

August 19, 2022

Health care price growth is above average for the second straight month

HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 2.7% year over year in July, down slightly from the 2.8% growth in June. July's 2.7% price growth is above the 2022 average of 2.4% and is the second-largest increase seen through the first seven months of this year.
- ▲ Private payer price growth continues to be the driving factor—private prices for health services increased 4.1% in July, while Medicaid prices increased by 3.4%, and Medicare prices fell by 0.6%.
- ▲ Economywide inflation slowed in July as compared to June. Economywide CPI year-over-year growth slowed to 8.5% and PPI growth slowed to 9.8%. Services CPI growth (excluding health care) was at 6.4% year over year, the same as the month prior, and commodities inflation slipped marginally to 12.0%.
- ▲ Among the major health care categories, physician and clinical services prices increased the least in July (0.4%), while dental care (4.1%) and hospital care prices (3.3%) increased the fastest.
- ▲ Growth in the implicit measure of utilization for June was 2.8%, up from 2.5% year-over-year growth in May.

	July 2020	July 2021	June 2022	July 2022
Health Care Price Index (HCPI)	2.8%	2.2%	2.8%	2.7%
GDP Deflator (GDPD)	1.2%	4.3%	8.0%	**
HCPI - GDPD	1.7%	-2.0%	-5.2%	**
<i>Addendum</i>				
Personal health care spending	5.4%	5.8%	5.6%	**
Health care utilization	2.5%	3.5%	2.8%	**
Medical Consumer Price Index (MCPI)	5.0%	0.3%	4.5%	4.8%
Consumer Price Index – all items (CPI)	1.0%	5.4%	9.1%	8.5%
Producer Price Index – Final Demand (PPI)	-0.3%	8.0%	11.3%	9.8%

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. Media Contact: press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.



DISCUSSION

After HCPI increased by 2.8% year over year in June, health care prices rose by a similar rate in July: 2.7% higher than a year prior. This is the second month of above-average health care price growth for 2022 and reveals that the period of very slow health care price increases amidst rapid economywide inflation might be beginning to end. The gap between HCPI and economywide CPI price growth shrunk in July, down by 0.5 percentage points to 5.8% (Highlights Table), and while this is still well above historical norms, it is the smallest gap seen since February. Growth in the GDP deflator increased to 8.0% year over year in June (Exhibit 1); however, we expect it will fall for the month of July when next month's data are released.

Continuing the trend from last month and further substantiating our hypotheses from [prior price briefs](#), the acceleration in health care prices is showing up first in health care paid for by private payers (Exhibits 6 and 7). Growth in prices paid by private insurance for health services set a record for the second straight month (4.1%) and for the first time exceeded four percent year over-year-growth, while private price increases for hospital services (a subset of the overall component) increased even more rapidly, at 5.2%. We expect private price growth to remain high and increase faster in the rest of 2022 and 2023 as new contracts continue to initiate with higher negotiated reimbursement rates. Among the public payers, Medicare prices for health care services actually fell in July, down 0.6 percent from a year prior, while Medicaid prices increased by 3.4%. A major factor in the falling Medicare prices is likely the final phase-in of the sequester cuts, which [increased from a 1% to a 2% cut in July](#). We expect these cuts will continue to push Medicare prices lower through the end 2022 before the new, [higher 2023 rates](#) are enacted.

Similar to June, among the major sectors, the greatest increase in health care prices in July occurred in dental and hospital settings (rising 4.1% and 3.3%, respectively). Conversely, physician and clinical services prices again increased at the slowest rate among major sectors—at only 0.4% growth—marking the six straight month of below 1.0% price growth for physicians (Exhibit 2). Prescription drug price growth increased slightly in July (2.8%), up from 2.5% growth in June.

