

January 20, 2021

Health Care Services Price Growth Outpaces Products for December

HIGHLIGHTS

- ▲ Overall US health care price growth continued to moderate in the month of December, falling to a year over year rate of 1.8%, compared to 2.0% from the prior month. While steadily slowing in the second half of 2020, total 2020 health care price growth for the year ended above the average rate of growth since 2010.
- ▲ Hospital and nursing home care prices continue to lead the major categories at 3.7% and 3.6% growth respectively. Physician services price growth slowed slightly from the prior month to 0.9% and prescription drug price growth was again negative at -2.4%, the biggest decline since the start of our series.
- ▲ Continuing the trend from the prior month, the gap in overall price growth between payers shrunk again in December. The year over year rates for the three major payers (private insurance, Medicare, and Medicaid) are now within 0.6 percentage points of each other.
- ▲ Our implied measure of health care utilization (spending growth net of price growth), remained negative in November and continues to find, for the major categories, price growth trending opposite of utilization.

	Dec. 2018	Dec. 2019	Nov. 2020	Dec. 2020
Health Care Price Index (HCPI)	1.6%	1.9%	2.0%	1.8%
GDP Deflator (GDPD)	2.2%	1.7%	1.3%	**
HCPI - GDPD	-0.6%	0.3%	0.7%	**
<i>Addendum</i>				
Personal health care spending	3.3%	6.5%	-0.2%	**
Health care utilization	1.8%	4.5%	-2.2%	**
Medical Consumer Price Index (MCPI)	2.0%	4.6%	2.4%	1.8%
Consumer Price Index – all items (CPI)	1.9%	2.3%	1.2%	1.4%
Producer Price Index – Final Demand (PPI)	2.6%	1.4%	0.8%	0.8%

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 vulnerable and publicly insured 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.

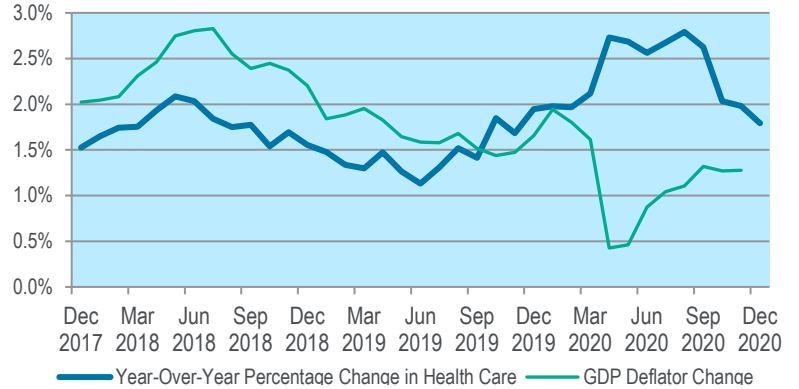
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Ani Turner at ani.turner@altarum.org. Corwin Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, 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

Overall growth in health care prices as measured by the combined Health Care Price Index (HCPI) fell slightly in December to 1.8%, the lowest year over year growth rate seen in 2020. While much of 2020 was marked by above average price growth (Exhibit 1), this final reading puts health care prices on a more moderate growth rate heading into the new year. Economywide price growth has recovered from the summer lows and continues to rise slowly (as is typical in economic recoveries, Exhibit 4), although it remains over 0.5 percentage points below health care price growth. Looking towards 2021, [expectations](#) of greater economywide inflation seem [likely to occur](#), especially given the Federal Reserve’s continued commitment to [bond purchases](#) and the possibility of additional [fiscal stimulus](#) as supported by the new Biden administration. Whether these economywide moves will also keep total health care price growth elevated in 2021 remains to be seen.

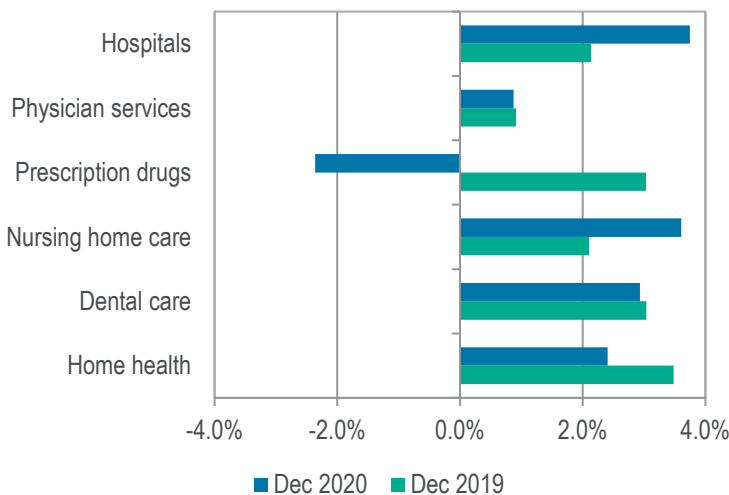
Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

