ALTARUM

Health Sector Economic Indicators℠

Insights from Monthly National Price Indices through May 2021

PRICE BRIEF

June 17, 2021

Health care price growth remains stable amid economywide inflation

HIGHLIGHTS

- Growth in the overall Health Care Price Index (HCPI) remained mostly steady in May, with prices 2.0% higher than they were a year ago, compared to the 1.9% growth seen in April. The 2.0% rate is below the average since the start of the COVID-19 pandemic, indicating a slight moderation in health care prices.
- Hospital and physician services prices continue to be the two fastest growing major categories, increasing 3.6% and 3.1% year over year respectively, while nursing home facility and home health care price growth has slowed significantly over the past few months, now up only 2.1% and 1.5% respectively in May.
- 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 5.0% and 6.6% growth in May. This is the fastest growth for economywide CPI since 2008 and the fastest ever in the series for PPI.
- As expected, the GDP Deflator (GDPD), which lags a month behind other price data, was significantly higher in April at 3.7%, marking the first time it exceeded health care price growth since September 2019.

	May 2019	May 2020	Apr. 2021	May 2021
Health Care Price Index (HCPI)	1.3%	2.7%	1.9%	2.0%
GDP Deflator (GDPD)	1.6%	0.5%	3.7%	**
HCPI - GDPD	-0.4%	2.2%	-1.8%	**
Addendum				
Personal health care spending	5.3%	-12.1%	40.1%	**
Health care utilization	4.0%	-14.8%	38.2%	**
Medical Consumer Price Index (MCPI)	2.1%	4.9%	1.5%	0.9%
Consumer Price Index – all items (CPI)	1.8%	0.1%	4.2%	5.0%
Producer Price Index – Final Demand (PPI)	2.1%	-1.1%	6.2%	6.6%

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

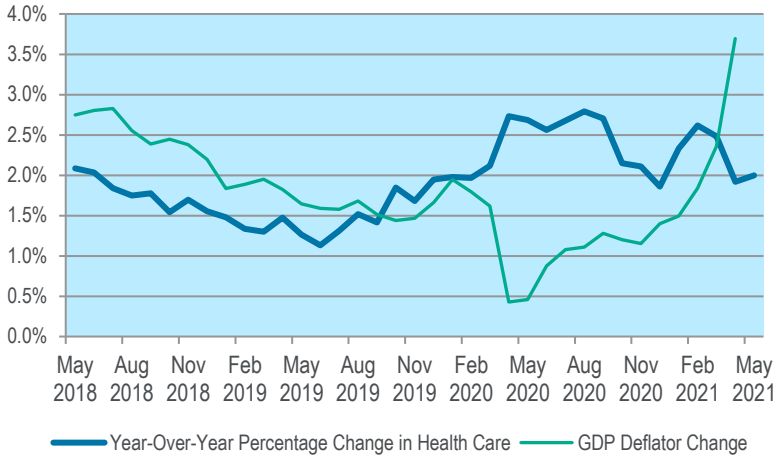
Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among at-risk and disenfranchised populations. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend the cost growth curve. This work was made possible through generous support from the Robert Wood Johnson Foundation.

The Health Sector Economic Indicators℠ 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

Growth in the overall Health Care Price Index (HCPI) ticked up slightly in May, increasing 2.0% compared to a year prior, above the April 2021 rate of 1.9%. Yet, compared to the growth in health care prices seen throughout the pandemic, May's growth remains part of a noticeable deceleration and moderation in overall health care price growth (Exhibit 1). This moderation in health care price growth is now being observed across the spectrum of health care products and services—with all six of the major categories seeing slower year-over-year growth in May compared to April.

