

## Health Spending

# How does medical inflation compare to inflation in the rest of the economy?

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March 29, 2023

*Note: This analysis was updated on March 29, 2023, to include new data.*

Medical care prices and overall health spending typically outpace growth in the rest of the economy. Health costs represent a growing share of gross domestic product and many American families have seen the [costs](#) of health services and premiums grow faster than their wages. However, since 2021 prices for many consumer goods and services have increased faster than usual, with overall inflation reaching a 4-decade high in mid-2022.

In this brief, we use Bureau of Labor Statistics (BLS) data, including the consumer price index (CPI) and producer price index (PPI) to analyze prices for medical care compared to other goods and services.

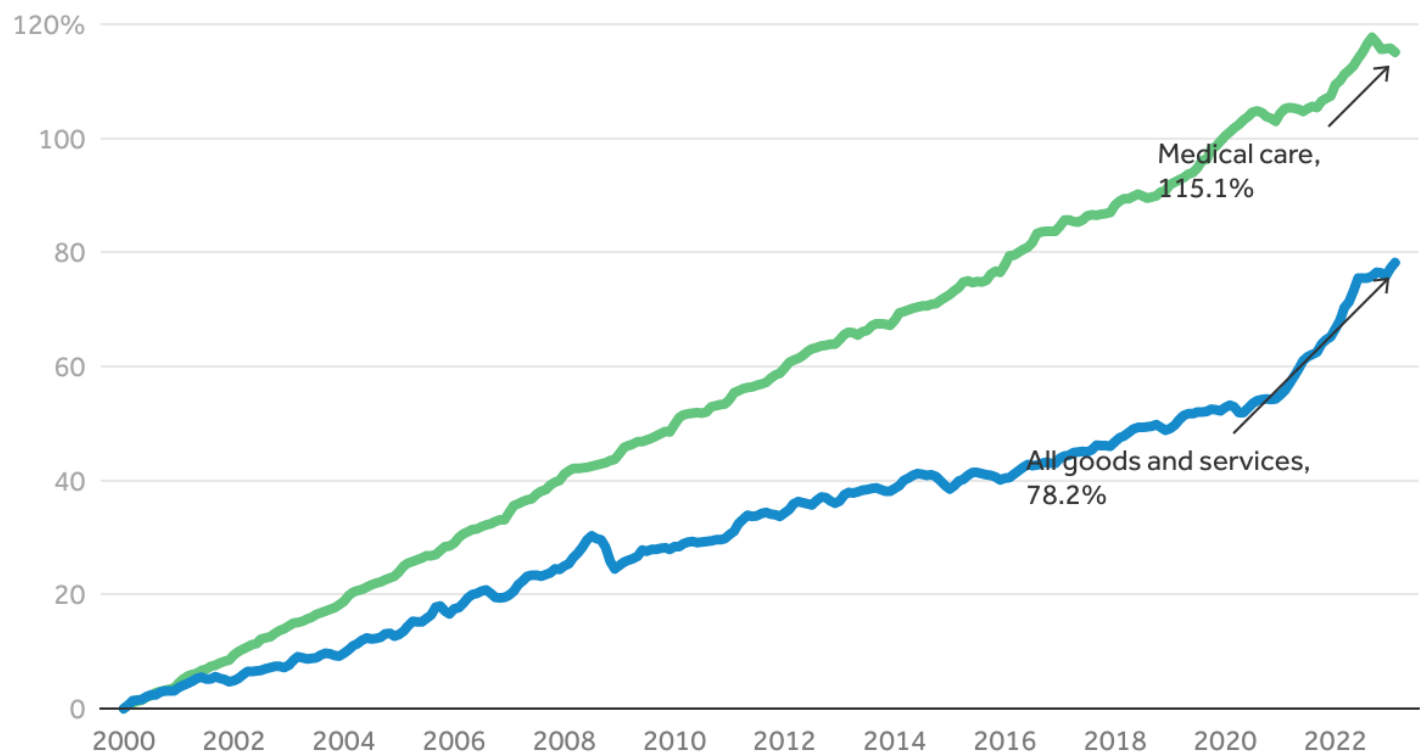
Using the CPI, overall prices grew by 6.0% in February 2023 from the previous year, while prices for medical care increased by only 2.3%. As a result, overall prices excluding medical care grew by 6.4%. This is unusual as growth in health prices typically outpaces inflation in the rest of the economy.

