

July 19, 2023

## Economywide inflation and overall health care price growth slows

### HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 2.8% year over year in June, slowing nearly half a percentage point from the prior month of May (3.2%).
- ▲ Through the first six months of 2023, overall health care price growth has averaged 2.9% year over year, slightly above the 2.6% average growth rate seen for the calendar year 2022.
- ▲ Economywide inflation continued to slow in June, as overall CPI growth fell from 4.0% to 3.0% and PPI price growth fell from 0.9% to 0.1%.
- ▲ Among the major health care categories, prices for nursing home care (6.2%) and dental care (4.6%) grew fastest, while physician and clinical services (0.6%) price growth was the slowest.
- ▲ Our implicit measure of health care utilization growth increased again, up 5.3% year over year in May, greater than the 5.2% growth a month prior.

	June 2021	June 2022	May 2023	June 2023
Health Care Price Index (HCPI)	2.1%	2.7%	3.2%	2.8%
GDP Deflator (GDPD)	4.6%	8.1%	4.0%	**
HCPI - GDPD	-2.5%	-5.4%	-0.7%	**
<b>Addendum</b>				
Personal health care spending	5.6%	4.9%	8.5%	**
Health care utilization	3.5%	2.2%	5.3%	**
Medical Consumer Price Index (MCPI)	0.4%	4.5%	0.7%	0.1%
Consumer Price Index, all items (CPI)	5.4%	9.1%	4.0%	3.0%
Producer Price Index, Final Demand (PPI)	7.6%	11.2%	0.9%	0.1%

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

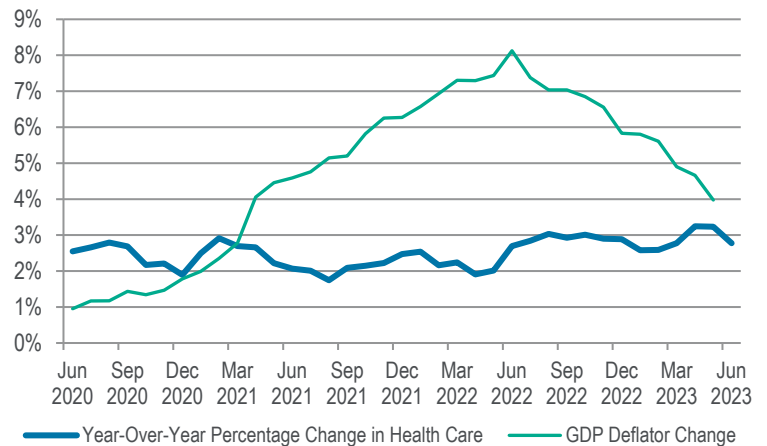
The overall health care price index (HCPI) increased by 2.8% year over year in June, noticeably slower than the prior month's growth rate (3.2%) and below the average rate seen through the first six months of 2023 (2.9%) (Exhibit 1). Assessing the change in the price index from the prior month, overall June health care prices were 0.05% higher than they were in May (0.6% higher on an annualized basis), the slowest month-over-month growth rate since November of last year. This overall slowing price growth was driven by slower growth in hospital, dental care, other professional services, and nursing home care prices in June and comes as a bit of surprise. Given the lagged pressure of higher health care input costs and overall economywide inflation, [we have been expecting](#) health care price growth in 2023 to be on an increasing trend due to higher private payer prices, among other factors. We will continue monitoring this data series in the coming months to assess if the June reading is the beginning a broader health care price slowdown or a single-month outlier.

After nearly two years of a period when economywide price growth has substantially exceeded health care price growth, the two rates are approaching a convergence. The 2.8% year-over-year growth rate in health care prices is now only 0.2 percentage points lower than economywide CPI (3.0%) and exceeds PPI growth (0.1%) by 2.7 percentage points. Falling economywide services and commodities prices (Exhibit 4) are contributing to slower inflation, and given that PPI price growth tends to be a leading indicator of economywide consumer prices, we expect health care price growth will exceed economywide price growth for the remainder of 2023.

