

Budget impact projections report

Projections for: July 2023 - June 2024

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Overview

The February 2023 Budget Impact Projections brief provides healthcare organizations with our best estimate of price change projections related to the healthcare supply chain. The projections cover the time-period of July 2023 - June 2024. Your organization can use these projections to assist in your supply-related budgeting process.

Overall projected price changes

This report provides a summary of anticipated price inflation in the supply chain over the next 18 to 24 months.

Note that the Vizient® market price projections are forecasts, not predictions. Forecasts are point-in-time estimates of price changes and are subject to changes in market conditions.

Methodology

Inflation projection assessments derive from numerous internal and external sources. External data is gathered from the Producer Price Index and other economic data. Internally we analyze Vizient price trends and work intently with Vizient's category management team to gather insight regarding agreement pricing.

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Projected price changes

Overall, Vizient estimates that market prices encompassing the healthcare supply chain will increase 4.1% from July 2023 to June 2024.

Login to your member dashboard to view and download the full [Budget Impact Projections report](#). The full report has detail information on anticipated inflation over the next 18 months covering medical devices, physician preference, capital equipment and indirect spend. Specific pricing impact may vary based on your institution's volume, procurement configuration, product mix and other factors. Refer to the Vizient Catalog to request a new tier and view pricing and other contract details.

Vizient notes

Healthcare, like the rest of the United States economy, is experiencing inflation throughout the supply chain. Expenses for labor, logistics and raw materials remain elevated with most suppliers citing these reasons as a need to increase pricing.

Through Vizient's enterprise-wide Price Assurance program, we have avoided more than \$124M of inflationary costs in 2022.

Investing in solutions – with our Members, for our Members: Financial pressure cannot be resolved solely through price negotiation. Vizient is leaving no stone unturned all the way from meeting with governmental agencies and elected officials to pursuing alternative manufacturing. A lot of increases taken in 2022 have few alternative options and we know our response in this moment has broader implications for the supplier community at-large, as well. We're activating a multitude of teams around this issue as a full court press from front line support through conversions, into CEO-level dialogue through our supplier performance team, through our marketing, communications and analytics functions. An inflation index as well as other indices are in development and being utilized. Vizient is aligning our business and investment strategies to create the scale we need to change the landscape through critical mass and new sources much like other industries. Most importantly, we're using a large part of our membership to push back with a line of sight on further strengthening that involvement as markets ease.

Projection uncertainty: Unremitting inflation, supply chain disruptions, the Federal Reserve's rate

hikes, global recession fears, China's sudden open economy after years of lockdowns, low raw material and energy inventory levels and the Russia-Ukraine war, all present unique market variables and supply chain vulnerabilities. Estimates and forecasts should be used with a greater level of caution than in the past. The volatility in the markets and the large number of unknowns currently make forecasting exceedingly difficult. Markets can change abruptly with a drastic rise or fall, daily or weekly. We suggest a conservative approach when using this data and erring on the side of caution.

Inflation and the Federal Reserve: Over a several year time-period, before 2022, the Fed kept interest rates low to spur growth and support the economy during the pandemic. As economies opened back up from the pandemic inflation began soaring in 2021 and continued through 2022. The Fed has been continuously raising interest rates since March 2022 and will continue until inflation slows and unemployment rises. The Fed hopes to decelerate inflation to a more historical rate of 2% per 12-month period by 2024.

New normal: Raw materials prices, freight and labor costs are not expected to return to pre-pandemic levels and will continue placing pressure on manufacturing. A much talked about recession



would contribute in temporarily lowering raw material and energy prices, but global production levels will not be able to meet projected demand growth preventing prices from returning to previous normal levels.

Supply chain notes: The challenges facing the supply chain will likely persist through 2023 leading to continued shortages and rolling backorders. This will only improve when demand eases, raw materials become more available, labor shortages improve and global resolutions help clear the current issues.

The Q4 2022 survey by the National Association of Manufacturer's indicated that 75.7% of respondents listed attracting and retaining a quality workforce as their primary business challenge. Supply chain

Resources for members

Vizient Supply Assurance

Want to receive weekly Supply Assurance updates? Update your preferences through our [Subscription Manager](#) by selecting the Supply Assurance Weekly Digest. You can stay current on the shifting supply chain with frequent updates covering product access and availability and cost impacts with the supply chain assurance resources listed below at vizientinc.com/supply-assurance.

disruptions are identified as their next biggest challenge. Raw material costs have dropped from the number one challenge in Q2 2022 to third on the list.¹

Global supply chain realigning: Manufacturers of products and raw materials are moving manufacturing from solely China to a variety of countries including India, Malaysia, Thailand, Vietnam, Cambodia, Indonesia, Mexico and the U.S. Suppliers are also wanting to further diversify sources of materials to avoid being reliant on one country which led to many of the recent supply availability issues.



