

April 21, 2023

## Private payer health care services price growth hits a new record high

### HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 3.1% year over year in March, up from the slightly revised 2.8% growth rate observed a month prior in February.
- ▲ Prices for health care services paid for by private insurance increased by 4.5% in March (up from 4.1% in February and 3.5% in January), while Medicare price growth was flat year over year.
- ▲ Economywide inflation slowed again in March, as overall CPI growth fell from 6.0% to 5.0% and PPI price growth fell from 4.9% to 2.7%. Economywide services (less healthcare) inflation fell for the first time since July 2021 (from 8.3% in February to 8.0% in March).
- ▲ Among the major health care categories, prices for nursing home care (7.0%) grew fastest, followed by dental services (6.8%), while physician services (0.9%) price growth was the slowest.
- ▲ Our implicit measure of health care utilization growth increased again in February, up 3.9% year over year. Prescription drug utilization (7.1%) and home health care utilization (5.1%) increased most last month.

	Mar 2021	Mar 2022	Feb 2023	Mar 2023
<b>Health Care Price Index (HCPI)</b>	2.7%	2.2%	2.8%	3.1%
<b>GDP Deflator (GDPD)</b>	2.8%	7.3%	5.4%	**
<b>HCPI - GDPD</b>	-0.1%	-5.1%	-2.6%	**
<i>Addendum</i>				
<b>Personal health care spending</b>	16.4%	3.5%	6.7%	**
<b>Health care utilization</b>	13.7%	1.3%	3.9%	**
<b>Medical Consumer Price Index (MCPI)</b>	1.8%	2.9%	2.3%	1.5%
<b>Consumer Price Index – all items (CPI)</b>	2.6%	8.5%	6.0%	5.0%
<b>Producer Price Index – Final Demand (PPI)</b>	4.1%	11.7%	4.9%	2.7%

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 (Corey) Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. Media Contact: [press@altarum.org](mailto:press@altarum.org). For more information, visit <http://altarum.org/solution/health-sector-spending>.



## DISCUSSION

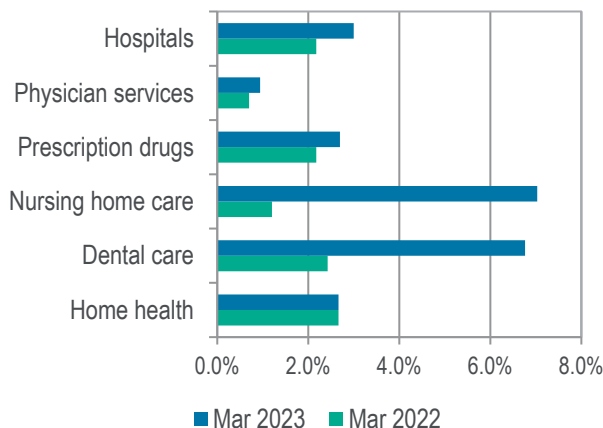
The overall health care price index (HCPI) increased by 3.1% year over year in March, up from 2.8% growth in February (Exhibit 1). February’s growth was slightly revised upward in the new data, up from the 2.7% reported growth last month. March’s 3.1% year-over-year growth is notably faster than a year prior (2.2%) and is the fastest overall HCPI growth seen in our series since December 2009.

The increase in overall HCPI this month is driven almost exclusively by increases in private payer price growth. Overall health care services private price increases jumped to 4.5% year over year in March (Exhibit 6), the fastest seen since that series began in 2014; while private payer hospital prices increased at an even faster 5.9% rate (Exhibit 7) and private payer physician care prices increased by 3.7% (Exhibit 8). This jump in private payer prices is something we’ve been expecting and have been discussing in briefs for almost a year. It appears likely that higher negotiated private sector reimbursements for providers that were negotiated during periods of greater economywide inflation are finally having an impact. At the same time Medicare price growth has stayed low so far in 2023—in March price growth was flat compared to a year prior.

