ALTARUM

Health Sector Economic Indicators℠

Insights from Monthly National Price Indices through October 2021

PRICE BRIEF

November 16, 2021

Health care price growth remains low amid some increases in utilization

HIGHLIGHTS

- Growth in the overall Health Care Price Index (HCPI) remained at 2.0% this October, the same as the month prior, and just slightly below the 2021 year-over-year average of 2.1%.
- Year-over-year health care price growth was highest for physician and clinical services (3.3%) and hospital services (2.3%), and lowest for prescription drugs (-0.7%) and durable medical equipment (0.2%).
- Health care price growth remains lower than expected given continued elevated economywide inflation, as measured by both the consumer price index (CPI) and producer price index (PPI), which continued to set records at 6.2% and 8.6% respectively in October.
- Year-over-year growth in an implicit measure of health care utilization (spending growth minus changes in prices) was high for some health care components, increasing by 8.3% year-over-year for hospitals and 9.5% for "other" professional services in September, while remaining below average for physician services (1.3%) and dental services (2.9%) in the same month.

	Oct. 2019	Oct. 2020	Sept. 2021	Oct. 2021
Health Care Price Index (HCPI)	1.8%	2.2%	2.0%	2.0%
GDP Deflator (GDPD)	1.6%	1.2%	4.7%	**
HCPI - GDPD	0.3%	1.0%	-2.8%	**
Addendum				
Personal health care spending	5.6%	-0.1%	7.1%	**
Health care utilization	3.8%	-2.3%	5.2%	**
Medical Consumer Price Index (MCPI)	4.3%	2.9%	0.4%	1.3%
Consumer Price Index – all items (CPI)	1.8%	1.2%	5.4%	6.2%
Producer Price Index – Final Demand (PPI)	1.0%	0.6%	8.6%	8.6%

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

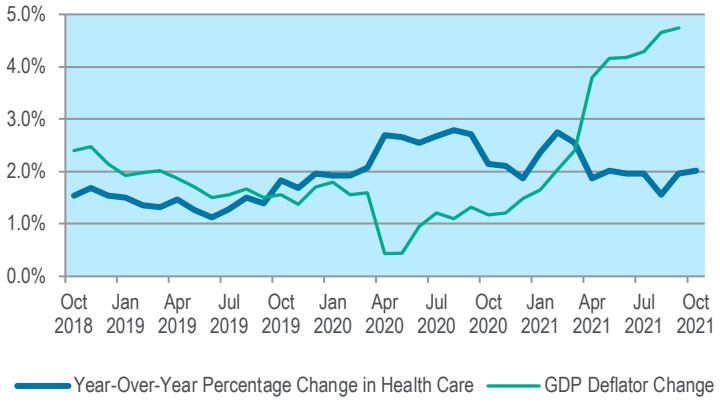
Altarum is a nonprofit research and consulting organization that creates and implements solutions to advance health among at-risk and disenfranchised populations. Since 2011, Altarum has researched cost growth trends and key drivers of U.S. health spending and formulated policy strategies to help bend 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: press@altarum.org.

DISCUSSION

Growth in the overall Health Care Price Index (HCPI) remained at 2.0% year over year in October, keeping it in the very tight range that has been observed since April this year (Exhibit 1). The continued moderate overall health care price growth is notable as it's contrasted against very high economywide inflation (October overall CPI was up 6.2% year over year, while PPI was up an even greater 8.6% in the same month). The gap between overall economywide CPI and HCPI was a whopping 4.2% percentage points in October (Highlights Table), continuing this extraordinary period in our series when health care prices have grown significantly slower than economywide prices. This is surprising given that many of the same factors impacting economywide prices (labor shortages, supply chain issues, and increased demand for economywide services) would be expected to impact health care as well, although we believe the long-term contracting for many health care services, in which prices are negotiated for a future period on a regular basis, may be limiting the current scope of price increases in the near-term. It is important to note that new data on the cost of both private insurance premiums, as reported by the annual Kaiser Family Foundation Survey, and Medicare premiums are both showing increases, with the latter somewhat attributed to potential costs from the new Alzheimer's drug, Aduhelm.

