ALTARUM

Health Sector Economic Indicators℠

Insights from Monthly National Price Indices through January 2021

PRICE BRIEF

February 18, 2022

A jump in prices paid by private insurance is offset by a Medicare price slowdown

HIGHLIGHTS

- Overall Health Care Price Index (HCPI) growth remained the same as the month prior, at 2.4% in January, staying within its tight range near 2.0% year-over-year growth, the trend seen since April 2021.
- Health care price growth remains lower than expected given rapid increases in economywide inflation—January CPI growth was 7.5% and PPI growth was 9.7%, each a near series-record rate.
- Prices paid by private insurance for health care services increased somewhat in January to 3.2% year-over-year, while Medicare and Medicaid price growth was significantly slower, at 1.1% and 1.6% respectively.
- Hospital care prices were the fastest growing major category, at 2.9% year over year, while prescription drug prices increased 1.3% after a long period of zero and negative price growth throughout 2021.
- Our estimate of implicit utilization (spending growth minus changes in prices) shows overall health sector utilization increased by 8.2% in December 2021, with a twelve-month average increase of 2.6%.

	Jan. 2020	Jan. 2021	Dec. 2021	Jan. 2022
Health Care Price Index (HCPI)	1.9%	2.5%	2.4%	2.4%
GDP Deflator (GDPD)	1.8%	1.7%	6.0%	**
HCPI - GDPD	0.1%	0.8%	-3.6%	**
Addendum				
Personal health care spending	10.5%	0.3%	10.6%	**
Health care utilization	8.6%	-2.1%	8.2%	**
Medical Consumer Price Index (MCPI)	4.5%	1.9%	2.2%	2.5%
Consumer Price Index – all items (CPI)	2.5%	1.4%	7.0%	7.5%
Producer Price Index – Final Demand (PPI)	2.0%	1.6%	9.8%	9.7%

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.

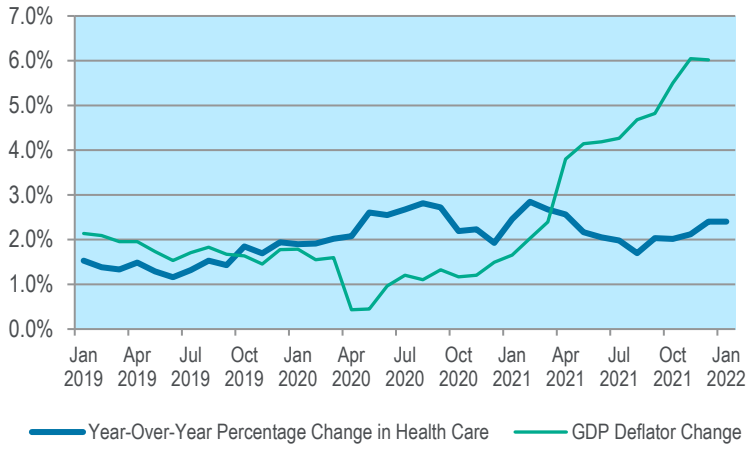
The Health Sector Economic Indicators℠ reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Ani Turner at ani.turner@altarum.org. Corwin Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, PhD, contributed to this brief. 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 constant in January 2022, holding at 2.4% year-over-year growth, the same as the month prior (Exhibit 1). This keeps overall price growth within the relatively tight range seen since April 2021; however, it is showing a slight upward trend in recent months after bottoming out in August 2021.

Health care price growth remains well below overall economywide inflation (January CPI was up 7.5% year over year, while PPI increased even more, 9.7%). The gap between overall economywide CPI and HCPI was a whopping 5.1 percentage points in December (Highlights Table), continuing a period when health care prices have grown significantly slower than economywide prices.

