

September 26, 2023

Overall health care price and utilization growth fall slightly

HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) decreased to 2.8% year over year in August, falling 0.1 percentage points from the slightly revised growth rate in July (2.9%).
- ▲ Overall year-over-year economywide inflation increased for a second straight month, with CPI rising to 3.7% (up from 3.2% a month prior), and PPI increasing from 0.8% to 1.6% in August. Both appear to be driven by changes in commodities price growth.
- ▲ Among the major health care categories, prices for nursing home care (5.6%), dental care (5.3%), and home health care (5.2%) grew fastest, while physician and clinical services (0.6%) price growth was the slowest.
- ▲ Private payer price growth slowed again in August, falling to 2.8% year over year overall and 3.2% for hospitals, while continuing to converge with public payer price growth. In August, growth in Medicare and Medicaid hospital prices growth reached 3.2% and 2.0% respectively.
- ▲ Our implicit measure of health care utilization growth slowed again in July to 4.3% year over year, and down from a peak in March (5.1% growth).

	August 2021	August 2022	July 2023	August 2023
Health Care Price Index (HCPI)	1.7%	3.0%	2.9%	2.8%
GDP Deflator (GDPD)	5.1%	7.0%	2.9%	**
HCPI - GDPD	-3.4%	-4.0%	-0.1%	**
Addendum				
Personal health care spending	6.8%	5.8%	7.2%	**
Health care utilization	5.1%	2.8%	4.3%	**
Medical Consumer Price Index (MCPI)	0.4%	5.4%	-0.5%	-1.0%
Consumer Price Index, all items (CPI)	5.3%	8.3%	3.2%	3.7%
Producer Price Index, Final Demand (PPI)	8.7%	8.7%	0.8%	1.6%

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, 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 2.8% year over year in August, slightly slower than the growth rate from a month prior (2.9%) and below the average rate seen through the first seven months of 2023 (2.9%) (Exhibit 1). Over the past year, health care price growth has remained in a very tight range, between 2.6% and 3.3% year-over-year growth, while economywide price growth had been gradually declining from its peak in June 2022.

Yet, based on data from July and August, it appears the trend of falling economywide inflation has abated and at least temporarily reverted to increasing growth rates. CPI growth increased to 3.7% in August, moving upward mostly due to changes in commodities prices growth (Exhibit 4), while year-over-year PPI growth increased to 1.6% from 0.8% a month prior.

Given that PPI growth (which often leads changes in CPI) remains below overall CPI growth rates and the “core” measure of CPI that excludes the volatile food and energy categories [has continued to fall](#) in recent months, we believe it is most likely the uptick in overall economywide inflation may be short-lived, although we will continue to monitor these data. Regardless, it appears the gap between overall inflation and health care price growth has disappeared and the two are now tracking at similar levels.

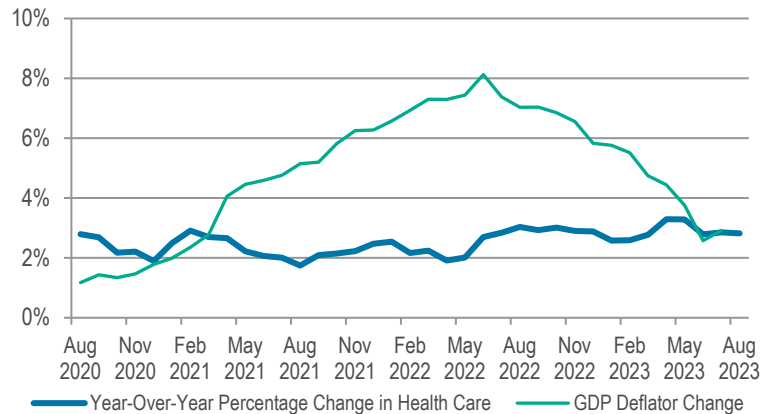
In assessing health care price growth by payer, the decline in health care price growth for private payers continued in August, falling to 2.8% year-over-year growth from a recent peak of 4.2% growth in April (Exhibit 7). Specifically for private payer hospital prices, the decline in growth has been even steeper over recent months, falling 2.9 percentage points from 6.1% growth in April to 3.2% growth in August (Exhibit 8). This continues to surprise as we had expected private payer prices to rise in 2023 as new provider contracts took effect. However, it appears the lag in new prices may be taking longer than expected to appear. Initial data for 2024 indicate that growth in [overall health care costs for employers](#) and [insurance premiums on the marketplaces](#) will be above average and these may portend future faster health care prices growth. Furthermore, with Congress mired in debates over [a possible federal shutdown](#), it seems less likely health legislation addressing health care costs on PBMs or hospital payments will move forward expeditiously, limiting future downward pressures on prices.

