

August 17, 2023

## Health care price growth and economywide inflation finally converge

### HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 2.7% year over year in July, slowing 0.1 percentage points from the slightly revised rate in June (2.8%).
- ▲ For the first time in over two years, health care price growth exceeded overall inflation as economywide price growth (measured by the GDP Deflator) fell to 2.6% in June, its lowest growth rate since March 2021.
- ▲ In new data for July, overall year-over-year CPI growth actually increased slightly to 3.2%, the first increase in its growth rate since June 2022, driven primarily by changes in commodities price growth.
- ▲ Among the major health care categories, prices for nursing home care (5.5%) and dental care (5.1%) grew fastest, while physician and clinical services (0.7%) price growth was the slowest in July.
- ▲ Year-over-year growth in hospital prices paid by private payers fell nearly 2.5 percentage points over the past two months (from 6.1% in May to 3.7% in July), beginning to converge with public payer price growth. In July, growth in Medicare and Medicaid hospital prices reached 2.6% and 2.3% respectively.
- ▲ Our implicit measure of health care utilization growth declined in June, up 4.5% year over year, and down somewhat from slightly revised data (4.9% growth) a month prior.

	July 2021	July 2022	June 2023	July 2023
Health Care Price Index (HCPI)	2.0%	2.8%	2.8%	2.7%
GDP Deflator (GDPD)	4.8%	7.4%	2.6%	**
HCPI - GDPD	-2.8%	-4.5%	0.2%	**
<b>Addendum</b>				
Personal health care spending	7.2%	5.7%	7.3%	**
Health care utilization	5.2%	2.9%	4.5%	**
Medical Consumer Price Index (MCPI)	0.3%	4.8%	0.1%	-0.5%
Consumer Price Index, all items (CPI)	5.4%	8.5%	3.0%	3.2%
Producer Price Index, Final Demand (PPI)	8.0%	9.7%	0.2%	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 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>* (HSEI) reports are a monthly publication of Altarum providing analyses of health spending, employment, and prices. For more information, contact Corwin (Corey) Rhyan at [Corwin.Rhyan@altarum.org](mailto:Corwin.Rhyan@altarum.org). Corey Rhyan (principal author), George Miller, PhD, and Matt Daly, PhD, contributed to this brief. We thank Ani Turner for her years of leadership of this work. Media Contact: [press@altarum.org](mailto:press@altarum.org). For more information, visit <http://altarum.org/solution/health-sector-spending>.

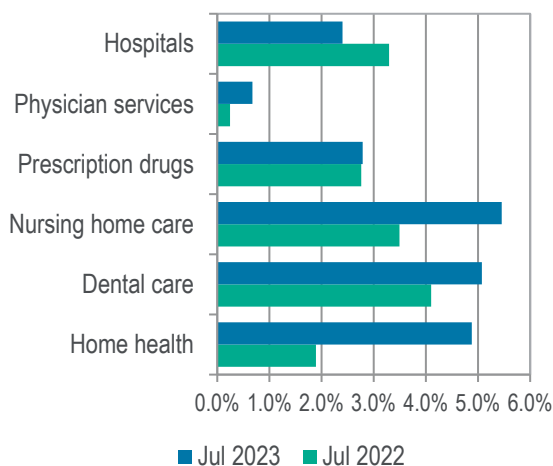
## DISCUSSION

The overall health care price index (HCPI) increased by 2.7% year over year in July, slightly slower than the growth rate from a month prior (2.8%) and below the average rate seen through the first six months of 2023 (2.9%) (Exhibit 1). Over the past year, health care price growth has remained in a very tight range, between 2.7% and 3.3% year-over-year growth, while economywide price growth has slowed consistently after peaking in June 2022 at 8.1%. With new GDP Deflator data, we see for the first time since February 2021 that health care price growth exceeded economywide inflation in June. While [we had been expecting](#) health care price growth in 2023 to eventually match and outpace economywide inflation due to cost pressures that began in 2022, we have yet to see any noticeable accelerations in health care prices so far this year. We expected that health care price growth would lag economywide inflation due to delays in government rate setting and insurer price negotiations; yet, up until now it is unclear if these lags are taking longer than we expected or if the health care cost pressures (and impacts on prices) will be less severe than expected in 2023.

