

March 20, 2024

Health care price growth continues to lag behind utilization increases

HIGHLIGHTS

- ▲ The overall Health Care Price Index (HCPI) increased by 3.2% year over year in February, increasing slightly from the revised growth rate of 3.1% a month prior (up from 2.9%).
- ▲ Economywide inflation remained moderate in February, with year-over-year growth in the Consumer Price Index (CPI) increasing slightly to 3.2% and growth in the Producer Price Index (PPI) increasing to 1.6%.
- ▲ Among the major health care categories, prices for dental care (4.9%), nursing home care (4.2%), and hospital care (3.6%) were the fastest growing, while prescription drug price growth was the slowest in February (0.3%).
- ▲ Our implicit measure of health care utilization growth fell slightly to 3.9% year over year in January, but continued to drive spending increases as it remained above overall health care price growth.
- ▲ Prescription drugs (7.7%) and physician and clinical services (6.6%) were the fastest growing utilization categories, while use of dental care (-0.8%) declined and increases in nursing home care utilization were also small (1.4%).

	Feb 2022	Feb 2023	Jan 2024	Feb 2024
Health Care Price Index (HCPI)	2.1%	2.6%	3.1%	3.2%
GDP Deflator (GDPD)	6.9%	5.5%	2.4%	**
HCPI - GDPD	-4.8%	-2.9%	0.7%	**
Addendum				
Personal health care spending	5.5%	7.7%	7.0%	**
Health care utilization	3.4%	5.1%	3.9%	**
Medical Consumer Price Index (MCPI)	2.4%	2.3%	1.1%	1.4%
Consumer Price Index, all items (CPI)	7.9%	6.0%	3.1%	3.2%
Producer Price Index, Final Demand (PPI)	10.4%	4.7%	1.0%	1.6%

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 IndicatorsSM* (HSEI) reports are a monthly publication of Altarum providing analyses of health spending, employment, and prices. For more information, contact Corwin (Corey) Rhyan at Corwin.Rhyan@altarum.org. Corey Rhyan (principal author), George Miller, PhD, Stephen McCall, and Matt Daly, PhD, contributed to this brief. We thank Ani Turner for her years of leadership of this work. Media Contact: press@altarum.org. For more information, visit <http://altarum.org/solution/health-sector-spending>.

DISCUSSION

The overall health care price index (HCPI) increased by 3.2% year over year in February, increasing 0.1 percentage points from the rate seen a month prior in January (3.1%) (Exhibit 1). January's data were revised slightly in the updated series released this month, up to 3.1% from the 2.9% growth rate in last month's data. With the first two months of data, 2024 is beginning with average year-over-year health care price growth (3.1%) above the average seen in 2023 (2.9%), and the fastest average growth of the first two month's of the year in our data since 2007.

Health care price growth exceeded economywide price growth as measured by the GDP deflator for the fourth straight month in February (Exhibit 1). The gap between health care price growth and overall economywide inflation increased last month, with health care prices increasing 0.7 percentage points faster than the GDPD in January, compared to 0.3 percentage points in December 2023. This now four-month trend of comparatively faster HCPI growth ends the nearly 3-year period when economywide inflation often significantly outpaced health care price increases (Exhibit 1). Economywide services price growth continues to exceed commodities inflation, where services prices increased 5.4% year-over-year in February, but economywide commodities prices increased by only 0.3% (Exhibit 4).

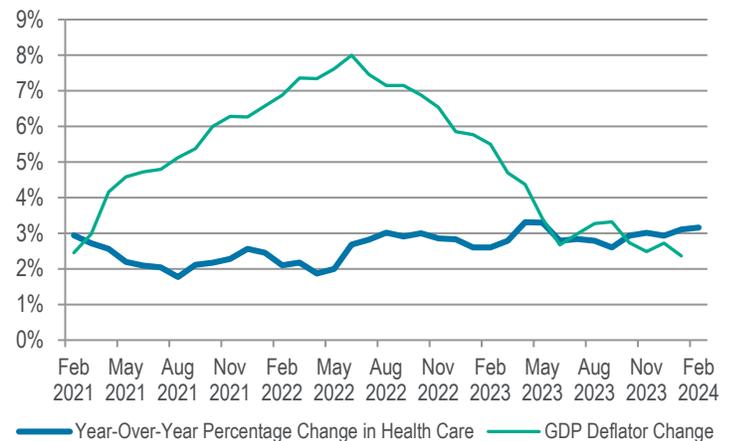
An alternative measure of health care price inflation, the CPI medical care price index, also has continued to show signs of faster health care price increases in 2024, and reached 3.5% year-over-year growth in February (after excluding the volatile and lagged health insurance component) (Exhibit 5).

