

September 17, 2021

Health sector price growth slows for most categories in August

HIGHLIGHTS

- ▲ Growth in the overall Health Care Price Index (HCPI) slowed again in August, with prices 1.6% higher than they were a year ago, compared to the 2.0% growth rate seen in slightly revised July data (previously at 1.9%).
- ▲ The 1.6% growth rate marks the slowest rate since September 2019 and is only the third month since the start of the U.S. COVID-19 pandemic in March 2020 where HCPI grew at less than 2.0% year over year.
- ▲ Health care price growth moderated despite continued elevated economywide price growth, as measured by both the consumer price index (CPI) and producer price index (PPI), that were at 5.3% and 8.3% in August.
- ▲ Among the major healthcare sectors, price growth slowed for most of the major categories in August: growth in hospital, physician services, prescription drugs, and nursing home care prices were all slower when compared to a month prior.
- ▲ Year-over-year growth in an implicit measure of health care utilization (spending growth minus changes in prices) remains high, but is moderating, now at 5.6% as of July.

	Aug. 2019	Aug. 2020	July 2021	Aug. 2021
Health Care Price Index (HCPI)	1.5%	2.8%	2.0%	1.6%
GDP Deflator (GDPD)	1.7%	1.1%	4.3%	**
HCPI - GDPD	-0.2%	1.7%	-2.3%	**
<i>Addendum</i>				
Personal health care spending	4.7%	-2.3%	7.6%	**
Health care utilization	3.2%	-5.1%	5.6%	**
Medical Consumer Price Index (MCPI)	3.5%	4.5%	0.3%	0.4%
Consumer Price Index – all items (CPI)	1.7%	1.3%	5.4%	5.3%
Producer Price Index – Final Demand (PPI)	1.9%	-0.3%	7.8%	8.3%

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.

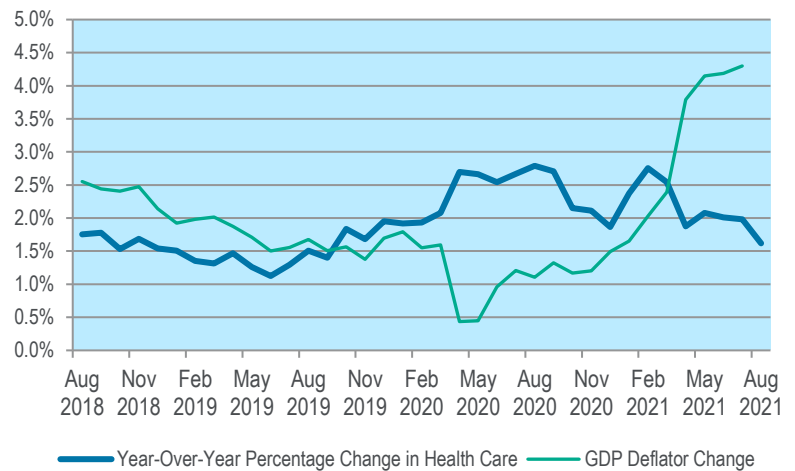
The Health Sector Economic IndicatorsSM reports are a monthly publication of Altarum and provide an analysis of health spending, employment, and prices. For more information, contact Ani Turner at ani.turner@altarum.org. Corwin Rhyan (principal author), Ani Turner, George Miller, PhD, and Matt Daly,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



DISCUSSION

Growth in the overall Health Care Price Index (HCPI) fell by 0.4 percentage points in August, reaching a rate of 1.6% year over year. This continues a period of gradually moderating prices since February 2021 and puts the growth rate at its lowest point since September 2019, before the pandemic began (Exhibit 1). Health care price growth was revised upwards slightly in April, May and June of this year, yet the overall trend in declining prices since the peak in February 2021 remains in this month's data series. Slowing health care prices occurred despite very high economywide price growth from historical standards (the overall GDP deflator hit 4.3% growth in June 2021, CPI was at 5.3% in July, and PPI increased to another record of 8.3% last month). The gap between overall economywide CPI and HCPI was 3.7 percentage points in August, the largest ever observed in our series and one of the rare points in the series' history when health care prices have grown significantly slower than economywide prices over an extended period.

