

September 23, 2022

Health care price inflation increases for the fourth straight month

HIGHLIGHTS

- ▲ The Health Care Price Index (HCPI) increased by 2.9% year over year in August, up slightly from 2.8% growth in July. August's growth is nearly a full percentage point higher than it was four months ago in April.
- ▲ Private payer price growth continues to be a driving factor—private prices for health services increased 3.9% year over year in August, while Medicaid prices increased by 3.7%, and Medicare prices dropped by 0.6%.
- ▲ Economywide price growth slowed this month, as overall CPI inflation fell to 8.3%. Services CPI growth (excluding health care) increased 7.0% year over year, while commodities inflation slipped marginally to 10.5%.
- ▲ Among the major health care categories, physician and clinical services prices increased the least in August (0.4%), while dental care (4.7%) and prescription drug prices (3.2%) increased the fastest.
- ▲ Growth in our implicit measure of utilization for July was slower than the month prior, down to 2.2% from 2.4% year-over-year growth in June, continuing a period since January of below average utilization growth.

	Aug 2020	Aug 2021	Jul 2022	Aug 2022
Health Care Price Index (HCPI)	3.0%	1.9%	2.8%	2.9%
GDP Deflator (GDPD)	1.1%	4.6%	7.4%	**
HCPI - GDPD	1.8%	-2.7%	-4.6%	**
<i>Addendum</i>				
Personal health care spending	6.0%	5.2%	5.0%	**
Health care utilization	3.0%	3.3%	2.2%	**
Medical Consumer Price Index (MCPI)	4.5%	0.4%	4.8%	5.4%
Consumer Price Index – all items (CPI)	1.3%	5.3%	8.5%	8.3%
Producer Price Index – Final Demand (PPI)	-0.3%	8.7%	9.8%	8.7%

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

The overall health care price index (HCPI) increased by 2.9% year over year in August, up from a slightly revised value of 2.8% growth in July. With the updates to July data and new August information, our health inflation data show we are now in the fourth straight month of moderately rising health care price growth. These new data confirm many of our [expectations from earlier in the year](#) that health care prices would rise as a result of greater input costs for health care providers (like labor and supplies). However, through August, the pace of price growth increases has been somewhat more moderate than expected.

Economywide price growth has slowed somewhat in the last two months and the gap between HCPI and economywide CPI price growth shrank in August, down another 0.3 percentage points to 5.4% (Highlights Table). While this is still well above historical norms, it is the smallest gap seen since February. Growth in the underlying components of economywide inflation has shifted noticeably in 2022: commodities inflation is slowing, but economywide services inflation is increasing (Exhibit 4). While health care prices have also increased, we see that overall health care price growth has lagged significantly behind other economywide services. This likely means health care prices will continue to have additional room to increase in the near future as labor and supply cost pressures persist and health care prices set in prior provider negotiations take effect.

One of the reasons health care price growth has lagged behind economywide services price growth has been very low and even falling Medicare prices in 2022. Year-over-year Medicare prices for health services fell again in August, down 0.6 percent, the same the month prior (Exhibit 6). This contrasts with the trend seen among private payer prices, which were at their second-highest growth rate on record in August, at 3.9% year over year. We expect private price growth to remain high and likely increase even faster in the rest of 2022 and 2023.

In August, the greatest increases in health care prices occurred for dental care, prescription drugs, and hospital settings (rising 4.7, 3.2%, and 3.0%, respectively) (Exhibit 2). Conversely, physician and clinical services prices increased

