

September 17, 2020

## Health care price growth accelerates pushed by hospital prices

### HIGHLIGHTS

- ▲ Health care prices in August 2020 rose 2.7% from August 2019. Excepting April 2020—distorted by much lower spending and strange category weights—this is the highest reading in nearly a decade.
- ▲ Year-over-year hospital price growth rose to 3.7% in August, its highest rate since November 2009. Physician price growth was 1.7%, its highest reading since January 2012. Annual drug price growth fell from 1.7% in July to 1.4% in August. Nursing care showed a high 4.5% annual price growth. Equipment saw much lower price growth.
- ▲ Economy-wide price growth was higher. The Consumer Price Index (CPI) rose from 1.0% annual growth to 1.3% in August, and the final-demand Producer Price Index (PPI) growth was -0.2% vs. -0.4% in July. The gross domestic product deflator growth (GDPD) was a low 0.9% in July (data are lagged by a month).
- ▲ Combining price and health spending data shows implicit per capita health care utilization growth year over year at -5.0% in July—below its 12-month average of -3.8% (but closing the gap).

12-MONTH % CHANGE	August 2018	August 2019	July 2020	August 2020
Health Care Price Index (HCPI)	1.8%	1.6%	2.5%	2.7%
GDP Deflator (GDPD)	2.6%	1.7%	0.9%	**
HCPI - GDPD	-0.8%	-0.1%	1.5%	**
<b>Addendum</b>				
Personal health care spending	4.7%	4.3%	-2.0%	**
Health care utilization	3.0%	2.6%	-4.5%	**
Medical Consumer Price Index (MCPI)	1.5%	3.5%	5.0%	4.5%
Consumer Price Index – all items (CPI)	2.7%	1.7%	1.0%	1.3%
Producer Price Index – Final Demand (PPI)	3.0%	1.9%	-0.4%	-0.2%

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 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 Paul Hughes-Cromwick, at 202-776-5110 or [paul.hughes-cromwick@altarum.org](mailto:paul.hughes-cromwick@altarum.org). Paul Hughes-Cromwick (principal author), Ani Turner, George Miller, PhD, Matt Daly, PhD, and Corwin Rhyan contributed to this brief. Media Contact: Sarah Litton, 202-772-5062, [press@altarum.org](mailto:press@altarum.org). For more information, visit <http://altarum.org/solution/health-sector-spending>.



## DISCUSSION

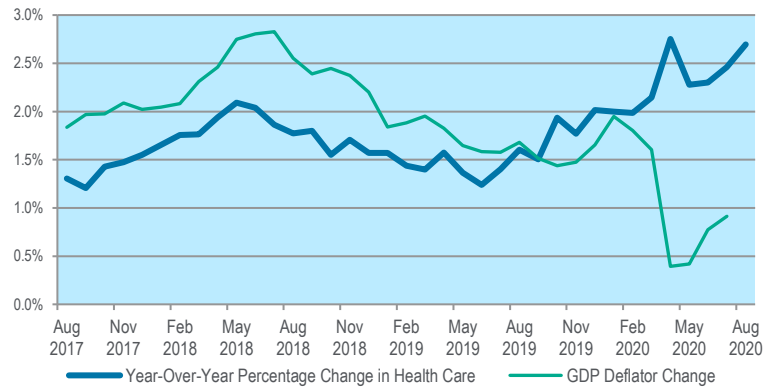
The Health Care Price Index (HCPI) is clearly trending up from its recent low of 1.2% annual growth in June 2019 (obviously pre-COVID). The August reading of 2.7% is the highest since July 2010, not counting April 2020 which was distorted by dramatically lower health care spending and strange and unique spending weights. With a recovery in spending, the HCPI is back to reflecting its underlying component growth (Exhibits 1 and 4).

The big news this month is hospital inflation, especially for public payors. For Medicare, while annual growth fell from 4.7% in July to 4.4% in August, these are the highest readings since early 2008. For Medicaid patients, the annual growth of 4.7% is the highest since January 2003. In both cases, price growth has been lifted by governmental programs to compensate for special COVID-19 costs. Despite stable price growth for private patients, the total annual hospital price growth of 3.7% is the highest since November 2009.

