

Medical supply costs hit new highs amid supply chain disruptions

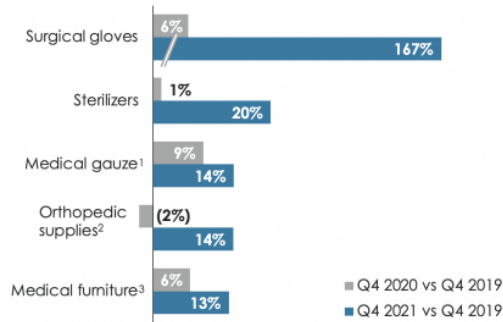
As if rising labor costs weren't enough of a concern, disruptions in the medical supply chain are adding to the increasingly unsustainable financial profile for health systems. Tracking international trade prices over the last three years, medical supply prices were up a whopping 46 percent at the end of 2021, compared to 2019. The manufacturing of these imports tends to be concentrated in only a few areas (mostly in China and Southeast Asia), and lack of competition makes finding alternative sources difficult. Thirty percent of medical supplies are manufactured abroad—and the number impacted is likely higher, as many supplies “manufactured” in the US still contain foreign components.

As a result, **supply cost growth has outpaced even labor expense growth for hospitals since July**, according to data from Kaufman Hall. During the early days of the pandemic, masks, gloves, and other personal protective equipment were in short supply, driving the initial spike in prices. But **we're now seeing large price increases across a range of medical supplies**, as illustrated in the graphic below. Crutches and medical gauze, for example, now cost over ten percent more to import than they did in 2019. While some of the drivers of these cost increases, including worker shortages and shipping delays, may resolve across this year, other drivers, like the reduced stock of raw materials, seem more intractable. In our conversations with health system leaders, they stress that **they don't expect their group purchasing organizations to save the day, and are instead proactively reevaluating suppliers and distribution partners for their most critical supplies**.

Supply Chain Disruptions Increasing Hospital Expenses

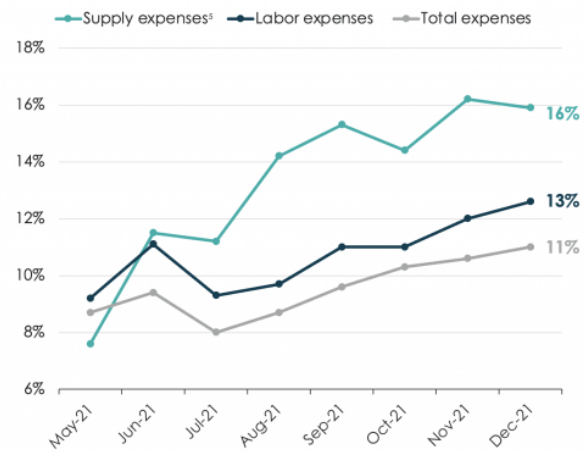
Cost of Imported Medical Supplies Rose Dramatically in Second Year of Pandemic

Percent Change in Average Price of Medical Supply Imports to USA, Q4 2021 and Q4 2020 vs Q4 2019



40% Average percentage⁴ of listed medical supplies imported from largest exporter for each good

Year-to-Date Hospital Expense Growth Relative to 2019 Levels, by Type of Expense



1. Includes wadding, gauze, and bandages intended for medical, surgical, or veterinary use.
 2. Includes crutches, surgical belts, trusses, splints, and implants.
 3. Includes operating tables, examination tables, hospital beds, and parts thereof.
 4. Percentage by value of total US imports produced by top supplier country for each good, Dec. '21.
 5. Non-drug supplies.

Source: Trade data obtained via UN Comtrade; Kaufman Hall; "National Hospital Flash Report," Jun. '21 - Jan. '22; Gist Healthcare analysis.