ALTARUM

Health Sector Economic Indicators℠

Insights from Monthly National Price Indices through December 2021

PRICE BRIEF

January 21, 2022

Health care price growth picks up but remains well below economywide inflation

HIGHLIGHTS

- The overall Health Care Price Index (HCPI) increased by 2.3% year over year in December, a slightly faster rate than November (2.2%), which was revised downward by 0.1% in this month's data.
- Since April 2021 overall health care price growth has remained in a very tight range, hovering around 2.0% year over year.
- Health care price growth remains lower than expected given rapid increases in economywide inflation—December CPI growth was 7.0% and PPI growth was 9.7%, each near record rates.
- Physician and clinical services and hospital care price growth remain the fastest growing major categories, at 4.1% and 2.4% respectively, and within those categories, prices paid by private insurance increased moderately in December.
- Our estimate of implicit utilization (spending growth minus changes in prices) shows overall health sector utilization increased by only 3.3% in November, slowing somewhat from the month prior.

	Dec. 2019	Dec. 2020	Nov. 2021	Dec. 2021
Health Care Price Index (HCPI)	1.9%	1.9%	2.2%	2.3%
GDP Deflator (GDPD)	1.8%	1.5%	6.0%	**
HCPI - GDPD	0.2%	0.4%	-3.8%	**
Addendum				
Personal health care spending	6.0%	11.7%	5.4%	**
Health care utilization	4.1%	9.8%	3.3%	**
Medical Consumer Price Index (MCPI)	4.6%	1.8%	1.7%	2.2%
Consumer Price Index – all items (CPI)	2.3%	1.4%	6.8%	7.0%
Producer Price Index – Final Demand (PPI)	1.4%	0.8%	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

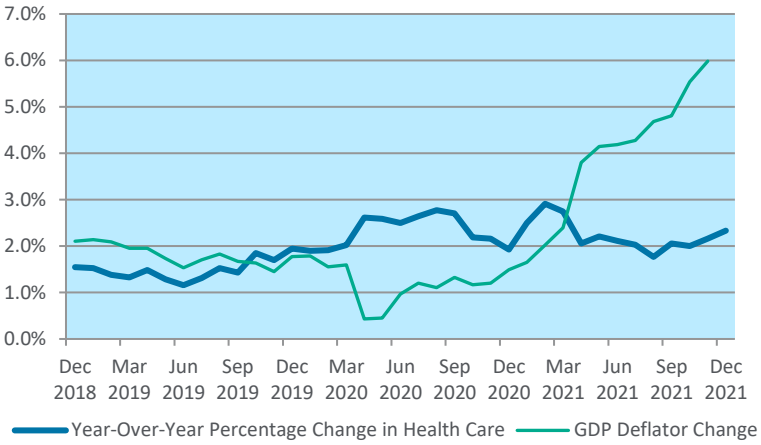
Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among at-risk and disenfranchised populations. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend 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) increased slightly in December, rising to 2.3% year over year (Exhibit 1). This keeps price growth within the relatively tight range seen since April, although this month's growth rate is the fastest seen since then. November's price growth rate was revised downward in this month's data, falling from 2.3% to 2.2% post revisions.

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



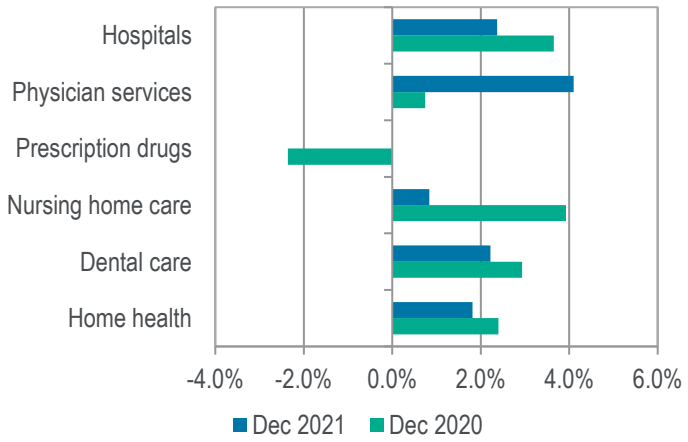
Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