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

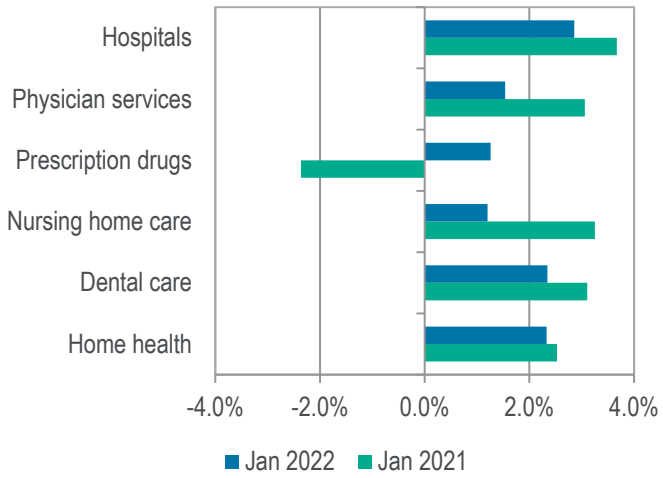


Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

We expect overall health care price growth to eventually follow economywide inflation upwards, but we have yet to see a significant uptick in health prices at all comparable to overall inflation. As we've discussed previously, part of the story in slower health care price growth is that health care contracts and prices are negotiated in advance, making many health care prices initially less flexible to adjust to one-time shocks in the economy. Muted health care price growth in January was affected by a significant slowdown in health care services prices paid for by Medicare (Exhibit 7), while private sector prices for all services and hospital care notched upwards noticeably. Hospital prices for care paid for by private insurance increased by 4.2% in January (Exhibit 6), showing a steady rise since from October 2021, when this rate was only 2.9% year over year. We will continue to track 2022 health care price growth, expecting private insurance prices to lead public payers in growth throughout the year as new negotiated rates are phased in.

Among health care components this month, overall hospital services were the fastest growing category at 2.9%, (Exhibit 3), while physician and clinical services followed close behind, increasing 1.5% year over year. Prescription drug price growth was positive again in January, increasing 1.3% from a year ago, confirming our hypothesis from a few months back that the streak of negative price growth would eventually end, and historical price growth trends would return for retail prescription drugs.

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



As for our implicit measure of health care utilization through December 2021, we find that it increased 8.2% in the most recent data, a significant uptick from the average utilization growth seen in 2021. This is in part due to changes in our estimates of total health care spending, which now better account for one-time spending by the federal government in support of public health and the overall health sector during the pandemic. We discuss these changes and the impacts on overall health spending growth in greater detail in this month's spending brief.

PRICE GROWTH BY DETAILED CATEGORIES

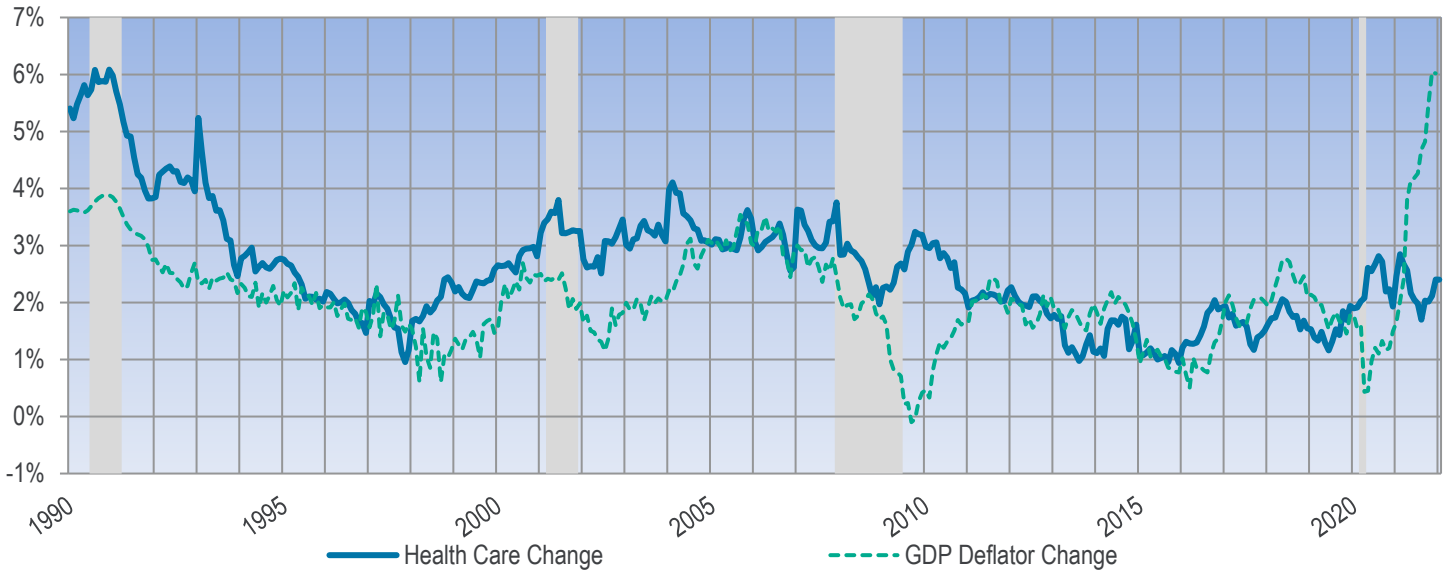
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending January 2020	Ending January 2021	Ending January 2022
Health Care Price Index (HCPI)	1.9%	2.5%	2.4%
Hospital care	2.4%	3.7%	2.9%
Physician and clinical services	1.1%	3.1%	1.5%
Prescription drugs	2.5%	-2.4%	1.3%
Nursing home care	3.0%	3.3%	1.2%
Dental Services	2.5%	3.1%	2.3%
Home health care	2.7%	2.5%	2.3%
Other professional services	1.4%	2.7%	3.8%
Other personal health care	1.8%	4.7%	3.9%
Other nondurable medical products	-0.5%	-1.3%	1.7%
Durable medical equipment	0.2%	-2.8%	2.9%

