

March 18, 2022

The gap between health care and economywide price growth sets a record

HIGHLIGHTS

- ▲ Overall Health Care Price Index (HCPI) growth slowed in February, falling to 2.1% year over year from 2.4% a month prior, keeping it near the average growth seen over the past 12 months.
- ▲ Health care price growth remains much lower than expected given economywide inflation continues to increase—February CPI growth was 7.9% and PPI growth was 10.0%, both faster than a month before.
- ▲ Price growth fell for most major health care service categories—with hospital, physician, dental, home health, and nursing home care growth slower than January. Prescription drug price growth increased in February.
- ▲ Growth in prices paid by private insurance for health care services fell in February to 3.1% year over year, but remained above Medicare and Medicaid price growth, at 1.1% and 1.9% respectively.
- ▲ Our estimate of implicit utilization (spending growth minus changes in prices) shows overall health sector utilization increased by 4.2% year over year in January 2022, with a twelve-month average increase of 3.1%.

	Feb. 2020	Feb. 2021	Jan. 2022	Feb. 2022
Health Care Price Index (HCPI)	1.9%	2.8%	2.4%	2.1%
GDP Deflator (GDPD)	1.5%	2.0%	6.3%	**
HCPI - GDPD	0.4%	0.8%	-3.9%	**
<i>Addendum</i>				
Personal health care spending	10.4%	-0.1%	6.6%	**
Health care utilization	8.5%	-3.0%	4.2%	**
Medical Consumer Price Index (MCPI)	4.6%	2.0%	2.5%	2.4%
Consumer Price Index – all items (CPI)	2.3%	1.7%	7.5%	7.9%
Producer Price Index – Final Demand (PPI)	1.1%	3.0%	10.0%	10.0%

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.



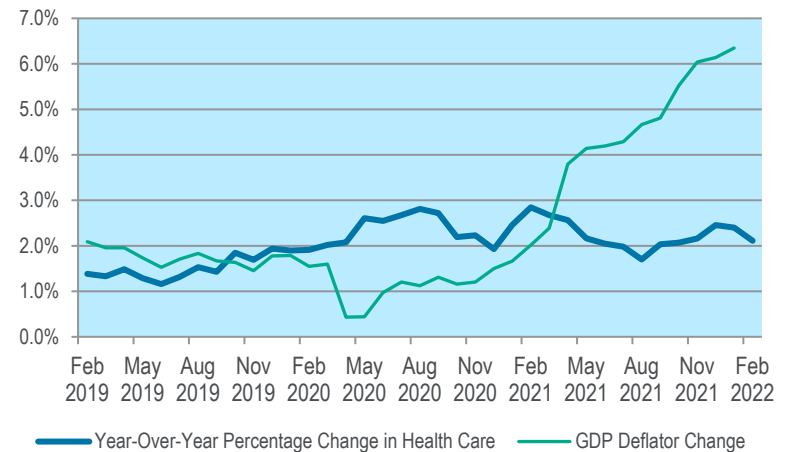
DISCUSSION

Growth in the overall Health Care Price Index (HCPI) fell in February 2022, dropping to 2.1% year-over-year growth from 2.4% a month prior (Exhibit 1). This was a surprise given recent economywide inflation increases (February CPI was up 7.9% year over year, while PPI increased even more, 10.0%) and we had expected health care prices to follow economywide inflation upward if overall labor and supply chain pressures continued. As a result, the gap between overall economywide CPI and HCPI was a whopping 5.8 percentage points in February (Highlights Table), which is the largest gap seen since our series began in January 1990. This continues the period since mid-2021 when health care prices have grown significantly slower than economywide prices.

One explanation for the record gap between HCPI and economywide price growth is that health care is a predominantly service-driven sector and much of the economywide inflation has taken place in commodities (goods). As we show in Exhibit 4, when compared to economywide services less medical care, the gap to HCPI is much closer (3.0 percentage points) relative to inflation in commodities. Note that HCPI includes both health care goods and services in these data. Yet, the surprise in slower than expected health care price growth remains as economywide services price growth has increased since March 2021, while health care largely has not (Exhibit 4). We still expect overall health care price growth may eventually follow economywide inflation upwards, but as we've [discussed previously](#), slower health care price growth may continue because contracts and prices are negotiated in advance, making many health care prices initially less flexible to adjust to one-time shocks in the economy. 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.

