

May 25, 2023

## Health care price growth accelerates in April amid slowing overall inflation

### HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 3.4% year over year in April, up 0.5 percentage points from the revised 2.9% growth rate observed in March.
- ▲ The 3.4% year over year growth rate is the fastest overall health care price growth since December 2007. Month-over-month HCPI growth is also up (0.4% between March and April), implying an even faster annualized rate of 4.5% growth last month.
- ▲ Prices for health care services paid for by private insurance increased by 4.1% in April (up from the revised 3.6% growth in March), while Medicare prices increased 1.1% year over year and Medicaid prices increased 4.9%.
- ▲ Economywide inflation slowed again in April, as overall CPI growth fell from 5.0% to 4.9% and PPI price growth fell from 2.7% to 2.3%.
- ▲ Among the major health care categories, prices for nursing home care (7.1%) and dental care (7.1%) grew fastest, while physician and clinical services (0.7%) price growth was the slowest.
- ▲ Our implicit measure of health care utilization growth increased again, up 4.3% year over year in March and the fastest increase seen in over a year.

	April 2021	April 2022	March 2023	April 2023
<b>Health Care Price Index (HCPI)</b>	2.7%	1.9%	2.9%	3.4%
<b>GDP Deflator (GDPD)</b>	4.0%	7.3%	4.7%	**
<b>HCPI - GDPD</b>	-1.4%	-5.4%	-1.8%	**
<b>Addendum</b>				
<b>Personal health care spending</b>	-3.0%	3.5%	7.2%	**
<b>Health care utilization</b>	-5.6%	1.6%	4.3%	**
<b>Medical Consumer Price Index (MCPI)</b>	1.5%	3.2%	1.5%	1.1%
<b>Consumer Price Index, all items (CPI)</b>	4.2%	8.3%	5.0%	4.9%
<b>Producer Price Index, Final Demand (PPI)</b>	6.5%	11.2%	2.7%	2.3%

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

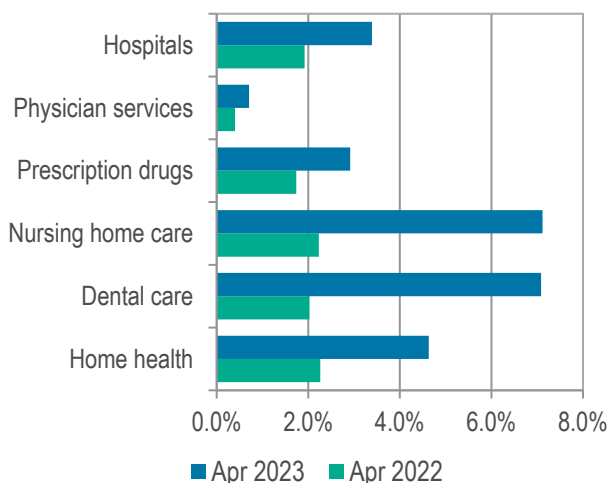
The overall health care price index (HCPI) increased by 3.4% year over year in April, up from 2.9% growth in March (Exhibit 1). March's growth was slightly revised downward in the new data, changing from the previously reported 3.1% year-over-year growth last month. April's price growth is notably faster than a year prior (1.9%) and is the fastest overall HCPI growth seen in our series since December 2007. HCPI growth in April not only increased, but also appears to be accelerating based on the new data, as its growth rate is 0.5 percentage points higher than a month ago, compared to an average change in prices of 0.1 percentage points over the past year.

The increase in overall HCPI this month is driven by jumps in price growth across all three major payers (Medicare, Medicaid, and private insurance). For hospital services, private price increases continue to exceed those of the public payers in April, as prices increased 6.1% year over year in April, significantly faster than Medicare (2.5%) and Medicaid price growth (1.2%) (Exhibit 7). Overall, across all health care services, Medicaid price growth was actually the fastest (4.9%) in April, followed by private price growth (4.1%), and Medicare growth (1.1%) (Exhibit 6). While the increase in private payer price growth was expected, the increase from last month of Medicaid and Medicare price growth for services was a bit of a surprise. The increase in Medicaid prices is likely at least partly attributable to the increased prices for nursing home care in April (7.1%) (Exhibit 2) for which Medicaid is often the primary payer.

