

December 15, 2020

Hospital and Nursing Home Care Prices Lead Growth for November

HIGHLIGHTS

- ▲ After reaching a peak year over year rate of 2.8% in April, overall US health care price growth has slowed in the second half of 2020, settling at 2.0% growth in November 2020. This is the same as the previous month.
- ▲ Price growth across most major categories also continued previous trends—hospital and nursing home care prices continue to lead the major categories at 3.3% and 3.8% growth respectively. Physician services price growth continues moderately (1.2%) and prescription drug price growth was negative again at -0.4%.
- ▲ The gap in overall price growth between payers closed slightly in November. Public payer growth is still faster (3.0%), but private prices rose from a prior low (1.7%) to 2.2%, while the public payers slowed in November.
- ▲ Our implied measure of health care utilization (spending growth net of price growth), shows that most major categories of health care continue to have negative year over year changes in use, with the exception of prescription drugs, non-durable medical products, and home health care.

| | Nov. 2018 | Nov. 2019 | Oct. 2020 | Nov. 2020 |
|--------------------------------------------------|--------------|--------------|--------------|--------------|
| Health Care Price Index (HCPI) | 1.7% | 1.8% | 2.0% | 2.0% |
| GDP Deflator (GDPD) | 2.4% | 1.5% | 1.3% | ** |
| HCPI - GDPD | -0.7% | 0.3% | 0.7% | ** |
| <i>Addendum</i> | | | | |
| Personal health care spending | 3.5% | 5.7% | -0.3% | ** |
| Health care utilization | 1.8% | 3.9% | -2.4% | ** |
| Medical Consumer Price Index (MCPI) | 2.0% | 4.2% | 2.9% | 2.4% |
| Consumer Price Index – all items (CPI) | 2.2% | 2.1% | 1.2% | 1.2% |
| Producer Price Index – Final Demand (PPI) | 2.6% | 1.0% | 0.5% | 0.8% |

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 vulnerable and publicly insured 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: Sarah Litton, 202-772-5062, press@altarum.org.



DISCUSSION

Overall growth in health care prices as measured in the combined Health Care Price Index (HCPI) in November was consistent with a month prior, matching the 2.0% year over year growth rate. This rate is more moderate than the pace observed for much of 2020—from April through September price growth was at or above 2.5% (Exhibit 1). This slower health care price growth comes as overall economywide prices have risen, leading to only a 0.7% excess price growth above overall inflation as of October, a pattern also observed in prior recession recoveries (Exhibit 4).

Slower price growth in recent months has been driven

largely by a reduction in growth among the public payers (Medicare and Medicaid), while prices paid among private insurance have mostly constant (Exhibit 7). Medicare price growth is down 0.5 percentage points from the peak, while Medicaid price growth is off by an even greater amount (0.9 percentage points). Prices paid by private insurance in November reached the fastest rate of growth, 2.2%, since February. Across the largest health sector components, hospitals and nursing home care price growth continues to lead the overall change in health care prices. Hospital price growth remained elevated at 3.3% and nursing home care prices were up 3.8% year over year. Conversely, physician services prices remain muted at 1.2% year over year and prescription drugs prices fell slightly again at -0.4%, showing that the prior month’s data point of the same value may not have been a fluke.

In next month’s brief we will put into context the 2020 annual growth in prices with prior years, but based on the first 11 months, it appears hospital, nursing home care, and home health care price growth may all be poised to set records since at least 2010. Hospital price growth is of particular note this year, with increasing [data](#) and [focus](#) on hospital acquisitions, market power, and prices coming to light in 2020. Upcoming policy changes that could have substantial impacts on future hospital and other health care prices include the potential implementation of the

