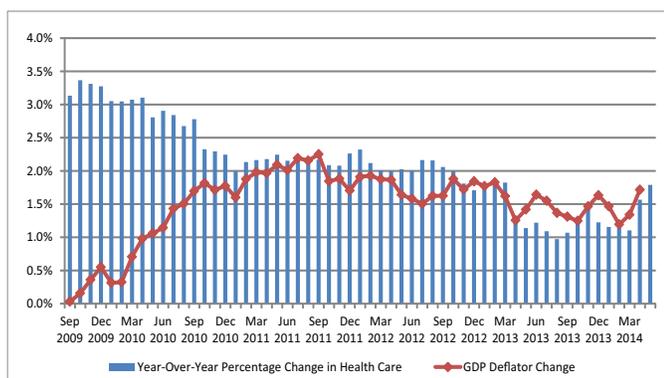
HIGHLIGHTS

- ▲ Health care prices in May 2014 were 1.8% higher than in May 2013, compared with 1.6% in April, year-over-year. The May 2014 12-month moving average rose to 1.3% from 1.2% in April.
- ▲ Year over year, hospital prices – a key price index driver – grew 2.1% in May, equal to the April rate. Physician and clinical services prices grew 0.6%, again equal to the April rate, and home health care prices continued a two-month rebound from a yearlong negative growth trend, recording a 0.5% rate in May. Prescription drug prices rose 3.6%, jumping from the April 2.4% rate.
- ▲ Economy-wide price indexes grew in May. The Consumer Price Index (CPI) rose to 2.1%, year over year, from 2.0% in April; the Medical CPI rose to 2.8% from 2.4%; and the gross domestic product (GDP) deflator rose to 1.7% in April, from 1.3% in March (May GDP data are not yet available).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth, year over year, at 1.7% in May, below its 12-month moving average gain of 2.4%, and sharply reduced from the previous month's estimates, following large revisions in the underlying health spending data.

HEALTH CARE AND ECONOMY-WIDE PRICES

In May 2014, the health care price index (HCPI) rose 1.8% above May 2013. The 12-month moving average of 1.3% is near the all-time low for our data (1.2%), but it has now risen for 2 straight months, the first increase since January 2012. The HCPI shows a steady decline from October 2009, at 3.4%, followed by 2 years oscillating near 2% growth, with a sharp, sustained decline to about 1% (save for the November 2013 spike), and now its recent surge (Exhibit 1). Economy-wide price inflation, as measured by the GDP deflator, trended up beginning in September 2009, peaked at 2.3% in September 2011, and was at 1.7% in April 2014 (May GDP data are not yet available). Exhibit 5 shows long-term comparisons.

Exhibit 1. Year-Over-Year Growth Rates in Health Care Price Index and GDP Deflator



Source: Altarum analysis of monthly BLS data
Compares monthly prices with the same month from the previous year

Health Care Prices and Related Statistics: 12-Month Growth Rates

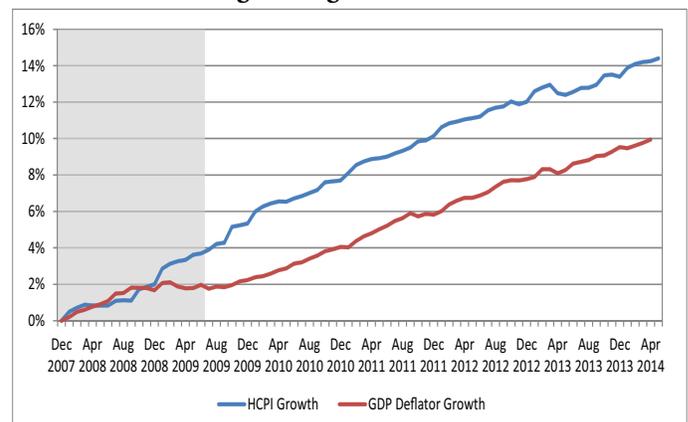
	May 2012	May 2013	Apr. 2014	May 2014
Health Care Price Index (HCPI)	2.0%	1.1%	1.6%	1.8%
GDP Deflator (GDPD)	1.6%	1.4%	1.7%	**
HCPI - GDPD*	0.4%	-0.3%	-0.1%	**
Addendum				
Personal health care spending	3.9%	3.7%	4.1%	4.0%
Health care utilization	1.8%	2.5%	2.6%	2.2%
CPI-Medical	3.6%	2.2%	2.4%	2.8%
CPI-All items	1.7%	1.4%	2.0%	2.1%

*Numbers may not subtract due to rounding
**Data not yet available

Source: Altarum analysis of U.S. Bureau of Labor Statistics (BLS) data. Health care price index 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.

