

June 23, 2022

Health care price growth stays tempered despite economywide inflation

HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) remained the same in May (2.0% year over year) as the slightly revised April data, slowing somewhat from the 2.4% health care price growth seen a year earlier.
- ▲ Economywide inflation trends were mixed this month as CPI growth increased to 8.6%, but PPI growth declined very slightly to 10.8%. Services CPI (excluding healthcare) increased to 6.0% growth in May, up from 5.6% last month, but still well below commodities inflation, which was at 13.0% year over year.
- ▲ Among major health care categories, physician services and prescription drug prices increased the least in March (0.4% and 1.9% year over year respectively), while dental care services increased the fastest at 2.7%.
- ▲ Growth in prices paid by the two major public payers (Medicare and Medicaid) diverged in newly updated data for much of 2022—Medicare price growth has slowed to just 0.2% year over year, while Medicaid price growth has accelerated, now matching private insurance price growth for health services at 3.0%.
- ▲ Growth in our implicit measure of utilization for April ticked up slightly to 3.0%, led by hospital services and prescription drug utilization, each rising at 4.7%.

	May 2020	May 2021	April 2022	May 2022
Health Care Price Index (HCPI)	2.7%	2.4%	2.0%	2.0%
GDP Deflator (GDPD)	0.4%	4.1%	7.2%	**
HCPI - GDPD	2.3%	-1.7%	-5.3%	**
<i>Addendum</i>				
Personal health care spending	10.0%	1.5%	5.0%	**
Health care utilization	7.3%	-1.0%	3.0%	**
Medical Consumer Price Index (MCPI)	4.9%	0.9%	3.2%	3.7%
Consumer Price Index – all items (CPI)	0.1%	5.0%	8.3%	8.6%
Producer Price Index – Final Demand (PPI)	-1.1%	7.0%	10.9%	10.8%

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. Media Contact: press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.



DISCUSSION

Growth in the overall Health Care Price Index (HCPI) remained at 2.0% year over year in May, after April data were revised slightly upward to the same rate (Exhibit 1). After steadily rising over the past two years, economywide inflation as measured by GDP Deflator growth has declined for the first time in new April data, falling just barely from 7.3 to 7.2%, potentially indicating a peak in overall economywide price increases. Based on CPI data for April, it appears this flattening in overall price growth was linked to commodities, which declined 1.2 percentage points from March (Exhibit 4). Meanwhile, services prices outside of health care continue to increase, reaching 6.0% in May.

Health care price growth across all categories remains well below other goods and services, with HCPI increasing only 2.0% in May, 6.6 percentage points less than overall CPI (Highlights Table). The gap between economywide and health care prices continues to increase, yet at some point we do expect health care prices will follow suit as [new contracted rates](#) begin to take effect. With health care being a majority services sector, we expect growth in other economywide services may foretell potential future growth for HCPI in upcoming months.

Physician and clinical services prices increased at the slowest rate among major health care sectors in May, at only 0.4%, while dental services increased the fastest at 2.7% (Exhibit 3). Prescription drug price growth appears to have leveled off, reaching 1.9% in May, after accelerating from negative growth for much of 2021. Among different payers, we see a new picture this month in diverging Medicare and Medicaid price growth, based on slightly revised 2022 data (Exhibit 7). While private insurance price growth for all health care services remains the fastest among the three major payers, as of May, it has now been matched by Medicaid price growth at 3.0% year over year. Conversely, Medicare price growth has remained slow, at 0.2%, having fallen significantly since the 2020/2021 period.

