ALTARUM

Health Sector Economic Indicators℠

Insights from Monthly National Price Indices through November 2022

PRICE BRIEF

December 15, 2022

Health care price growth and economywide inflation continue to slow

HIGHLIGHTS

- The Health Care Price Index increased by 2.7% year over year in November, down from 2.9% in October.
- Economywide price growth slowed again this month, as overall CPI inflation fell from 7.7% to 7.1% and PPI price growth fell to 7.4%.
- While economywide inflation was largely driven by commodities prices in 2021 and the first half of 2022, services inflation has been increasing as commodities inflation has been falling, so that in November, overall services CPI growth, excluding health care, now exceeds overall commodities inflation, increasing 7.6% year over year versus 7.0% for goods.
- Among the major health care categories, prices for dental care (6.4%), nursing home care (4.3%), and hospital services (3.1%) were the fastest growing, while physician services (0.3%) and prescription drug (1.9%) price growth were the slowest growing categories.
- Year-over-year growth in hospital prices paid by private insurance (4.8%) remain above Medicare hospital price growth (1.7%), although private price growth has slowed somewhat from the peak in August (5.5%).

	Nov 2020	Nov 2021	Oct 2022	Nov 2022
Health Care Price Index (HCPI)	2.2%	2.4%	2.9%	2.7%
GDP Deflator (GDPD)	1.5%	6.3%	6.7%	**
HCPI - GDPD	0.7%	-3.9%	-3.8%	**
Addendum				
Personal health care spending	10.3%	2.4%	5.4%	**
Health care utilization	8.1%	0.0%	2.6%	**
Medical Consumer Price Index (MCPI)	2.4%	1.7%	5.0%	4.2%
Consumer Price Index – all items (CPI)	1.2%	6.8%	7.7%	7.1%
Producer Price Index – Final Demand (PPI)	0.8%	9.9%	8.1%	7.4%

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

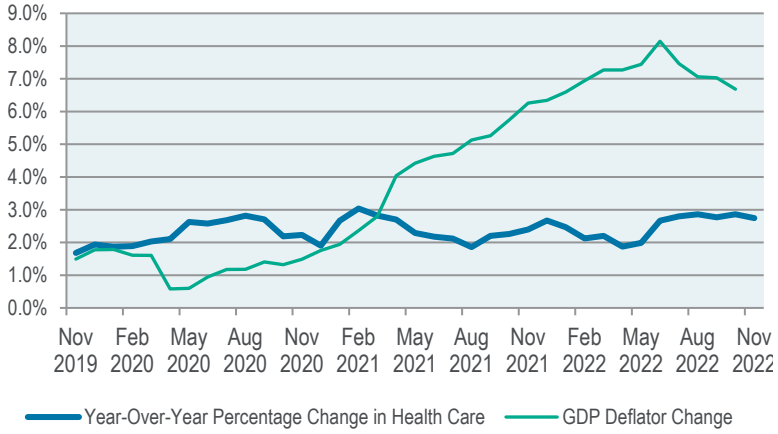
Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among at-risk and disenfranchised populations. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. This work was made possible through generous support from the Robert Wood Johnson Foundation.

The Health Sector Economic Indicators℠ 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. Corwin Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. 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 2.7% year over year in November, down from 2.9% growth in October (Exhibit 1). This marks the sixth straight month where health care inflation has been between a tight range of 2.7% and 2.9%. While current price growth is above the average rate seen in the first half of 2022, over the past few months health care prices have increased slower than we expected.