Hospital and nursing home care prices continue to lead health care price growth among the major categories, closing out 2020 with 3.7% and 3.6% year over year growth respectively (Exhibit 2). The 3.7% price growth for hospital services is the highest since 2009, tying a previous high. These prices likely continue to benefit from [short-term COVID-19 relief](#) that has bolstered prices during the period of declining utilization (Exhibit 8). Yet, in 2021, new threats to hospital price growth abound: the government’s new [requirements](#) that hospitals post billed charges and negotiated rates for specific services are in place as of January 1st and [federal restrictions on surprise billing](#), which are expected to [decrease prices](#), are set to begin in 2022. The December data show that 2020 was a year of very muted physician services price growth, ending at 0.9% year over year. Prescription drugs continued a period of low and even negative price growth: year over year prices fell again in December at a whopping -2.4% rate, the lowest year over year rate seen in our series started in 1989. Yet, for 2021, reports of drug [price](#)

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



[increases are abound](#) and it remains to be seen if this will drive our index higher in the next month to begin the new year.

Lastly, our implicit measure of utilization through November shows a continuation of the decline in utilization for most major health care services categories (Exhibit 8), opposite of the price trends. Health care services have been impacted significantly by the COVID-19 pandemic and while utilization mostly recovered in summer and fall, the [winter resurgence in cases](#) is likely causing utilization to plateau at levels below this time last year. The duration of this negative utilization growth likely depends on the virus, at least for early 2021, and our ability to quickly [vaccinate](#) the public.



PRICE GROWTH BY DETAILED CATEGORIES

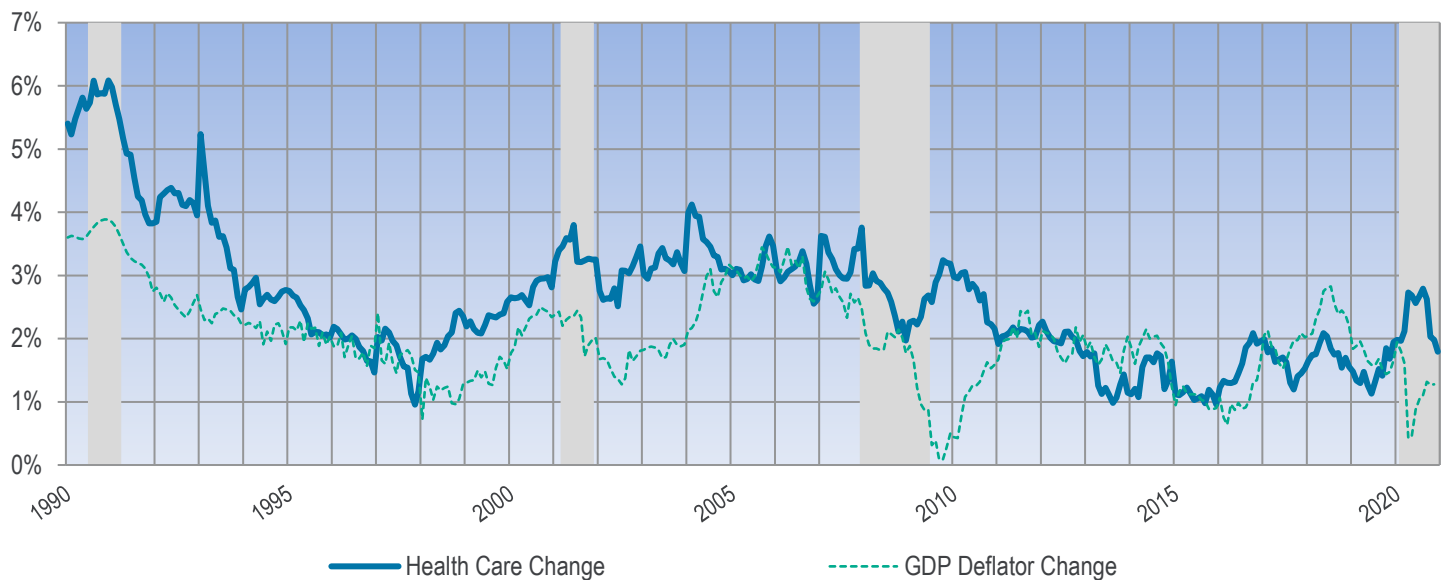
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending December 2018	Ending December 2019	Ending December 2020
Health Care Price Index (HCPI)	1.6%	1.9%	1.8%
Hospital care	1.9%	2.1%	3.7%
Physician and clinical services	1.3%	0.9%	0.9%
Prescription drugs	-0.6%	3.0%	-2.4%
Nursing home care	5.5%	2.1%	3.6%
Dental Services	2.3%	3.0%	2.9%
Home health care	2.8%	3.5%	2.4%
Other professional services	0.1%	0.8%	1.3%
Other personal health care	2.2%	2.0%	4.0%
Other nondurable medical products	-0.4%	0.5%	-1.4%
Durable medical equipment	1.6%	1.0%	-4.6%

