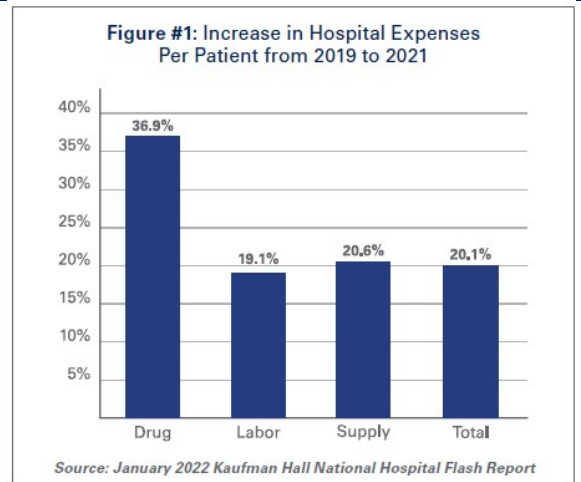


Massive Growth in Expenses and Rising Inflation Fuel Continued Financial Challenges for Hospitals and Health Systems

Part 4: Inflation Expenses

The COVID-19 pandemic has taken a significant toll on hospitals and health systems and placed enormous strain on the nation's health care workforce. During this unprecedented public health crisis, hospitals and health systems have confronted many challenges, including historic volume and revenue losses, as well as skyrocketing expenses (See Figure #1).

A new American Hospital Association (AHA) [report](#) highlights the **significant growth in expenses across labor, drugs, and supplies, as well as the impact that rising inflation** is having on hospitals' total expenses and operating margins.



Inflation Expenses

Higher economy-wide costs have serious implications for hospitals and health systems. Inflation is defined as the general increase in prices and the decrease in purchasing power. It is measured by the Consumer Price Index (CPI-U). In April 2021, the Bureau of Labor Statistics (BLS) reported that the CPI-U had the largest 12-month increase since September 2008. **The CPI-U hit 40-year highs in February 2022.** Overall, consumer prices rose by a historic 8.5% on an annualized basis in March 2022 alone.

As inflation measured by consumer prices is at record highs, below are key considerations on the potential impact of higher general inflation on hospital prices:

- **Labor Costs and Retention:** As the cost-of-living increases, employees generally demand higher wages/total compensation packages to offset those costs. This is especially true in the health care sector, where labor demands are already high, and labor supply is low.
- **Supply Chain Costs:** As input/raw good costs increase due to general inflation, hospital supplies and medical device costs increase as well.
- **Capital Investment Costs:** Capital investments also may be strained, especially as hospitals have already invested heavily in expanding capacity to treat patients during the pandemic.
- **Consumer Demand:** Higher inflation also may result in decreases in demand for health care services, specifically if inflation exceeds wage growth.

Despite persistent cost pressures, hospital prices have seen consistently modest growth in recent years. According to BLS data, hospital prices have grown an average 2.1% per year over the last decade, about half the average annual increase in health insurance premiums.