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

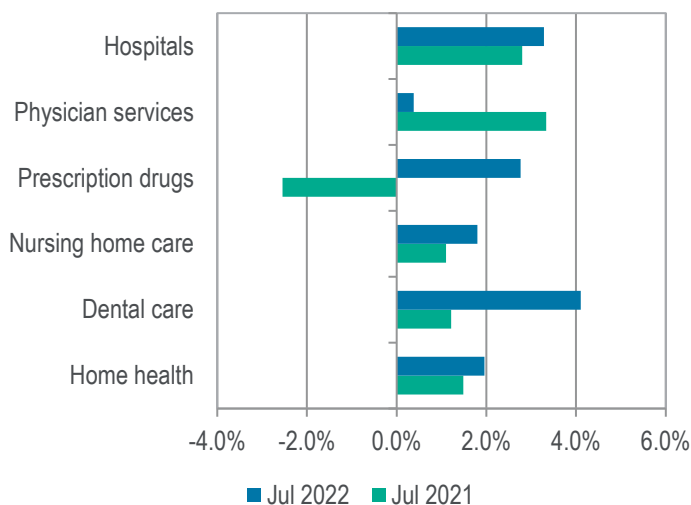
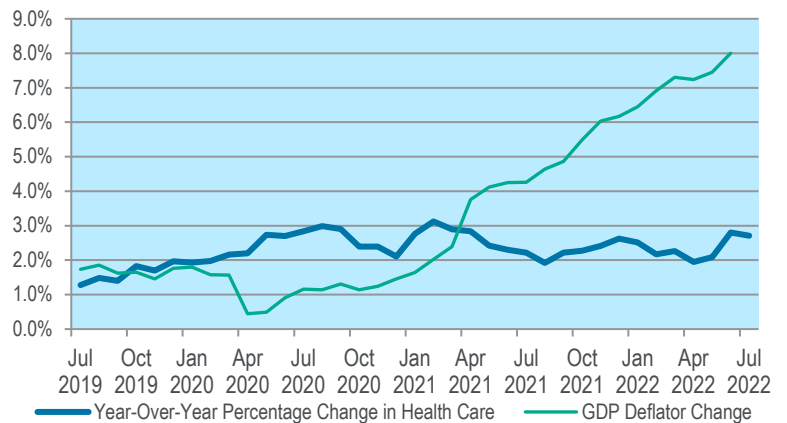


Exhibit 1. Year-over-Year Growth in HCPI & GDPD



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

As for our implicit measure of overall health care utilization for June 2022, we find that it grew by 2.8% year over year (Exhibit 8), compared to 2.5% in May. Physician and clinical services utilization growth was the fastest among the major categories at 5.4%, followed by nursing home care at 5.2% and prescription drug growth of 4.5%. Overall utilization increases have remained moderate in recent months; although the trends indicate use of physician and clinical services may be increasing fastest, while the use of hospital services is moderating. As discussed in [this month's spending brief](#), overall increases in recent month-over-month spending growth are attributable to both utilization and price growth.



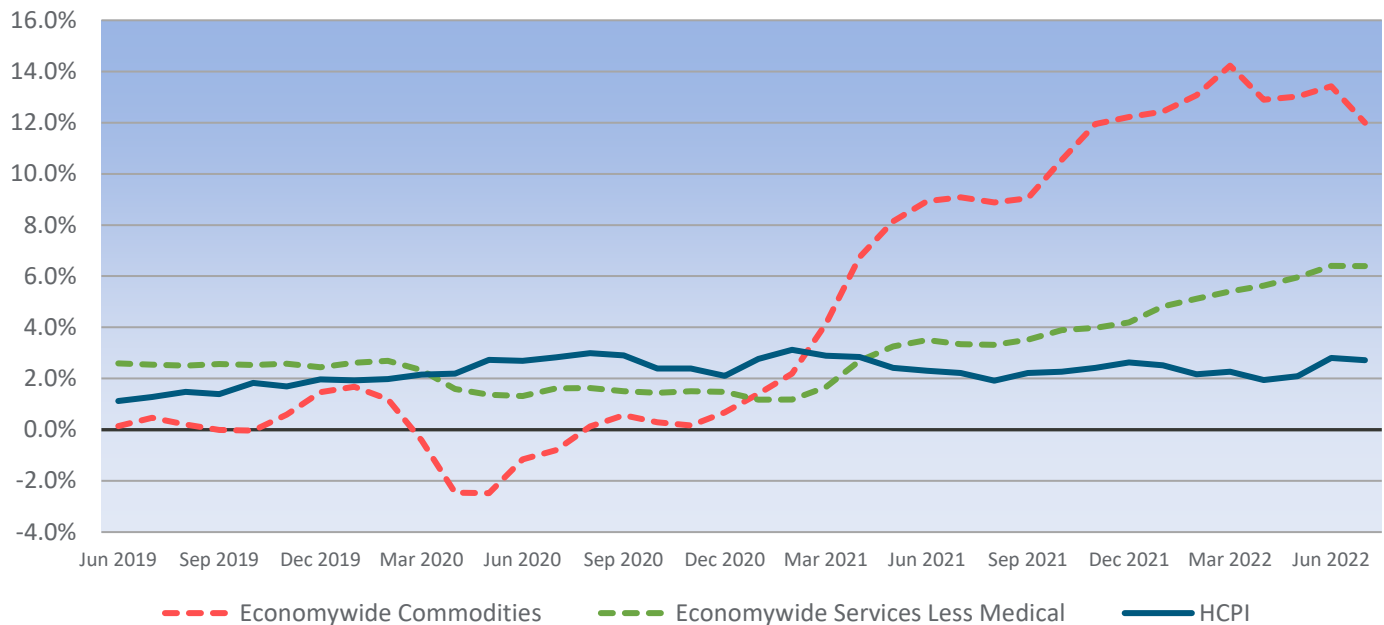
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending July 2020	Ending July 2021	Ending July 2022
Health Care Price Index (HCPI)	2.8%	2.2%	2.7%
Hospital care	3.7%	2.8%	3.3%
Physician and clinical services	1.0%	3.3%	0.4%
Prescription drugs	1.7%	-2.5%	2.8%
Nursing home care	4.4%	1.1%	1.8%
Dental Services	3.5%	1.2%	4.1%
Home health care	3.8%	1.5%	2.0%
Other professional services	1.4%	2.2%	4.4%
Other personal health care	3.0%	5.5%	3.7%
Other nondurable medical products	-1.0%	0.1%	5.4%
Durable medical equipment	0.4%	-3.2%	4.3%

