

May 19, 2021

Economywide price growth outpaces the health care sector in April

HIGHLIGHTS

- ▲ The pace of overall Health Care Price Index (HCPI) growth slowed somewhat in April, with prices 1.9% higher than they were a year ago, compared to the 2.5% growth rate seen in March. April's price growth, while the slowest so far in 2021, is still above the long-term trend seen over the past five years.
- ▲ Hospital prices continue to be the fastest growing major health care category, increasing 4.2% year over year in April. Conversely, prescription drug price growth remains the slowest growing category and is actually negative, falling -1.9% year over year, the seventh month in a row of negative price growth.
- ▲ Outside of health care, economywide price growth, as measured by both the consumer price index (CPI) and producer price index (PPI), continued to accelerate in April, with those measures increasing to 4.2% and 6.2% growth respectively. This is the fastest growth for economywide CPI since 2008.
- ▲ As a result of overall economywide price growth, the GDP Deflator (GDPD), which lags a month behind other price data, was within 0.2 percentage points of health care price growth in March. We expect in next month's data April GDPD will exceed health care price growth for the first time since August 2019.

	Apr. 2019	Apr. 2020	Mar. 2021	Apr. 2021
Health Care Price Index (HCPI)	1.5%	2.7%	2.5%	1.9%
GDP Deflator (GDPD)	1.8%	0.4%	2.3%	**
HCPI - GDPD	-0.3%	2.3%	0.2%	**
<i>Addendum</i>				
Personal health care spending	5.4%	-25.2%	14.3%	**
Health care utilization	4.0%	-27.9%	11.8%	**
Medical Consumer Price Index (MCPI)	1.9%	4.8%	1.8%	1.5%
Consumer Price Index – all items (CPI)	2.0%	0.3%	2.6%	4.2%
Producer Price Index – Final Demand (PPI)	2.4%	-1.5%	4.2%	6.2%

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.

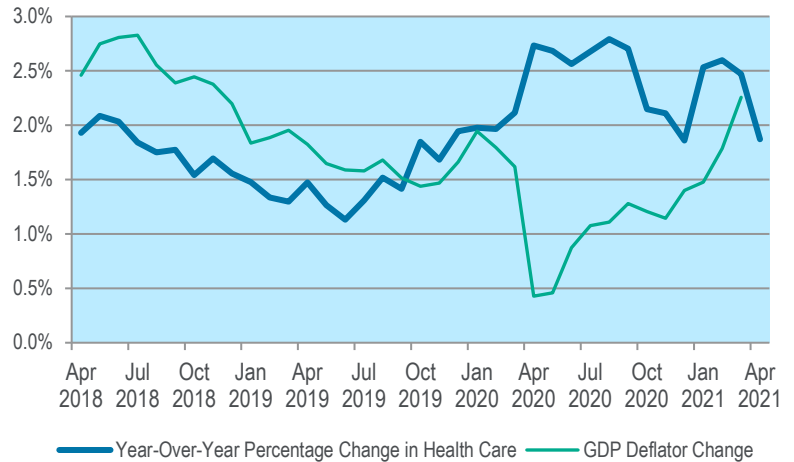


DISCUSSION

The overall Health Care Price Index (HCPI) rose 1.9% compared to a year prior in April, with its pace slowing for the second straight month and off from the most recent peak in February when prices grew by 2.6% year over year (Exhibit 1). This marks only the second month since the start of the pandemic when health care prices have increased by less than 2.0%. This slowing health care price growth is notable against the backdrop of accelerating economywide prices, which broke through the 2.0% year-over-year mark in March and are likely to increase even further in April based on an initial CPI reading of 4.2% and PPI of 6.2%.

