

US price truce cracks but biopharma may want to tread carefully



[Jonathan Gardner](#)



Pfizer and Merck & Co take increases, making it easier for others to follow. But shifts in congressional power means pricing will remain a minefield.

As Pfizer goes, so does Merck & Co – and maybe the rest of biopharma. The pledge to delay drug price hikes has expired, with those two big pharmas having acknowledged that they have or will seek increases, and it seems likely that they have cleared the way for the rest of the sector to follow.

The power of the bully pulpit has been clear, however. Prescription drug prices as measured by the US consumer price index shrank slightly over the first 10 months of 2018, something not even seen in 2013, the year after \$35bn worth of drug sales became subject to generic erosion. A return to normal trends seems unlikely in 2019, however, as congressional Democrats will likely use their new House majority to keep up the pressure.

Pause for breath

The pause between the hard-fought midterm elections and the convening of the new Congress on January 3 seems a strategically good time to strike, and fortunately it coincides with normal industry practices to increase prices around the turn of the year. Merck has confirmed that it is raising prices on five drugs, including immuno-oncology mega-blockbuster Keytruda, while Pfizer chief executive Ian Read has stated that it will be “business as normal” as 2018 ends.

It will be perhaps close to two months at a minimum before congressional committees can organise hearings on drug prices, by which time the actions by Pfizer, Merck and presumably many other biopharma companies may have faded in lawmakers’ memories.

Aside from trying to publicly shame biopharma, it is not at all clear that the divided US government will accomplish anything more than one controlled by President Donald Trump’s Republican party ([Political gridlock could be good for biopharma, November 8, 2018](#)). Democrats are likely to be eager to give the federal government the power to negotiate Medicare reimbursement for drugs, but the chances of that passing the Republican-controlled Senate and reaching Mr Trump’s desk are low.

With gridlock on this issue – notwithstanding parts of Mr Trump’s blueprint that could take effect, such as restrictions on rebates and on Medicare part B drug reimbursement – a key question for 2019 will be the extent to which the sector will be able to raise prices. Other than the outlier years of 2013 and 2018, the prescription

drug CPI in the past decade has typically risen 3-5% annually.

Light frost

Investors seem to have quietly tolerated 2018's year of rollbacks as a political necessity, but they may not be so patient next year. Government forecasters had anticipated a 6.6% increase in prescription drug spending in 2018 – an estimate that includes price and volume increases – and 5.6% in 2019.

Mr Read's comments suggest that Pfizer will aspire to resume normal growth trends. Investors may wish that biopharma could make up for the lost year of 2018, but that could be difficult if the heat remains on. The group says its prices in the third quarter were 2% lower on a global basis, offset by 4% volume growth.

For his part, Mr Read says Pfizer will “price to the value of the product and price inside a competitive marketplace”.

Easy for Mr Read to say, perhaps, since he would not be the one who would potentially be called to testify in front of a congressional committee next year – that would fall to his successor, Albert Bourla, who takes the reins on January 1. Nonetheless, it seems a good bet that Pfizer has made it possible for the rest of biopharma to follow this path in the weeks to come. What they can accomplish later in 2019 will be a matter of weighing the political environment against investor expectations.

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