Exhibit 1. Year-over-Year Growth in HCPI & GDPD



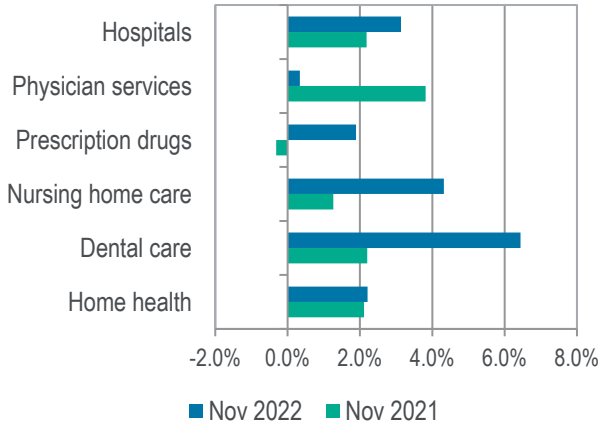
Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

This is particularly true for health care prices paid for by private insurance—while we expected higher prices would take some time to materialize as long-term health care provider contracts and reimbursement rates were updated, this delay is either taking longer than expected or private price increases have not been as steep as anticipated. Strikingly, between September and November, the overall private insurance health care services index actually fell slightly (from 121.91 to 121.23). It is possible private insurance prices will jump again in January and February next year, as a new calendar year could be a common time for new rates and contracts to begin. We will continue to track these data in coming months.

For health care prices paid by public payers, future 2023 and 2024 prices will be very dependent on end-of-year policy decisions that are currently under debate in Congress. The current policy status quo for 2023 Medicare prices would mean cuts of nearly 8.5% for physician and clinical care reimbursements and 4.0% or more for all other providers, resulting from the PAYGO cuts. It is likely an end-of-year Congressional spending deal will alleviate at some of these price declines, but the details remain under consideration. Looking out further, MedPAC has also released initial Medicare payment recommendations for 2024, with small increases proposed for hospital and physician reimbursement, but decreases for skilled nursing facilities, home health, and IP rehab facilities. MedPAC has separately recommended new increases for physicians treating low-income Medicare patients and also for safety-net hospitals.

In October, the greatest increases in health care prices occurred for dental care, nursing homes, and hospital settings (rising 6.4%, 4.3%, and 3.1%, respectively) (Exhibit 2). Conversely, physician and clinical services prices increased at the slowest rate among major sectors—at only 0.3% growth—marking the tenth straight month of below 1.0% price growth for physicians. Price growth for prescription drugs was also below average in October, at 1.9% year over year, down from 2.2% last month (Exhibit 3).

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



Our implicit measure of overall health care utilization for October shows that overall utilization increased by 2.6% year over year (Exhibit 8) and that data for the prior three months were also revised slightly upwards based on new spending data. For October, hospital utilization growth was barely positive (0.1%), while home health and dental care use were the fastest among the major categories at 7.1% and 6.8%. Moderate utilization growth in recent months has contributed to health care spending growth that has been slower than GDP growth in 2022, which we discuss in more detail in the spending brief.

