

October 16, 2020

Accelerated health care price growth continues for another month

HIGHLIGHTS

- ▲ Overall health care prices in September 2020 rose 2.7% from the previous year, matching the growth rate from August and keeping 2020 on pace for the fastest year of health sector price growth since 2010.
- ▲ Except for dental care, all major components showed faster price growth than a year prior. In September, year-over-year hospital price growth was 3.4%, physician price growth was 1.8%, and drug price growth was 1.4%.
- ▲ Public payer price increases appear to be a major contributor to overall HCPI growth as both overall and hospital prices by payer showed Medicare and Medicaid price growth have outpaced private insurance price growth since May 2020.
- ▲ Economy-wide price growth remained well below the pace of health care prices. The Consumer Price Index (CPI) growth rose slightly from 1.3% annual growth in August to 1.4% in September, while the final-demand Producer Price Index (PPI) growth swung to the positive, but barely, to 0.4% year-over-year.

	Sept. 2018	Sept. 2019	Aug. 2020	Sept. 2020
Health Care Price Index (HCPI)	1.8%	1.5%	2.7%	2.7%
GDP Deflator (GDPD)	2.4%	1.5%	0.9%	**
HCPI - GDPD	-0.6%	0.0%	1.8%	**
Addendum				
Personal health care spending	4.2%	4.6%	-1.2%	-1.7%
Health care utilization	2.4%	3.1%	-4.0%	-4.4%
Medical Consumer Price Index (MCPI)	1.7%	3.5%	4.5%	4.2%
Consumer Price Index – all items (CPI)	2.3%	1.7%	1.3%	1.4%
Producer Price Index – Final Demand (PPI)	2.7%	1.5%	-0.2%	0.4%

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.



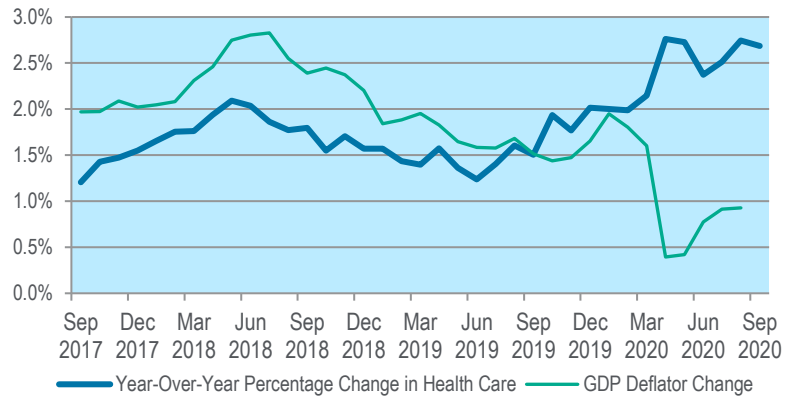
DISCUSSION

In September 2020, annual growth in the Health Care Price Index (HCPI) was 2.7%, continuing the trend of above average price growth for 2020 (Exhibit 1). If the HCPI growth rate for the first nine months of this year continues into the fourth quarter, annual average price growth would be expected to hit 2.4%, putting this year’s overall price increases on the fastest pace since 2010.

While the drastic impacts of the COVID-19 pandemic have begun to subside for health sector spending and employment (each beginning to return to their pre-pandemic levels), health sector price growth has yet to slow in consort with the return to more typical health care utilization and volumes (Exhibits 1 and 6). While the pandemic has been unique in the way it temporarily halted health sector spending and employment, 2020 health sector prices, and particularly the differential between health sector prices and economywide prices, are now starting to look similar to the patterns of the 1991, 2003, and 2009 periods—with economywide price growth falling sharply, but health price growth persisting or even accelerating (Exhibit 4).