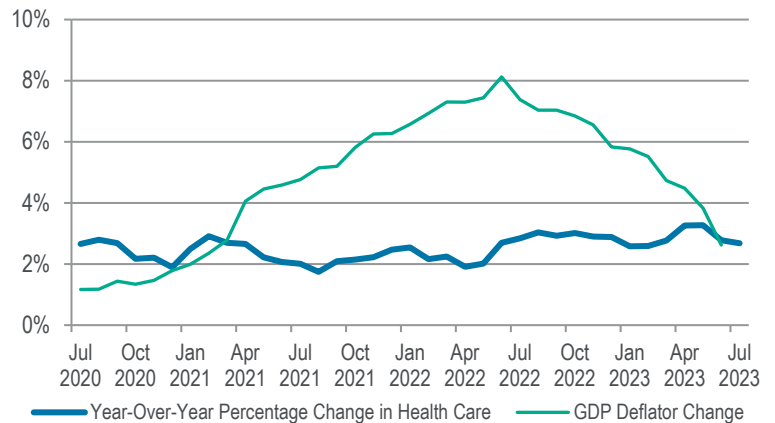
In particular, we expected health care price growth to rise for private payers throughout 2023 as new contracts and rates were phased in; however, in the most recent two months of data, we've instead observed significant drops in private payer price growth for both overall services (Exhibit 7) and hospital prices (Exhibit 8). As a result of this slowing growth, and also slight increases in the rate of Medicare price growth, the gap between private payer price growth and Medicare price growth in July is now at its smallest since December 2021. This result is unexpected, and we will continue to follow these trends for the remainder of 2023.

Looking ahead to 2024, [new data released this month](#) on future Marketplace premiums and underlying medical cost growth trends indicate private health care prices are likely to continue to increase (and may continue to exceed public payer price growth). Private insurers are projecting a median expected increase in medical trend growth of 8.0% for 2024. Separately, when Congress returns in September, a variety of health care bills will be under consideration, including [legislation covering](#) pharmacy benefit managers (PBMs) that could impact future prescription drug prices and [legislation on site-neutral payments](#) that could impact hospital and physician prices. The effect and timing of these impacts will not be immediately clear and will depend on each bill's details, although both types of legislation are seeking to control overall health care cost growth, such that they may put negative pressure on future health care prices.

### 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.

Among major health care categories in July, the fastest growth occurred for nursing home (5.5%) and dental care (5.1%) (Exhibit 2), although both rates fell again this month. Hospital price growth remained flat compared to last month (2.4%) and physician and clinical services prices remain the slowest growing major category—increasing only 0.7% year over year—marking the eighteenth straight month of below 1.0% price growth (Exhibit 3).

Our implicit measure of overall health care utilization growth (total spending growth net of health care price inflation) slowed in June, now up 4.5% year-over-year (Exhibit 9), down from the 5.1% growth rate seen in February and March. As discussed in more detail [in this month's spending brief](#), the majority of health care spending growth over the past year has been due to utilization increases, rather than rising health care prices.