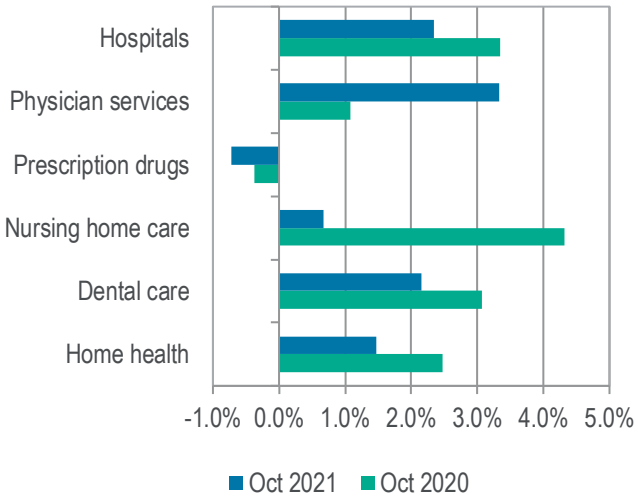
Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

Among health care components, price growth for hospital services was at 2.3% year over year in October, while physician services were the fastest growing category at 3.3% (Exhibit 2 and 3). Prescription drug price growth was again negative at -0.7%, now at 13 straight months of year-over-year price declines for this component, although this trend appears to be moderating. Among major payers, price growth by private insurance for hospital services fell somewhat in October, to 2.8% year over year from 3.6% a month prior, although this price growth rate remains above the public payer growth (Exhibit 6).

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



As for changes in the **use** of health care products and services, we find that our overall implicit measure of utilization (the difference between year-over-year spending growth and price growth) since the start of the pandemic has been below average for most health care services (Exhibit 8), but higher than average for medical products. This short-term slowing of services' utilization has been widely reported as individuals during the pandemic have put off elective, preventative, and non-emergency care; yet the impact on longer-term use trends has been unknown. Looking at the data for October, we see indications that higher acuity care (such as hospital care) may be returning (8.3% year over year growth), while lower acuity care utilization remains down (physician services at 1.3%). Whether this trend in higher acuity care is due to COVID-related care or difficulties in treating patients that have delayed necessary non-COVID needs is still unknown, but will be tracked in future months.

PRICE GROWTH BY DETAILED CATEGORIES

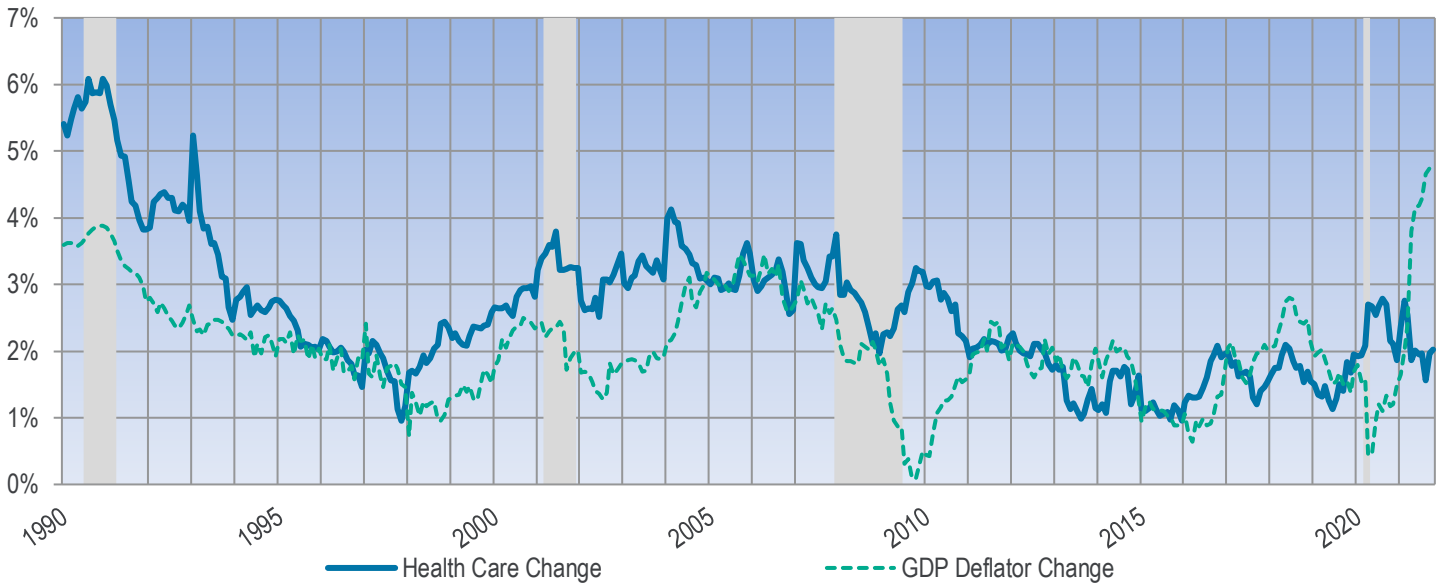
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending October 2019	Ending October 2020	Ending October 2021
Health Care Price Index (HCPI)	1.8%	2.2%	2.0%
Hospital care	2.4%	3.3%	2.3%
Physician and clinical services	0.6%	1.1%	3.3%
Prescription drugs	1.0%	-0.4%	-0.7%
Nursing home care	3.5%	4.3%	0.7%
Dental Services	2.9%	3.1%	2.2%
Home health care	3.8%	2.5%	1.5%
Other professional services	1.1%	1.5%	2.1%
Other personal health care	1.9%	4.1%	4.2%
Other nondurable medical products	1.0%	-1.8%	0.7%
Durable medical equipment	1.2%	-1.6%	0.2%

