

November 18, 2020

Health care price growth moderates for the majority of categories

HIGHLIGHTS

- ▲ Overall health care prices in October 2020 are 2.1% higher than a year before, the slowest year-over-year growth rate of the past seven months and the same as the rate observed back in March 2020.
- ▲ Slower price growth occurred for most of the largest health sector components, with growth in hospital prices, physician prices, and prescription drug prices all slower in October compared to September. Annual prescription drug price growth was actually slightly negative this month at -0.4%.
- ▲ October health care price growth was also slower across all major payers compared to September, as all three of the Medicare, Medicaid, and Private Insurance health care price growth series slowed.
- ▲ Despite this month's slowdown, average health care price growth for 2020 remains high. Including data through October, health care prices remain on track for the fastest total year-over-year growth since 2010.

	Oct. 2018	Oct. 2019	Sept. 2020	Oct. 2020
Health Care Price Index (HCPI)	1.6%	1.9%	2.6%	2.1%
GDP Deflator (GDPD)	2.4%	1.4%	1.2%	**
HCPI - GDPD	-0.9%	0.5%	1.4%	**
<i>Addendum</i>				
Personal health care spending	3.7%	5.4%	-0.2%	**
Health care utilization	2.1%	3.5%	-2.8%	**
Medical Consumer Price Index (MCPI)	1.7%	4.3%	4.2%	2.9%
Consumer Price Index – all items (CPI)	2.5%	1.8%	1.4%	1.2%
Producer Price Index – Final Demand (PPI)	3.1%	1.0%	0.4%	0.5%

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 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.

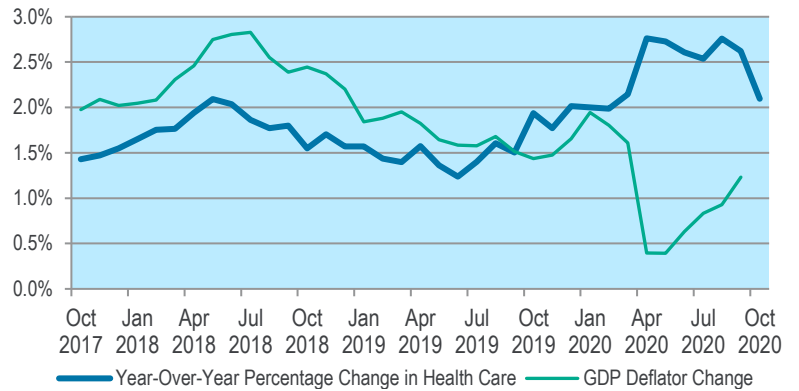
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Ani Turner at ani.turner@altarum.org. Corwin Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly, 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

Annual growth in the overall Health Care Price Index (HCPI) was 2.1% in October, falling somewhat from the very accelerated rate seen in the prior few months, where it had averaged around 2.6% year over year (Exhibit 1). This slower pace of price inflation was seen across most of the largest health sector components, including hospitals, physician services, and prescription drugs. While annual price growth remained higher than a year before, it was notably slower this month than in September: hospital price growth fell from 3.4% to 3.3%, physician services from 1.8% to 1.2% and prescription drugs from 1.4% to

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



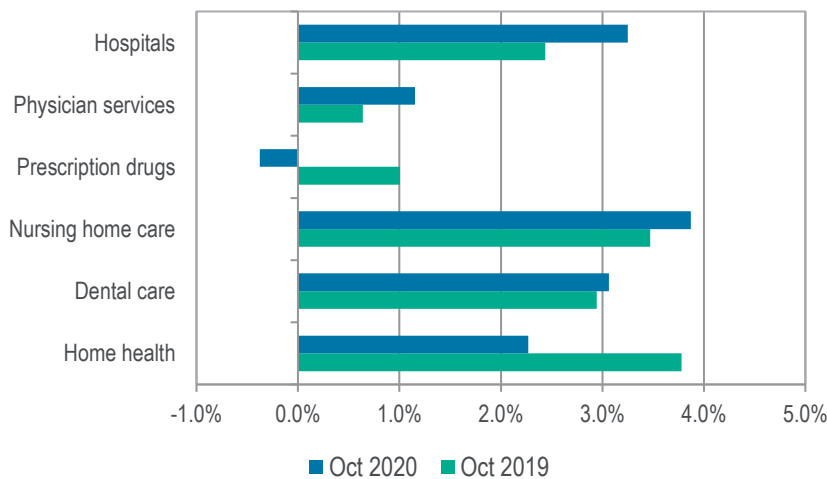
Source: Altarum analysis of monthly BLS price data and monthly GDPD data published by Macroeconomic Advisers.