Among major health care categories in August, the fastest growth occurred for nursing home (5.6%), dental services (5.3%) and home health care services (5.2%) (Exhibit 2). Hospital price growth remained relatively steady compared to last month (2.4%) and physician and clinical services prices remain the slowest growing major category—

increasing only 0.6% year over year—marking the nineteenth straight month of below 1.0% price growth (Exhibit 3). Prescription drug price growth in August held constant at 2.8% growth year over year, matching the average growth rate through the first seven months of the year. The greatest drop in price growth among tracked categories was for “other professional services”, falling from 0.9% growth to 0.1% in August.

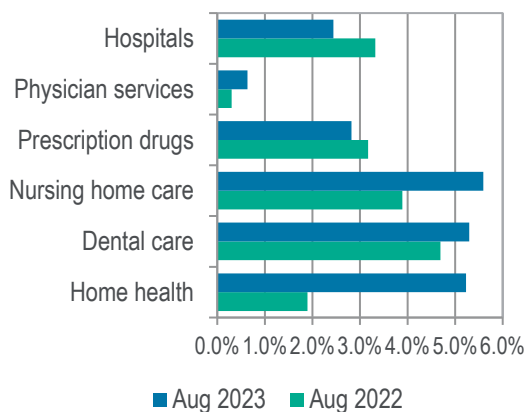
Our implicit measure of overall health care utilization growth (total spending growth net of health care price inflation) slowed again in July, now up 4.3% year-over-year (Exhibit 9), down from the 5.1% growth rate seen in February and March. This result matches other data on national health care utilization, such as data on overall [hospital volumes from July](#), and indicates trends in overall health care utilization may be tending slower in 2023. Among the major categories for July, growth in use for hospital care (3.1%) and nursing home care (2.5%) were the slowest in our 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.