Source: Altarum analysis of monthly BLS data.

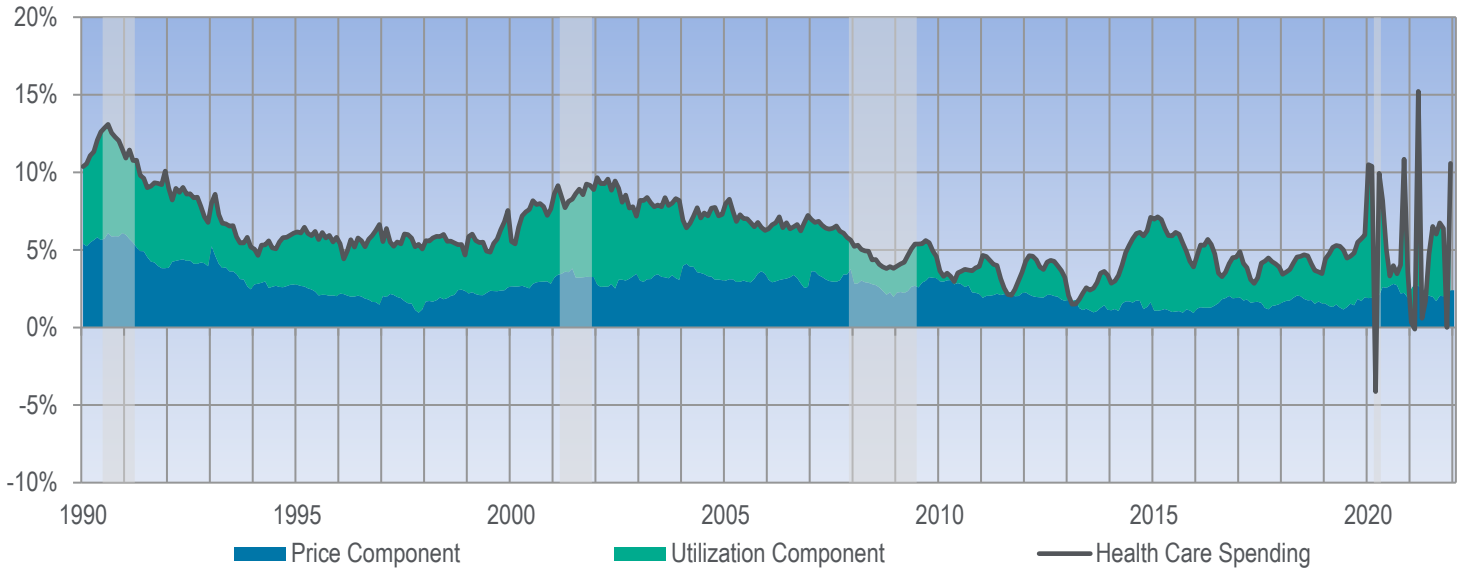
TIME SERIES TRACKER

Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