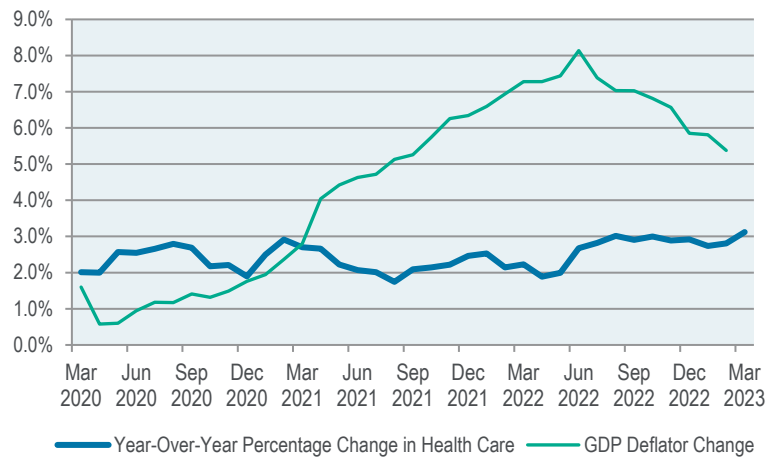
This increasing health care price growth comes as overall economywide inflation has fallen somewhat. Overall inflation, as measured by the CPI and PPI, remains above average, but has fallen over the past six months. CPI growth fell to 5.0% year over year in March, while PPI fell even further to 2.7%. Economywide commodities inflation fell to 1.6%, the lowest value in over two years, while non-health services inflation appears to have peaked last month in February and now has fallen to 8.0% growth in March (Exhibit 4).

Among major health care categories in March, the fastest growth occurred for nursing home and dental care (rising 7.0% and 6.8% respectively) (Exhibit 2). Hospital prices growth, while a somewhat slower rate (3.0%), jumped noticeably from February’s value (2.4%), and we will monitor this trend closely going forward. Physician and clinical services prices remain the slowest growing major category—increasing only 0.9% year over year—marking the fourteenth straight month of below 1.0% price growth for this component (Exhibit 3).

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



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



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

Our implicit measure of overall health care utilization (total spending growth net of health care price inflation) increased in February by 3.9% year over year (Exhibit 9). Utilization growth among prescription drugs (7.1%) was the fastest, while growth among dental services (1.3%) was the slowest. Utilization of hospital care services increased by 4.2% in February, the fastest increase seen in over a year. Going forward this year we expect our implicit measure of utilization will continue to remain positive for most categories. As a result of both rising health care private prices and increases in overall utilization, early indications are that overall 2023 health care spending growth may exceed the rates observed in 2022.