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



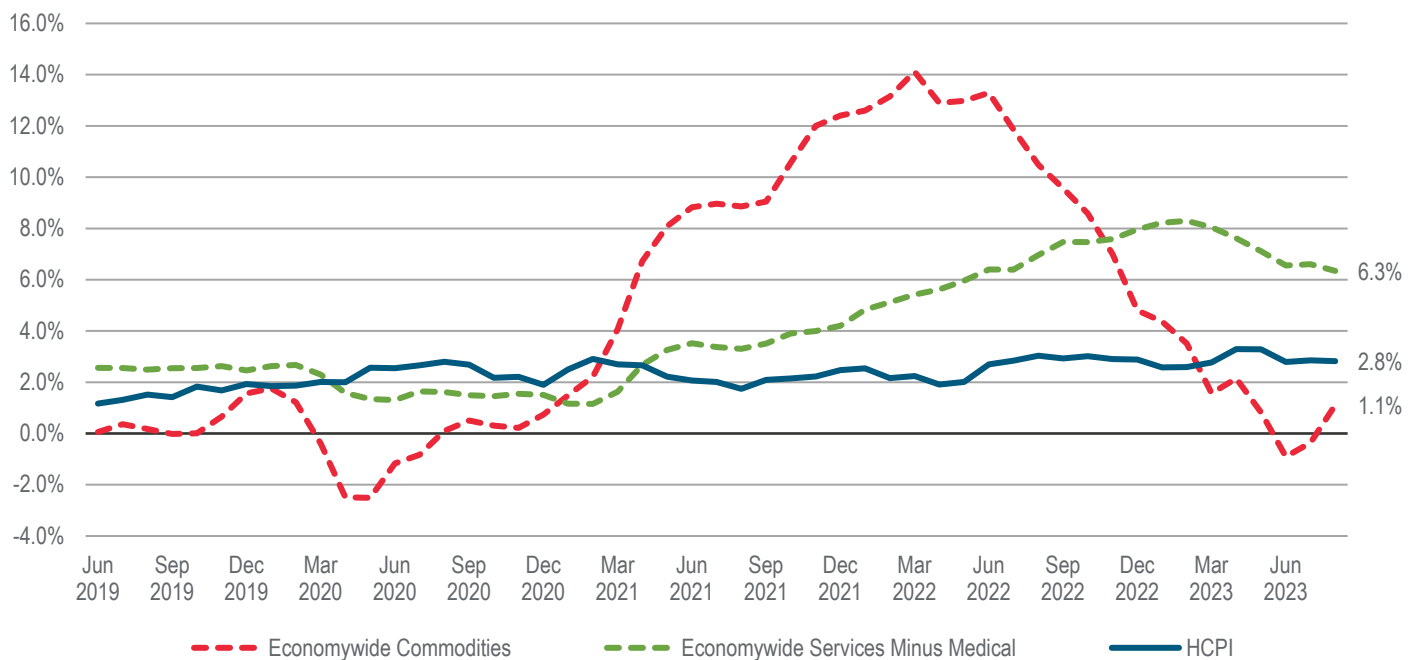
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending August 2021	Ending August 2022	Ending August 2023
Health Care Price Index (HCPI)	1.7%	3.0%	2.8%
Hospital care	2.4%	3.3%	2.4%
Physician and clinical services	3.2%	0.3%	0.6%
Prescription drugs	-2.7%	3.2%	2.8%
Nursing home care	1.1%	3.9%	5.6%
Dental Services	2.6%	4.7%	5.3%
Home health care	1.6%	1.9%	5.2%
Other professional services	2.2%	4.4%	0.1%
Other personal health care	5.0%	4.9%	5.9%
Other nondurable medical products	-1.6%	6.1%	7.5%
Durable medical equipment	-1.7%	3.5%	5.6%

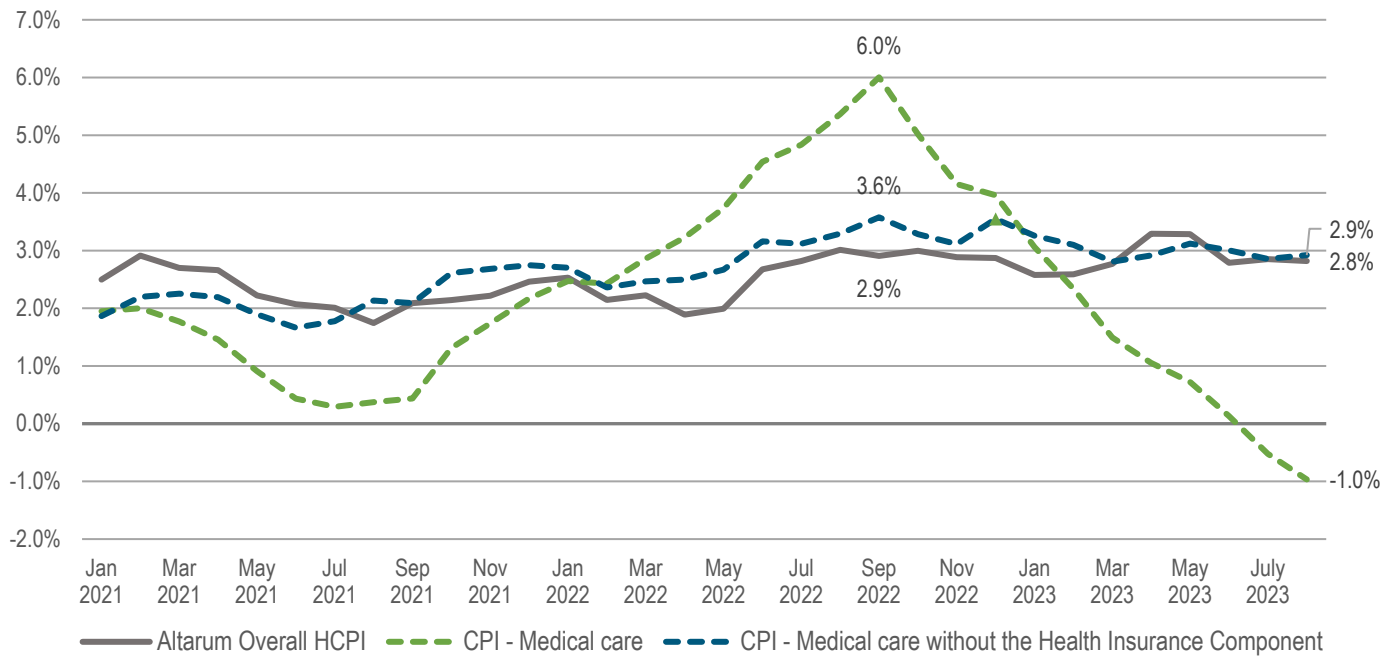
Source: Altarum analysis of monthly BLS data.