Source: Altarum analysis of monthly BLS data.

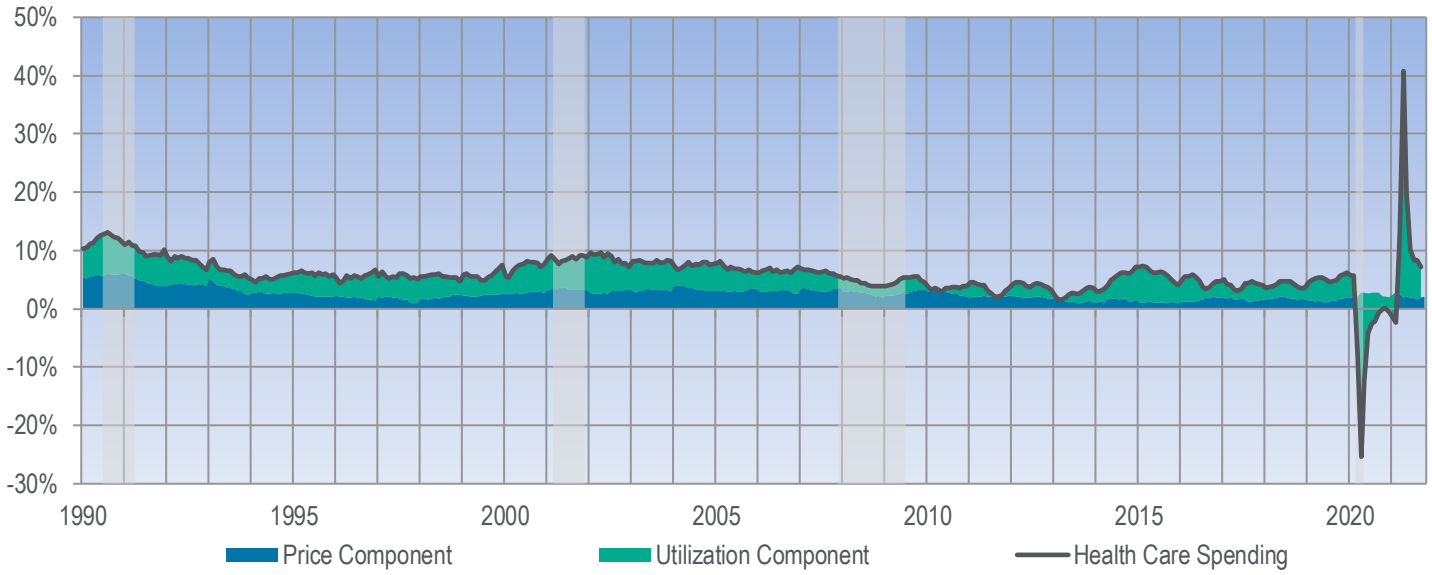
TIME SERIES TRACKER

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



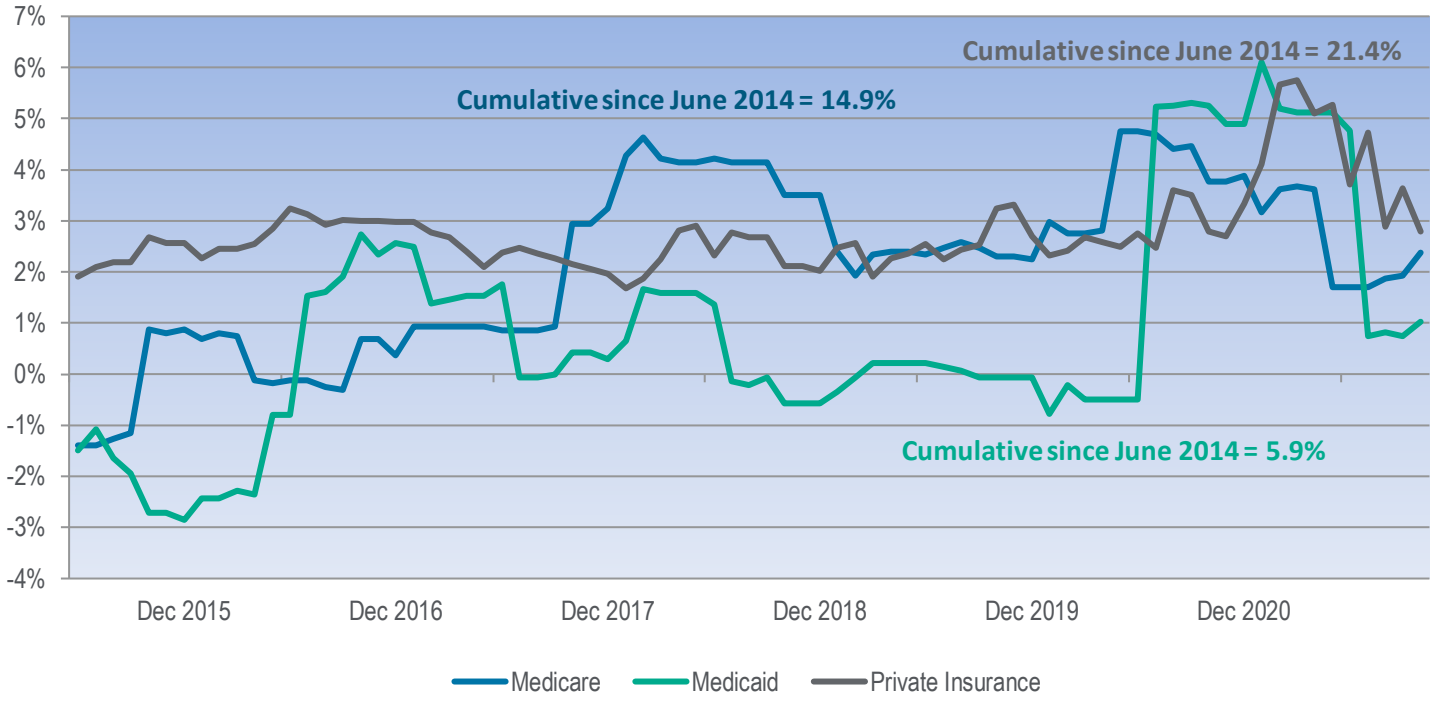
Methods. Altarum's estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the 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 19th, 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

	September 2021	3-Month Moving Average	12-Month Moving Average
Total health care	5.2%	6.1%	6.5%
Hospital care	8.3%	7.6%	9.4%
Physician and clinical services	1.3%	4.7%	6.7%
Prescription drugs	2.2%	3.4%	3.8%
Nursing home care	3.7%	3.8%	-4.7%
Dental Services	2.9%	11.2%	14.8%
Home health care	2.5%	2.8%	4.1%
Other professional services	9.5%	9.1%	8.5%
Other personal health care	1.0%	0.7%	1.0%
Other nondurable medical products	13.2%	11.5%	13.8%
Durable medical equipment	19.3%	16.4%	21.7%

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.*

Exhibit 8. Cumulative Average Implicit 21-month Utilization Growth (2015-2020 and 2020-2021)