Among major health care categories in February, prices for dental care (4.9%), nursing home care (4.2%) and hospital care (3.6%) increased fastest among major categories (Exhibit 2). We also observed faster physician and clinical services price growth in February (1.8%) compared to growth from a year ago (0.2%) (Exhibit 3), and for the second straight month this was above the 1.0% growth threshold for this component.

Increases in physician prices and hospital prices appear to primarily be attributable to faster growth in Medicaid prices for this care, which jumped up 13.2% and 6.9% respectively in February (data not shown). This is the second month with a significantly larger increase in Medicaid prices than expected. Medicaid prices in BLS data often move in stepped increases in July and January months, and we will investigate the 2024 data in more detail in coming months. Conversely, price growth for prescription drugs slowed in February, down to 0.3% year over year, and is now 2.1 percentage points slower than the price growth for this component from a year prior.

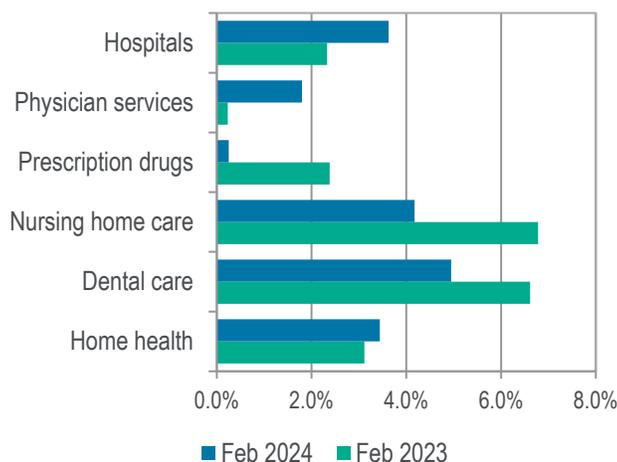
Our implicit measure of overall health care utilization growth (total spending growth net of health care price inflation) declined slightly in January to 3.9% growth year-over-year (Exhibit 8) but remains above overall health care price growth over the same period (3.1%). The fastest growing utilization component in January remained prescription drugs, which increased by 7.7% (Exhibit 7). Physician and clinical services (6.6%) were the next fastest growing category. Utilization growth for dental care (-0.8%), nursing home care (1.4%) and home health care (2.9%) were the three slowest growing categories in January, and all had utilization growth below their price increases last month.

Exhibit 1. Year-over-Year Growth 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



Source: Altarum analysis of monthly BLS price data.