Price growth remains well below overall economywide inflation (December CPI was up 7.0% year over year, while PPI increased even more, 9.7%). The gap between overall economywide CPI and HCPI was a whopping 4.7 percentage points in December (Highlights Table), continuing a period when health care prices have grown significantly slower than economywide prices. Overall health care price growth may eventually follow economywide inflation upwards, but we have yet to see a significant uptick in health prices at all comparable to overall inflation.

PPI finally ended its streak of increases in price growth this month, falling from 9.8% in November to 9.7% in December, although it remains extremely elevated. We might expect economywide inflation to peak in the coming months, as long as a surge in the COVID-19 Omicron variant doesn't further impact supply chain pressures domestically or abroad.

Among health care components this month, physician services were the fastest growing category at 4.1%, (Exhibit 3), while hospital prices followed close behind, increasing 2.4% year over year. Prescription drug price growth was positive for the first time in 15 months, but just barely, increasing at a .001% rate from a year ago, confirming our hypothesis from a few months back that the streak of negative price growth would eventually end. We also see in December a slight increase in prices paid by private insurance for hospital and physician services (Exhibits 6 and 7), indicating private price growth may be a driving factor in health price accelerations in the coming months. This month MedPAC released their recommendation for 2023 Medicare pay rates for hospitals and physicians, unanimously voting for no additional increases as current financial situations look positive after federal support for health care during 2020/2021.

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



As for our measure of implicit utilization (the difference between year-over-year spending growth and price growth), we find that in November utilization grew by its slowest rate in nine months, at 3.3% (Exhibit 8). This slowdown in utilization growth may be expected to continue as we see the renewed pressure of the Omicron surge likely limiting elective health care procedures (both due to concerns over virus spread, but also staffing shortages). As noted in this month's spending brief, we are considering revisions to our treatment of the 2020 and 2021 federal spending support for health care, so our measures of utilization growth may be revised somewhat in coming months.

PRICE GROWTH BY DETAILED CATEGORIES

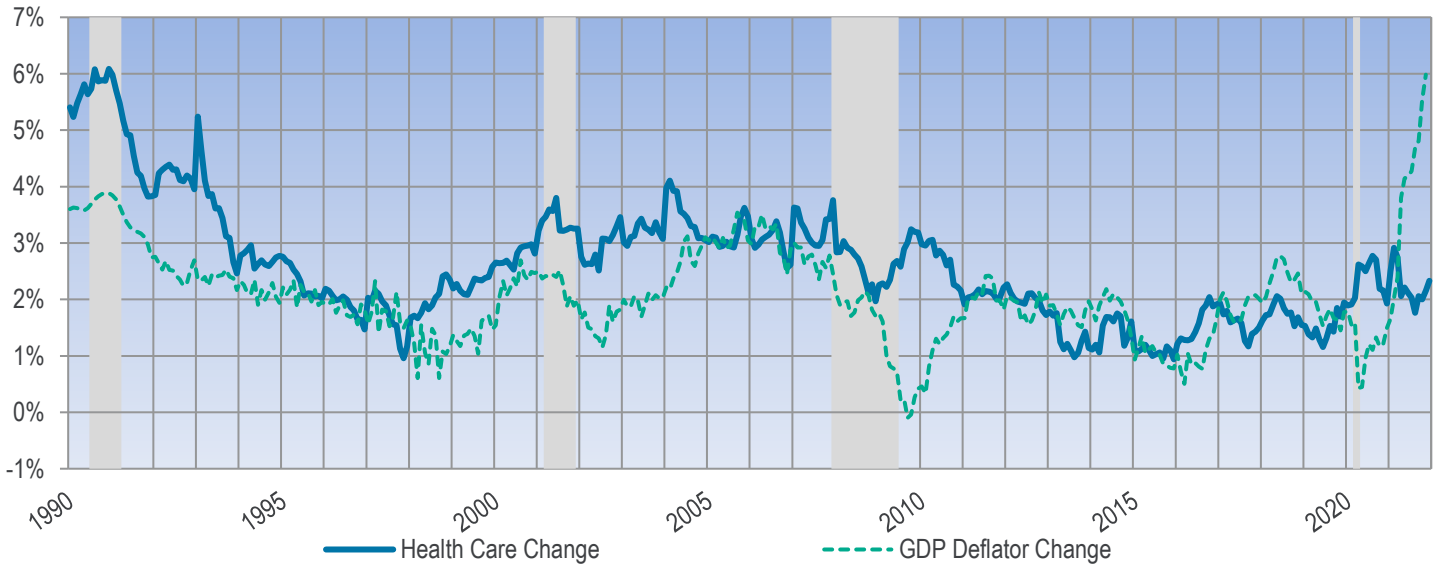
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending December 2019	Ending December 2020	Ending December 2021
Health Care Price Index (HCPI)	1.9%	1.9%	2.3%
Hospital care	2.1%	3.6%	2.4%
Physician and clinical services	0.9%	0.7%	4.1%
Prescription drugs	3.0%	-2.4%	0.0%
Nursing home care	2.1%	3.9%	0.8%
Dental Services	3.0%	2.9%	2.2%
Home health care	3.5%	2.4%	1.8%
Other professional services	0.8%	1.3%	2.9%
Other personal health care	2.0%	4.1%	4.0%
Other nondurable medical products	0.5%	-1.4%	0.8%
Durable medical equipment	1.0%	-4.6%	3.7%