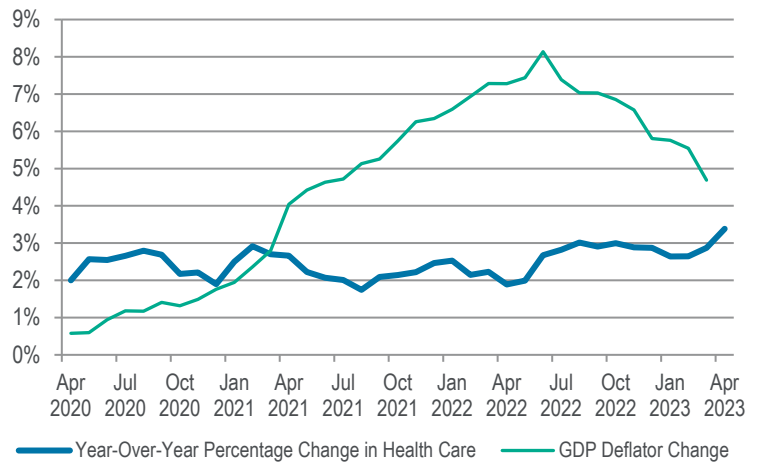
This increasing health care price growth comes as overall economywide inflation has fallen somewhat. Overall inflation, as measured by the CPI and PPI, remains above average, but has fallen over the past six months. CPI growth fell to 4.9% in April, while PPI fell even further to 2.3%. PPI growth is now below its historical long-term average for the first time in over two years as economywide inflation continues to moderate.

Among major health care categories in April, the fastest growth occurred for nursing home and dental care (rising 7.1% each) (Exhibit 2). Hospital prices growth, while a somewhat slower rate (3.4%), jumped noticeably from March's value (2.5%), and we will monitor this trend closely going forward. Physician and clinical services prices remain the slowest growing major category—increasing only 0.7% year over year—marking the fifteenth straight month of below 1.0% price growth for this component (Exhibit 3). Last month's measure of physician price growth was also revised downward noticeably, from 0.9% to 0.5%.

### 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 March by 4.3% 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 (5.6%), and hospital care (4.8%). Going forward this year we expect our implicit measure of utilization will continue to remain positive and may increase for most categories. As noted in the [spending brief](#), data in the [Q1 Quarterly Services Survey](#) may pull final health spending totals even higher once incorporated and data from [CBO Monthly Budget Reviews](#) indicate FY 2023 spending for Medicare and Medicaid are on track to increase by over 15% and 7% respectively this year so far.

