

May 17, 2022

## Falling Medicare price growth pulls health care inflation lower

### HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) fell slightly in April, rising only 1.9% year over year, less than the 2.3% growth of a month prior and well below economywide inflation.
- ▲ For the first time in over a year, both measures of economywide inflation growth slowed slightly in April, CPI growth declined to 8.3% and PPI growth to 11.0%, although both are still very close to all-time highs. This drop was driven mostly by declines in growth of commodities prices, which fell from 14.2 to 12.9% year over year.
- ▲ Among major health care categories, physician services and prescription drug prices increased the least in March (0.4% and 1.7% year over year respectively), while home health care and nursing home care prices increased the fastest at 2.4% and 2.3%.
- ▲ Growth in prices paid by Medicare for health care services fell noticeably in April, from 1.1% to 0.2%, while private insurance price growth increased to 3.2% year over year. This represents the largest gap between the two since the by-payer series began in 2014.

	Apr. 2020	Apr. 2021	Mar. 2022	Apr. 2022
<b>Health Care Price Index (HCPI)</b>	2.2%	2.8%	2.3%	1.9%
<b>GDP Deflator (GDPD)</b>	0.4%	3.8%	7.3%	**
<b>HCPI - GDPD</b>	1.8%	-1.0%	-5.0%	**
<i>Addendum</i>				
<b>Personal health care spending</b>	11.5%	0.6%	5.2%	**
<b>Health care utilization</b>	9.3%	-2.3%	2.9%	**
<b>Medical Consumer Price Index (MCPI)</b>	4.8%	1.5%	2.9%	3.2%
<b>Consumer Price Index – all items (CPI)</b>	0.3%	4.2%	8.5%	8.3%
<b>Producer Price Index – Final Demand (PPI)</b>	-1.5%	6.5%	11.5%	11.0%

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 Indicators<sup>SM</sup>* 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](mailto: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](mailto:press@altarum.org). For more information, visit <http://altarum.org/solution/health-sector-spending>.



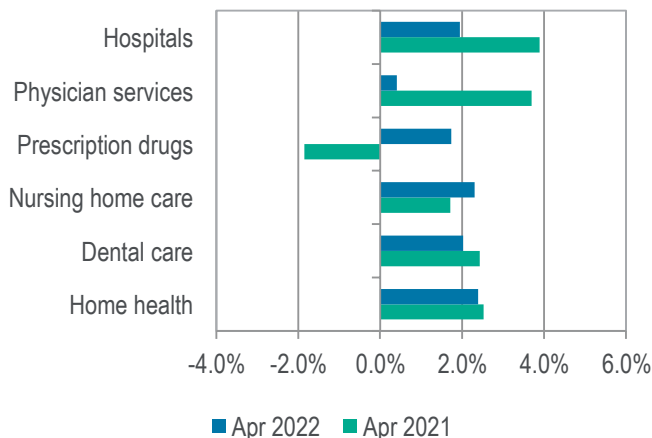
## DISCUSSION

Growth in the overall Health Care Price Index (HCPI) fell under two percent to 1.9% year-over-year growth in April, tying the lowest mark since August 2021 (Exhibit 1). This continues the period that began in April 2021 when economywide inflation has increased to near records, but health care prices have yet to follow suit (April CPI was up 8.3% year over year, while PPI increased even more, 11.0%). As a result, the gap between overall economywide CPI and HCPI was a shocking 6.4 percentage points last month (Highlights Table)—setting another record for the largest gap seen since our series began in January 1990.