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

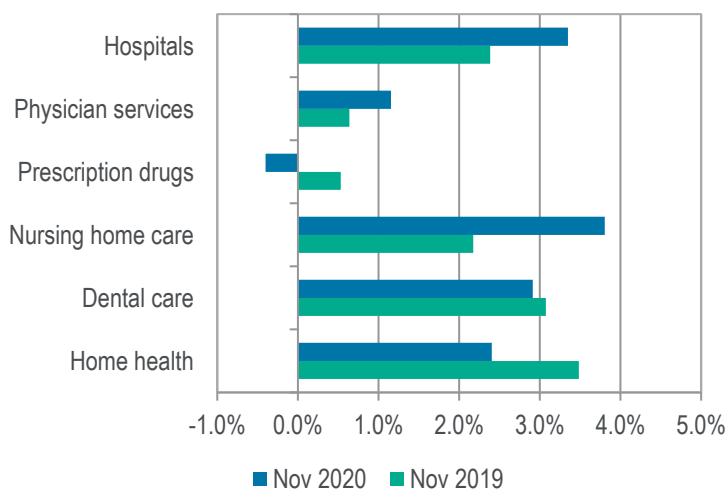
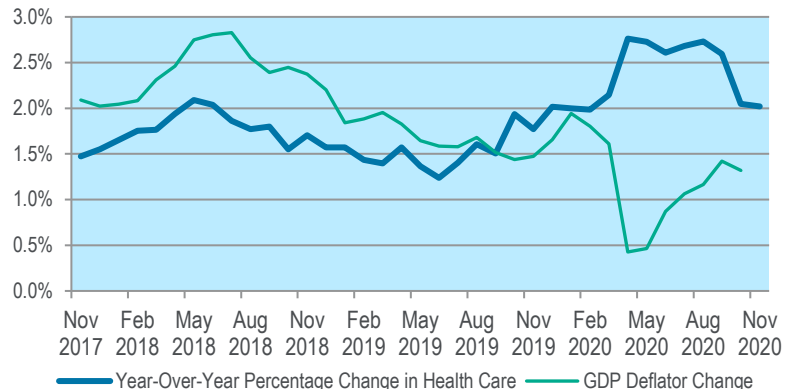


Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

[hospital price transparency](#) rule as of January 1, 2021, as well as a possible [legislative agreement](#) on removing patient responsibility for surprise out-of-network bills (which could be included in the end of year budget bill). The net effects of these policies are unclear, but [many expect](#) if these policies are implemented, it would predominantly put downward pressure on overall health care prices.

Lastly, it is becoming clear that overall health care utilization for many of the major health care service categories is plateauing short of the previous year’s pace through October (Exhibit 8). Hospital care, nursing home care, and other professional services continue to show negative year over year utilization changes in October, with possible further decelerations possible given a [rise in COVID-19 cases](#).