As for our implicit measure of overall health care utilization for April 2022, we find that it grew by 3.0% year over year (Exhibit 8). Hospital care and prescription drug utilization growth were the fastest among the major categories at 4.7%,

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

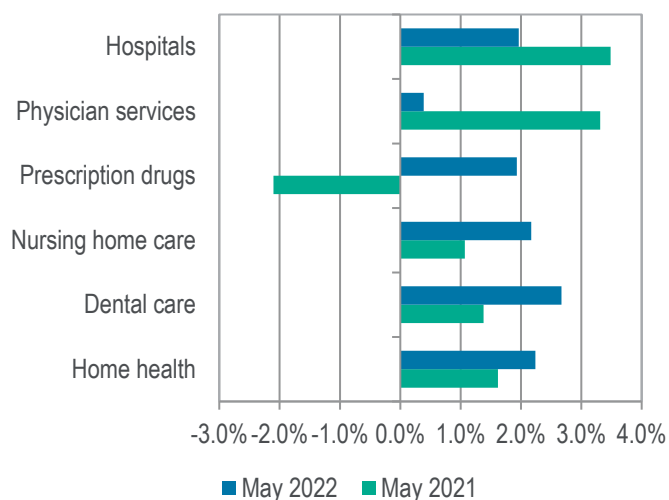
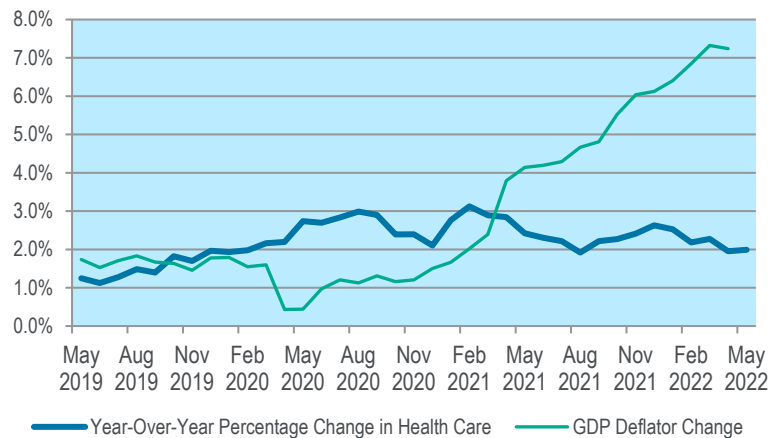


Exhibit 1. Year-over-Year Growth in HCPI & GDPD



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

while nursing home and home health care utilization growth were the slowest at 2.6% and -2.2% respectively. Use of physician and clinical services has jumped in recent months, accelerating from near zero growth in November 2021 to the above average 4.1% in April. Overall utilization increases appear to have moderated over recent months and are closer to the historical average following the massive 2020 and 2021 disruptions in health care spending. Looking forward we expect utilization growth will be affected by slowly increasing health care prices and a potentially cooling economy, which has the potential to decrease the demand for some health care services. The size and duration of this utilization slowdown likely depends on other broad economic factors.