Among major health care categories in June, the fastest growth occurred for nursing home (6.2%) and dental care (4.6%) (Exhibit 2), although both of these growth rates are down again from a month prior. Hospital price growth also fell last month from 3.2% in May to 2.6% in June. Physician and clinical services prices remain the slowest growing major category—increasing only 0.6% year over year—marking the seventeenth straight month of below 1.0% price growth for this component (Exhibit 3). Prescription drug prices were up 3.1% year over year, slightly above the average growth rate of 2.4% seen over the past 18 months and the highest since August 2022.

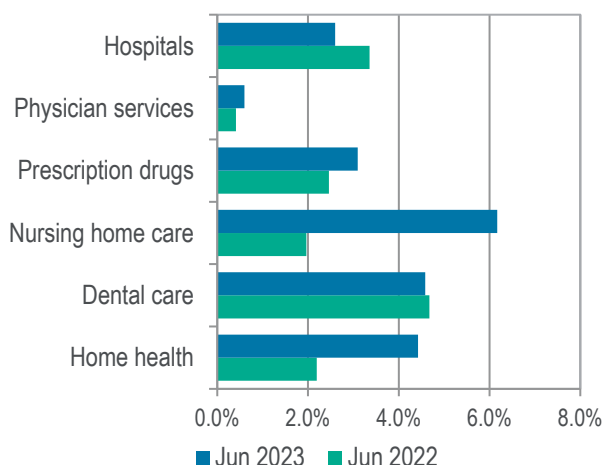
While health care price growth slowed in June, overall health care spending appears to be on an accelerating trend, discussed in [this month's spending brief](#). As a result, our implicit measure of overall health care utilization (total spending growth net of health care price inflation) increased again in May, now up 5.3% year-over-year (Exhibit 9), and is now at the fastest growth rate since December 2021. Increasing utilization was observed across a broad range of health care products and services, with use among hospital care, physician services, and prescription drugs each higher than the month before. Among the major categories, utilization growth from last month increased at the fastest rates for prescription drugs (7.8%), home health care (7.0%), and physician and clinical services (6.8%). This greater 2023 health care utilization has been reported both among [private payers](#) and [public payers](#), and may be a result of continued catch-up from elective care that was postponed during the COVID-19 pandemic, such as orthopedic procedures. We will continue to monitor these trends going forward in future spending and price briefs.

