

January 4, 2024

Increases in utilization continue to outpace health care price growth

HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 2.9% year over year in November, matching October's slightly revised growth rate from a month prior.
- ▲ Economywide inflation slowed in November, with year-over-year growth in the Consumer Price Index (CPI) slowing to 3.1% and growth in the Producer Price Index (PPI) falling to 0.9%.
- ▲ Among the major health care categories, prices for dental care (4.4%), home health care (4.3%), and nursing home care (4.0%) grew the fastest, while physician and clinical services (0.4%) price growth was the slowest.
- ▲ Price growth for hospital services in November (3.0%) was slightly above the overall HCPI and was driven mostly by private insurance price growth (4.5%) and Medicare price growth (2.9%).
- ▲ Our implicit measure of health care utilization growth fell slightly to 4.8% year over year in October, but remained above the 12-month average rate of 4.2%.
- ▲ The fastest utilization growth among health care categories occurred in prescription drugs (9.2%) and physician services (7.8%), while nursing home care (3.3%) and dental services (2.4%) utilization growth were the slowest.

| | Nov 2021 | Nov 2022 | Oct 2023 | Nov 2023 |
|---|-------------|-------------|-------------|-------------|
| Health Care Price Index (HCPI) | 2.3% | 2.9% | 2.9% | 2.9% |
| GDP Deflator (GDPD) | 6.3% | 6.5% | 2.9% | ** |
| HCPI - GDPD | -4.0% | -3.7% | 0.0% | ** |
| Addendum | | | | |
| Personal health care spending | 2.4% | 3.0% | 7.7% | ** |
| Health care utilization | 0.1% | 0.1% | 4.8% | ** |
| Medical Consumer Price Index (MCPI) | 1.7% | 4.2% | -0.8% | 0.2% |
| Consumer Price Index, all items (CPI) | 6.8% | 7.1% | 3.2% | 3.1% |
| Producer Price Index, Final Demand (PPI) | 9.9% | 7.4% | 1.2% | 0.9% |

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 (HSEI) reports are a monthly publication of Altarum providing analyses of health spending, employment, and prices. For more information, contact Corwin (Corey) Rhyan at Corwin.Rhyan@altarum.org. Corey Rhyan (principal author), George Miller, PhD, Stephen McCall, and Matt Daly, PhD, contributed to this brief. We thank Ani Turner for her years of leadership of this work. Media Contact: press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.

DISCUSSION

The overall health care price index (HCPI) increased by 2.9% year over year in November, the same as the growth rate from a month prior in October. Through November, year-over-year health care price growth has averaged 2.9% in 2023, slightly above the average rate from 2022 of 2.6% (Exhibit 1). If December's HCPI growth is similar to the current 2023 trend, this year will mark the fastest overall annual price growth for health care since 2007. Relative to economywide inflation over the past three years, health care price increases have been more moderate, and have been driven by a mix of trends occurring by setting and by component.

Among major health care categories in November, the fastest price growth occurred for dental care (4.4%), home health care (4.3%), and nursing home care (4.0%) (Exhibit 2). Price growth for some of these components have been slowing in the second half of 2023, including dental care price growth, which fell from 6.6% six months ago to 4.4% in November, and nursing home care price growth, which declined from 6.4% to 4.0%.

Conversely, overall private insurance patients' prices have increased for other settings. Private prices increased for hospital services again to 4.5% in November, up from 4.3% in October. Overall hospital prices rose by 3.0% year over year in November. Prescription drug price growth in November increased to 3.8% year over year, which was faster than the 3.1% growth rate a month prior. Physician and clinical services prices remained the slowest growing major category—increasing only 0.4% year over year—marking the 22nd straight month of below 1.0% price growth for this component.

