

April 21, 2022

Health care price and utilization growth remain low in March

HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased slightly in March, rising 2.3% year over year, and increasing slightly from the 2.2% growth rate a month prior.
- ▲ This health care price growth remains much lower than very high economywide inflation, which continues to increase—March CPI growth was 8.5% and PPI growth was 11.2%, both faster than a month before.
- ▲ Among major health care categories, physician services and nursing home prices increased the least in March (0.6% and 1.4% year over year respectively), while hospital services and prescription drug prices grew by 2.2%.
- ▲ Growth in prices paid by private insurance for health care services remained greater than public payer growth in March at 3.0% year over year versus Medicare and Medicaid price growth, at 1.1% and 2.0% respectively.
- ▲ Our estimate of implicit utilization (spending growth minus changes in prices) shows overall health sector utilization increased by 3.2% year over year in February 2022, with a twelve-month average increase of 2.9%.

	Mar. 2020	Mar. 2021	Feb. 2022	Mar. 2022
Health Care Price Index (HCPI)	2.2%	2.9%	2.2%	2.3%
GDP Deflator (GDPD)	1.6%	2.4%	6.8%	**
HCPI - GDPD	0.6%	0.5%	-4.6%	**
<i>Addendum</i>				
Personal health care spending	-2.4%	14.8%	5.4%	**
Health care utilization	-4.6%	12.0%	3.2%	**
Medical Consumer Price Index (MCPI)	4.7%	1.8%	2.4%	2.9%
Consumer Price Index – all items (CPI)	1.5%	2.6%	7.9%	8.5%
Producer Price Index – Final Demand (PPI)	0.3%	4.1%	10.3%	11.2%

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 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. We thank Paul Hughes-Cromwick, who originated the concept of these reports and provided inspired leadership of the work from its inception. Media Contact: press@altarum.org.



DISCUSSION

Growth in the overall Health Care Price Index (HCPI) remained under three percent this month, at 2.3% in March, increasing very slightly from a month prior, which was slightly revised in new data to 2.2% growth year over year (Exhibit 1). This continues the period that began in April 2021 when economywide inflation has increased rapidly, but health care prices have yet to follow suit (February CPI was up 8.5% year over year, while PPI increased even more, 11.2%). As a result, the gap between overall economywide CPI and HCPI was a shocking 6.2 percentage points in March (Highlights Table)—the largest gap seen since our series began in January 1990.

As shown in Exhibit 4, the gaps among HCPI, economywide services prices less medical care, and economywide commodities prices continued to increase in March. While HCPI includes both health care goods and services in these data, health care is predominately a service-driven industry, and we expect health care prices will eventually follow other economywide services prices upwards. Yet, in the short term, slower health care price growth may continue because contracts and prices are negotiated in advance, making many health care prices initially less susceptible to economy shocks. Additionally, a significant proportion of care (particularly for hospitals) is paid for by public payers, where price growth is set prospectively by regulators. Recently [announced CMS increases](#) for inpatient payments for acute hospitals in 2023 were set at 3.2%, while long-term care hospital reimbursement rates will increase less, by 0.8%. These rates will impact hospital prices in the upcoming year, and we are expecting private insurance price growth to exceed public payers in the near future.

Among health care components, physician services prices grew the slowest in March at 0.6% year over year (Exhibit 2), while most other industry components grew closer to two percent year over year. Overall hospital services prices grew by 2.2%, nursing home care by 1.4% and dental care by 2.4%. Private price growth for health care services (3.0%) continues to exceed growth for public payers throughout 2022; as of March it was a full percentage point above Medicaid price growth and nearly two percentage points above Medicare (Exhibit 7). Among products, prescription drug price growth settled this month, falling from 2.4% in February to 2.2% in March.

As for our implicit measure of health care utilization for February 2022, we find that it grew by 3.2% year over year.

