ALTARUM

Health Sector Economic Indicators℠

Insights from Monthly National Price Indices through January 2023

PRICE BRIEF

February 22, 2023

Health care price and utilization growth slows to kick off 2023

HIGHLIGHTS

- The overall Health Care Price Index increased by 2.7% year over year in January, down from the updated 2.9% reported growth rate a month prior in December.
- Revised data for 2022 show that overall health care price growth averaged 2.6% over the entire year, up somewhat from the 2.3% average growth that was seen in 2021.
- Economywide inflation slowed slightly in January, as overall CPI growth fell from 6.5% to 6.4% and PPI price growth fell from 6.5% to 6.0%. Alternatively, economywide services (less healthcare) inflation continues to increase, up to 8.2% year-over-year growth last month.
- Among the major health care categories, prices for dental care (6.6%), nursing home care (4.8%), and hospital services (2.7%) were the fastest growing, while physician services (0.5%) and home health care (1.8%) price growth were the slowest.
- Our implicit measure of health care year-over-year utilization growth fell again in December (-1.5%), pulled downward by dental care services (-4.9%); hospital care (-2.4%); and physician and clinical services (-2.4%).

	Jan 2021	Jan 2022	Dec 2022	Jan 2023
Health Care Price Index (HCPI)	2.5%	2.5%	2.9%	2.7%
GDP Deflator (GDPD)	1.9%	6.6%	5.5%	**
HCPI - GDPD	0.6%	-4.1%	-2.6%	**
Addendum				
Personal health care spending	4.6%	2.1%	1.4%	**
Health care utilization	2.1%	-0.4%	-1.5%	**
Medical Consumer Price Index (MCPI)	1.9%	2.5%	4.0%	3.1%
Consumer Price Index – all items (CPI)	1.4%	7.5%	6.5%	6.4%
Producer Price Index – Final Demand (PPI)	1.6%	10.1%	6.5%	6.0%

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

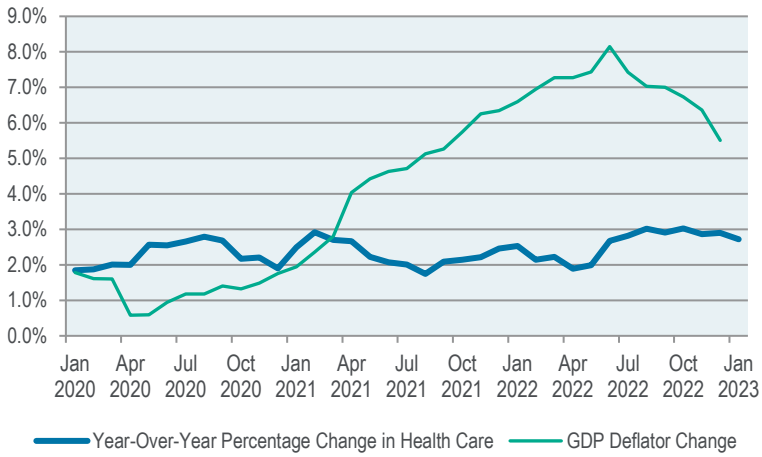
Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among at-risk and disenfranchised populations. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. This work was made possible through generous support from the Robert Wood Johnson Foundation.

The Health Sector Economic Indicators℠ 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 (Corey) Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. Media Contact: 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 January, down from 2.9% growth in December (Exhibit 1). This marks the eighth straight month where health care inflation has been between a very tight range of 2.7% and 3.0% and continues a period where health care price growth has increased more slowly than might otherwise be expected given persistently high economywide inflation. Overall inflation as measured by the CPI (6.4%) and PPI (6.0%) slowed some from a month prior; however, this decline was driven exclusively by slower growth in commodities prices (Exhibit 4). Non-health economywide services inflation reached a new record (8.2%) last month and now sits 3.4 percentage points higher than it was a year earlier in January 2022.