Source: Altarum analysis of monthly BLS data.

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

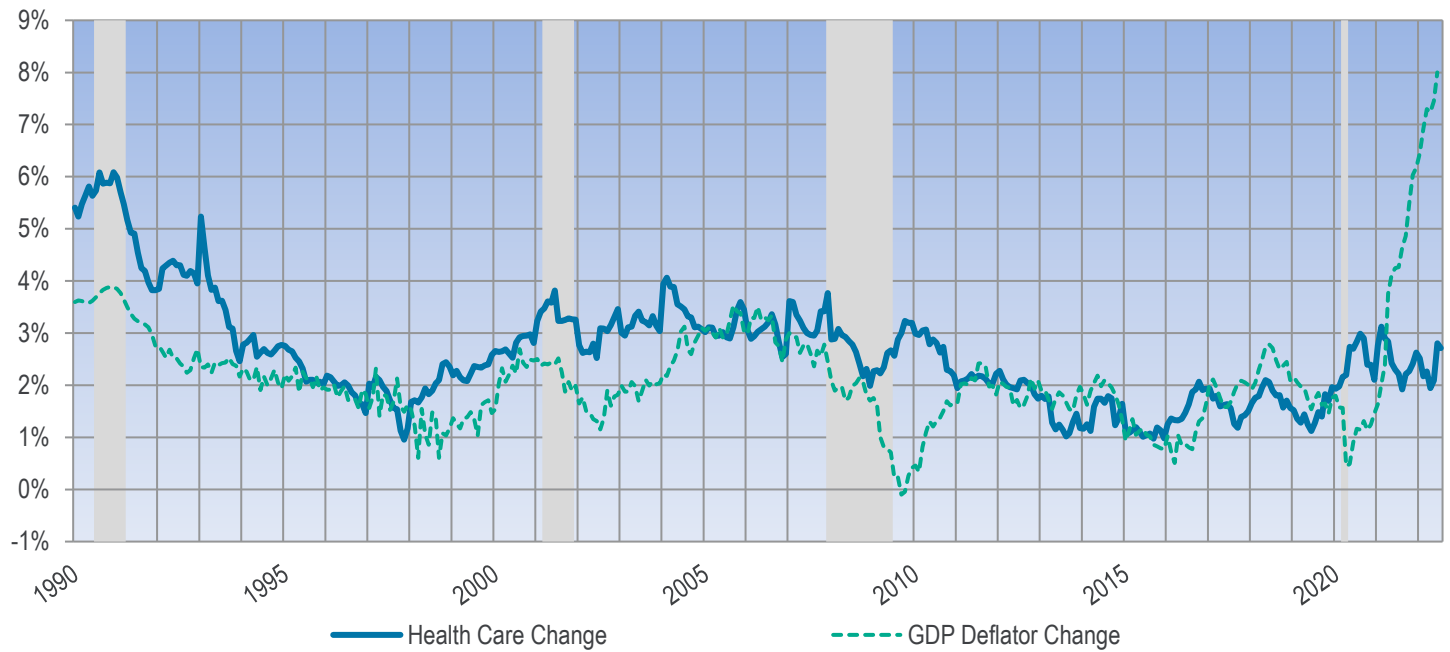


Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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



TIME SERIES TRACKER

Exhibit 5. 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 6. Year-over-Year Change in Health Care Services Price Growth, by Payer

