

July 22, 2021

## Health sector price growth falls below 2.0% amid economywide records

### HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) remained steady again in June, with prices 1.9% higher than they were a year ago, compared to the 2.0% growth rate seen in May.
- ▲ This moderation in health price growth was driven by a slight slowing in hospital, prescription drug, dental, home health, and other professional care prices, each of which increased more slowly in June compared to the prior month.
- ▲ Physician services and hospital prices continue to be the two fastest growing major categories, increasing 3.3% and 2.9% year over year respectively, while prescription drug prices remain the sole major category with decreasing prices in June. Prescription drug prices fell by -2.5% compared to year prior, extending the now nine-month streak of negative growth.
- ▲ Outside of health care, economywide price growth, as measured by both the consumer price index (CPI) and producer price index (PPI), continued to accelerate, with those measures increasing to 5.4% and 7.3% in June. This is the fastest growth for economywide CPI since 2008 and the fastest ever in the series for PPI.

	June 2019	June 2020	May 2021	June 2021
Health Care Price Index (HCPI)	1.1%	2.6%	2.0%	1.9%
GDP Deflator (GDPD)	1.5%	0.9%	4.2%	**
HCPI - GDPD	-0.4%	1.6%	-2.2%	**
<i>Addendum</i>				
Personal health care spending	4.9%	-3.8%	18.7%	**
Health care utilization	3.8%	-6.4%	16.7%	**
Medical Consumer Price Index (MCPI)	2.0%	5.1%	0.9%	0.4%
Consumer Price Index – all items (CPI)	1.6%	0.6%	5.0%	5.4%
Producer Price Index – Final Demand (PPI)	1.6%	-0.7%	6.6%	7.3%

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 Indicators<sup>SM</sup>* 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](mailto: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](mailto:press@altarum.org).



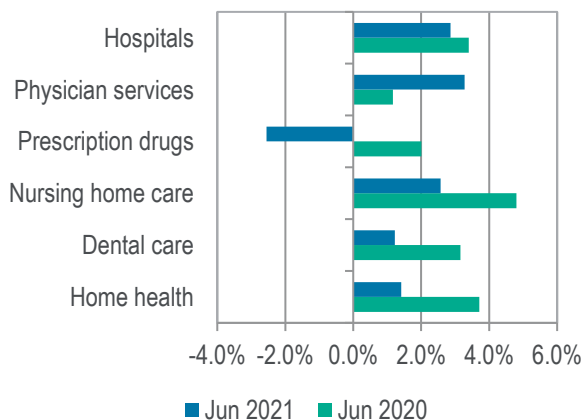
## DISCUSSION

Growth in the overall Health Care Price Index (HCPI) fell below the 2.0% threshold to 1.9% year-over-year growth in June, slightly below the prior month's rate of 2.0%. This continues a period of moderation in health care price growth since the rate peaked in February 2021 (Exhibit 1). When set against the backdrop of rapidly increasing economywide prices (the overall GDP deflator hit 4.2% growth in May 2021 and CPI reached 5.4% in June), the slowdown in health care prices is notable, and we have yet to see signs that the macroeconomic cost pressures impacting economywide inflation are spreading into the health sector in mid-2021.

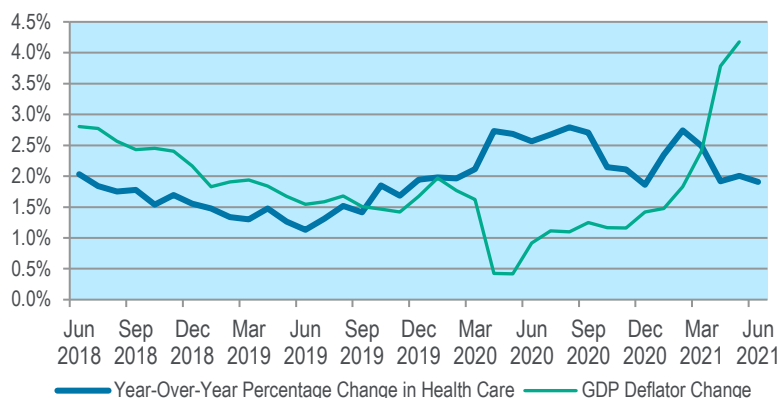
As seen in the recovery from prior recessions and periods of economic expansion (Exhibit 4), it is not uncommon for economywide prices to exceed health sector price growth; however, the difference between the two is now uncommonly large. HCPI growth in June was 3.5 percentage points lower than CPI in June, with each trend appearing to move in the opposite direction. The extent to which economywide and health sector prices converge during the remainder of 2021 is likely dependent on the rate of moderation in overall economywide prices. While the Federal Reserve and President [remain confident](#) overall inflation is mostly temporary, the continued economic recovery and increasing demand for services, travel, and leisure has the potential to keep upward pressure on overall price growth, alongside supply constraints for a variety of critical economic inputs.