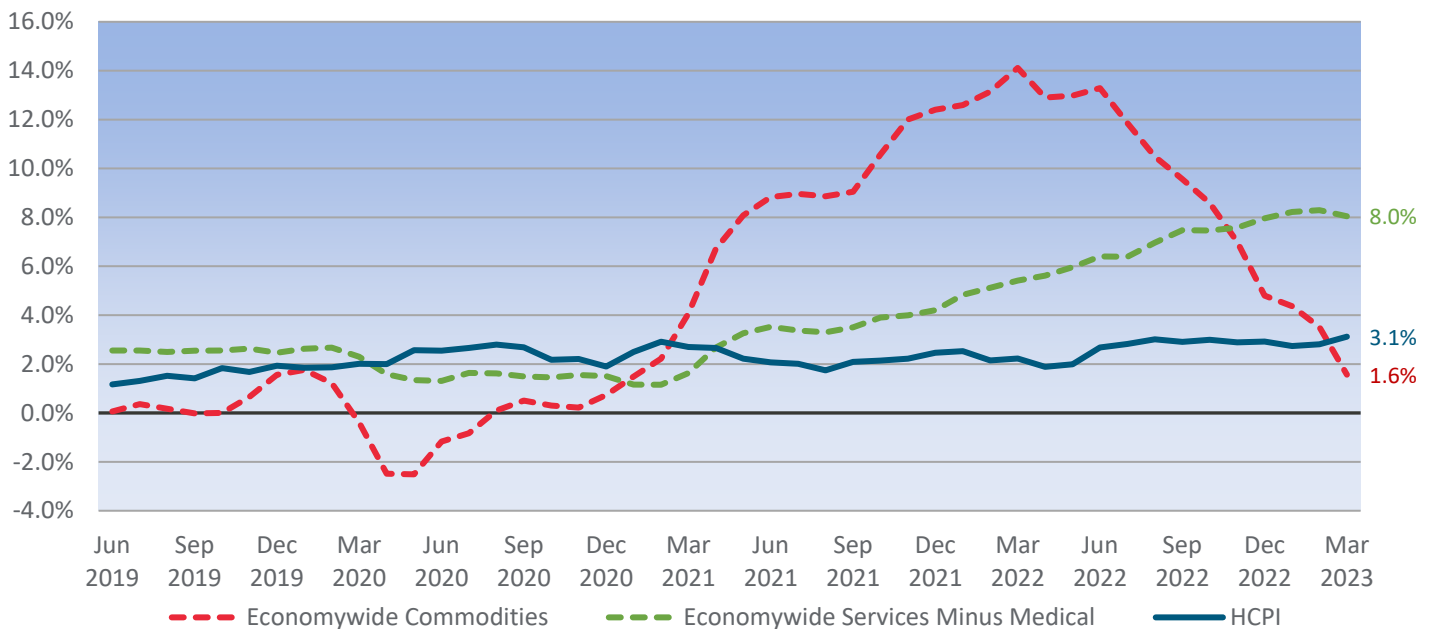
## PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending March 2021	Ending March 2022	Ending March 2023
Health Care Price Index (HCPI)	2.7%	2.2%	3.1%
Hospital care	4.4%	2.2%	3.0%
Physician and clinical services	3.6%	0.7%	0.9%
Prescription drugs	-2.3%	2.2%	2.7%
Nursing home care	2.8%	1.2%	7.0%
Dental Services	2.6%	2.4%	6.8%
Home health care	2.5%	2.7%	2.7%
Other professional services	2.6%	4.4%	-0.2%
Other personal health care	4.7%	4.6%	5.5%
Other nondurable medical products	-2.1%	4.1%	4.7%
Durable medical equipment	-2.4%	2.4%	5.1%

Source: Altarum analysis of monthly BLS data.

**Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services**

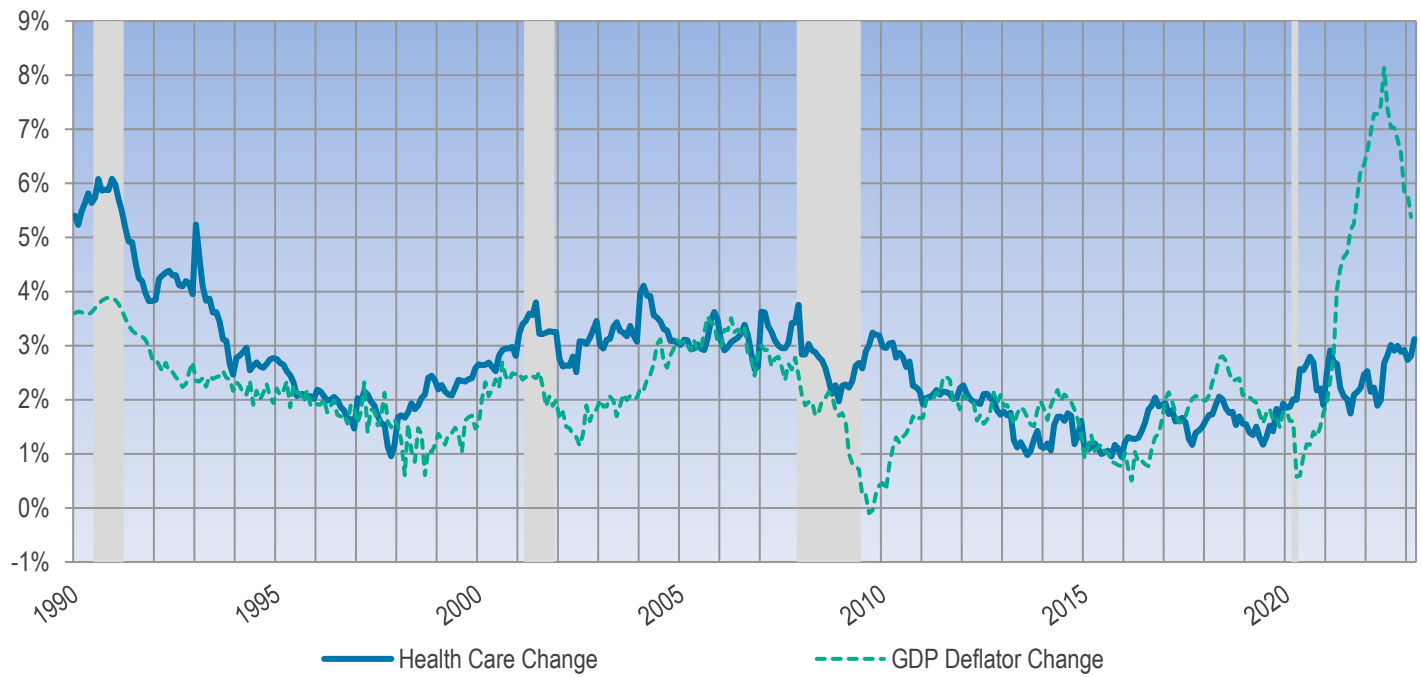


**Methods.** Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over 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.



## TIME SERIES TRACKER

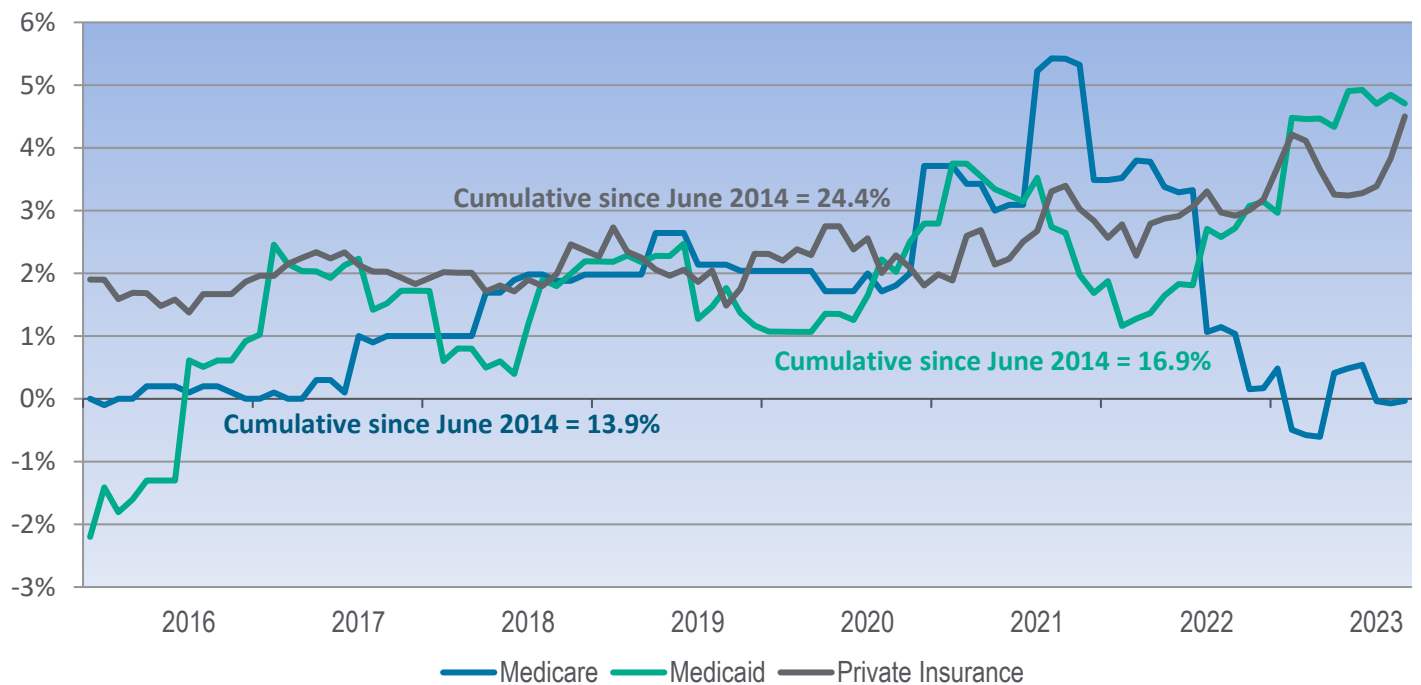
**Exhibit 5. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator**



