

February 19, 2021

Records are Set as Health Care Price Growth Increases to Kick Off 2021

HIGHLIGHTS

- ▲ Following the slight moderation of health care price growth in the final quarter of 2020, health care prices spiked again in January, beginning 2021 at a year over year growth rate of 2.6%. This rate is higher than the average observed in 2020 (2.3%), which was already above the overall long-term trend.
- ▲ Price growth for health care services continues to be the major contributor to overall growth with many of the major categories at or near the fastest rate seen in at least the last ten years: January hospital prices rose 4.2% year over year, physician prices rose 3.2%, and nursing home care prices increased 3.3%. Conversely, price growth for prescription drugs was negative, matching the prior month's rate of -2.4%.
- ▲ Hospital price growth was led by prices paid by private insurance, which set a record for year over year growth (5.7%) since that data series began in 2014, while physician price growth was led by Medicare physician prices, which rose a whopping 10.7% year over year, also a record.
- ▲ Our implied measure of health care utilization (spending growth net of price/population growth), remained negative in December and actually continued to decline further, falling to -3.3% vs -2.7% in the prior month.

	Jan. 2019	Jan. 2020	Dec. 2020	Jan. 2021
Health Care Price Index (HCPI)	1.5%	2.0%	1.8%	2.6%
GDP Deflator (GDPD)	1.8%	1.9%	1.4%	**
HCPI - GDPD	-0.4%	0.0%	0.4%	**
<i>Addendum</i>				
Personal health care spending	4.6%	5.9%	-1.1%	**
Health care utilization	2.6%	3.4%	-3.3%	**
Medical Consumer Price Index (MCPI)	1.9%	4.5%	1.8%	1.9%
Consumer Price Index – all items (CPI)	1.6%	2.5%	1.4%	1.4%
Producer Price Index – Final Demand (PPI)	1.9%	2.0%	0.8%	1.7%

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 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 by the combined Health Care Price Index (HCPI) kicked off 2021 at a year over year growth rate of 2.6%, accelerating substantially from the prior month's rate of 1.8%. This reverses the trend we noted for the final quarter of 2020, when health care price growth appeared to be moderating from the pace seen earlier in the year (Exhibit 1). Beneath this overall acceleration are two distinct trends worth differentiating: price growth among health care service categories are at or near ten-year highs, while price growth for prescription drugs and other durable and non-durable medical products are at record lows and were even negative this month (Exhibit 3).

After averaging 3.2% growth for 2020, hospital price growth accelerated even further in January, reaching 4.2% year over year, the fastest rate seen since September 2006. This increase is attributable primarily to an increase in the prices paid by private insurers, which accelerated to 5.7%, the fastest rate observed since BLS began tracking these prices by payer in June 2014. Hospital price growth for the public payers, Medicare and Medicaid, remained near the same rates as the prior month (3.0% and 5.3% respectively) (Exhibit 7). Physician services prices also accelerated significantly in January, with the year over year growth rate increasing from 0.9% to 3.2% in January, although driven by a different payer, Medicare. Physician prices paid by Medicare were the outlier in January (Exhibit 6), rising 10.7% likely due to reimbursement changes made in the [2021 Appropriations Bill](#) signed on December 27th. Conversely, medical products continued a period of low and even negative price growth: prescription drug prices fell at a -2.4% rate, tying the lowest year over year rate seen in our series that started in