**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.

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



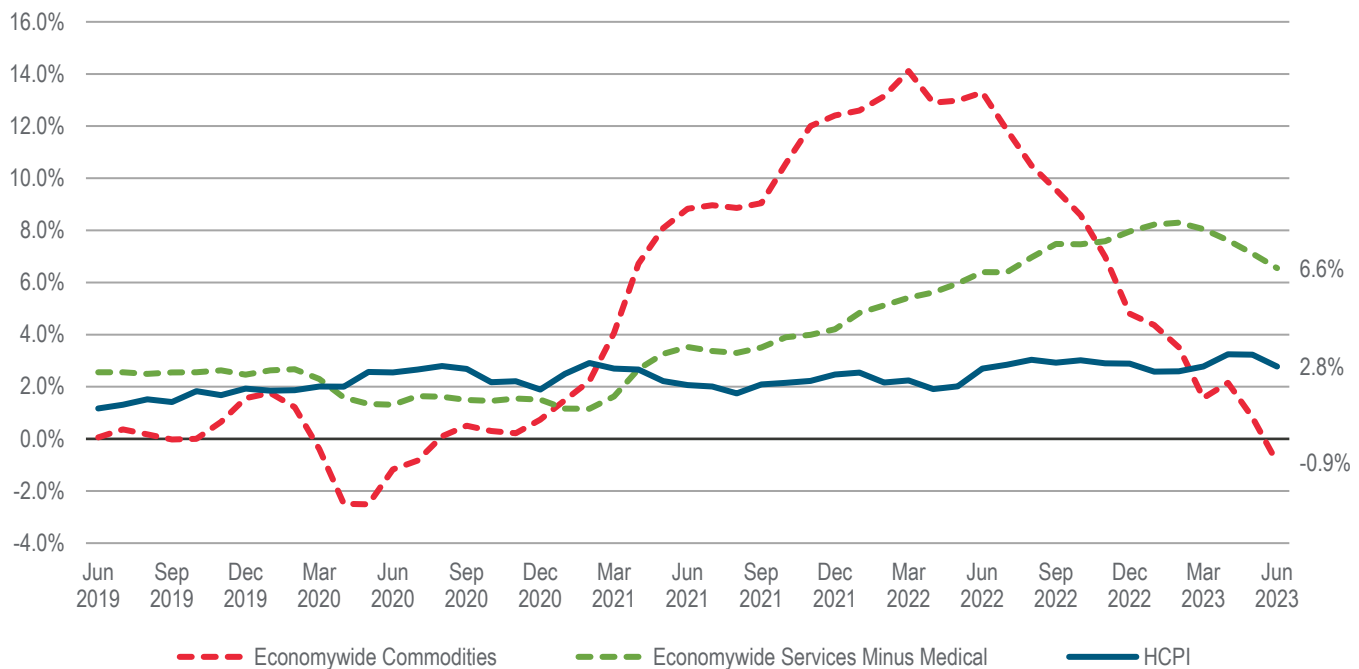
## PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending June 2021	Ending June 2022	Ending June 2023
<b>Health Care Price Index (HCPI)</b>	2.1%	2.7%	2.8%
<b>Hospital care</b>	2.9%	3.4%	2.6%
<b>Physician and clinical services</b>	3.3%	0.4%	0.6%
<b>Prescription drugs</b>	-2.5%	2.5%	3.1%
<b>Nursing home care</b>	1.3%	2.0%	6.2%
<b>Dental Services</b>	1.2%	4.7%	4.6%
<b>Home health care</b>	1.6%	2.2%	4.4%
<b>Other professional services</b>	2.3%	4.7%	0.0%
<b>Other personal health care</b>	5.5%	3.9%	4.7%
<b>Other nondurable medical products</b>	-0.5%	4.7%	5.6%
<b>Durable medical equipment</b>	-3.3%	4.5%	5.4%

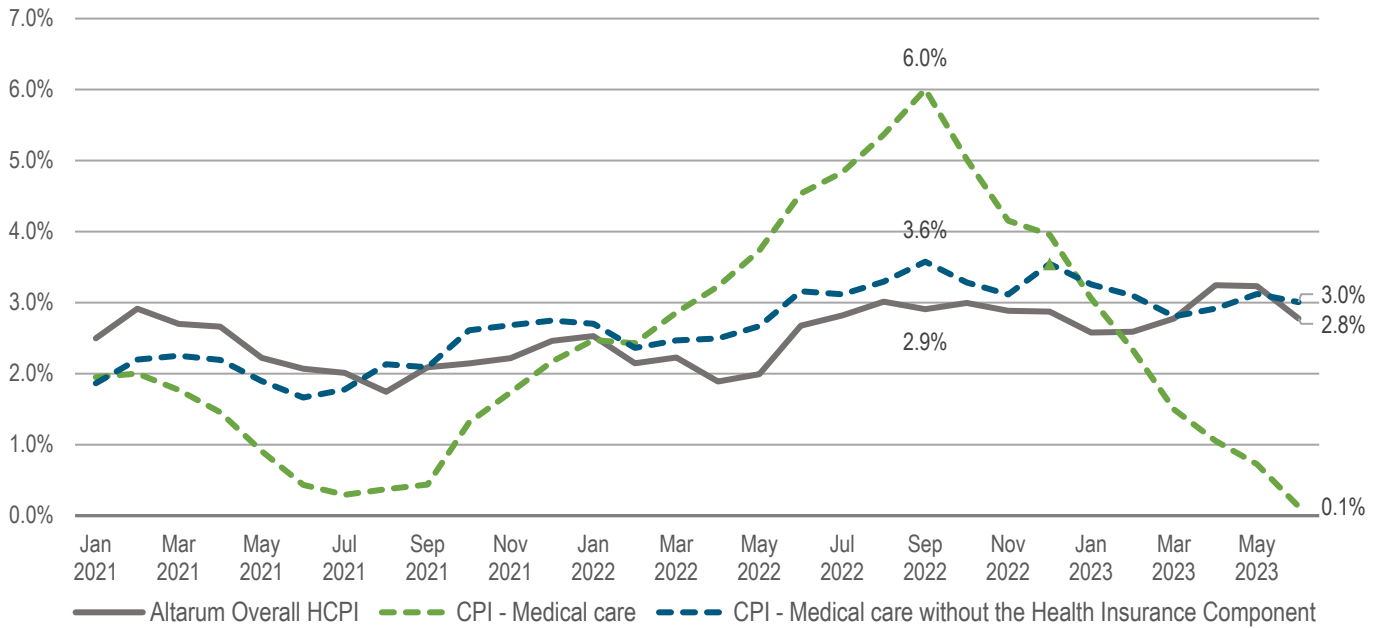
Source: Altarum analysis of monthly BLS data.