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)

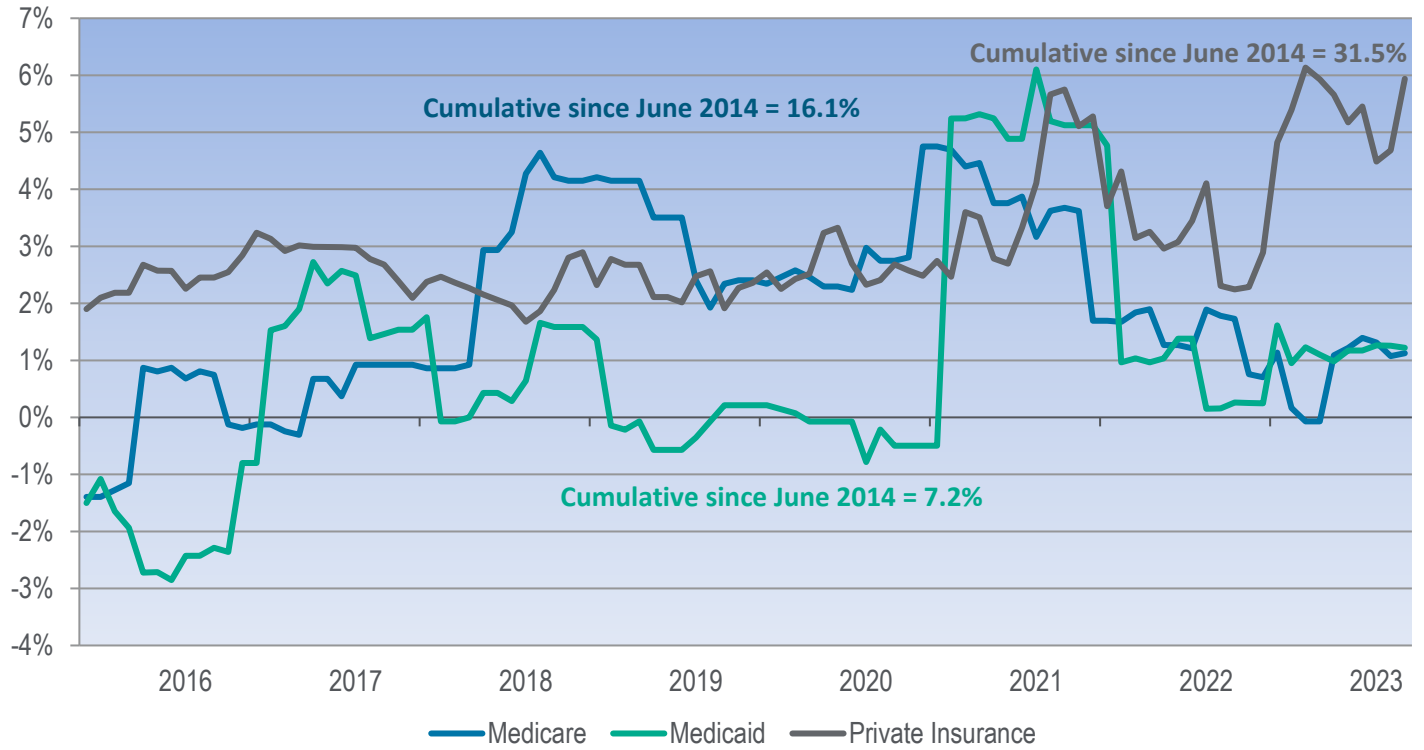
**Exhibit 6. Year-over-Year Change in Health Care Services Price Growth, by Payer**



Source: Altarum analysis of monthly BLS data.