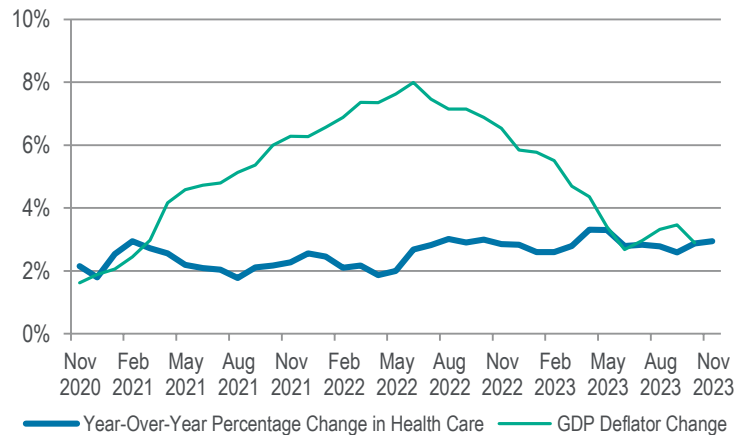
Slowly rising health care price growth rates are opposite the broader trend of economywide inflation. CPI growth fell to 3.1% in November, and both economywide commodities and services inflation slowed slightly (Exhibit 4). Economywide services price growth continues to exceed commodities inflation in 2023, where services prices increased 5.9% year-over-year in November, but economywide commodities prices fell by 0.1%. We expect the gap between these two components will begin to close in 2024 as [many experts are expecting](#) the housing/shelter component of services CPI to fall in 2024 as falling rents begin to be reflected in the index. Year-over-year PPI price growth slowed from 1.2% in October to 0.9% in November and on a month-over-month basis declined for the second straight month. The PPI index now sits 0.6% below its September peak.

Our implicit measure of overall health care utilization growth (total spending growth net of health care price inflation) declined slightly in October, now up 4.8% year-over-year (Exhibit 9), compared to 5.2% in September. These

utilization data incorporate the [new spending data](#) released by CMS in December for 2022. Data continue to show that [utilization growth is playing](#) a bigger role in overall spending growth this year, because utilization increases have far outpaced price increases in 2023. We investigate how these two components contribute in more detail in this month's [spending brief](#).

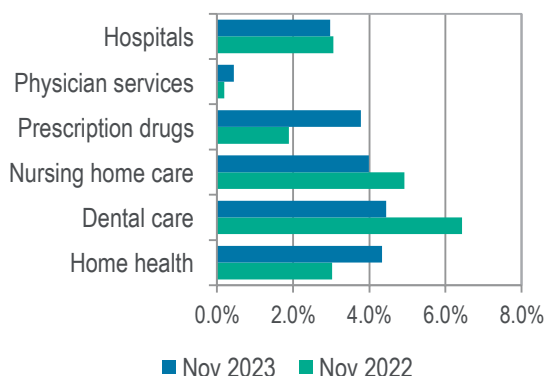
The fastest growing utilization component in October was prescription drugs, which increased 9.2% year over year. This was followed by increases in the use of physician and clinical services (7.8%) and other professional services (7.6%). Increases in prescription drug use could be [the combined result of](#) a greater number of new drug approvals in 2023, increased use of new obesity and diabetes medications, and impacts of reduced co-pays mandated in the Inflation Reduction Act. If underlying trends continue, we would expect prescription drug utilization growth to remain high in the coming year.

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



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

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



Source: Altarum analysis of monthly BLS price data.

