

June 28, 2023

## Health care price and utilization growth continue upward trends

### HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 3.3% year over year in May, the same as the slightly revised growth rate observed a month earlier in April.
- ▲ The 3.3% year over year growth rate is 1.3 percentage points faster than a year ago and tied with the prior month for the fastest overall health care price increase since December 2007.
- ▲ Economywide inflation continued to slow, as overall CPI growth fell from 4.9% to 4.0% and PPI price growth fell from 2.3% to 1.1% in May.
- ▲ Prices for health care services paid for by private insurance increased by 3.9% in May, while Medicare prices increased 1.0% year over year, and Medicaid prices increased 4.9%.
- ▲ Among the major health care categories, prices for nursing home care (6.9%) and dental care (6.6%) 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 4.7% year over year in April, greater than the 4.6% growth a month prior.

	May 2021	May 2022	April 2023	May 2023
<b>Health Care Price Index (HCPI)</b>	2.2%	2.0%	3.3%	3.3%
<b>GDP Deflator (GDPD)</b>	4.4%	7.4%	4.5%	**
<b>HCPI - GDPD</b>	-2.2%	-5.4%	-1.2%	**
<b>Addendum</b>				
<b>Personal health care spending</b>	0.4%	4.5%	8.0%	**
<b>Health care utilization</b>	-1.8%	2.5%	4.7%	**
<b>Medical Consumer Price Index (MCPI)</b>	0.9%	3.7%	1.1%	0.7%
<b>Consumer Price Index, all items (CPI)</b>	5.0%	8.6%	4.9%	4.0%
<b>Producer Price Index, Final Demand (PPI)</b>	7.0%	11.1%	2.3%	1.1%

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> 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

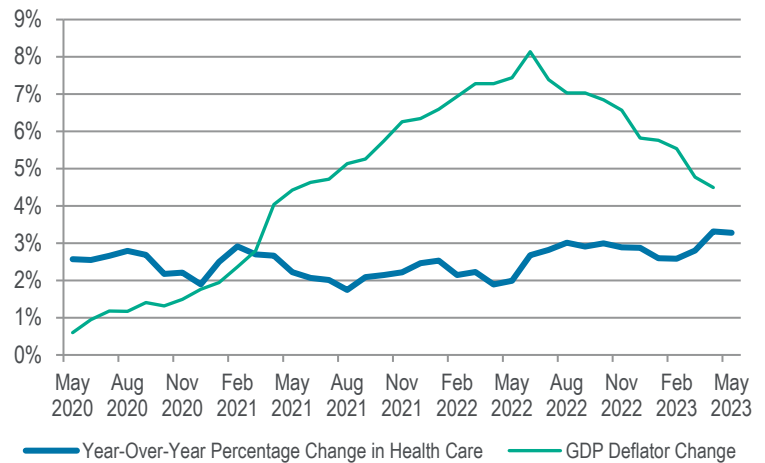
The overall health care price index (HCPI) increased by 3.3% year over year in May, now matching the slightly revised growth rate from a month prior, when the data previously showed a 3.4% increase for April (Exhibit 1). Even with the slight revisions, the 3.3% average overall HCPI growth over the past two months remains the fastest in our series since December 2007. An alternative measure of overall health care price growth—the medical care CPI—shows a much lower overall growth rate (0.7%), but this is primarily due to an artifact of this measure that includes a lagged indicator of health insurance retained earnings (Exhibit 5). Once the health insurance component is excluded, the medical care CPI tracks very closely with our overall HCPI, and shows gradually increasing health care price growth over the past few months.

This month, CMS released their [annual National Health Expenditure projections](#) through 2031. These projections estimate that health care price growth will average 2.8% in 2023, 3.3% in 2024, and 2.9% annually from 2025-31. Of note is the fact that CMS is projecting price growth will play a bigger role than utilization increases in total health spending over the next eight years, as they expect health care utilization growth will fall between 1.7% and 2.7% over this period. For the first five months of this year, our HCPI measure has averaged 2.9% year-over-year growth and has been trending upward, indicating price growth is on track to slightly exceed the CMS projection for 2023.