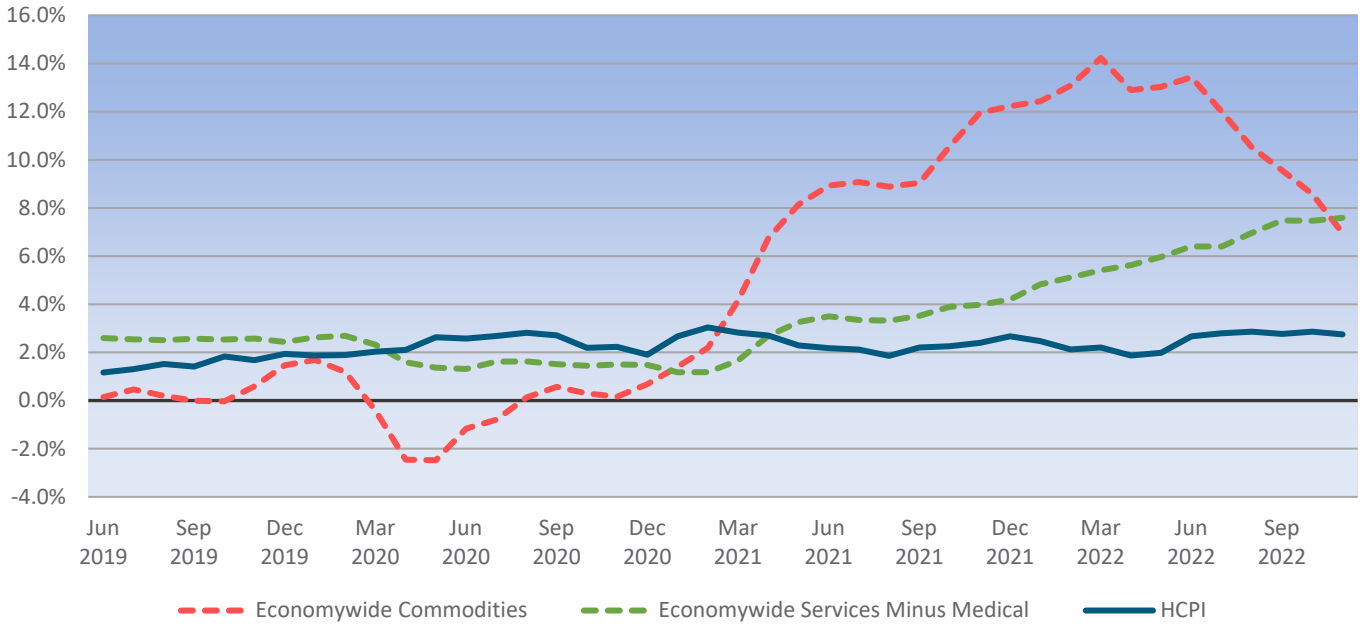
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending November 2020	Ending November 2021	Ending November 2022
Health Care Price Index (HCPI)	2.2%	2.4%	2.7%
Hospital care	3.4%	2.2%	3.1%
Physician and clinical services	1.1%	3.8%	0.3%
Prescription drugs	-0.4%	-0.3%	1.9%
Nursing home care	4.2%	1.3%	4.3%
Dental Services	2.9%	2.2%	6.4%
Home health care	2.5%	2.1%	2.2%
Other professional services	1.5%	2.1%	3.7%
Other personal health care	4.2%	5.0%	4.3%
Other nondurable medical products	-1.9%	0.8%	5.4%
Durable medical equipment	-4.9%	2.9%	4.4%

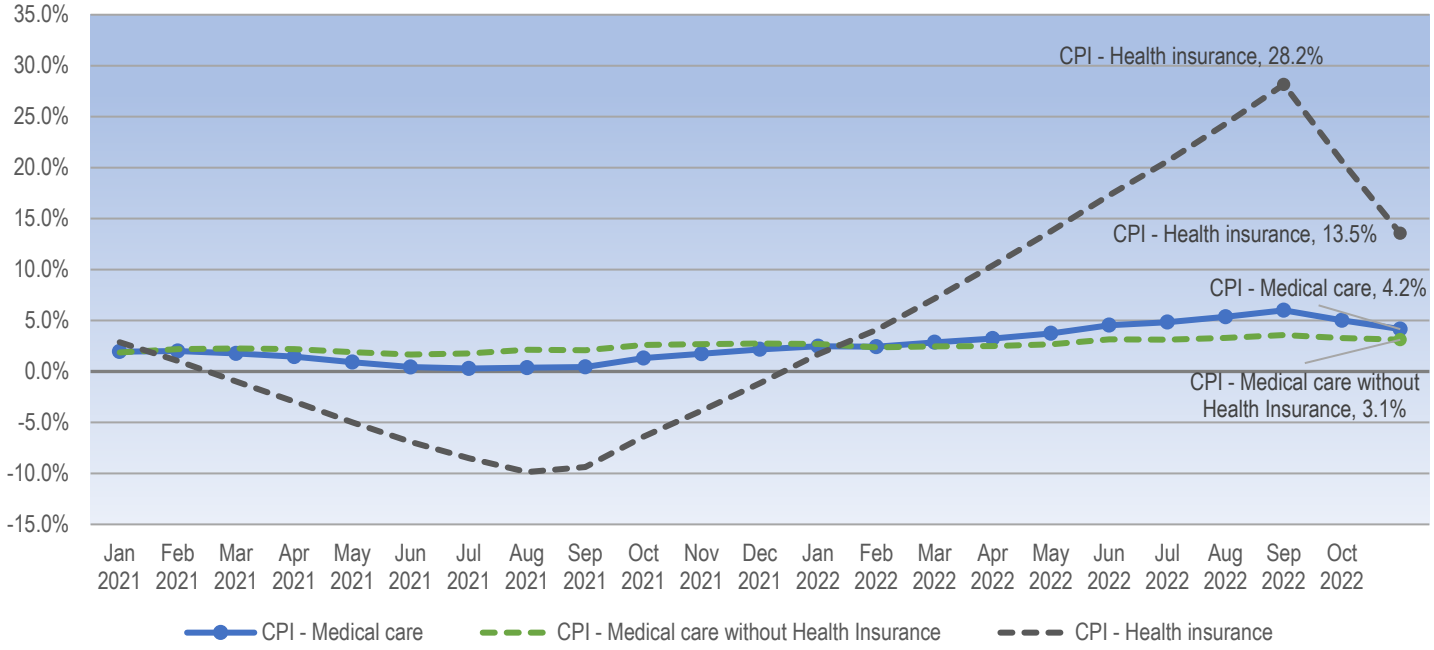
Source: Altarum analysis of monthly BLS data.