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

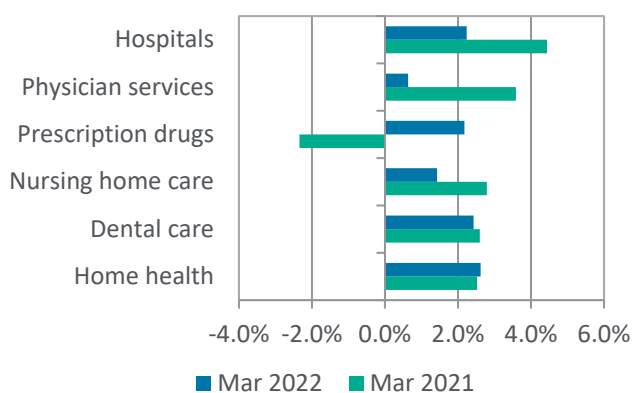
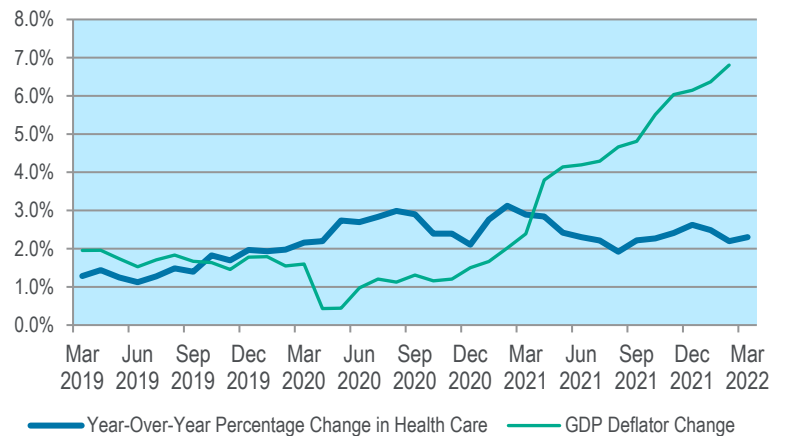


Exhibit 1. Year-over-Year Growth in HCPI & GDPD



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

With new CMS [National Health Expenditure Accounts projection data](#) incorporated this month, we have updated utilization growth estimates for the full year 2021. For the twelve-month average as of December 2021, we find hospital implicit utilization grew by 3.0% and physician services by 1.7%, but utilization fell for nursing care by 7.2% (data not shown). This utilization growth was slower for these categories than a year prior. Conversely, utilization growth increased from 2020 to 2021 for prescription drugs and dental care (to 6.6% and 16.1% respectively). Importantly this measure of “utilization” is total spending by category net of price growth, and total spending includes direct government transfers such as Provider Relief Funds and Paycheck Protection Program forgivable loans.