Since the start of the recession in December 2007, health care prices have increased by 14.4%, while prices in the economy as a whole (using the GDP deflator) have increased by 9.9% (Exhibit 2). It appears that the effect of low economy-wide inflation on health care price growth is receding. The CPI, Medical CPI (which emphasizes out-of-pocket prices), and GDP deflator each rose, compared with April (March for GDP) – 2.1% from 2.0%, 2.8% from 2.4%, and 1.7% from 1.3%, respectively. The Final Demand Producer Price Index (PPI) bucked this trend, falling slightly, to 2.0% in May from 2.1% in April. These numbers are still low by historical standards, but we may be about to move beyond this recent and rare episode of health care prices growing more slowly than economy-wide prices.

Exhibit 2. Health Care Price Index and GDP Deflator, Cumulative Percentage Change Since December 2007



Source: Altarum analysis of monthly BLS price data and monthly GDP deflator data published by Macroeconomic Advisers, LLC

Note: Shading indicates recession period

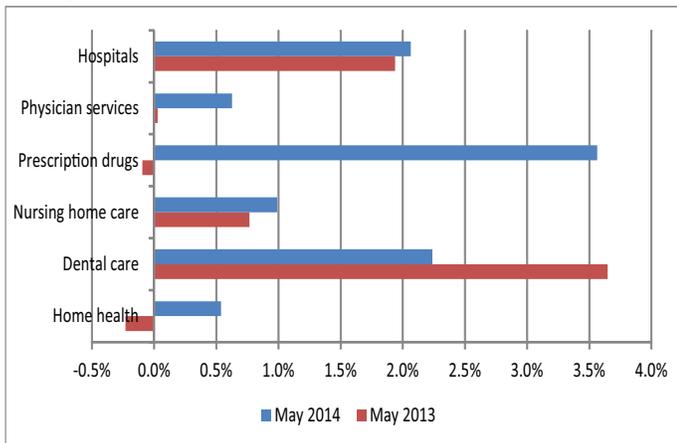
HEALTH CARE PRICES BY CATEGORY

Comparing May 2014 with May 2013, prescription drug price growth was the highest, at 3.6% (up from 2.4% last month), followed by dental and hospital services, at 2.2% and 2.1%, respectively. Physician price growth held at 0.6%. Durable medical equipment (DME) price growth increased dramatically, from -0.1% in April to 1.0% in May, its highest reading since 1.1% in September 2013. Hospital price growth plays a dominant role in the HCPI due to its large spending weight, and its lack of movement in May helped to restrain the HCPI from growing more rapidly. Annual inflation rate comparisons – May 2014 year over year versus May 2013 year over year – show a reversal from past months, where now price growth is higher for each category, except dental care, for the recent year compared with a year earlier (Exhibit 3, with additional detail in Exhibit 4).

Price “momentum,” which highlights the latest 3 months of data (and may be a leading indicator), is up for most categories, especially prescription drugs at 5.2% and DME at 3.0%, although it is down for hospitals at 0.8%. This provides further evidence that the historically low HCPI readings in the 1.0% range will not be threatened anytime soon.

Medicare and Medicaid prices usually grow more slowly than “other” prices (which include private payment). Hospital prices for Medicare and Medicaid patients rose by 1.8% and -0.1%, respectively (identical to the April rates). For other patients, price growth fell to 2.9%, from 3.1% in April (data not shown). Although it is widely predicted by analysts, we still do not see the data indicating markedly higher prices stemming from aggressive provider consolidation.