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



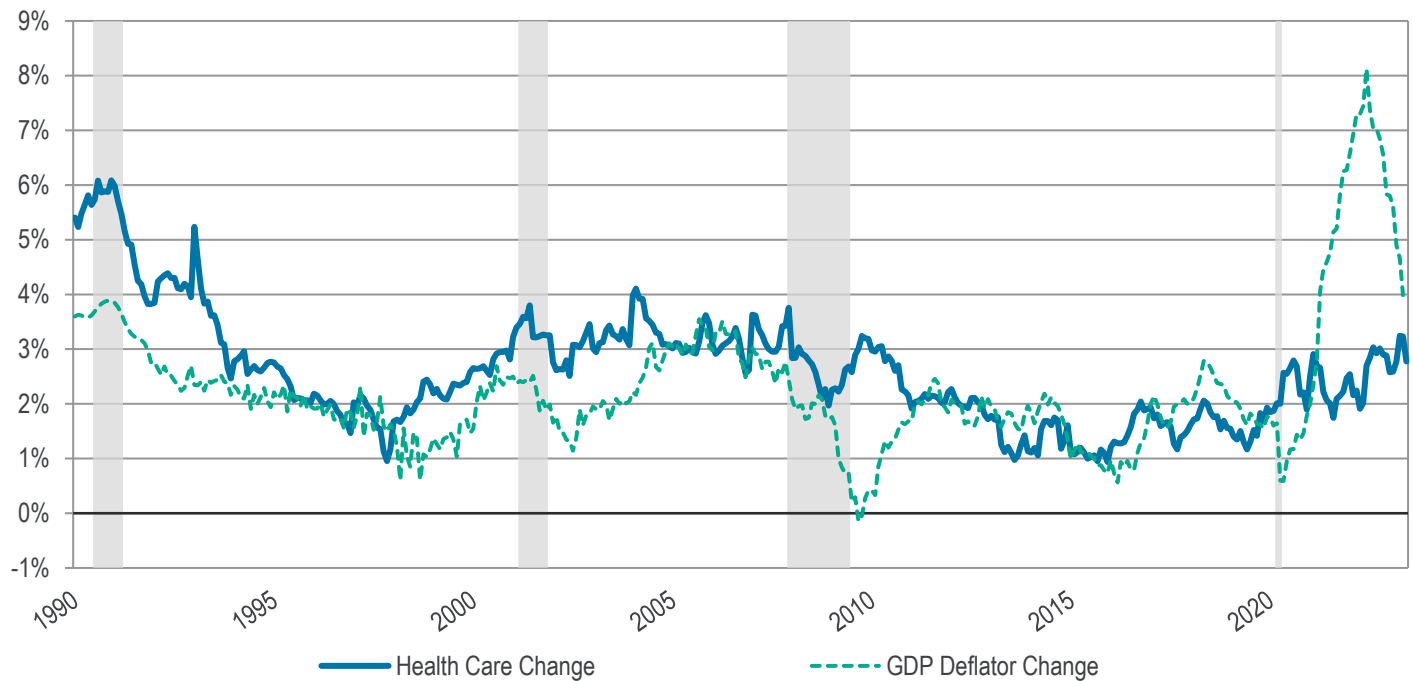
Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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



