

March 17, 2021

Health Services Prices Continue to Rise as the Recovery in Utilization Stalls

HIGHLIGHTS

- ▲ Overall health care price growth remained high in February at 2.6%, matching the year over year rate observed in January. February now marks the eighth time in the last twelve months where health care price growth has exceeded 2.5%.
- ▲ Price growth for health care services continue to be the major contributor to overall growth with many of the major categories remaining near record levels: February hospital prices rose 4.6% year over year, physician prices rose 2.7%, and nursing home care prices increased 3.1%.
- ▲ Conversely, price growth for prescription drugs was negative and fell further in February to -2.7%, falling from the prior month's rate of -2.4%.
- ▲ Our implied measure of health care utilization (spending growth net of price growth), remained negative in the most recent month's data (January) at -3.8% and has now declined faster for two straight months. Given declining COVID-19 case rates in January, this may indicate longer-term changes to utilization patterns.

	Feb. 2019	Feb. 2020	Jan. 2021	Feb. 2021
Health Care Price Index (HCPI)	1.3%	2.0%	2.6%	2.6%
GDP Deflator (GDPD)	1.9%	1.8%	1.6%	**
HCPI - GDPD	-0.6%	0.2%	1.0%	**
<i>Addendum</i>				
Personal health care spending	4.9%	5.6%	-1.2%	**
Health care utilization	3.6%	3.7%	-3.8%	**
Medical Consumer Price Index (MCPI)	1.7%	4.6%	1.9%	2.0%
Consumer Price Index – all items (CPI)	1.5%	2.3%	1.4%	1.7%
Producer Price Index – Final Demand (PPI)	1.9%	1.1%	1.7%	2.8%

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 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) continued in February, matching the rate of 2.6% that was seen last month (Exhibit 1). As we've reported previously, this overall data point includes two underlying trends worth differentiating: rising price growth among health care service categories which are at or near ten-year highs, but negative price growth for prescription drugs and other durable and non-durable medical products which are at or near record lows again in February (Exhibit 3).

Hospital prices grew by 4.6% year over year, the fastest since nearly fifteen years ago in August 2006. The growth in hospital prices is led by the prices paid by private insurance, which accelerated from the previous month's record (5.7%) to set another new high for our series (6.2%) in year over year growth for February (Exhibit 6). Growth in physician services prices and nursing home care moderated slightly from the prior month, but remained near 3 percent (Exhibit 2).

Conversely, price growth for prescription drugs continued to be negative in February, now the fifth consecutive month with negative year over year price growth. Moreover, the average price level also fell for prescription drugs to an average price last seen in October 2017. Other medical products also continued to show negative price growth, despite the backdrop of overall increasing health care and economywide prices. The underlying cause of these medical product and prescription drug price declines is unclear, but may be due to a changing market basket of prescription drugs that over time is including a [greater percentage of generic vs. brand name drugs](#). As of 2019, an estimated 86% of dispensed prescriptions were unbranded generics, a rising percentage.

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

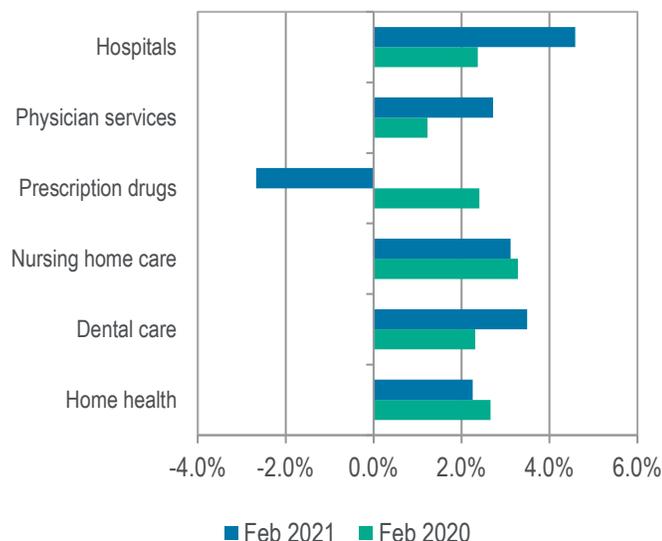


Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

Looking at trends in overall health care utilization, we see that for January 2021 our implied measure of utilization (year over year spending growth subtracting price growth) declined further, falling -3.8%. This is notable because health care utilization growth has nearly always been positive (Exhibit 7), and in late 2020 appeared on track to return to positive growth from the early pandemic and state lockdown impacts. Yet, this positive growth has yet to return and despite [declining COVID-19 cases](#) in January, remained negative. It is possible this indicates more permanent changes in health care utilization are occurring, specifically in dental, nursing home, and hospital services. Whether or not this utilization decline represents a positive shift for patients depends on whether the lost care represents [low-value or high-value services](#). Note, this month's utilization data include a slight change in its computation (see the note in Exhibit 8).



PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending February 2019	Ending February 2020	Ending February 2021
Health Care Price Index (HCPI)	1.3%	2.0%	2.6%
Hospital care	1.9%	2.4%	4.6%
Physician and clinical services	0.8%	1.2%	2.7%
Prescription drugs	-1.2%	2.4%	-2.7%
Nursing home care	5.2%	3.3%	3.1%
Dental Services	1.6%	2.3%	3.5%
Home health care	2.5%	2.7%	2.3%
Other professional services	1.4%	1.0%	2.5%
Other personal health care	1.9%	1.8%	5.0%
Other nondurable medical products	-0.8%	-0.1%	-1.6%
Durable medical equipment	0.7%	0.3%	-2.2%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

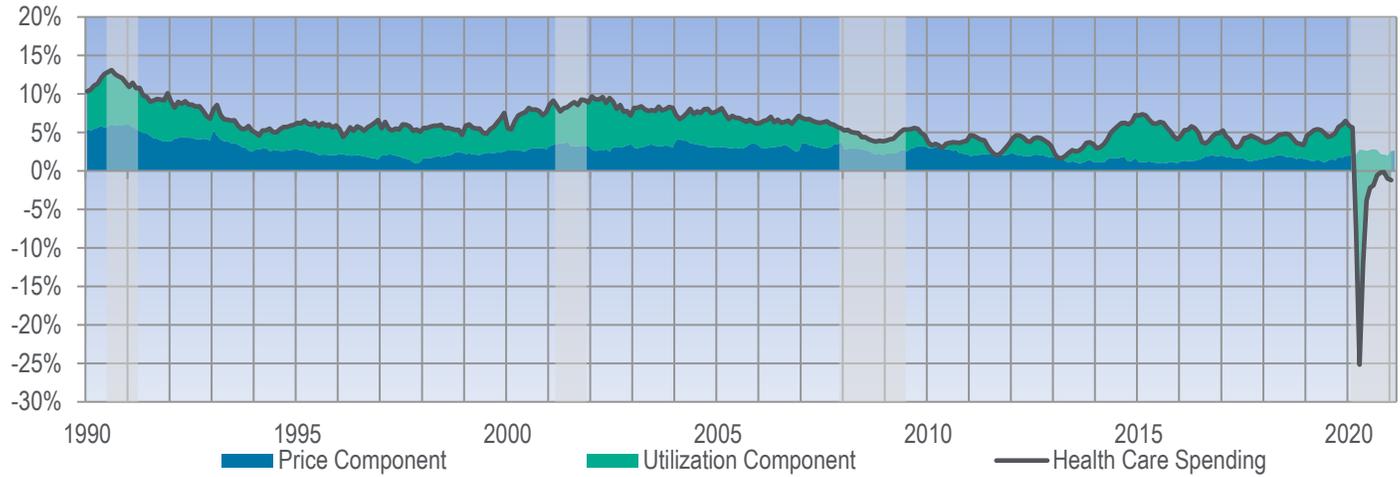
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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.