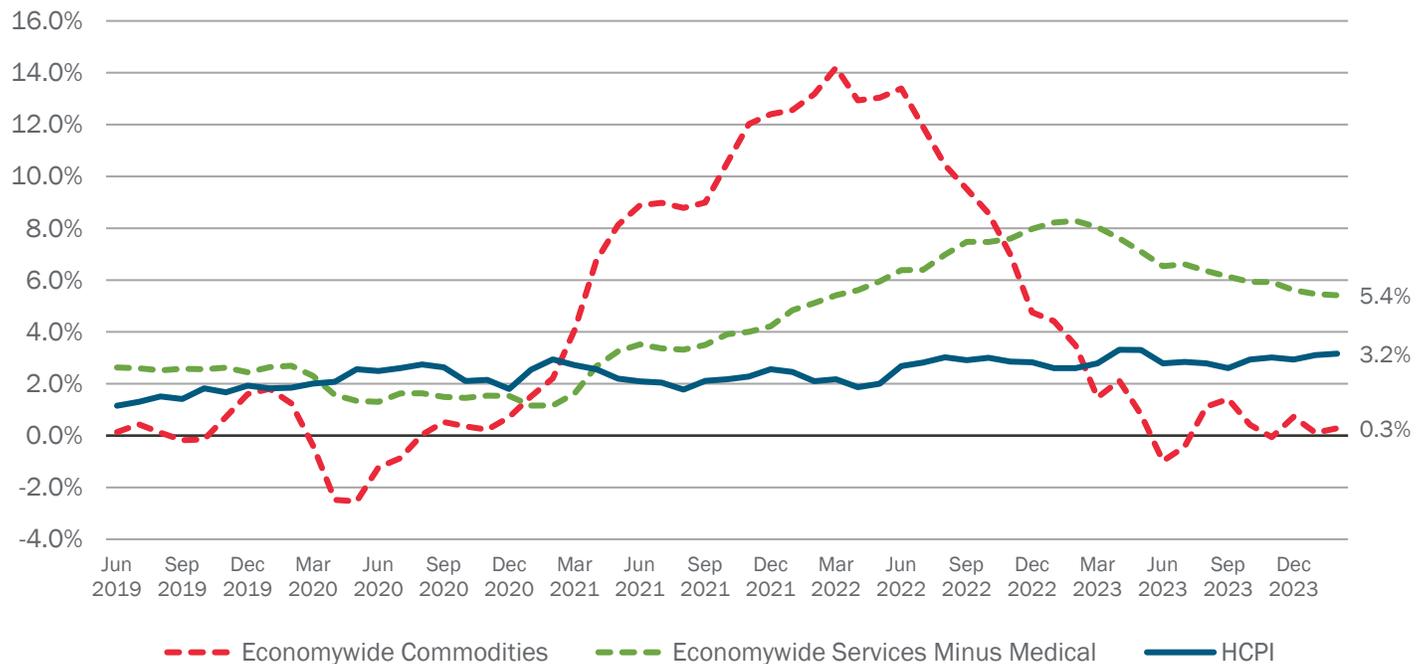
PRICE GROWTH BY DETAILED CATEGORIES

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

	Ending February 2022	Ending February 2023	Ending February 2024
Health Care Price Index (HCPI)	2.1%	2.6%	3.2%
Hospital care	2.2%	2.3%	3.6%
Physician and clinical services	0.8%	0.2%	1.8%
Prescription drugs	2.4%	2.4%	0.3%
Nursing home care	1.0%	6.8%	4.2%
Dental Services	2.1%	6.6%	4.9%
Home health care	2.7%	3.1%	3.4%
Other professional services	4.8%	-0.9%	1.5%
Other personal health care	4.0%	6.0%	6.5%
Other nondurable medical products	3.0%	4.5%	9.3%
Durable medical equipment	2.3%	4.3%	3.3%

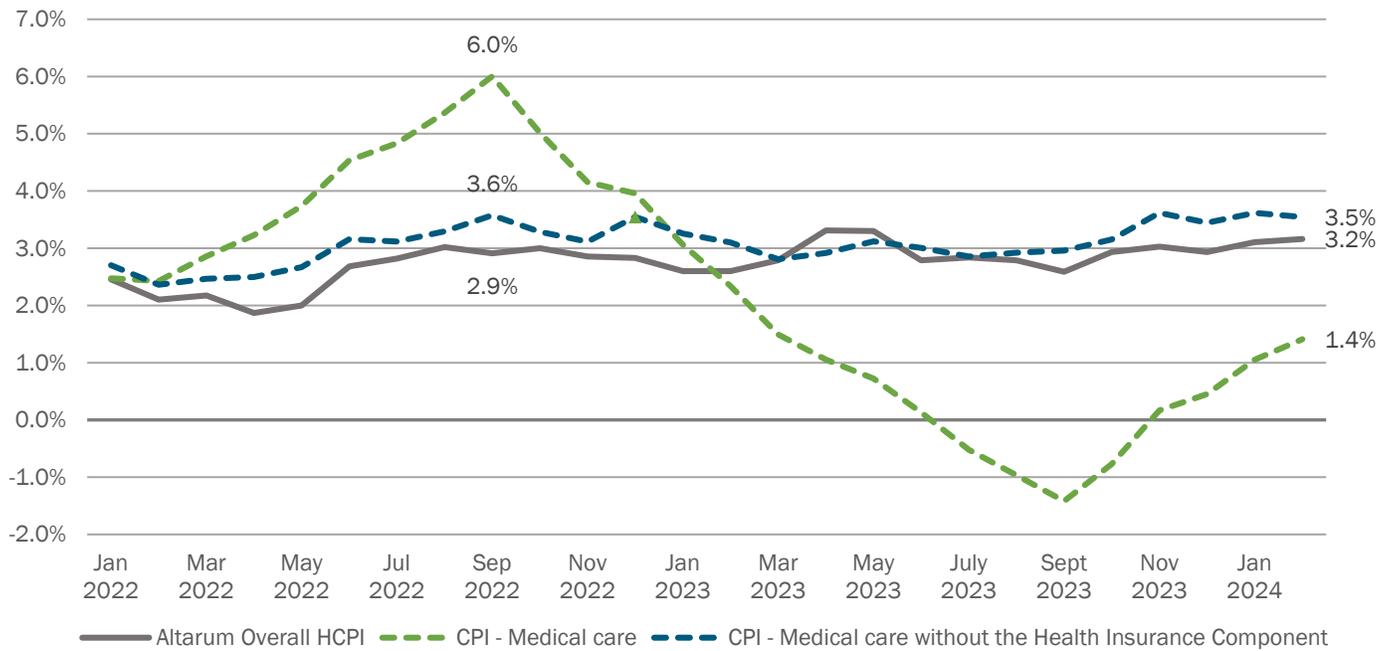
Source: Altarum analysis of monthly BLS data.