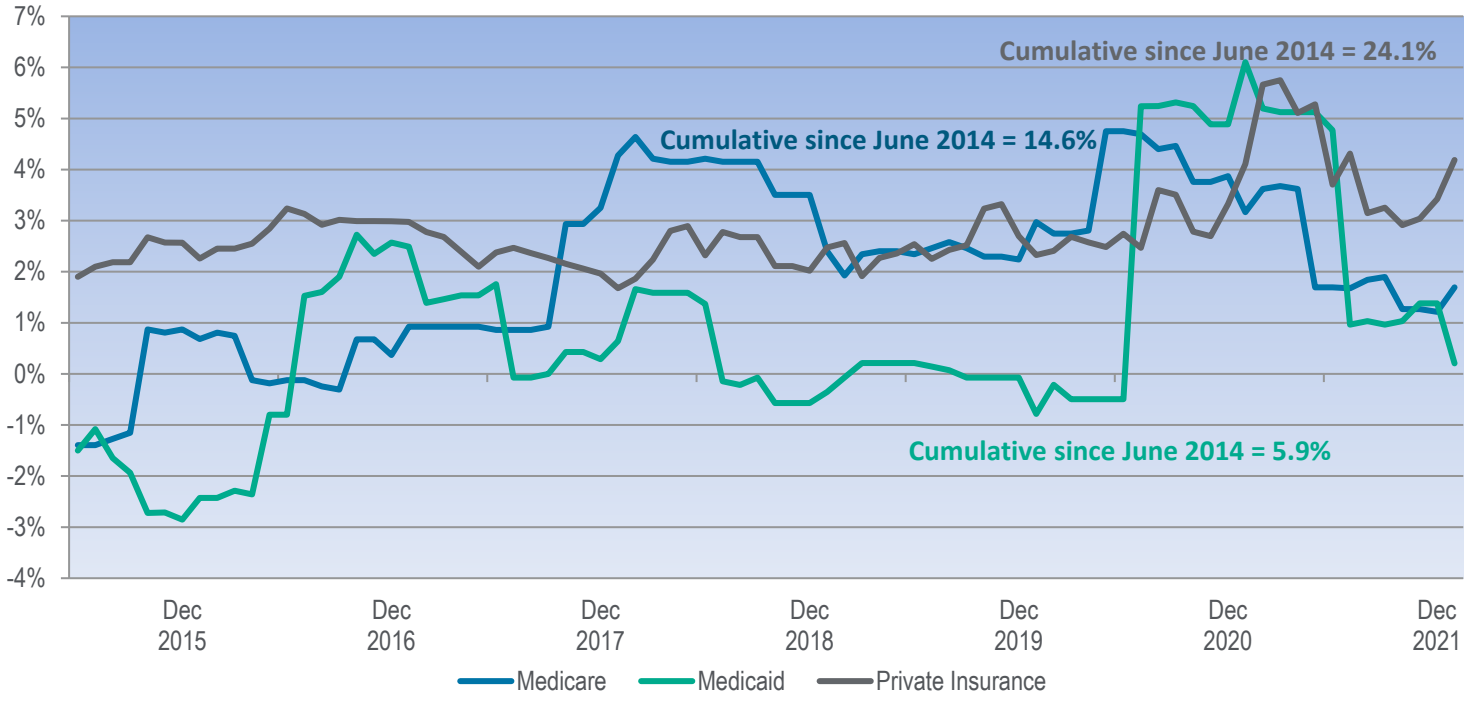
Methods. Altarum's estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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