Other notable components are: physician price growth at 1.7%, its highest annual rate since January 2012; a high rate of 4.5% for nursing home price growth; and large declines in annual price growth for durable medical equipment (from 0.4% in July to -0.3% in August), and other non-durable medical equipment (from -1.0% in July to -1.7% in August). Annual drug price growth showed a restrained 1.4% rate in August (Exhibits 2, 3, 4, and 7).

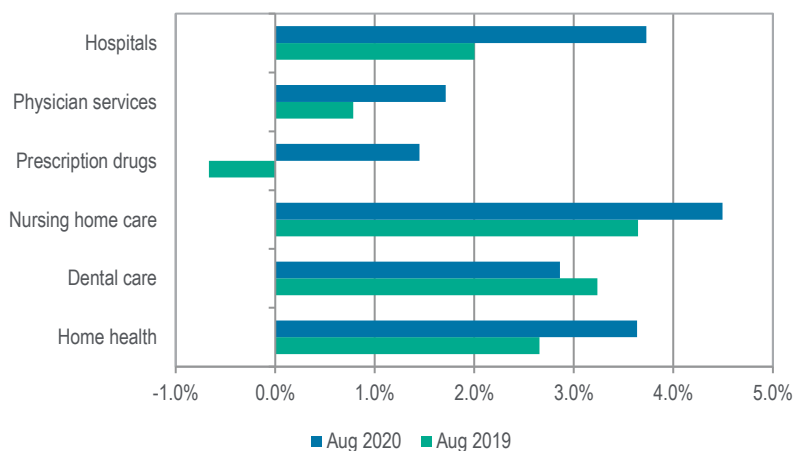
We continue to monitor the Medical Care CPI that, at 4.5% annual growth, is not far from its June 2020 rate of 5.1% –the highest since December 2007. An important component of the MCPI is health insurance which is now retreating from its all-time high of a 20.7% annual rate in February 2020, to 17.4% in August (Exhibit 9). We have previously emphasized that this data stems from a “retained earnings” methodology that confounds insurer profits, the Health Insurance Fee (phasing out in 2021) and other factors. It still warrants scrutiny. Per last month, economy-wide price measures and the GDPD are showing muted growth, indicating that COVID-19 is putting upward pressure on retail health prices and downward pressure on most other items.

**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 Health Categories**



Health care spending and utilization continue to rebound and for certain categories are returning to pre-COVID par (Exhibits 5, 6, and 8, and see our companion *Spending Brief*). The fascinating question remains: will health care spending and prices return to “normal” and what does that even mean?



## PRICE GROWTH BY DETAILED CATEGORIES

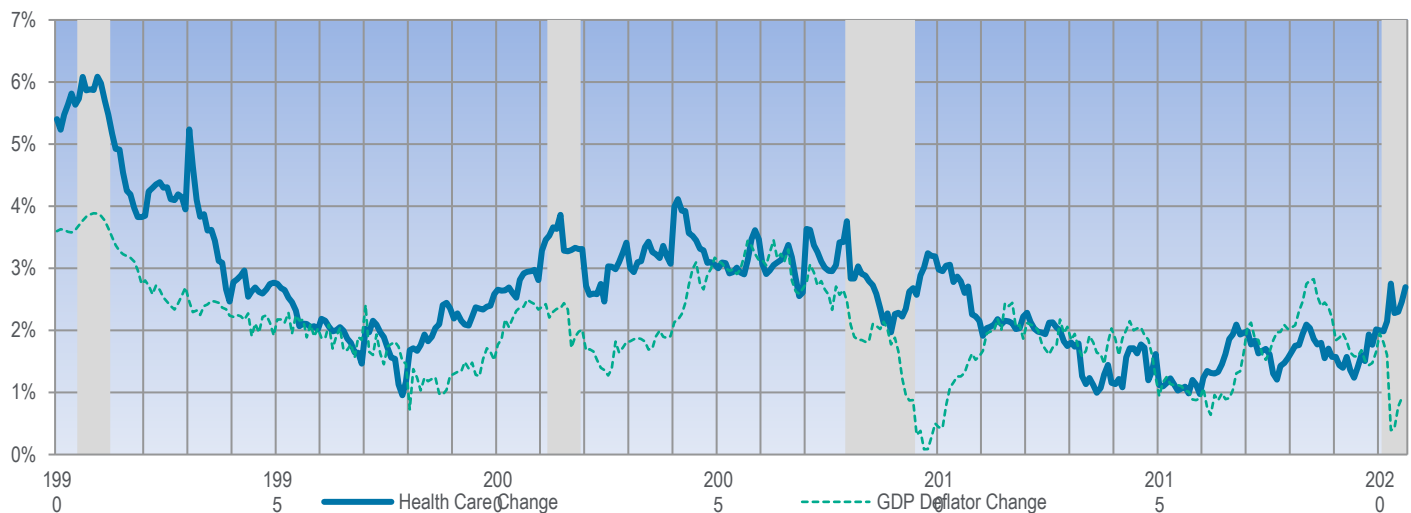
**Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures**