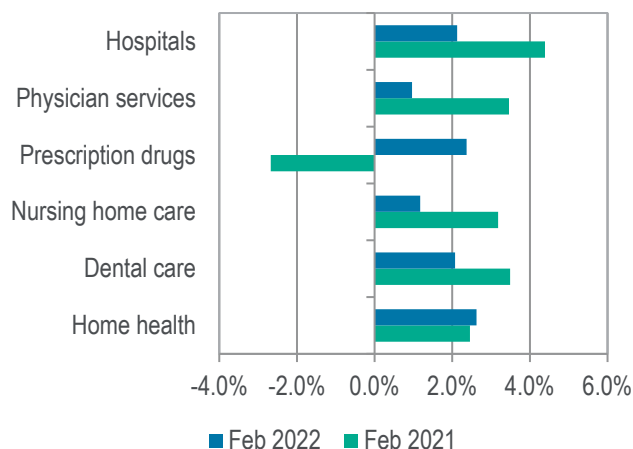
Among health care components this month, nearly all major service categories grew more slowly in February 2022 than they did a year ago (Exhibit 2) and more slowly than a month prior (data not shown). Overall hospital services

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.

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



prices grew by 2.1%, physician prices by 1.0%, nursing home care by 1.2% and dental care by 2.1%. The slowing growth in overall services was mostly due to a slight drop in private prices (Exhibit 7), although private price growth remains above the public payers. Among products, prescription drug price growth accelerated this month, reaching 2.4%.

As for our implicit measure of health care utilization through January 2022, we find that it grew 4.2% year over year. We expect our spending data may be updated in upcoming months as we incorporate new info from the CMS National Health Expenditure Accounts projections, which are typically released in early spring. We expect these data will be used to better track growth in health care spending through 2021.



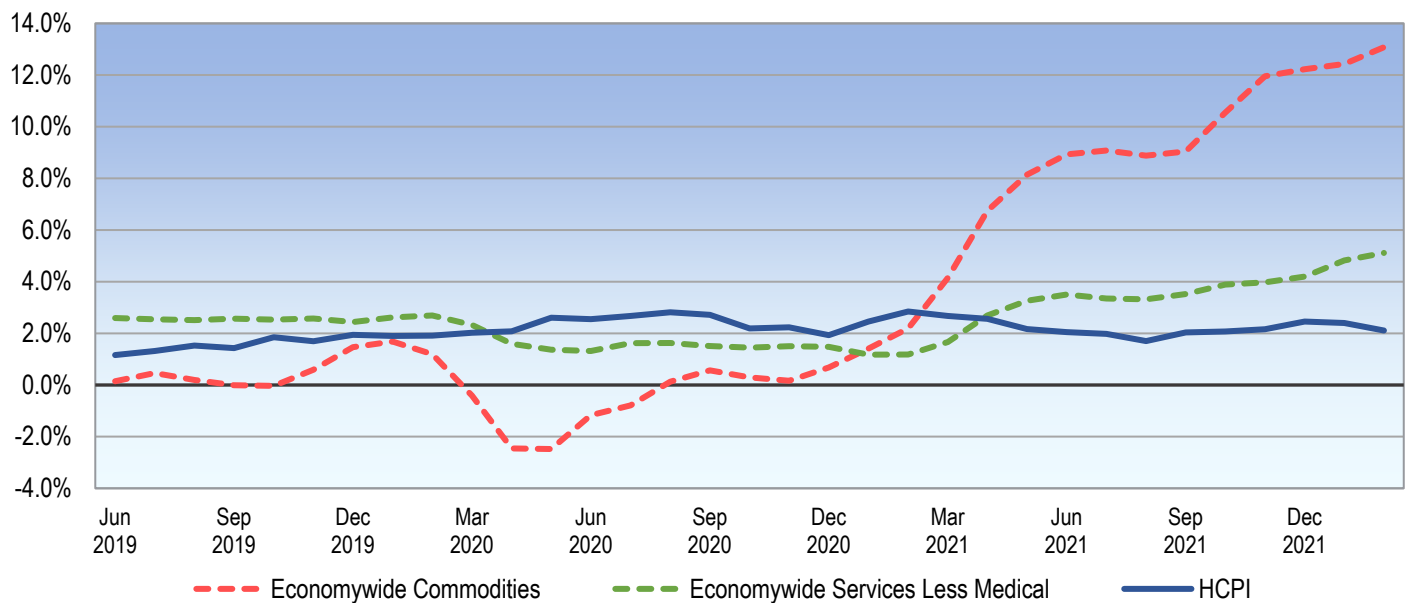
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending February 2020	Ending February 2021	Ending February 2022
Health Care Price Index (HCPI)	1.9%	2.8%	2.1%
Hospital care	2.4%	4.4%	2.1%
Physician and clinical services	1.2%	3.5%	1.0%
Prescription drugs	2.4%	-2.7%	2.4%
Nursing home care	3.3%	3.2%	1.2%
Dental Services	2.3%	3.5%	2.1%
Home health care	2.7%	2.5%	2.6%
Other professional services	1.0%	2.5%	4.8%
Other personal health care	1.8%	5.0%	3.9%
Other nondurable medical products	-0.1%	-1.6%	3.0%
Durable medical equipment	0.3%	-2.2%	2.3%