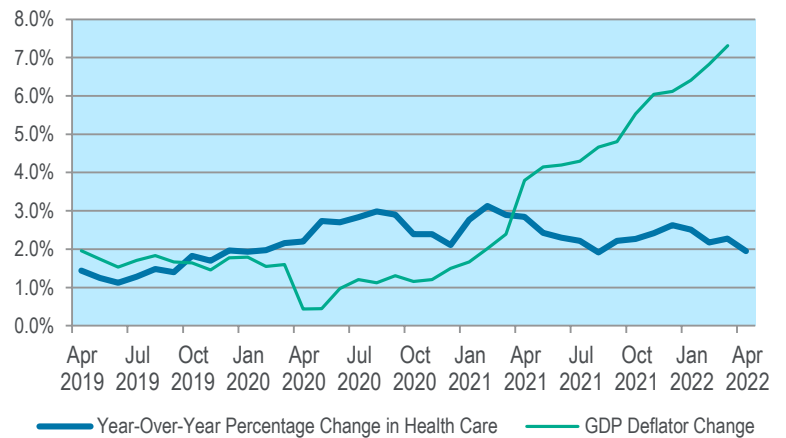
For the first time in nearly a year, economywide growth in commodities’ prices slowed in April, perhaps showing the first signs that overall inflation has finally peaked (Exhibit 4). On the other hand, prices for all economywide services apart from medical care reached a new high since the pandemic began and opened up a greater gap to overall health care price growth. The trend of future economywide inflation now likely depends on two competing trends, slowing overall commodity price growth and an uncertain future for services prices. With health care being a majority services sector, growth in other economywide services may foretell potential future growth for HCPI in upcoming months.

That being said, it appears price growth among public payers (Medicare and Medicaid) may put downward pressure on overall health care prices (Exhibit 7). A significant proportion of care (particularly for hospitals) is paid for by public payers, where price growth is set prospectively by regulators and those reimbursements are likely to stay well below overall inflation into 2023, pending recent legal action [taken by hospitals against CMS](#). As a result, we expect growth in private prices for health care services to be the primary driver of future HCPI growth, which may begin to appear as new contracts take effect. It has been reported that hospitals and other providers are [seeking significant increases](#) in commercial insurance reimbursements in current contract negotiations. As of last month, hospital price growth was 2.0% year over year, while physician services prices continued the slow-growth trend and increased 0.4% (Exhibit 2). Most other major health industry components’ prices grew closer to two percent year over year.

### 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 March 2022, we find that it grew by 2.9% year over year (Exhibit 8). Hospital care implicit utilization grew the fastest by 5.5% and physician services grew less, 2.6%. After falling last month, growth in utilization for nursing care facilities increased slightly by 0.5%. Importantly, this measure of “utilization” is total spending by category net of price growth, and total spending includes direct government transfers such as Provider Relief Fund and Paycheck Protection Program support. [With a few exceptions](#), the majority of these federal funds have already been dispersed and while additional federal Covid relief is still under debate, [it looks unlikely](#) these future funds will go to providers as happened in previous rounds.