Among the major health sector categories, price growth for physician services has now surpassed hospital prices as the fastest growing major category as of June, with physician services prices increasing by 3.3% year over year compared to hospital prices moderating slightly to 2.9% growth (Exhibit 2). Hospital prices among privately insured patients are a major factor in the moderation—after previously setting growth records at the start of the year, prices for these patients increased by a slower rate of 3.7% in June. While this is still above the long-term average rate, it is much closer to the norm (Exhibit 6). Dental care, home health care and nursing home care price growth are also hovering around 2.0% year-over-year growth, while prescription drug prices fell again this month, at -2.5% from a year prior.

### 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.

As for changes in the use of health care products and services, our overall implicit measure of utilization (the difference between year-over-year spending growth and price growth), sat at a 12-month average growth rate of 2.5% in May 2021. The average growth rate over the more recent 6-month and 3-month periods remain faster, due to the majority of the comparison months from a year prior falling during the height of the pandemic. Among the major categories, utilization growth for physician services and prescription drugs were fastest over the last 12 months (Exhibit 7), with utilization of nursing home care falling to -7.8% year over year growth.



## PRICE GROWTH BY DETAILED CATEGORIES

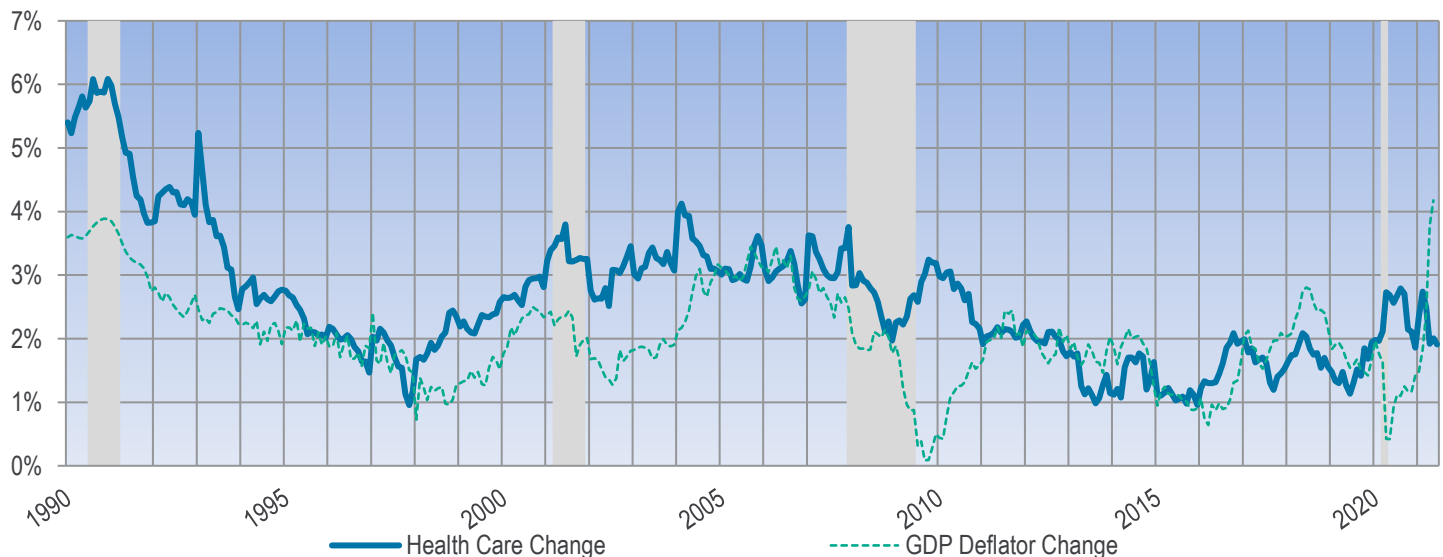
**Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures**

