

November 17, 2023

Hospital price growth jumps as economywide inflation cools

HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 3.1% year over year in October, increasing from 2.8% growth in September.
- ▲ Economywide inflation slowed in October, with year-over-year growth in the Consumer Price Index (CPI) slowing to 3.2% and growth in the Producer Price Index (PPI) falling to 1.3%.
- ▲ Among the major health care categories, prices for nursing home care (5.1%), dental care (4.9%), and home health care (4.6%) grew the fastest, while physician and clinical services (0.5%) price growth was the slowest.
- ▲ Price growth of overall health care services for Medicaid patients was 4.5% year over year in October, above private insurance price growth (3.9%), and Medicare patients' price growth (1.2%).
- ▲ Our implicit measure of health care utilization growth increased slightly to 4.6% year-over-year in September, near the 3-month average rate of 4.4%.

	October 2021	October 2022	September 2023	October 2023
Health Care Price Index (HCPI)	2.2%	3.0%	2.8%	3.1%
GDP Deflator (GDPD)	6.0%	6.9%	3.4%	**
HCPI - GDPD	-3.8%	-3.9%	-0.7%	**
Addendum				
Personal health care spending	7.4%	5.6%	7.4%	**
Health care utilization	5.3%	2.6%	4.6%	**
Medical Consumer Price Index (MCPI)	1.3%	5.0%	-1.4%	-0.8%
Consumer Price Index, all items (CPI)	6.2%	7.7%	3.7%	3.2%
Producer Price Index, Final Demand (PPI)	8.9%	8.2%	2.2%	1.3%

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 IndicatorsSM (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. Corey Rhyan (principal author), George Miller, PhD, Stephen McCall, 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. For more information, visit <http://altarum.org/solution/health-sector-spending>.

DISCUSSION

The overall health care price index (HCPI) increased by 3.1% year over year in October, up 0.3 percentage points from the growth rate in September and marking the third time this year health care price growth has eclipsed the 3.0% growth rate threshold. October's price growth is slightly above the average rate seen over the past three years (Exhibit 1) and is now showing some early signs of breaking out of the tight range it has held since late 2020.

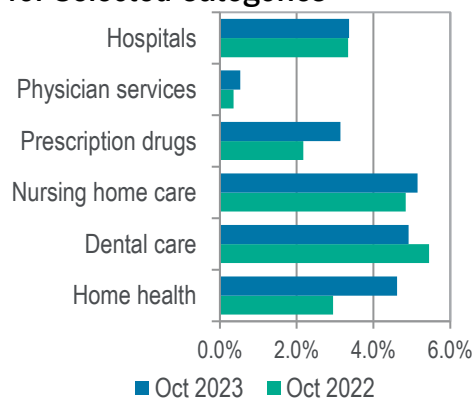
This upward movement in health care price growth is opposite the broader trend of economywide inflation. CPI growth fell to 3.2% in October, and both economywide commodities and services inflation slowed last month (Exhibit 4). At the same time year-over-year PPI price growth slowed from 2.2% in September to 1.3% in October and on a month-over-month basis actually declined. An alternative measure of health care price growth, Medical Care CPI now sits at negative 0.8% year-over-year growth, slightly faster than a month prior, but continues to be impacted by anomalies in the CPI measure of health insurance price changes [that are significantly lagged](#). When removing health insurance components, we see year-over-year growth in that health CPI measure nearly exactly matches (3.2%) our overall HCPI (3.1%) in October (Exhibit 5).

Among major health care categories in October, the fastest price growth occurred for nursing home care (5.1%), dental services (4.9%), and home health care (4.6%) (Exhibit 2). However, despite remaining the fastest three growing major categories, all of these growth rates have slowed significantly in recent months: nursing home care price growth is down 1.9 percentage points from its peak in March, dental care price growth is down 2.2 percentage points from its peak in April, and home health care price growth down 1.5 percentage points from its peak in September. These declines have helped keep overall health price growth moderate as the prices for prescription drugs and hospital care have increased.

