

November 18, 2022

## Health care price growth remains moderate amid slowing economywide inflation

### HIGHLIGHTS

- ▲ The Health Care Price Index (HCPI) increased by 2.9% year over year in October, up slightly from 2.8% a month earlier.
- ▲ Economywide price growth slowed this month, as overall CPI inflation fell to 7.7% and PPI price growth fell to 8.0%. Services CPI growth (excluding health care) held steady at 7.0% year over year, while commodities inflation fell for a fourth straight month to 8.6%.
- ▲ Among the major health care categories, price growth for dental care (5.4%), nursing home care (4.2%), and hospital services (3.5%) were above average, while physician services (0.3%) and prescription drug (2.2%) price growth were the slowest growing categories.
- ▲ Growth in our implicit measure of utilization for September was the slowest it has been in 2022, down to 1.8% year-over-year growth from 2.2% a month prior in August.

|   | Oct<br>2020 | Oct<br>2021 | Sept<br>2022 | Oct<br>2022 |
|---|-------------|-------------|--------------|-------------|
| Health Care Price Index (HCPI)            | 2.2%        | 2.3%        | 2.8%         | 2.9%        |
| GDP Deflator (GDPD)                       | 1.3%        | 5.7%        | 7.0%         | **          |
| HCPI - GDPD                               | 0.9%        | -3.5%       | -4.1%        | **          |
| <i>Addendum</i>                           |             |             |              |             |
| Personal health care spending             | 3.7%        | 6.5%        | 4.6%         | **          |
| Health care utilization                   | 1.5%        | 4.2%        | 1.8%         | **          |
| Medical Consumer Price Index (MCPI)       | 2.9%        | 1.3%        | 6.0%         | 5.0%        |
| Consumer Price Index – all items (CPI)    | 1.2%        | 6.2%        | 8.2%         | 7.7%        |
| Producer Price Index – Final Demand (PPI) | 0.6%        | 8.9%        | 8.4%         | 8.0%        |

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<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 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 2.9% year over year in October, up from 2.8% growth in September. This marks the fifth straight month where health care inflation has been within a tight range of 2.7% and 2.9% year over year growth. While this growth is faster than the first half of 2022, it remains well below economywide inflation (7.7% in October). It is also below what we might have expected health care price inflation to be given the increasing cost pressures across all domains of health care [labor](#), [materials](#), and [supplies](#).

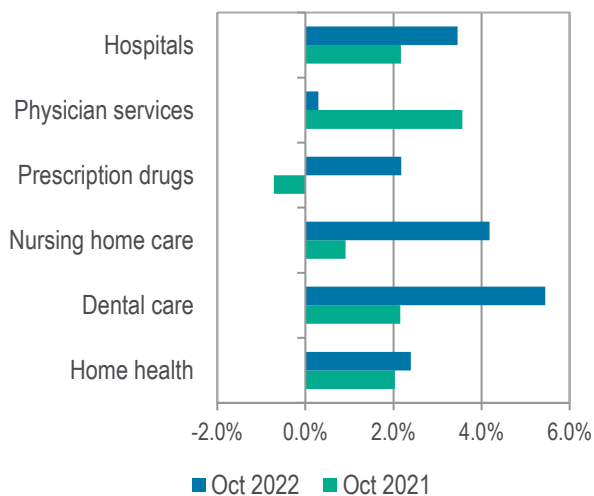
The delay in rising health care prices is likely due to a continued lag in private provider/insurer contracts and also very low Medicare price growth in 2022.

The Medicare price index rose by 2.0% month-over-month in October, the first meaningful increase in the index since the Medicare sequester cuts were instituted in April and July. As a result, both overall and hospital-specific year-over-year Medicare price growth returned to the positive this month (Exhibit 7). Future Medicare prices in 2023 will be very dependent on end-of-year policy decisions currently under debate in Congress. Current policy would [reduce Medicare physician payments by 4.5%](#) and Medicare [hospital prices by nearly 4.0%](#), yet Congressional leaders may decide to delay or eliminate some of these price reductions in a new budget deal.