The upward trend in health care price growth comes at a time when economywide inflation continues to fall. Overall inflation, as measured by the CPI and PPI, has fallen over the past six months. CPI growth fell to 4.0% in May, while PPI growth fell even further to 1.1% (Highlights Table). Furthermore, as of May 2023 both economywide services (less healthcare) and commodities are significantly below their peak post-pandemic growth rates. Services prices increased 7.1% year over year (down from a peak of 8.3%) and commodities prices grew by only 0.8% in May (down from a peak of 14.1%) (Exhibit 4).

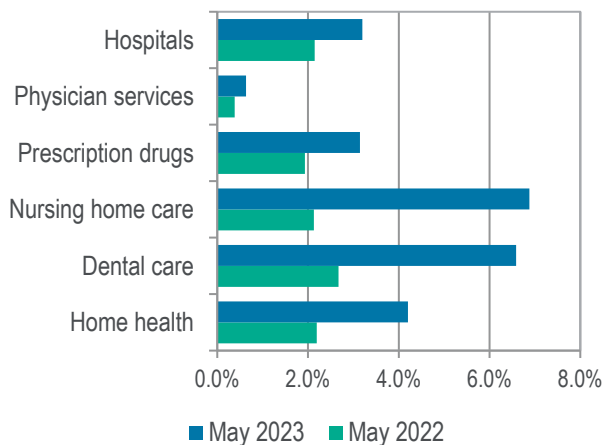
Among major health care categories in May, the fastest growth occurred for nursing home (6.9%) and dental care (6.6%) (Exhibit 2), although both of these growth rates are down slightly from a month prior. Hospital prices growth also fell slightly last month from 3.4% in April to 3.2% in May. Physician and clinical services prices remain the slowest growing major category—increasing only 0.6% year over year—marking the sixteen straight month of below 1.0% price growth for this component (Exhibit 3). Physician payment updates from Medicare have recently [become a topic of congressional interest](#), as lawmakers review the impact the 2015 Medicare Access and CHIP Reauthorization Act (MACRA) has had on doctor reimbursement rates.

**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**



Our implicit measure of overall health care utilization (total spending growth net of health care price inflation) increased again in April by 4.7% year over year (Exhibit 9), continuing the steady increase in the use of health care products and services so far in 2023. Among the major categories, utilization growth from last month increased at the fastest rates for prescription drugs (7.2%), home health care (6.4%), and hospital care (5.3%). Going forward this year we expect our implicit measure of utilization will continue to remain positive and may increase for most categories. Further details are available in [this month's spending brief](#), which details the split of price and utilization growth components of increasing health care spending through the first four months of 2023.