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

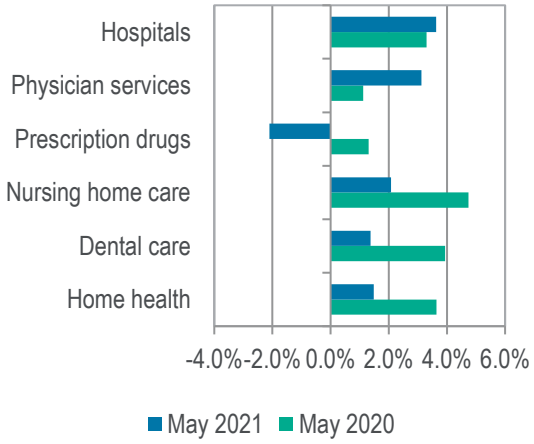


Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

The moderating health care price growth is particularly notable against the backdrop of rapidly accelerating economywide prices, which jumped from a 2.4% year-over-year rate in March to 3.7% in April. Furthermore, data in May indicate economywide price growth is likely to continue, with the initial reading of CPI hitting 5.0%, while the PPI year-over-year growth rate reached 6.6%. As we noted last month, the acceleration of economywide prices is consistent with historical economic recoveries following a recession (Exhibit 4), although the overall pace of economywide price inflation now looks quite unusual. It is important to note that these measures are computed as year-over-year rates of growth and that economywide prices hit bottom in May of last year, making this month's economywide price growth as compared to 2020 look particularly extreme.

Since many of the major factors driving economywide price increases—including the rapidly recovering demand for goods and services as COVID-19 cases fall and state lockdown restrictions are lifted; the continued easing in the Federal Reserve's monetary policy decisions; and the stubbornly persistent supply constraints for a variety of critical economic inputs (such as computer chips and raw materials)—might also be expected to impact the U.S. health sector, it is somewhat surprising to have health care prices moderate in recent months. Our estimate of health care utilization (a proxy of the overall demand for health care products and services) has shown significant increases (Exhibit 7) in the use of care, yet overall price growth has not followed suit.

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



We believe the lack of a one-time spike in health care price growth accompanying the other economic sectors is a result of a couple of factors. First, many of the supply constraints for health care inputs are likely less significant in 2021 than they were at the start of the pandemic, when many critical medical supplies were in severe short supply due to treating COVID patients. Second, while the demand for health care services may be increasing, the price for that care is likely less mutable in the short run as prices are set annually either by governments (Medicare and Medicaid) or in longer term contracts (private health insurance). The extent to which these factors continue to impact prices in 2021 and if health care price growth will remain below other sectors remains to be seen.

PRICE GROWTH BY DETAILED CATEGORIES

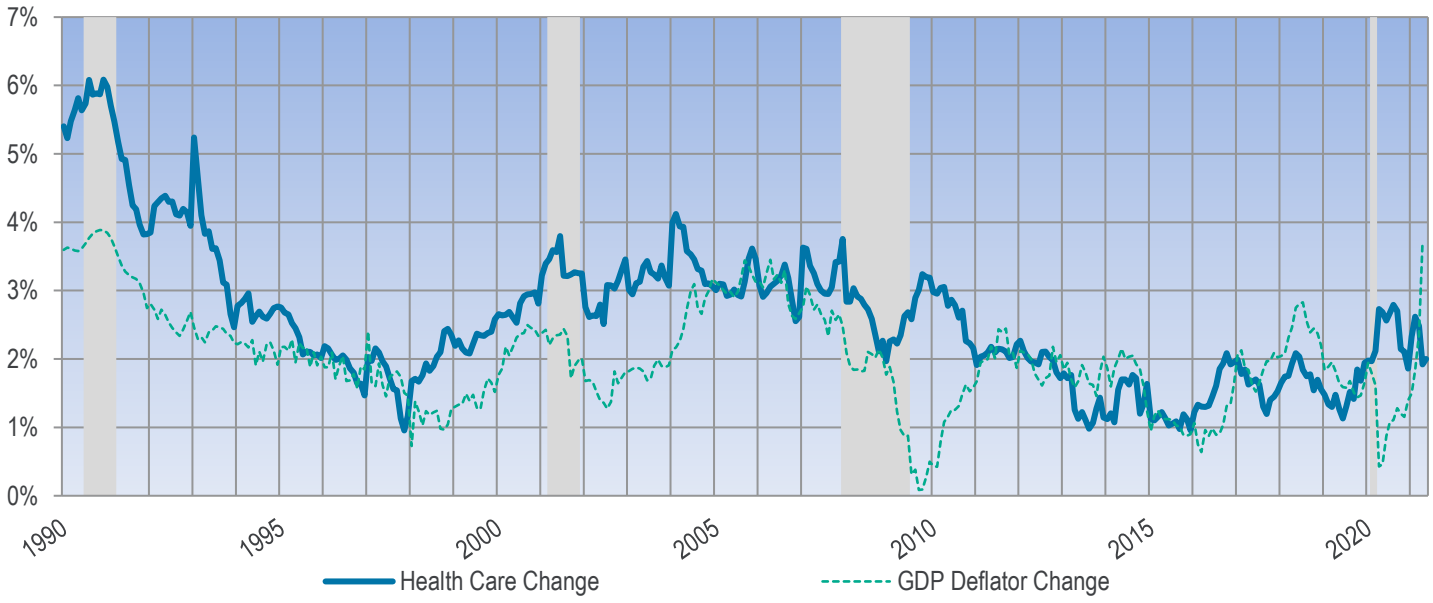
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending May 2019	Ending May 2020	Ending May 2021
Health Care Price Index (HCPI)	1.3%	2.7%	2.0%
Hospital care	1.9%	3.3%	3.6%
Physician and clinical services	0.9%	1.1%	3.1%
Prescription drugs	-1.0%	1.3%	-2.1%
Nursing home care	3.2%	4.7%	2.1%
Dental Services	1.2%	3.9%	1.4%
Home health care	2.7%	3.6%	1.5%
Other professional services	0.5%	1.0%	2.6%
Other personal health care	2.1%	2.9%	4.9%
Other nondurable medical products	-0.2%	-0.5%	-0.3%
Durable medical equipment	2.3%	-0.3%	-2.4%

