

Medical Inflation: Where Are We Now?

Back in 2019 I wrote about “Medical Inflation in Utah: The Ups and Downs of Data and Measurement.” The recent rise in inflation motivated me to revisit the issue to examine current trends and see how medical inflation compares to general inflation today.

Medical Inflation Today

Given concerns about overall economic inflation, it may be surprising to learn that medical inflation is slowing and is currently approaching some of the lowest levels in history (Figure 1). A look at medical inflation over the last 20 years highlights this slowed growth (Figure 2). Except for a significant increase from 2019-2020 (4.7%), medical inflation growth continued to slow over the past three years.

The slowed growth persists when breaking out medical care inflation’s subcomponents as well. The medical care index is comprised of two components: services and commodities.

- Medical care services includes professional services, hospital and related services, and health insurance.
- Medical care commodities includes medicinal drugs and medical equipment and supplies.

Data from 2019 show an increase in the inflation rate for medical services (2.5%) and a decrease in the inflation rate for

medical commodities (-1.1%, Figure 3). Similar trends occurred in 2021. This is surprising given the amount of attention focused on prescription drug prices. That said, medical services inflation experienced a 20-year high of 5.3% price growth in 2020.

Overall, inflation averaged around 2% to 4% per year for each subcomponent over the last 20 years. However, there have been concerns with the rising cost of medical services and medicine for years, which may reflect the continued, year-over-year positive inflation rates.

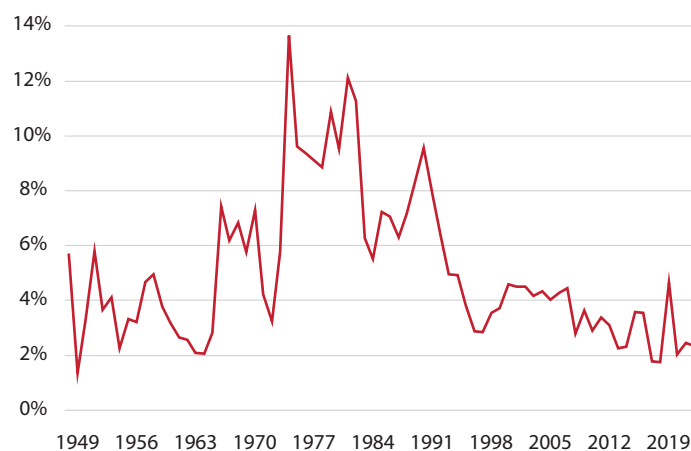
When looking at regional inflation measures, data show medical inflation is less than overall inflation and follows the national trend of slowing price growth (Table 1). While none of the regions listed in Table 1 are perfect proxies for Utah, they provide an indication as to what Utah’s experience with medical inflation may be.

The Challenge of Measuring Inflation

National Measures of Inflation

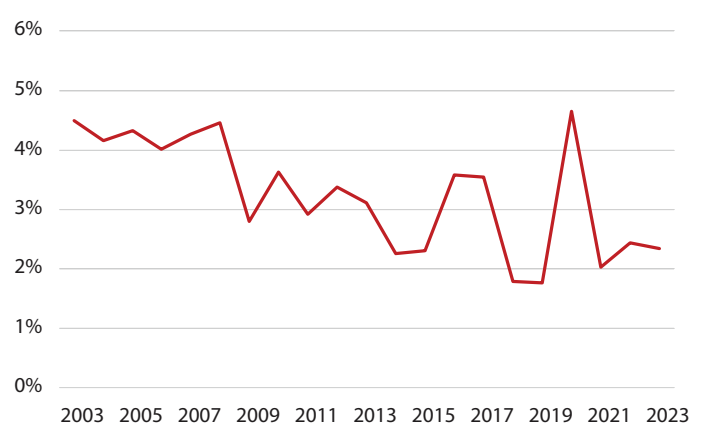
As mentioned in 2019, there is not a good measure of medical inflation at the state level. The Bureau of Labor Statistics’ (BLS) Consumer Price Index (CPI) is one of the most common measures of inflation.¹ ‘Medical care’ is one of eight categories used to determine the CPI.