In February 2023, medical prices grew by 2.3% from the previous year, below the 6% overall annual inflation rate.

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## Medical care prices have generally grown faster than overall consumer prices

## Cumulative percent change in Consumer Price Index for All Urban Consumers (CPI-U) for medical care and for all goods and services, January 2000 - February 2023



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

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Since 2000, the price of medical care, [including](#) services provided as well as insurance, drugs, and medical equipment, has increased by 115.1%. In contrast, prices for all consumer goods and services rose by 78.2% in the same period.

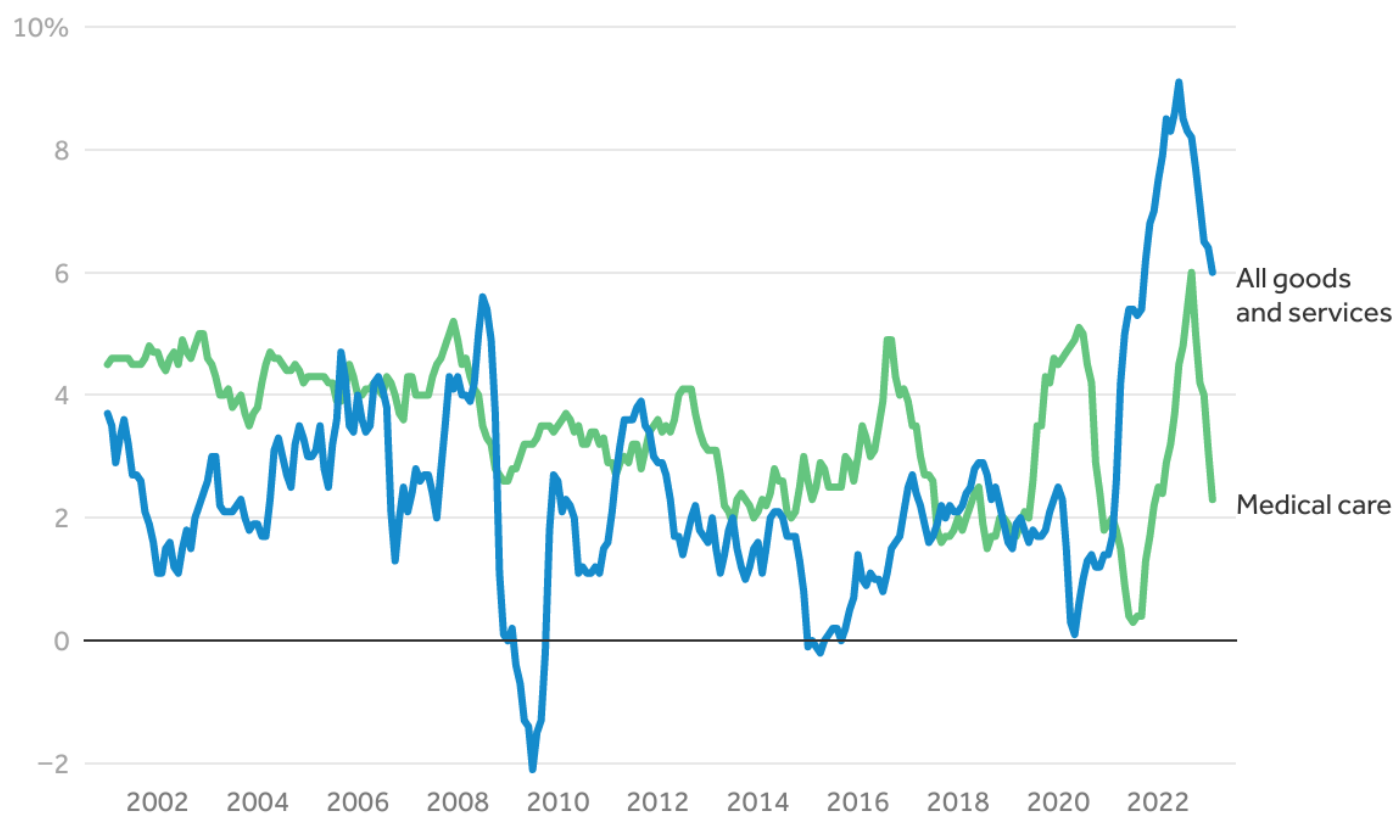
The consumer price index for all urban consumers (CPI-U) measures the U.S city average change in prices consumers pay for goods and services. For medical care, CPI measures total price changes, including both the costs consumers pay out-of-pocket and those insurers (public and private payers) pay to providers and pharmacies. While CPI measures total price changes, the index weights spending to match consumers' out-of-pocket costs, including consumers' spending at the point of care and on health insurance premiums. For example, physician and hospital services are [47%](#) of the medical care index.