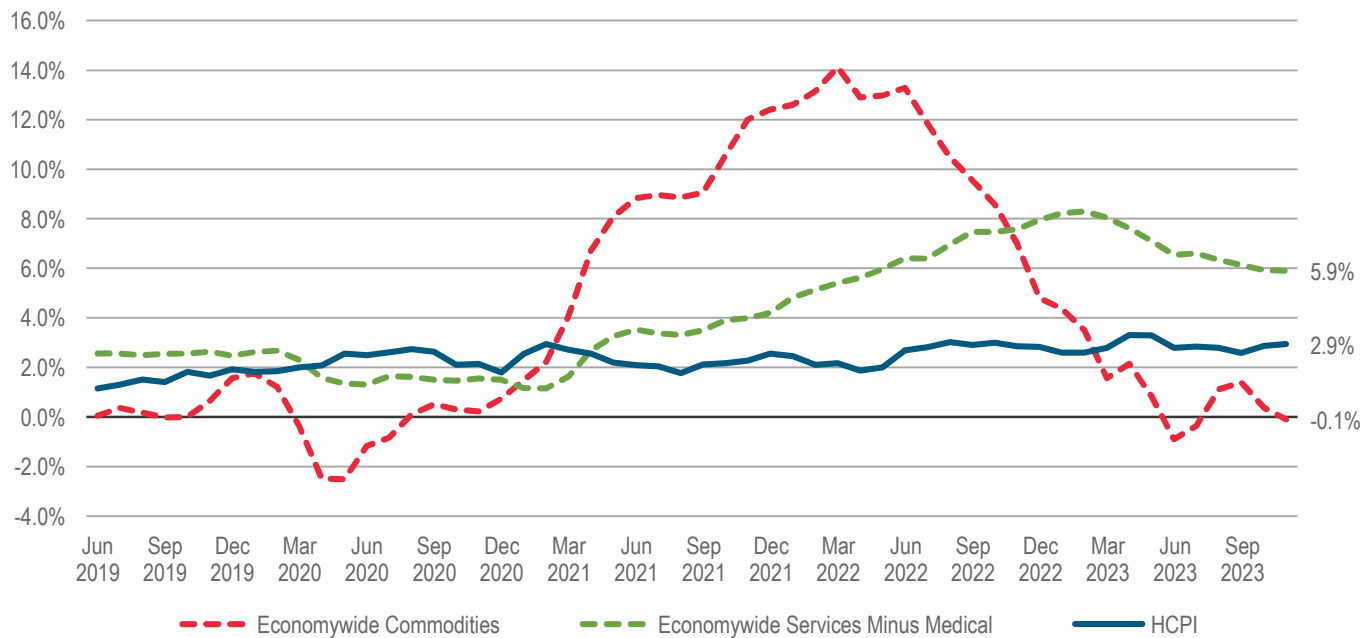
PRICE GROWTH BY DETAILED CATEGORIES

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

| | Ending Nov 2021 | Ending Nov 2022 | Ending Nov 2023 |
|--|-----------------|-----------------|-----------------|
| Health Care Price Index (HCPI) | 2.3% | 2.9% | 2.9% |
| Hospital care | 2.2% | 3.1% | 3.0% |
| Physician and clinical services | 3.8% | 0.2% | 0.4% |
| Prescription drugs | -0.3% | 1.9% | 3.8% |
| Nursing home care | 1.3% | 4.9% | 4.0% |
| Dental Services | 2.2% | 6.4% | 4.4% |
| Home health care | 2.1% | 3.0% | 4.3% |
| Other professional services | 2.1% | 3.7% | 0.5% |
| Other personal health care | 5.0% | 4.3% | 6.1% |
| Other nondurable medical products | 0.8% | 5.4% | 7.8% |
| Durable medical equipment | 2.9% | 4.4% | 4.1% |

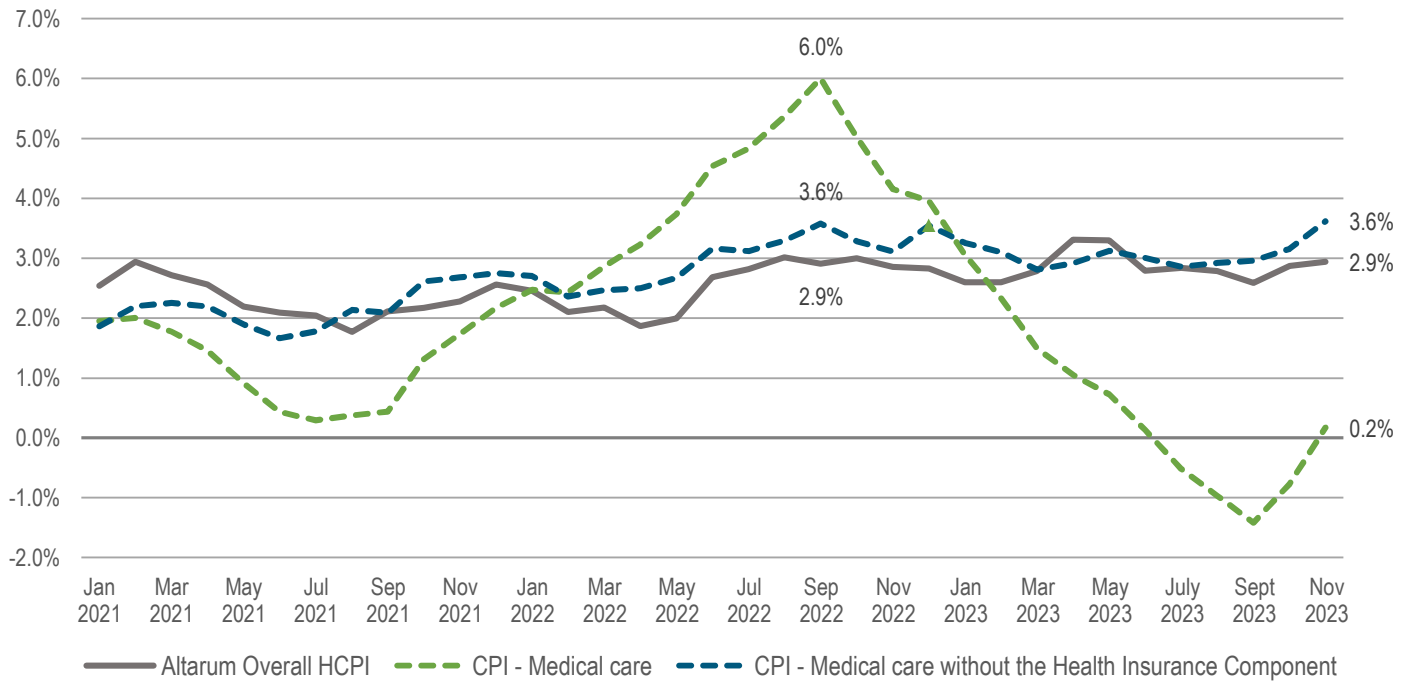
Source: Altarum analysis of monthly BLS data.

Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services



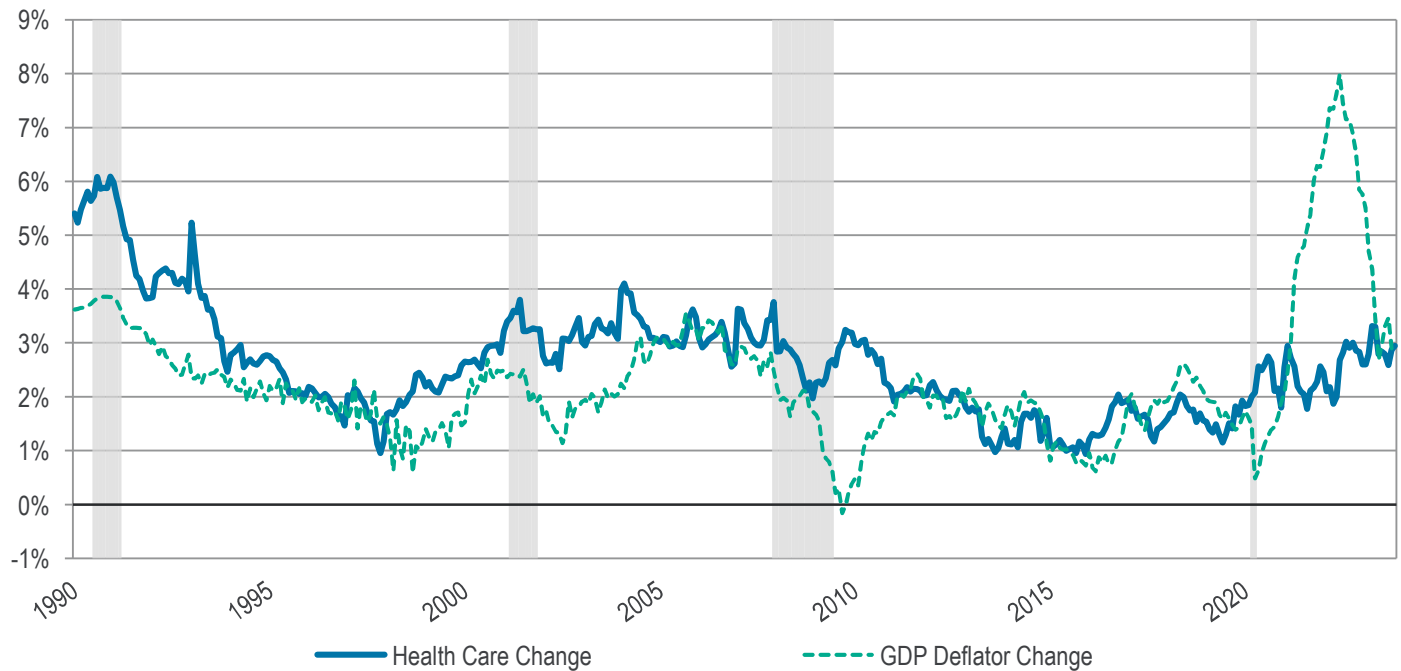
Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the 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. Year-over-Year Percentage Change in Medical Care CPI vs. Altarum Overall HCPI