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

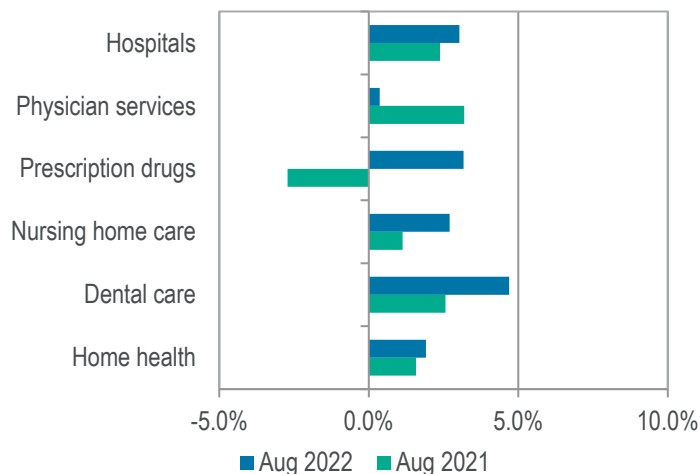
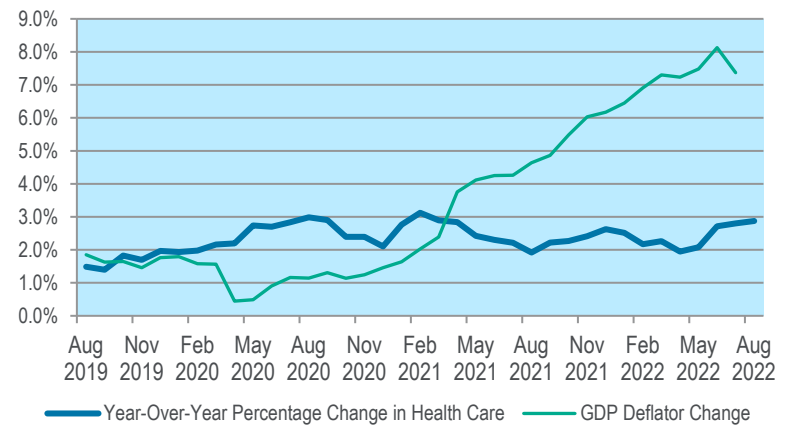


Exhibit 1. Year-over-Year Growth in HCPI & GDPD



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

at the slowest rate among major sectors—at only 0.4% growth—marking the seventh straight month of below 1.0% price growth for physicians. Price growth for other health care products (durable and other non-durable goods) were above the average rate in August, increasing by 3.5% and 6.1% respectively (Exhibit 3).

Our implicit measure of overall health care utilization for July 2022 shows that utilization increased by only 2.2% year over year (Exhibit 8) in July. Hospital utilization growth was particularly slow at 0.8% year over year, while prescription drugs and nursing home care utilization growth were the fastest among the major categories at 4.8% and 5.0%. Overall utilization increases have slowed in recent months, contributing to the relatively moderate [health care spending growth](#).



