

December 23, 2021

Health care price growth picks up slightly but stays below economywide inflation

HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 2.3% year over year in November, a slightly faster rate than the month prior and the fastest growth seen since March 2021.
- ▲ Yet, health care price growth remains moderate and lower than expected given rapid increases in economywide inflation, as measured by both the consumer price index (CPI) and producer price index (PPI), each of which set a record in our series at 6.8% and 9.6%, respectively, in November.
- ▲ Physician and clinical services price growth remains fastest among underlying healthcare components, at 3.6% in November, followed closely by hospital services price growth at 2.5%. Retail prescription drug prices were the only major component to decline in November, falling -0.3% year over year.
- ▲ Our series measuring implicit utilization (spending growth minus changes in prices) was revised this month as CMS released new official estimates of 2020 health care spending, and now shows overall health sector utilization increasing by 3.7% in November alongside hospital utilization rising by 4.7%.

| | Nov. 2019 | Nov. 2020 | Oct. 2021 | Nov. 2021 |
|--|--------------|--------------|--------------|--------------|
| Health Care Price Index (HCPI) | 1.7% | 2.2% | 2.1% | 2.3% |
| GDP Deflator (GDPD) | 1.5% | 1.2% | 5.4% | ** |
| HCPI - GDPD | 0.2% | 1.0% | -3.2% | ** |
| <i>Addendum</i> | | | | |
| Personal health care spending | 5.8% | 12.5% | 5.8% | ** |
| Health care utilization | 4.1% | 10.3% | 3.7% | ** |
| Medical Consumer Price Index (MCPI) | 4.2% | 2.4% | 1.3% | 1.7% |
| Consumer Price Index – all items (CPI) | 2.1% | 1.2% | 6.2% | 6.8% |
| Producer Price Index – Final Demand (PPI) | 1.0% | 0.8% | 8.8% | 9.6% |

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 below. Numbers may not subtract properly due to rounding. **Data not available

Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among at-risk and disenfranchised populations. 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. This work was made possible through generous support from the Robert Wood Johnson Foundation.

The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Ani Turner at ani.turner@altarum.org. Corwin Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. We thank Paul Hughes-Cromwick, who originated the concept of these reports and provided inspired leadership of the work from its inception. Media Contact: press@altarum.org.



DISCUSSION

Growth in the overall Health Care Price Index (HCPI) increased slightly in November, rising to 2.3% year over year, and may be showing signs of slowly breaking out of the tight range we've seen since April, when growth stayed between 1.8% and 2.1% (Exhibit 1). Yet, despite the moderate increase in health care price growth this month, it remains far below overall economywide inflation (November CPI was up 6.8% year over year, while PPI increased even more, 9.6%). The gap between overall economywide CPI and HCPI was a whopping 4.5 percentage points in November (Highlights Table), continuing this period in our series when health care prices have grown significantly slower than economywide prices. As we discussed in a [recently published article](#), we expect overall health care price growth may eventually follow economywide inflation upwards, but for now temporary factors, such as the annual nature of health care contracts and yearly government price setting, are likely keeping overall HCPI growth in check.

Among health care components this month, physician services were the fastest growing category at 3.6%, rising from 3.2% in October (Exhibit 2 and 3), while hospital prices followed close behind, increasing 2.5% year over year. Prescription drug price growth was again negative at -0.3%, now 14 straight months of year-over-year price declines for this component, although we expect this trend to reverse at some point in the next few months. Among major payers for hospital services, price growth by private insurance remained the highest in November at 3.0%, followed closely by Medicare price growth at 2.4% and Medicaid at 1.4% in November (Exhibit 6). Recent news of the [delay in Medicare price cuts](#) until at least March 2022 will keep Medicare price growth positive for hospital and physician services in the next few months.

As for our measure of implicit utilization (the difference between year-over-year spending growth and price growth), we show revised estimates this month that incorporate new data from CMS's official estimates of 2020 health care