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

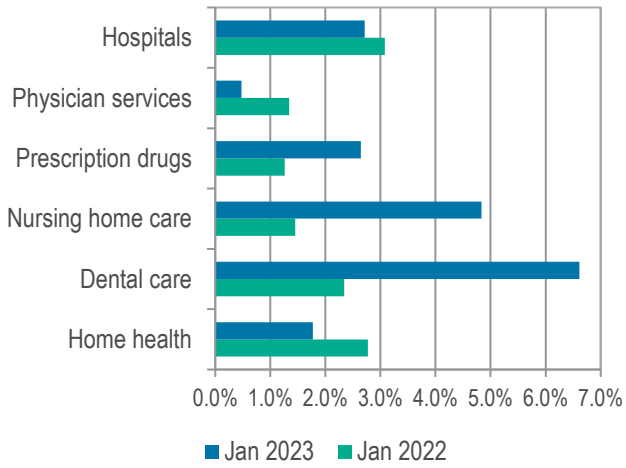


Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

The fact that overall economywide inflation is increasingly driven by services price growth may portend a longer period of overall rising prices, as service-sector price increases tend to be stickier and are more closely associated with wage growth. While health care price growth over 2022 remained below inflation, we expect 2023 and 2024 to be a period of increasing health care price growth, particularly for prices paid for by private insurance. The Dallas Fed, for example, recently reported they expect "health care inflation will increase … to 3.9 percent in second quarter 2023 and will remain above 3.5 percent through 2024." We expect in 2023 that private payer price growth will significantly exceed Medicare price growth, and that Medicaid price growth will fall somewhere between the two. As of January, private payer price growth exceeded the public payers for both hospital and physician services (Exhibits 6 and 7).

In December, the greatest increases in health care prices occurred for dental care, nursing homes, and hospital settings (rising 6.6%, 4.8%, and 2.7%, respectively) (Exhibit 2). Conversely, physician and clinical services prices increased at the slowest rate among major sectors—at only 0.5% growth—marking the twelfth straight month of below 1.0% price growth for this component (Exhibit 3).

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



Our implicit measure of overall health care utilization shows that it actually decreased by 1.5% year over year in December (Exhibit 8). Dental services utilization fell the most (-4.9%), followed hospital care (-2.4%) and physician and clinical services (-2.4%). Conversely, prescription drug utilization growth was a positive 6.5%, an increase from the recent June 2022 low (4.1%). As our implicit measure of utilization represents health spending growth that includes federal government Covid-19-related subsidies net of health care price changes, we can observe that the primary cause of the negative utilization change in the past two months was a result of decreased year-over-year spending growth that averaged only 1.9%. Price growth in November and December held mostly steady. Going forward into 2023 we expect our implicit measure of utilization will return to the positive as the lingering swings in federal pandemic assistance abated in the new 2022 comparison year.