	Ending August 2018	Ending August 2019	Ending August 2020
Health Care Price Index (HCPI)	1.8%	1.6%	2.7%
Hospital care	2.6%	2.0%	3.7%
Physician and clinical services	0.8%	0.8%	1.7%
Prescription drugs	0.8%	-0.7%	1.4%
Nursing home care	3.6%	3.6%	4.5%
Dental Services	2.1%	3.2%	2.9%
Home health care	2.3%	2.7%	3.6%
Other professional services	0.6%	1.0%	1.1%
Other personal health care	1.9%	1.8%	3.5%
Other nondurable medical products	-1.6%	2.6%	-1.7%
Durable medical equipment	0.8%	1.8%	-0.3%

Source: Altarum analysis of monthly BLS data.

## TIME SERIES TRACKER

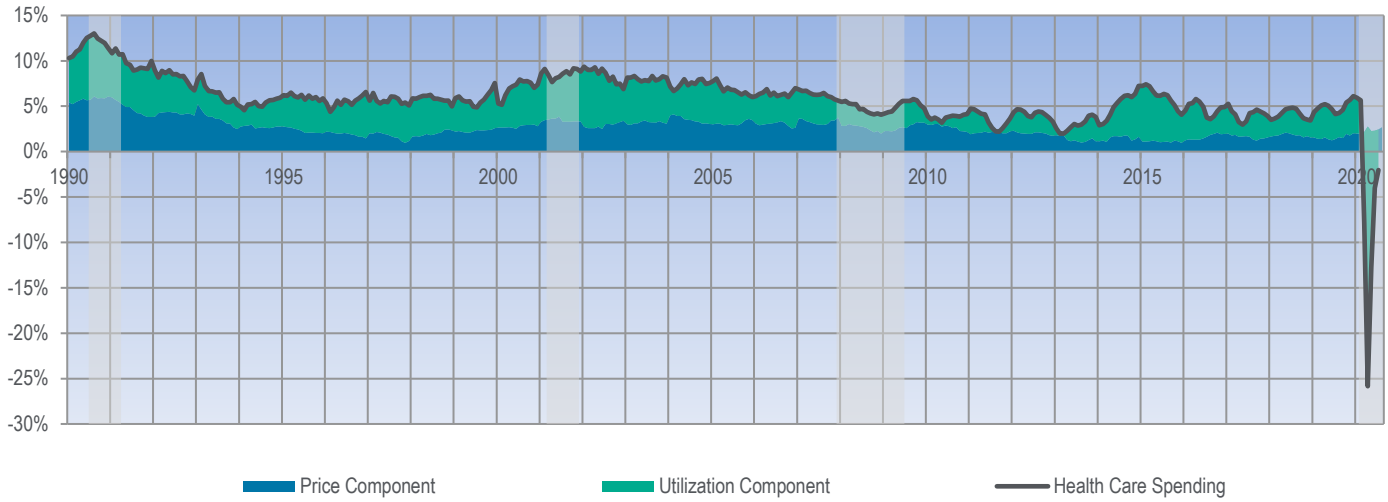
**Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDPD**