Exhibit 2. Year-over-Year Price Growth for Selected Categories

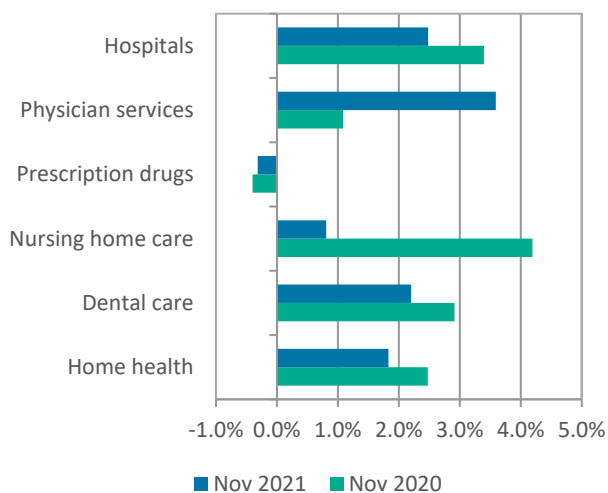
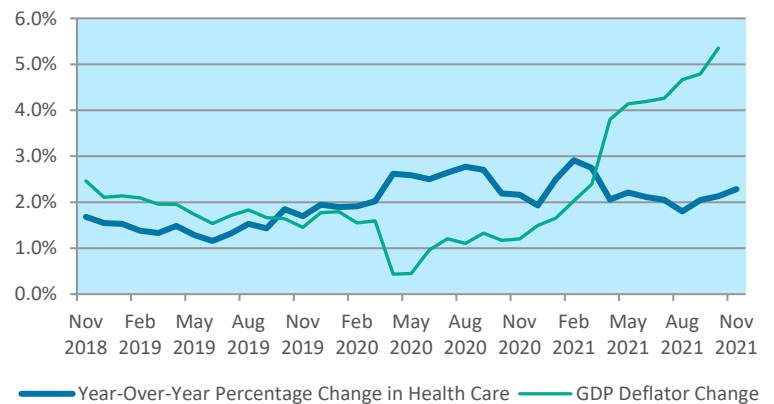


Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

spending in the [National Health Expenditure Accounts](#) (Exhibit 7). These new spending data show higher than expected final estimates of 2020 health care spending for many service-heavy categories (such as hospital and physician services), mostly attributable to the inclusion of federal financial assistance to the health care sector via Paycheck Protect Program (PPP) and Provider Relief Fund expenditures. As a result, utilization growth in 2020 was increased significantly from previous briefs (Exhibit 5), while year over year growth in 2021 was impacted less. As we describe in Exhibit 7, our implicit measure of utilization measures net changes in all types of health spending minus price growth, hence the revisions with new CMS data. To demonstrate the extent to which federal financial assistance had an impact on our measure of utilization, we show in Exhibit 8 the annualized growth in utilization since January 2020 for categories with and without federal financial assistance.



PRICE GROWTH BY DETAILED CATEGORIES

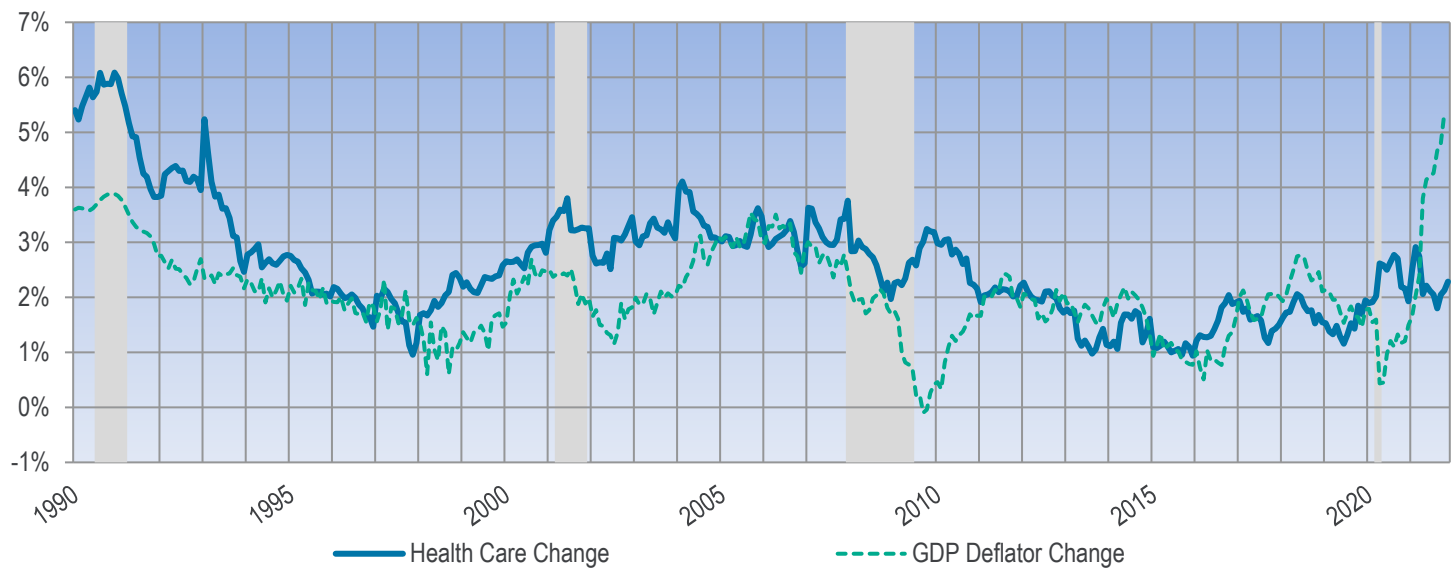
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

