

August 18, 2021

## Health sector price inflation remains mostly under control

### HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) remained steady again in July, with prices 1.9% higher than they were a year ago, compared to the 2.0% growth rate seen in June, marking the fourth straight month of health care price increases at or below 2.0%.
- ▲ Among the major sectors, physician services and hospital prices continue to be the two fastest growing major categories, increasing 3.2% and 2.9% year over year respectively, while prescription drug prices remain the sole major category with decreasing prices in July. Prescription drug prices fell by -2.5% compared to a year prior, extending the now ten-month streak of negative growth.
- ▲ Year-over-year growth in an implicit measure of health care utilization (spending growth minus changes in prices) remains high, at 6.8% as of June, mostly due to lower spending in the comparison month last year.
- ▲ Outside of health care, economywide price growth, as measured by both the consumer price index (CPI) and producer price index (PPI), continued to accelerate, with those measures increasing to 5.4% and 7.8% in July.

	July 2019	July 2020	June 2021	July 2021
<b>Health Care Price Index (HCPI)</b>	1.3%	2.7%	2.0%	1.9%
<b>GDP Deflator (GDPD)</b>	1.6%	1.2%	4.1%	**
<b>HCPI - GDPD</b>	-0.3%	1.5%	-2.2%	**
<i>Addendum</i>				
<b>Personal health care spending</b>	4.6%	-2.5%	8.8%	**
<b>Health care utilization</b>	3.3%	-5.1%	6.8%	**
<b>Medical Consumer Price Index (MCPI)</b>	2.6%	5.0%	0.4%	0.3%
<b>Consumer Price Index – all items (CPI)</b>	1.8%	1.0%	5.4%	5.4%
<b>Producer Price Index – Final Demand (PPI)</b>	1.6%	-0.3%	7.3%	7.8%

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 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. We thank Paul Hughes-Cromwick, who originated the concept of these reports and provided inspired leadership of the work from its inception. Media Contact: [press@altarum.org](mailto:press@altarum.org).



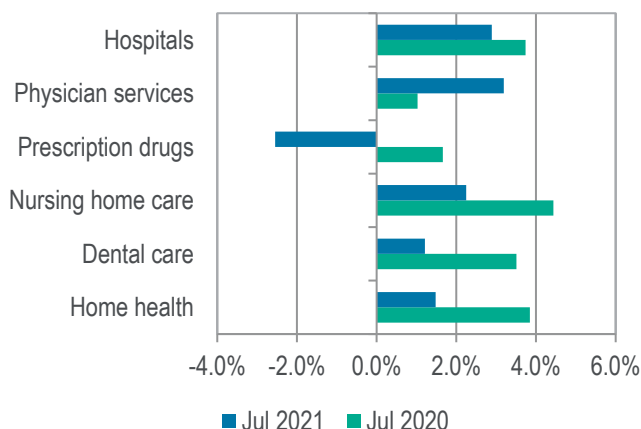
## DISCUSSION

Growth in the overall Health Care Price Index (HCPI) remained just below 2.0% year-over-year growth in July, continuing a period of moderation in health care price growth since the rate peaked in February 2021 (Exhibit 1). The last time health care prices had four straight months or more at or below 2.0% growth was before the COVID-19 pandemic peak, from November 2019 to February 2020. When set against the backdrop of rapidly increasing economywide prices (the overall GDP deflator hit 4.1% growth in June 2021, CPI was at 5.4% in July, and PPI increased to a whopping 7.8% last month), the moderation in health care prices is notable. After four straight months of overall economywide price growth at 3.8% or higher, health care price growth has remained subdued and immune to the larger macroeconomic price pressures.