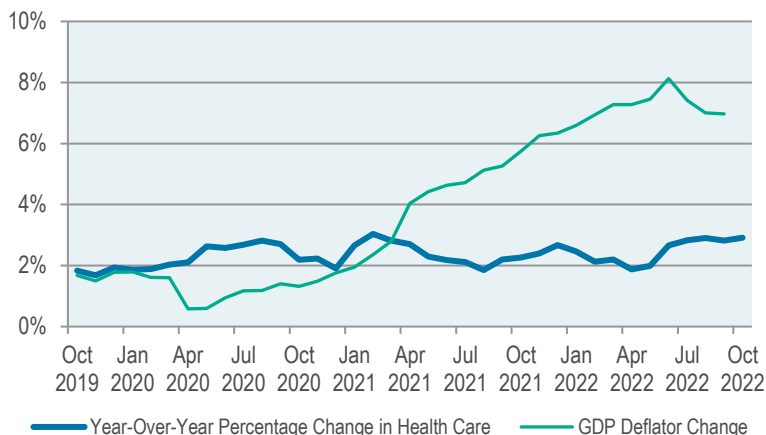
As we discussed in last month's [price brief](#), the CPI measure of medical care inflation declined from September to October as new data for the CPI health insurance inflation metric were incorporated. This brings CPI health care price growth (5.0%) closer to our HCPI measure (2.9%) in October. When the health insurance price growth component is completely removed from the CPI index, it ends up very close (3.3%) to our blended HCPI measure (Exhibit 5). We expect the health insurance inflation measure to continue to decline over the coming months.

In October, the greatest increases in health care prices occurred for dental care, nursing homes, and hospital settings (rising 5.4%, 4.2%, and 3.5%, respectively) (Exhibit 2). Conversely, physician and clinical services prices increased at the slowest rate among major sectors—at only 0.3% growth—marking the ninth straight month of below 1.0% price growth for physicians. Price growth for prescription drugs was also below average in October, at 2.2% year over year (Exhibit 3).

### 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 for September shows that overall utilization increased by a mere 1.8% year over year (Exhibit 8). Hospital utilization growth turned negative this month (-1.0%), while dental and home health care use were the fastest among the major categories at 8.9% and 6.1%. [Data collected directly from hospitals](#) has also shown slow and negative utilization growth in 2022, where, as of September, discharges and patient days are down compared to 2021 and also compared to pre-pandemic 2019 levels. Slowing overall utilization in recent months has contributed to the relatively moderate [health care spending growth](#) compared to GDP in 2022, which we discuss in more detail in this month's spending brief.