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



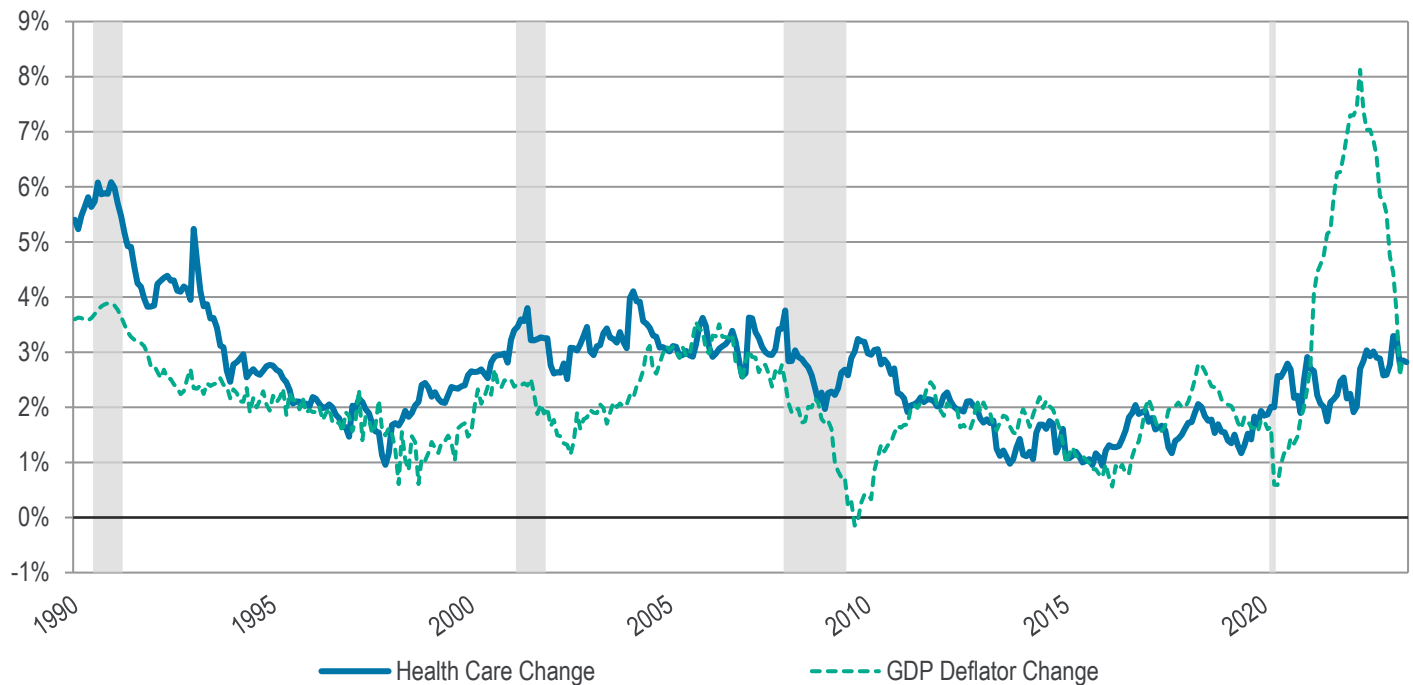
Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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