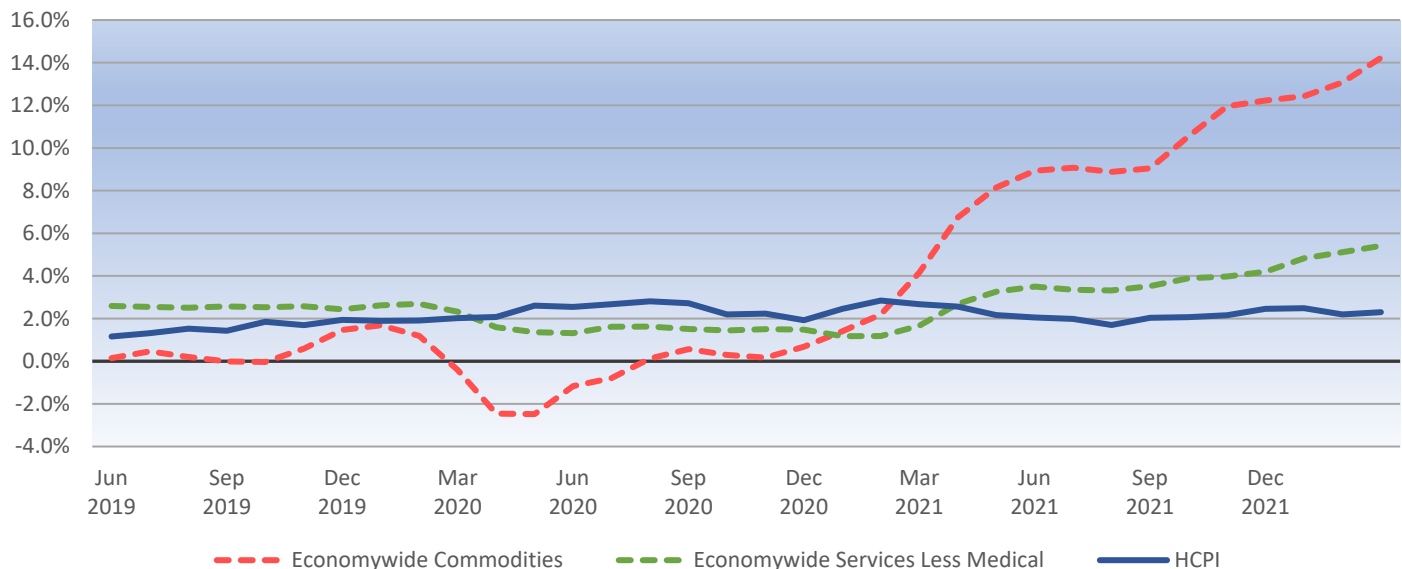
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending March 2020	Ending March 2021	Ending March 2022
Health Care Price Index (HCPI)	2.2%	2.9%	2.3%
Hospital care	2.5%	4.4%	2.2%
Physician and clinical services	1.2%	3.6%	0.6%
Prescription drugs	1.5%	-2.3%	2.2%
Nursing home care	3.5%	2.8%	1.4%
Dental Services	2.8%	2.6%	2.4%
Home health care	2.8%	2.5%	2.6%
Other professional services	0.8%	2.6%	4.4%
Other personal health care	2.3%	4.7%	4.5%
Other nondurable medical products	0.6%	-2.1%	4.1%
Durable medical equipment	1.0%	-2.4%	2.4%

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.