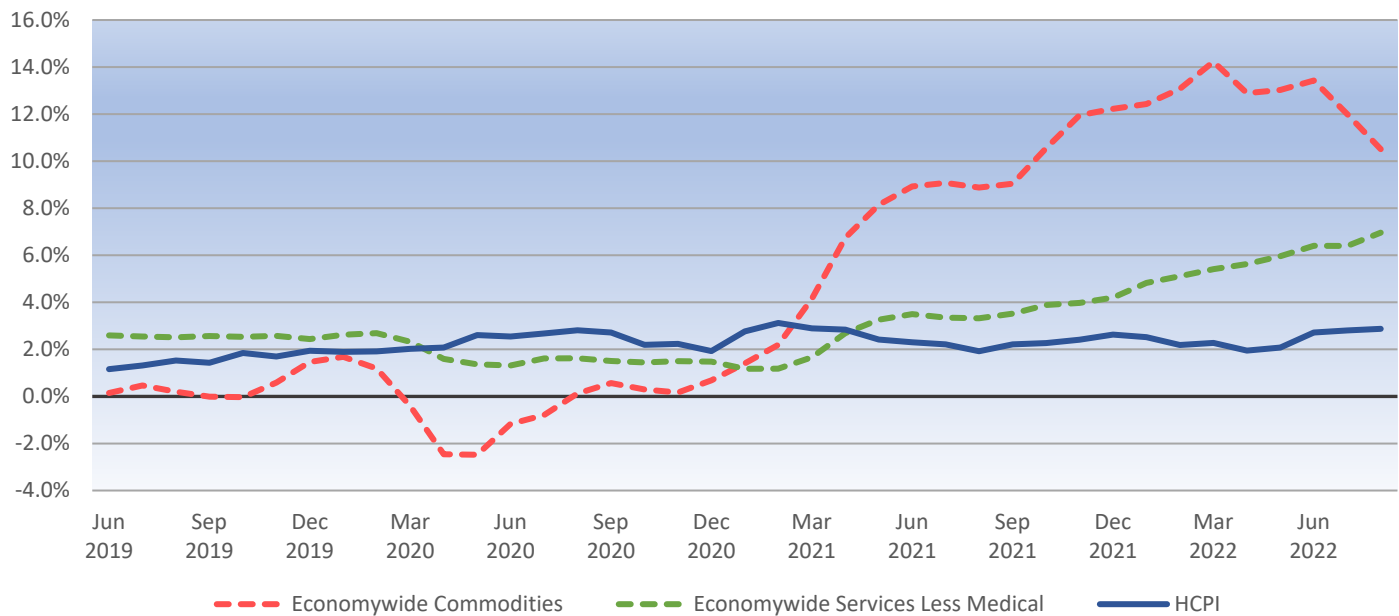
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending August 2020	Ending August 2021	Ending August 2022
Health Care Price Index (HCPI)	3.0%	1.9%	2.9%
Hospital care	4.1%	2.4%	3.0%
Physician and clinical services	1.1%	3.2%	0.4%
Prescription drugs	1.4%	-2.7%	3.2%
Nursing home care	4.6%	1.1%	2.7%
Dental Services	2.9%	2.6%	4.7%
Home health care	3.7%	1.6%	1.9%
Other professional services	1.1%	2.2%	4.4%
Other personal health care	3.6%	5.0%	4.7%
Other nondurable medical products	-1.7%	-1.6%	6.1%
Durable medical equipment	-0.3%	-1.7%	3.5%

Source: Altarum analysis of monthly BLS data.

