

October 21, 2022

Negative Medicare price growth keeps health care inflation under control

HIGHLIGHTS

- ▲ The Health Care Price Index (HCPI) increased by 2.8% year over year in September, the same growth rate as slightly revised data from August.
- ▲ Private payer price growth continues to pull overall health care inflation upwards—private prices for health services increased 3.5% year over year in September, while Medicaid prices increased by 3.9%, and Medicare prices dropped by 0.8%.
- ▲ The overall HCPI growth rate of 2.8% is well below the CPI-U measure of medical care inflation in September (6.0%), due to differences in the underlying payer and component data included in that CPI index.
- ▲ Economywide price growth slowed very slightly this month, as overall CPI inflation fell to 8.2%. Services CPI growth (excluding health care) increased 7.5% year over year, while commodities inflation fell to 9.6%.
- ▲ Growth in our implicit measure of utilization for August was 2.2%, the same as a month prior, kept down by hospital utilization growth of only 0.1% last month.

	Sept 2020	Sept 2021	Aug 2022	Sept 2022
Health Care Price Index (HCPI)	2.9%	2.2%	2.8%	2.8%
GDP Deflator (GDPD)	1.4%	5.3%	7.2%	**
HCPI - GDPD	1.5%	-3.0%	-4.3%	**
<i>Addendum</i>				
Personal health care spending	5.3%	6.1%	5.0%	**
Health care utilization	2.4%	3.8%	2.2%	**
Medical Consumer Price Index (MCPI)	4.2%	0.4%	5.4%	6.0%
Consumer Price Index – all items (CPI)	1.4%	5.4%	8.3%	8.2%
Producer Price Index – Final Demand (PPI)	0.3%	8.8%	8.7%	8.5%

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

The overall health care price index (HCPI) increased by 2.8% year over year in September, the same growth rate as a slightly revised value from August. This marks the fourth straight month where health care price growth has been above 2.5%—the average pace in the year 2021 (Exhibit 1). While these new data fit with our prior expectations that health care prices would rise as a result of greater input costs for health care providers (like labor and supplies) in 2022; through September, the pace of price growth increases has been more moderate than expected.

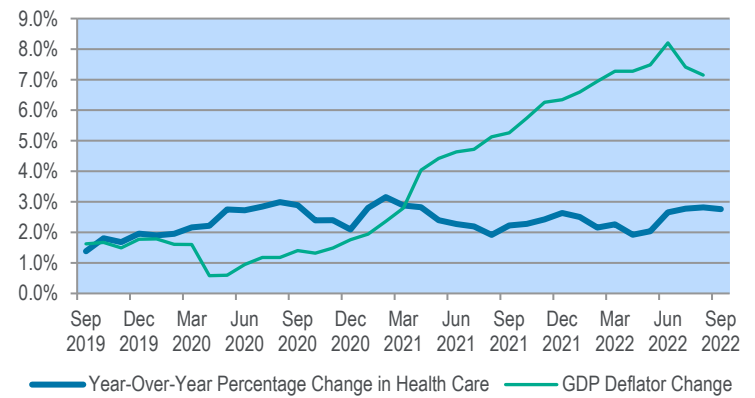
One of the reasons health care price growth has lagged behind economywide price growth has been falling and even negative Medicare price growth in 2022. Medicare prices for health services fell year over year again in September, down 0.8 percent, the third month in a row with a negative change (Exhibit 7). This contrasts with the trend seen among private payer prices, which rose 3.5%. The divergence between public and private prices is also clear in the subset of hospital price data, where private prices rose 5.5% in September, compared to Medicare prices that fell 0.4% (Exhibit 8). We expect private price growth to remain high in the rest of 2022 and into 2023.