Exhibit 4. Year-over-Year Percentage Change in Health Prices Compared with Economywide Commodities vs. Economywide Services



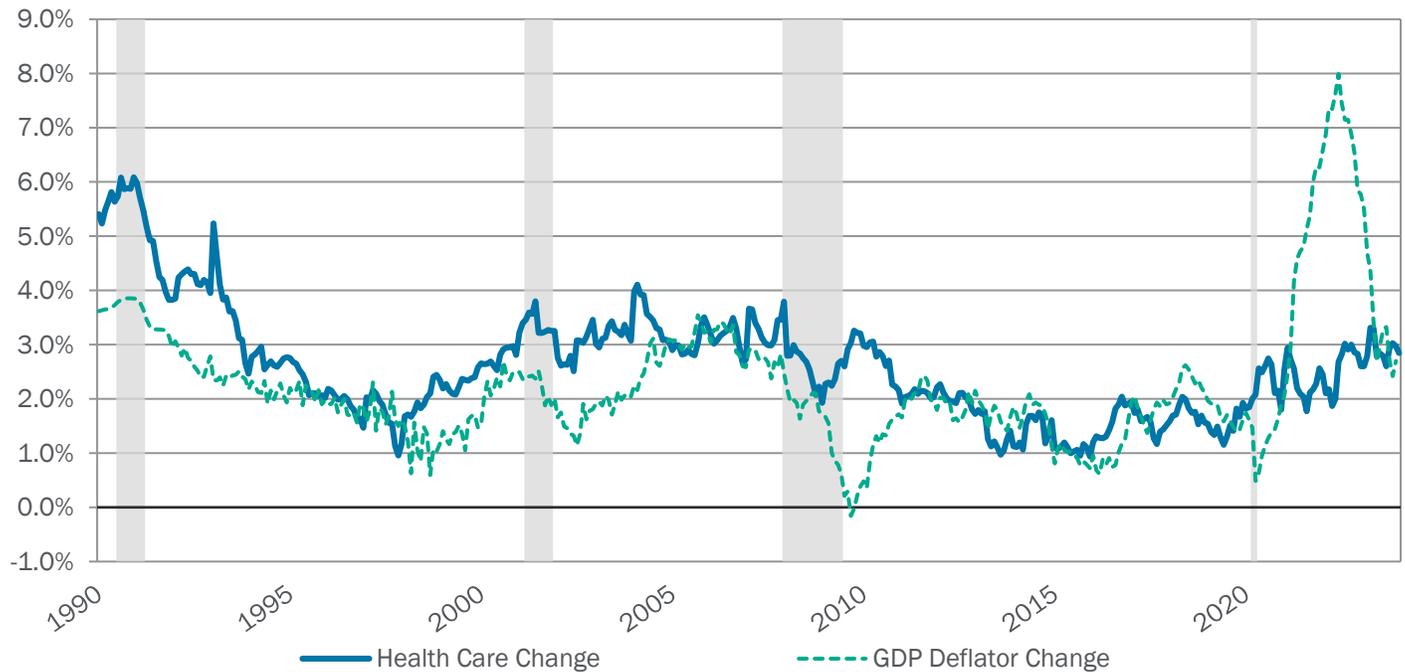
Methods. Altarum’s estimates for the monthly HCPI, a price index for personal health care spending within the National Health Expenditure Accounts, are essentially monthly versions of the annual index developed by the CMS National Health Statistics Group (NHSG). The advantages of this measure over the 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. Year-over-Year Percentage Change in Medical Care CPI vs. Altarum Overall HCPI