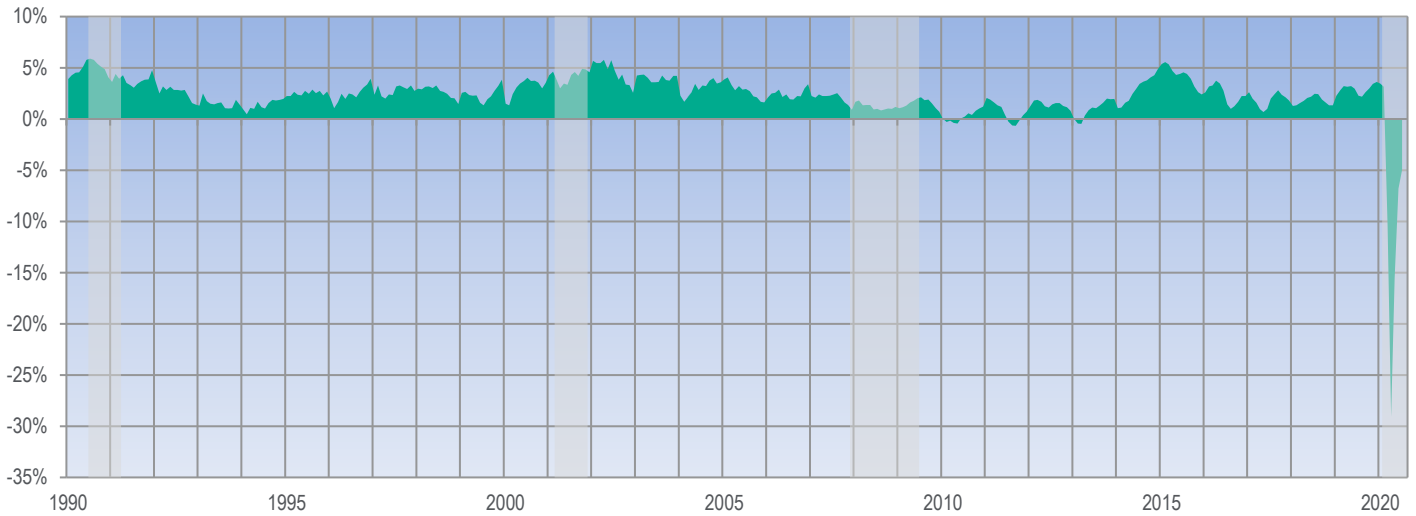
**Methods.** Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over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