Hospital price growth increased again in October (now up to 3.4% year over year) and this rate is up 1.2 percentage points from two months ago. This is a notable increase in hospital prices and is even more pronounced when assessed as a monthly growth rate between September and October. On a month-over-month basis, hospital prices increased 1.1% (a whopping 13.6% annualized). Much of this increase is the result of increases in private insurance price growth, which increased 4.5% year over year in October. Since January 2021, private insurance hospital prices have increased 12.7%, while cumulative hospital price growth for Medicare patients (5.1%) and Medicaid patients (2.6%) have been more moderate.

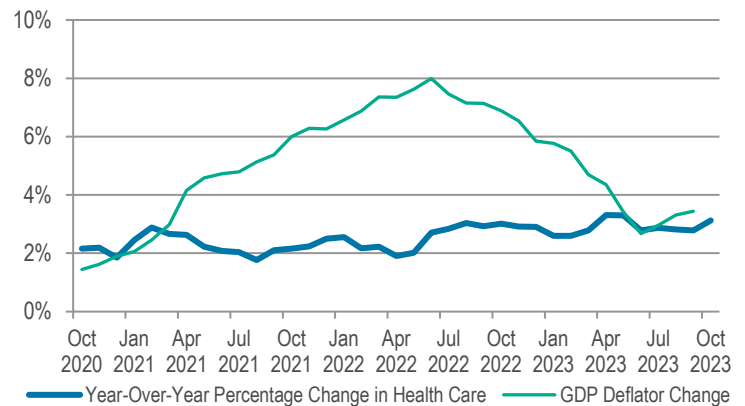
Prescription drug price growth in October increased slightly to 3.1% year over year. Physician and clinical services prices remained the slowest growing major category—increasing only 0.5% year over year—marking the twenty-first straight month of below 1.0% price growth (Exhibit 3). Looking ahead to 2024, we expect the divergence between physician and hospital price growth will continue. Newly [proposed Medicare physician rate changes](#) for 2024 were initially set at a -3.4% cut, while a related proposal set a [3.1% increase](#) for hospital outpatient and ambulatory surgical center rates. More recent Senate proposals have been introduced [to partially offset the rate decreases](#) for doctors by 1.25%; yet, despite this we expect declines for Medicare physician prices will continue next year.

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



Source: Altarum analysis of monthly BLS price data.

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 growth (total spending growth net of health care price inflation) increased slightly in September, now up 4.6% year-over-year (Exhibit 9). Data continue to show overall health care utilization growth trends have stabilized in 2023, and that [utilization growth continues to play](#) a bigger role in overall spending growth this year.