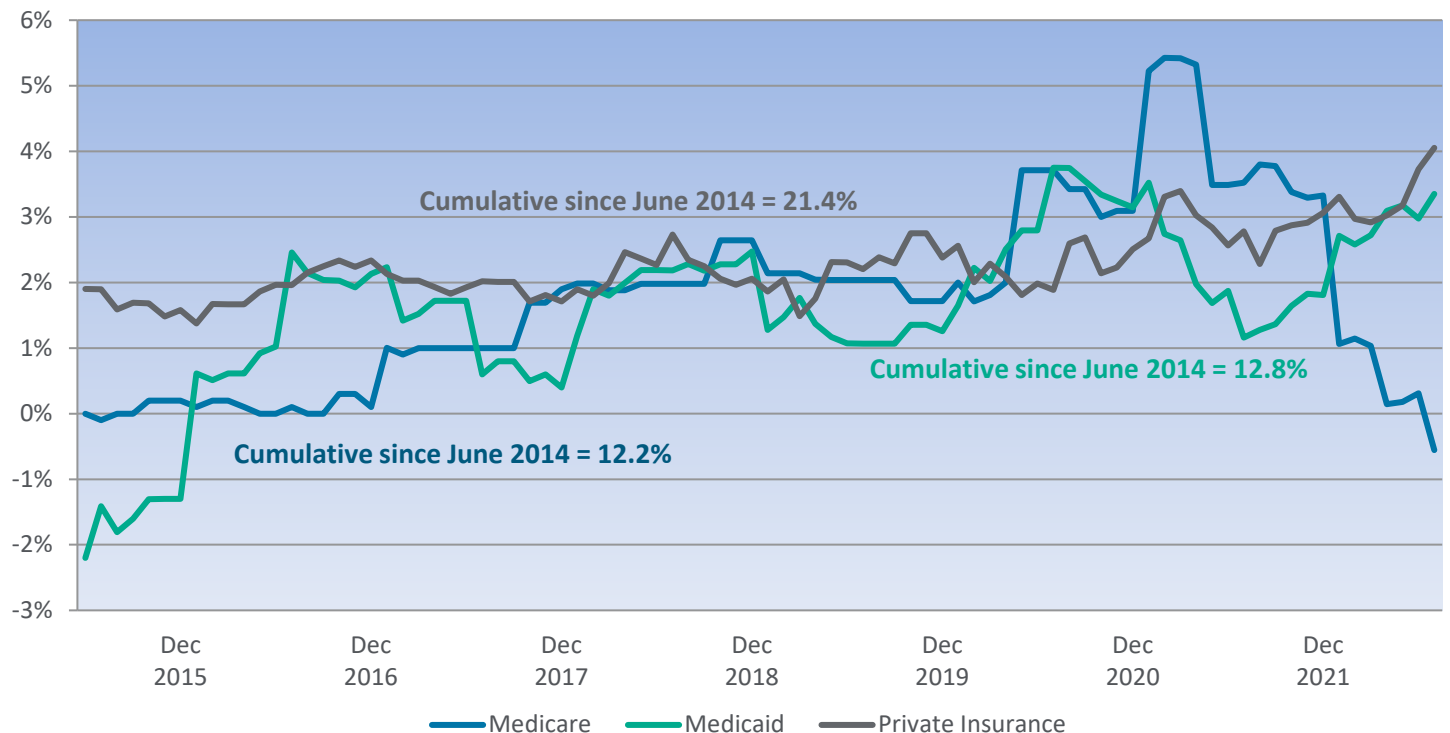
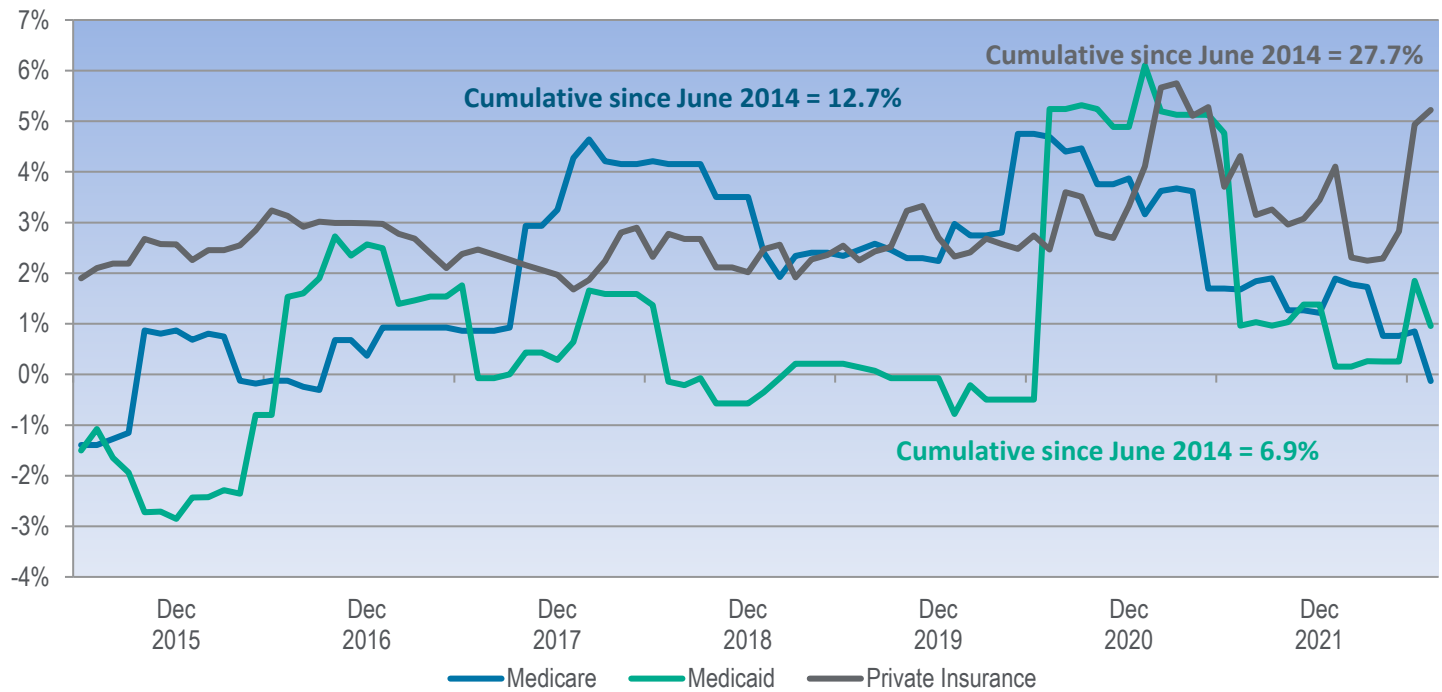




Exhibit 7. Year-over-Year Change in Hospital Services Price Growth, by Payer



Source: Altarum analysis of monthly BLS data.

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

	June 2022	3-Month Moving Average	12-Month Moving Average
Total health care	2.8%	2.6%	2.7%
Hospital care	2.2%	2.3%	3.4%
Physician and clinical services	5.4%	4.6%	3.5%
Prescription drugs	4.5%	5.1%	6.2%
Nursing home care	5.2%	5.0%	3.4%
Dental Services	3.4%	3.9%	6.9%
Home health care	1.8%	-0.6%	-0.6%
Other professional services	-2.2%	-2.2%	2.8%
Other personal health care	-0.9%	-1.9%	-5.1%
Other nondurable medical products	-0.7%	0.6%	1.8%
Durable medical equipment	1.3%	2.0%	0.3%

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.