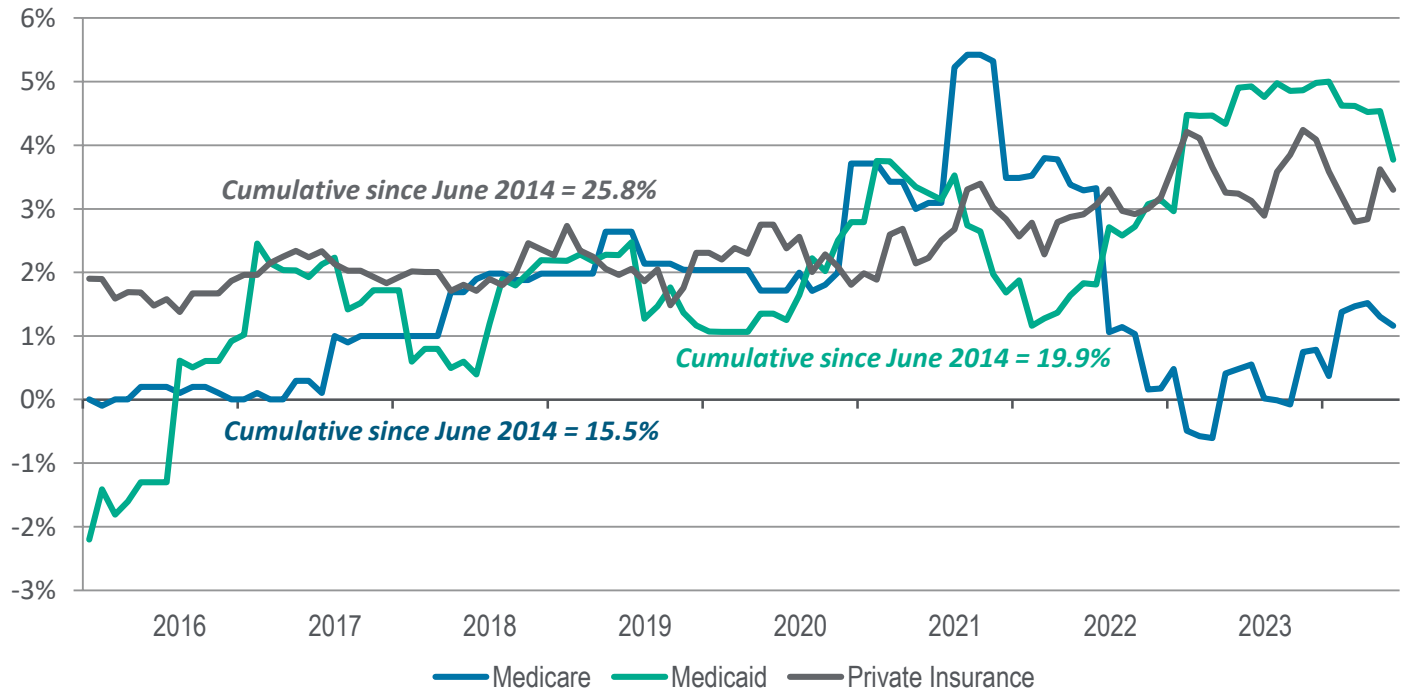
TIME SERIES TRACKER

Exhibit 6. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



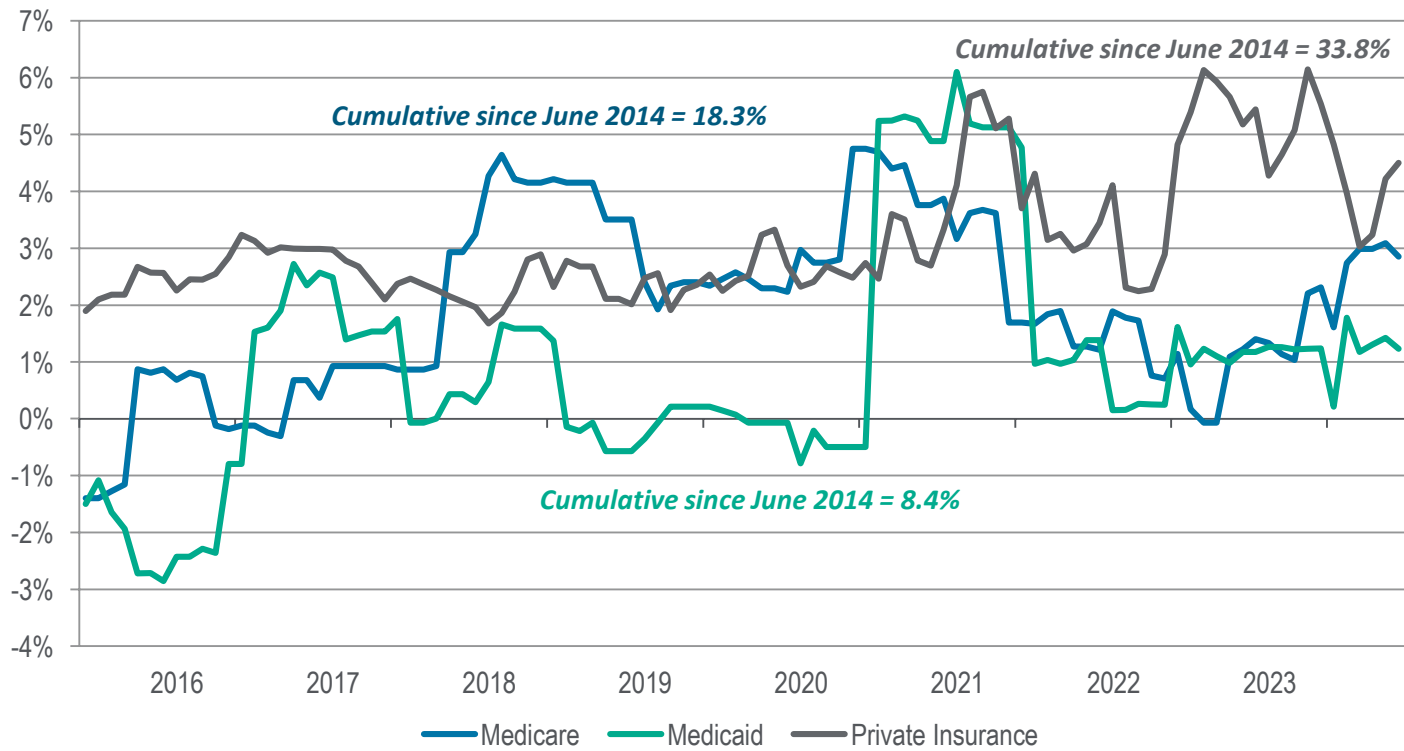
Source: Altarum monthly national health spending and price index estimates.
Note: Lightly shaded bars denote recession periods.

Exhibit 7. Year-over-Year Change in Health Care Services Price Growth, by Payer



Source: Altarum analysis of monthly BLS data.

Exhibit 8. Year-over-Year Change in Hospital Services Price Growth, by Payer



Source: Altarum analysis of monthly BLS data.

Exhibit 9. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

| | October 2023 | 3-Month Moving Average | 12-Month Moving Average |
|--|--------------|------------------------|-------------------------|
| Total personal health care | 4.8% | 4.9% | 4.2% |
| Hospital care | 3.7% | 4.0% | 3.8% |
| Physician and clinical services | 7.8% | 7.8% | 6.0% |
| Prescription drugs | 9.2% | 9.1% | 7.6% |
| Nursing home care | 3.3% | 3.0% | 3.8% |
| Dental Services | 2.4% | 2.3% | -0.3% |
| Home health care | 9.0% | 8.2% | 5.3% |
| Other professional services | 7.6% | 7.5% | 6.0% |
| Other personal health care | -2.8% | -2.8% | -0.7% |
| Other nondurable medical products | -2.0% | -1.8% | 1.0% |
| Durable medical equipment | 0.1% | -0.2% | 1.1% |

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): $U = S - P - \text{Pop}$. 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 ($S \cdot P$); however, as long as the two growth rates are small, this term is insignificant.