Source: Altarum analysis of monthly BLS data.

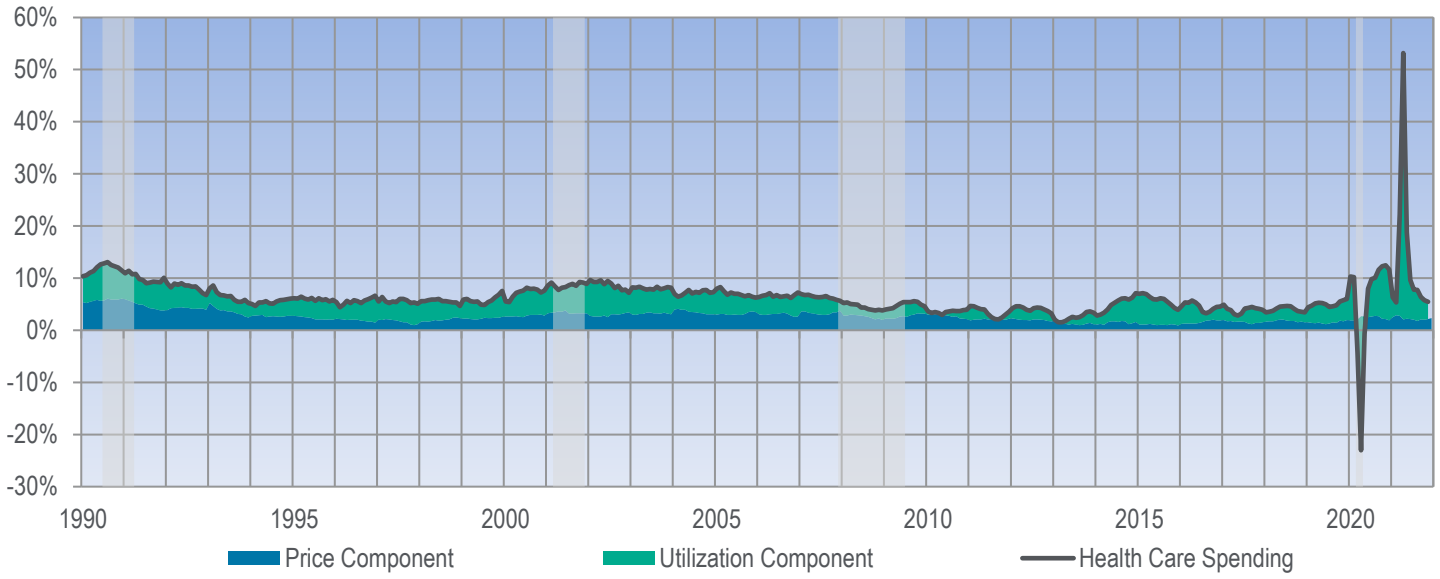
TIME SERIES TRACKER

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