TIME SERIES TRACKER

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

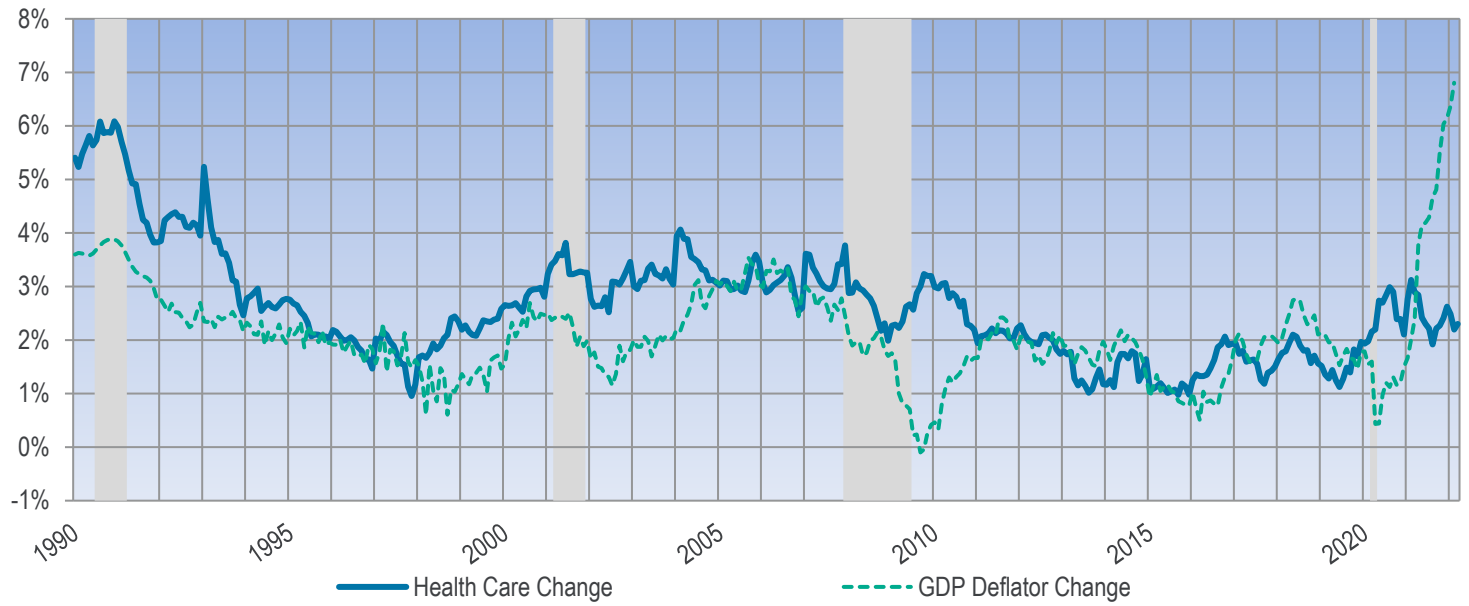
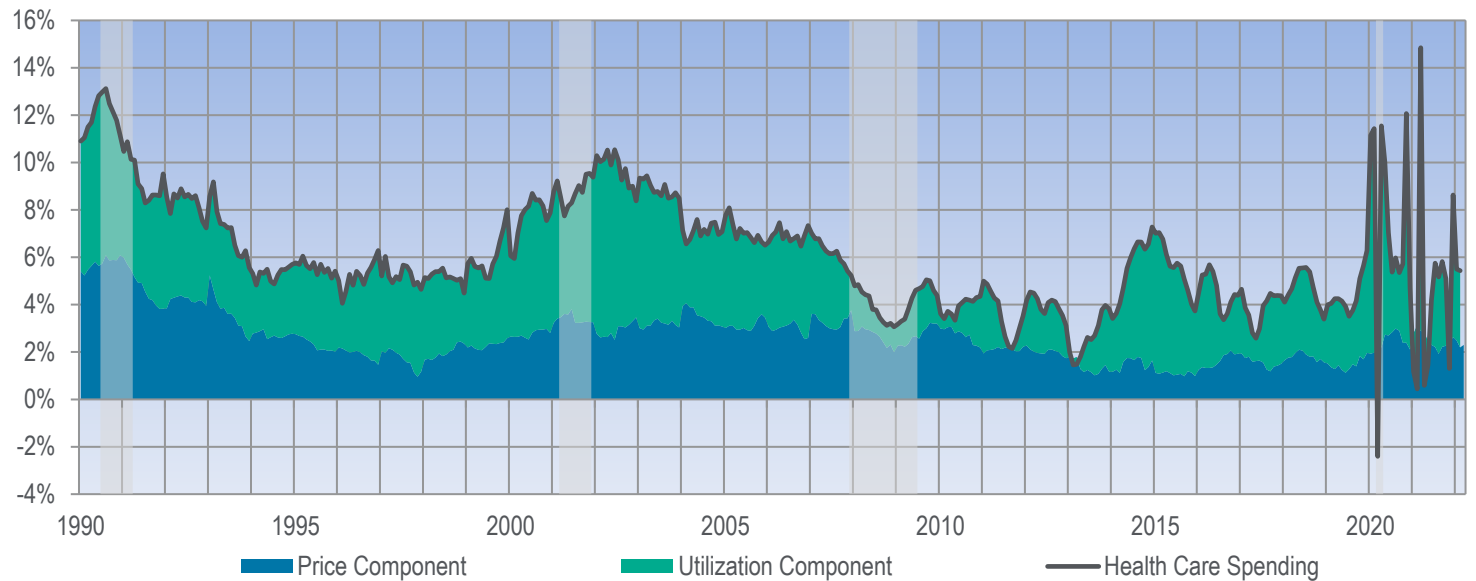


Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components

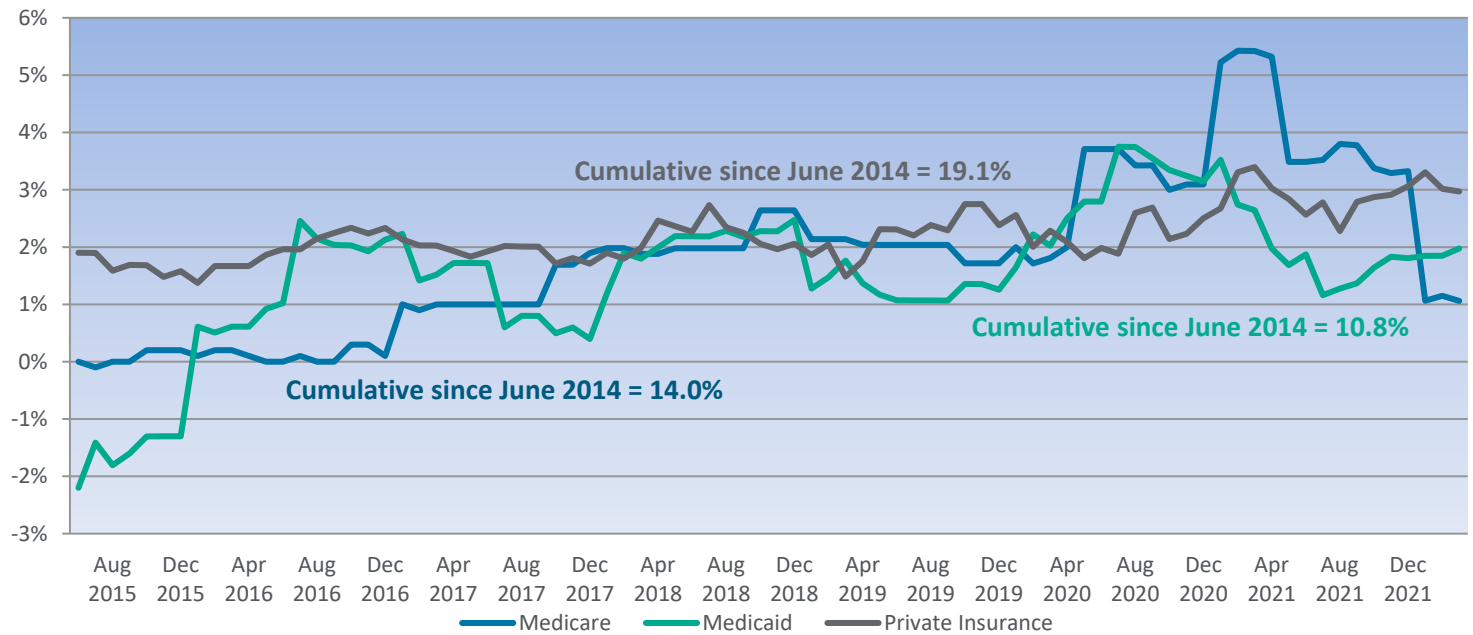


Source: Altarum monthly national health spending and price index estimates.

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 Health 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

	February 2022	3-Month Moving Average	12-Month Moving Average
Total health care	3.2%	4.1%	2.9%
Hospital care	6.1%	7.0%	4.8%
Physician and clinical services	2.8%	3.7%	3.1%
Prescription drugs	8.1%	6.7%	7.2%
Nursing home care	5.6%	7.1%	-4.8%
Dental Services	-5.9%	2.6%	15.9%
Home health care	-1.4%	-0.6%	-3.5%
Other professional services	-3.0%	0.0%	4.5%
Other personal health care	-4.3%	-5.1%	-5.8%
Other nondurable medical products	7.7%	5.6%	4.6%
Durable medical equipment	4.3%	1.6%	8.4%

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.