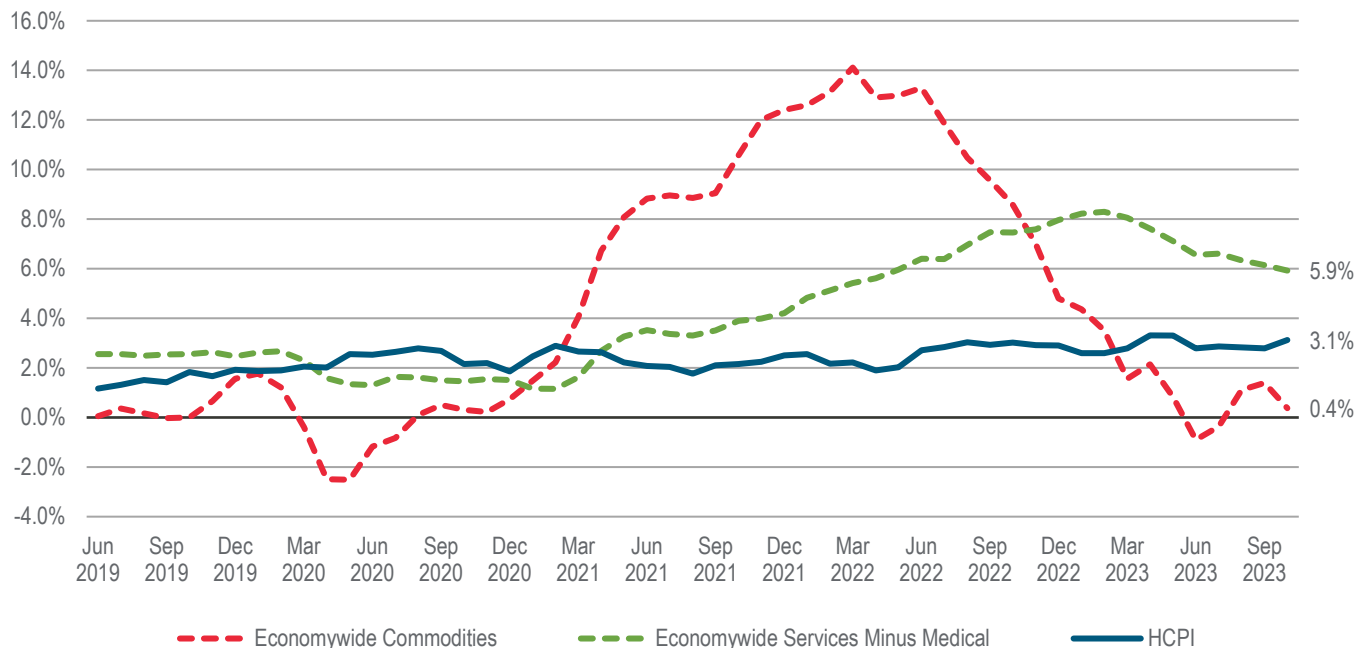
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending October 2021	Ending October 2022	Ending October 2023
Health Care Price Index (HCPI)	2.2%	3.0%	3.1%
Hospital care	2.2%	3.3%	3.4%
Physician and clinical services	3.6%	0.4%	0.5%
Prescription drugs	-0.7%	2.2%	3.1%
Nursing home care	0.9%	4.8%	5.1%
Dental Services	2.2%	5.4%	4.9%
Home health care	2.0%	2.9%	4.6%
Other professional services	2.1%	4.2%	0.1%
Other personal health care	5.0%	4.4%	6.0%
Other nondurable medical products	0.7%	4.9%	8.1%
Durable medical equipment	0.2%	4.8%	3.4%

Source: Altarum analysis of monthly BLS data.

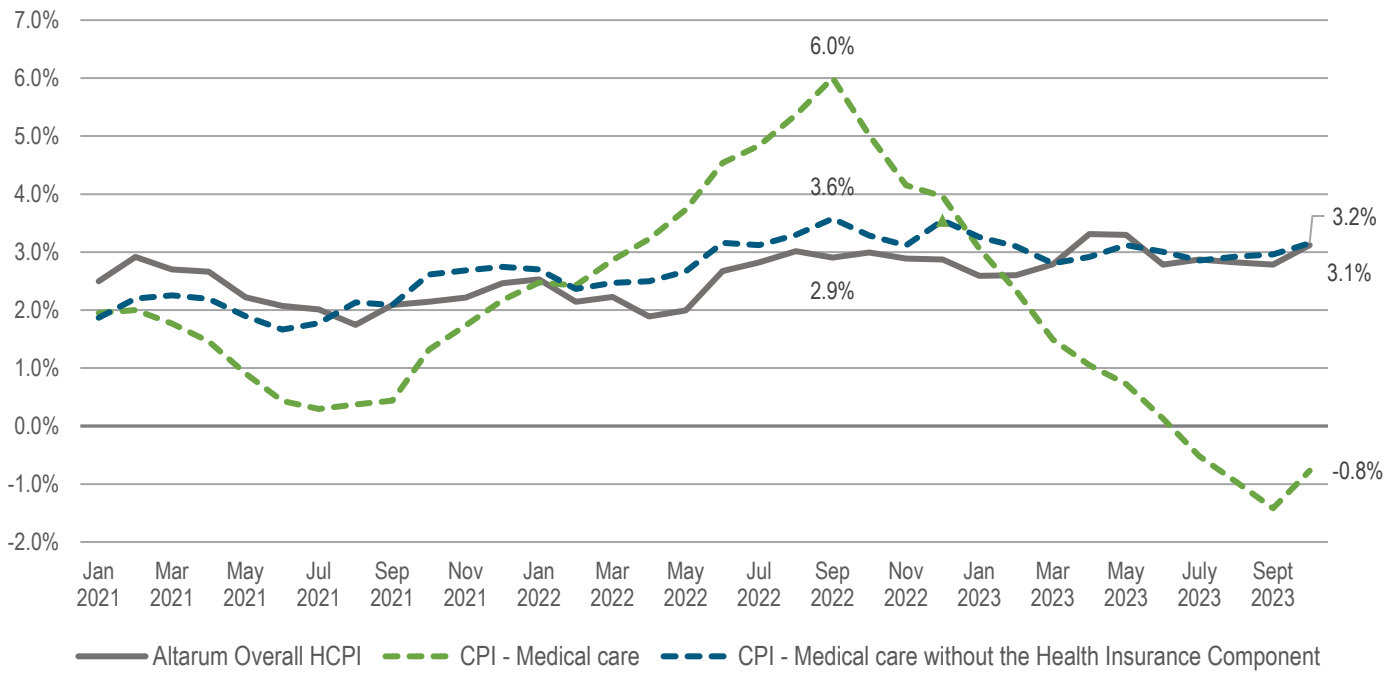
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services