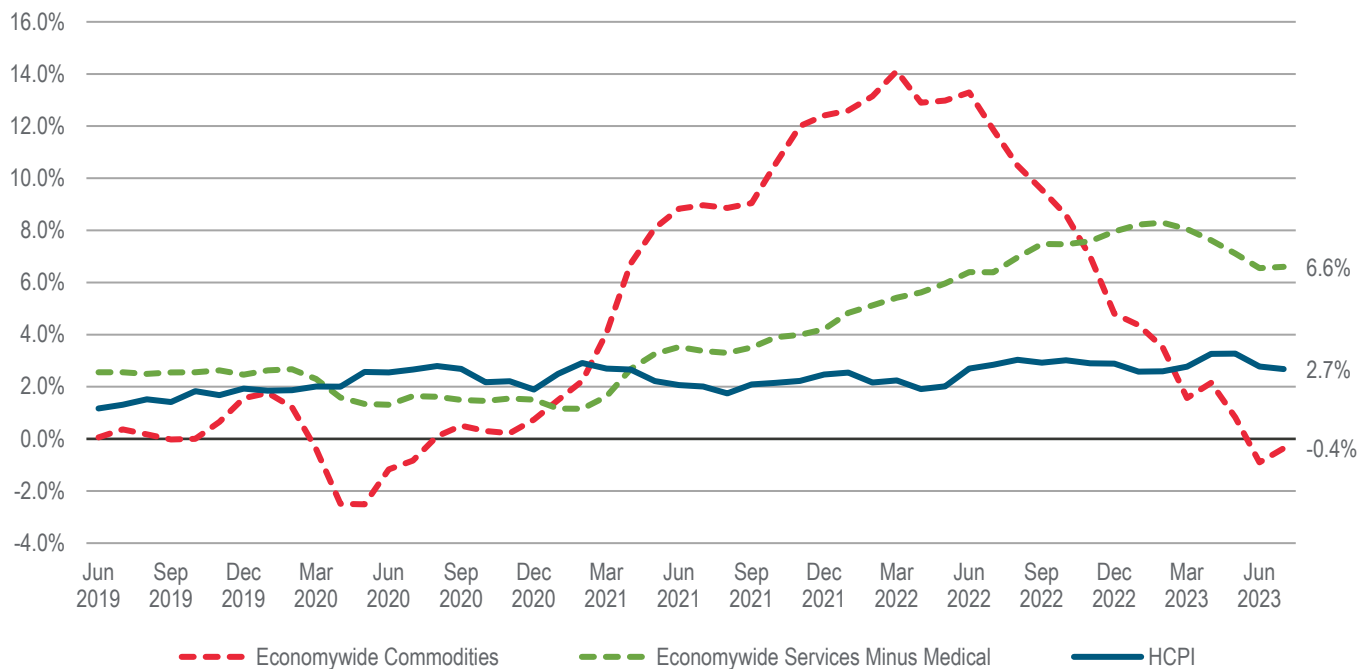
## PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending July 2021	Ending July 2022	Ending July 2023
<b>Health Care Price Index (HCPI)</b>	2.0%	2.8%	2.7%
<b>Hospital care</b>	2.8%	3.3%	2.4%
<b>Physician and clinical services</b>	3.3%	0.2%	0.7%
<b>Prescription drugs</b>	-2.5%	2.8%	2.8%
<b>Nursing home care</b>	1.1%	3.5%	5.5%
<b>Dental Services</b>	1.2%	4.1%	5.1%
<b>Home health care</b>	1.5%	1.9%	4.9%
<b>Other professional services</b>	2.2%	4.4%	0.9%
<b>Other personal health care</b>	5.5%	4.9%	3.9%
<b>Other nondurable medical products</b>	0.1%	5.4%	6.2%
<b>Durable medical equipment</b>	-3.2%	4.3%	5.3%