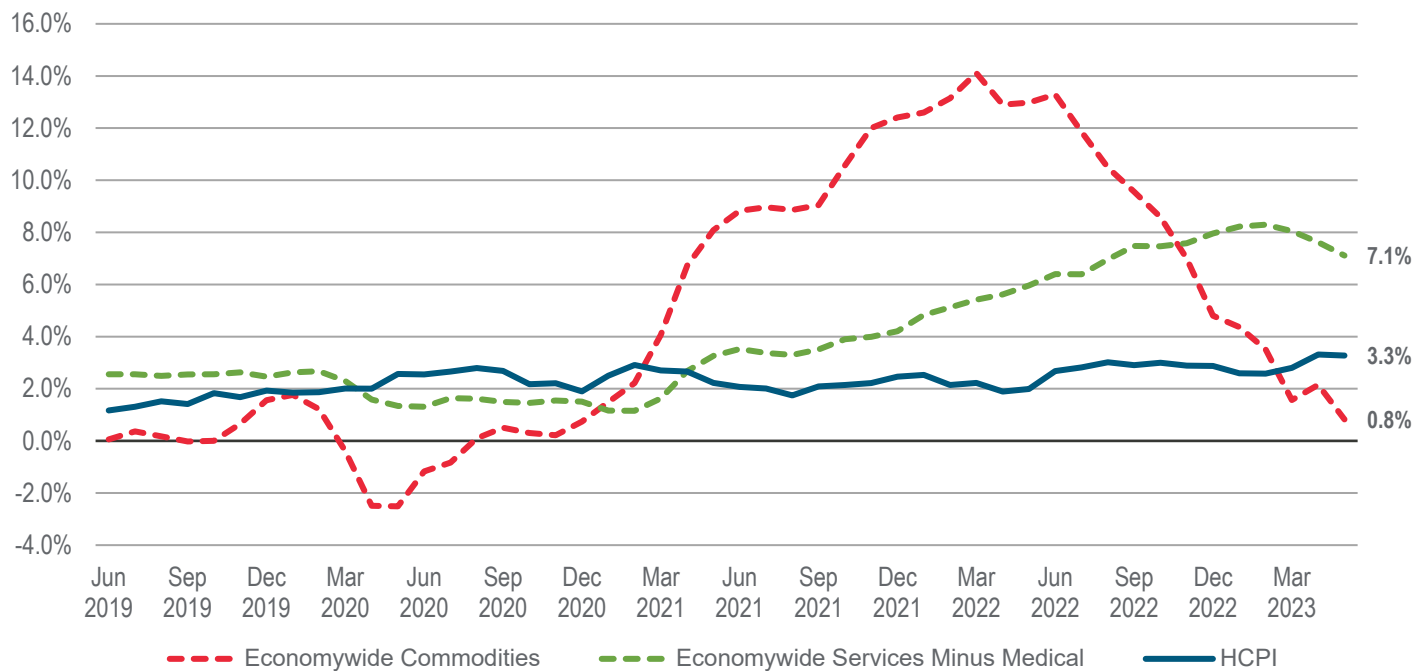
## PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending May 2021	Ending May 2022	Ending May 2023
<b>Health Care Price Index (HCPI)</b>	2.2%	2.0%	3.3%
<b>Hospital care</b>	3.5%	2.1%	3.2%
<b>Physician and clinical services</b>	3.3%	0.4%	0.6%
<b>Prescription drugs</b>	-2.1%	1.9%	3.1%
<b>Nursing home care</b>	1.1%	2.1%	6.9%
<b>Dental Services</b>	1.4%	2.7%	6.6%
<b>Home health care</b>	1.6%	2.2%	4.2%
<b>Other professional services</b>	2.6%	4.5%	0.8%
<b>Other personal health care</b>	5.3%	4.1%	4.8%
<b>Other nondurable medical products</b>	-0.3%	3.2%	6.2%
<b>Durable medical equipment</b>	-2.4%	2.9%	5.7%