Exhibit 3. Year-Over-Year Price Growth for Selected Health Categories



Source: Altarum analysis of monthly BLS data

PRICES, SPENDING, AND UTILIZATION

Trends in health care utilization (and intensity) can be computed from the price data combined with Altarum monthly health spending estimates.¹

- ▲ Exhibit 6 displays year-over-year growth rates in health care spending broken out by price and utilization. The downward trend in health spending growth that began in 2002 was mainly due to declining utilization growth, followed by very low price growth, and now greater balance. The readings for May 2014 are 4.0% spending growth and 2.2% utilization growth.
- ▲ Exhibit 7 shows per capita utilization growth through May and highlights the decline between 2002 and 2010 and its recent growth. Per capita utilization in May is rising at an annual rate of 1.7%, below its 12-month average of 2.4%, illustrating that revised health care spending data show dramatically lower recent utilization growth. On a 12-month average, utilization for hospitals has risen by 2.1%, home health has risen 5.5%, physician services have risen 2.7%, the prescription drug rate has risen 6.7%, nursing care has fallen 0.5%, while dental utilization has declined by 4.6%.

DISCUSSION

In May 2014, the HCPI rose 1.8% above May 2013, a sharp increase from the March 2014 rate of 1.1%, and now significantly above the historic low of 1.0% reached in August 2013. The 12-month moving average of 1.3% is only one-tenth above its historic low of 1.2%, hit in March 2014, but we now see 2 months of this series increasing, the first rise since January 2012. Hospital price growth held steady at 2.1%, but high prescription drug price growth, at 3.6% (up from 2.4% last month), dental prices rising at a 2.2% rate, and durable medical equipment price growth increasing from -0.1% in April to 1.0% in May (its highest reading since 1.1% in September 2013), all served to push the HCPI higher.

Analysts are waiting to see increased health insurance enrollment from the Affordable Care Act (ACA) translate into higher utilization. However, dramatically lower, revised spending data indicate that such forecasts are premature, at least for the first 3 months of 2014.¹ The HCPI may be signaling that higher price growth in April and May are the first signs of higher utilization growth putting pressure on health care prices in the second quarter.² The ACA boost will take longer to manifest itself.

As noted last month, health care and economy-wide inflation are quite low for this stage of the business cycle recovery – May 2014 was the 59th month of economic expansion following the recession – but signs are growing that we have seen the lows for this cycle, and we expect further, though modest, price growth in the next few months.

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¹ Altarum Institute Spending Brief #14-07: May 2014 Data. **Please note:** The Spending Briefs cover all health care spending; this Price Brief covers only personal health care.

² Santangelo, Glen and Jeffrey Bailin (2014). Monthly Drug Tracker: May Rx Volume Continues Healthy Trend. Credit Suisse Equity Research, June 23.

PRICE GROWTH BY DETAILED CATEGORIES

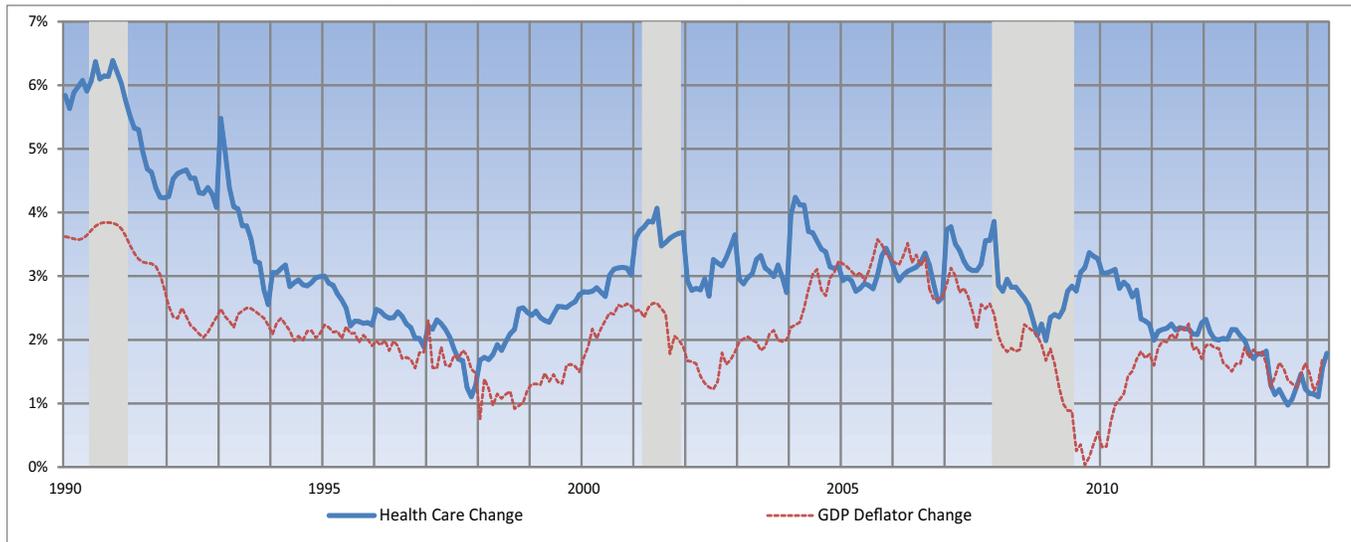
Exhibit 4. Annualized Percentage Change in Prices for the Major Components of National Health Expenditures