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



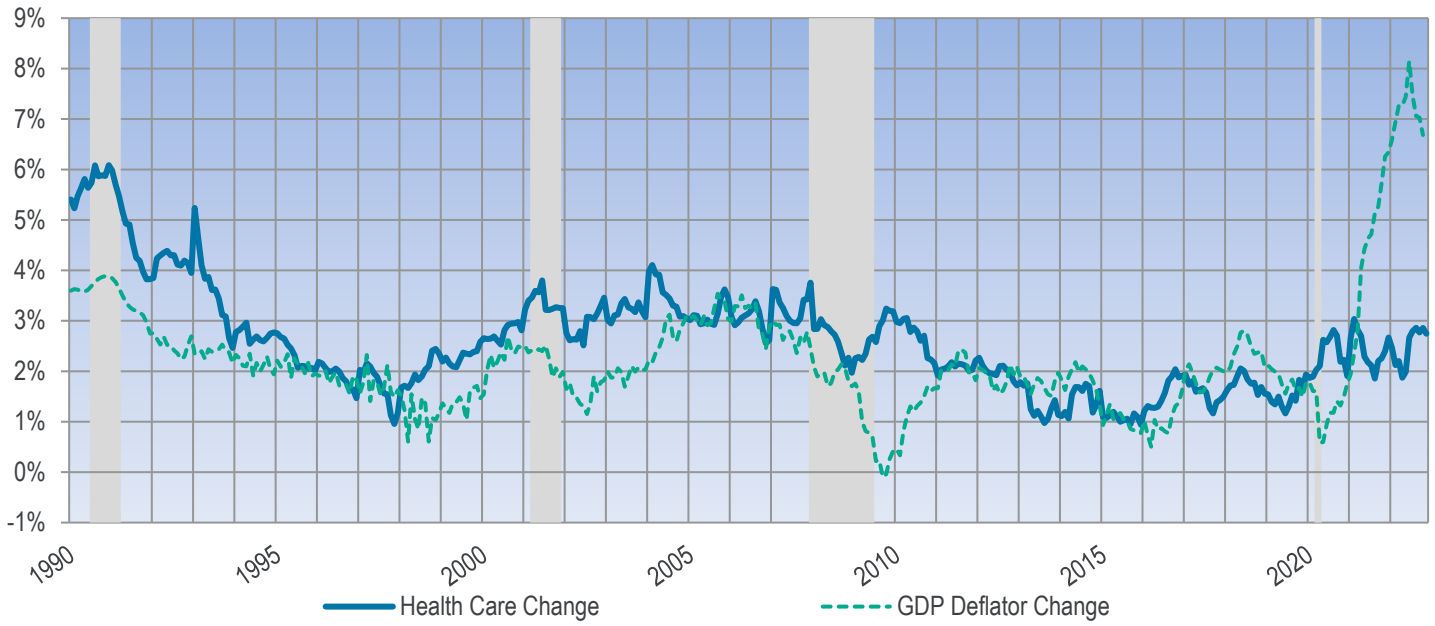
Methods. Altarum's estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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