While the aggregate HCPI has shown a slight increase in price growth since May 2022 (2.0% to 2.8%), the [Medical Care Consumer Price Index](#) (Med-CPI), a different measure of health care inflation, has increased even faster (Exhibit 5), rising from 3.7% in May to 6.0%. As a result, these two alternative measures of health care prices now report quite different values of health care inflation. The variance in these two measures is due to two major factors: the fact that Med-CPI does not include Medicare Part A or Medicaid prices in its index and the Med-CPI inclusion of a “health insurance” inflation estimate. Med-CPI [excludes some public payer prices](#) in its index due to the fact it attempts to capture the impact of price growth from a consumer budget perspective. Since private price growth has outpaced public price growth in mid-2022, the inclusion of all payers in the HCPI has led to lower growth than what is reported in Med-CPI. Further, Med-CPI attempts to capture a measure of “health insurance” inflation (Exhibit 5) that has greatly influenced its index of health care prices. After excluding this component from Med-CPI, its growth would be 3.6% year over year in September. While an important factor in consumer budgets, the CPI measure of health insurance price inflation [does not measure changes in premiums directly](#) (but rather estimates retained earnings by health

insurers to avoid double counting) and is significantly lagged from the rest of the CPI data.

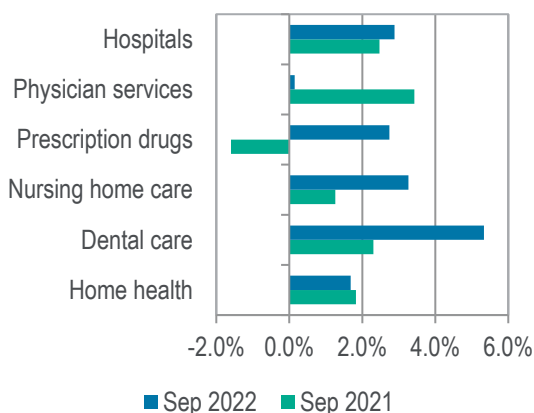
Looking at the components of HCPI in September, we see the greatest increases in health care prices occurred for dental care, nursing home care, and hospital care (rising 5.3%, 3.3%, and 2.9%, respectively) (Exhibit 2). Conversely, physician and clinical services prices increased at the slowest rate among major sectors—at only 0.1% growth—marking the eighth straight month of below 1.0% price growth for physicians. Our implicit measure of overall health care utilization for August 2022 shows that utilization increased by only 2.2% year over year (Exhibit 8). Hospital utilization growth was even slower at 0.1% year over year. Overall slow growth utilization has meant that since February [price increases are having a greater impact than utilization increases](#) on overall health spending.