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

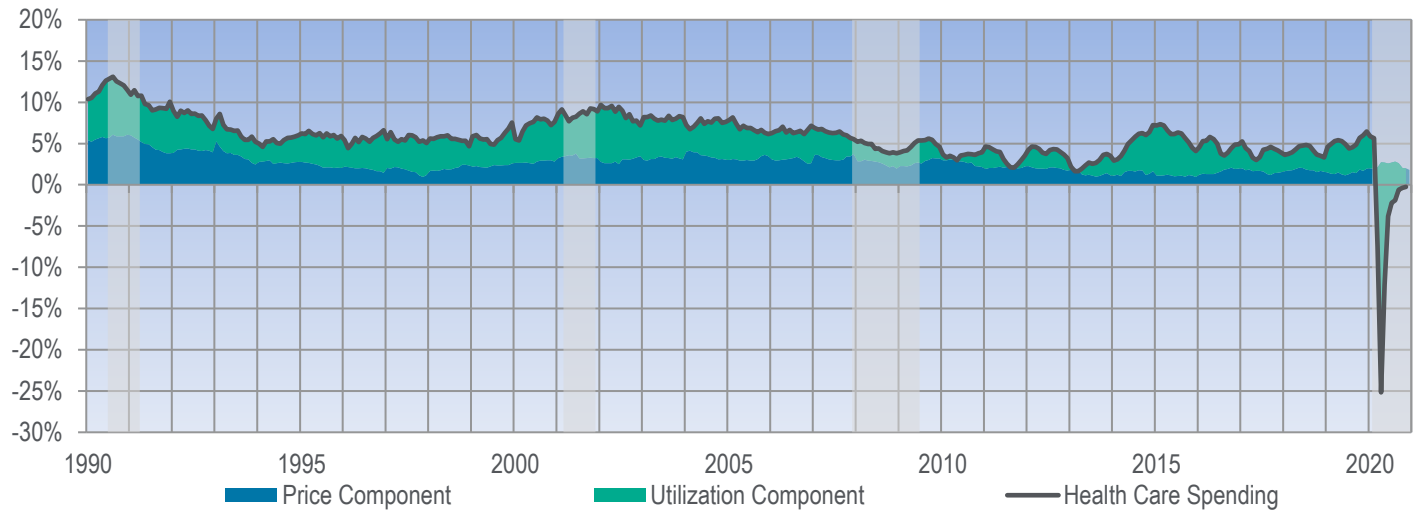
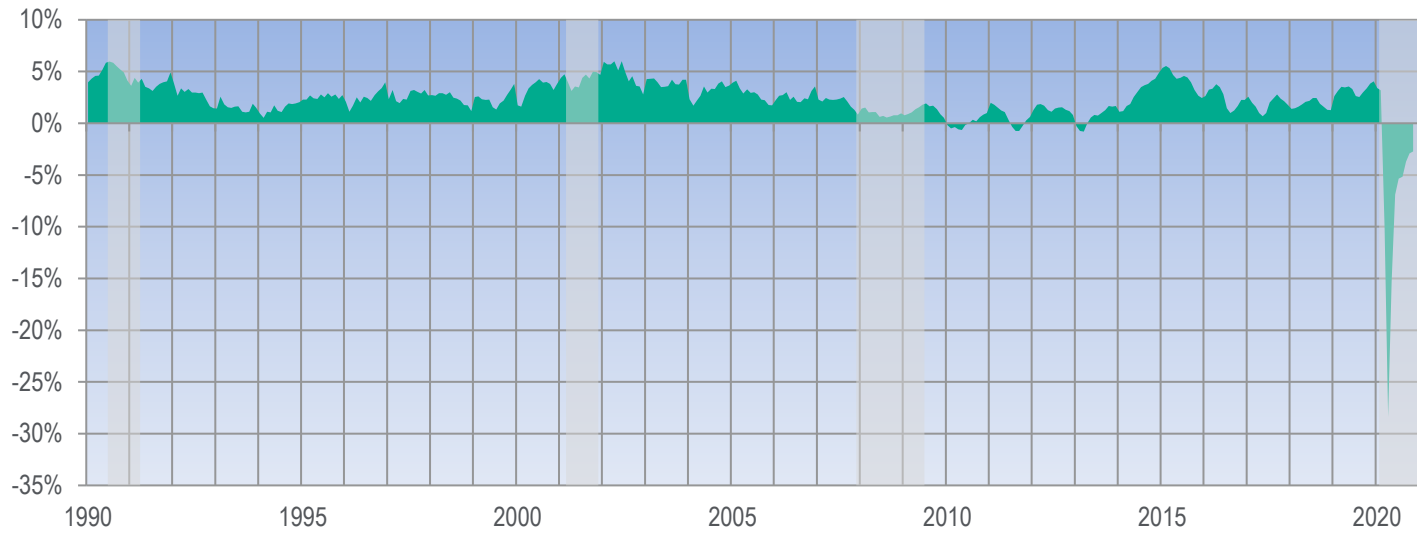