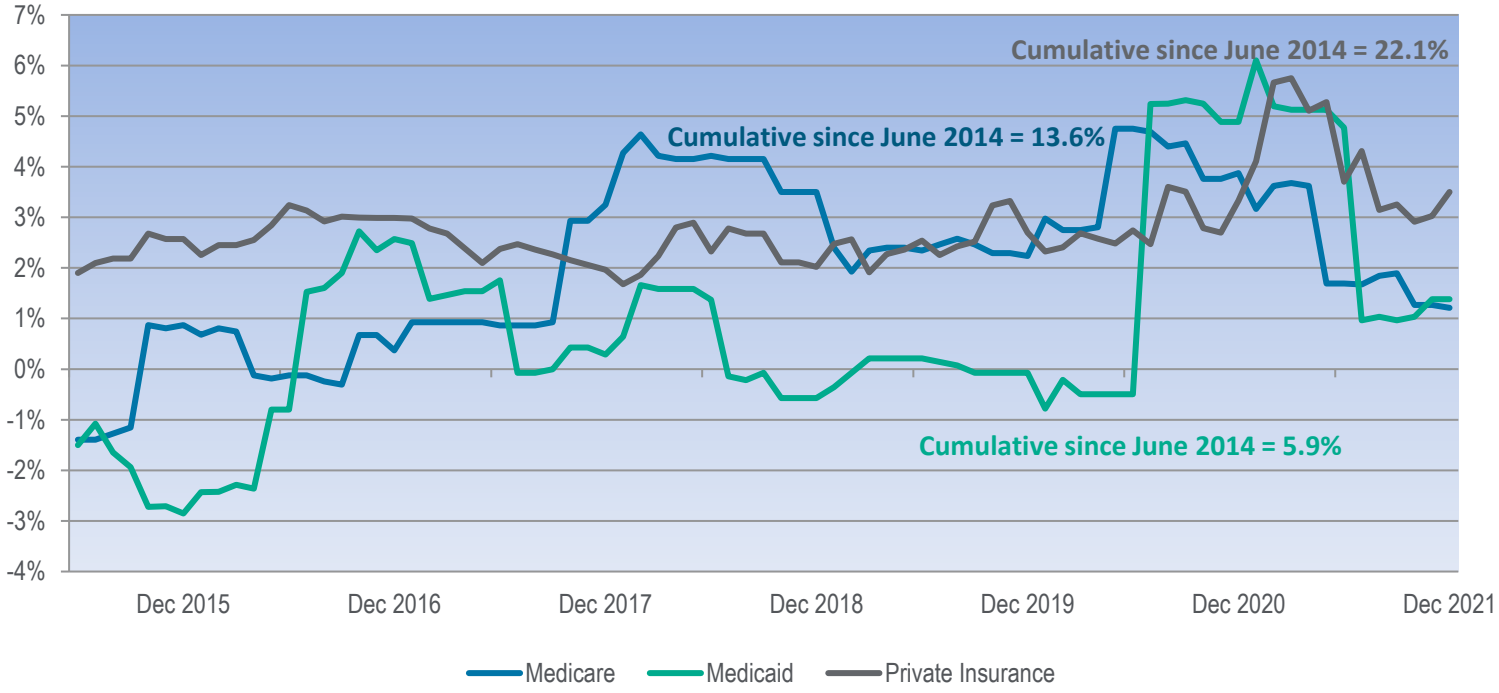
Methods. Altarum's estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the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