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





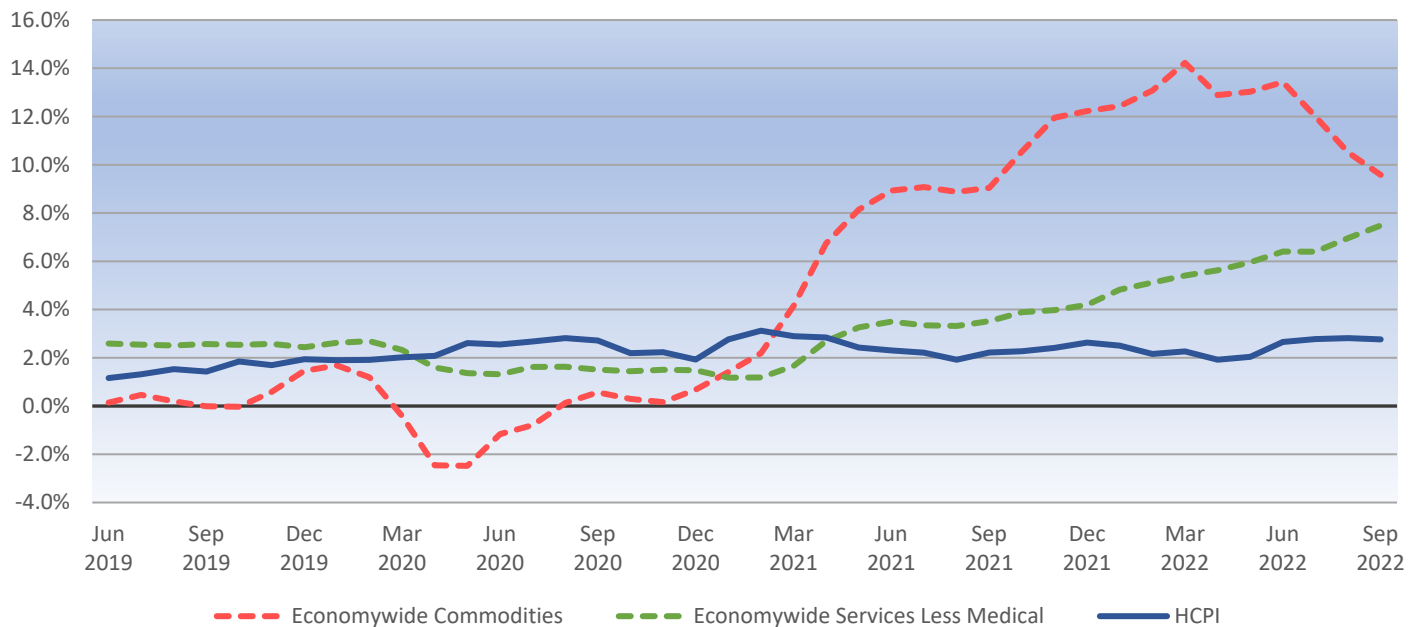
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending September 2020	Ending September 2021	Ending September 2022
Health Care Price Index (HCPI)	2.9%	2.2%	2.8%
Hospital care	4.0%	2.5%	2.9%
Physician and clinical services	1.2%	3.4%	0.1%
Prescription drugs	1.4%	-1.6%	2.7%
Nursing home care	4.3%	1.3%	3.3%
Dental Services	3.0%	2.3%	5.3%
Home health care	3.7%	1.8%	1.7%
Other professional services	1.1%	2.1%	4.1%
Other personal health care	3.7%	4.8%	4.8%
Other nondurable medical products	-0.6%	-1.7%	5.6%
Durable medical equipment	-0.3%	-0.7%	5.3%

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 (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. Year-over-Year Change in Medical Care CPI Components, with and w/o Health Insurance

