

January 26, 2023

Health care prices increase moderately as utilization growth turns negative

HIGHLIGHTS

- ▲ The Health Care Price Index increased by 2.8% year over year in December, down slightly from 2.9% in November. Year-over-year HCPI growth averaged 2.9% over the final six months of 2022, an increase from the first half of the year, when price growth averaged 2.2%.
- ▲ Economywide inflation slowed again this month, as overall CPI inflation fell from 7.1% to 6.5% and PPI price growth fell to 6.2%. However, economywide services (less healthcare) growth continues to increase, up to 8.0% growth last month, an increase from 7.6% in November.
- ▲ Among the major health care categories, prices for dental care (6.4%), nursing home care (4.5%), and hospital services (3.2%) were the fastest growing, while physician services (0.3%) and prescription drug (1.8%) price growth were the slowest growing major categories.
- ▲ After incorporating new spending data, our implicit measure of health care year-over-year utilization growth turned negative in November (-0.4%), pulled downward by hospital care utilization growth (-1.4%) and physician and clinical services growth (-1.1%).

	Dec 2020	Dec 2021	Nov 2022	Dec 2022
Health Care Price Index (HCPI)	1.9%	2.5%	2.9%	2.8%
GDP Deflator (GDPD)	1.8%	6.3%	6.5%	**
HCPI - GDPD	0.1%	-3.9%	-3.6%	**
<i>Addendum</i>				
Personal health care spending	3.1%	11.3%	2.4%	**
Health care utilization	1.2%	8.8%	-0.4%	**
Medical Consumer Price Index (MCPI)	1.8%	2.2%	4.2%	4.0%
Consumer Price Index – all items (CPI)	1.4%	7.0%	7.1%	6.5%
Producer Price Index – Final Demand (PPI)	0.8%	10.0%	7.3%	6.2%

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 (Corey) Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. 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 2.8% year over year in December, down from 2.9% growth in November (Exhibit 1). This marks the seventh straight month where health care inflation has been between a tight range of 2.7% and 2.9%. While average price growth over the past six months (2.9%) has been above the average rate seen in the first half of 2022 (2.2%), health care price growth has increased slower than we expected given persistently high economywide inflation.

This is particularly true for health care prices paid for by private insurance where overall health care price growth has remained moderate through December 2022 (3.2% year over year). We expect that as new long-term [health care provider contracts and reimbursement rates](#) kick in, private prices for care will increase in 2023, although to date this has taken longer than expected to materialize. For health care prices paid by public payers, the end-of-year federal budget deal offset some, but not all, of the Medicare cuts that were set to take place in the new year. Medicare physician reimbursement rates will [now decline by 2.0% in 2023](#) and 3.5% in 2024, rather than the 4.5% cut that would have taken place prior to the deal. Some value-based payments to providers [were also decreased slightly](#) going into 2023. As a result of these cuts, we expect private payer price growth will significantly exceed Medicare payer growth in 2023 and Medicaid price growth will fall somewhere between the two.

In December, the greatest increases in health care prices occurred for dental care, nursing homes, and hospital settings (rising 6.4%, 4.5%, and 3.2%, respectively) (Exhibit 2). Conversely, physician and clinical services prices increased at the slowest rate among major sectors—at only 0.3% growth—marking the eleventh straight month of below 1.0% price growth. Price growth for prescription drugs was also below average in December, at 1.8% year over year, down from a peak of 3.2% in August (Exhibit 3).

Our implicit measure of overall health care utilization shows that it actually decreased by 0.4% year over year in November after [updated 2022 spending data](#) were incorporated (Exhibit 8). Hospital care utilization growth saw a particularly large year-over-year decline (-1.4%) as did physician and clinical services utilization growth (-0.8%).