	Ending May 2012	Ending May 2013	Ending May 2014
Health care price index	2.0%	1.1%	1.8%
Hospital care	2.4%	1.9%	2.1%
Physician and clinical services	1.3%	0.0%	0.6%
Prescription drugs	3.3%	-0.1%	3.6%
Nursing home care	1.2%	0.8%	1.0%
Dental services	1.9%	3.6%	2.2%
Home health care	0.6%	-0.2%	0.5%
Other professional services	1.1%	1.3%	1.2%
Other personal health care	2.0%	2.6%	2.6%
Other non-durable medical products	0.3%	0.3%	-0.8%
Durable medical equipment	2.8%	-0.5%	1.0%

Source: Altarum analysis of monthly Bureau of Labor Statistics (BLS) data
 Notes: Compares monthly prices with the same month from the previous year

TIME SERIES TRACKER

Exhibit 5. Year-Over-Year Percentage Change in Health Prices Compared with the GDP Deflator



Source: Altarum analysis of monthly BLS price data and Macroeconomic Advisers GDP data
 Note: Lightly shaded bars denote recession periods

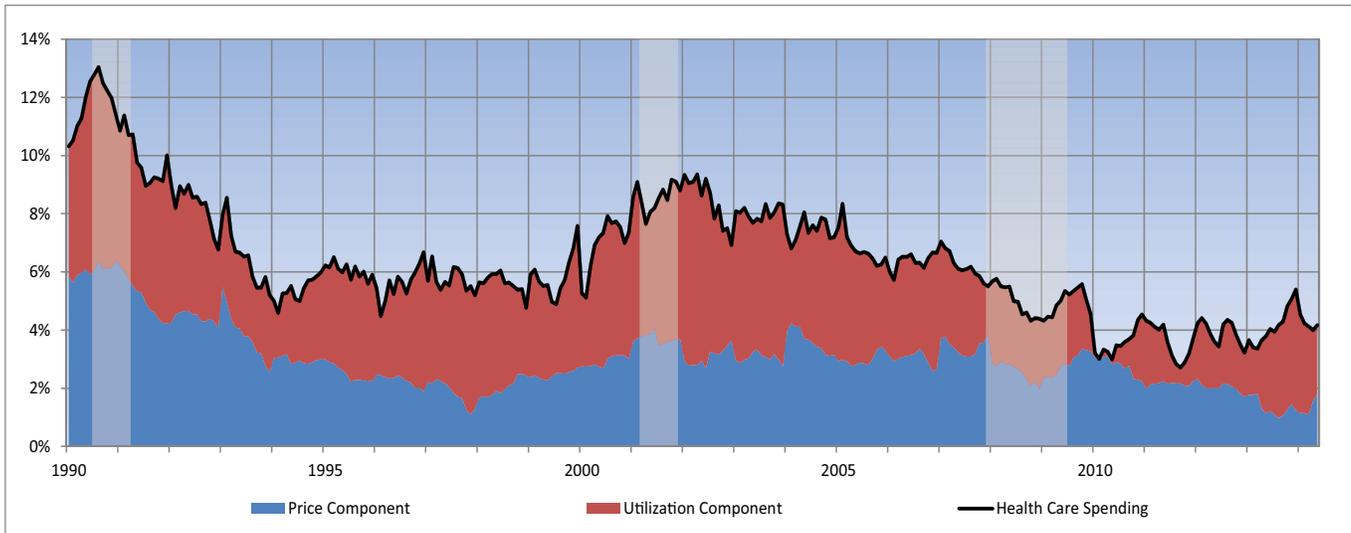
Altarum Institute is a 501(c)(3) nonprofit health care research and consulting organization. Altarum integrates independent research and client-centered consulting to deliver comprehensive, system-based solutions that improve health and health care.