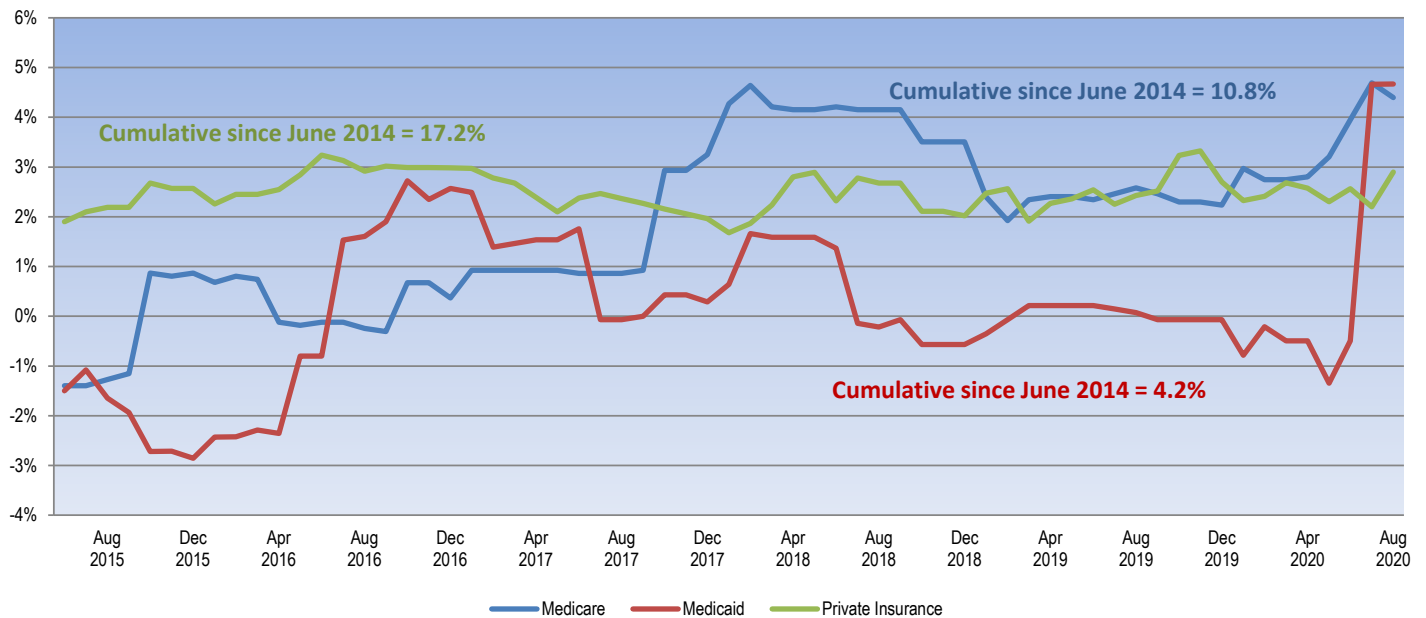


Source: Altatum calculations from Health Sector Economic Indicators data.

Note: Lightly shaded bars denote recession periods.



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



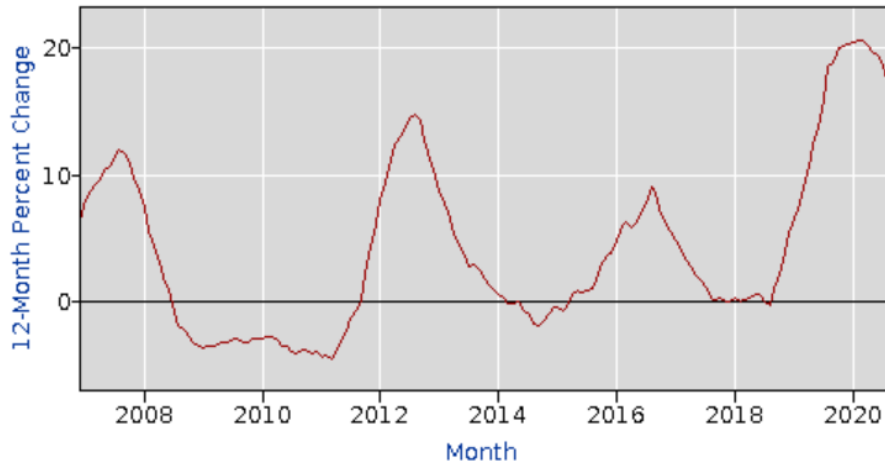
### Exhibit 8. Implicit Health Care Utilization by Major Components of National Health Expenditures

AVERAGES THROUGH JULY 2020	July 2020	3-Month Moving Average	12-Month Moving Average
	Total health care	-5.0%	-9.1%
Hospital care	-6.0%	-11.5%	-6.1%
Physician and clinical services	-1.6%	-6.6%	-2.9%
Prescription drugs	3.5%	2.9%	5.6%
Nursing home care	-15.5%	-14.4%	-4.9%
Dental Services	-32.6%	-39.7%	-17.6%
Home health care	-9.3%	-12.3%	-4.3%
Other professional services	-7.2%	-11.2%	-3.9%
Other personal health care	2.0%	1.7%	2.1%
Other nondurable medical products	7.5%	4.8%	3.6%
Durable medical equipment	-11.5%	-15.1%	-5.7%

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



### Exhibit 9. Year-Over-Year Percent Change in the Health Insurance CPI



Source: BLS.