Source: Altarum analysis of monthly BLS price data.

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.

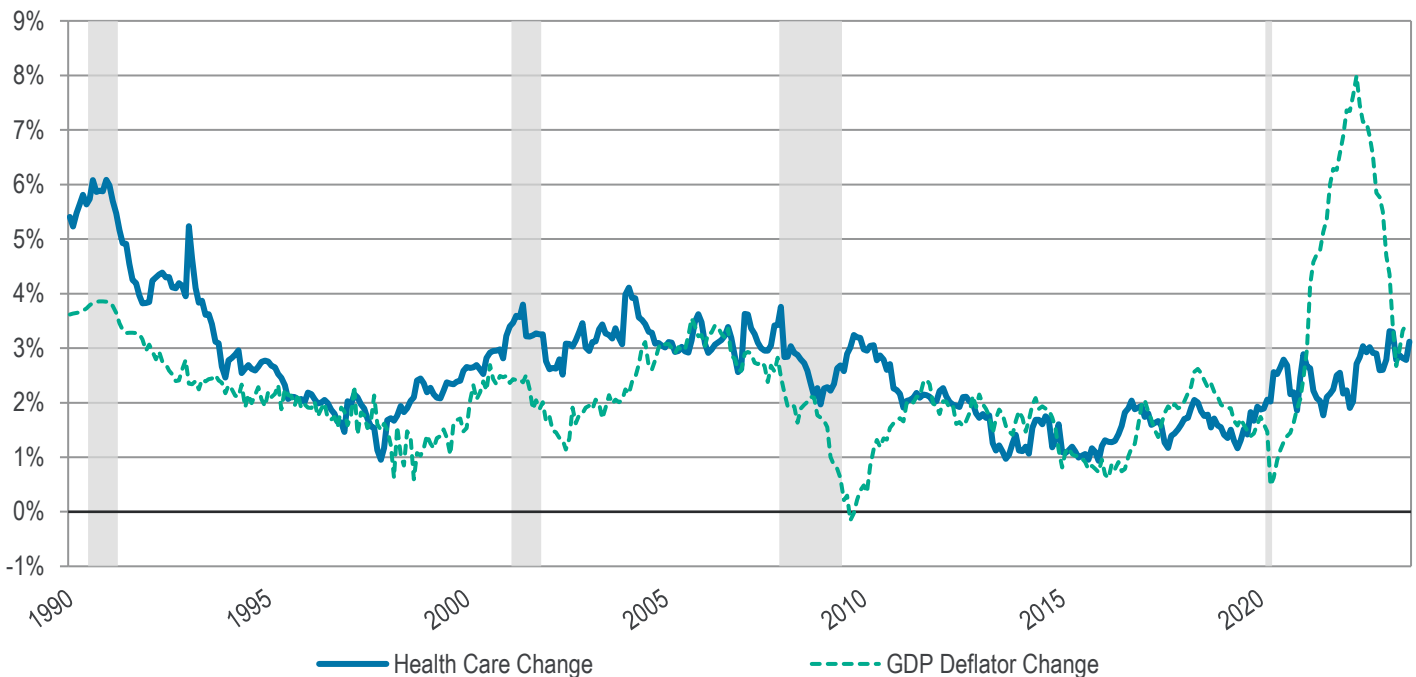
Exhibit 5. Year-over-Year Percentage Change in Medical Care CPI vs. Altarum Overall HCPI