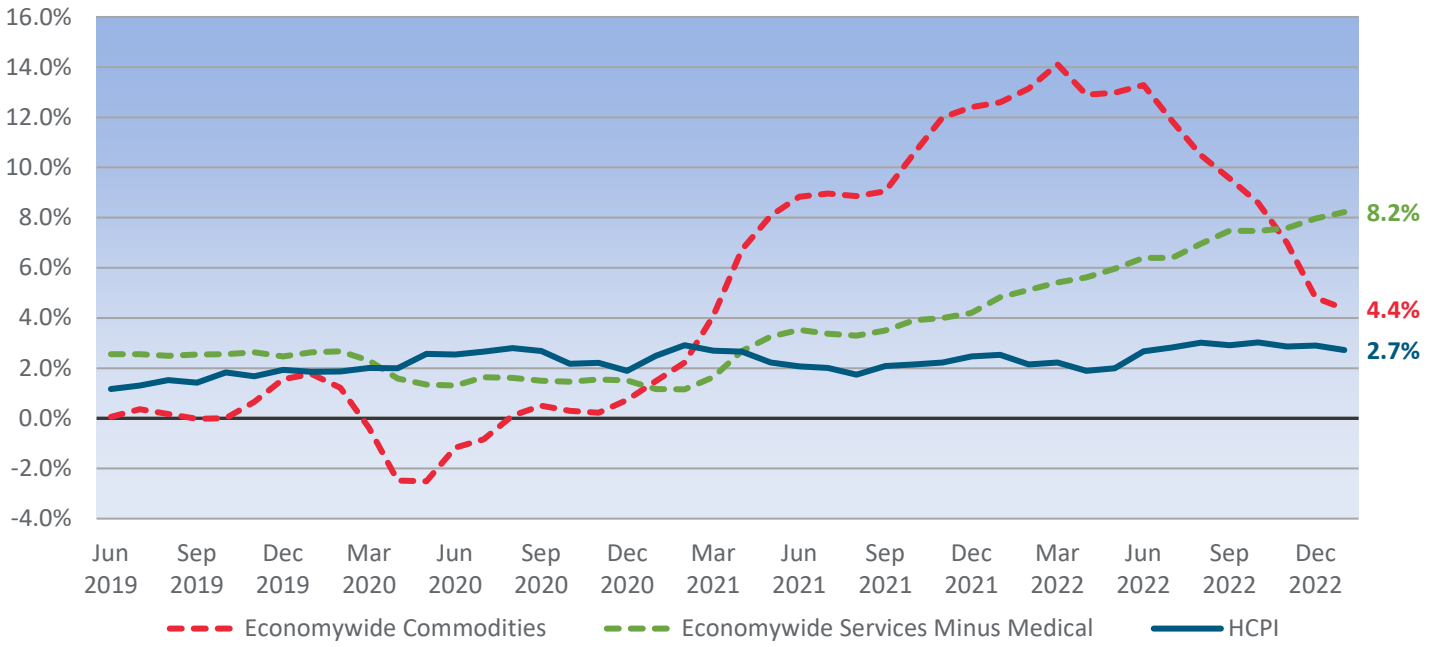
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending January 2021	Ending January 2022	Ending January 2023
Health Care Price Index (HCPI)	2.5%	2.5%	2.7%
Hospital care	3.7%	3.1%	2.7%
Physician and clinical services	3.1%	1.3%	0.5%
Prescription drugs	-2.4%	1.3%	2.6%
Nursing home care	3.3%	1.4%	4.8%
Dental Services	3.1%	2.3%	6.6%
Home health care	2.5%	2.8%	1.8%
Other professional services	2.7%	3.8%	-0.4%
Other personal health care	4.7%	4.5%	5.6%
Other nondurable medical products	-1.3%	1.7%	4.8%
Durable medical equipment	-2.8%	2.9%	3.9%

Source: Altarum analysis of monthly BLS data.

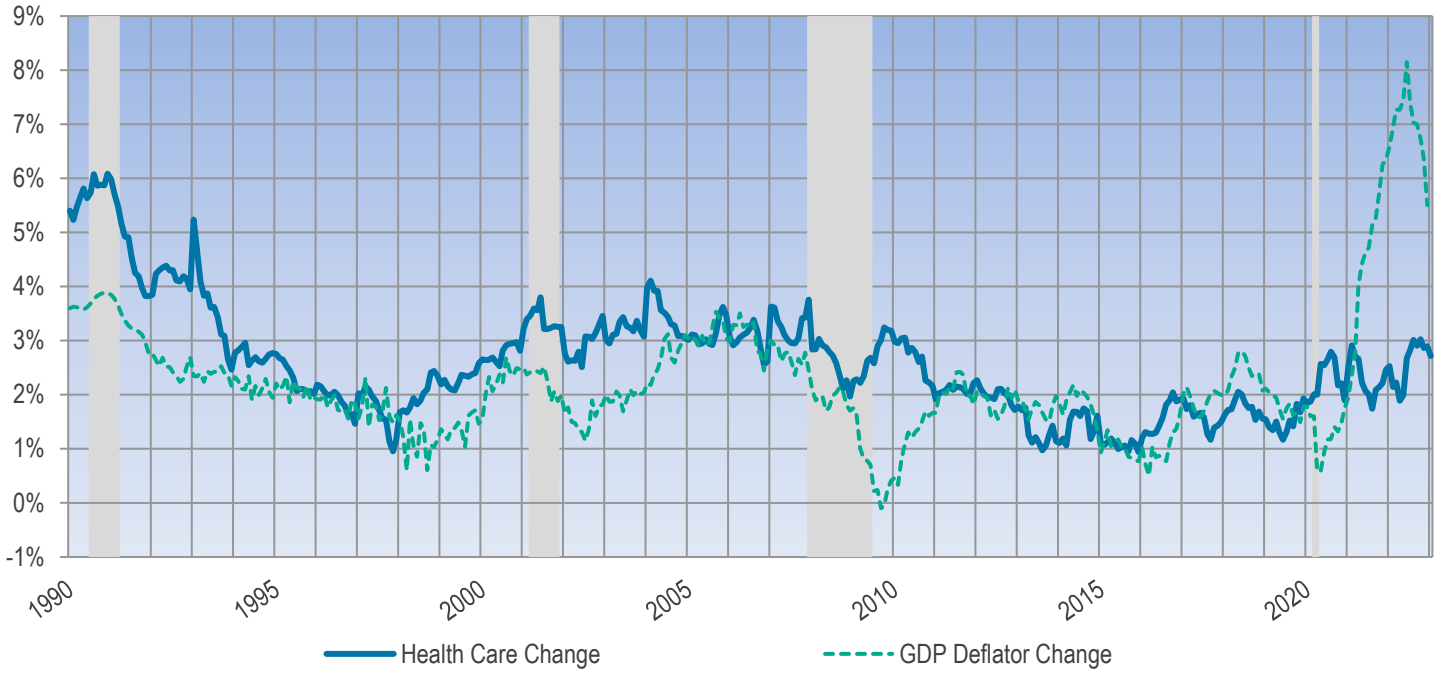
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services