BLS used [new expenditure weights](#) to calculate the CPI starting from January 2023 and will continue to update the weights annually. Previously, BLS updated CPI weights once every two years using two consecutive

years of consumer spending data. CPI weights will now be calculated each year using one year of spending data for greater accuracy.

**In February 2023, prices rose 6.0% across the economy from the previous year, compared to 2.3% for medical care**

## Annual change in Consumer Price Index for All Urban Consumers (CPI-U), January 2000 - February 2023



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

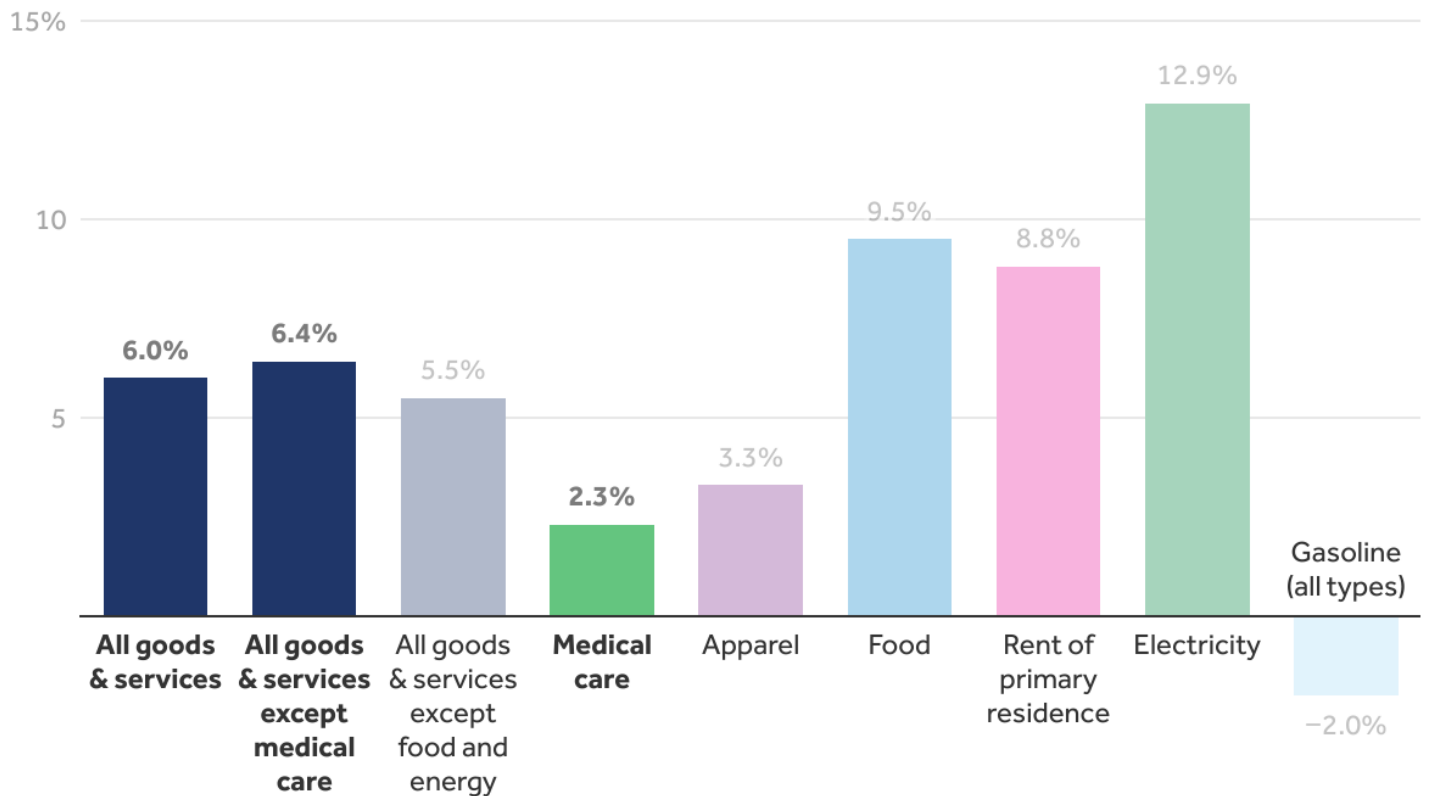
Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