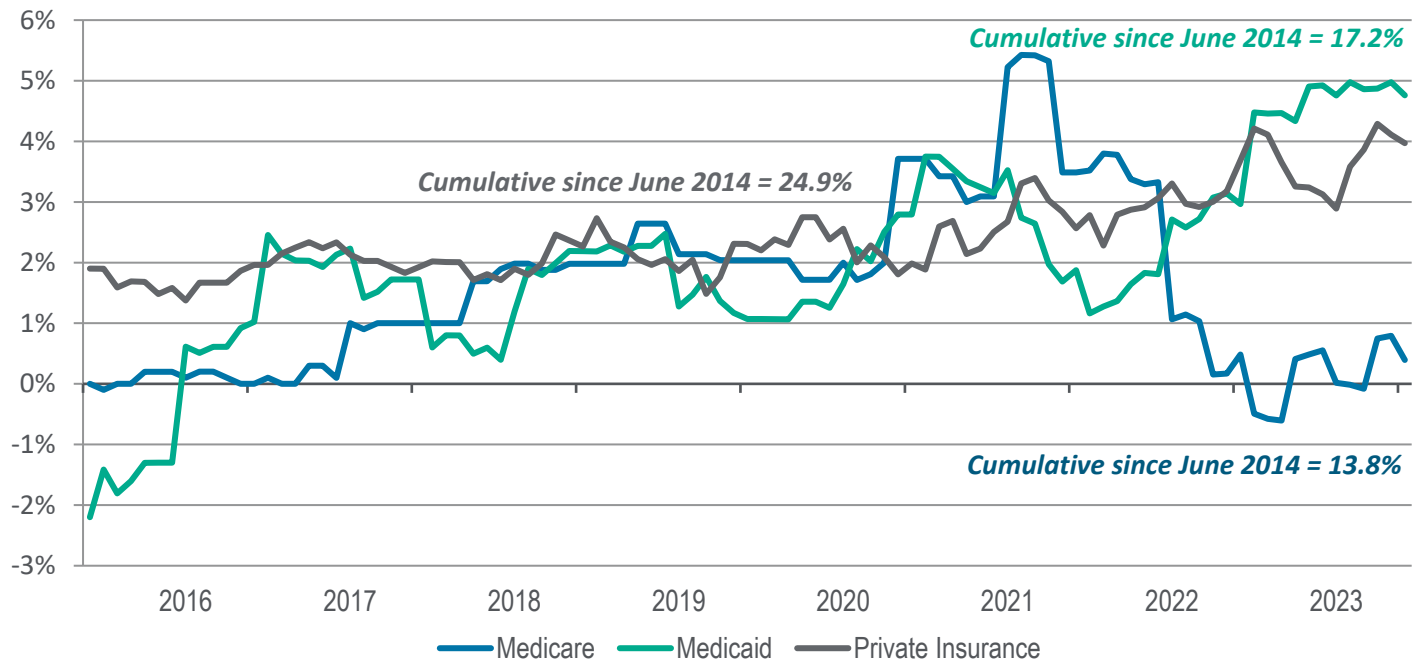
## TIME SERIES TRACKER

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



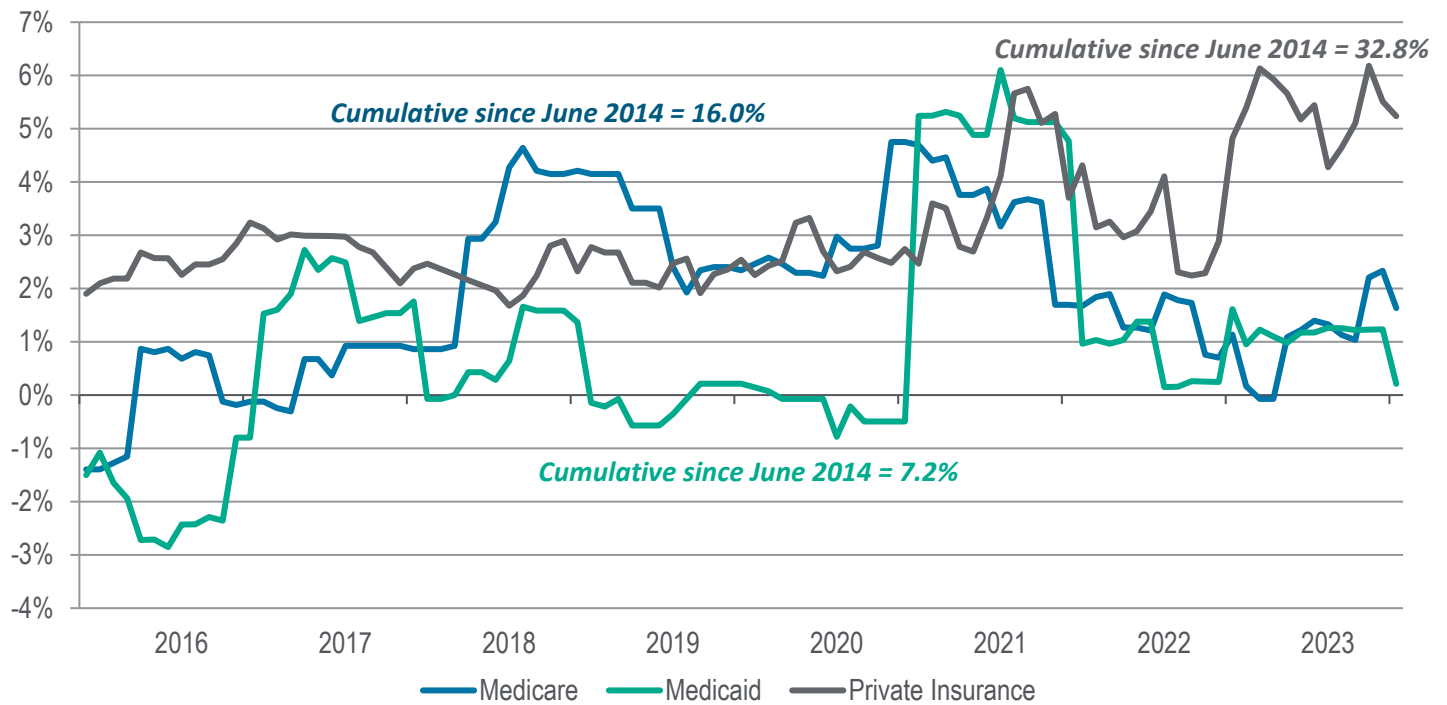
Source: Altarum monthly national health spending and price index estimates.  
Note: Lightly shaded bars denote recession periods.

**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**

	May 2023	3-Month Moving Average	12-Month Moving Average
<b>Total personal health care</b>	5.3%	5.2%	3.2%
<b>Hospital care</b>	5.2%	4.8%	2.4%
<b>Physician and clinical services</b>	6.8%	6.8%	4.0%
<b>Prescription drugs</b>	7.8%	7.5%	6.2%
<b>Nursing home care</b>	5.1%	5.1%	5.6%
<b>Dental Services</b>	2.9%	2.0%	1.7%
<b>Home health care</b>	7.0%	10.0%	6.2%
<b>Other professional services</b>	7.9%	7.6%	2.1%
<b>Other personal health care</b>	-0.9%	-0.9%	0.4%
<b>Other nondurable medical products</b>	1.0%	1.7%	1.4%
<b>Durable medical equipment</b>	4.5%	5.1%	4.8%

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.