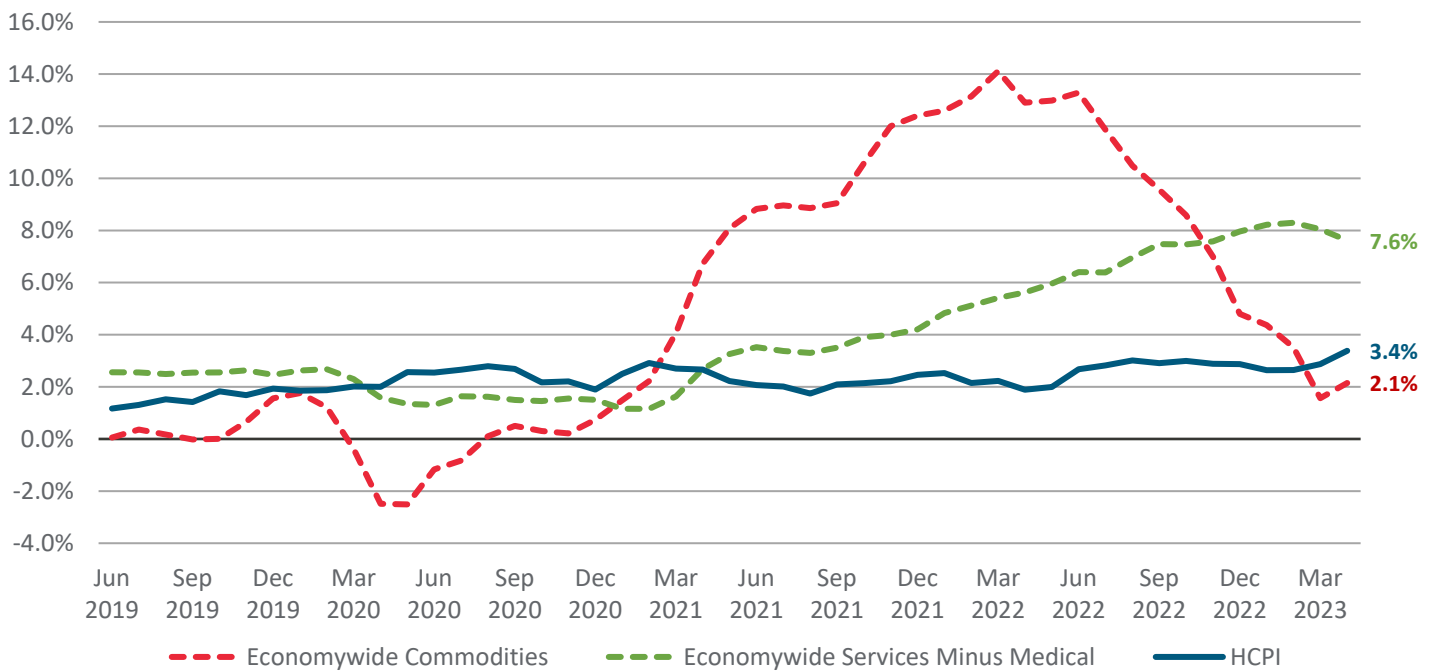
## PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending April 2021	Ending April 2022	Ending April 2023
<b>Health Care Price Index (HCPI)</b>	2.7%	1.9%	3.4%
<b>Hospital care</b>	3.9%	1.9%	3.4%
<b>Physician and clinical services</b>	3.7%	0.4%	0.7%
<b>Prescription drugs</b>	-1.9%	1.7%	2.9%
<b>Nursing home care</b>	1.7%	2.2%	7.1%
<b>Dental Services</b>	2.4%	2.0%	7.1%