The Center for Sustainable Health Spending (CSHS) was launched in 2011 to lead Altarum Institute's research on investigating the cost growth trends and key drivers of U.S. health spending and to formulate policy strategies to help bend the cost growth curve.

*The Health Sector Economic Indicators*SM reports are a monthly publication of Altarum's CSHS and provide an analysis of health spending, employment, and prices. For more information, contact **Charles Roehrig, PhD**, at 734-302-4600 or charles.roehrig@altarum.org. Paul Hughes-Cromwick (principal author), George Miller, PhD, Ani Turner, and Matt Daly, PhD, contributed to this brief. Media Contact: Ken Schwartz, 571-733-5709, ken.schwartz@altarum.org.

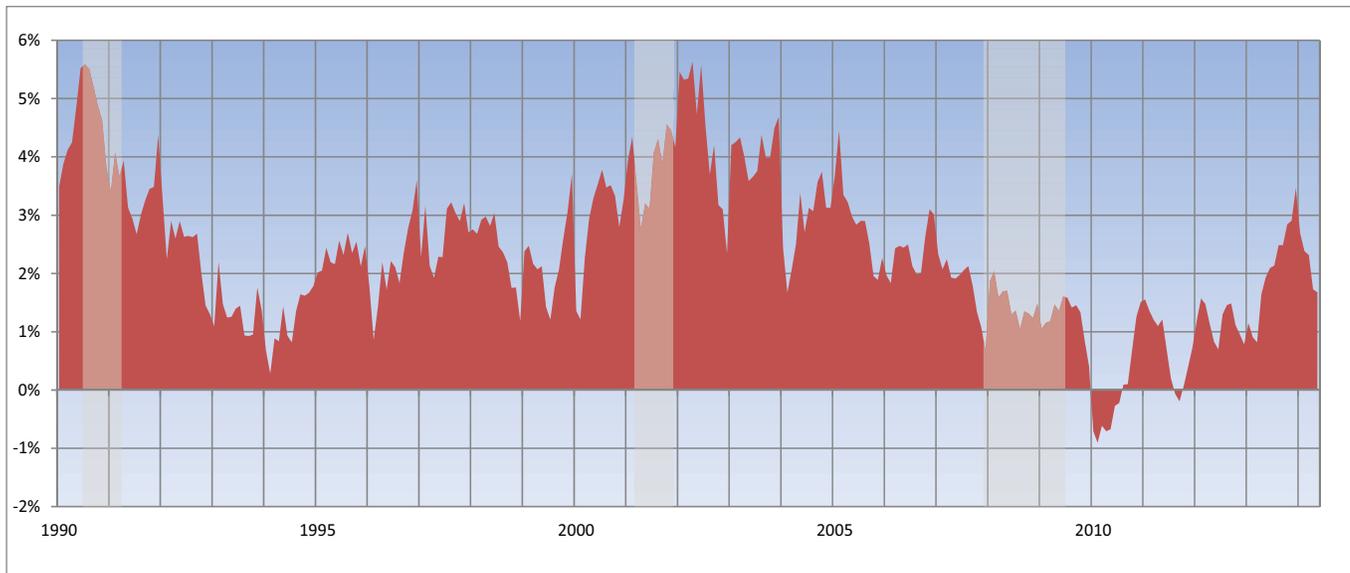
For more information, please visit www.altarum.org/cshs.

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 National Health Expenditures, 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 consumer price index are well documented. Information on the CMS index is presented in: U.S. Department of Health and Human Services, *National Health Expenditures Accounts: Methodology Paper, 2012-Definitions, Sources, and Methods*, Washington, DC: Centers for Medicare & Medicaid Services, 2014. Retrieved from <http://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/downloads/dsm-12.pdf>. The HCPI is calculated using BLS data on Producer Price Indices for hospital, physician, nursing home, and home health components, and Consumer Price Indices for prescription drugs, and other remaining items. Following NHSG, we use the GDP deflator rather than the Consumer Price Index 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.