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

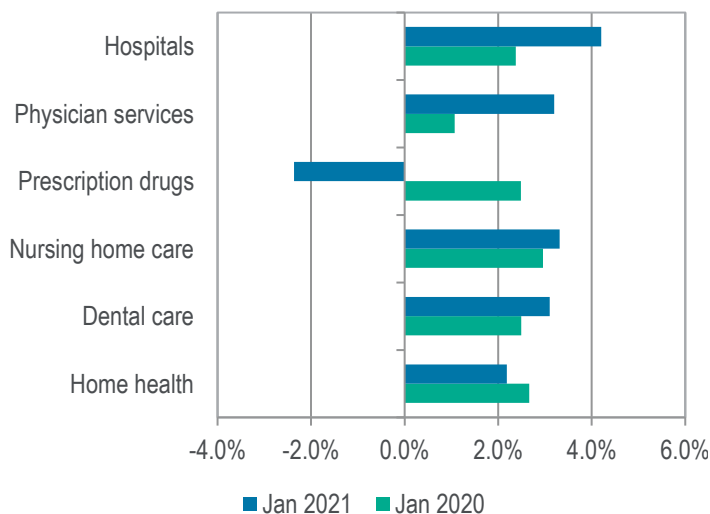
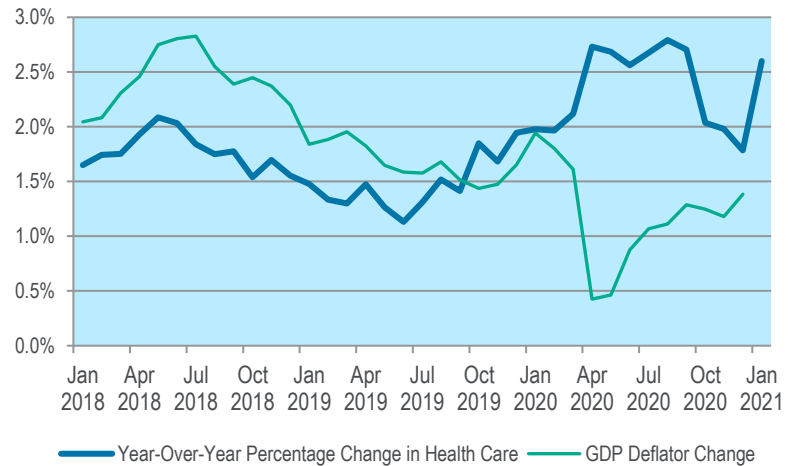


Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

1989. Price growth for durable medical equipment and nondurable products were also negative and near record low growth rates.

Lastly, our utilization and spending data for the complete year of 2020 show a continuation of the negative growth in utilization in many of the major health care services categories (Exhibit 8). While the summer and fall of 2020 were periods of recovery for many health care utilization metrics, Q4 2020 appears to show a plateau and even decline in utilization for hospital care, physician services, nursing home, and dental care. This decline in utilization was likely driven by the [resurgence of the virus in the US](#) and delayed elective care, although the extent to which this care is low-value care and therefore a positive change or essential high-value care that will harm the long-term health of patients remains to be seen.