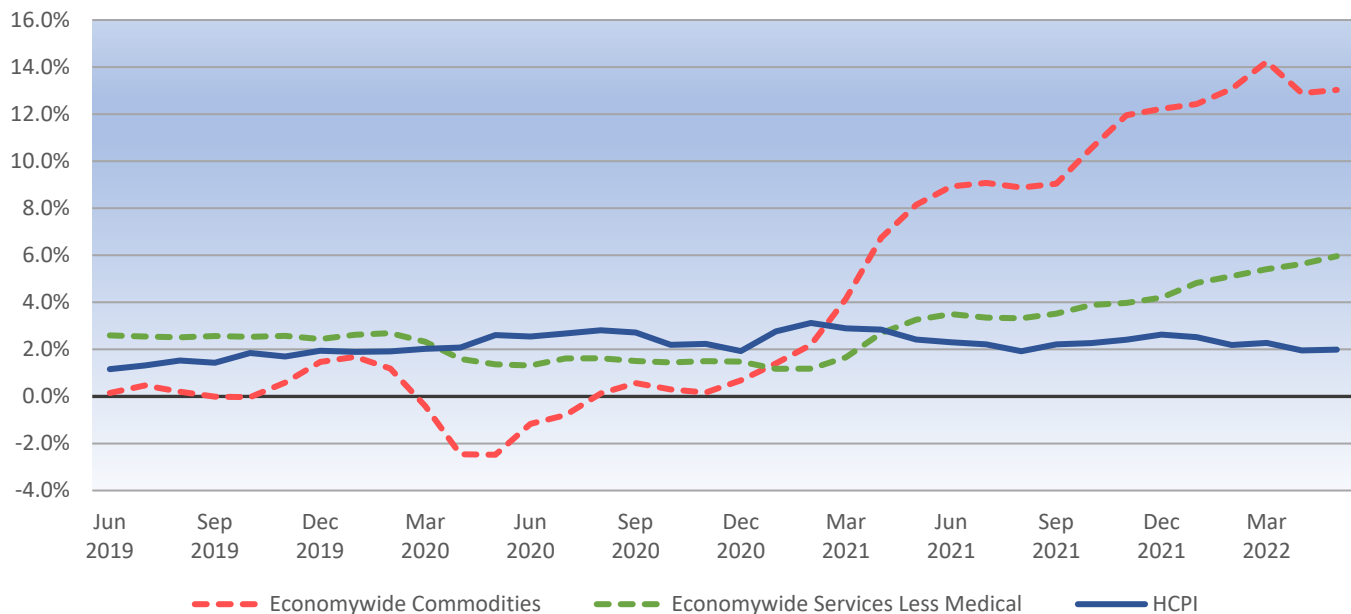
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending May 2020	Ending May 2021	Ending May 2022
Health Care Price Index (HCPI)	2.7%	2.4%	2.0%
Hospital care	3.3%	3.5%	2.0%
Physician and clinical services	1.1%	3.3%	0.4%
Prescription drugs	1.3%	-2.1%	1.9%
Nursing home care	4.7%	1.1%	2.2%
Dental Services	3.9%	1.4%	2.7%
Home health care	3.6%	1.6%	2.2%
Other professional services	1.0%	2.6%	4.5%
Other personal health care	2.9%	5.3%	3.8%
Other nondurable medical products	-0.5%	-0.3%	3.2%
Durable medical equipment	-0.3%	-2.4%	2.9%