	Ending June 2019	Ending June 2020	Ending June 2021
Health Care Price Index (HCPI)	1.1%	2.6%	1.9%
Hospital care	1.9%	3.4%	2.9%
Physician and clinical services	0.7%	1.2%	3.3%
Prescription drugs	-2.0%	2.0%	-2.5%
Nursing home care	3.2%	4.8%	2.6%
Dental Services	1.9%	3.2%	1.2%
Home health care	2.7%	3.7%	1.4%
Other professional services	0.5%	1.3%	2.3%
Other personal health care	2.1%	2.9%	5.1%
Other nondurable medical products	-0.2%	-1.0%	-0.5%
Durable medical equipment	2.4%	-0.5%	-3.3%

**Source:** Altarum analysis of monthly BLS data.

## TIME SERIES TRACKER

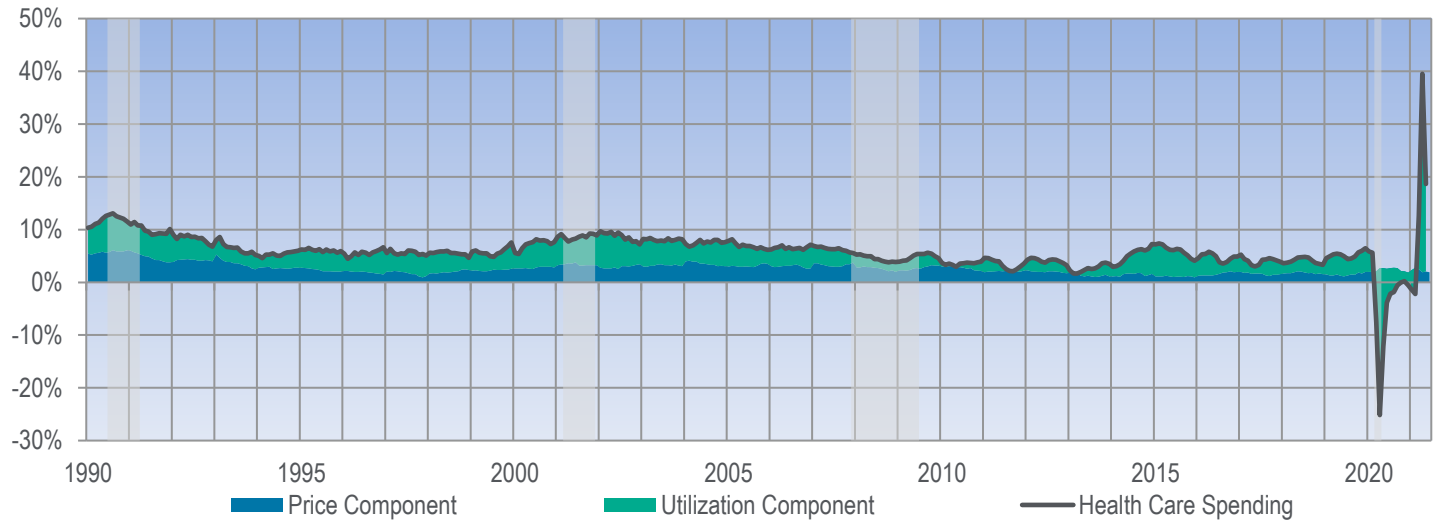
**Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator**