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 (NHS). 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 NHS, 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

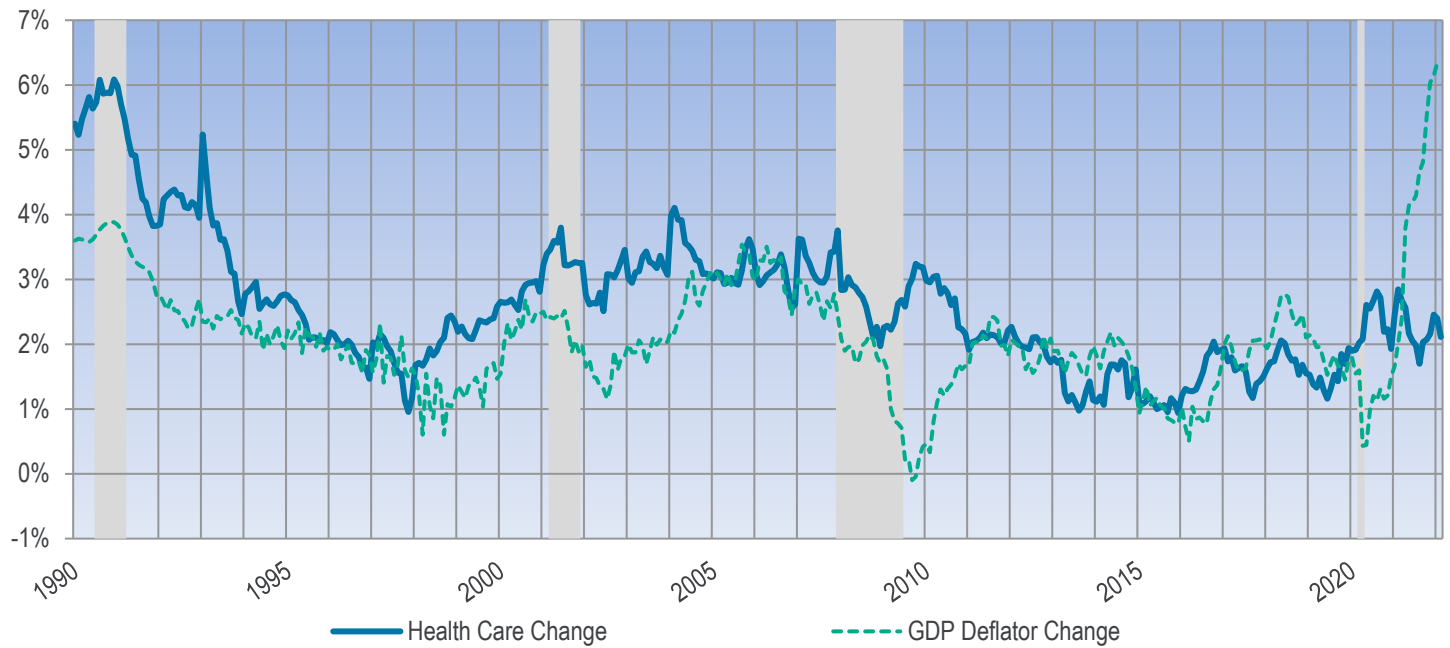
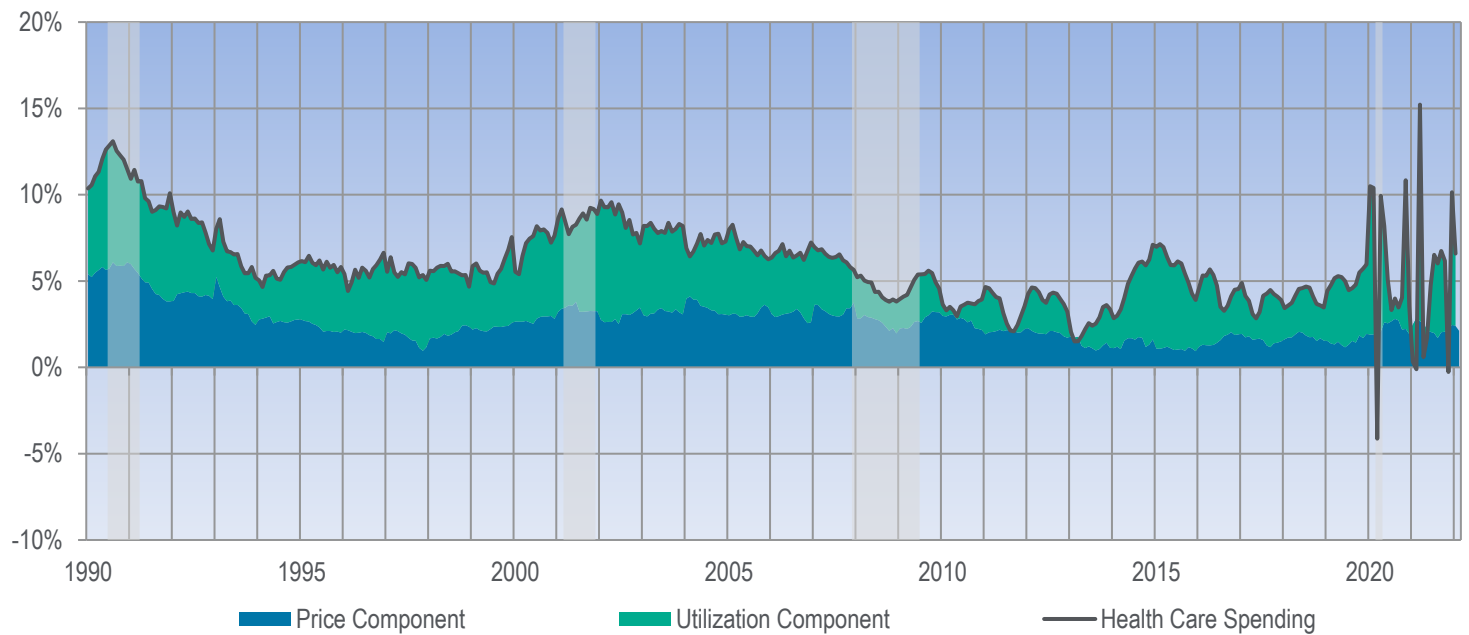


Exhibit 6. Personal Health Care Spending Growth by Price and Utilization Components