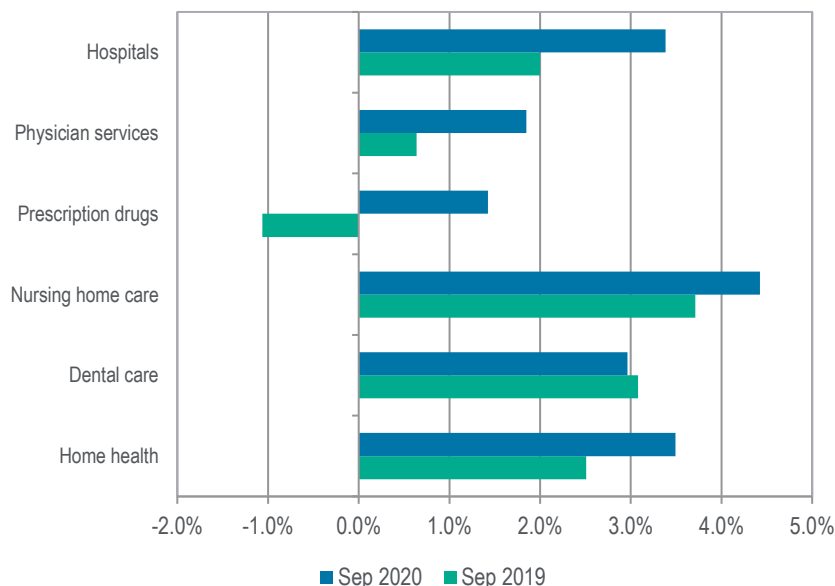
Of the major health care component categories, nursing home care showed the fastest price growth for September 2020 at 4.4% (Exhibit 2), reaching the highest overall price index level and nearly matching the year-over-year growth rate from the prior month (4.5%). Hospital and home health care price growth were also major contributors to the overall index, each over 3.0% annual growth for September. Prescription drug price growth continued its 2020 trend this month, remaining slightly positive at 1.4%, and growing at a much faster rate than the year prior, which at times saw negative prescription drug price growth. Physician prices grew at a more modest pace, but are still notable, reaching 1.8% year-over-year growth, the fastest rate seen since January 2012.

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.

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



Much of the recent health sector price growth appears to be driven by the growth among public payers for 2020. Exhibit 7, showing hospital prices by payer, is emblematic of the overall health sector trends we see in the BLS data: since the start of the pandemic in May, Medicare & Medicaid price growth has outpaced private insurance growth rates (though private price *levels* [remain much higher](#)). We believe the public sector price growth is in part driven by government responses to the pandemic, including temporary increases in reimbursement rates to help cushion drops in utilization for providers. It remains to be seen if this will continue through the end of the year.



PRICE GROWTH BY DETAILED CATEGORIES

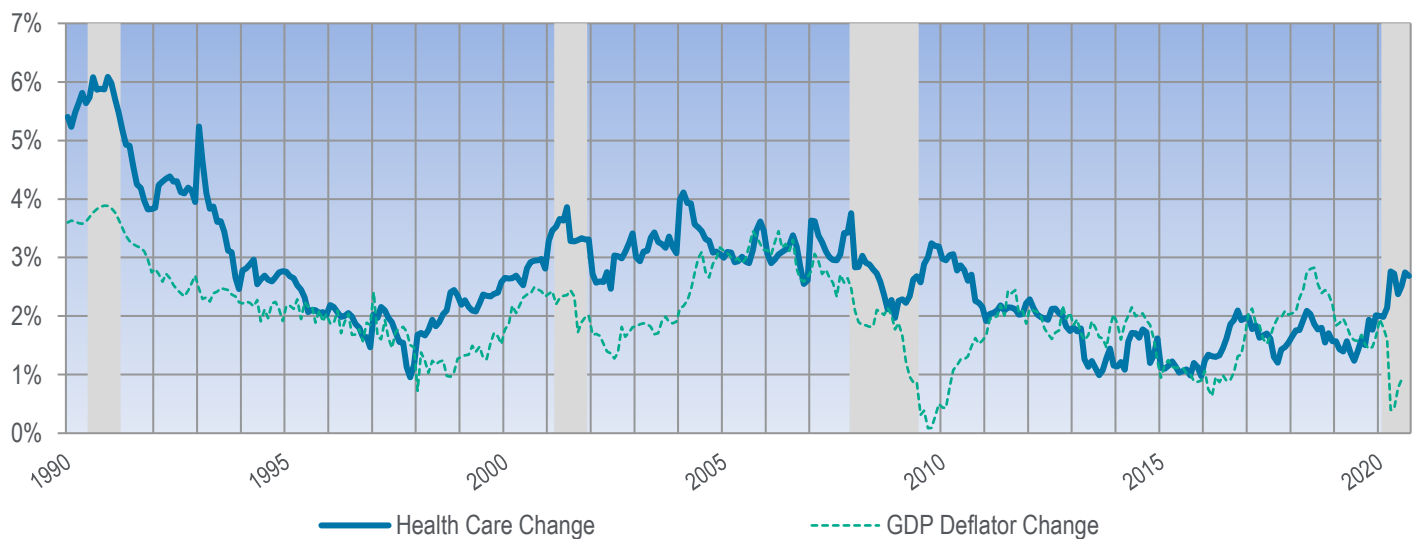
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending September 2018	Ending September 2019	Ending September 2020
Health Care Price Index (HCPI)	1.8%	1.5%	2.7%
Hospital care	2.6%	2.0%	3.4%
Physician and clinical services	0.8%	0.6%	1.8%
Prescription drugs	1.2%	-1.1%	1.4%
Nursing home care	3.3%	3.7%	4.4%
Dental Services	2.1%	3.1%	3.0%
Home health care	2.1%	2.5%	3.5%
Other professional services	0.0%	1.6%	1.1%
Other personal health care	1.8%	1.8%	4.0%
Other nondurable medical products	-1.1%	2.6%	-0.6%
Durable medical equipment	1.1%	0.8%	-0.3%