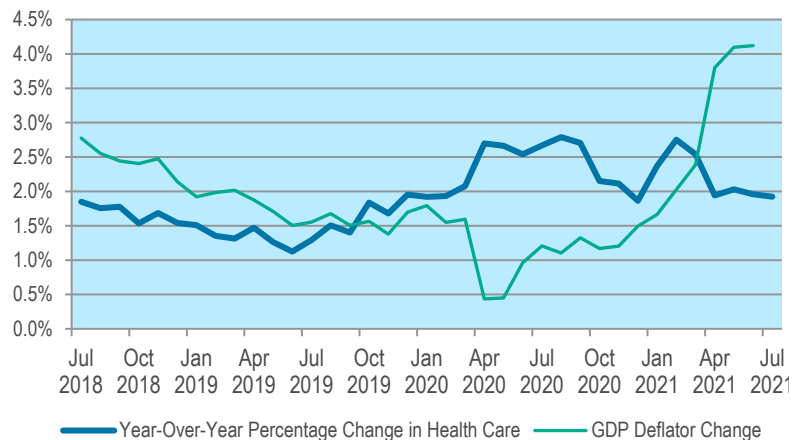
Among the major health sector categories, price growth for physician services was again higher than hospital price growth in July, with physician services prices increasing by 3.2% year over year compared to hospital prices holding steady at 2.9% growth (Exhibit 2). Despite a similar overall growth to the prior month, hospital prices did show some variations by payer in July (Exhibit 6). Hospital prices among privately-insured patients jumped back up to 4.7% year over year, while growth in hospital prices for Medicaid fell significantly, from 2.8% in June, to just 0.8% in July. This is a result of a flat Medicaid price index in 2021, but a change in the comparison month from the prior year: Medicaid prices jumped significantly in July 2020, resulting in a much lower year-over-year growth rate in last month for 2021. Hospital price growth for Medicare remained steady, at 1.7%.

Among other major sectors, nursing home care price growth is hovering around 2.0% year-over-year growth, while home health care price growth is at 1.5% and dental care is at 1.2%. Prescription drug prices fell again this month, at -2.5% from a year prior. The only other health care category exhibiting negative price growth in July was durable medical equipment, falling -3.2% year over year.

### 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.

As for changes in the use of health care products and services, our overall implicit measure of utilization (the difference between year-over-year spending growth and price growth), was at 6.8% year over year in June. This monthly measure has been very volatile in past months, owing to drastic swings in health care spending in the prior year due to the pandemic. We expect the trend in growth in utilization to moderate and smooth out for the rest of 2021, as the 2020 comparison months begin to normalize (Exhibit 7).



## PRICE GROWTH BY DETAILED CATEGORIES

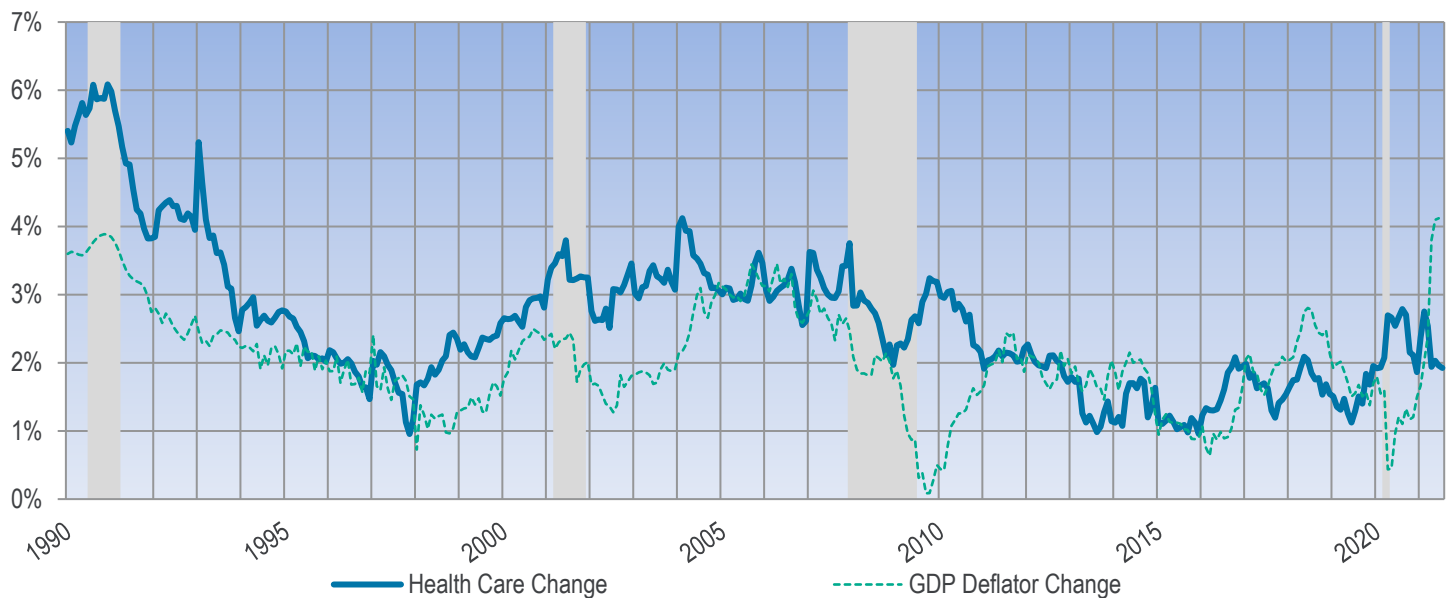
**Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures**