Source: Altarum analysis of monthly BLS price data.

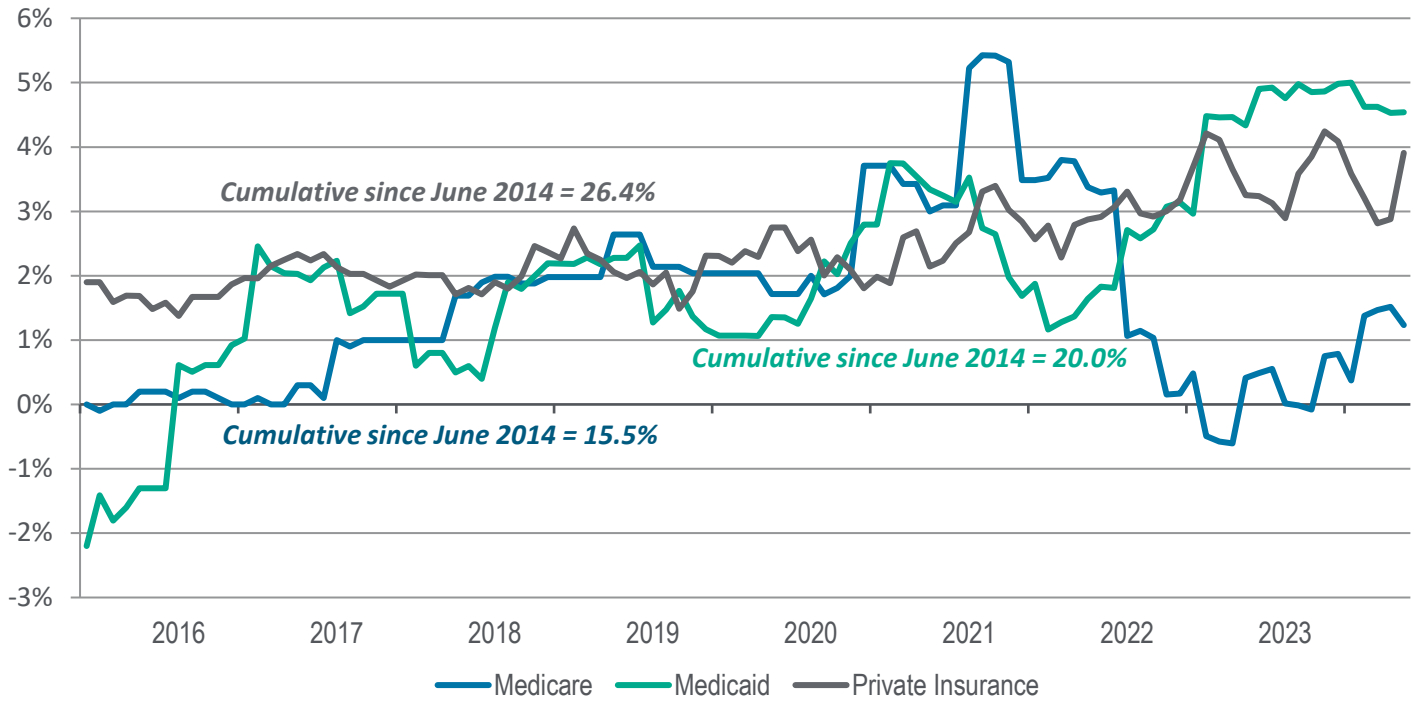
TIME SERIES TRACKER

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



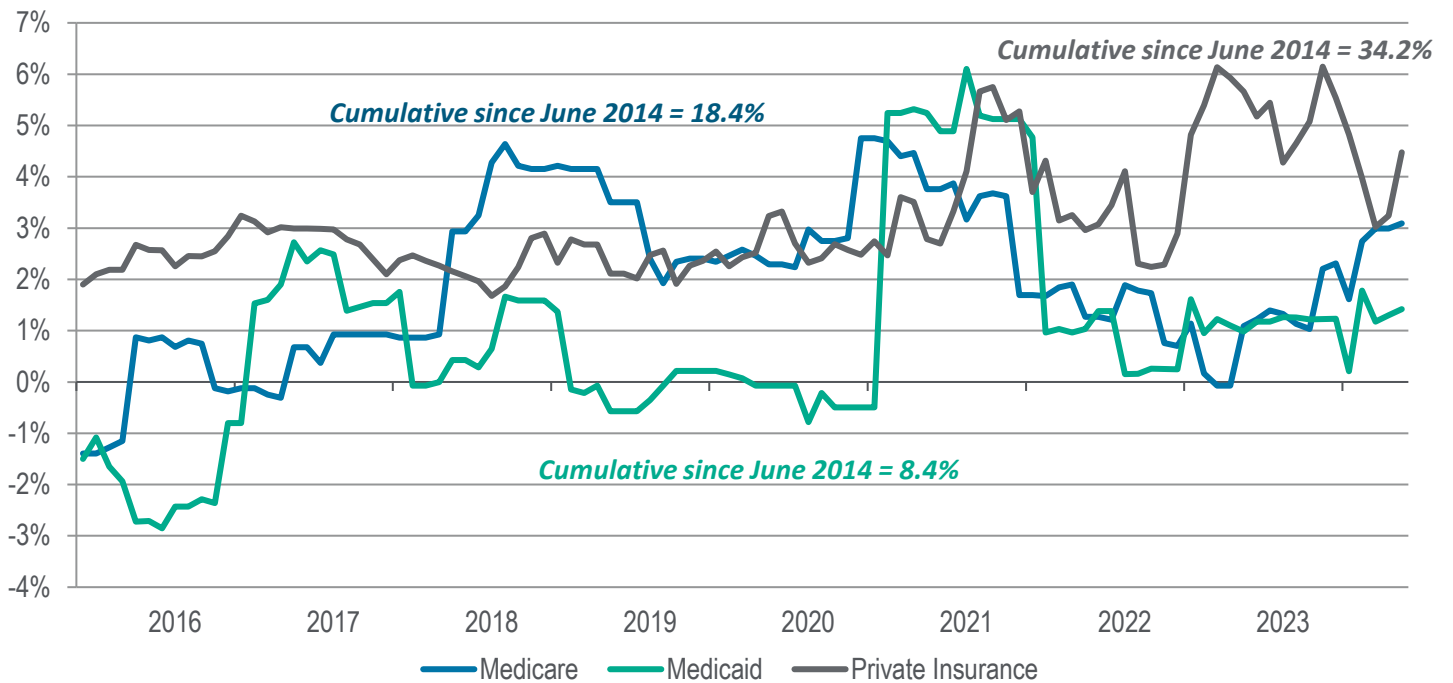
Source: Altarum monthly national health spending and price index estimates.
 Note: Lightly shaded bars denote recession periods.

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

	September 2023	3-Month Moving Average	12-Month Moving Average
Total personal health care	4.6%	4.4%	3.5%
Hospital care	3.5%	3.4%	3.2%
Physician and clinical services	7.7%	7.5%	4.9%
Prescription drugs	9.6%	8.3%	7.3%
Nursing home care	4.0%	4.0%	4.2%
Dental Services	4.6%	4.2%	0.9%
Home health care	-1.0%	-1.6%	2.5%
Other professional services	8.8%	8.0%	4.8%
Other personal health care	-2.7%	-2.5%	-1.6%
Other nondurable medical products	-1.9%	-0.7%	1.5%
Durable medical equipment	0.9%	-0.2%	1.1%

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): $U = S - P - \text{Pop}$. 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.