

October 19, 2021

Economywide inflation continues to overshadow health care price growth

HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) increased slightly in September, with prices 2.0% higher than they were a year ago, compared to the 1.6% growth rate seen in August.
- ▲ The 2.0% growth rate continues a period of moderate overall health care price increases, where monthly year-over-year price growth has held in a very tight range (around 2.0% since around April 2021).
- ▲ Health care price growth remained moderate despite continued elevated economywide inflation, as measured by both the consumer price index (CPI) and producer price index (PPI), that were at 5.4% and 8.6% in September.
- ▲ Year-over-year growth in an implicit measure of health care utilization (spending growth minus changes in prices) remains high, and increased slightly in August, now at 6.6% year over year, increasing from the slightly revised 6.4% rate in July.

	Sept. 2019	Sept. 2020	Aug. 2021	Sept. 2021
Health Care Price Index (HCPI)	1.4%	2.7%	1.6%	2.0%
GDP Deflator (GDPD)	1.5%	1.3%	4.7%	**
HCPI - GDPD	-0.1%	1.4%	-3.1%	**
<i>Addendum</i>				
Personal health care spending	4.9%	-0.8%	8.2%	**
Health care utilization	3.5%	-3.5%	6.6%	**
Medical Consumer Price Index (MCPI)	3.5%	4.2%	0.4%	0.4%
Consumer Price Index – all items (CPI)	1.7%	1.4%	5.3%	5.4%
Producer Price Index – Final Demand (PPI)	1.5%	0.3%	8.3%	8.6%

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: press@altarum.org.



DISCUSSION

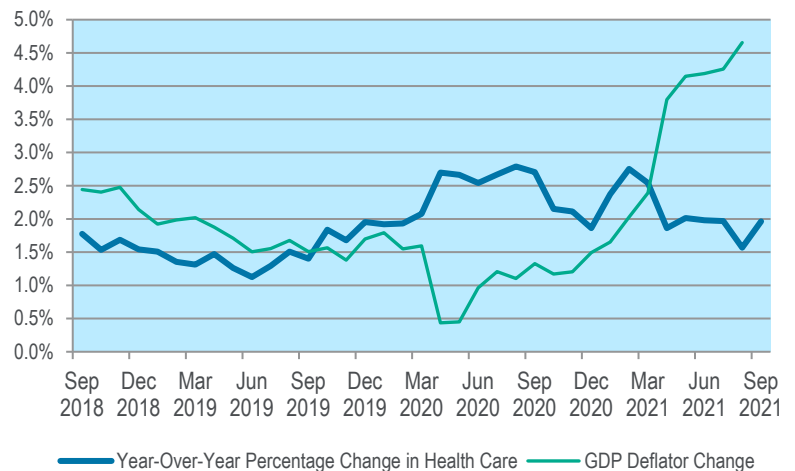
Growth in the overall Health Care Price Index (HCPI) bounced back to 2.0% year over year in September, after it fell by 0.4 percentage points in August. This month continues a period of generally moderate health care price growth since April 2021 (Exhibit 1). Slowing health care prices occurred despite very high economywide inflation for historical standards (the overall GDP deflator hit 4.7% growth in August 2021, and in September CPI was at 5.4% and PPI increased to another record of 8.6%). The gap between overall economywide CPI and HCPI was 3.4 percentage points in September (Highlights Table), continuing this extraordinary period in our series' when health care prices have grown significantly slower than economywide prices. While the trend of economywide prices "catching up" to health care price growth following an economic slowdown is common (See Exhibit 4), the gap between economywide and health care prices since mid-summer 2021 is quite extraordinary. Given the commonly [cited reasons](#) for economywide price growth (supply chain issues, labor shortages, increased demand for services), it is notable that health care prices appear to remain less affected at this time to these factors based on our data.