TIME SERIES TRACKER

Exhibit 6. Year-over-Year Percentage Change in Health Prices Compared with the GDP Deflator



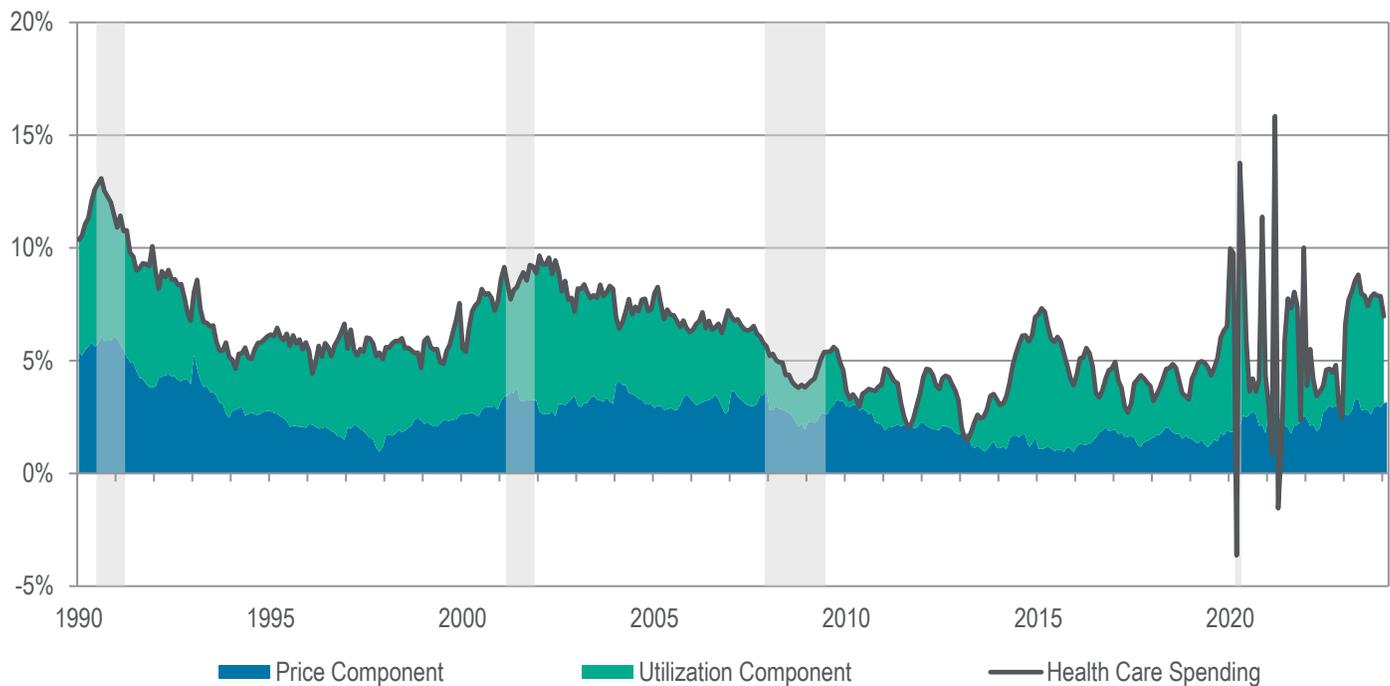
Source: Altarum monthly national health spending and price index estimates.
Note: Lightly shaded bars denote recession periods.

Exhibit 7. Implicit Health Care Utilization Growth by Major Components of NHE, Year-over-year

	January 2024	3-Month Moving Average	12-Month Moving Average
Total personal health care	3.9%	4.5%	5.0%
Hospital care	3.4%	3.3%	4.6%
Physician and clinical services	6.6%	8.2%	7.7%
Prescription drugs	7.7%	8.1%	8.0%
Nursing home care	1.4%	2.0%	3.7%
Dental Services	-0.8%	0.7%	1.7%
Home health care	2.9%	6.4%	5.7%
Other professional services	6.8%	7.8%	7.7%
Other personal health care	-2.2%	-2.6%	-1.9%
Other nondurable medical products	-4.6%	-2.3%	0.0%
Durable medical equipment	1.2%	2.4%	1.0%

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): $U = S - P - \text{Pop}$. 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. Health Care Spending Growth by Price and Utilization Components



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