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altarum calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods.



Exhibit 7. Year-over-Year Health Care Price Growth by Payer

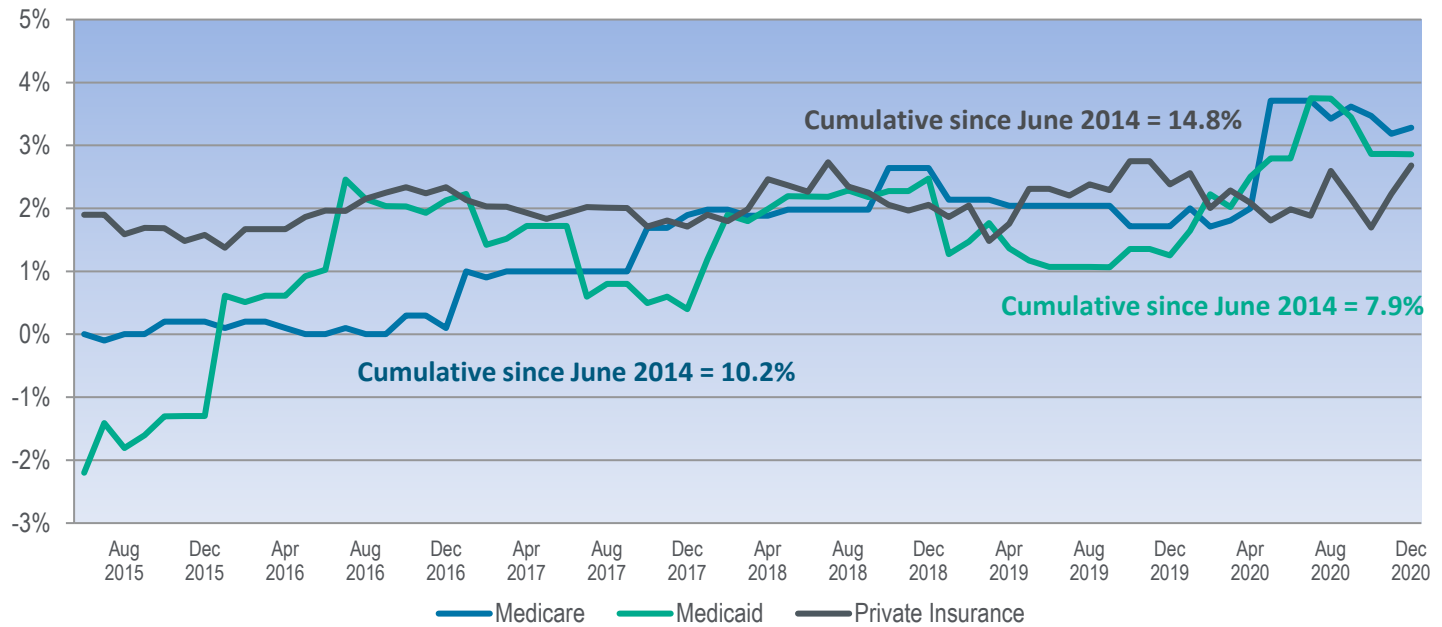


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	Nov. 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-2.7%	-3.1%	-5.8%
Hospital care	-6.5%	-6.8%	-9.7%
Physician and clinical services	-0.7%	-1.4%	-5.4%
Prescription drugs	4.4%	4.7%	4.4%
Nursing home care	-8.6%	-8.8%	-5.7%
Dental Services	-17.0%	-16.5%	-21.9%
Home health care	3.0%	1.9%	-1.7%
Other professional services	-2.3%	-3.0%	-3.6%
Other personal health care	1.5%	1.5%	1.4%
Other nondurable medical products	12.1%	11.2%	6.6%
Durable medical equipment	5.1%	1.3%	-5.1%

Source: Altarum analysis of monthly BLS data combined with Altarum HSEI spending data.