-0.4% (Exhibit 2). Price growth also slowed across all three major payers, with this month’s annual growth rate falling for Medicare from 3.6% to 3.5%, for Medicaid from 3.5% to 2.9%, and for private insurance from 2.2% to 1.7%, when compared to last month. Despite the moderation in October, this year’s overall price increases remain on track for the fastest pace since 2010. If the HCPI growth rate for the first ten months of this year continues in November and December, 2020’s total average price growth would be expected to be 2.4%.

Incorporating the most recent spending data from September, we see a continued recovery of health care utilization, following the collapse in the use of health care services due to the COVID-19 pandemic in early 2020. While the annual change in our implicit measure of total health care utilization remains negative in September (-3.3%), this is an improvement from the pace seen in August (-4.5%) (Exhibit 8). Physician and clinical services are the largest contributor to this month’s recovery in health care utilization, increasing from -5.0% year over year growth in utilization in August to -1.6% in September, an improvement of 3.4 percentage points and nearly back to the level of the year prior. Future trends in health care spending and utilization are very dependent on the overall trajectory of the COVID-19 pandemic, which unfortunately seems likely to worsen through the end of the year, given [current case growth](#).

We noted last month that the pandemic has been unique in its impacts on health sector spending and employment,

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



but that health sector prices continue to follow the patterns of prior recessions; where economywide price growth falls sharply, but health price growth persists or even accelerates for a period 12 to 24 months, before again reverting back towards the same rate. It is possible we are already beginning to see this trend play out in 2020 (Exhibit 4), although the outlook remains uncertain. We explore this comparison of the COVID-19 pandemic-induced recession to the previous “Great Recession” in a recently [published paper in Business Economics](#).



PRICE GROWTH BY DETAILED CATEGORIES

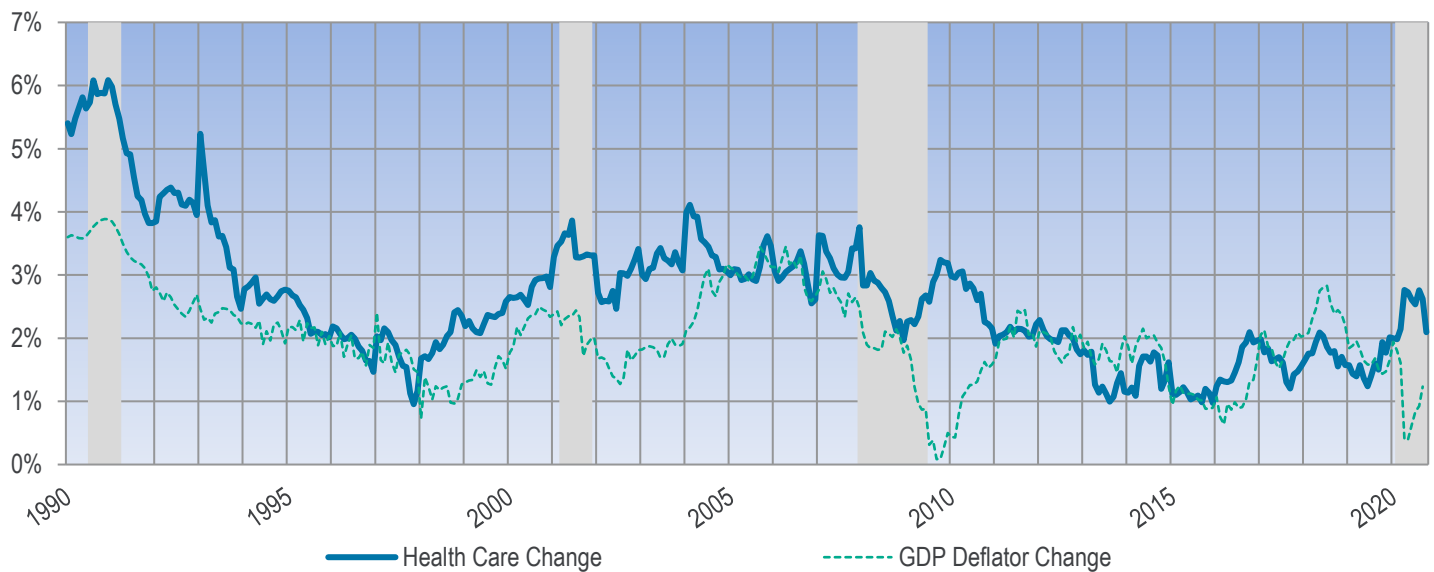
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending October 2018	Ending October 2019	Ending October 2020
Health Care Price Index (HCPI)	1.6%	1.9%	2.1%
Hospital care	1.9%	2.4%	3.3%
Physician and clinical services	0.8%	0.6%	1.2%
Prescription drugs	0.8%	1.0%	-0.4%
Nursing home care	4.0%	3.5%	3.9%
Dental Services	2.3%	2.9%	3.1%
Home health care	2.5%	3.8%	2.3%
Other professional services	-0.2%	1.1%	1.5%
Other personal health care	2.0%	1.9%	4.1%
Other nondurable medical products	0.2%	1.0%	-1.8%
Durable medical equipment	1.4%	1.2%	-1.6%