	Ending July 2019	Ending July 2020	Ending July 2021
Health Care Price Index (HCPI)	1.3%	2.7%	1.9%
Hospital care	1.8%	3.7%	2.9%
Physician and clinical services	0.8%	1.0%	3.2%
Prescription drugs	-0.8%	1.7%	-2.5%
Nursing home care	3.7%	4.4%	2.2%
Dental Services	2.3%	3.5%	1.2%
Home health care	2.7%	3.8%	1.5%
Other professional services	0.5%	1.4%	2.2%
Other personal health care	2.1%	3.0%	5.3%
Other nondurable medical products	0.5%	-1.0%	0.1%
Durable medical equipment	1.5%	0.4%	-3.2%

Source: Altarum analysis of monthly BLS data.

## TIME SERIES TRACKER

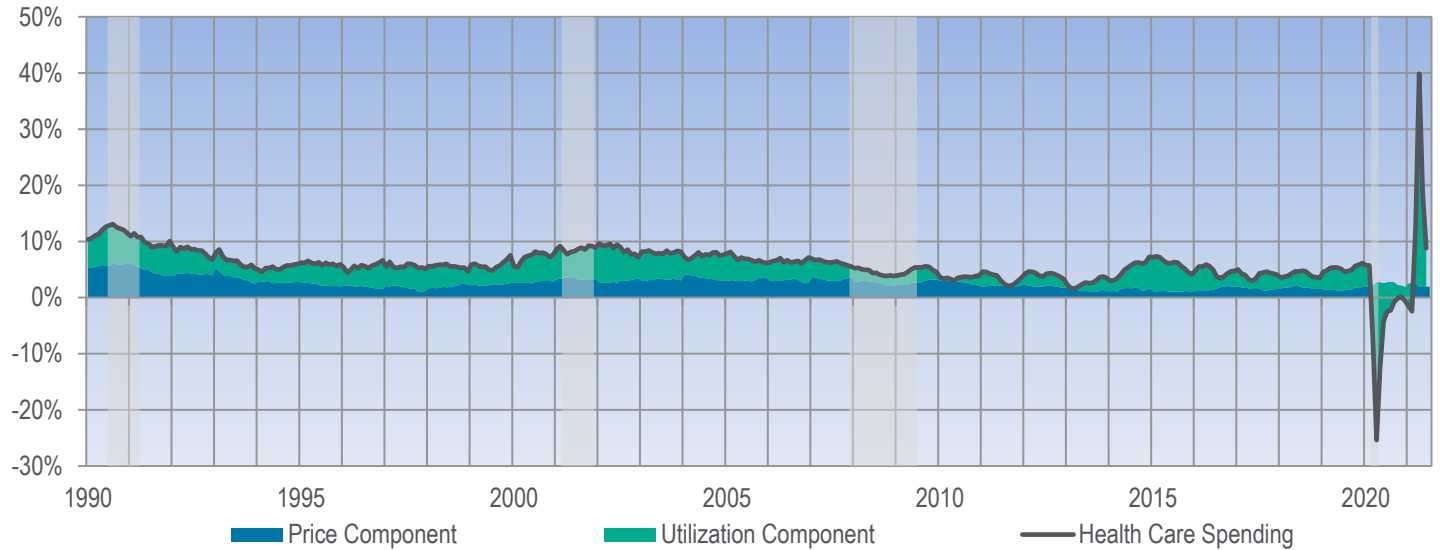
**Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator**