Price growth for hospital services was at 2.5% year over year in September, while physician services were the fastest growing category at 3.3%, increasing from 3.1% year-over-year growth a month prior (Exhibit 3). Prescription drug price growth was again negative at -1.6%, now at 12 straight months of year-over-year price declines for this component. Yet, this decline is less severe than the month prior and the prescription drug index month-over-month is higher than it was in August, so we may expect to see rising prescription drug prices again soon if this trend continues. Among major payers for hospital services, prices among privately-insured patients saw a notable decrease in August and September, dropping to 2.9% and 3.6% year-over-year growth. However,

growth for privately-insured prices remain well above the Medicare and Medicaid price growth rates (Exhibit 6).

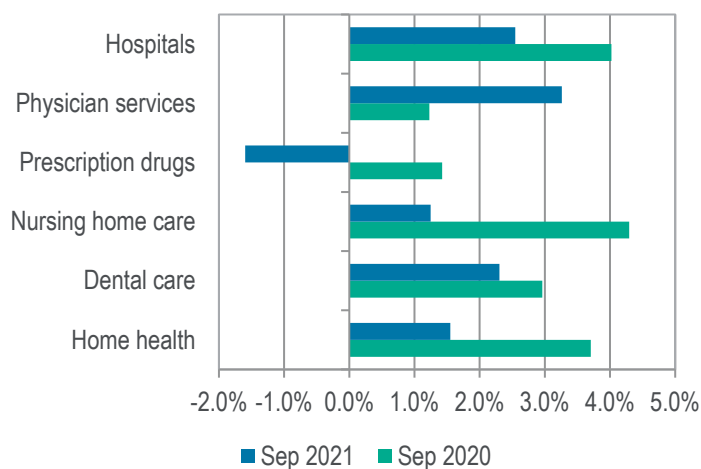
As for changes in the **use** of health care products and services, our overall implicit measure of utilization (the difference between year-over-year spending growth and price growth), was at 6.6% year over year in September, increasing from 6.4% in August. This marks the first utilization year-over-year growth acceleration since April, indicating the 2021 spending recovery may be solidifying, with increases since last month in utilization growth for most of the major health services components including hospital, physician, and nursing home care.

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





PRICE GROWTH BY DETAILED CATEGORIES

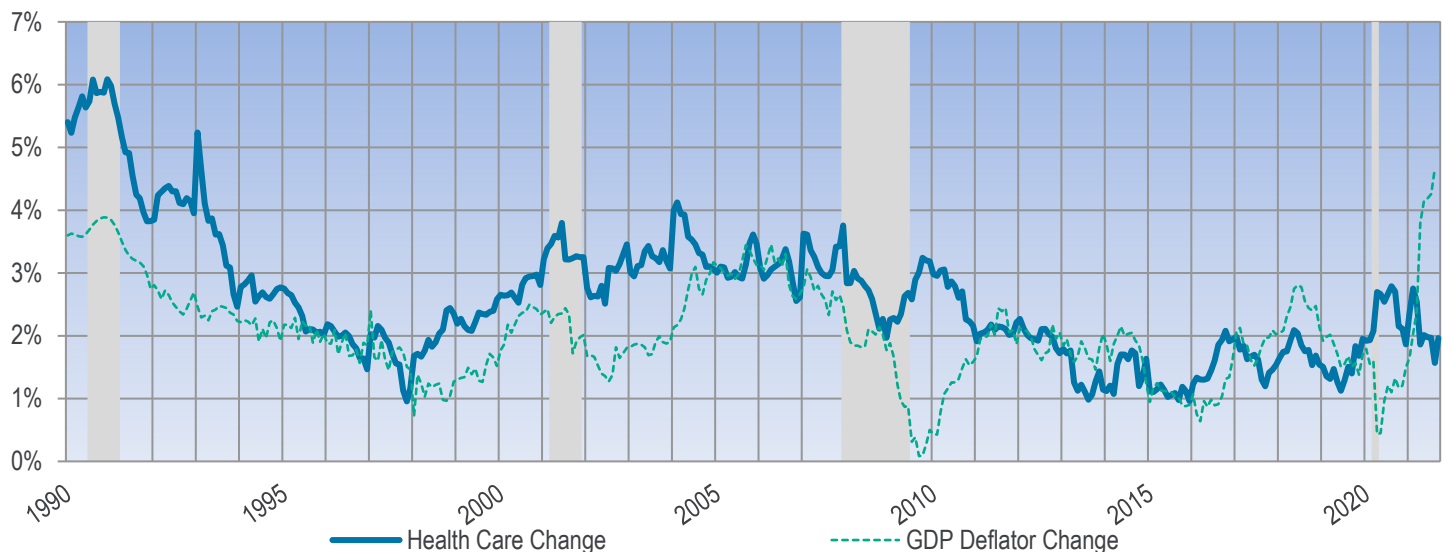
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending September 2019	Ending September 2020	Ending September 2021
Health Care Price Index (HCPI)	1.4%	2.7%	2.0%
Hospital care	2.0%	4.0%	2.5%
Physician and clinical services	0.6%	1.2%	3.3%
Prescription drugs	-1.1%	1.4%	-1.6%
Nursing home care	3.7%	4.3%	1.2%
Dental Services	3.1%	3.0%	2.3%
Home health care	2.5%	3.7%	1.5%
Other professional services	1.6%	1.1%	2.1%
Other personal health care	1.8%	3.7%	4.6%
Other nondurable medical products	2.6%	-0.6%	-1.7%
Durable medical equipment	0.8%	-0.3%	-0.7%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