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

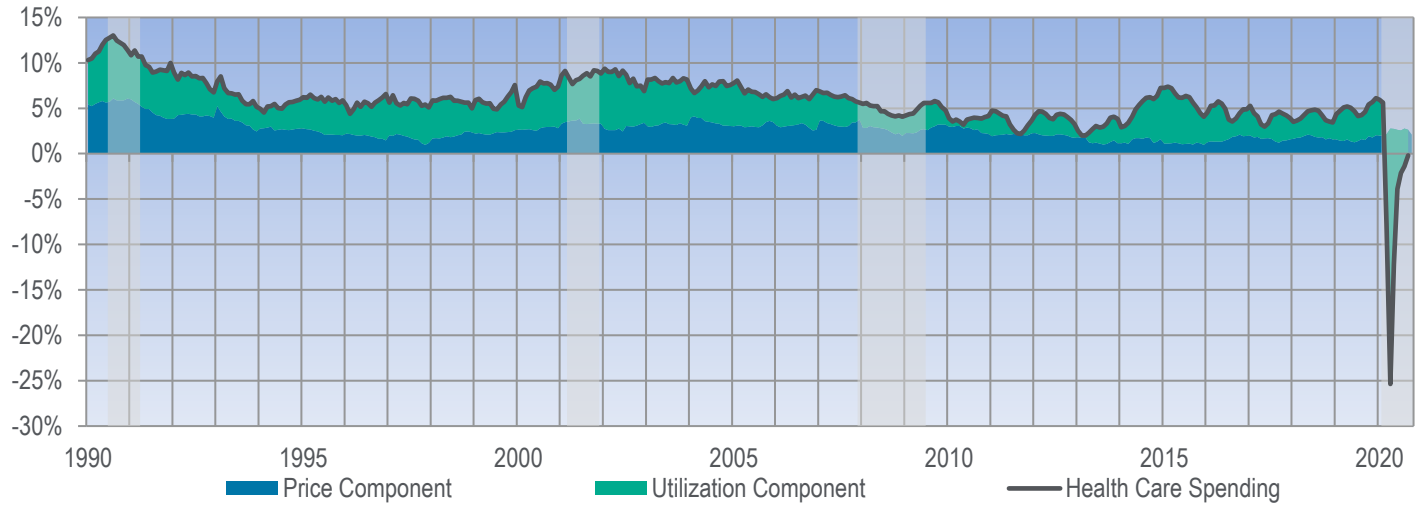
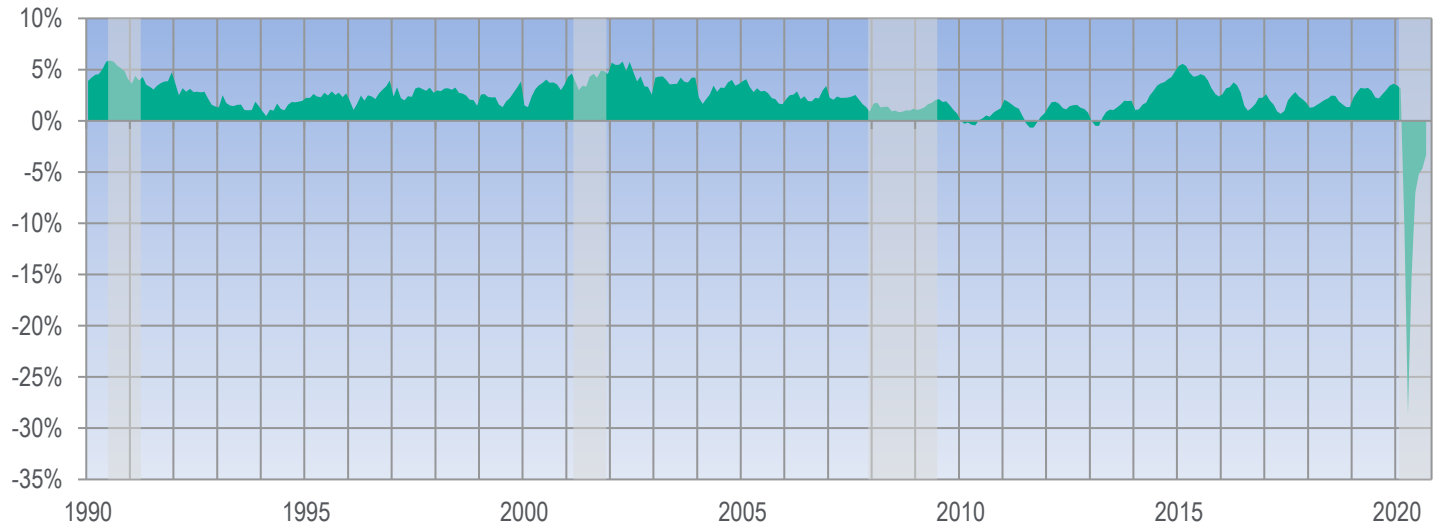