PRICE GROWTH BY DETAILED CATEGORIES

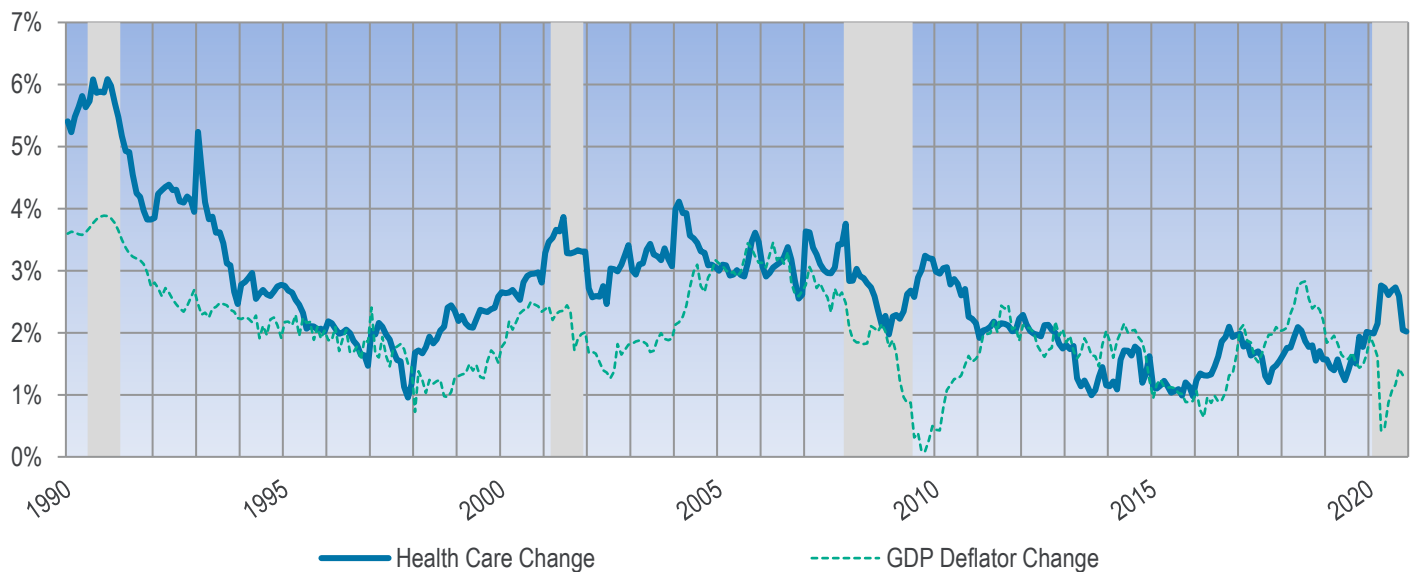
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

| | Ending November 2018 | Ending November 2019 | Ending November 2020 |
|-----------------------------------|----------------------------|----------------------------|----------------------------|
| Health Care Price Index (HCPI) | 1.7% | 1.8% | 2.0% |
| Hospital care | 2.0% | 2.4% | 3.3% |
| Physician and clinical services | 1.3% | 0.6% | 1.2% |
| Prescription drugs | 0.6% | 0.5% | -0.4% |
| Nursing home care | 5.2% | 2.2% | 3.8% |
| Dental Services | 2.2% | 3.1% | 2.9% |
| Home health care | 2.7% | 3.5% | 2.4% |
| Other professional services | 0.0% | 0.7% | 1.5% |
| Other personal health care | 2.1% | 1.9% | 4.1% |
| Other nondurable medical products | 0.5% | 0.8% | -1.9% |
| Durable medical equipment | 1.2% | 1.5% | -4.9% |