| | Ending November 2019 | Ending November 2020 | Ending November 2021 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| Health Care Price Index (HCPI) | 1.7% | 2.2% | 2.3% |
| Hospital care | 2.4% | 3.4% | 2.5% |
| Physician and clinical services | 0.6% | 1.1% | 3.6% |
| Prescription drugs | 0.5% | -0.4% | -0.3% |
| Nursing home care | 2.2% | 4.2% | 0.8% |
| Dental Services | 3.1% | 2.9% | 2.2% |
| Home health care | 3.5% | 2.5% | 1.8% |
| Other professional services | 0.7% | 1.5% | 2.1% |
| Other personal health care | 1.9% | 4.2% | 4.3% |
| Other nondurable medical products | 0.8% | -1.9% | 0.8% |
| Durable medical equipment | 1.5% | -4.9% | 2.9% |

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

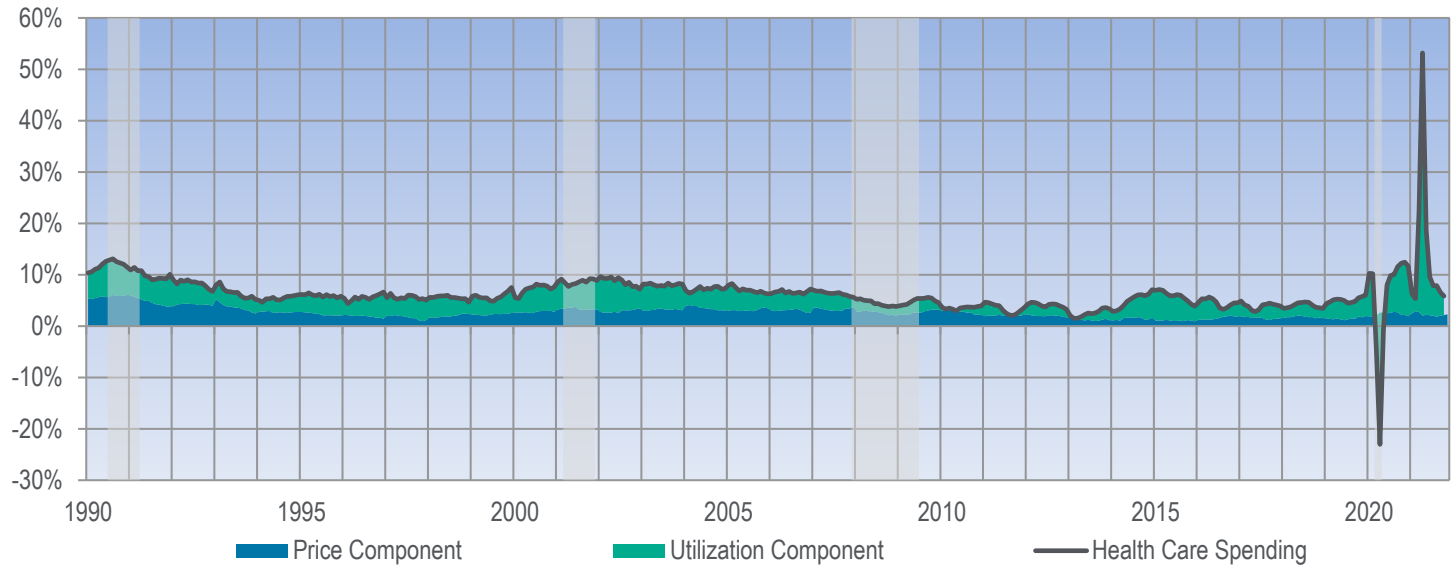
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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. (2019). *National Health Expenditure Accounts: Methodology Paper, 2018—Definitions, Sources, and Methods*. Washington, DC: Centers for Medicare & Medicaid Services. Retrieved from <http://www.cms.gov/files/document/definitions-sources-and-methods.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.