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While medical care prices have usually grown faster than prices in the overall economy, they have also grown more consistently, while prices in the general economy can be more volatile (particularly for food and energy). Between 2001 and 2020, prices for medical care increased between 1% and 5% each year. Overall prices saw more volatility, though generally increased at a slower rate than prices for medical care, until recently.

## Medical care prices increased slower than prices for other consumer goods and services in the past year

### Change in Consumer Price Index for All Urban Consumers (CPI-U), February 2022 - February 2023



Note: Medical care includes medical services as well as commodities such as equipment and drugs.

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

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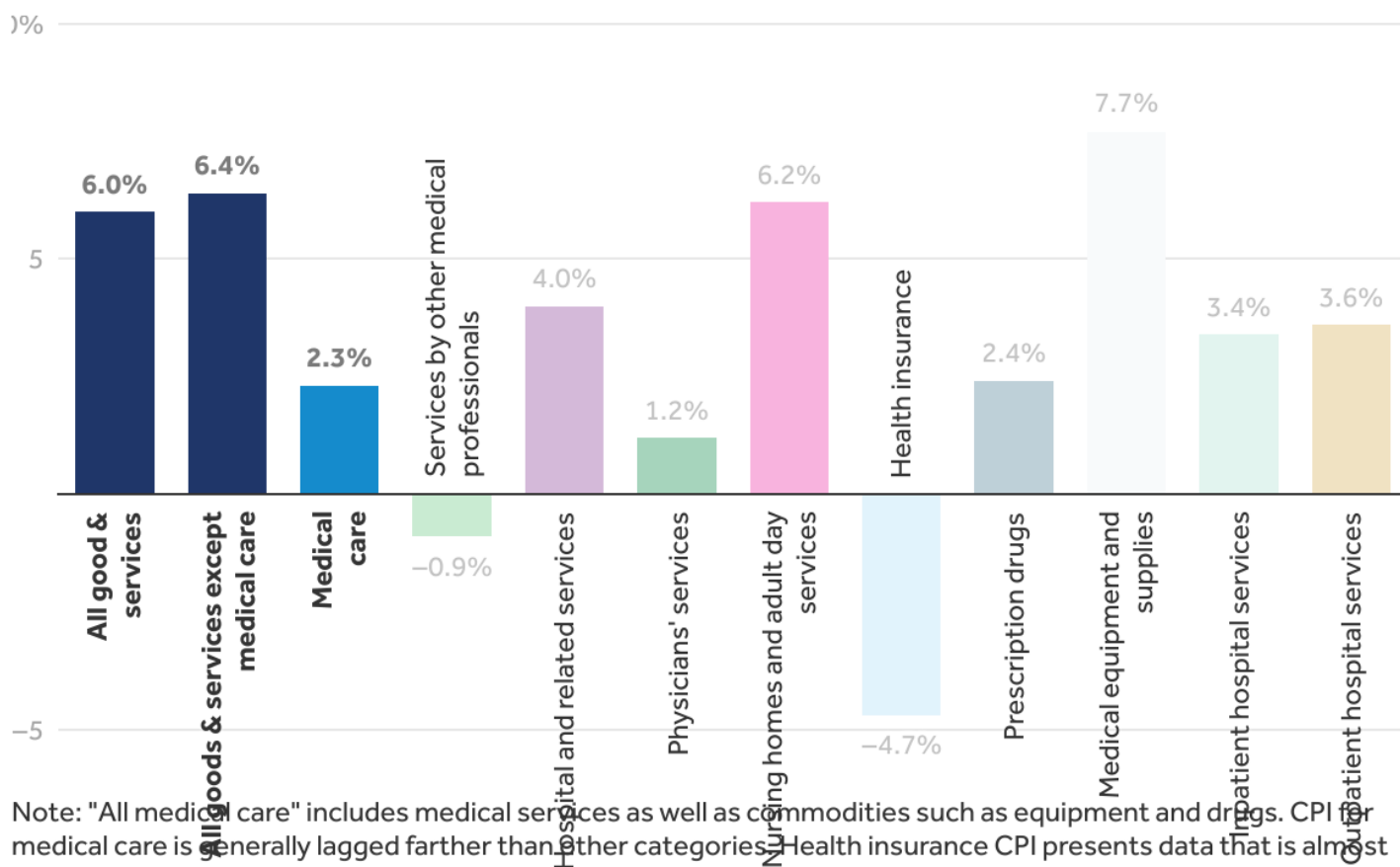
While medical care prices increased by 2.3% between February 2022 and February 2023, the prices of many other consumer goods increased significantly more.

Prices for all goods and services increased by 6.0%. Overall annual price growth excluding medical care was at 6.4%, and core inflation (excluding food and energy) was at 5.5%. Many essential goods and services saw larger price increases. Food prices grew by 9.5% and electricity prices grew by 12.9%. Other essential components of household budgets, such as rent, have also seen larger price increases in the past year than medical care.

Gasoline was the fastest-growing essential household expense in 2022, reaching a peak inflation rate of 59.9% in June 2022. More recently, as of February 2023, gasoline prices have declined by 2.0% from the same month last year.

## Some health prices increased faster than others in the past year

Change in total Consumer Price Index for All Urban Consumers (CPI-U) for medical care, by category, February 2022 - February 2023



Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) data

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Prices for hospital services and related services (4.0%) – both inpatient (3.4%) and outpatient (3.6%) – as well as for nursing homes (6.2%) rose faster than for prescription drugs and physicians' services (2.4% and 1.2%, respectively). The medical CPI is generally based on lagged data, even more so than other CPI categories. For example, the prescription drug CPI does not immediately reflect the introduction of new, high-priced drugs.