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



Source: Altatum calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods.



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

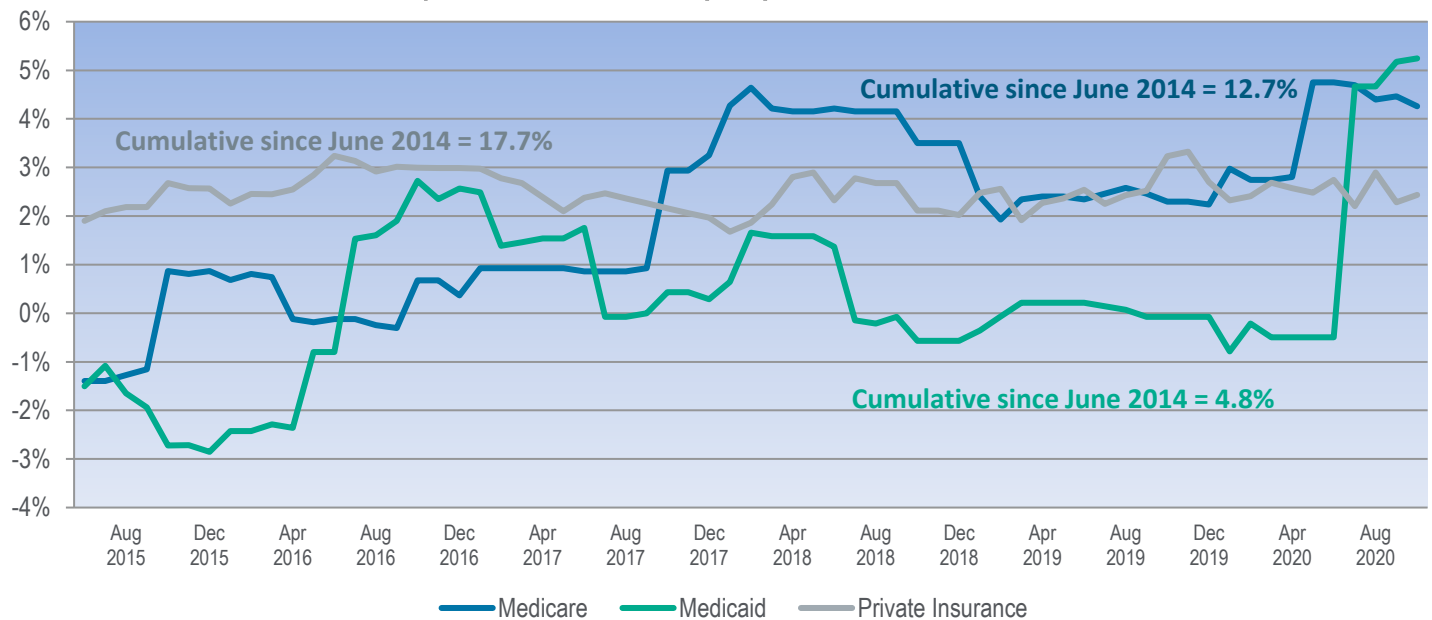


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	Sept. 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-3.3%	-4.4%	-4.8%
Hospital care	-6.1%	-6.6%	-7.8%
Physician and clinical services	-1.6%	-4.1%	-4.7%
Prescription drugs	4.5%	4.0%	4.8%
Nursing home care	-14.0%	-13.0%	-5.5%
Dental Services	-16.5%	-21.6%	-19.4%
Home health care	2.7%	1.2%	-1.7%
Other professional services	-0.6%	0.1%	-1.7%
Other personal health care	0.8%	1.4%	1.9%
Other nondurable medical products	9.1%	9.2%	4.8%
Durable medical equipment	1.6%	0.2%	-5.1%

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