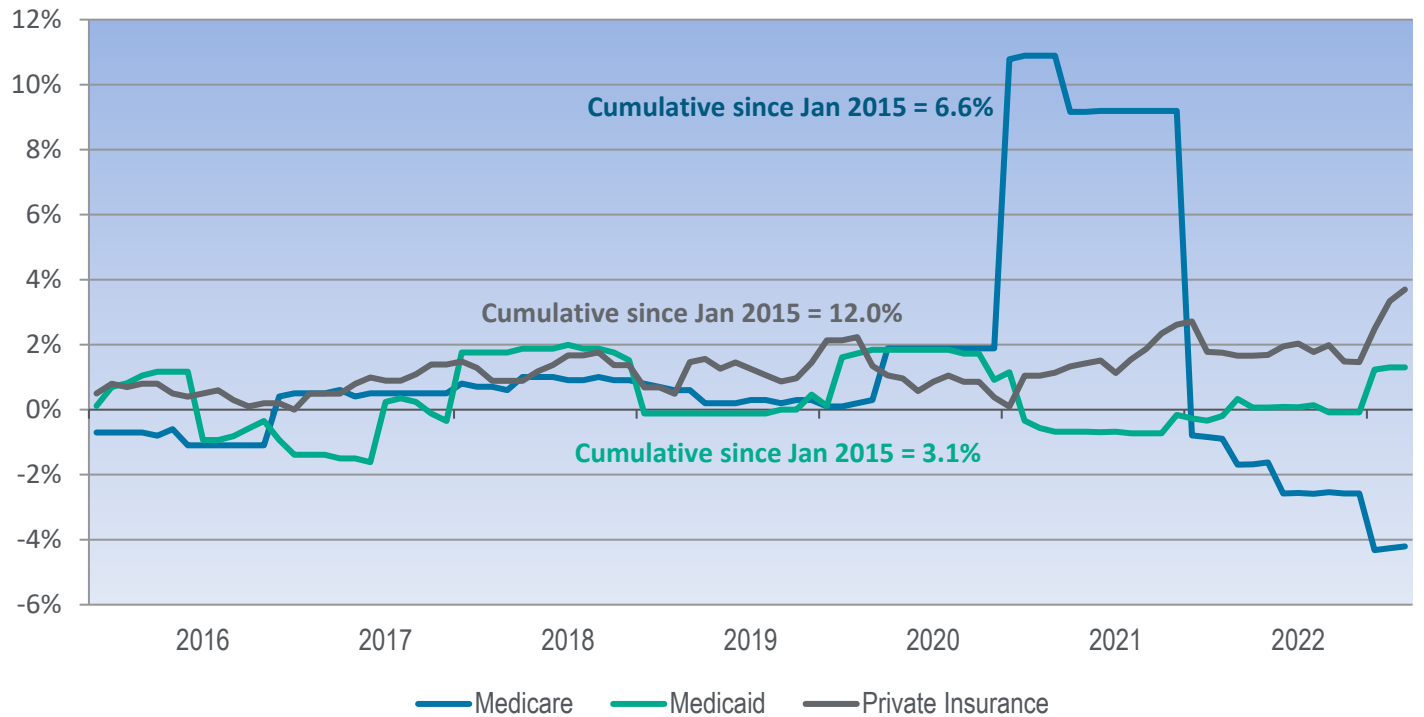


**Exhibit 7. Year-over-Year Change in Hospital Services Price Growth, by Payer**



Source: Altarum analysis of monthly BLS data.

**Exhibit 8. Year-over-Year Change in Physician Services Price Growth, by Payer**



Source: Altarum analysis of monthly BLS data.



### Exhibit 9. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

	February 2023	3-Month Moving Average	12-Month Moving Average
<b>Total personal health care</b>	3.9%	2.3%	2.1%
Hospital care	4.2%	2.6%	1.4%
Physician and clinical services	3.2%	1.4%	2.4%
Prescription drugs	7.1%	6.4%	5.5%
Nursing home care	3.9%	4.2%	5.6%
Dental Services	1.3%	-0.9%	1.6%
Home health care	5.1%	3.7%	3.7%
Other professional services	8.3%	4.1%	0.2%
Other personal health care	-1.1%	-2.5%	-1.0%
Other nondurable medical products	4.5%	2.7%	1.1%
Durable medical equipment	7.2%	7.2%	4.3%

**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.