Figure 1: U.S. Medical Care Inflation, 1949-2023



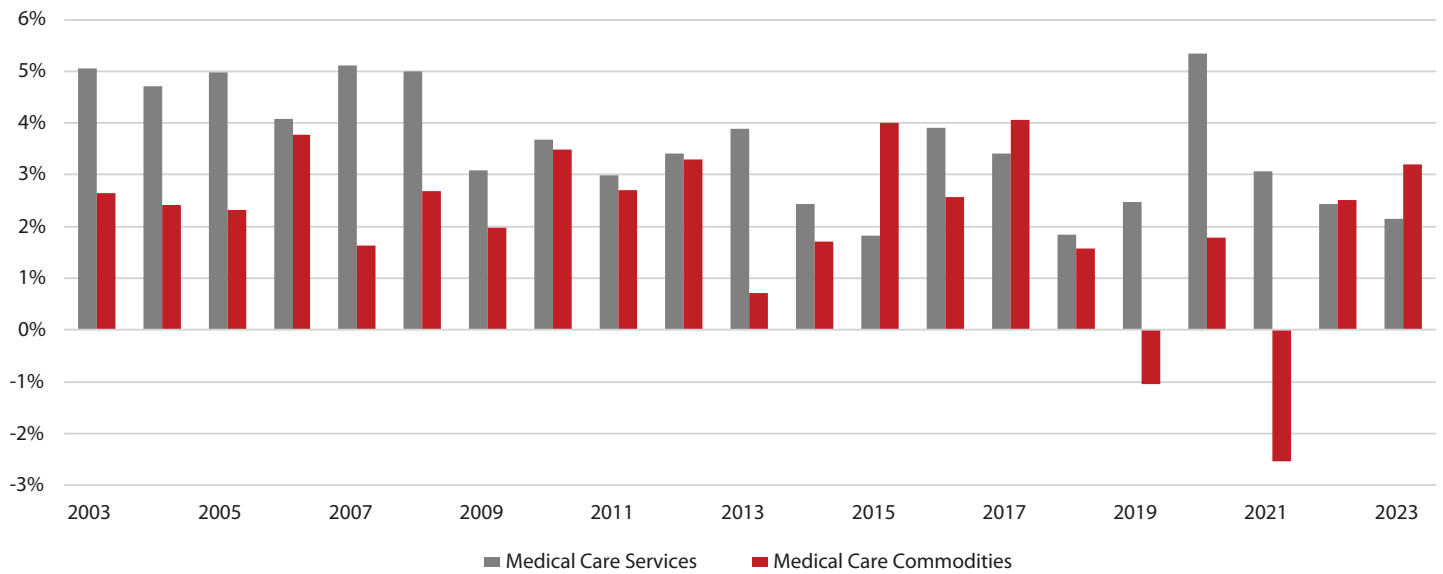
Note: Seasonally Adjusted Annual Inflation.
Source: Bureau of Labor Statistics CPI-All Urban Consumers (Current Series)

Figure 2: U.S. Medical Care Inflation, 2003-2023



Note: Seasonally Adjusted Annual Inflation.
Source: Bureau of Labor Statistics CPI-All Urban Consumers (Current Series)

Figure 3: U.S. Inflation for Medical Care Services and Commodities, 2003-2023



Note: Seasonally Adjusted Annual Inflation.
 Source: Bureau of Labor Statistics CPI-All Urban Consumers (Current Series)

BLS defines out-of-pocket medical spending (medical care) as:

- Patient payments made directly to retail establishments for medical goods and services;
- Health insurance premiums paid for by the consumer, including Medicare Part B; and
- Health insurance premiums deducted from employee paychecks.

State Measures of Inflation

The best proxies for Utah-specific measures of medical inflation are the Mountain Division and West Region B/C, which includes areas with a population size less than 2.5 million (Table 1).

The downside to using the Mountain Division data is that it includes estimates for Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, and Wyoming. Less populated states like Montana and Wyoming could potentially drive down the average.

Table 1: Mountain Division and West Region Inflation Rates, Feb 2021-2022 and Feb 2023 – Feb 2023

Region	Measure	2021 - 2022	2023 - 2023
		Inflation Rate	Inflation Rate
All U.S. City Average	Overall Inflation	7.9%	6.0%
	Medical Inflation	2.4%	2.3%
Mountain Division	Overall Inflation	9.7%	6.7%
	Medical Inflation	4.6%	-2.6%
West Region B/C	Overall Inflation	8.5%	5.7%
	Medical Inflation	3.1%	0.9%

Note: Not Seasonally Adjusted.
 Source: Bureau of Labor Statistics CPI-All Urban Consumers (Current Series)

While West Region B/C data only includes similarly populated areas, it includes areas from the Mountain Division as well as pacific coast states, such as California, Alaska, and Hawaii. These states are less demographically and economically similar to Utah.

Endnotes

1. "The CPI measures inflation by tracking retail prices of a good or service of a constant quality and quantity over time. Tracking retail prices allows CPI to capture changes in *out-of-pocket* household spending." Measuring Price Change in the CPI: Medical Care (2019, March 21). Bureau of Labor Statistics. Available from <https://www.bls.gov/cpi/factsheets/medical-care.htm>.