**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.



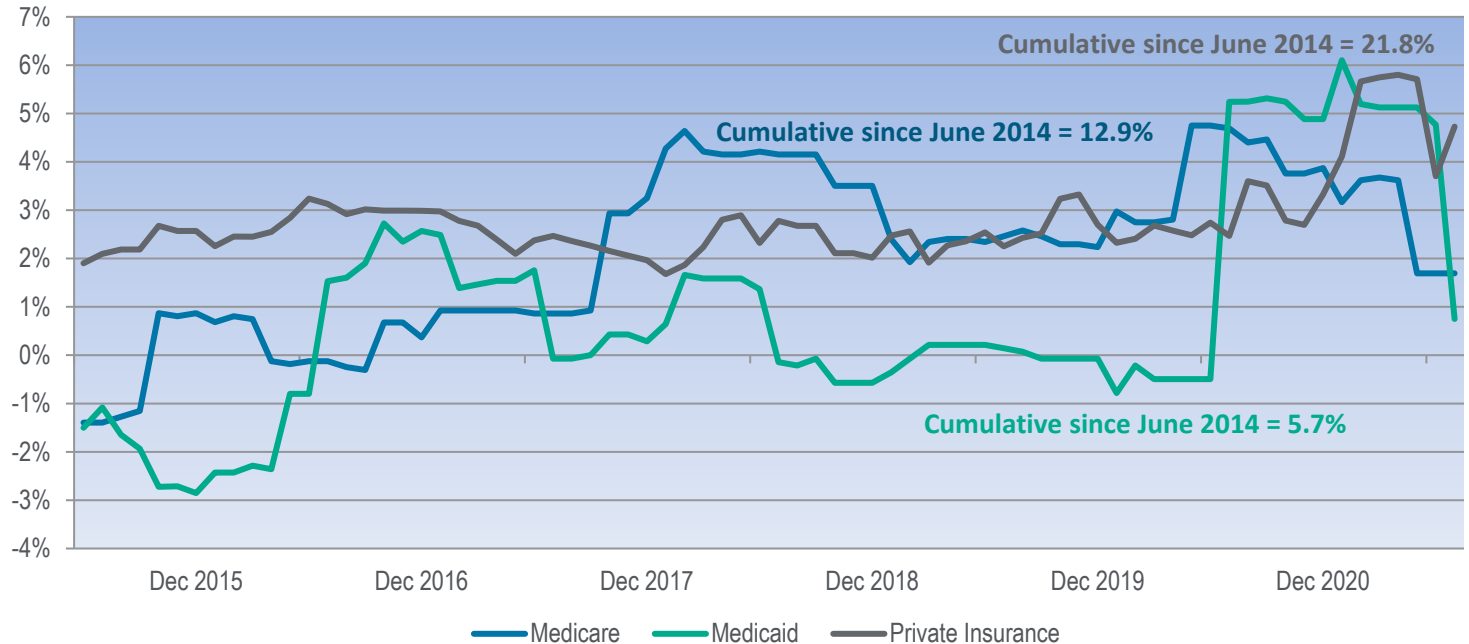
### Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



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

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

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



Source: Altarum analysis of monthly BLS data.



## Exhibit 7. Implicit Health Care Utilization Growth by Major Components of NHE

	June 2021	12-Month Moving Average	6-Month Moving Average	3-Month Moving Average
<b>Total health care</b>	6.8%	3.5%	10.4%	20.5%
Hospital care	7.5%	5.2%	15.7%	27.0%
Physician and clinical services	5.8%	4.5%	12.6%	28.0%
Prescription drugs	6.2%	4.1%	2.7%	6.2%
Nursing home care	2.2%	-9.6%	-6.7%	-1.7%
Dental Services	25.9%	6.3%	33.2%	74.3%
Home health care	-1.2%	2.2%	3.2%	6.8%
Other professional services	-3.0%	3.9%	8.5%	15.5%
Other personal health care	0.5%	1.5%	0.9%	0.6%
Other nondurable medical products	14.6%	13.3%	16.7%	19.3%
Durable medical equipment	30.8%	17.9%	32.3%	47.9%

**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.