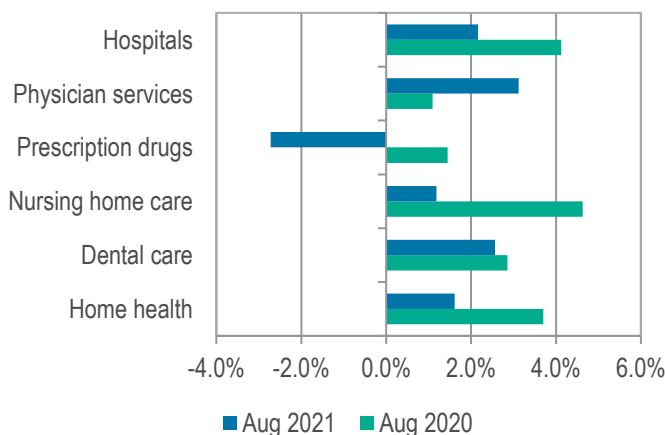
Exhibit 1. Year-over-Year Growth Rates in HCPI & GDPD



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

The slowdown in overall prices was driven by slowing growth rates among most of the major categories, indicating a broad and potentially lasting trend. Price growth for hospital services fell from 2.9% in July to 2.2% in August, while physician services fell 0.1 percentage points to 3.1% year-over-year (Exhibit 3). Prescription drug price growth was again negative, now at 11 straight months of year-over-year price declines for this component. The overall price index level of retail prescription drugs this month is now the lowest since June 2017. Among major payers for hospital services, prices among privately-insured patients saw a notable decrease in August, dropping from 4.7% to 2.9% year-over-year growth. This subcomponent of hospital prices had been a notable outlier in early 2021, so the gradual return to moderate price growth brings private-insurance price growth closer to the public payers, although still above the Medicare and Medicaid price growth rates (Exhibit 6).

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



As for changes in the use of health care products and services, our overall implicit measure of utilization (the difference between year-over-year spending growth and price growth), was at 5.6% year over year in July. This gradual slowing continues the moderation over the previously volatile months that resulted from the comparison months having drastic swings in health care spending during the height of the pandemic in the prior year. As noted in this month's spending brief, recent spending data have been revised upwards in Q2 2021, therefore our measure of utilization in prior months was also increased somewhat in the new data.



PRICE GROWTH BY DETAILED CATEGORIES

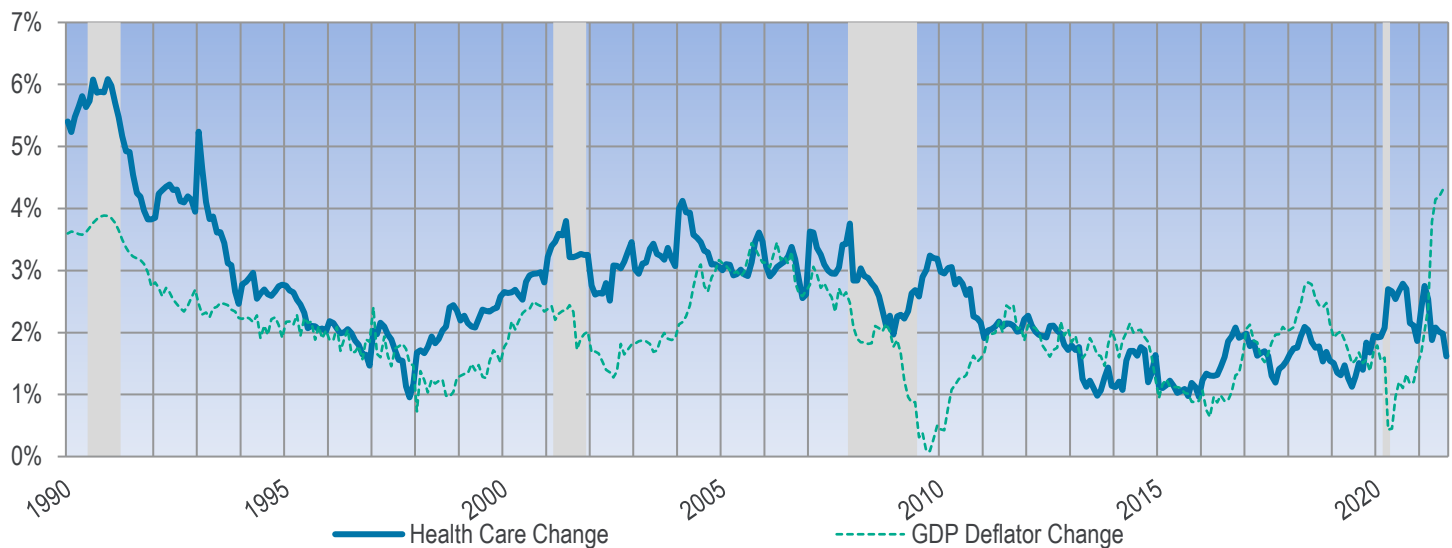
Exhibit 3. Annualized % Change in Prices for Major Components of National Health Expenditures