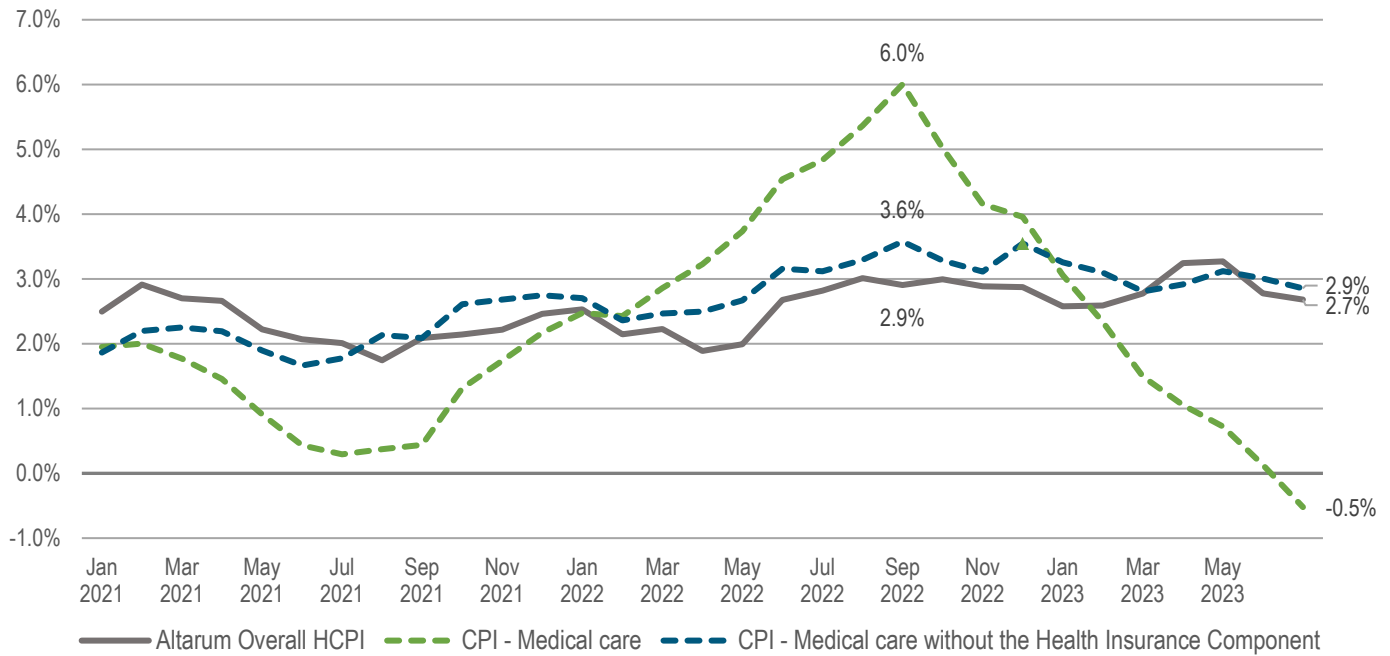
Source: Altarum analysis of monthly BLS data.

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



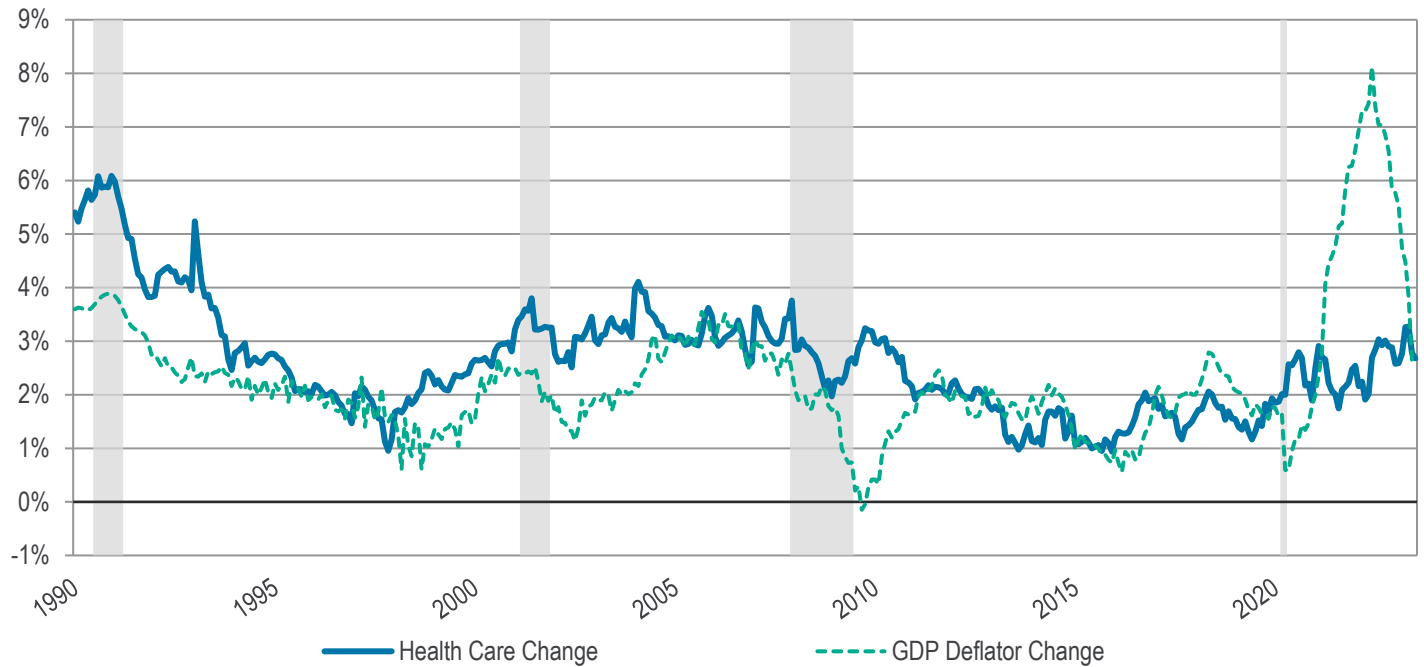
Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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