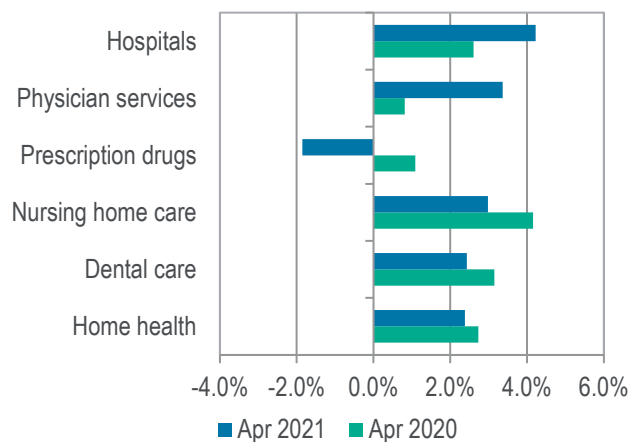
The rapid acceleration of economywide prices and resulting convergence of economywide and health care price growth is consistent with historical economic recoveries following a recession (Exhibit 4), although overall price growth has returned faster in this recovery than the one following the previous 2008-2009 recession. Experts point to the more temporary nature of this pandemic-induced recession, the stronger federal [fiscal and monetary response](#), and the pandemic’s direct [supply-side constraints](#) as major reasons for April’s accelerating price growth. However, it is also important to note that year-over-year price growth data are impacted by trends in the prior year, such that last year’s decline in prices increases the year-over-year measure of economywide prices this month (see the second chart of this [New York Times piece](#)).¹ The permanence of economywide inflation and its impact as a tailwind to health care sector price growth—a point we mentioned last month—remains to be seen, but has yet to bear out.

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.

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



Among the major health care categories, Hospital prices remain the driving force behind health care price increases (Exhibit 2). While falling slightly from the previous month, they remain the fastest growing category at 4.2%. Prices paid by private insurance remain the fastest growing for hospitals at 5.8% (Exhibit 6). Physician services prices were the next fastest growing category and increased slightly from a month prior, reaching 3.4% in April. For the seventh straight month, price growth for retail prescription drugs remained negative (-1.9%) and the two other health care product categories also had negative price growth: durable medical equipment and other nondurable medical products prices fell by -2.4% and -0.6% year over year respectively (Exhibit 3).

¹ Note prior year impacts are also evident in our data; for example, in the utilization data in Exhibits 5 and 7. The prior year collapse in March’s utilization caused by pandemic shutdowns has the opposite effect on the March growth rates this year. A lower previous year comparator data point induces large year-over-year increases in utilization in the March 2021 data.



PRICE GROWTH BY DETAILED CATEGORIES

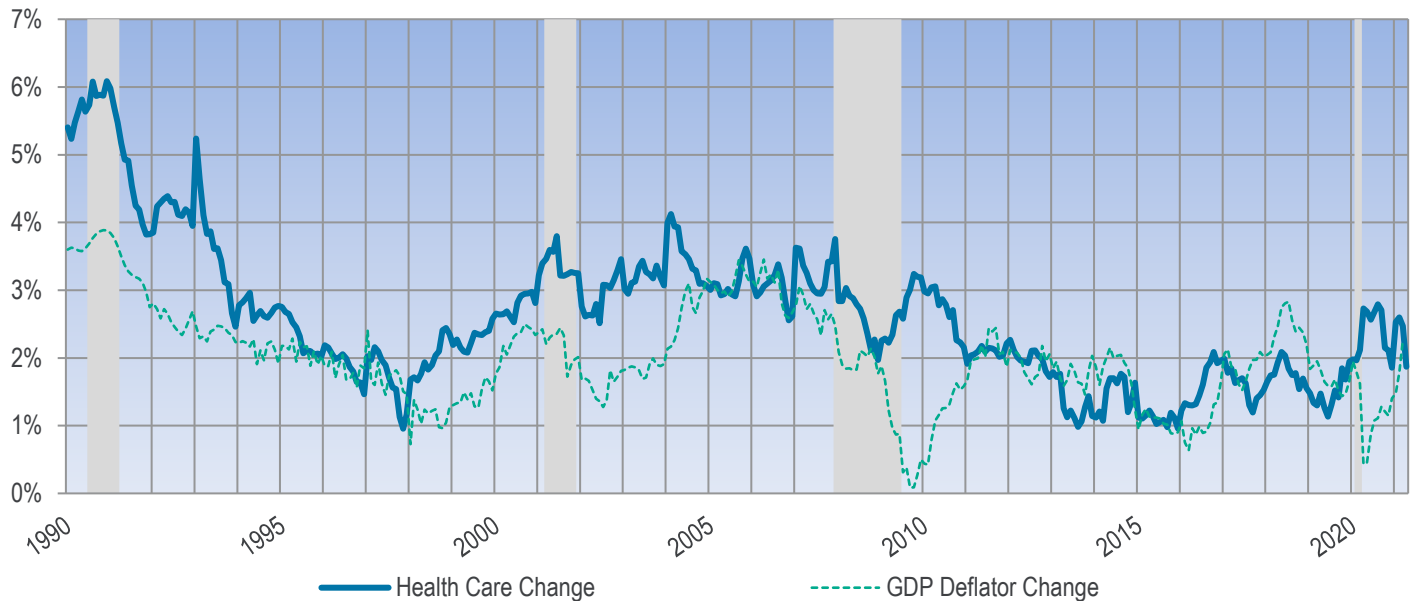
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending April 2019	Ending April 2020	Ending April 2021
Health Care Price Index (HCPI)	1.5%	2.7%	1.9%
Hospital care	2.1%	2.6%	4.2%
Physician and clinical services	1.0%	0.8%	3.4%
Prescription drugs	0.3%	1.1%	-1.9%
Nursing home care	3.1%	4.2%	3.0%
Dental Services	0.5%	3.1%	2.4%
Home health care	2.6%	2.7%	2.4%
Other professional services	0.4%	1.2%	2.6%
Other personal health care	2.1%	2.5%	5.2%
Other nondurable medical products	-0.8%	-0.3%	-0.6%
Durable medical equipment	2.1%	-0.3%	-2.4%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