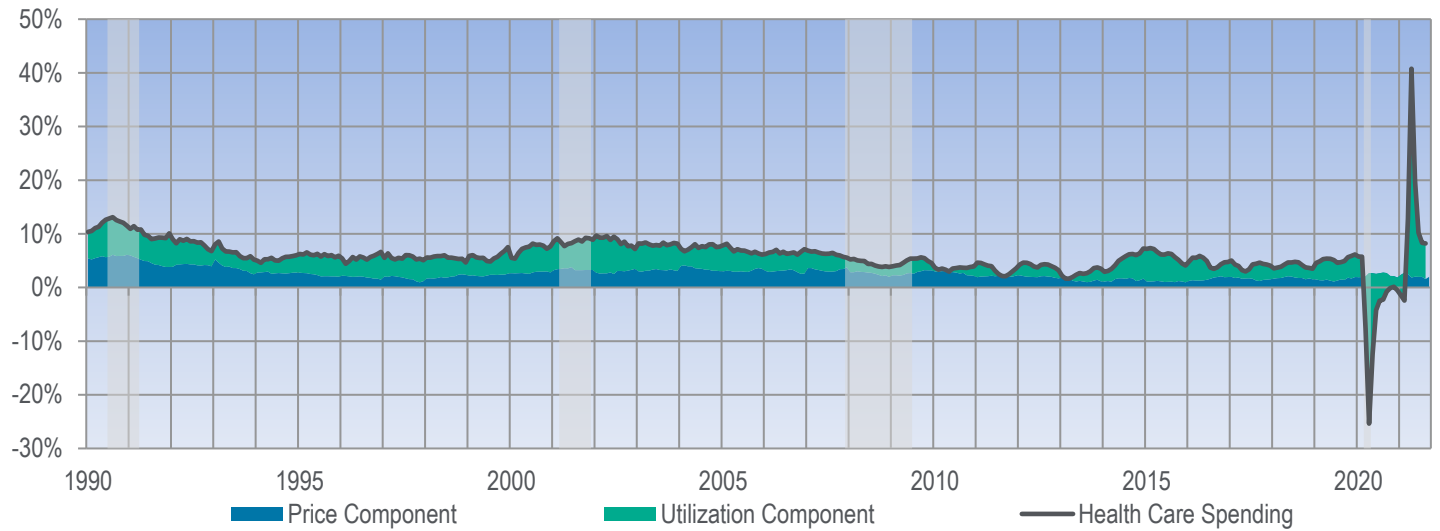
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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.