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

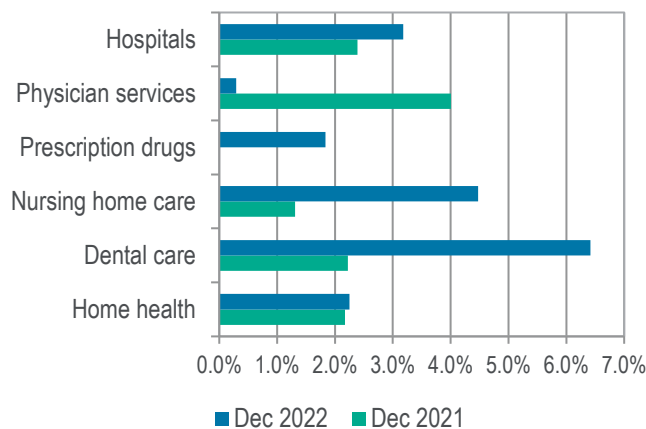
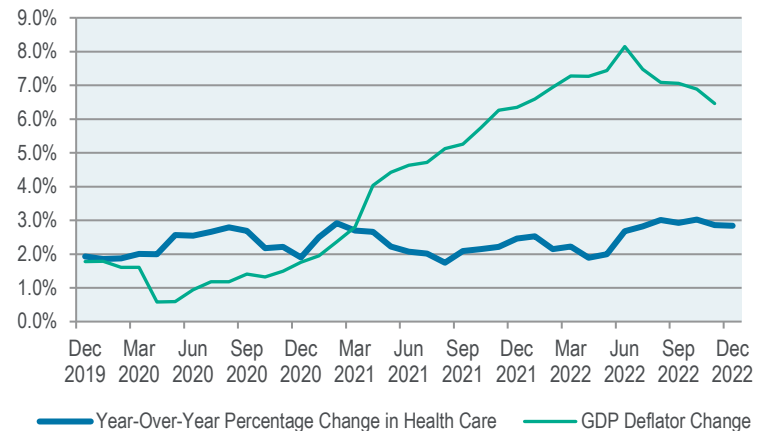


Exhibit 1. Year-over-Year Growth in HCPI & GDPD



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

Conversely, prescription drug utilization growth was 6.9%, a significant increase from the June 2022 value (4.1%). As our implicit measure of utilization represents health spending growth that includes federal government Covid-19-related subsidies net of health care price changes, we can observe that the primary cause of the negative utilization change in November was a result of decreased year-over-year spending growth, while price growth stayed mostly consistent with prior months. More details on this decline are available in this month's [spending brief](#), including data on year-to-date utilization growth (excluding government subsidies) that has remained slightly positive.



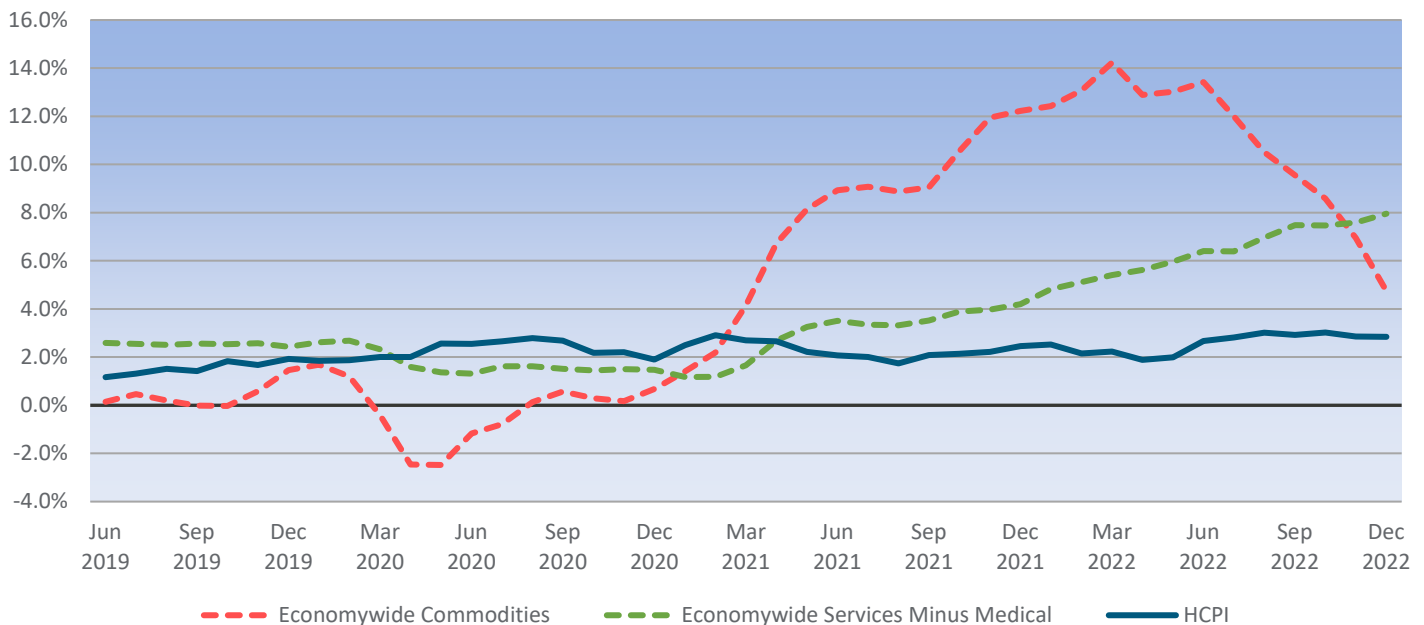
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending December 2020	Ending December 2021	Ending December 2022
Health Care Price Index (HCPI)	1.9%	2.5%	2.8%
Hospital care	3.6%	2.4%	3.2%
Physician and clinical services	0.7%	4.0%	0.3%
Prescription drugs	-2.4%	0.0%	1.8%
Nursing home care	3.9%	1.3%	4.5%
Dental Services	2.9%	2.2%	6.4%
Home health care	2.4%	2.2%	2.2%
Other professional services	1.3%	2.9%	2.1%
Other personal health care	4.1%	4.4%	4.8%
Other nondurable medical products	-1.4%	0.8%	5.4%
Durable medical equipment	-4.6%	3.7%	5.2%