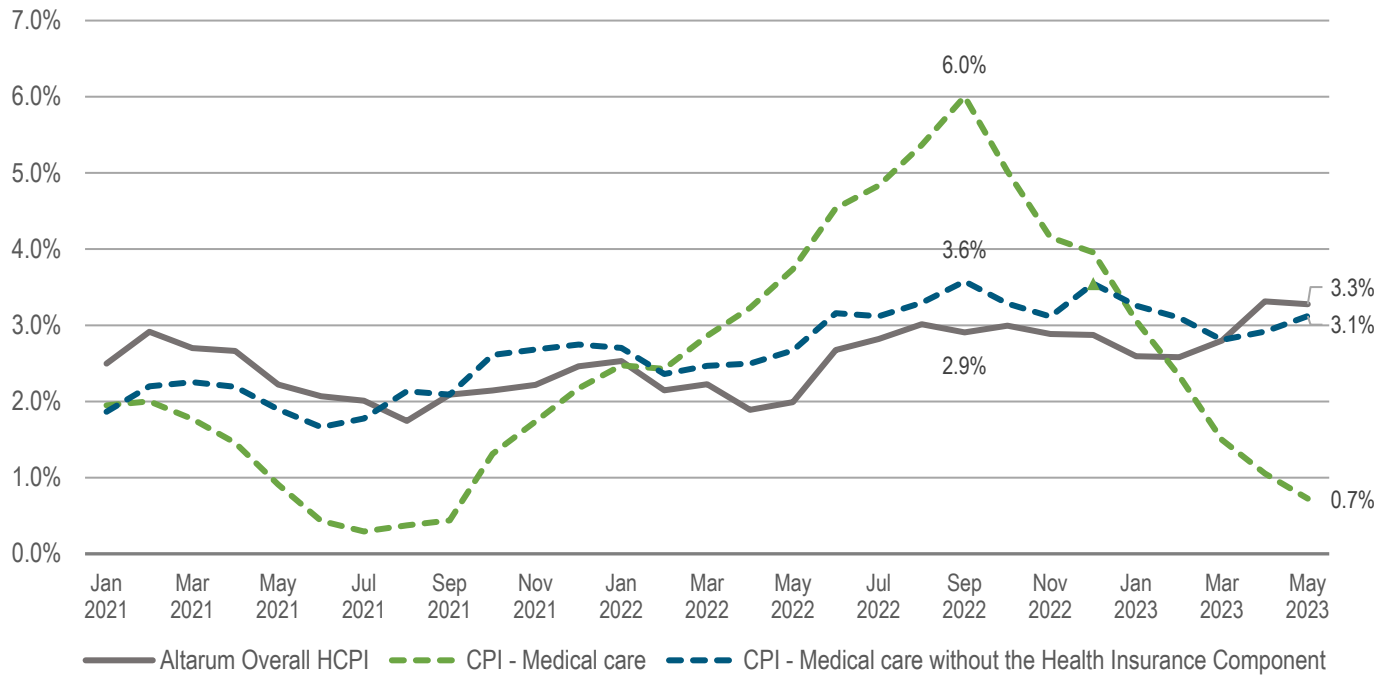
Source: Altarum analysis of monthly BLS data.

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



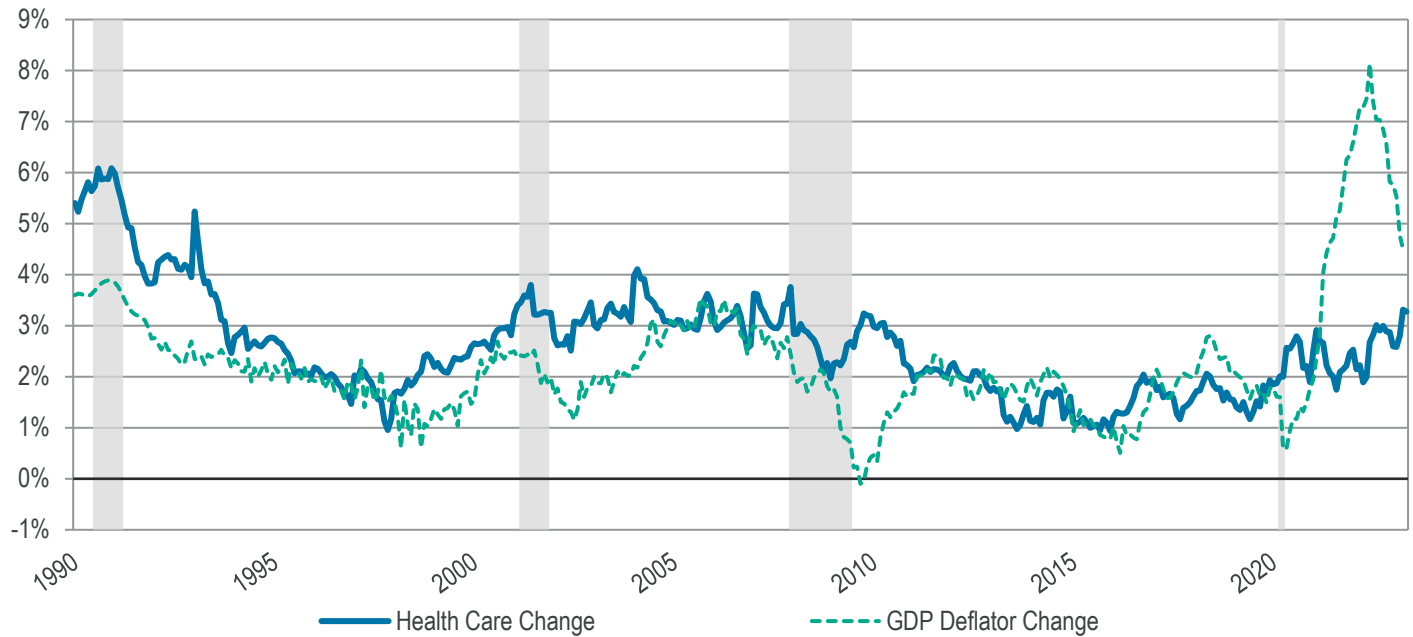
Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHS). The advantages of this measure over the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