PRICE GROWTH BY DETAILED CATEGORIES

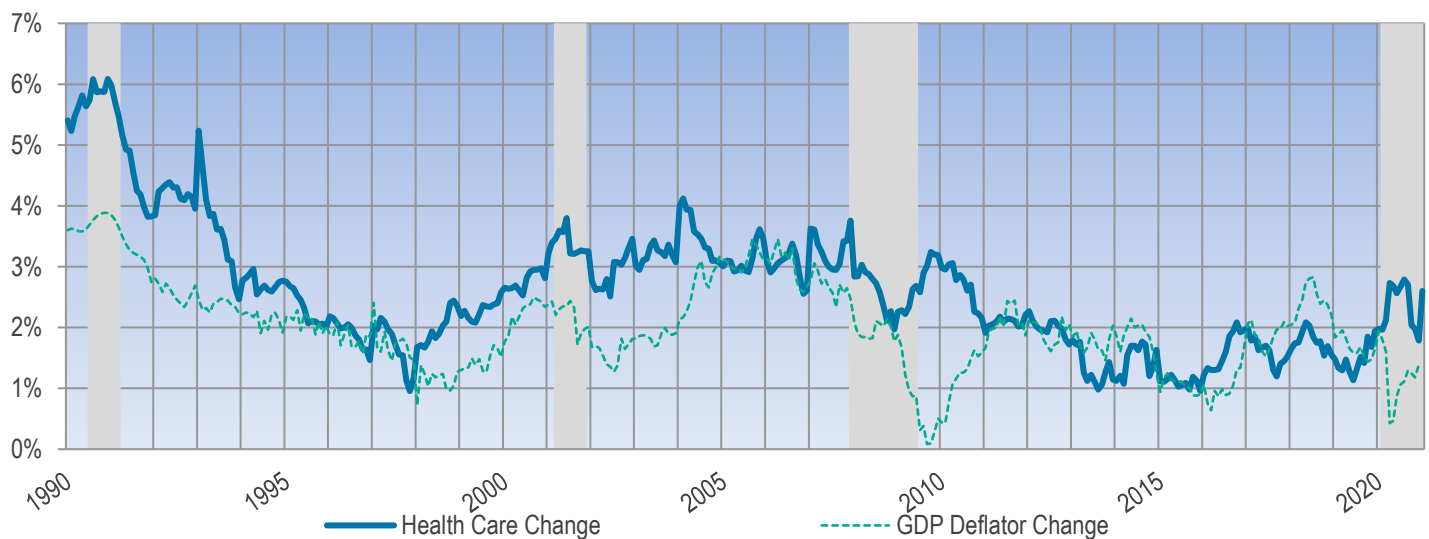
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending January 2019	Ending January 2020	Ending January 2021
Health Care Price Index (HCPI)	1.5%	2.0%	2.6%
Hospital care	1.9%	2.4%	4.2%
Physician and clinical services	0.8%	1.1%	3.2%
Prescription drugs	-0.5%	2.5%	-2.4%
Nursing home care	5.3%	3.0%	3.3%
Dental Services	2.8%	2.5%	3.1%
Home health care	2.7%	2.7%	2.2%
Other professional services	0.1%	1.4%	2.7%
Other personal health care	2.0%	1.8%	4.6%
Other nondurable medical products	0.2%	-0.5%	-1.3%
Durable medical equipment	1.3%	0.2%	-2.8%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

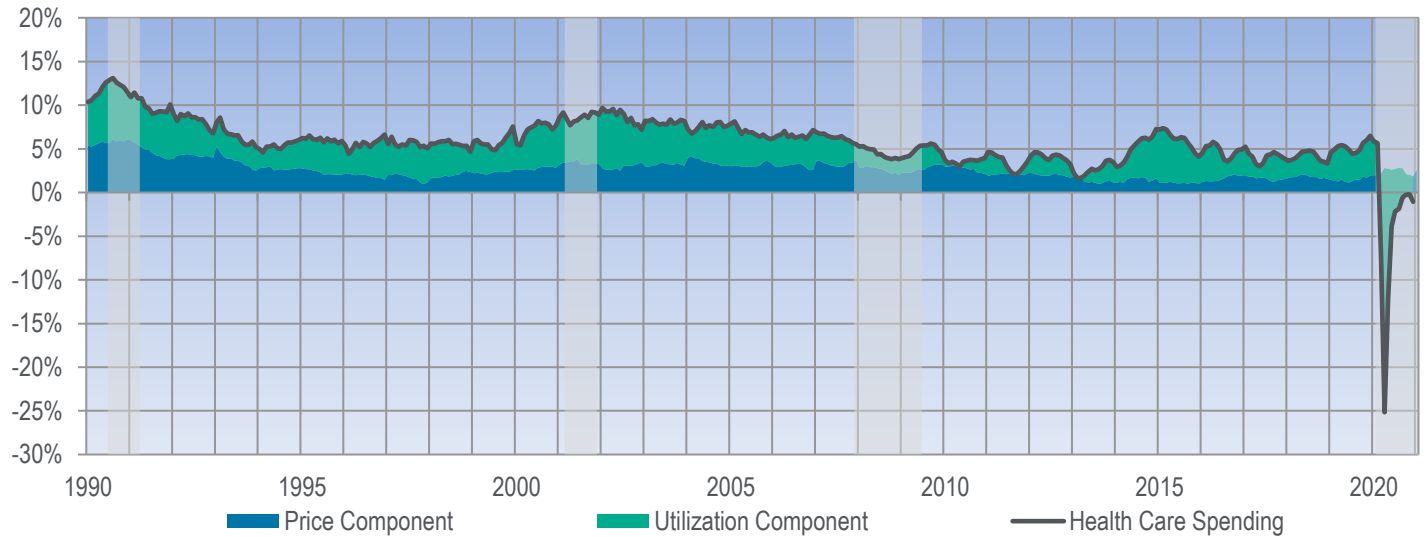
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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 estimates. Monthly GDP is from Macroeconomic Advisers and Altarum estimates.
 Note: Lightly shaded bars denote recession periods.