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 (NHS). 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 NHS, 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

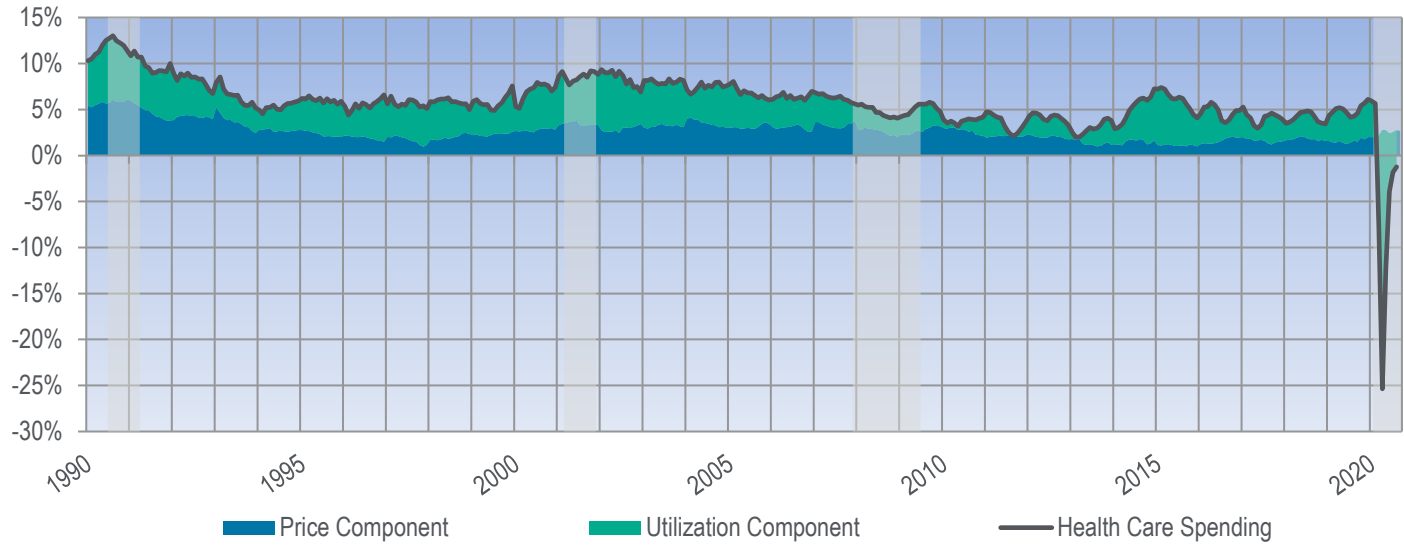
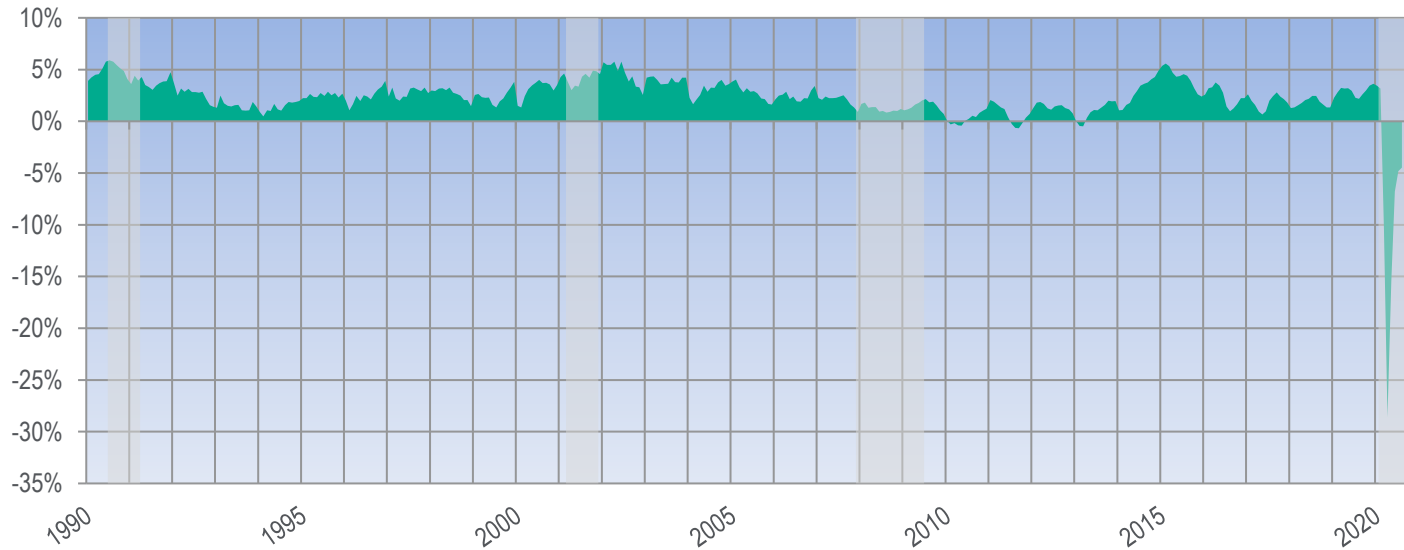