**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.

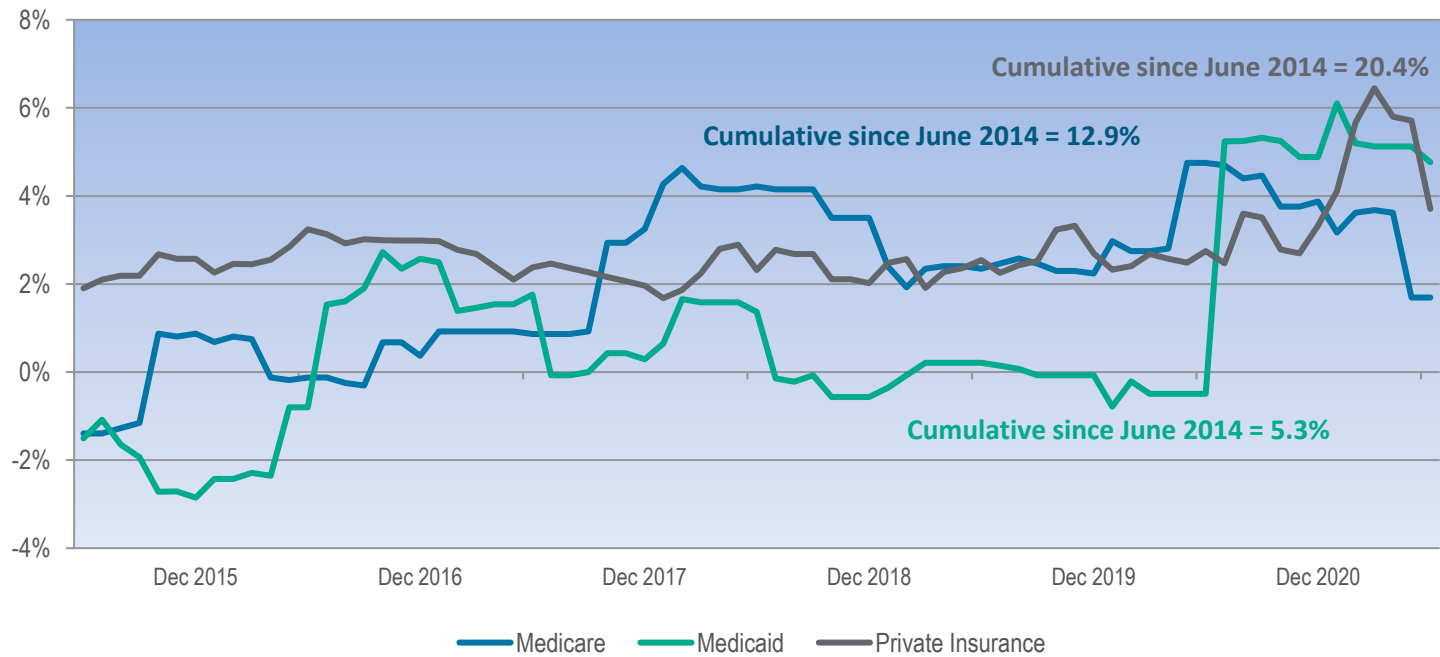


### Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



Source: Altarum monthly national health spending and price index estimates.  
 Note: Lightly shaded bars denote recession periods. (The [2020 recession timing](#) was announced by NBER on July 19<sup>th</sup>, 2021)

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



Source: Altarum analysis of monthly BLS data.



## Exhibit 7. Implicit Health Care Utilization Growth by Major Components of NHE

	12-Month Moving Average	6-Month Moving Average	3-Month Moving Average
Total health care	2.5%	8.9%	21.5%
Hospital care	3.5%	13.4%	31.4%
Physician and clinical services	3.7%	11.3%	28.4%
Prescription drugs	3.4%	2.4%	2.4%
Nursing home care	-7.8%	-7.0%	-4.9%
Dental Services	1.8%	25.6%	73.1%
Home health care	2.5%	4.4%	8.2%
Other professional services	4.0%	8.7%	18.7%
Other personal health care	1.7%	1.1%	0.8%
Other nondurable medical products	13.6%	16.8%	20.5%
Durable medical equipment	15.0%	30.6%	51.5%

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.