<b>Home health care</b>	2.5%	2.3%	4.6%
<b>Other professional services</b>	2.6%	4.1%	0.3%
<b>Other personal health care</b>	5.5%	4.0%	5.1%
<b>Other nondurable medical products</b>	-0.6%	3.0%	5.5%
<b>Durable medical equipment</b>	-2.4%	2.9%	5.3%

Source: Altarum analysis of monthly BLS data.

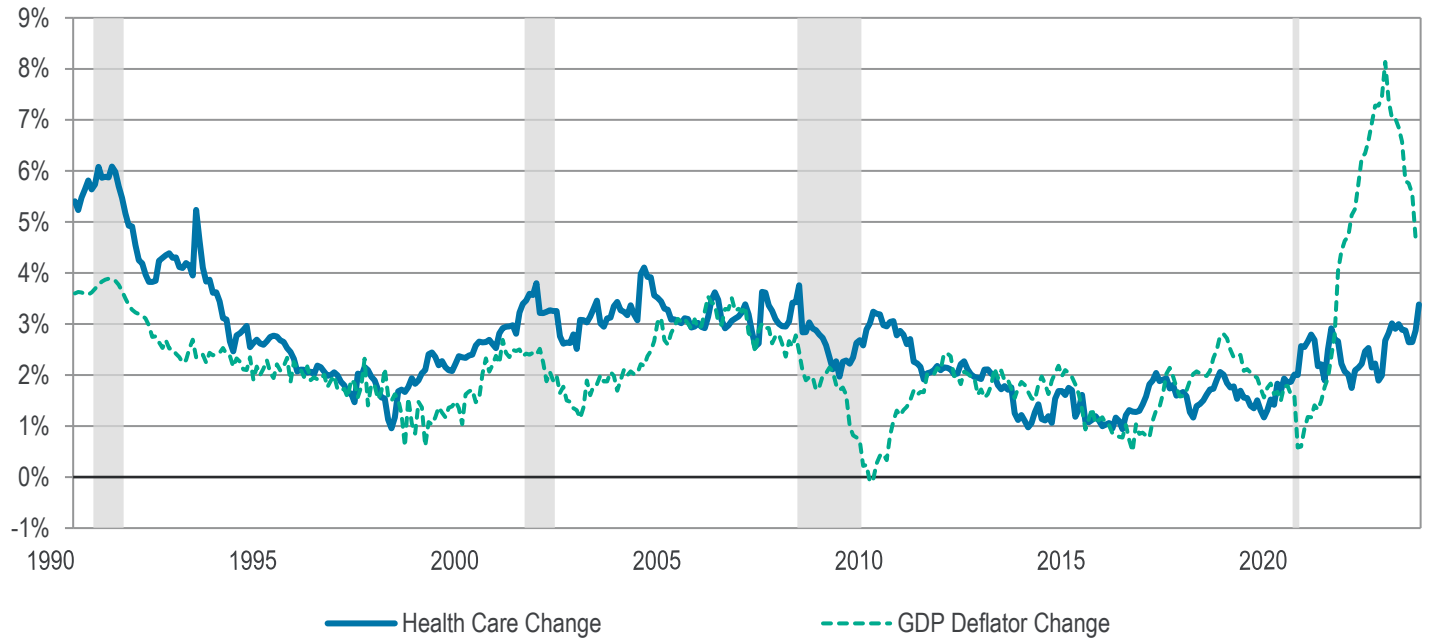
**Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services**