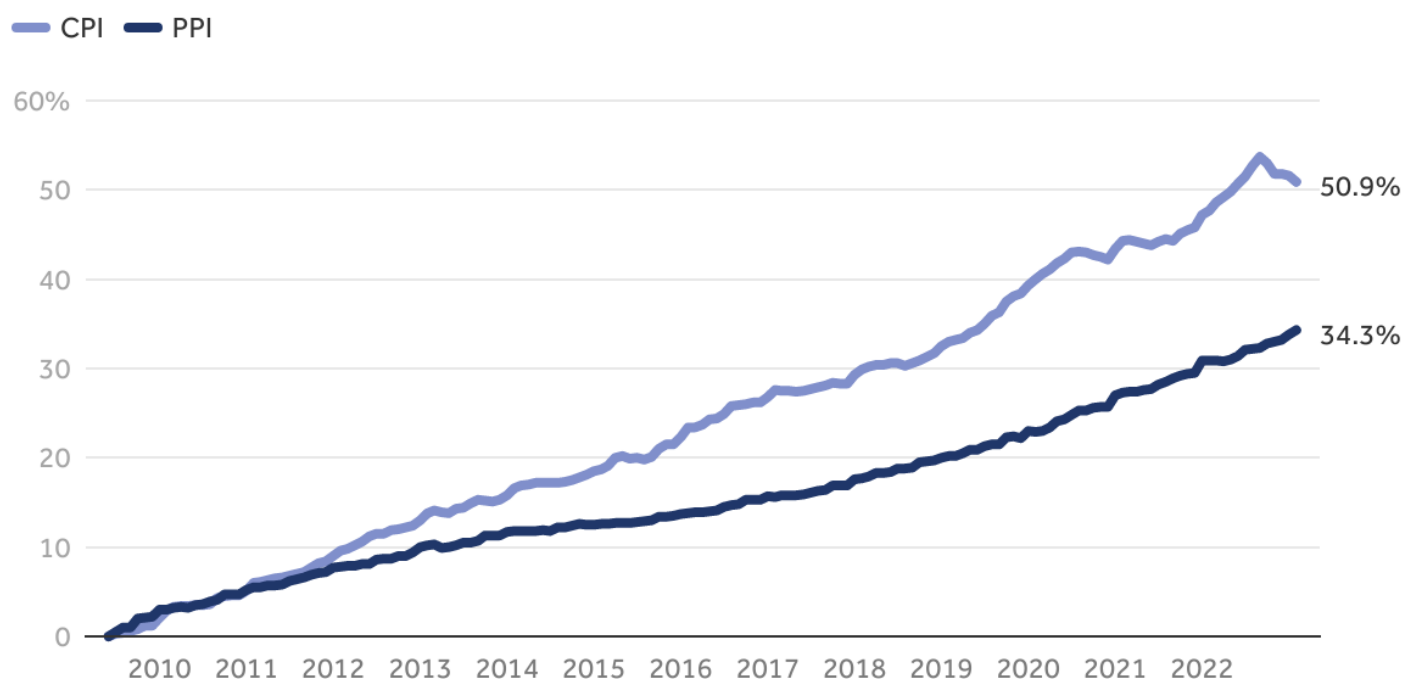
The medical care CPI includes a price index for health insurance. This index measures retained earnings of health insurers—it is not a reflection of the premiums they set. The health insurance CPI fell from an annual increase of 28.2% in September 2022 (an all-time high) to a decrease of -4.7% in February 2023. However, the health insurance CPI presents data that is at least one-year lagged, so it is not representative of current price changes. In fact, the health insurance CPI through September 2022 reflects insurer margins for the 2020 calendar year. Healthcare use [declined](#) in 2020 and into 2021 due to COVID-19. This subsequently led to an increase in [insurers' margins](#) in 2020, as they paid lower medical claims than in a typical year. However, insurers likely saw lower [margins](#), on average, in 2021 and 2022 than they had been in the first year of the pandemic due to returning utilization.

Regardless, with a 9% weight of the total medical consumer price index, health insurance brought the overall medical CPI up during most of 2022 and is now exerting downward pressure.

## Consumer prices have risen faster than producer prices for health services

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## Cumulative percent change in Producer Price Index (PPI) for health services and Consumer Price Index for All Urban Consumers (CPI-U) for medical care services, June 2009 - February 2023



Note: Data are not seasonally adjusted. PPI data measures health care services as a commodity for all payers. CPI-U data measures medical care services only, including hospital and other health facility services (excluding drugs and equipment).

