

Intelligence MEMOS



From: Rosalie Wyonch
To: Canadian Inflation Watchers
Date: June 13, 2022
Re: **INFLATION AND HEALTHCARE: A LONG AND BUMPY ROAD AHEAD**

Everything seems to be getting more expensive – inflation at 6.8 percent is at a 31-year high, and has been above Canada’s 2-percent target since April 2021. Food and shelter are up by 8.8 and 7.4 percent in the past year. Gas prices have increased by 36 percent.

Notably missing in this parade of rising prices is healthcare.

So where are the rising costs?

The full answer is a complex mixture of factors: supply chain issues, public procurement, public and private insurance, manufacturers, distributors and other health companies.

The results is that inflation is currently being absorbed along the supply chain resulting in increased costs for producers and shortages, backorders, and delays of medical supplies being available for patients and practitioners.

Supply chain issues affect manufacturers of pharmaceuticals and medical devices, with some critical input supplies limited by COVID-19 lockdowns in China, Russia’s invasion of Ukraine and the resulting sanctions, and prices rising in the face of shortages and disruptions.

Distribution of health products is just as affected as any other industry by rising oil prices, shipping backlogs, labour shortages and other capacity constraints affecting the flow of international trade. [Semiconductor shortages](#) (estimated to cost the global auto industry \$210 billion) have hit medical device companies, with 80 percent reporting delays, some longer than a year. Prices for [plastics](#) and [resin](#), a critical input for injectables and other devices, have [doubled and transportation costs have tripled](#) in some cases. Prices for energy, cotton and metal [had already increased](#), more than 30 percent from the fall of 2020 to 2021 and now inflation is rampant in 2022.

In many cases, prices for health products are regulated by governments or negotiated with public and private insurers in advance. Prices can’t freely adjust to market conditions with locked-in contracts for five to seven years. This can’t last. Expect higher prices for medical products and critical supply shortages.

Shortages are [already](#) being seen in gloves, masks, laboratory reagents and testing supplies, collection tubes, ventilators and many other devices in the [US and Canada](#). A recent [survey](#) of Canadian Manufacturers and Exporters found that 90 percent are affected by supply chain issues with more than 60 percent reporting major or severe disruptions. Four of five manufacturers have increased prices or delayed fulfilling customer orders. Meanwhile, demand for healthcare has increased, in part due to backlogs and disruptions in access to care caused by COVID-19 and in part due to directly fighting the pandemic (hospitalizations, public health and vaccination campaigns, etc.)

With high demand and low supply, economic theory suggests prices for medical products and wages for health service providers will increase, if shortages are to be resolved.

There is already some evidence of increasing input costs putting pressure on health spending. Spending on employer-sponsored medical plans is projected to [grow](#) by 7 percent in 2022, adding yet another growing cost for Canadian businesses. There is also some evidence of increasing [wages in health professions](#) – earlier in the year, newly vacant positions were offering higher wages than positions that were vacant for three months or more, and; wages offered for vacant nurse’s aide, orderly and patient services associates increased about 10 percent over the past two years. As with medical products, the prices for many medical services are controlled by public insurance plans and do not flexibly adapt to changing input costs.

So far, the major visible result of health supply chain disruption has been shortages of critical medical supplies. The increased costs of production are currently landing on producers, but the effects of inflation are negatively affecting Canadians and health practitioners, who might not have reliable access to needed medical supplies. Governments and large purchasing groups should also get ready for [major price increases](#) as contracts come up for renewal. In the meantime, however, it is likely that [mitigation strategies](#) will be needed to avoid shortages of critical medical supplies.

Some include: Ensuring adequate supplies to smooth short term disruptions (stockpile essential products prior to shortages), increased use of recycling and reprocessing of health supplies, and reduced use where appropriate. Governments and purchasers should consider flexible arrangements for contracts and pricing with suppliers and manufacturers to share the risks of inflation and shocks affecting global markets, to ensure adequate supplies of essential medical products are available in Canada.

Prices are increasing and governments must manage the difficult balance between rising costs, fiscal sustainability and ensuring Canadians have access to essential medical supplies and treatments.

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