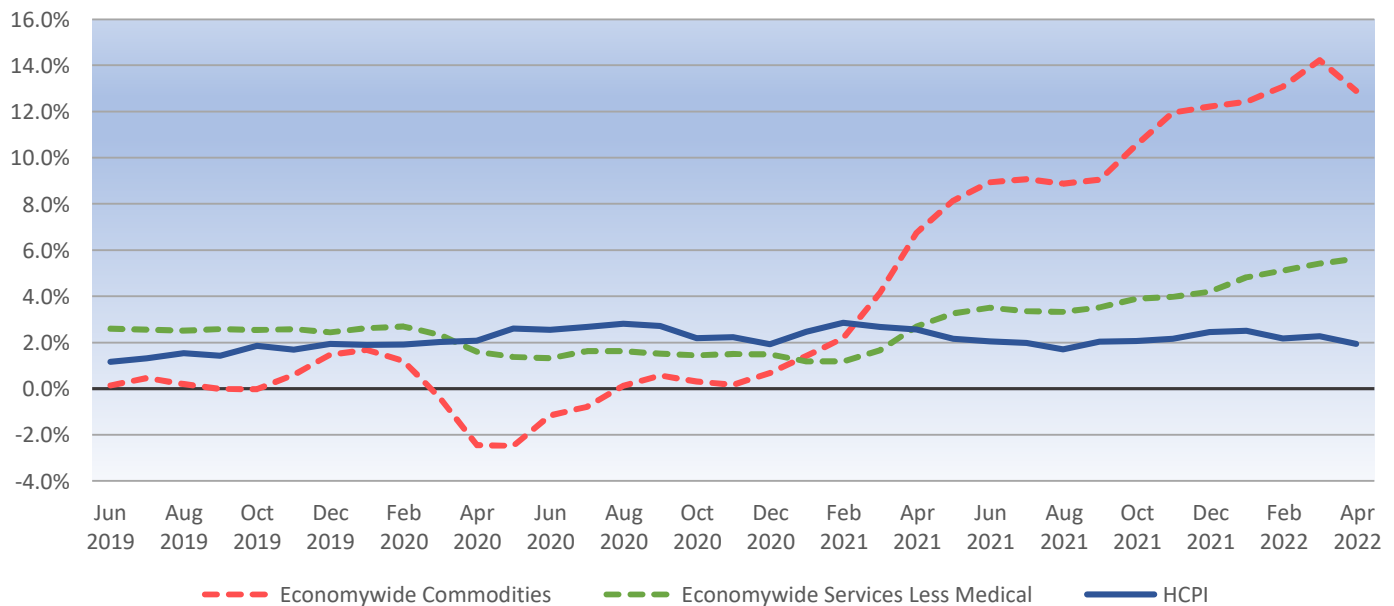
## PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending April 2020	Ending April 2021	Ending April 2022
<b>Health Care Price Index (HCPI)</b>	2.2%	2.8%	1.9%
Hospital care	2.6%	3.9%	2.0%
Physician and clinical services	0.8%	3.7%	0.4%
Prescription drugs	1.1%	-1.9%	1.7%
Nursing home care	4.2%	1.7%	2.3%
Dental Services	3.1%	2.4%	2.0%
Home health care	2.7%	2.5%	2.4%
Other professional services	1.2%	2.6%	4.1%
Other personal health care	2.5%	5.5%	3.7%
Other nondurable medical products	-0.3%	-0.6%	3.0%
Durable medical equipment	-0.3%	-2.4%	2.9%

Source: Altarum analysis of monthly BLS data.