Exhibit 6. Year-over-Year Change in Physician Price Growth by Payer

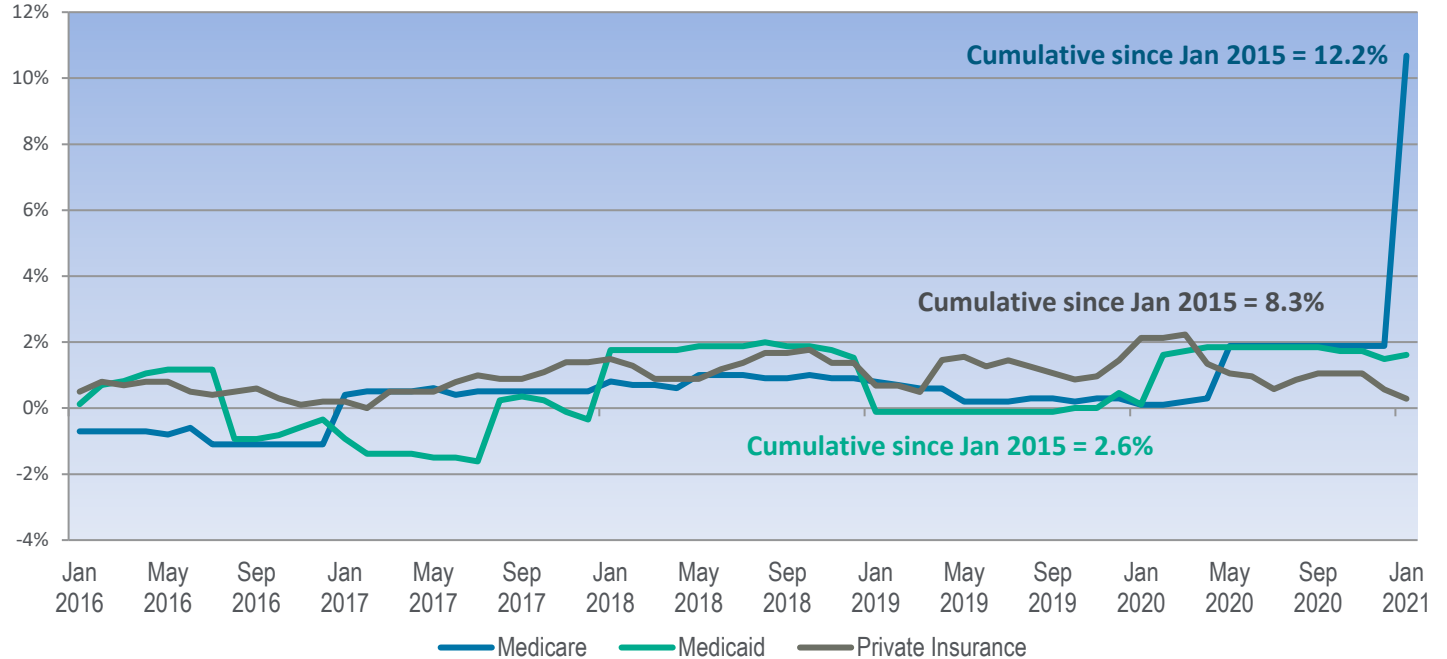




Exhibit 7. Year-over-Year Hospital Price Growth by Payer

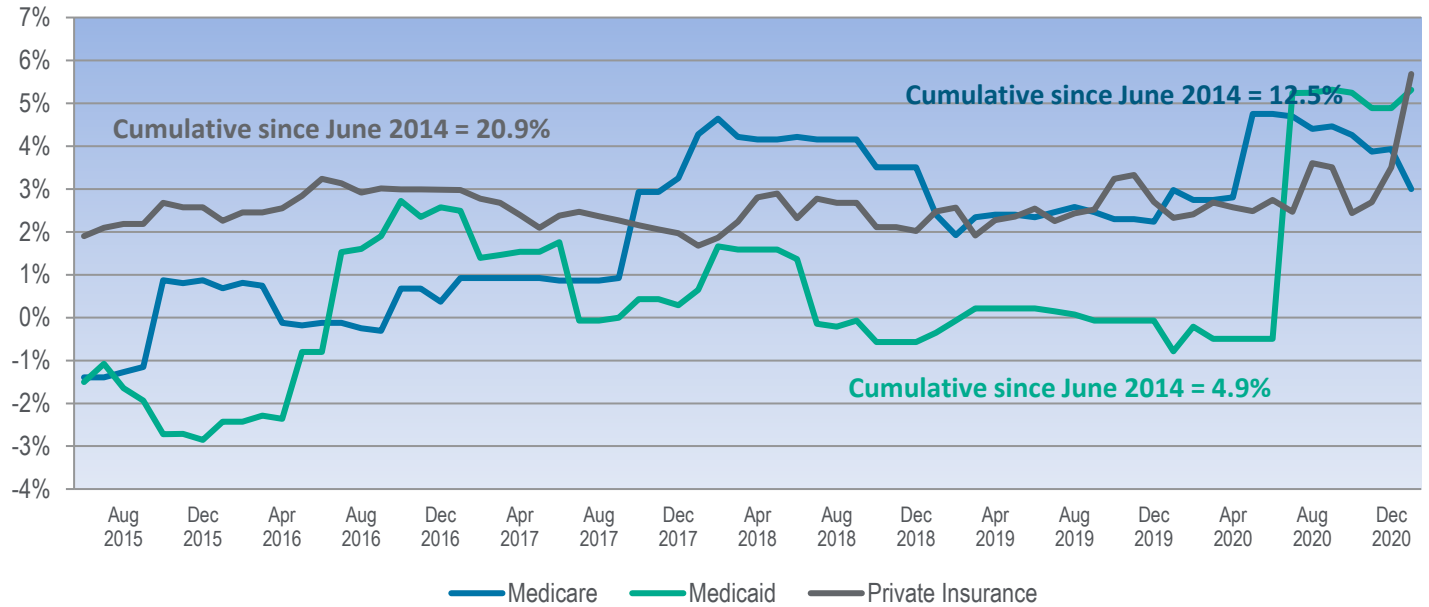


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	Dec. 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-3.3%	-2.9%	-6.4%
Hospital care	-8.0%	-6.9%	-10.7%
Physician and clinical services	-0.8%	-0.9%	-5.9%
Prescription drugs	6.2%	5.3%	4.7%
Nursing home care	-11.9%	-10.3%	-7.0%
Dental Services	-18.6%	-17.2%	-23.6%
Home health care	3.1%	2.9%	-1.6%
Other professional services	-1.0%	-2.3%	-4.2%
Other personal health care	1.6%	1.5%	1.6%
Other nondurable medical products	8.4%	10.5%	6.7%
Durable medical equipment	4.5%	4.5%	-5.1%

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