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

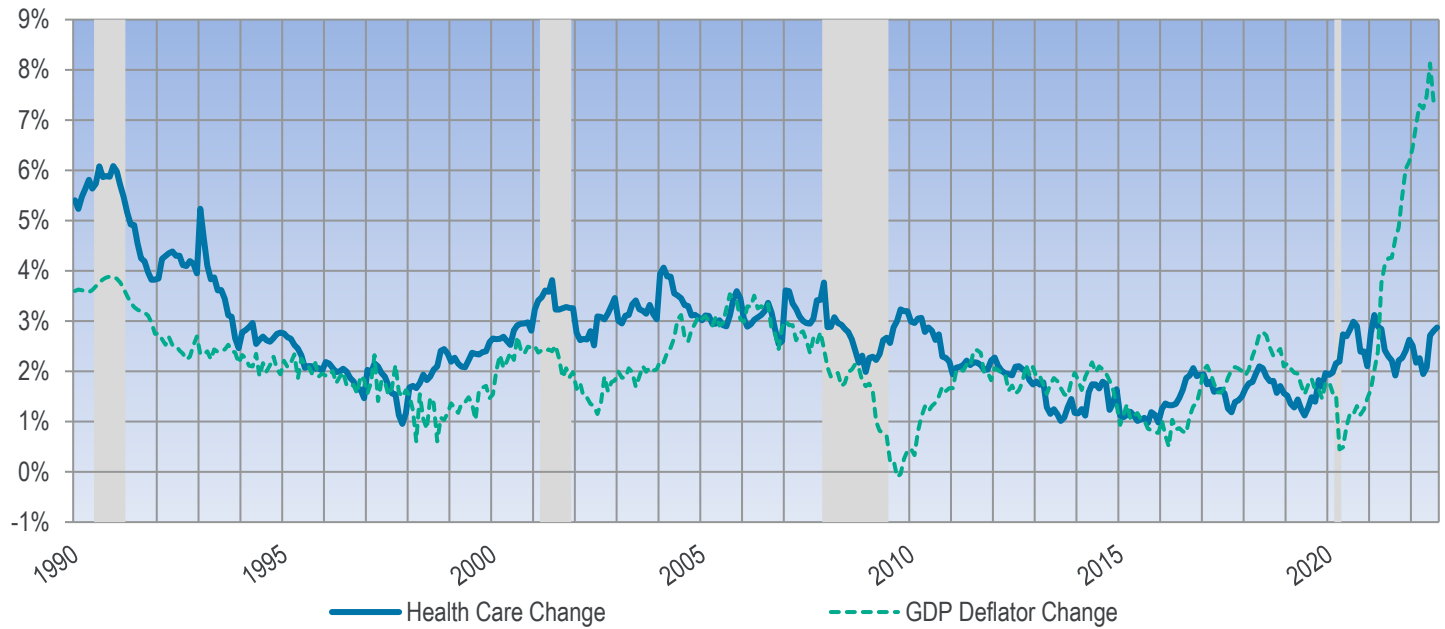


Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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

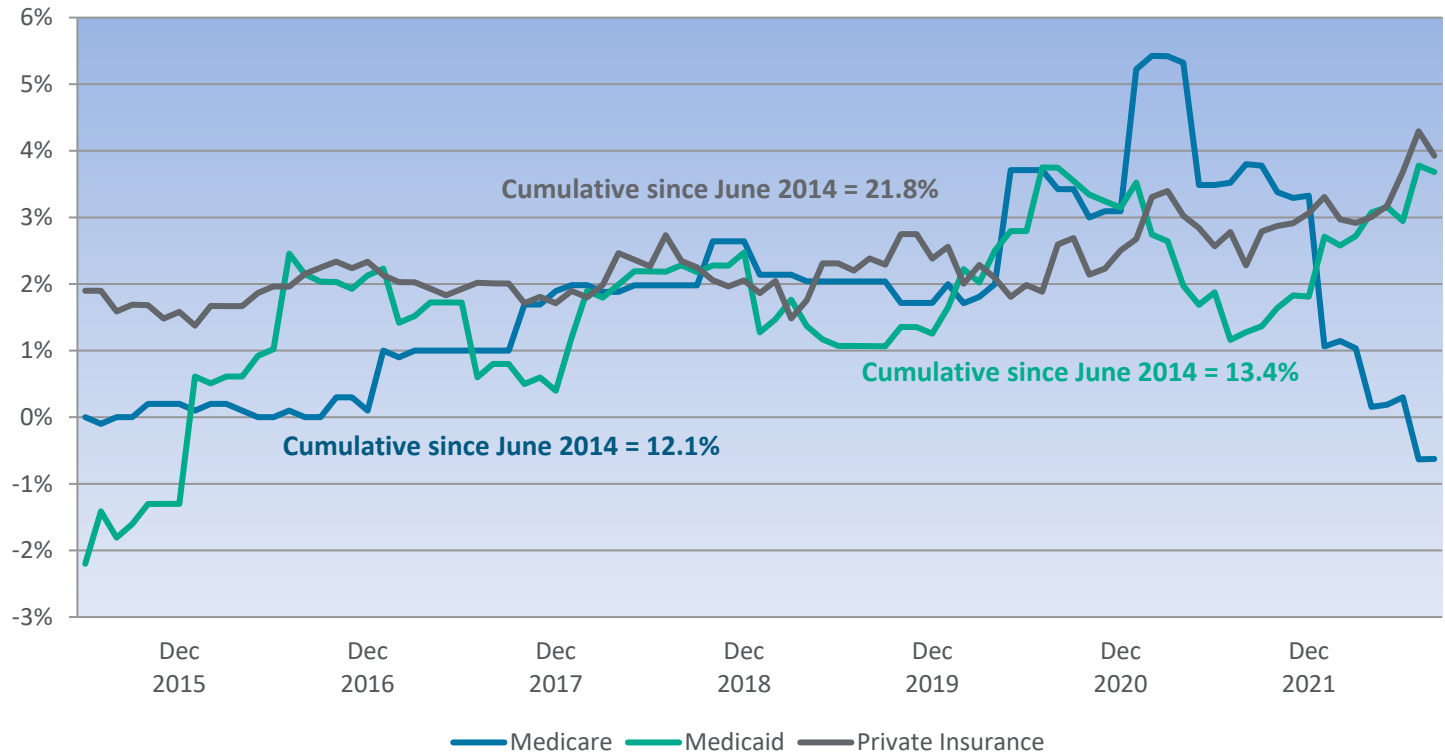
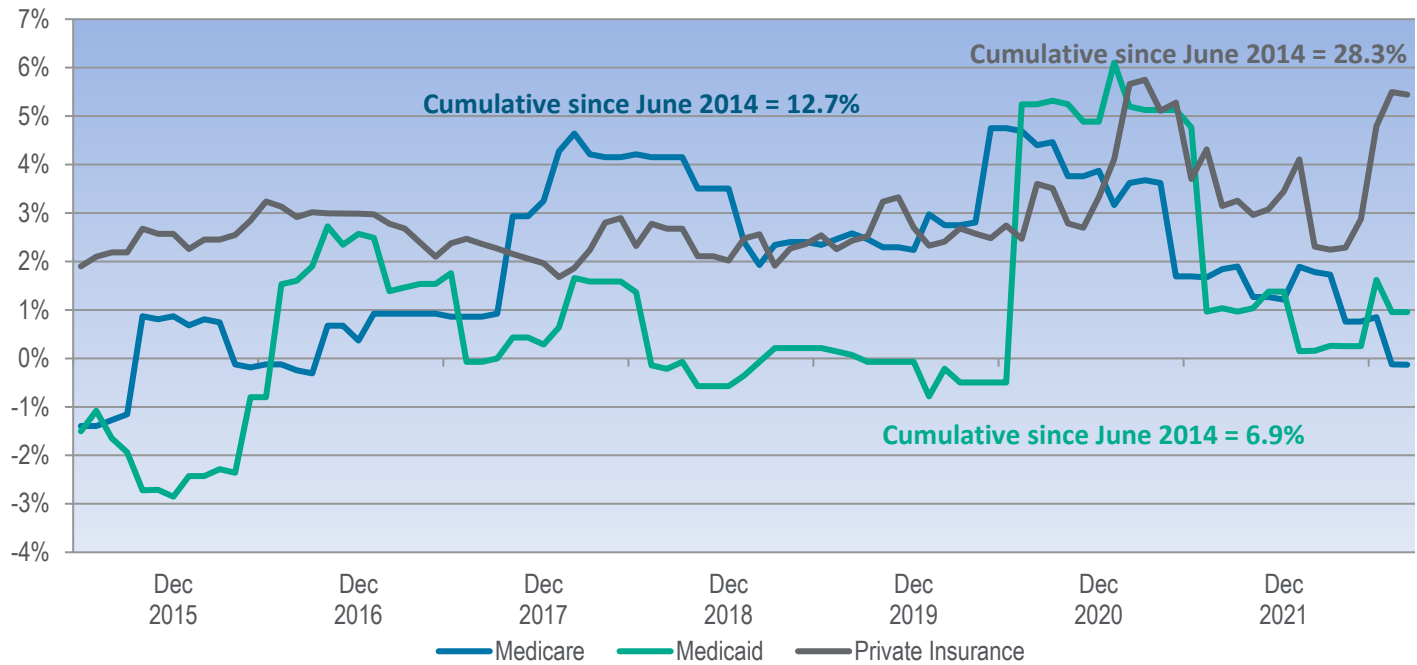




Exhibit 7. Year-over-Year Change in Hospital Services Price Growth, by Payer



Source: Altarum analysis of monthly BLS data.

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

	July 2022	3-Month Moving Average	12-Month Moving Average
Total health care	2.2%	2.3%	2.5%
Hospital care	0.8%	0.9%	3.0%
Physician and clinical services	4.2%	4.4%	3.4%
Prescription drugs	4.8%	5.1%	6.0%
Nursing home care	5.0%	4.8%	3.6%
Dental Services	3.8%	3.9%	5.3%
Home health care	1.7%	1.6%	-0.2%
Other professional services	0.0%	-0.6%	2.4%
Other personal health care	-1.3%	-1.3%	-4.7%
Other nondurable medical products	2.5%	2.3%	2.4%
Durable medical equipment	7.4%	5.8%	1.3%

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.