Source: KFF analysis of Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) and Producer Price Index (PPI) data

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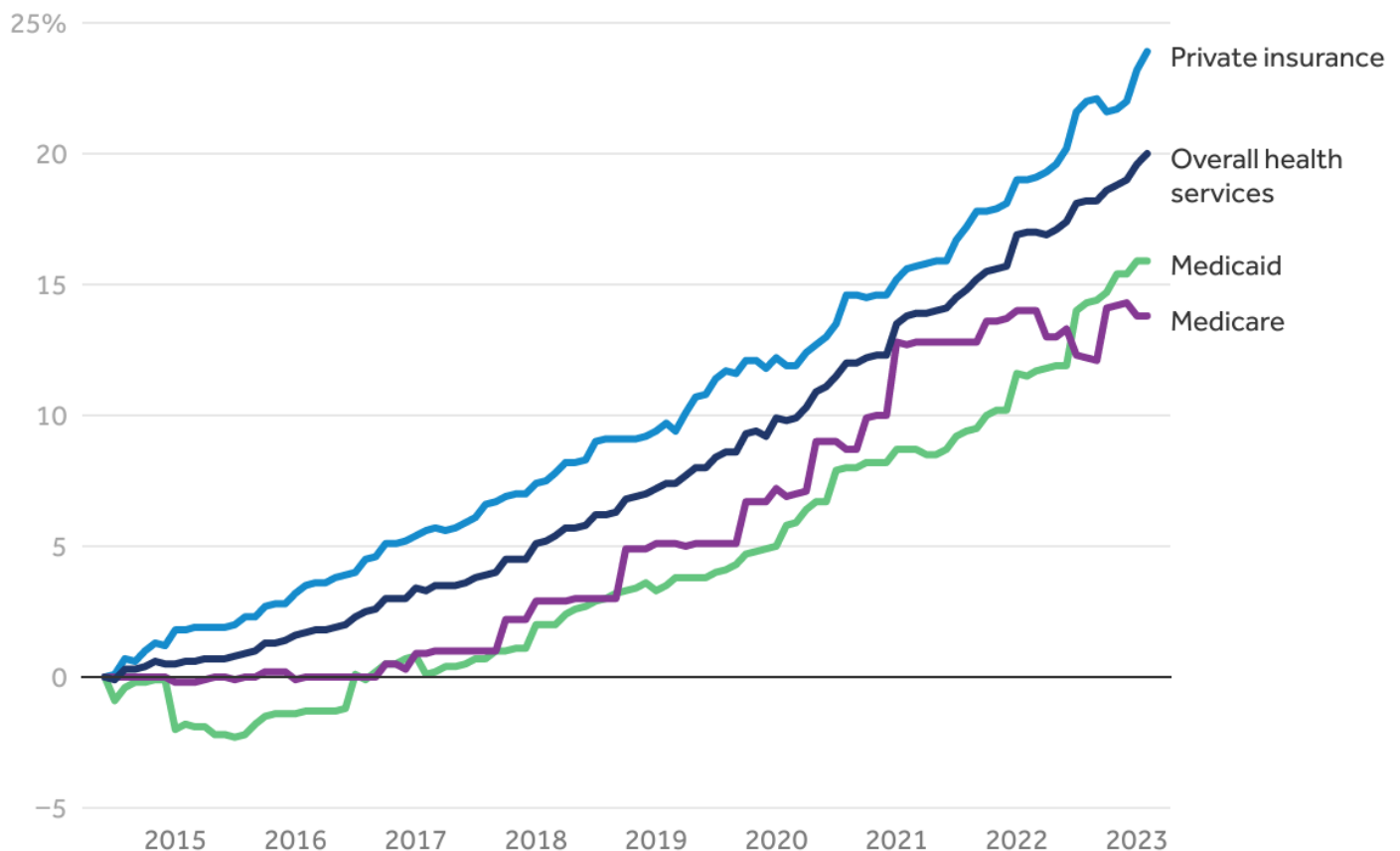
Another measure of inflation, the producer price index (PPI), represents inflation from the producers' perspective in both the public and private sector. The PPI for health services includes medical services (provided by physicians or other care providers) that are paid for by third parties such as employers or the federal government.