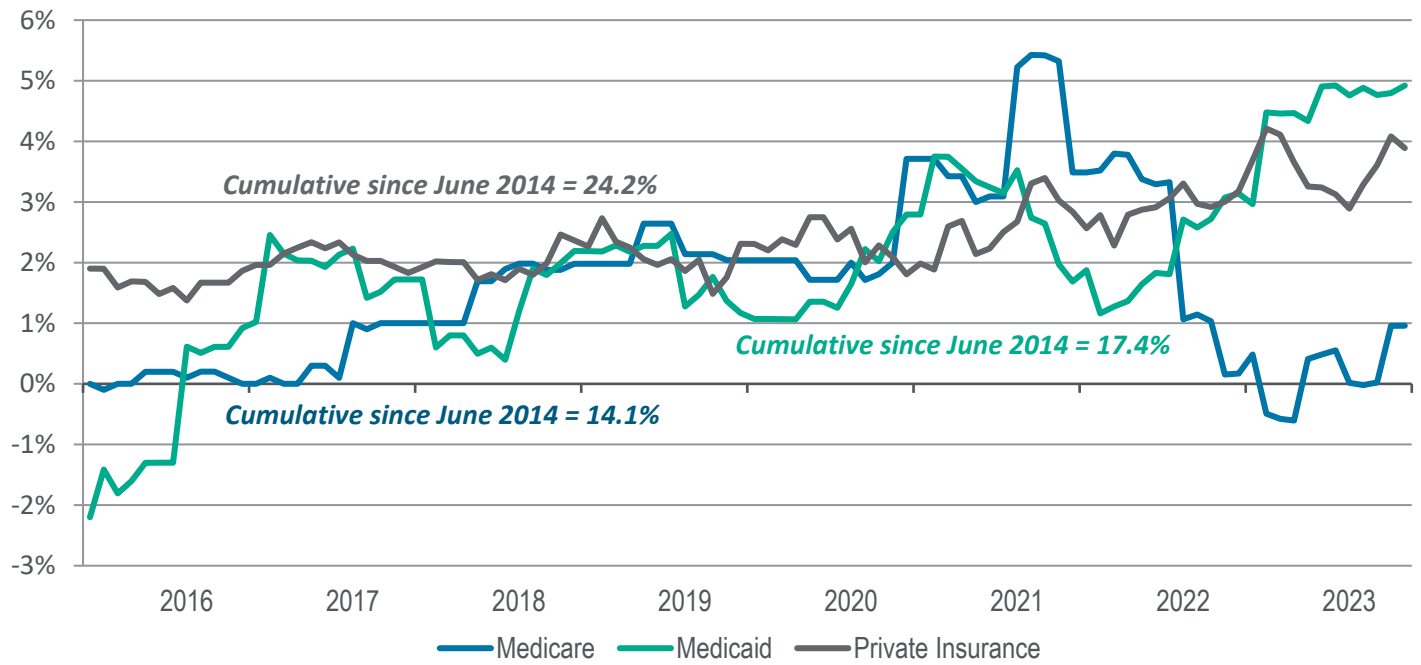
**TIME SERIES TRACKER**

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



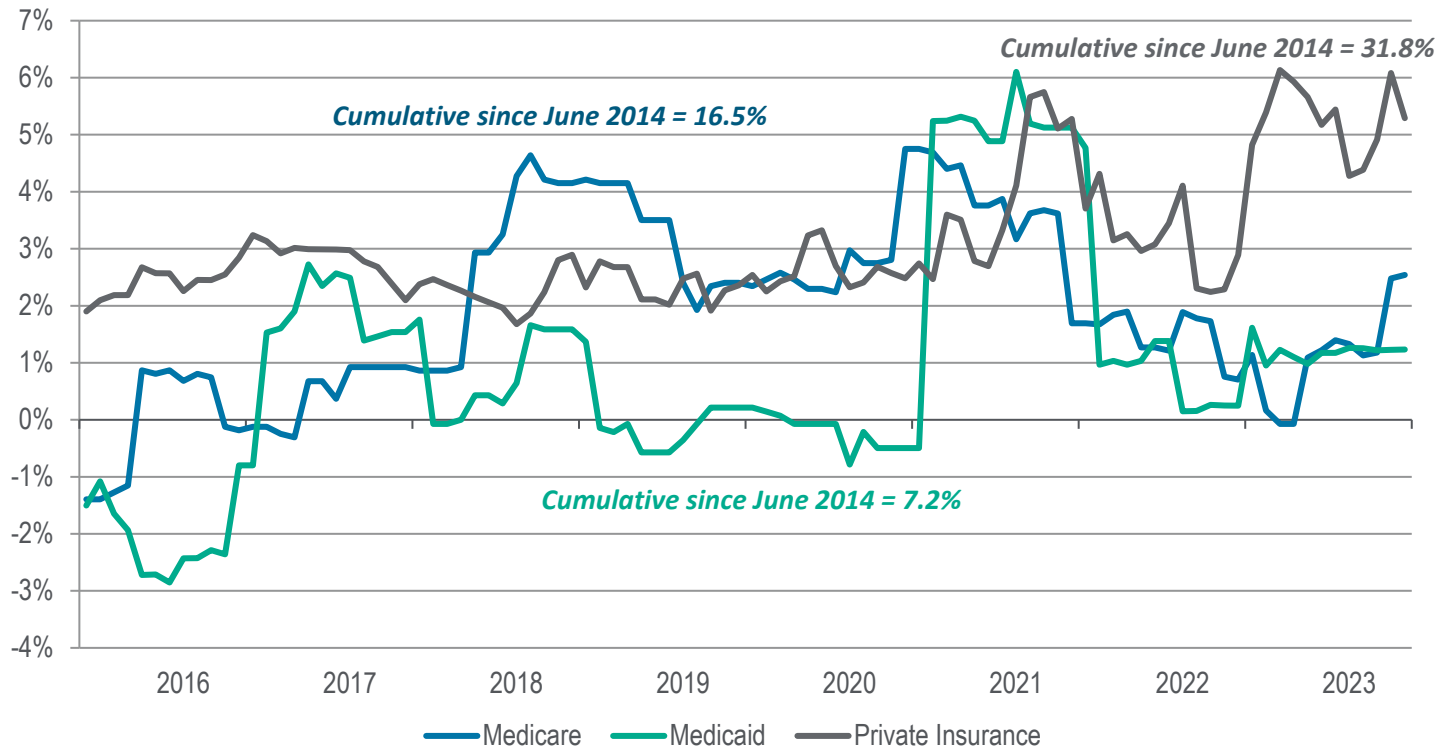
Source: Altarum monthly national health spending and price index estimates.  
Note: Lightly shaded bars denote recession periods.

**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**

	April 2023	3-Month Moving Average	12-Month Moving Average
<b>Total personal health care</b>	4.7%	4.7%	2.8%
<b>Hospital care</b>	5.3%	4.6%	2.0%
<b>Physician and clinical services</b>	5.3%	5.5%	3.4%
<b>Prescription drugs</b>	7.2%	7.3%	6.0%
<b>Nursing home care</b>	5.9%	5.9%	5.9%
<b>Dental Services</b>	0.7%	0.7%	1.3%
<b>Home health care</b>	6.4%	7.3%	4.9%
<b>Other professional services</b>	5.6%	6.7%	1.1%
<b>Other personal health care</b>	-0.9%	-0.8%	0.8%
<b>Other nondurable medical products</b>	2.5%	3.1%	1.6%
<b>Durable medical equipment</b>	5.1%	6.4%	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.*