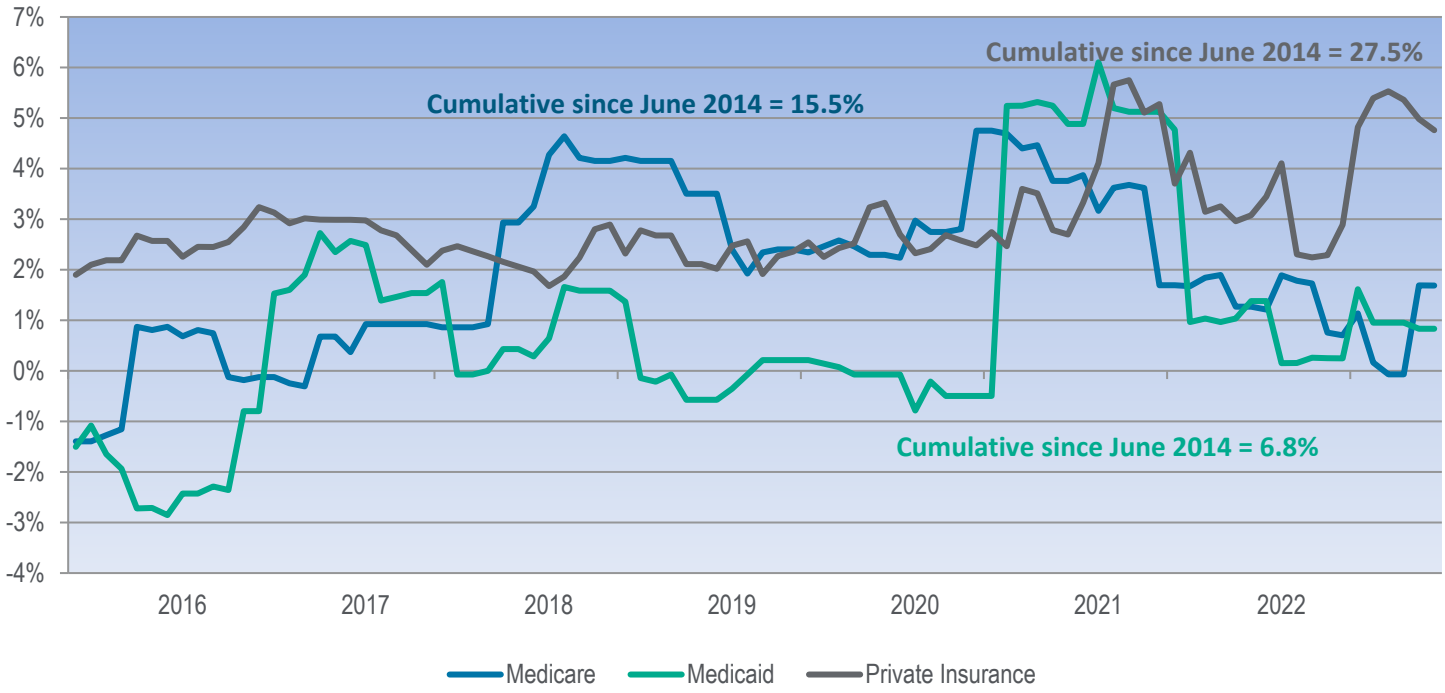
TIME SERIES TRACKER

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 19th, 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

	October 2022	3-Month Moving Average	12-Month Moving Average
Total health care	2.6%	2.6%	2.8%
Hospital care	0.1%	0.4%	1.9%
Physician and clinical services	4.2%	4.2%	3.9%
Prescription drugs	6.0%	5.2%	5.5%
Nursing home care	4.8%	6.3%	5.1%
Dental Services	6.8%	7.0%	4.6%
Home health care	7.1%	6.1%	2.3%
Other professional services	1.0%	0.4%	-0.6%
Other personal health care	1.7%	1.8%	1.6%
Other nondurable medical products	0.6%	0.5%	1.8%
Durable medical equipment	3.9%	4.5%	3.1%

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 – 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.*