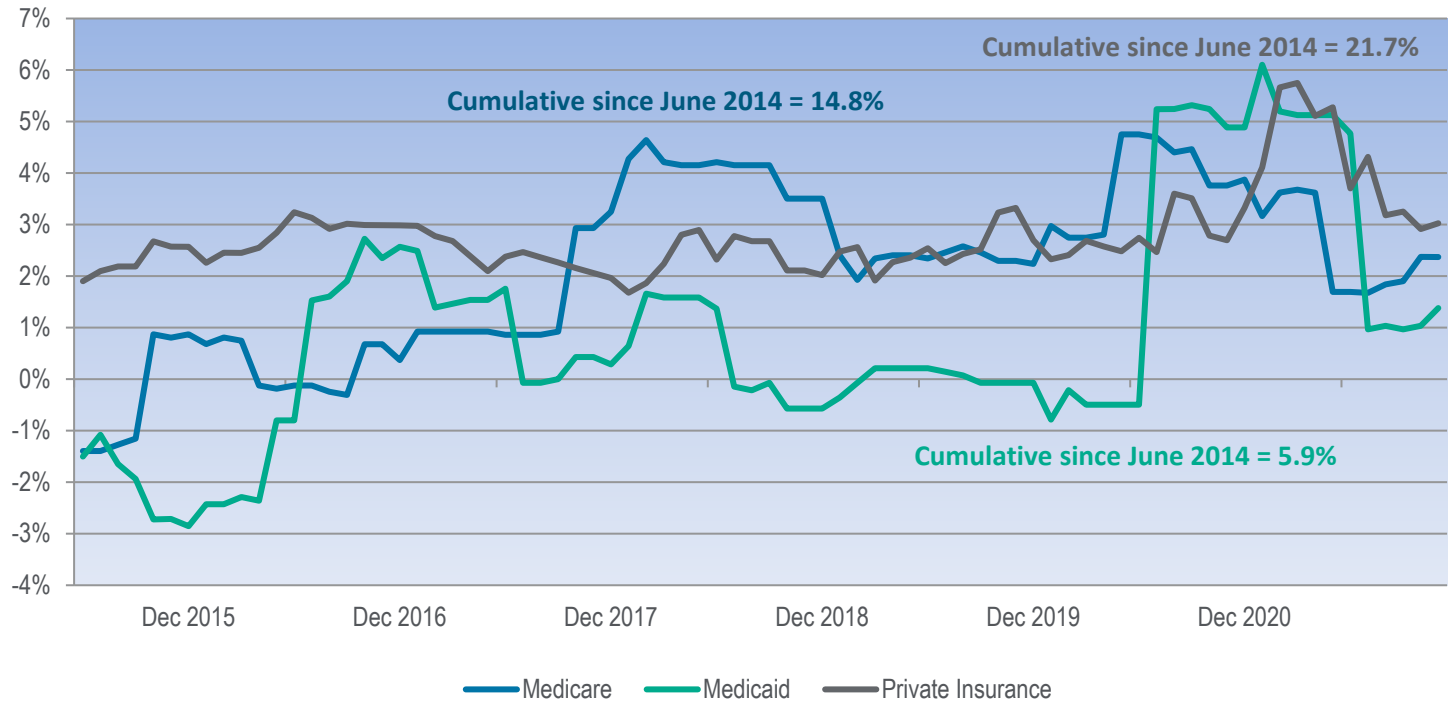
Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



Source: Altarum monthly national health spending and price index estimates.

Note: Lightly shaded bars denote recession periods. (The [2020 recession timing](#) was announced by NBER on July 19th, 2021)

Exhibit 6. Year-over-Year Change in Hospital Price Growth by Payer



Source: Altarum analysis of monthly BLS data.



Exhibit 7. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

| | October 2021 | 3-Month Moving Average | 12-Month Moving Average |
|-----------------------------------|--------------|------------------------|-------------------------|
| Total health care | 3.7% | 4.8% | 11.8% |
| Hospital care | 4.7% | 6.1% | 16.2% |
| Physician and clinical services | 2.6% | 3.5% | 12.1% |
| Prescription drugs | 2.4% | 2.9% | 3.0% |
| Nursing home care | 1.1% | 1.5% | 5.3% |
| Dental Services | 3.6% | 5.2% | 23.4% |
| Home health care | 2.2% | 2.1% | 10.2% |
| Other professional services | 5.7% | 6.8% | 14.6% |
| Other personal health care | 1.0% | 0.7% | 2.2% |
| Other nondurable medical products | 10.0% | 12.2% | 13.7% |
| Durable medical equipment | 7.3% | 12.0% | 21.4% |

Source: Altarum analysis of monthly BLS data combined with Altarum HSEI spending data.

Note: Beginning in March 2021, we slightly updated the computation of estimated implicit utilization shown in Exhibit 8 to be more consistent with our spending data. Previous iterations calculated implicit utilization growth (U) as spending growth (S) net of price growth (P) and population growth (Pop): $U = S - P - Pop$. New data (from March 2021 onward) now include population growth in utilization, with the new measure calculated as: $U = S - P$. This approach is an approximation, ignoring the interaction term between spending and prices growth ($S*P$); however, as long as the two growth rates are small, this term is insignificant.

Exhibit 8. Annualized Implicit Utilization Growth Since Jan. 2020 (with and without Federal Government Pandemic-Related Healthcare Financial Assistance), by Setting