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

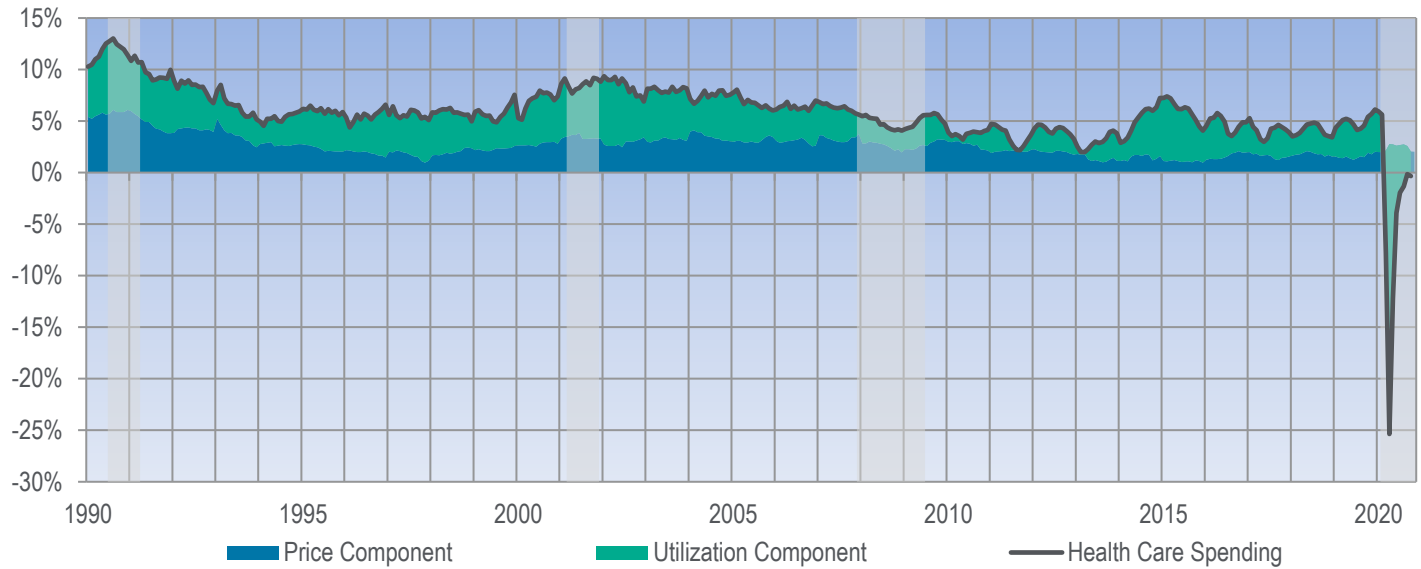
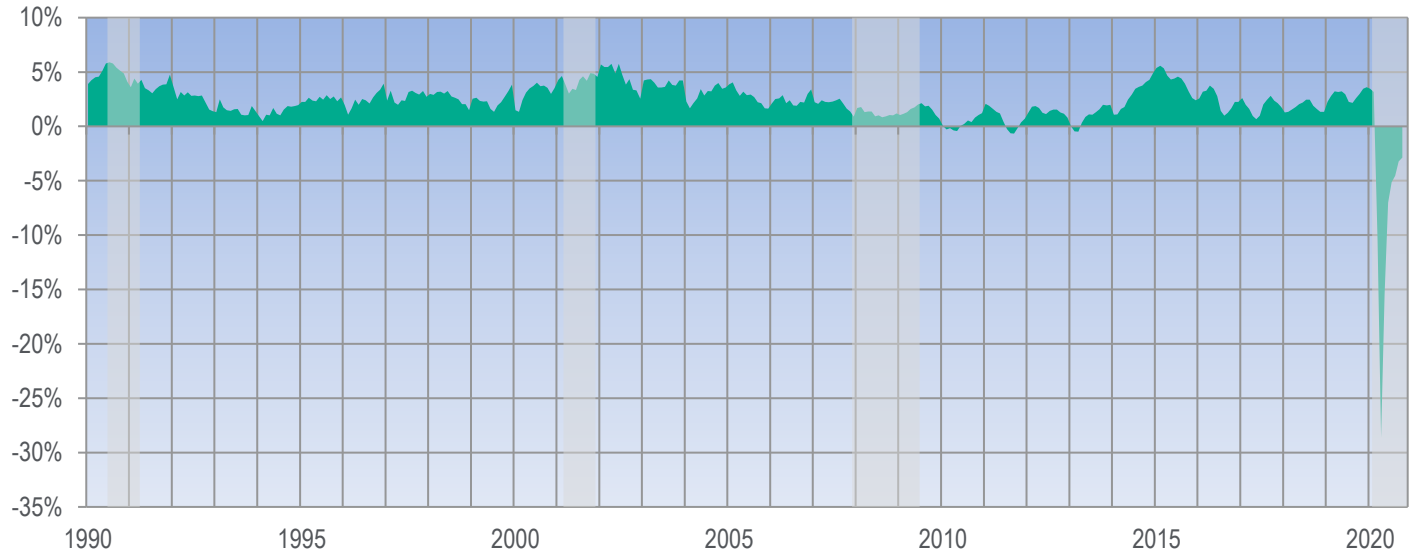


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altarum calculations from Health Sector Economic Indicators data.
Note: Lightly shaded bars denote recession periods.