Source: Altarum analysis of monthly BLS data.

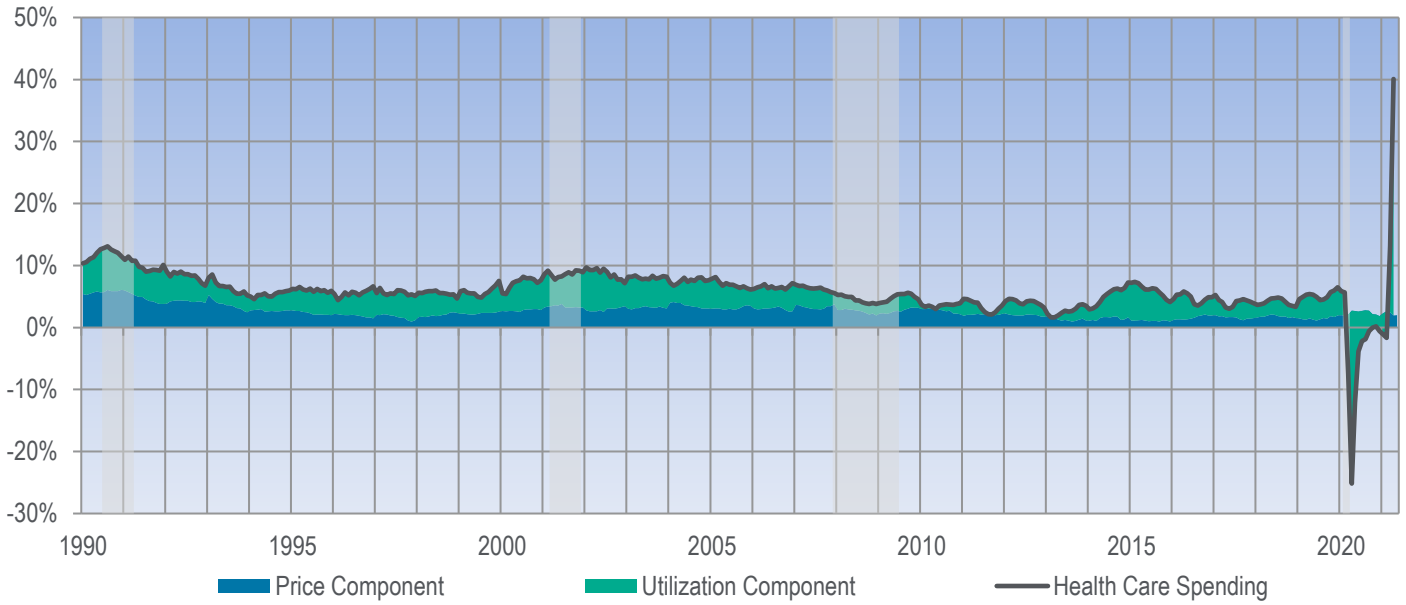
TIME SERIES TRACKER

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



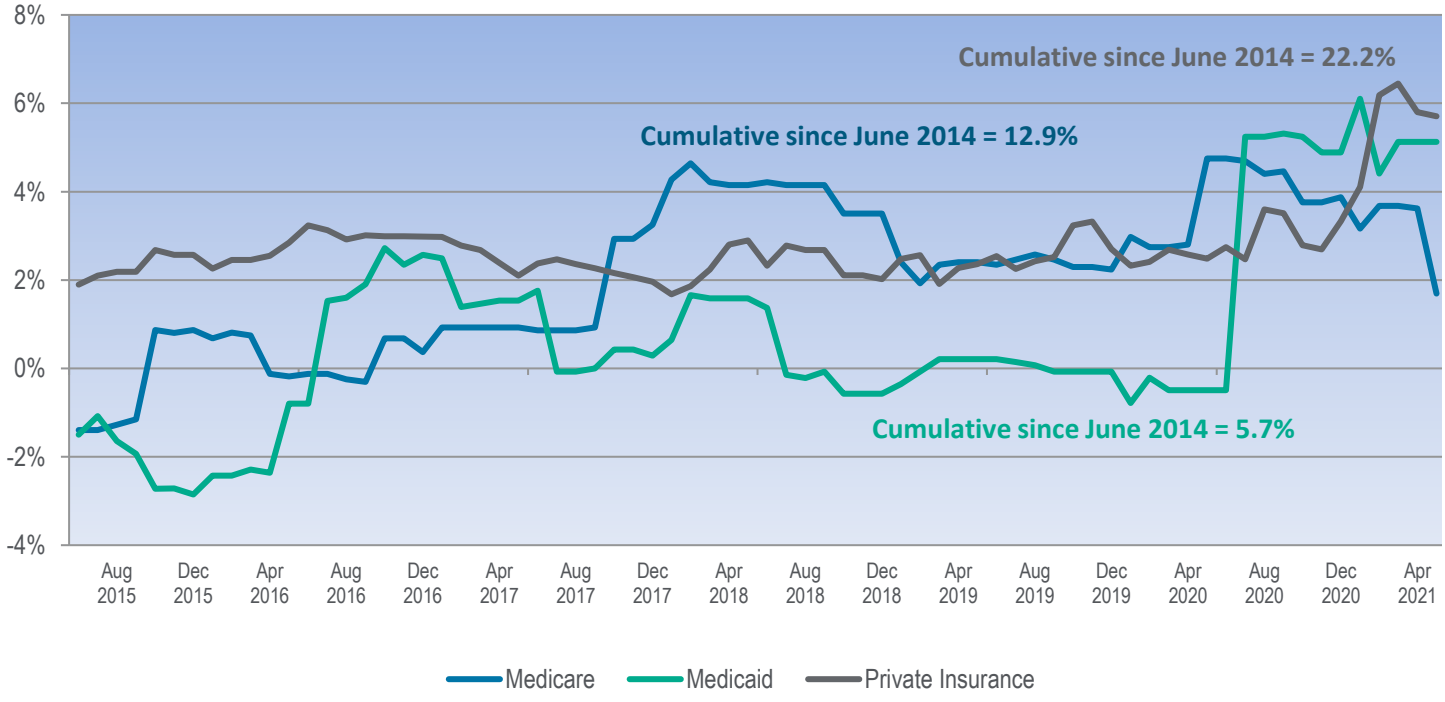
Methods. Altarum's estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the 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 end date is currently undecided)

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	0.0%	6.1%	14.8%
Hospital care	0.3%	9.6%	23.4%
Physician and clinical services	0.7%	7.8%	19.3%
Prescription drugs	3.2%	2.3%	0.4%
Nursing home care	-8.3%	-7.6%	-7.3%
Dental Services	-7.4%	11.5%	44.5%
Home health care	3.3%	7.7%	11.5%
Other professional services	3.8%	9.5%	18.2%
Other personal health care	1.8%	1.3%	0.9%
Other nondurable medical products	11.8%	15.0%	17.1%
Durable medical equipment	8.9%	22.7%	37.6%

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.*