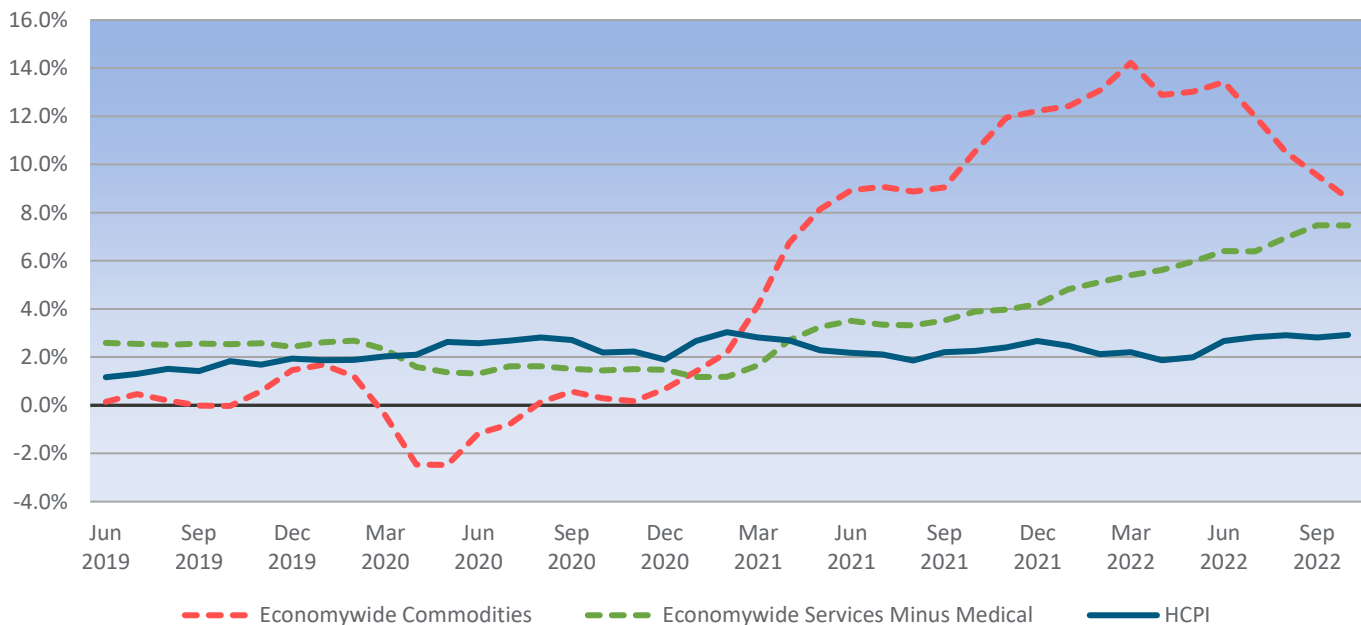
## PRICE GROWTH BY DETAILED CATEGORIES

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

|                                   | Ending<br>October 2020 | Ending<br>October 2021 | Ending<br>October 2022 |
|-----------------------------------|------------------------|------------------------|------------------------|
| Health Care Price Index (HCPI)    | 2.2%                   | 2.3%                   | 2.9%                   |
| Hospital care                     | 3.3%                   | 2.2%                   | 3.5%                   |
| Physician and clinical services   | 1.1%                   | 3.6%                   | 0.3%                   |
| Prescription drugs                | -0.4%                  | -0.7%                  | 2.2%                   |
| Nursing home care                 | 4.3%                   | 0.9%                   | 4.2%                   |
| Dental Services                   | 3.1%                   | 2.2%                   | 5.4%                   |
| Home health care                  | 2.5%                   | 2.0%                   | 2.4%                   |
| Other professional services       | 1.5%                   | 2.1%                   | 4.2%                   |
| Other personal health care        | 4.1%                   | 5.0%                   | 4.3%                   |
| Other nondurable medical products | -1.8%                  | 0.7%                   | 4.9%                   |
| Durable medical equipment         | -1.6%                  | 0.2%                   | 4.8%                   |

**Source:** Altarum analysis of monthly BLS data.

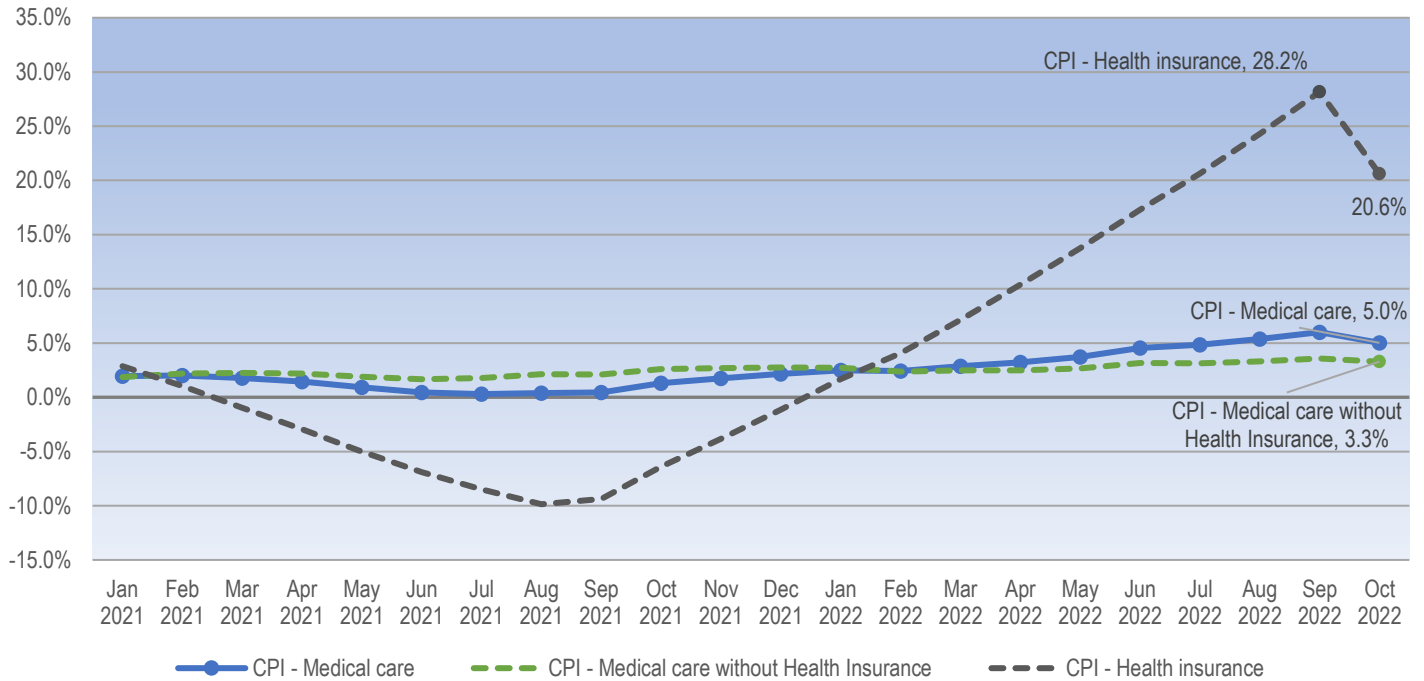
**Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services**