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.

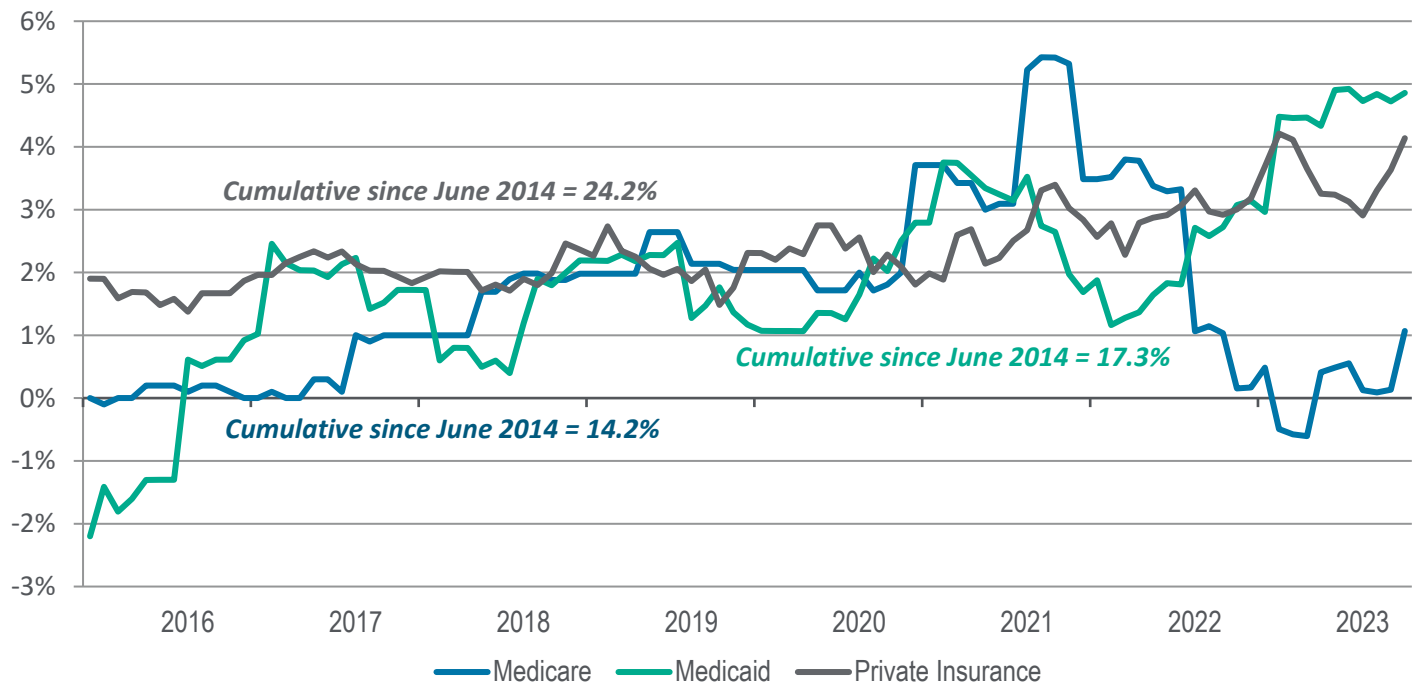
## TIME SERIES TRACKER

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



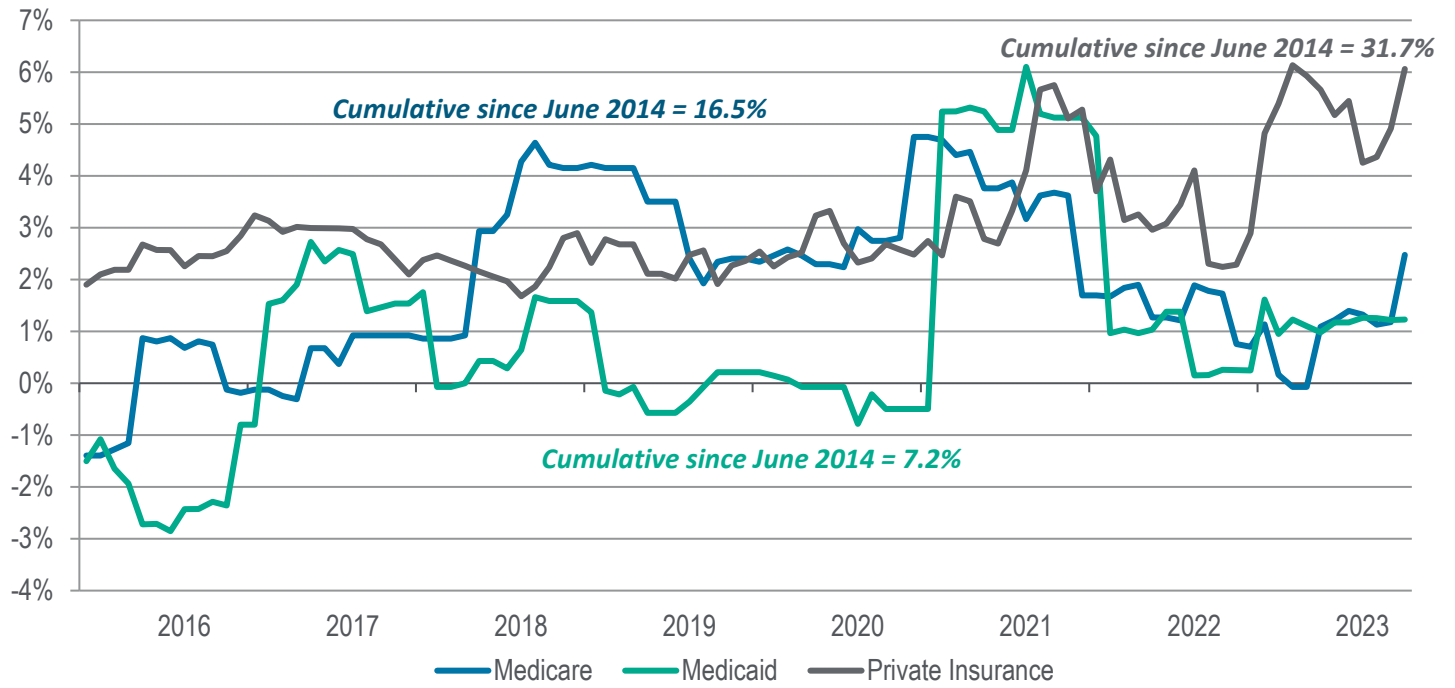
Source: Altarum monthly national health spending and price index estimates.  
Note: Lightly shaded bars denote recession periods. (The [2020 recession timing](#) was announced by NBER on July 19<sup>th</sup>, 2021)