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

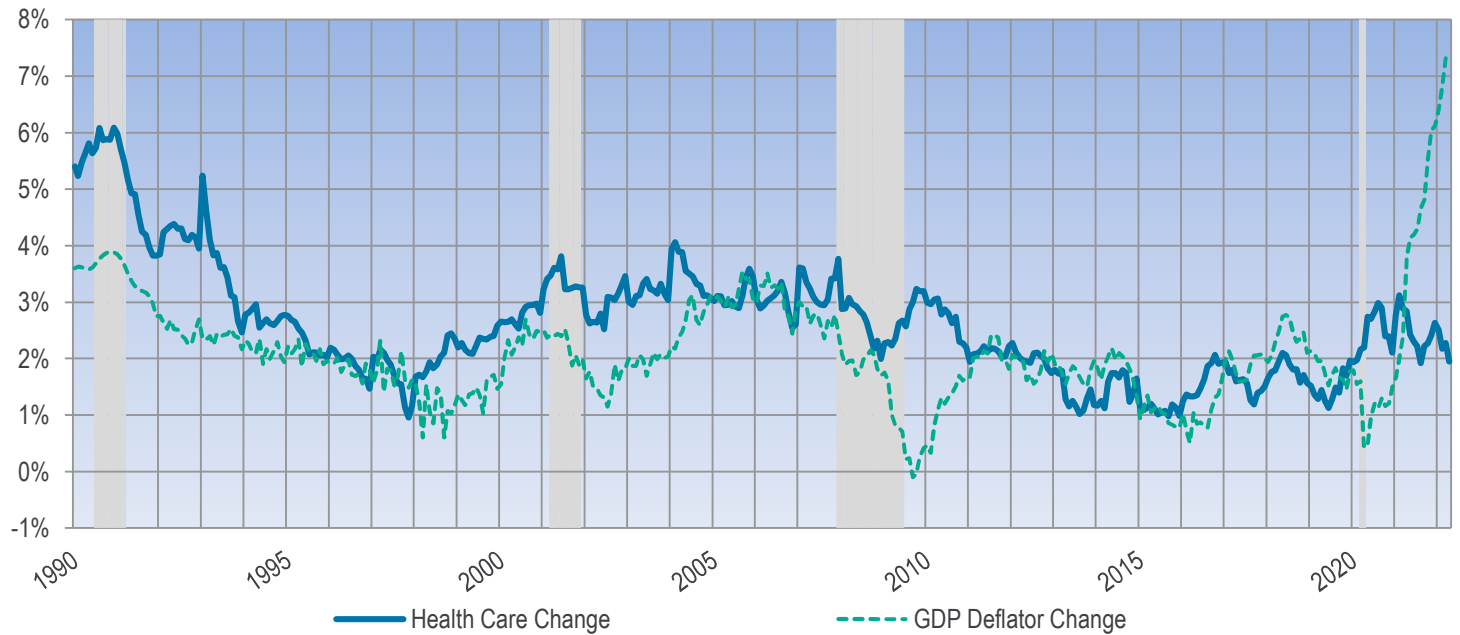


**Methods.** Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over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