Exhibit 7. Year-over-Year Health Care Price Growth by Payer

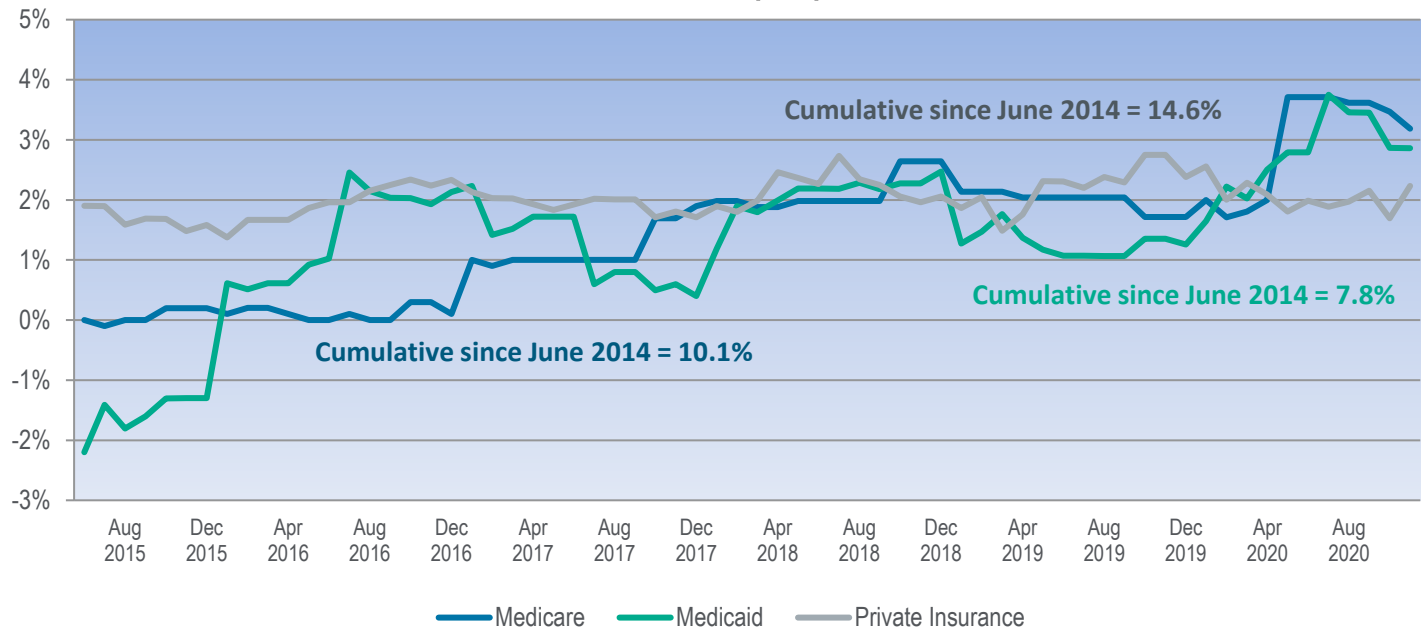


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

| | Oct. 2020 | 3-Month Moving Average | 12-Month Moving Average |
|-----------------------------------|-----------|------------------------|-------------------------|
| Total health care | -2.9% | -3.6% | -5.3% |
| Hospital care | -6.9% | -7.0% | -8.8% |
| Physician and clinical services | -0.3% | -2.0% | -4.8% |
| Prescription drugs | 5.5% | 4.5% | 4.8% |
| Nursing home care | -12.8% | -12.7% | -6.2% |
| Dental Services | -17.6% | -18.6% | -20.8% |
| Home health care | 15.5% | 12.5% | 1.5% |
| Other professional services | -4.2% | -3.7% | -3.2% |
| Other personal health care | 0.8% | 1.0% | 1.8% |
| Other nondurable medical products | 11.5% | 10.6% | 5.6% |
| Durable medical equipment | -1.8% | -1.1% | -5.9% |

Source: Altarum analysis of monthly BLS data combined with Altarum HSEI spending data.