Source: Altarum analysis of monthly BLS data.

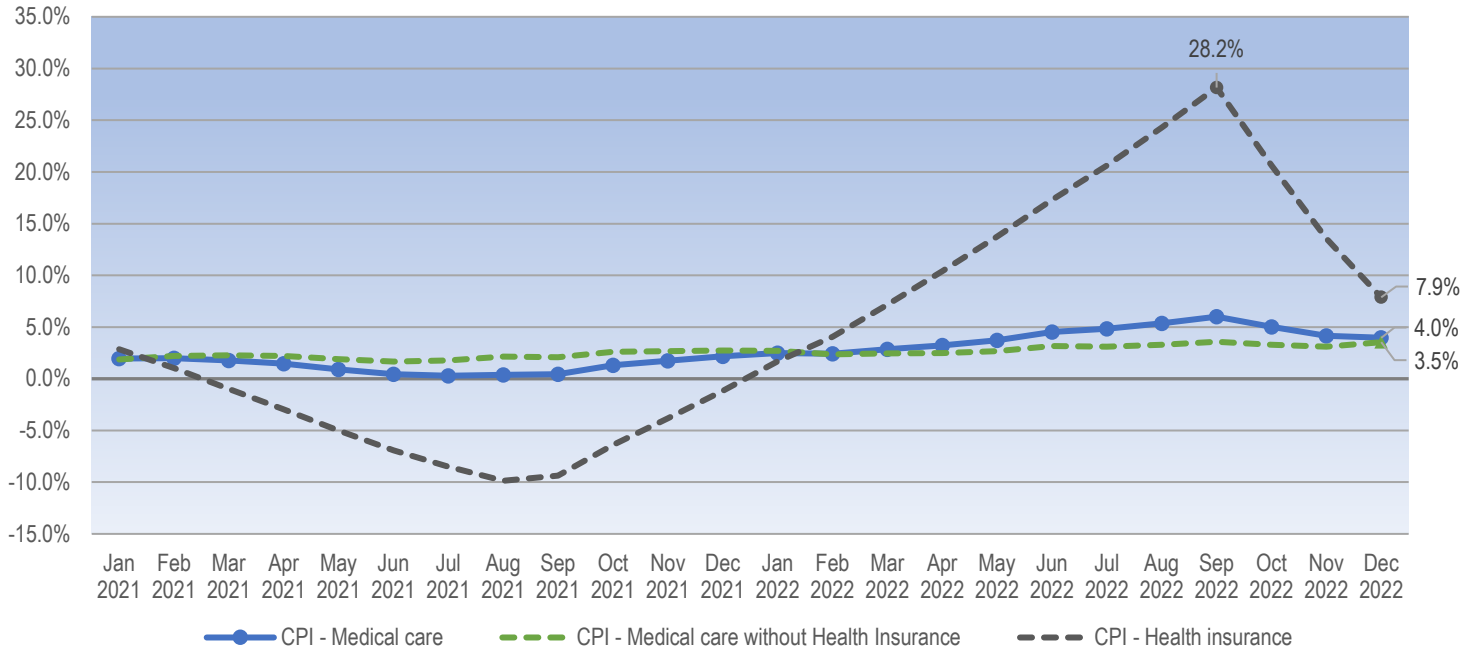
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services