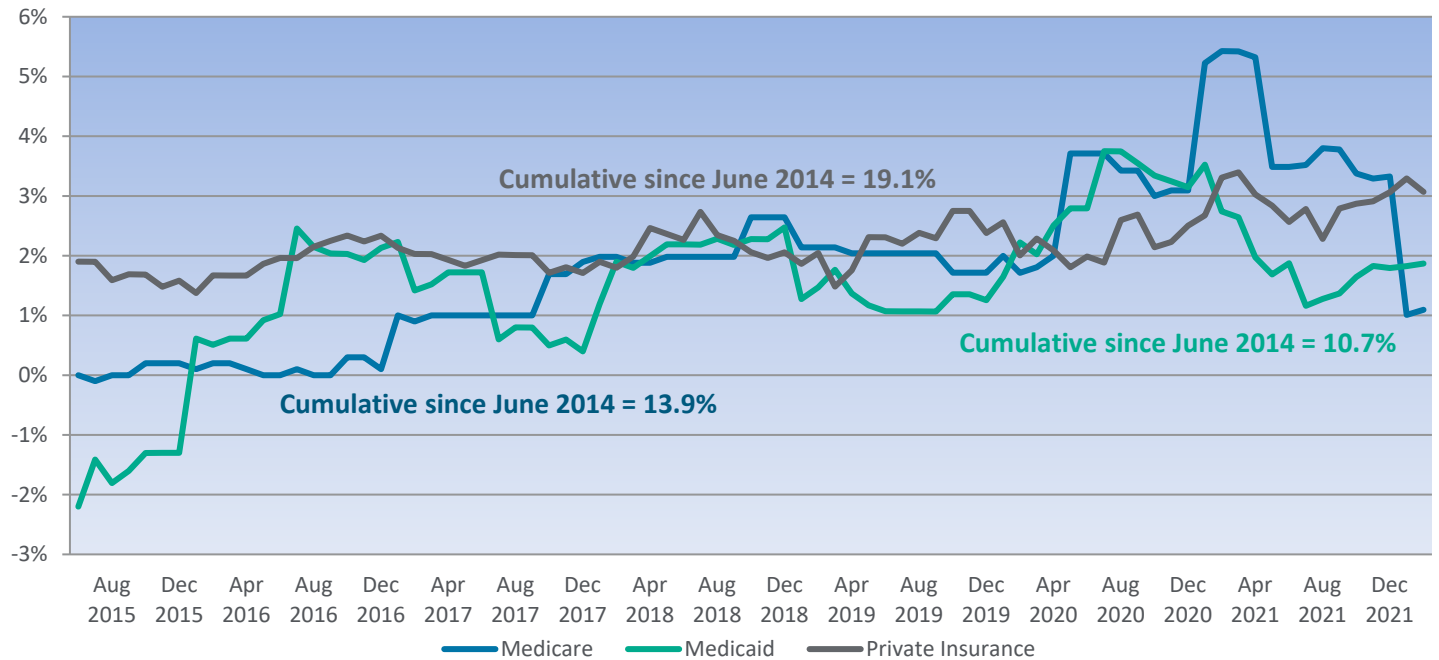


Source: Altarum monthly national health spending and price index estimates.

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

	January 2022	3-Month Moving Average	12-Month Moving Average
Total health care	4.2%	3.2%	3.1%
Hospital care	6.2%	3.2%	4.0%
Physician and clinical services	4.6%	3.4%	3.0%
Prescription drugs	7.0%	3.8%	3.3%
Nursing home care	3.9%	0.3%	-7.6%
Dental Services	-4.5%	5.2%	11.2%
Home health care	0.7%	0.0%	-2.0%
Other professional services	-4.9%	0.1%	2.9%
Other personal health care	0.8%	0.8%	-0.7%
Other nondurable medical products	6.1%	9.8%	13.2%
Durable medical equipment	3.8%	8.0%	22.0%

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 ($S \cdot P$); however, as long as the two growth rates are small, this term is insignificant.