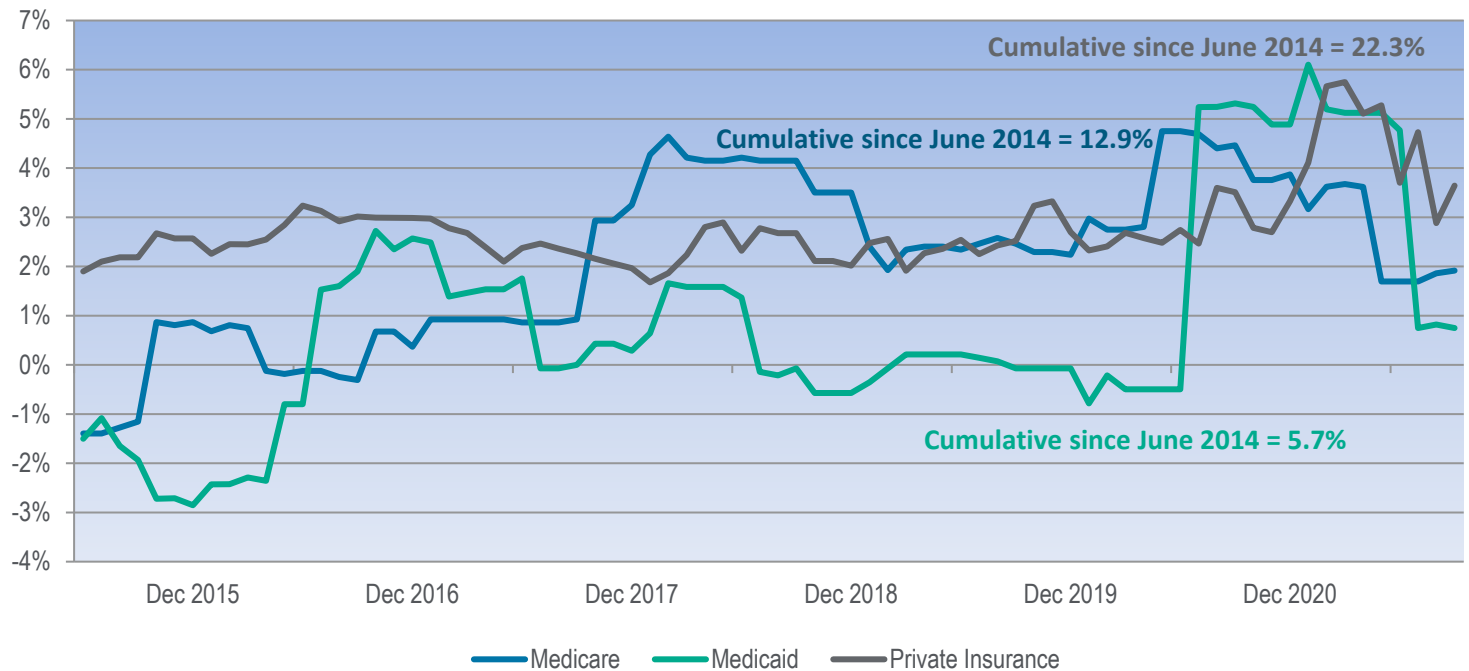
Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



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 19th, 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

	August 2021	12-Month Moving Average	6-Month Moving Average	3-Month Moving Average
Total health care	6.6%	5.8%	14.7%	7.1%
Hospital care	7.7%	8.1%	20.6%	8.1%
Physician and clinical services	6.4%	6.5%	17.2%	6.1%
Prescription drugs	3.8%	4.1%	4.0%	4.8%
Nursing home care	4.2%	-6.2%	-0.9%	3.5%
Dental Services	10.5%	13.2%	46.5%	19.3%
Home health care	2.4%	3.9%	6.3%	3.0%
Other professional services	9.8%	7.5%	16.1%	7.7%
Other personal health care	0.7%	1.1%	0.6%	0.5%
Other nondurable medical products	13.0%	13.5%	15.5%	12.0%
Durable medical equipment	11.9%	19.7%	33.6%	19.0%

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.