Exhibit 6. Year-over-Year Change in Per Capita Personal Health Care Utilization



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

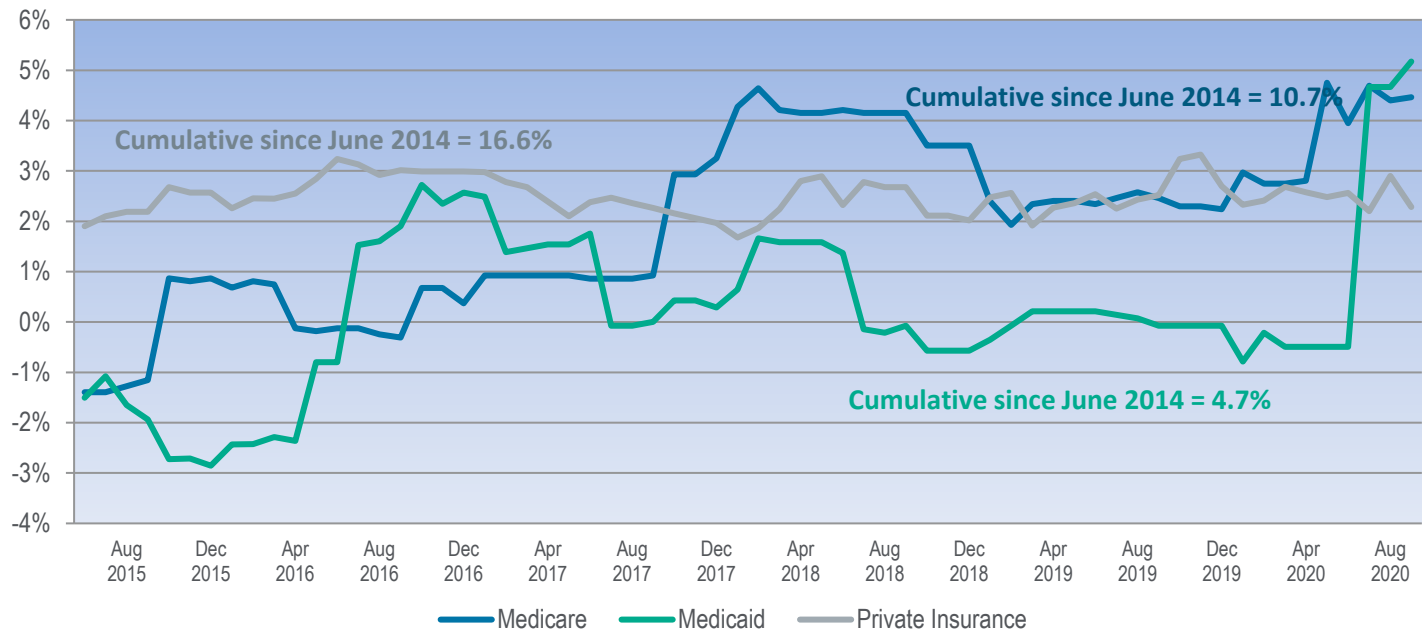


Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

	August 2020	3-Month Moving Average	12-Month Moving Average
Total health care	-4.5%	-5.4%	-11.8%
Hospital care	-6.5%	-7.7%	-17.0%
Physician and clinical services	-5.0%	-5.3%	-12.8%
Prescription drugs	3.6%	3.4%	4.2%
Nursing home care	-13.5%	-11.8%	-8.1%
Dental Services	-21.7%	-26.7%	-37.3%
Home health care	2.8%	1.0%	-3.9%
Other professional services	3.1%	2.8%	-6.6%
Other personal health care	1.3%	1.7%	1.8%
Other nondurable medical products	9.3%	7.9%	5.3%
Durable medical equipment	-0.3%	-4.5%	-12.6%

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