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.

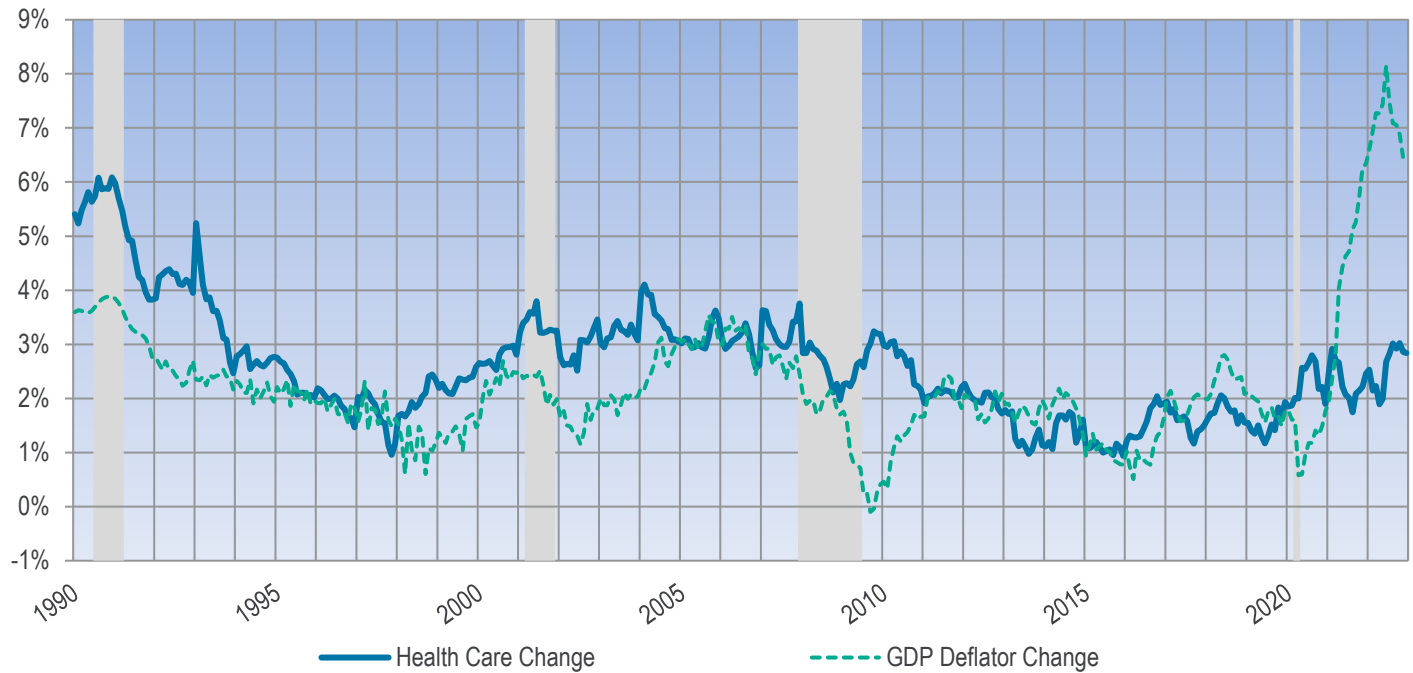


Exhibit 5. Year-over-Year Change in CPI – Medical Care Components



TIME SERIES TRACKER

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

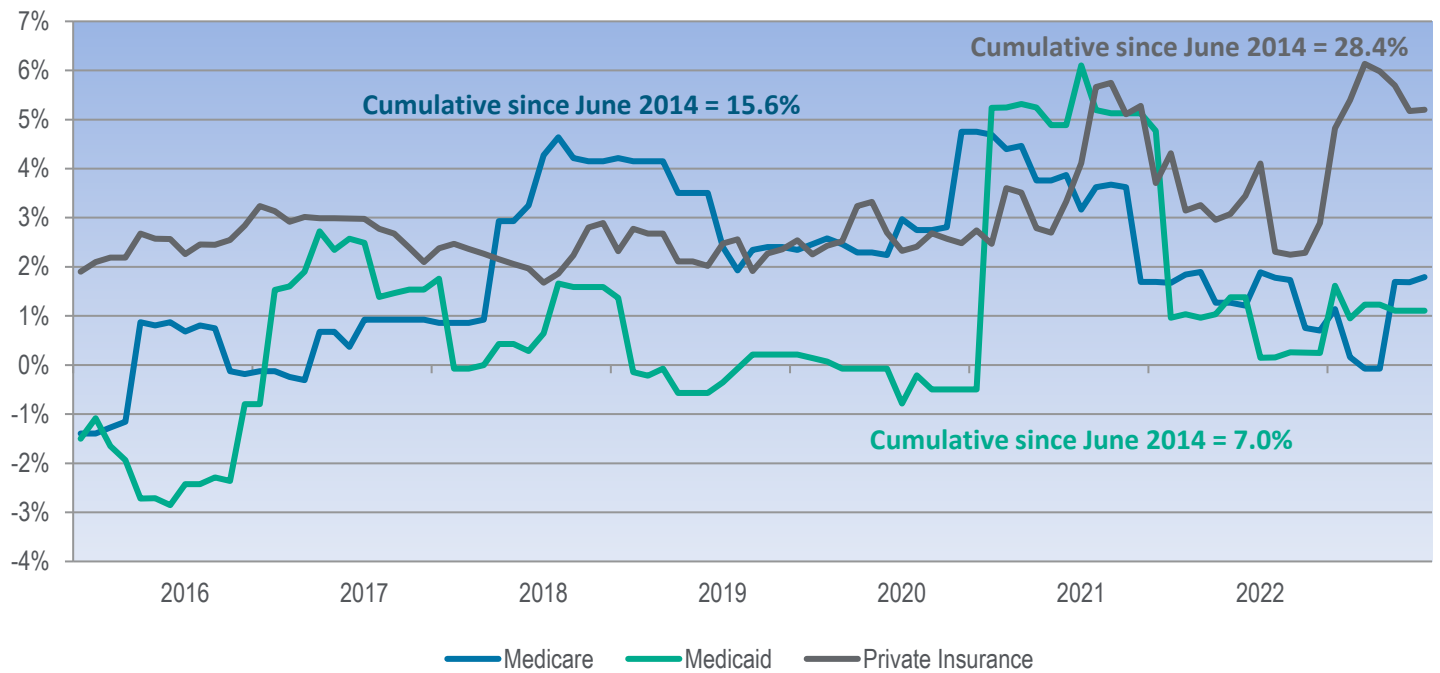


Source: Altarum monthly national health spending and price index estimates.

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



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



Source: Altarum analysis of monthly BLS data.

Exhibit 8. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

	November 2022	3-Month Moving Average	12-Month Moving Average
Total personal health care	-0.4%	1.5%	2.4%
Hospital care	-1.4%	0.3%	1.2%
Physician and clinical services	-1.1%	1.8%	2.7%
Prescription drugs	6.9%	6.0%	5.8%
Nursing home care	2.6%	5.4%	5.5%
Dental Services	-2.4%	3.5%	4.7%
Home health care	1.8%	3.2%	2.9%
Other professional services	-2.6%	-0.8%	0.2%
Other personal health care	-3.9%	-1.0%	-0.4%
Other nondurable medical products	0.0%	0.5%	2.6%
Durable medical equipment	3.8%	3.9%	5.1%

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): $U = S - P - Pop$. 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.