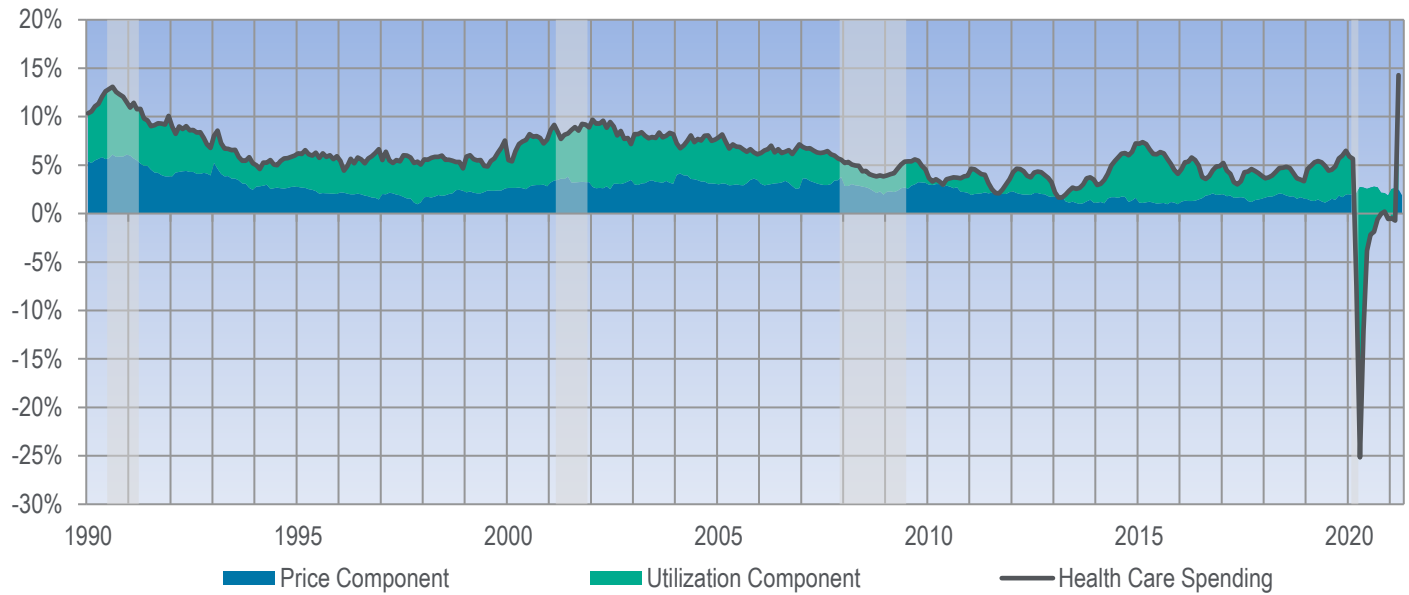
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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.