**Exhibit 5. Year-over-Year Percentage Change in Medical Care CPI vs. Altarum Overall HCPI**



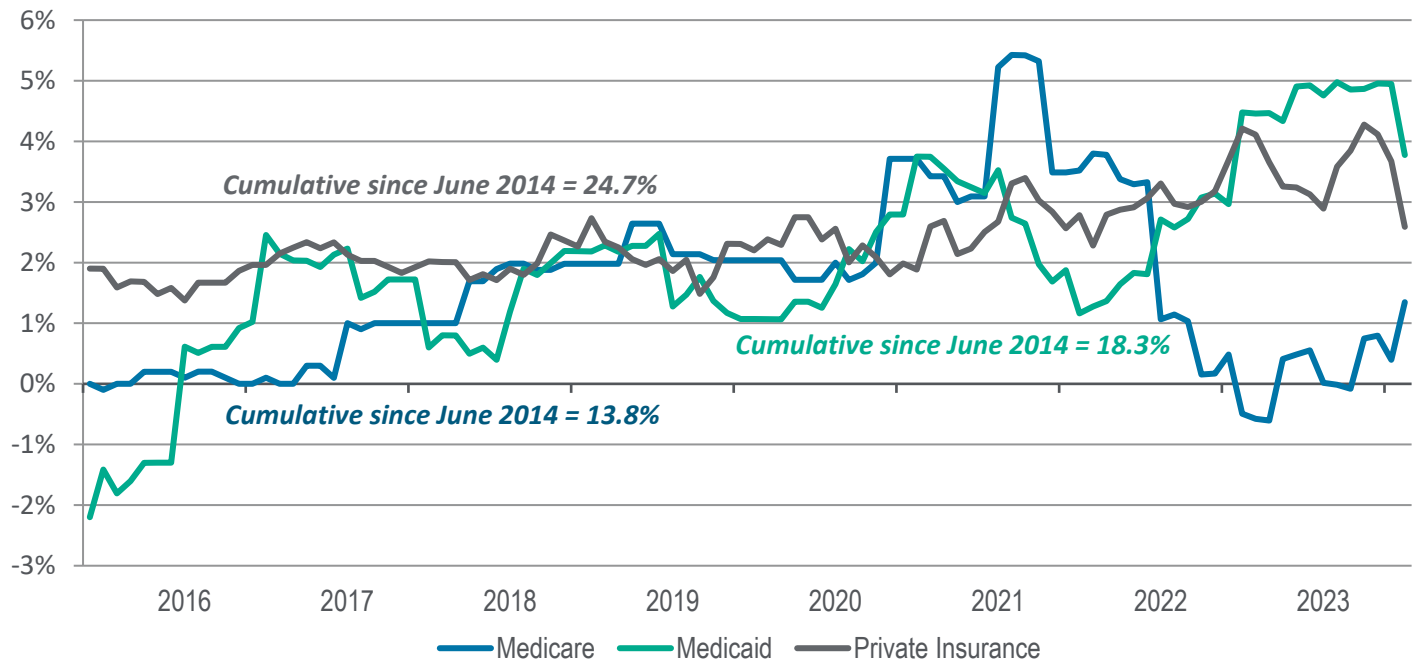
**TIME SERIES TRACKER**

**Exhibit 6. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator**



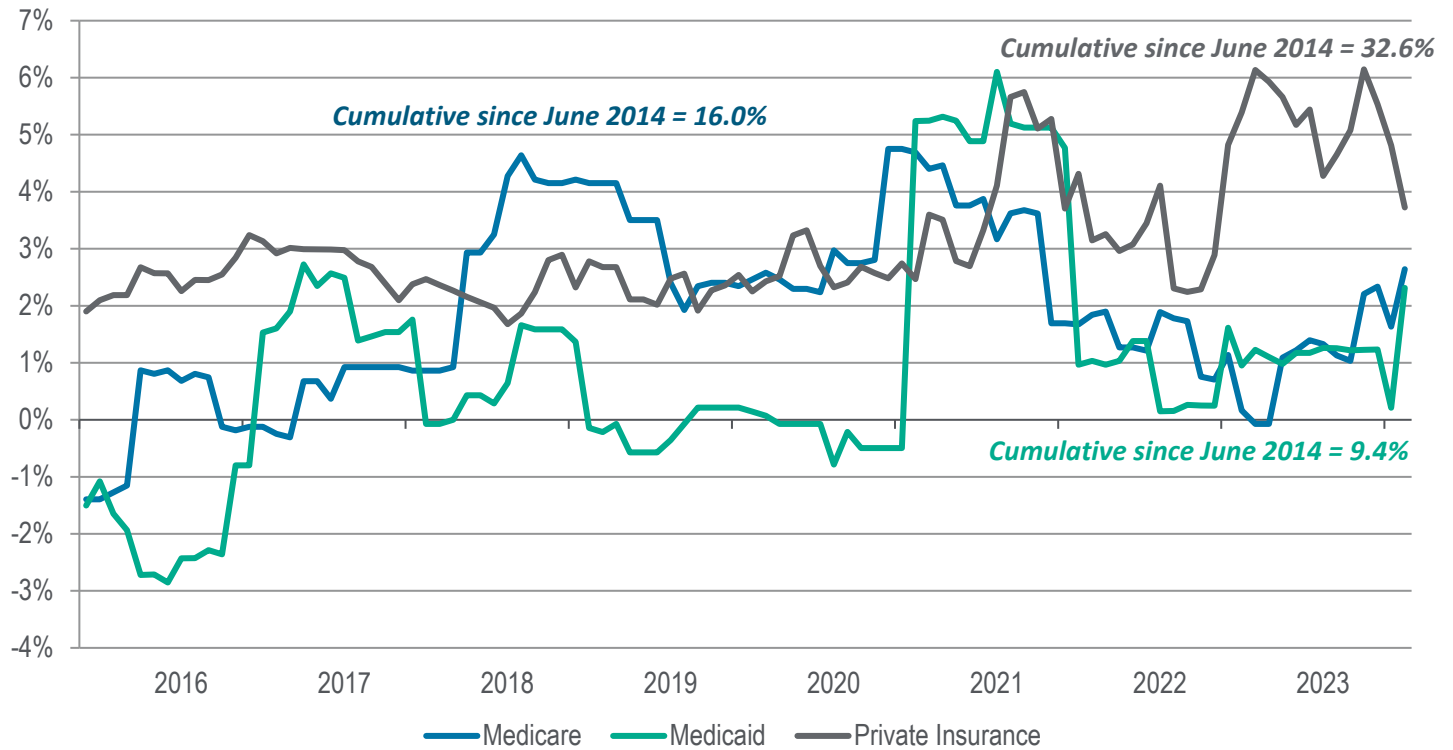
Source: Altarum monthly national health spending and price index estimates.  
Note: Lightly shaded bars denote recession periods.

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



Source: Altarum analysis of monthly BLS data.

**Exhibit 8. Year-over-Year Change in Hospital 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**

	June 2023	3-Month Moving Average	12-Month Moving Average
<b>Total personal health care</b>	4.5%	4.8%	3.3%
<b>Hospital care</b>	4.6%	4.7%	2.7%
<b>Physician and clinical services</b>	5.5%	5.9%	3.9%
<b>Prescription drugs</b>	6.5%	7.1%	6.3%
<b>Nursing home care</b>	4.6%	5.0%	5.5%
<b>Dental Services</b>	3.7%	3.2%	2.0%
<b>Home health care</b>	6.8%	8.3%	6.3%
<b>Other professional services</b>	4.2%	5.2%	2.4%
<b>Other personal health care</b>	-1.2%	-1.0%	0.0%
<b>Other nondurable medical products</b>	1.0%	1.4%	1.4%
<b>Durable medical equipment</b>	4.7%	4.7%	5.0%

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.