

April 16, 2021

Economywide Prices Increase as Health Care Price Growth Continues

HIGHLIGHTS

- ▲ Overall health care prices were 2.5% higher this March than a year prior, continuing the 2021 trend of above average increases. This month's price growth was 0.1 percentage points slower than February's 2.6% rate, which was also the average growth rate over the first quarter of 2021.
- ▲ The exception to overall health care price increases continues to be retail prescription drugs and medical products. Prescription drug prices were down -2.3% year over year in March, the sixth straight month with a price decline.
- ▲ Hospital price growth in March led the price increases among health care services, accelerating from 4.6% last month to 4.8% this month. Conversely, price growth in physician services, dental care, and nursing home care for March are now all back below 3.0% and showing some signs of moderating.
- ▲ Economywide price growth, as measured by both the consumer price index (CPI) and producer price index (PPI), are showing signs of picking up in March, with those measures increasing to 2.6% and 4.2% respectively.

	Mar. 2019	Mar. 2020	Feb. 2021	Mar. 2021
Health Care Price Index (HCPI)	1.3%	2.1%	2.6%	2.5%
GDP Deflator (GDPD)	2.0%	1.6%	1.7%	**
HCPI - GDPD	-0.7%	0.5%	0.9%	**
<i>Addendum</i>				
Personal health care spending	5.3%	-7.5%	-1.2%	**
Health care utilization	4.0%	-9.6%	-3.8%	**
Medical Consumer Price Index (MCPI)	1.7%	4.7%	2.0%	1.8%
Consumer Price Index – all items (CPI)	1.9%	1.5%	1.7%	2.6%
Producer Price Index – Final Demand (PPI)	2.0%	0.3%	2.8%	4.2%

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 Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. We thank Paul Hughes-Cromwick, who originated the concept of these reports and provided inspired leadership of the work from its inception. Media Contact: Sarah Litton, 202-772-5062, press@altarum.org.



DISCUSSION

The overall Health Care Price Index (HCPI) rose 2.5% compared to a year prior in March, increasing at a slightly slower rate than the previous month, which after revisions was up 2.6% year over year (Exhibit 1). This month's price growth continues the 12-month period of above average increases that began in April 2020 and is now the ninth month in the last twelve where year-over-year health care price growth rates have been at 2.5% or higher.

Health care services continue to be the major factor pulling overall HCPI upwards, with hospital care prices in March standing out as a particular outlier. Compared to a year ago, hospital prices are now 4.8% higher (Exhibit 2), which is the fastest hospital price growth we've observed in our series since June 2004. Among the major payers, prices paid by private health insurance to hospitals are growing the fastest in 2021 and set yet another record in March, increasing 6.4% year over year (Exhibit 6). At the beginning of the COVID-19 pandemic, hospital prices paid by the two major public payers (Medicare and Medicaid) were the primary contributor to overall hospital price growth; however, since January, private insurance hospital price growth has exceeded that of the public payers. Apart from hospitals, among other major health care services--such as dental care, home health care, and nursing home care--there are signs health care price growth is moderating, as each had slightly lower price growth in March than the prior month and all are now below 3% year-over-year growth rates (Exhibit 3).

In contrast, price growth for retail prescription drugs remained negative in March (-2.3%), now the sixth month in a row where we have seen negative year-over-year price growth. Moreover, the two other health care product categories also had negative price changes, with durable medical equipment and other nondurable medical products prices falling by -2.4% and -2.1% respectively.

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

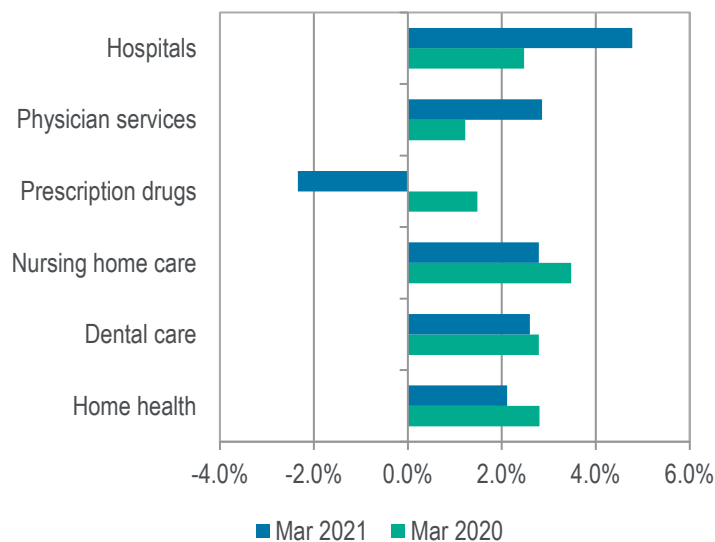
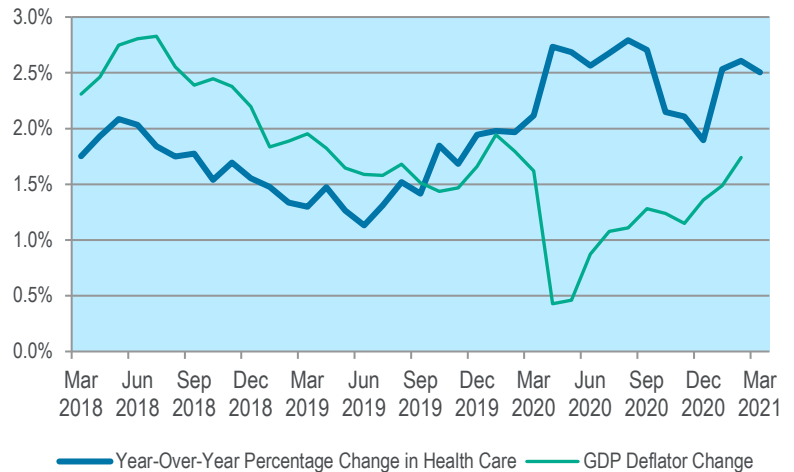


Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

Beyond the health care sector, economywide prices showed signs of accelerating in March, with the PPI growth rate increasing from 2.8% in February to 4.2% in March and the CPI growth rate increasing from 1.7% to 2.6%. These price increases, likely a result of a [quickenning economic recovery](#) and fostered by increased COVID-19 vaccination rates, continued federal stimulus funds, and the lifting of some state economic restrictions, may be expected to continue into the summer and provide a tailwind for higher health sector prices in the near future.

For a more detailed discussion of health care price trends since the start of the COVID-19 pandemic, see our [new blog also released this month](#).



PRICE GROWTH BY DETAILED CATEGORIES

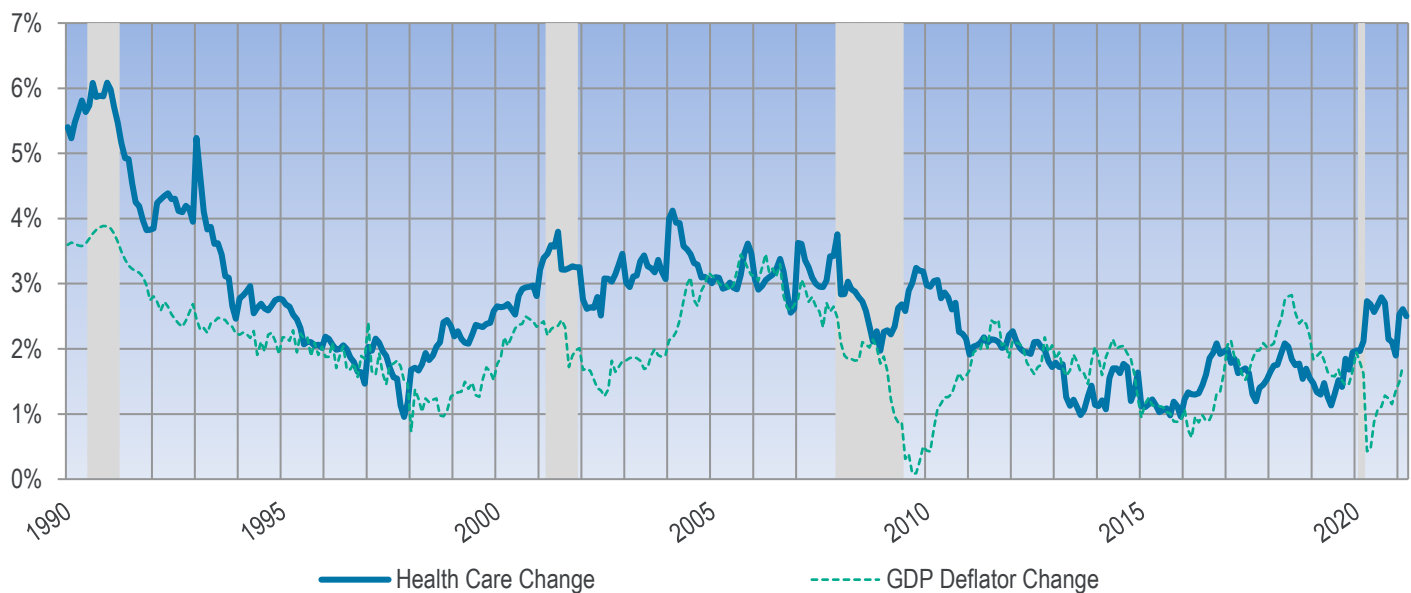
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending March 2019	Ending March 2020	Ending March 2021
Health Care Price Index (HCPI)	1.3%	2.1%	2.5%
Hospital care	1.8%	2.5%	4.8%
Physician and clinical services	0.5%	1.2%	2.9%
Prescription drugs	-0.4%	1.5%	-2.3%
Nursing home care	5.5%	3.5%	2.8%
Dental Services	0.7%	2.8%	2.6%
Home health care	2.5%	2.8%	2.1%
Other professional services	0.8%	0.8%	2.6%
Other personal health care	1.7%	2.3%	4.8%
Other nondurable medical products	-1.6%	0.6%	-2.1%
Durable medical equipment	1.1%	1.0%	-2.4%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