**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.

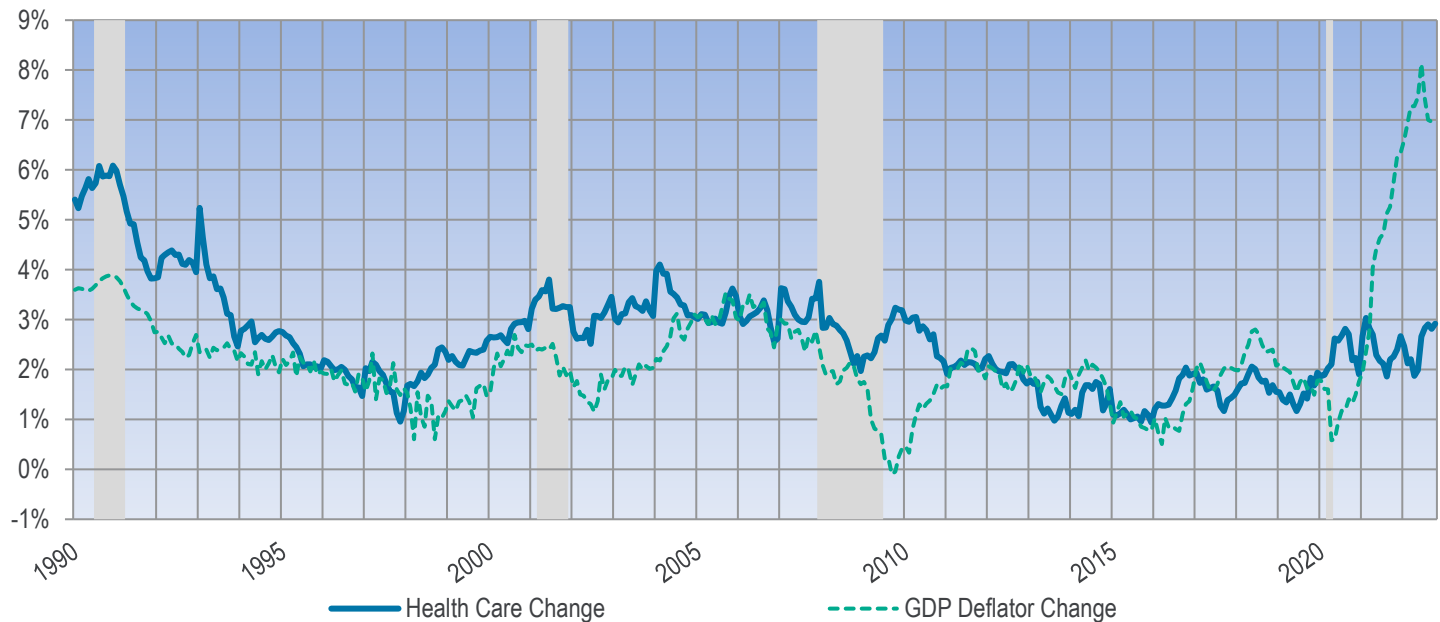


**Exhibit 5. Year-over-Year Change in CPI – Medical Care Components**



**TIME SERIES TRACKER**

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

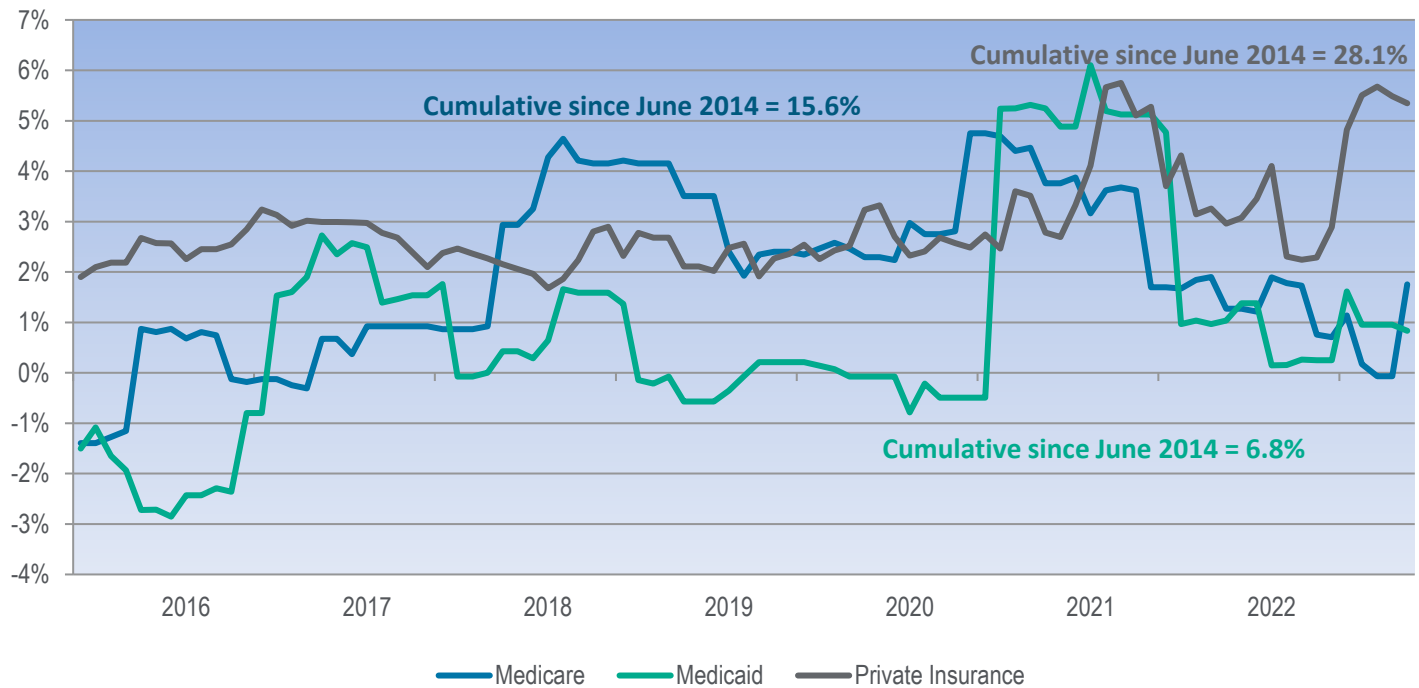


Source: Altarum monthly national health spending and price index estimates.

Note: Lightly shaded bars denote recession periods. (The [2020 recession timing](#) was announced by NBER on July 19<sup>th</sup>, 2021)



**Exhibit 7. Year-over-Year Change in Hospital 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**

|                                   | September 2022 | 3-Month Moving Average | 12-Month Moving Average |
|-----------------------------------|----------------|------------------------|-------------------------|
| Total health care                 | 1.8%           | 2.0%                   | 2.8%                    |
| Hospital care                     | -1.0%          | -0.4%                  | 2.1%                    |
| Physician and clinical services   | 3.4%           | 3.9%                   | 3.6%                    |
| Prescription drugs                | 4.7%           | 4.6%                   | 5.5%                    |
| Nursing home care                 | 5.0%           | 5.0%                   | 4.5%                    |
| Dental Services                   | 8.9%           | 6.3%                   | 5.0%                    |
| Home health care                  | 6.1%           | 6.4%                   | 1.9%                    |
| Other professional services       | -1.0%          | -1.5%                  | -0.1%                   |
| Other personal health care        | 1.6%           | 1.9%                   | 1.7%                    |
| Other nondurable medical products | 0.9%           | 0.8%                   | 1.8%                    |
| Durable medical equipment         | 4.9%           | 4.1%                   | 2.6%                    |

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.