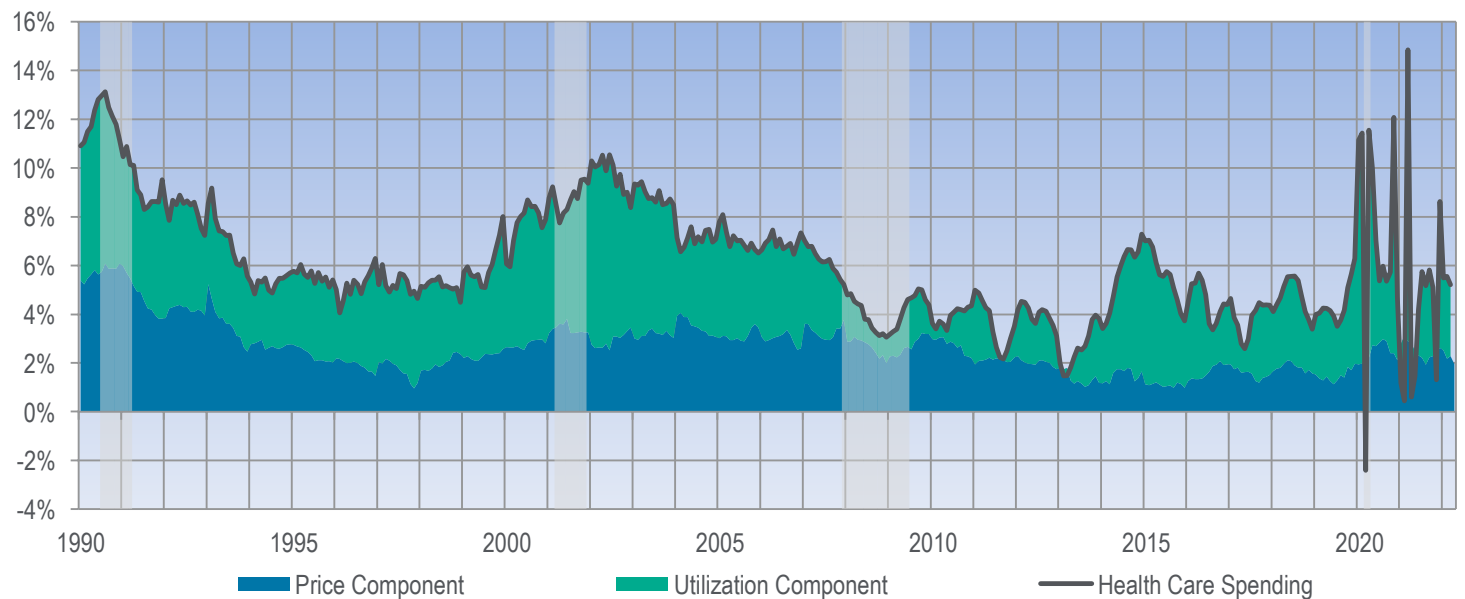


## TIME SERIES TRACKER

**Exhibit 5. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator**



**Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components**

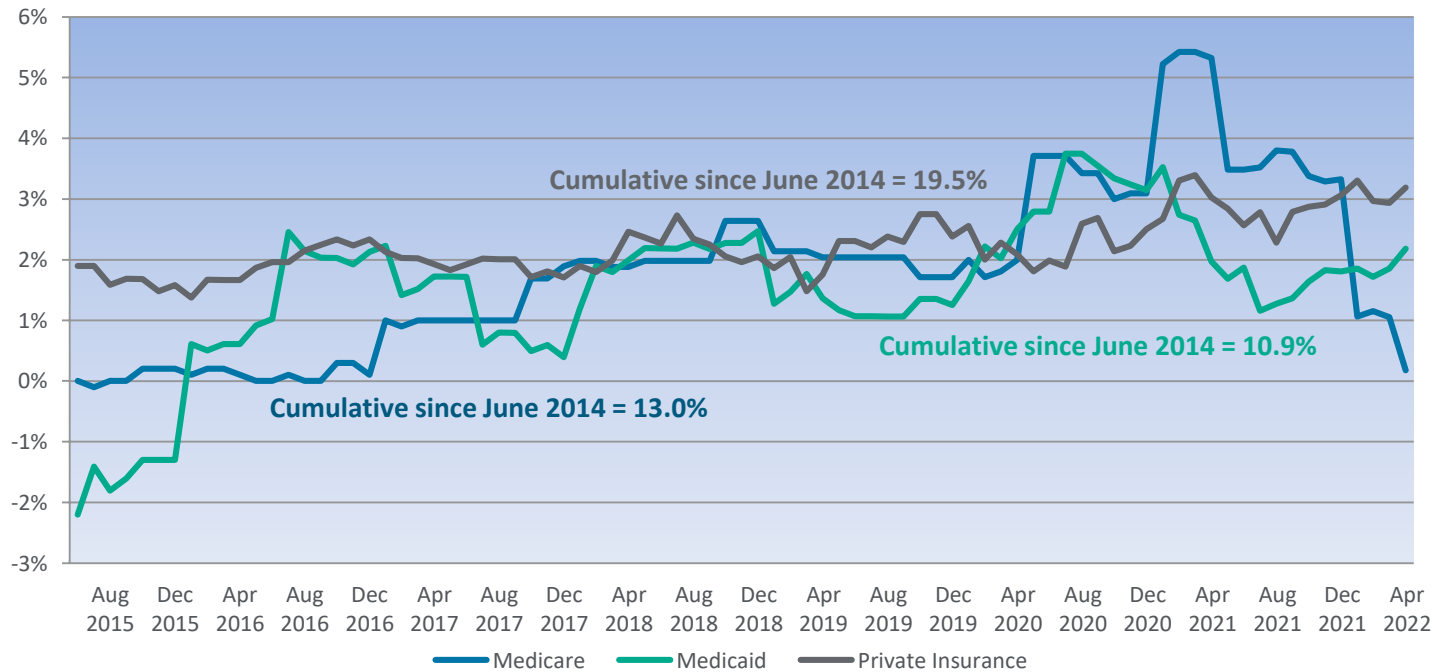


Source: Altarum monthly national health spending and price index estimates.

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



**Exhibit 7. Year-over-Year Change in Health 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**

	March 2022	3-Month Moving Average	12-Month Moving Average
Total health care	2.9%	3.1%	2.2%
Hospital care	5.5%	5.7%	3.4%
Physician and clinical services	2.6%	3.2%	2.6%
Prescription drugs	4.8%	6.5%	7.5%
Nursing home care	5.1%	5.2%	-3.7%
Dental Services	0.5%	-3.2%	12.8%
Home health care	0.2%	-0.9%	-4.0%
Other professional services	2.6%	-1.5%	2.8%
Other personal health care	-4.0%	-4.6%	-6.3%
Other nondurable medical products	-0.9%	4.4%	4.0%
Durable medical equipment	0.2%	3.3%	7.0%

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.