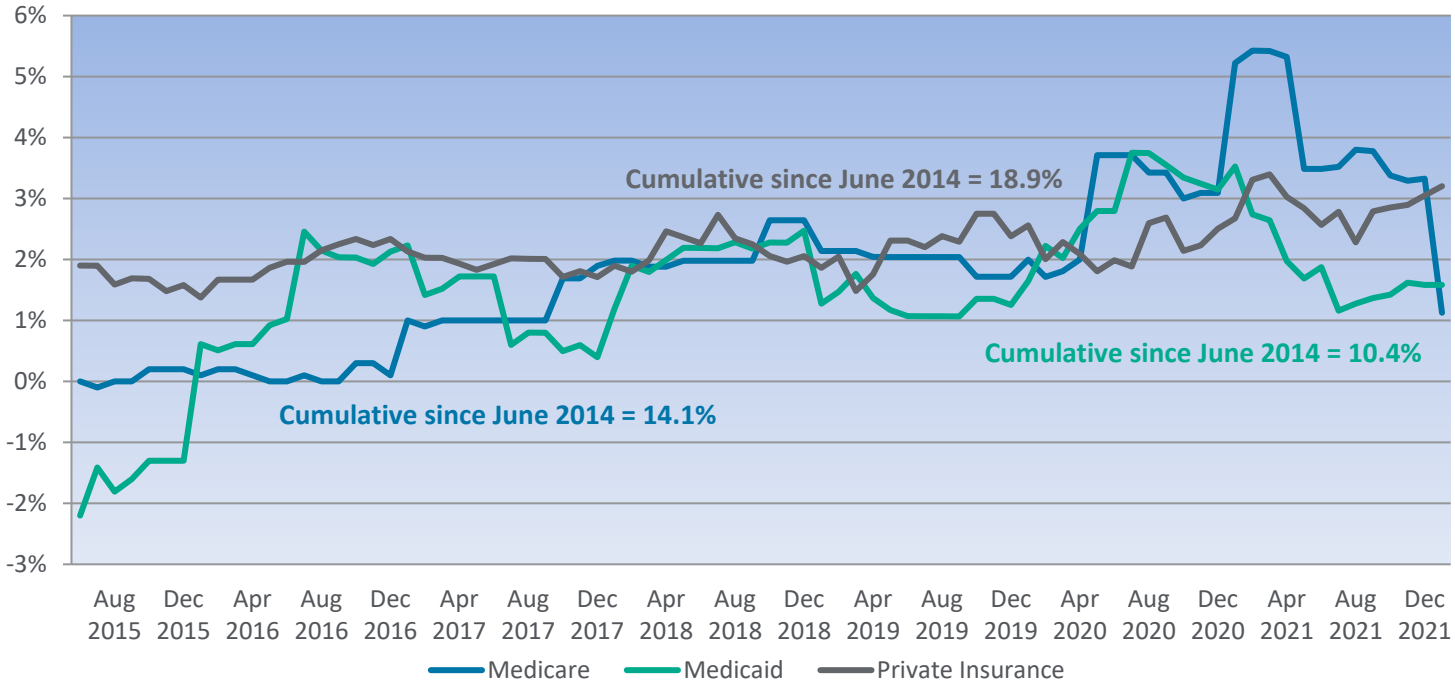
Source: Altarum monthly national health spending and price index estimates.
Note: Lightly shaded bars denote recession periods. (The 2020 recession timing was announced by NBER on July 19th, 2021)

Exhibit 6. Year-over-Year Change in Hospital Price Growth by Payer



Source: Altarum analysis of monthly BLS data.

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

	December 2021	3-Month Moving Average	12-Month Moving Average
Total health care	8.2%	3.5%	2.6%
Hospital care	10.8%	3.2%	3.2%
Physician and clinical services	7.4%	3.5%	2.4%
Prescription drugs	1.4%	2.2%	2.8%
Nursing home care	9.1%	-0.1%	-8.6%
Dental Services	12.7%	7.7%	10.8%
Home health care	6.3%	2.1%	-1.4%
Other professional services	3.9%	4.1%	4.2%
Other personal health care	2.5%	1.3%	-0.5%
Other nondurable medical products	11.0%	10.6%	13.8%
Durable medical equipment	10.1%	11.1%	22.6%

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.*