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



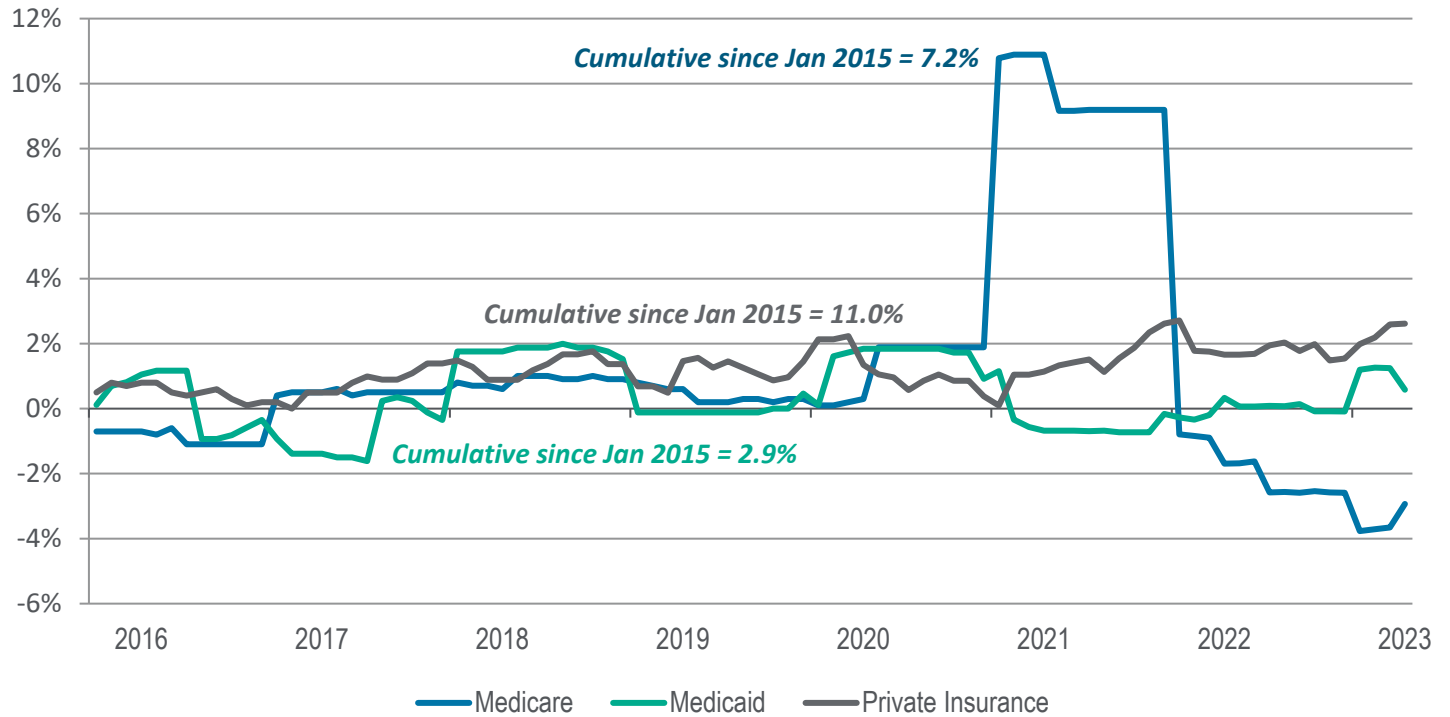
Source: Altarum analysis of monthly BLS data.

**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**

	March 2023	3-Month Moving Average	12-Month Moving Average
<b>Total personal health care</b>	4.3%	4.2%	2.4%
<b>Hospital care</b>	4.8%	4.4%	1.7%
<b>Physician and clinical services</b>	4.1%	3.9%	2.8%
<b>Prescription drugs</b>	7.2%	6.8%	5.8%
<b>Nursing home care</b>	4.5%	5.0%	5.5%
<b>Dental Services</b>	0.0%	1.3%	1.4%
<b>Home health care</b>	5.6%	6.2%	4.2%
<b>Other professional services</b>	9.0%	8.1%	0.8%
<b>Other personal health care</b>	-0.6%	-0.9%	-0.8%
<b>Other nondurable medical products</b>	2.9%	2.8%	1.4%
<b>Durable medical equipment</b>	8.0%	8.6%	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.