	Ending August 2019	Ending August 2020	Ending August 2021
Health Care Price Index (HCPI)	1.5%	2.8%	1.6%
Hospital care	2.0%	4.1%	2.2%
Physician and clinical services	0.8%	1.1%	3.1%
Prescription drugs	-0.7%	1.4%	-2.7%
Nursing home care	3.6%	4.6%	1.2%
Dental Services	3.2%	2.9%	2.6%
Home health care	2.7%	3.7%	1.6%
Other professional services	1.0%	1.1%	2.2%
Other personal health care	1.8%	3.6%	4.9%
Other nondurable medical products	2.6%	-1.7%	-1.6%
Durable medical equipment	1.8%	-0.3%	-1.7%

Source: Altarum analysis of monthly BLS data.

TIME SERIES TRACKER

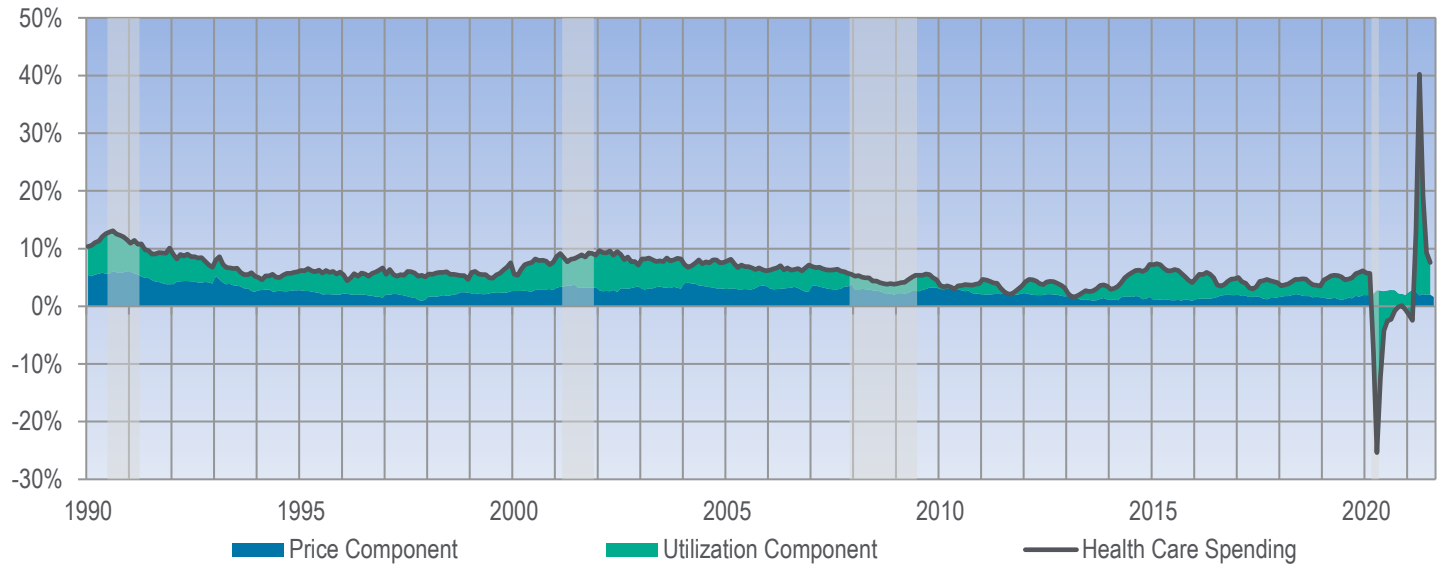
Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



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.