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

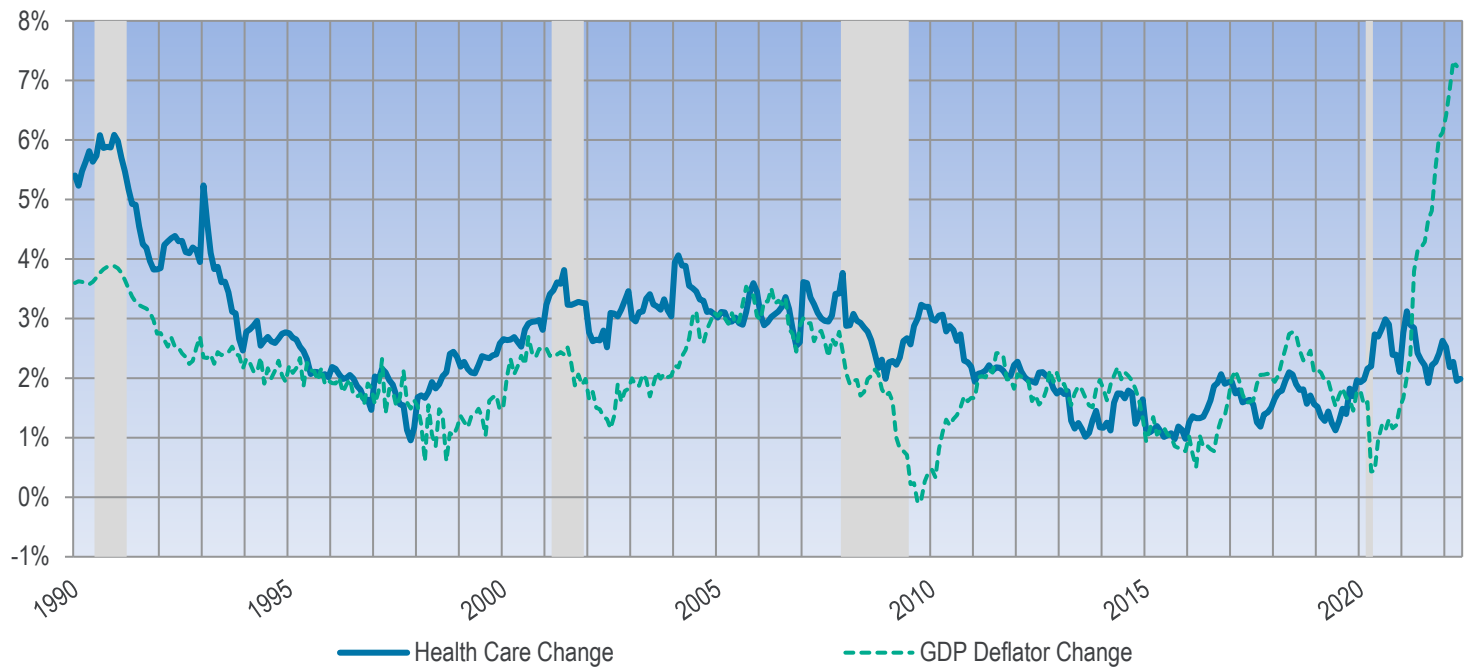
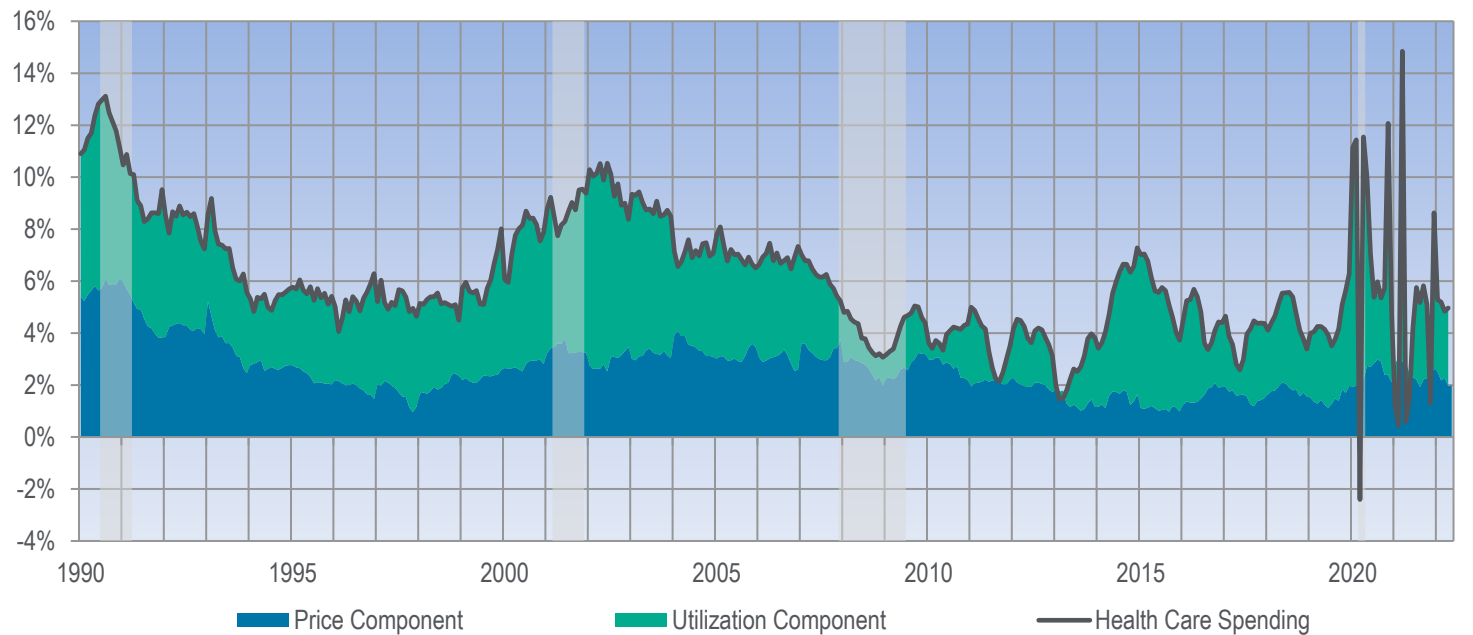


Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components

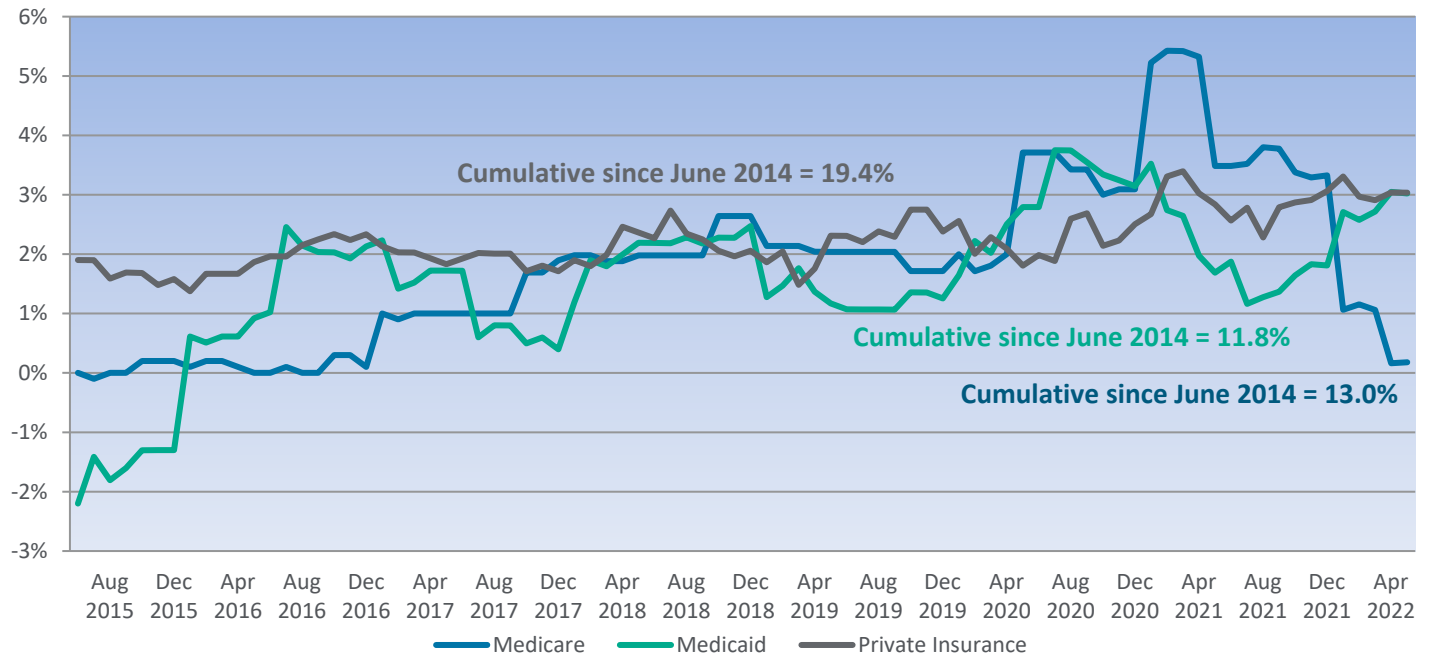


Source: Altarum monthly national health spending and price index estimates.

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 care 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

	April 2022	3-Month Moving Average	12-Month Moving Average
Total health care	3.0%	2.9%	2.5%
Hospital care	4.7%	5.1%	3.3%
Physician and clinical services	4.1%	3.3%	3.0%
Prescription drugs	4.7%	5.9%	7.0%
Nursing home care	2.6%	3.7%	-0.2%
Dental Services	3.8%	-0.5%	11.8%
Home health care	-2.2%	-1.5%	-2.1%
Other professional services	-1.2%	-2.6%	3.6%
Other personal health care	-3.0%	-3.8%	-5.8%
Other nondurable medical products	1.2%	2.4%	2.8%
Durable medical equipment	1.5%	3.0%	3.4%

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.