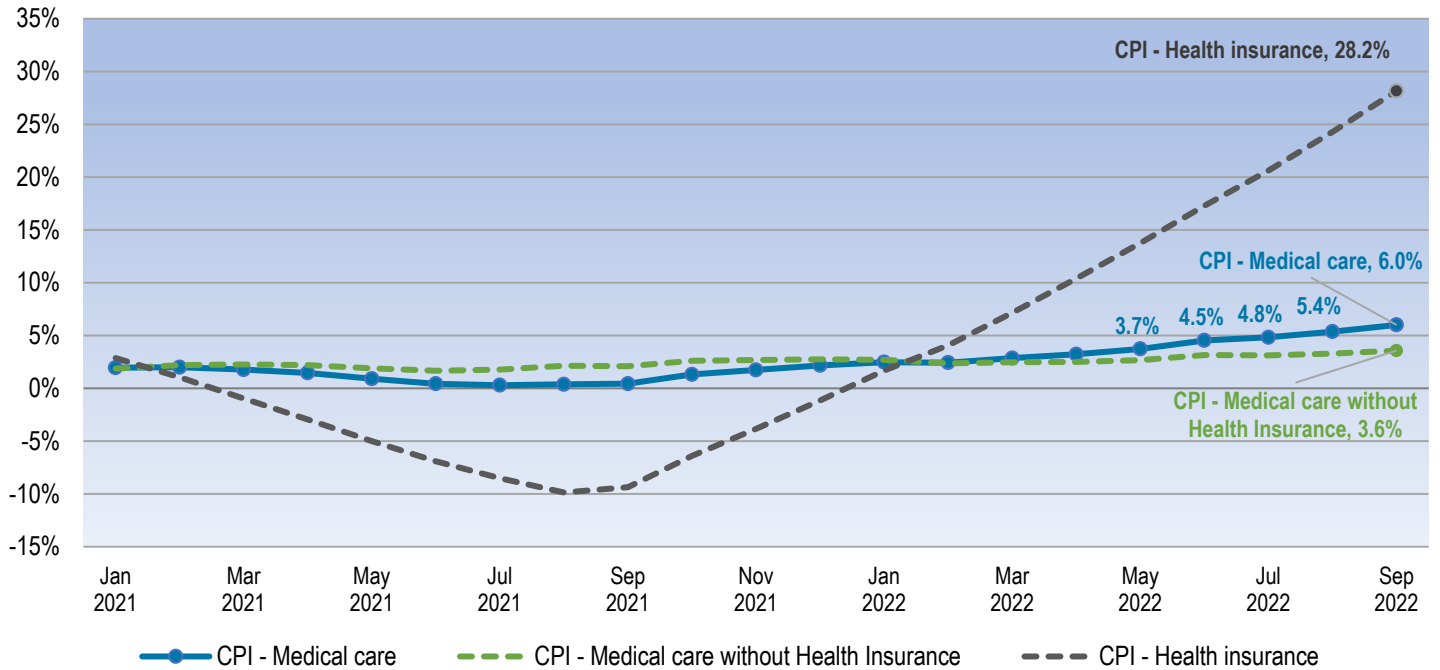
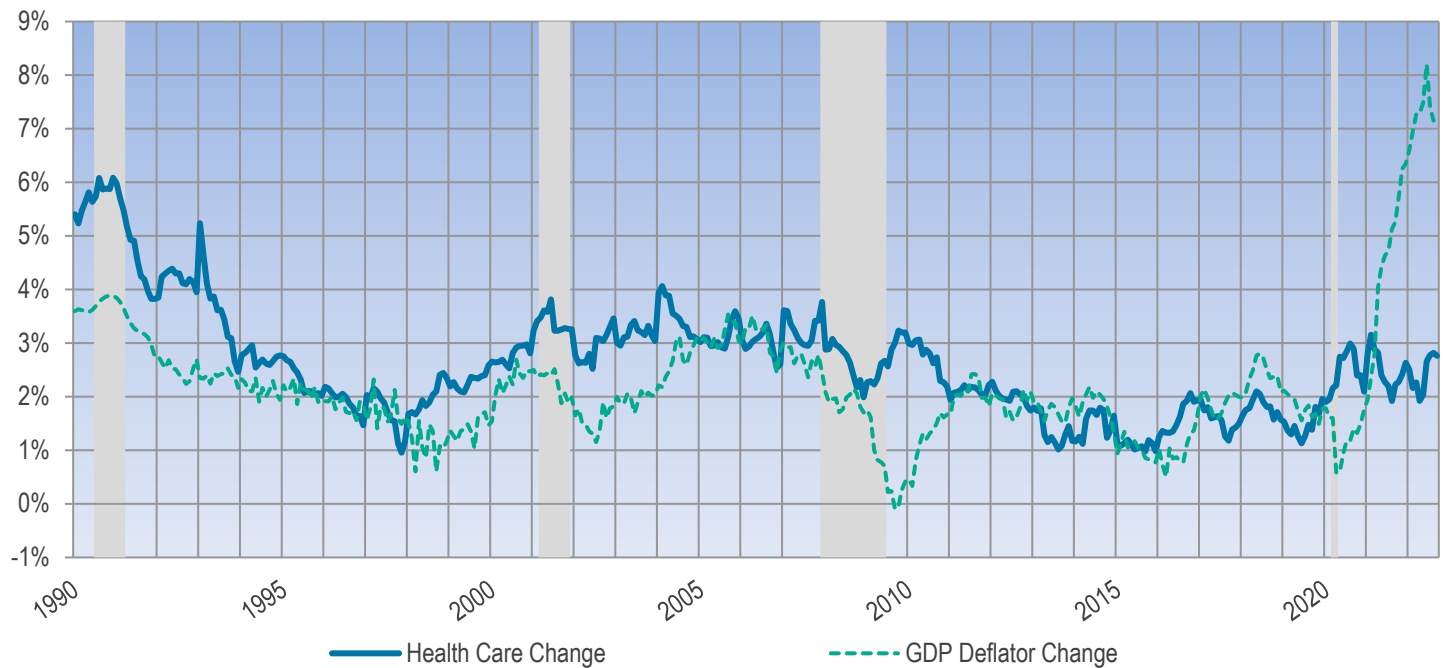


