Rising Labor Costs in the Healthcare Sector Are Poised to Buttress Services Inflation

by: Brent Bundick, A. Lee Smith and Luca Van der Meer

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Historically, inflation in the healthcare sector (blue line) has been tightly linked to wage growth for healthcare workers (green line). This relationship is not surprising as healthcare is labor intensive; according to the BEA, labor accounts for more than 80 percent of output in the healthcare sector. In recent years, however, PCE healthcare services inflation has been surprisingly subdued despite significant wage pressures. Nevertheless, as higher wages have tightened margins for healthcare service providers, PCE inflation for healthcare services is likely to increase.

Note: PCE (Personal Consumption Expenditures Price Index) is a measure of price changes; ECI (Employment Compensation Index) is a measure of changes in employee compensation and includes employee benefits. Sources: U.S. Bureau of Economic Analysis (BEA) and U.S. Bureau of Labor Statistics (BLS).
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Brent Bundick is a Senior Research and Policy Advisor in the Economic Research Department of the Federal Reserve Bank of Kansas City. He rejoined the Department in 2014 after completing his Ph.D in Economics from Boston College. Prior to graduate school, Brent worked in the Department as a Research Associate and Assistant Economist. He also holds a M.S. in Mathematics and Statistics from the University of Missouri – Kansas City and a B.A. in Economics and Mathematics from the College of William and Mary. Brent's research interests are macroeconomics, monetary policy, and computational economics.

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Andrew Lee Smith is a Senior Vice President and Economist at the Federal Reserve Bank of Kansas City. In this role, Lee has oversight of macroeconomic research and serves as an advisor on monetary policy matters. Lee’s research has focused on the effects of expanding and unwinding the Federal Reserve’s balance sheet, the impact of forward guidance on financial markets and the economy, and, more generally, how central bank communication can influence expectations and economic conditions. Prior to joining the Bank in 2014, Lee received a Ph.D. in economics from the University of Kansas. He also holds a B.A. in economics and mathematics from Drury University in Springfield, Missouri.
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I joined the Kansas City Fed’s research team in July of 2022 after completing a BA in Economics and a minor in Mathematics at Occidental College in Los Angeles. At the Fed I have the pleasure of working with Brent Bundick, Lee Smith and Taeyoung Doh on both research and policy work regarding Macroeconomics. Working for the bank I’ve had the opportunity to continue to tune the research skills that I began to develop as an undergraduate and develop technical skills in a host of coding languages and with an array of data repositories. Further the economists here place an emphasis on my education and do all they can to incorporate me as an asset and partner in their widely varied research projects. This job has bolstered my interest in graduate study with a cohort of likeminded individuals and dedicated mentors, allowing me to feel well positioned on the pathway towards a Phd.