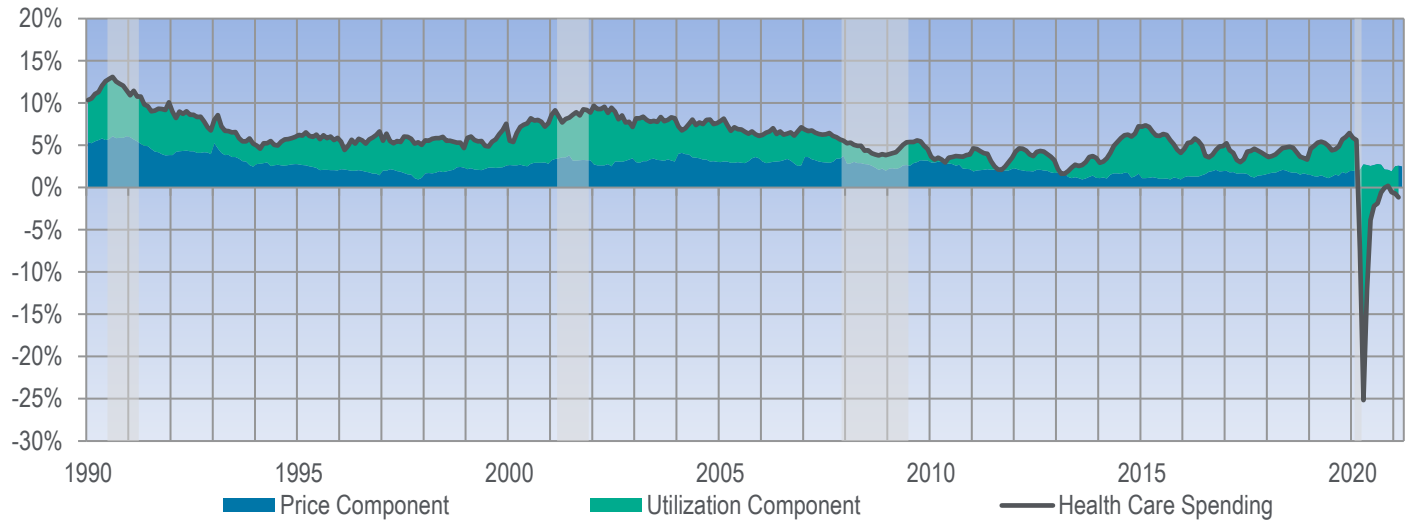
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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.



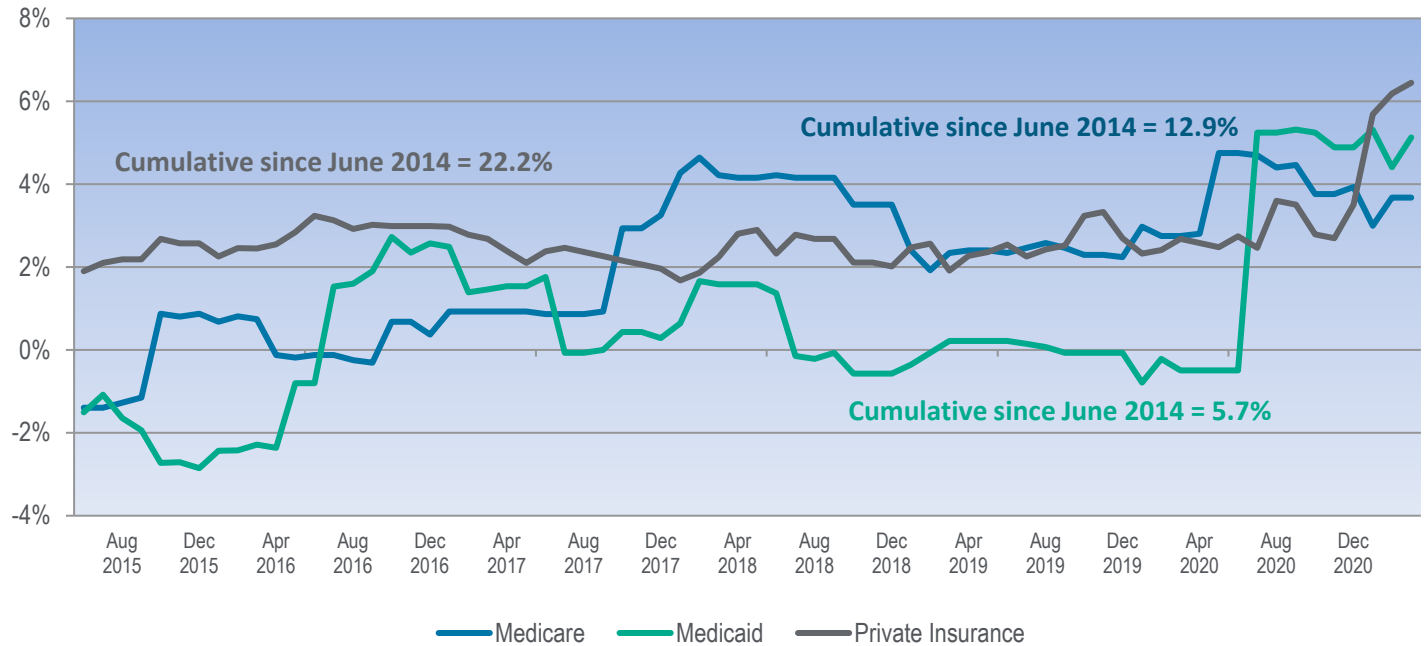
Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