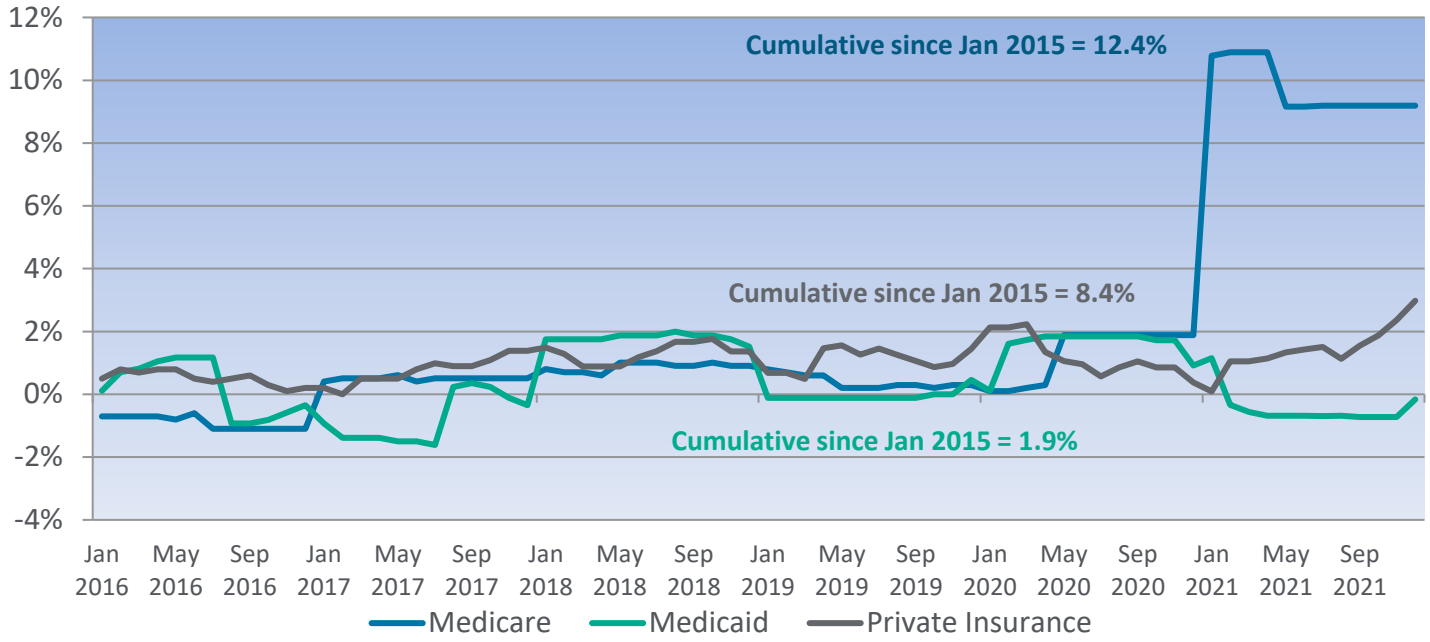
Source: Altarum monthly national health spending and price index estimates.
Note: Lightly shaded bars denote recession periods. (The 2020 recession timing was announced by NBER on July 19th, 2021)

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 Physician 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

	November 2021	3-Month Moving Average	12-Month Moving Average
Total health care	3.3%	3.8%	11.1%
Hospital care	2.9%	4.5%	15.1%
Physician and clinical services	3.5%	3.0%	11.7%
Prescription drugs	3.0%	2.6%	3.1%
Nursing home care	0.1%	0.6%	4.0%
Dental Services	4.0%	1.7%	22.7%
Home health care	2.6%	2.7%	9.3%
Other professional services	3.8%	5.7%	14.1%
Other personal health care	1.0%	0.8%	1.9%
Other nondurable medical products	11.1%	11.3%	13.6%
Durable medical equipment	8.0%	11.3%	21.9%

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.*