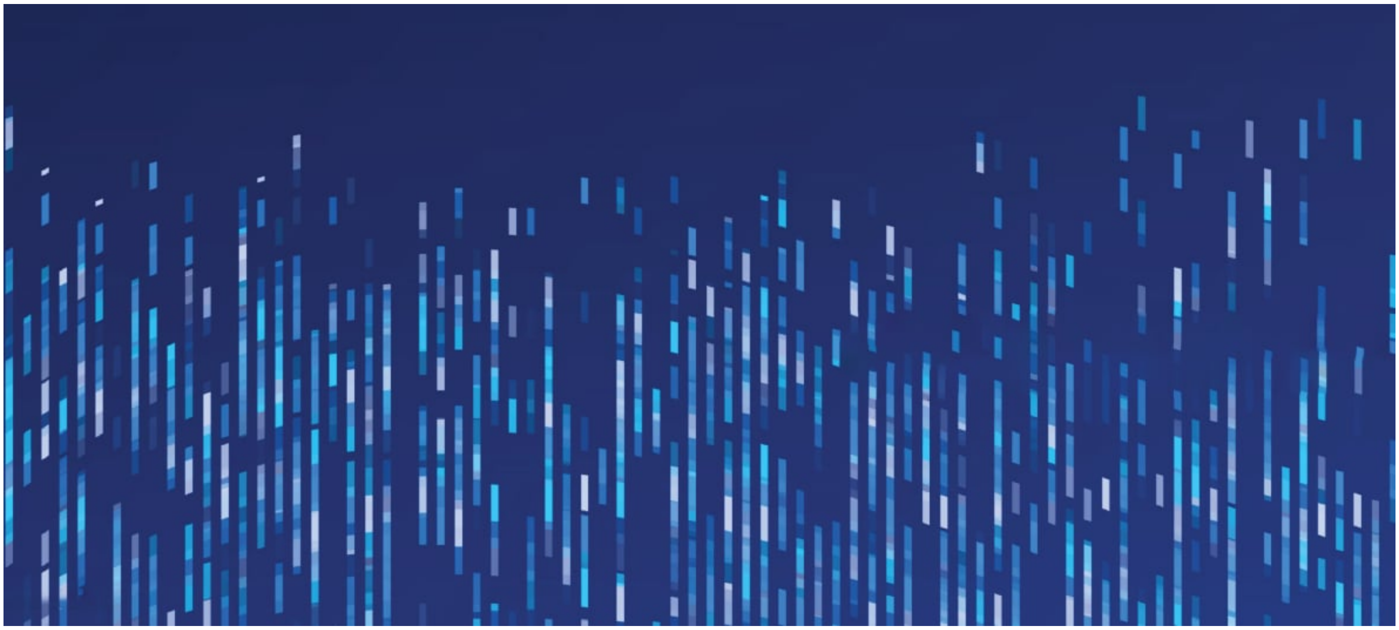

# Capital Bytes – October 28, 2022

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## Capital Bytes: A Weird Data Quirk in Health Care CPI Could Help Our Inflation Problem

It's no secret that health care and health insurance costs have been on the rise, while overall quality has been declining, on average, for years. And even though the government subsidizes insurance costs for Americans with lower incomes through the health care marketplace, the median premium is expected to jump to between 10% and 15% in 2023. Rising labor costs, legislation and general inflation are all to blame.

Over the last year or so, these surging health insurance costs have been a major contributor to core inflation rates (the core strips out volatile food and energy prices). Health insurance prices were up an astonishing 28.2% from a year earlier in September, the largest increase since 2006. This meteoric rise in premium costs added roughly 0.4% to the overall core CPI (consumer price index) reading in September alone and has put steady upward pressure on CPI since 2021. Even though health care costs are likely to continue to rise, there is actually relief on the way, at least as it relates to calculating health care's impact on CPI, according to experts.

Back in 2020, pandemic-related lockdowns, limited health care capacity and a large reduction in normal care and treatments translated to lower health care spending overall and, in turn, reduced benefits paid by insurers. This raises net premium income and translates to a surge in health insurance prices as calculated by the Bureau of Labor Statistics. These 2020 data trends have been factored into the CPI starting in October 2021, fueling inflationary readings over the last 12 months. Put another way, when the net earnings, or profit margins, of health insurance companies are increasing, that translates to a higher health insurance component reflected in the CPI. Consequently, when those same earnings and margins decline, that translates to a lower CPI factor. And since this data is only released once a year, by the National Association of Insurance Commissioners (NAIC), there's not only a massive lag, but an abrupt shift in health care CPI in October.

Now that pandemic lockdowns have ended and consumers are getting back to their normal health care regimens, such as regular doctor visits and elective procedures, there's going to be a shift in profit margins for insurers and an abrupt change in the CPI calculation starting with November's report.

Beginning this month, data will reflect the last year's relative spending and insurance costs, which are expected to swing the pendulum the other way and show up as a drop in health insurance prices in the CPI calculation (even though costs to the consumer have actually risen). This trend is expected to last for months and could help reduce the overall inflation rate and slow the Federal Reserve's aggressive rate hike trajectory. It's a bit ironic that soaring health care costs and spending could actually reduce the CPI, but in this case, it's all about relativity.