PPI considers changes in industry output costs with a focus on the actual transaction prices. CPI, by contrast, assumes consumers buy a similar bundle of goods and services and does not account for trade-offs consumers may be making in response to price changes.

Since June 2009, the CPI-U for medical care services has risen by 50.9%, while the PPI for health services has increased by 34.3%. Services included in this chart include hospital, physician, and other professional and facility prices. While drugs and medical equipment are included in previous CPI-U charts in this analysis, this chart measures CPI-U of medical care services specifically and excludes drugs and medical equipment in both PPI and CPI-U measures.

## Prices paid by private insurance generally outpace those paid by public programs

### Cumulative percent change in Producer Price Index (PPI) for health care services, June 2014 - February 2023. not seasonally adjusted



Source: KFF analysis of Bureau of Labor Statistics (BLS) Producer Price Index (PPI) data

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Generally, prices paid by private insurance are higher and rise more quickly than prices paid by public payers. Prices for private insurers are the result of negotiations between health systems, physician groups, and other providers and insurance companies, while public payer prices are set administratively. The private insurance health services PPI has risen by 23.9% since June of 2014, compared to 13.8% for Medicare and 15.9% for Medicaid in the same period. The overall health services PPI increased by 20.0% since June 2014.

During the public health emergency, Medicare provider reimbursement for COVID-19 treatment that was boosted by 20.0%, which explains part of the increase in the Medicare PPI in 2020.



## Discussion

Typically, medical inflation outpaces inflation in the rest of the economy. But in 2022 and early 2023, medical prices are growing at a similar rate as in past years, while prices in some other parts of the economy are growing much more rapidly than in the past.

After the onset of the COVID-19 pandemic in 2020, high consumer demand and supply chain disruptions, stemming from production shortages, accelerated inflation for most consumer goods. The Russia-Ukraine War put additional pressure on the global energy market. While inflation has declined in some sectors, particularly gasoline, ongoing labor shortages and sustained demand continue to keep non-medical services inflation high.

As inflation pushes wages upward, health worker [wage increases](#) also put upward pressure on medical prices unless hospitals and other providers can find ways to operate with fewer staff or cut other expenses.

Many health prices are set in advance, administratively or via private insurance contracting, so there is a delay in observable price increases. Some commercial rates are negotiated throughout the year, but most are tied to the plan or calendar year. Our review of preliminary ACA Marketplace insurer rate filings for 2023 showed a [median premium increase of 4%](#). Insurers noted systemic broad-based price and utilization increases, as well as utilization increases amidst the waning pandemic, as the main factor driving the increase. KFF Employer Health Benefit [Survey](#) found 2022 employer-based health insurance premiums were similar to 2021. Generally private insurers and employers have been price takers due to providers' market power. In a tight labor market, [employers](#) may be reluctant to pass health premium increases to workers and press health plans to moderate healthcare price increases.

Public payer prices are set by the federal and state governments on an annual basis. Medicare uses indexing measures to update payment rates annually, reflecting increases in operating costs and wage growth, among other factors. The Centers for Medicare and Medicaid Services recently finalized a [4.3% increase](#) in Medicare inpatient hospital payment rates for Fiscal Year 2023 (October 2022 to September 2023), including for growth in operational costs. The agency estimates the payment rate increase will result in a [\\$2.6 billion](#) increase in payments to hospitals. The American Hospital Association has [stated](#) the final 4.3% increase (up from the proposed 3.2% increase) in 2023 payments is not sufficient, given overall inflation. It is possible public payers' administrative rate setting may [spillover](#) to private health plans' payment policies and moderate overall healthcare price increases.

For now, inflation in the broader economy continues to outpace medical price increases. It remains to be seen whether, or to what extent, these recent trends will hold moving forward.

## About this site

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*The Peterson Center on Healthcare and KFF are partnering to monitor how well the U.S. healthcare system is performing in terms of quality and cost.*

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