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

Note: Lightly shaded bars denote recession periods. (The 2020 recession end date is currently undecided)

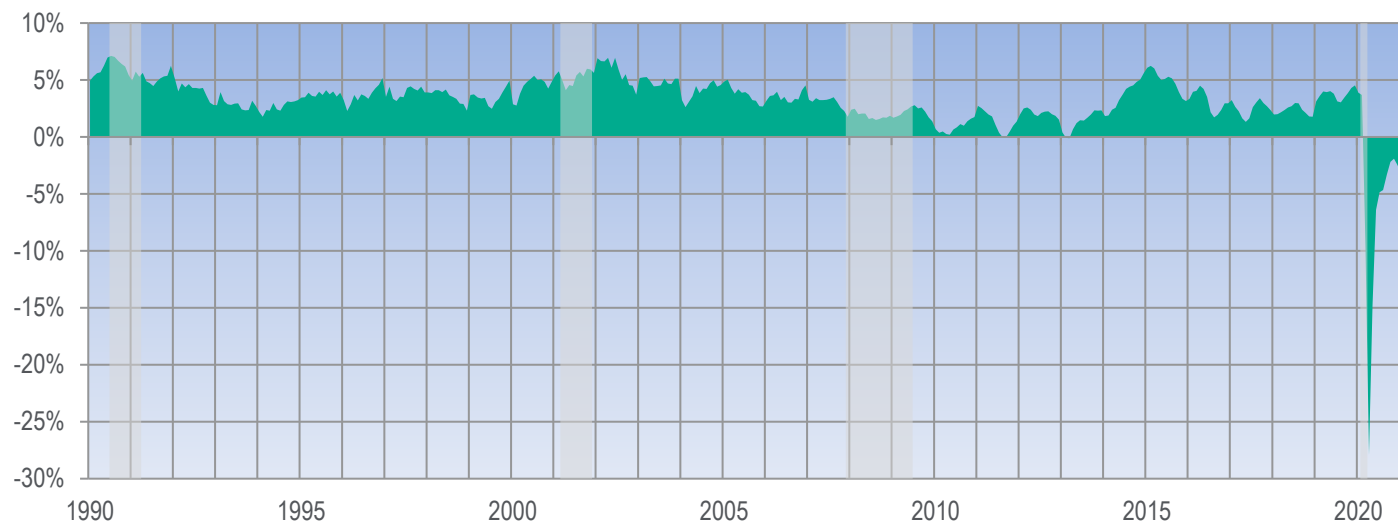
Exhibit 6. Year-over-Year Change in Hospital Price Growth by Payer



Source: Altarum analysis of monthly BLS data.



Exhibit 7. Year-over-Year Change in Health Care Utilization



Source: Altarum calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods. (The 2020 recession end date is currently undecided)

Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	Feb. 2021	3-Month Moving Average	12-Month Moving Average
Total health care	-3.8%	-3.2%	-7.1%
Hospital care	-4.2%	-4.5%	-10.8%
Physician and clinical services	-6.0%	-4.8%	-8.0%
Prescription drugs	-1.1%	2.3%	4.2%
Nursing home care	-8.2%	-8.1%	-7.3%
Dental Services	-23.0%	-22.7%	-28.5%
Home health care	2.9%	3.8%	-0.8%
Other professional services	2.0%	2.2%	-3.7%
Other personal health care	0.9%	1.5%	2.0%
Other nondurable medical products	14.3%	13.7%	9.4%
Durable medical equipment	6.9%	7.5%	-3.5%

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.