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.

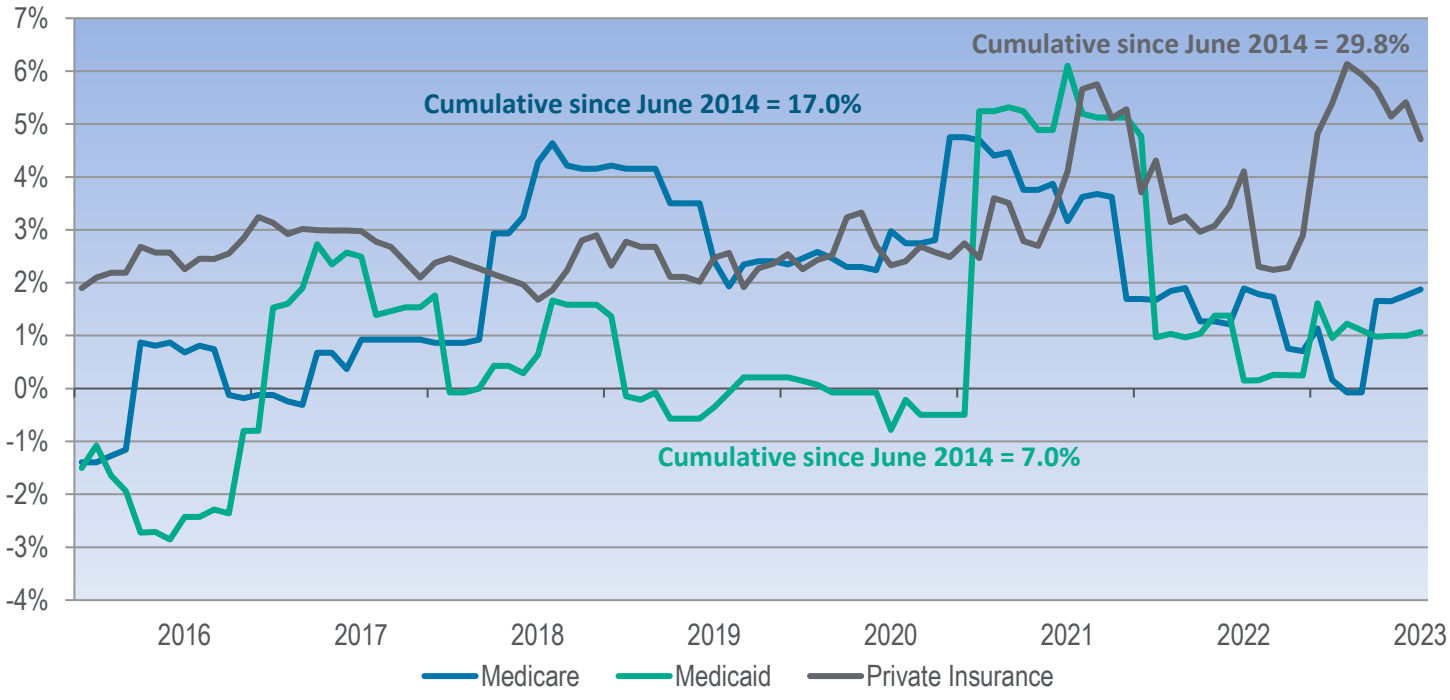
TIME SERIES TRACKER

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



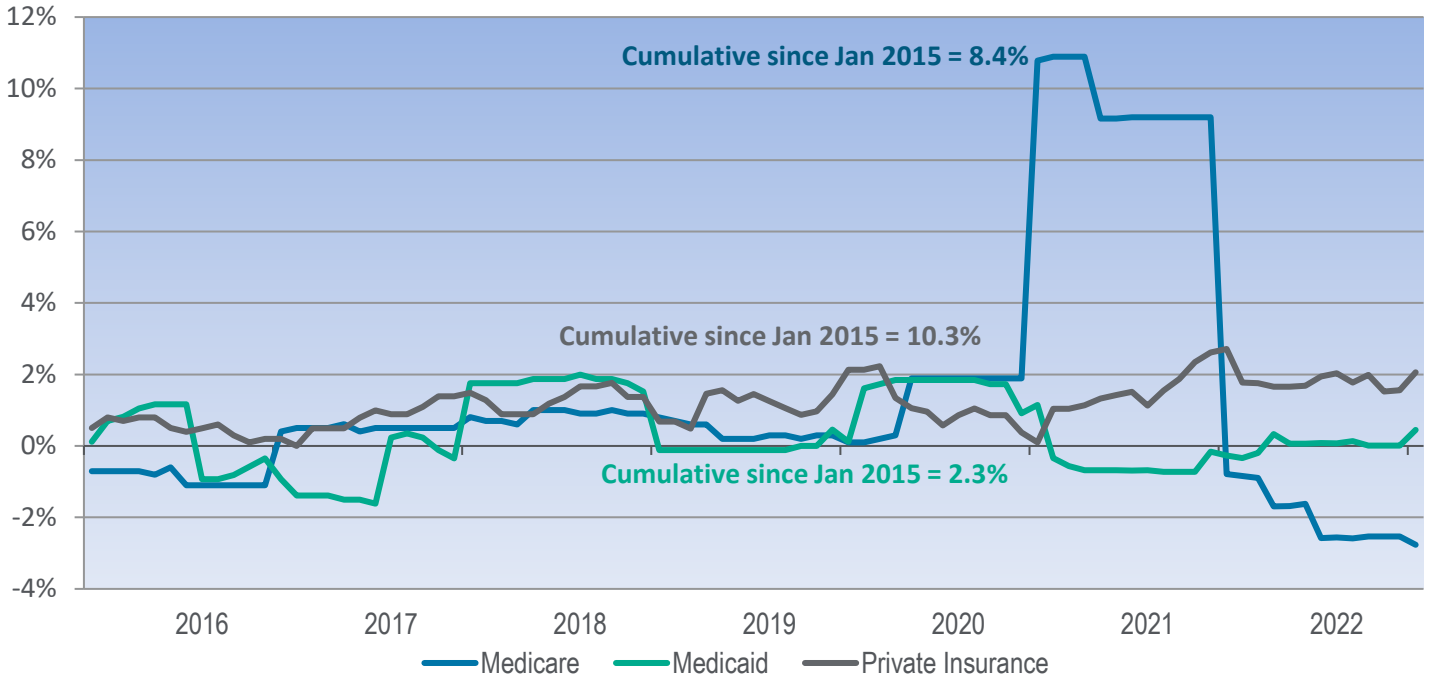
Source: Altarum monthly national health spending and price index estimates.
Note: Lightly shaded bars denote recession periods. (The 2020 recession timing was announced by NBER on July 19th, 2021)

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



Source: Altarum analysis of monthly BLS data.

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



Source: Altarum analysis of monthly BLS data.

Exhibit 8. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

	December 2022	3-Month Moving Average	12-Month Moving Average
Total personal health care	-1.5%	0.1%	1.5%
Hospital care	-2.4%	-1.0%	0.5%
Physician and clinical services	-2.4%	-0.1%	1.7%
Prescription drugs	6.5%	6.5%	5.6%
Nursing home care	1.4%	3.1%	5.0%
Dental Services	-4.9%	-0.7%	2.0%
Home health care	0.9%	2.2%	2.5%
Other professional services	-2.9%	-1.9%	-1.3%
Other personal health care	-5.4%	-2.9%	-1.5%
Other nondurable medical products	1.4%	0.8%	1.8%
Durable medical equipment	2.3%	2.4%	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.*