Exhibit 6. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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

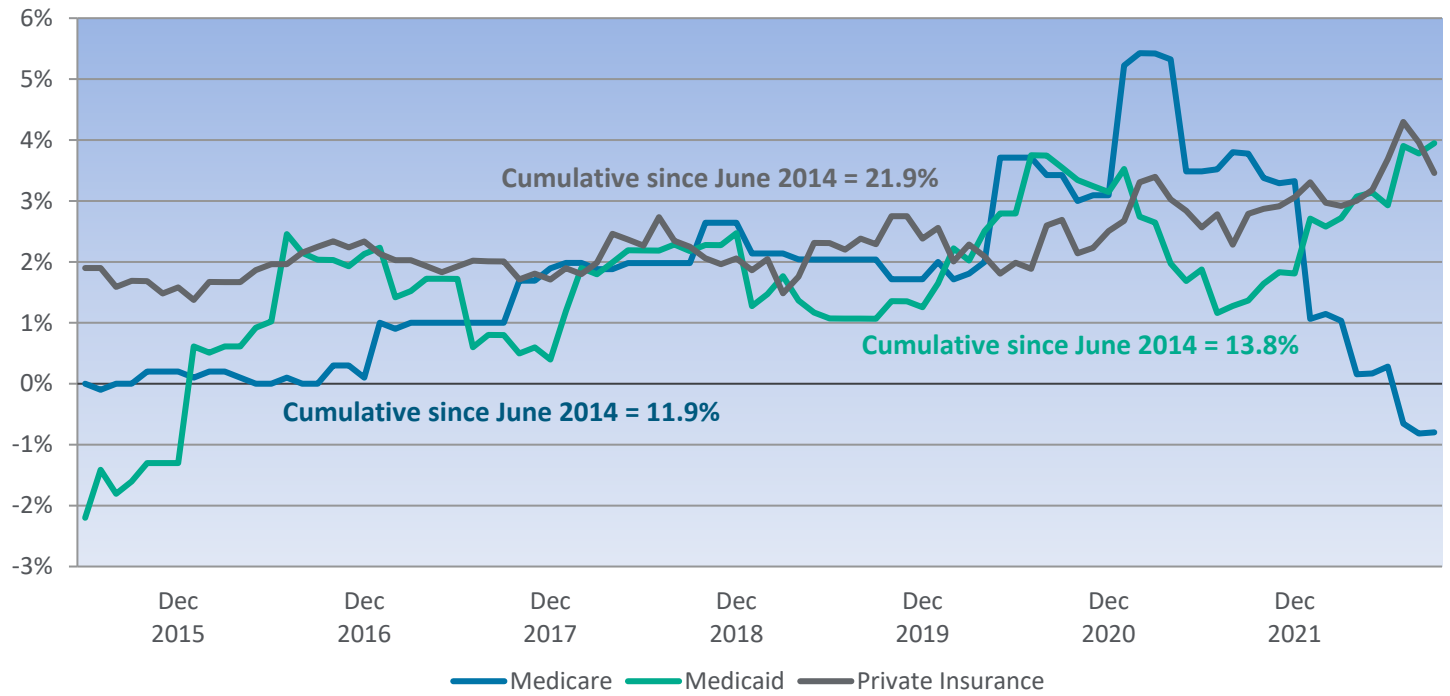
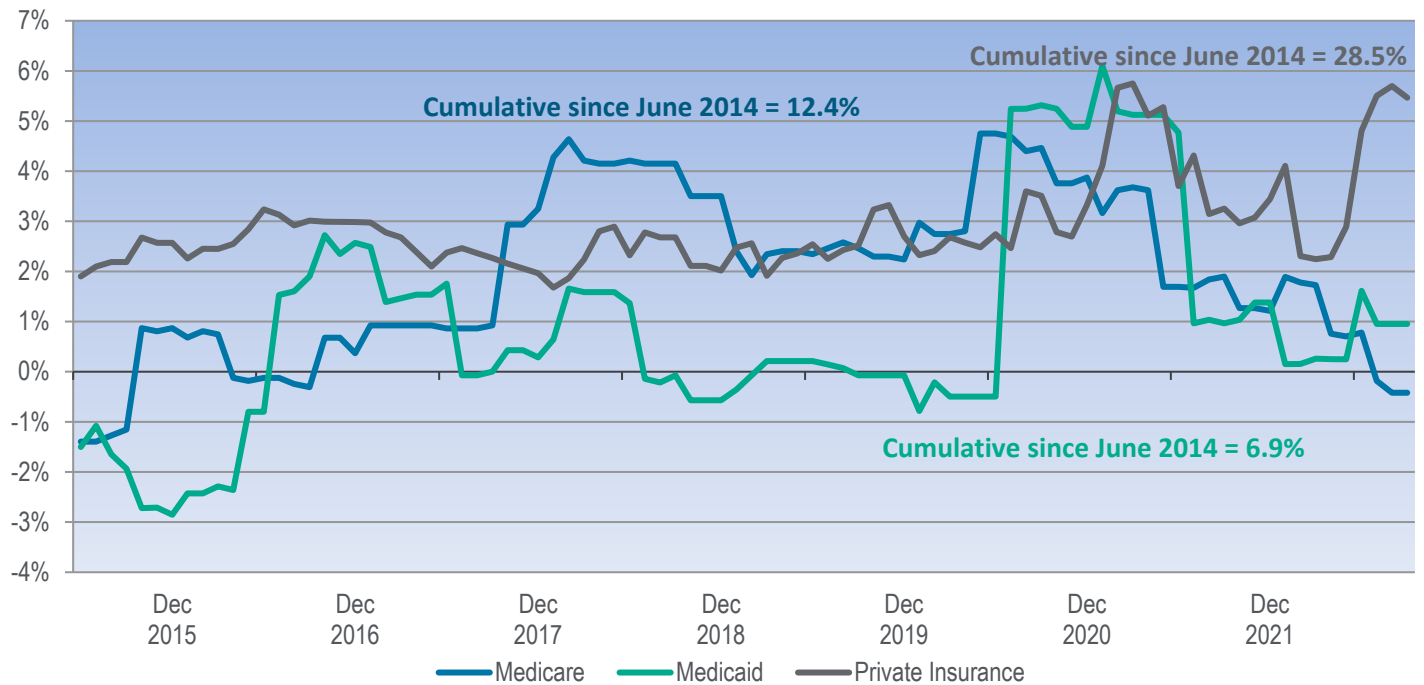


Exhibit 8. Year-over-Year Change in Hospital Services Price Growth, by Payer



Source: Altarum analysis of monthly BLS data.


Exhibit 9. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

	August 2022	3-Month Moving Average	12-Month Moving Average
Total health care	2.2%	2.1%	2.5%
Hospital care	0.1%	-0.3%	2.7%
Physician and clinical services	4.1%	5.0%	3.6%
Prescription drugs	4.5%	4.4%	5.6%
Nursing home care	7.5%	6.3%	4.5%
Dental Services	6.7%	3.4%	4.7%
Home health care	8.6%	7.1%	1.7%
Other professional services	-0.5%	-1.0%	1.0%
Other personal health care	-0.9%	-1.1%	-4.2%
Other nondurable medical products	-0.6%	0.5%	1.9%
Durable medical equipment	1.7%	1.7%	1.9%

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.