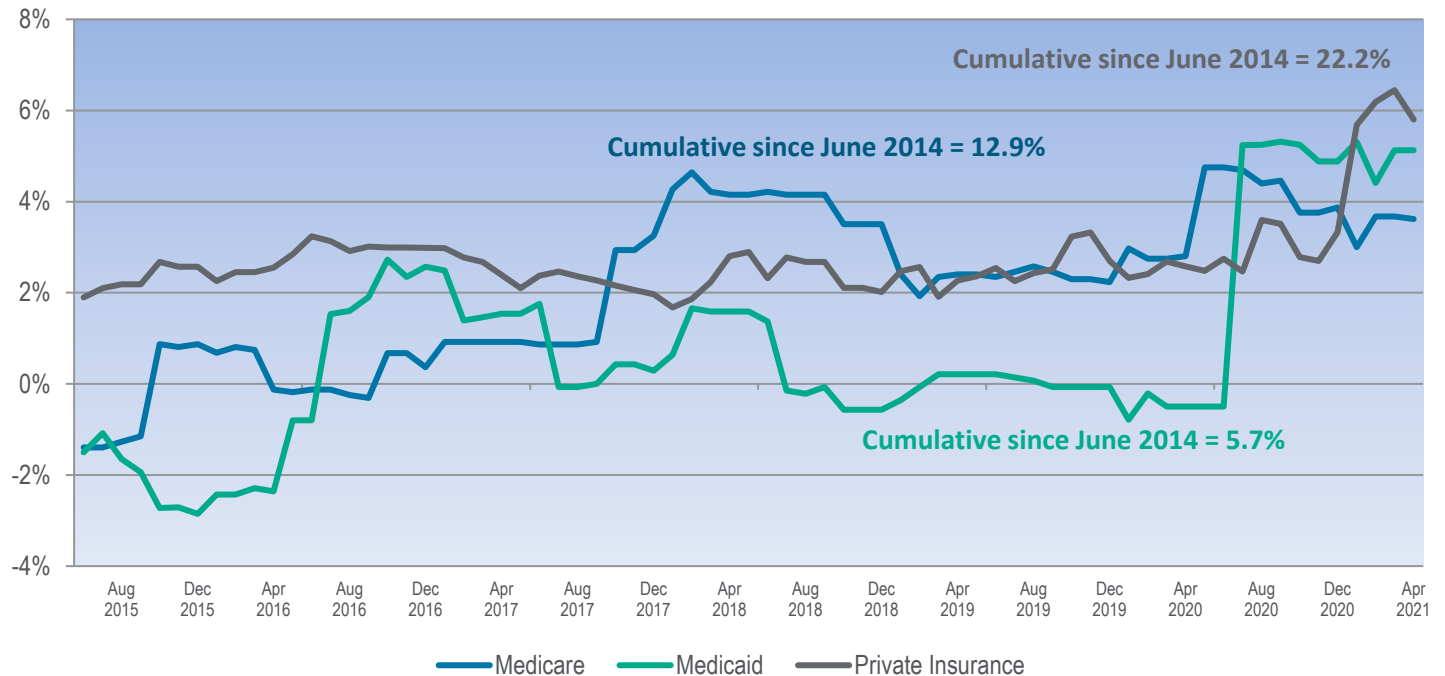
Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



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. Implicit Health Care Utilization Growth by Major Components of NHE

	Mar. 2021	3-Month Moving Average	12-Month Moving Average
Total health care	11.8%	1.8%	-5.2%
Hospital care	23.5%	5.3%	-7.0%
Physician and clinical services	9.2%	-0.5%	-6.7%
Prescription drugs	-4.2%	-1.4%	2.9%
Nursing home care	-7.5%	-7.8%	-7.9%
Dental Services	18.6%	-9.3%	-24.4%
Home health care	8.9%	5.3%	0.1%
Other professional services	19.2%	7.9%	-1.3%
Other personal health care	1.1%	1.1%	1.9%
Other nondurable medical products	13.0%	14.6%	9.5%
Durable medical equipment	33.9%	18.8%	0.8%

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.