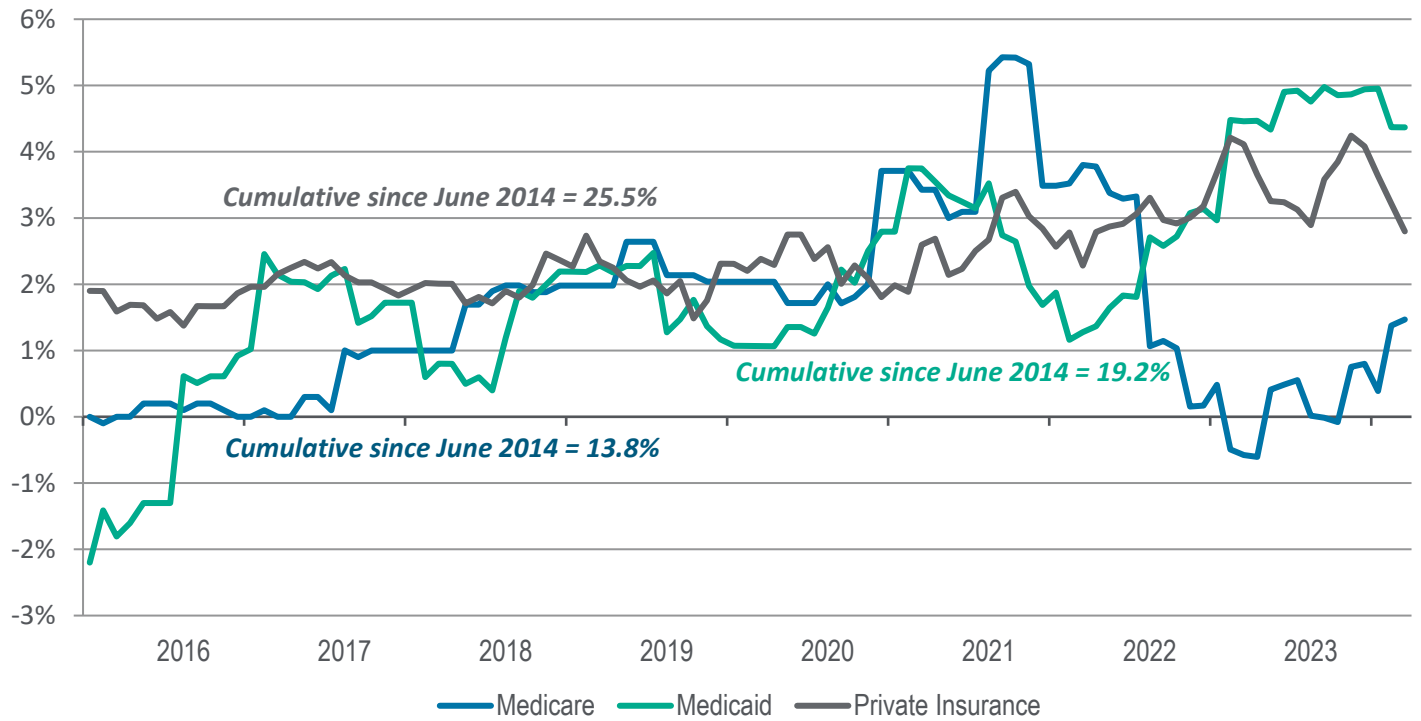
TIME SERIES TRACKER

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



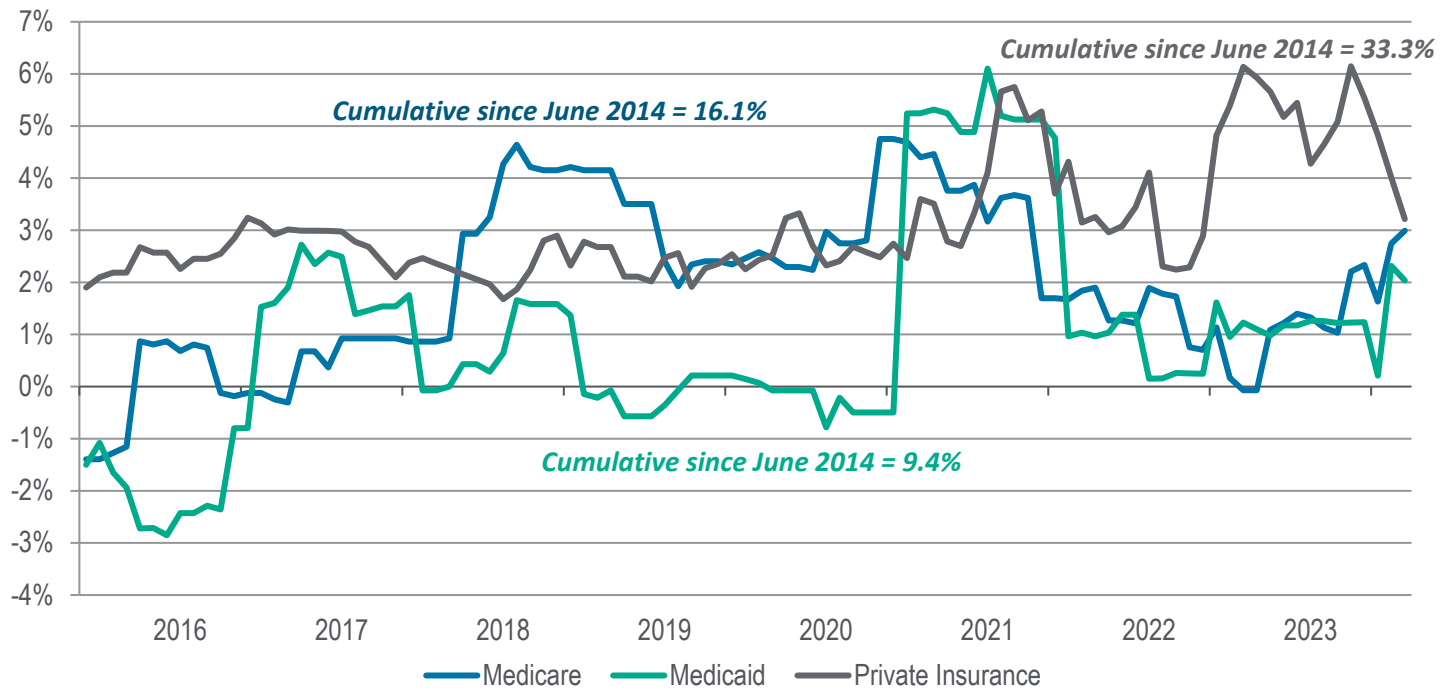
Source: Altarum monthly national health spending and price index estimates.
Note: Lightly shaded bars denote recession periods.

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

	July 2023	3-Month Moving Average	12-Month Moving Average
Total personal health care	4.3%	4.6%	3.4%
Hospital care	3.1%	4.0%	2.8%
Physician and clinical services	6.3%	6.3%	4.2%
Prescription drugs	7.0%	7.0%	6.5%
Nursing home care	2.5%	3.6%	5.0%
Dental Services	6.0%	4.6%	2.4%
Home health care	6.6%	5.4%	6.0%
Other professional services	9.4%	8.6%	3.9%
Other personal health care	-1.9%	-2.0%	-0.7%
Other nondurable medical products	0.4%	1.1%	1.4%
Durable medical equipment	4.3%	4.8%	5.3%

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.