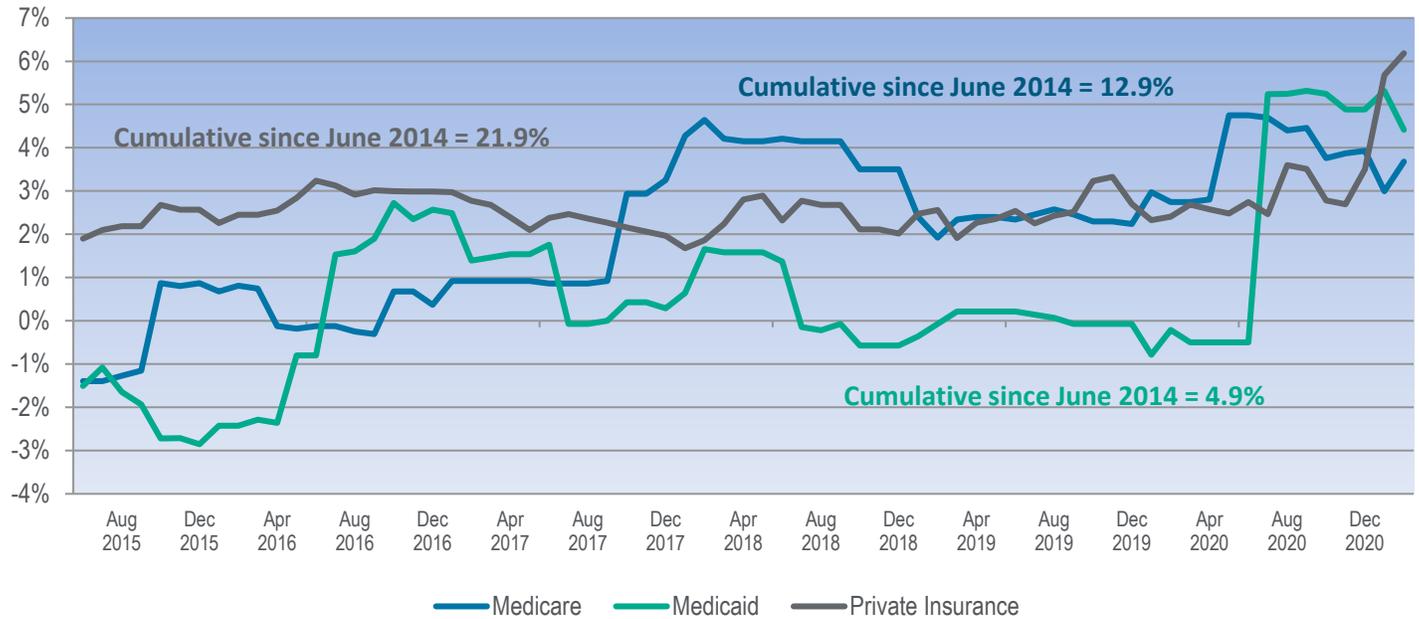


Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



Source: Altarum monthly national health spending estimates. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.
 Note: Lightly shaded bars denote recession periods.

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



Source: Altarum calculations from Health Sector Economic Indicators data.
 Note: Lightly shaded bars denote recession periods.



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

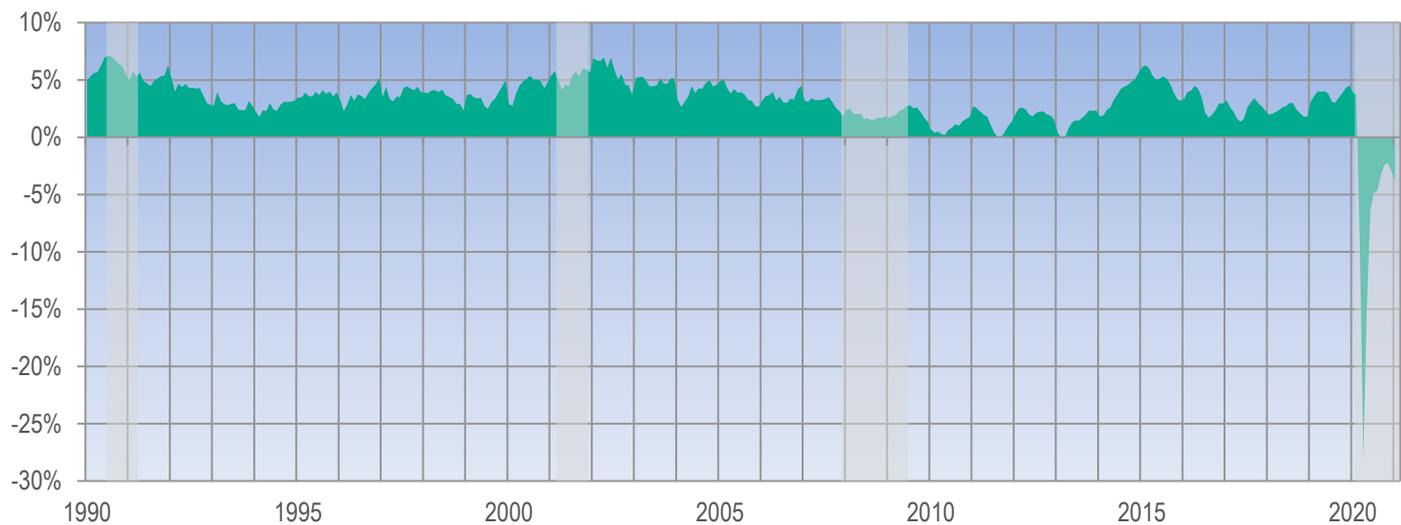


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	Jan. 2021	3-Month Moving Average	12-Month Moving Average
Total health care	-3.8%	-3.0%	-6.6%
Hospital care	-5.0%	-4.6%	-10.4%
Physician and clinical services	-6.2%	-4.5%	-7.2%
Prescription drugs	1.2%	4.3%	4.8%
Nursing home care	-10.2%	-9.6%	-7.1%
Dental Services	-20.2%	-18.3%	-25.2%
Home health care	4.2%	4.0%	-0.9%
Other professional services	-0.3%	-0.9%	-4.2%
Other personal health care	1.4%	1.8%	2.1%
Other nondurable medical products	14.8%	12.1%	8.2%
Durable medical equipment	7.1%	6.0%	-4.2%

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.