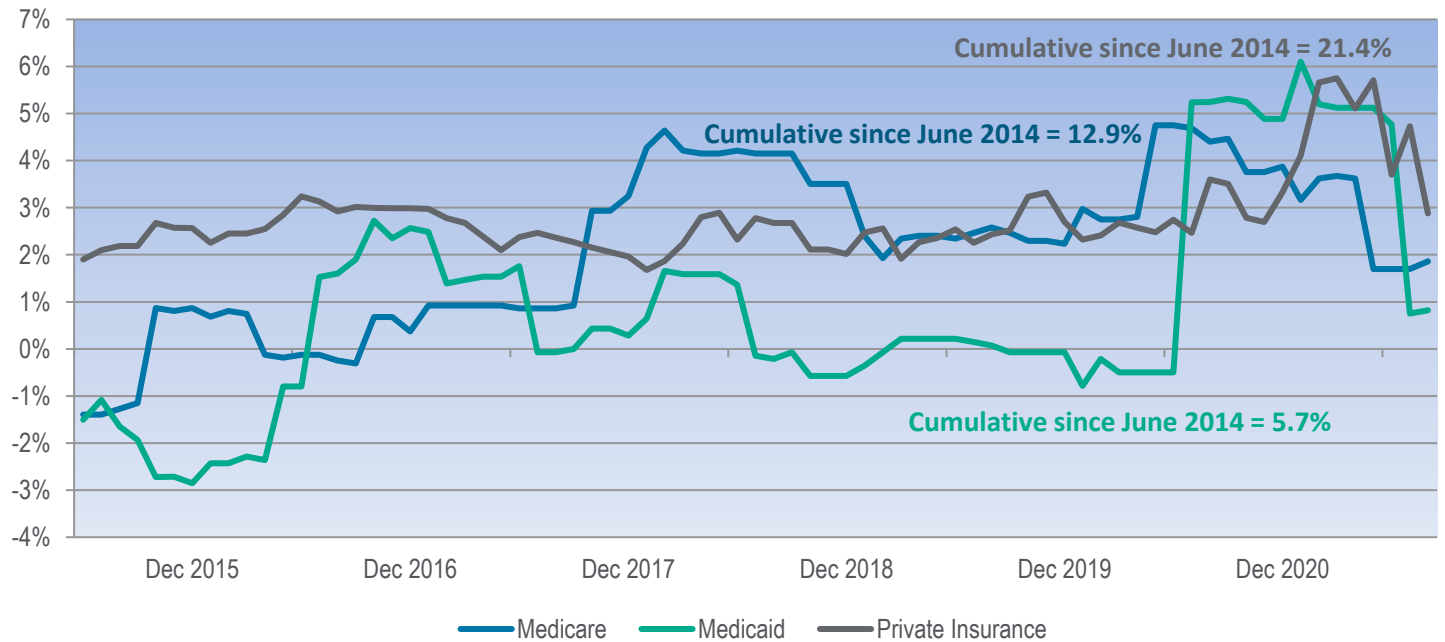
Exhibit 5. Personal Health Care Spending Growth by Price and Utilization Components



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

	July 2021	12-Month Moving Average	6-Month Moving Average	3-Month Moving Average
Total health care	5.6%	4.5%	12.2%	10.0%
Hospital care	6.0%	6.7%	18.2%	12.4%
Physician and clinical services	4.9%	5.0%	13.8%	9.8%
Prescription drugs	4.5%	4.1%	3.2%	5.3%
Nursing home care	3.1%	-7.8%	-3.7%	2.7%
Dental Services	18.5%	10.0%	40.1%	32.9%
Home health care	1.7%	3.1%	4.5%	3.7%
Other professional services	3.4%	5.1%	10.9%	4.3%
Other personal health care	0.3%	1.3%	0.7%	0.5%
Other nondurable medical products	9.0%	13.2%	15.5%	13.6%
Durable medical equipment	16.4%	19.2%	33.3%	30.5%

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.