Critical supply resources

This section under the supply assurance webpage helps you proactively plan for potential supply chain disruptions in product categories affected by constraints in the supply chain. Each profile provides comprehensive insights on manufacturing, logistics and utilization reviewed/updated weekly.

Disruption briefs

One-page briefs that focus on disruptive events or conditions that could lead to product shortages. Briefs over the past year featured the semiconductor shortages, China's economy reopening, helium shortages and the Florida hurricane.

Food for Thought

Food for Thought is a Vizient Food Program communication tool that keeps you abreast of market and industry insights including food price trends and forecasts, contract news, supply chain updates, product information and continuing education opportunities.

Inflation indicators and raw material trends

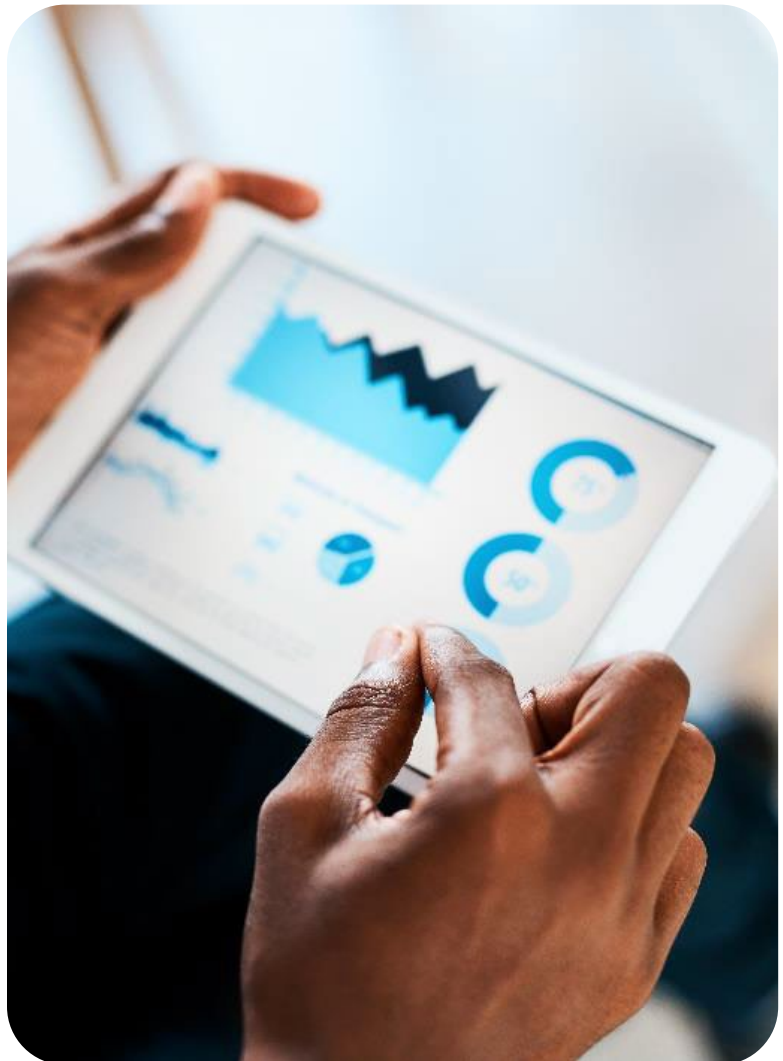
Vizient offers monthly updates covering key inflation indicators and raw material trends. The briefs cover pricing trends, forecasts and an explanation of events impacting the market. They also include detailed graphs, tables and commentary on market factors affecting raw materials and resources that impact supply chain costs.

Monthly briefs coverage:

- Raw materials
- Economic indicators
- Energy
- Freight
- Labor

Margin pressures will remain challenging in 2023

High inflation is driving up health systems' expenses and eroding margins. Given that the financial climate is not expected to improve in 2023, health systems and suppliers must seek innovative solutions to remain financially solvent. This blog outlines several steps that providers and suppliers can take – both individually and collaboratively – to minimize economic challenges. [Read the blog](#) from Sg2.



Vizient Supply Analytics solution

Supply Analytics

Inflationary cost pressure, supply availability and fluctuation in demand has made it difficult to understand the impact each of these market dynamics had on healthcare providers, especially at a category level. Through Vizient's new Supply Analytics solution, members can see key trends in spend, average unit price and units purchased at an overall spend view, at a category view and product level view. This level of insight helps compare quantitative measures to market dynamics. Vizient's Supply Analytics solution is available to all group purchasing members who provide automated data submissions to Vizient.

[For more information about Supply Analytics and Category Insights please click here.](#)

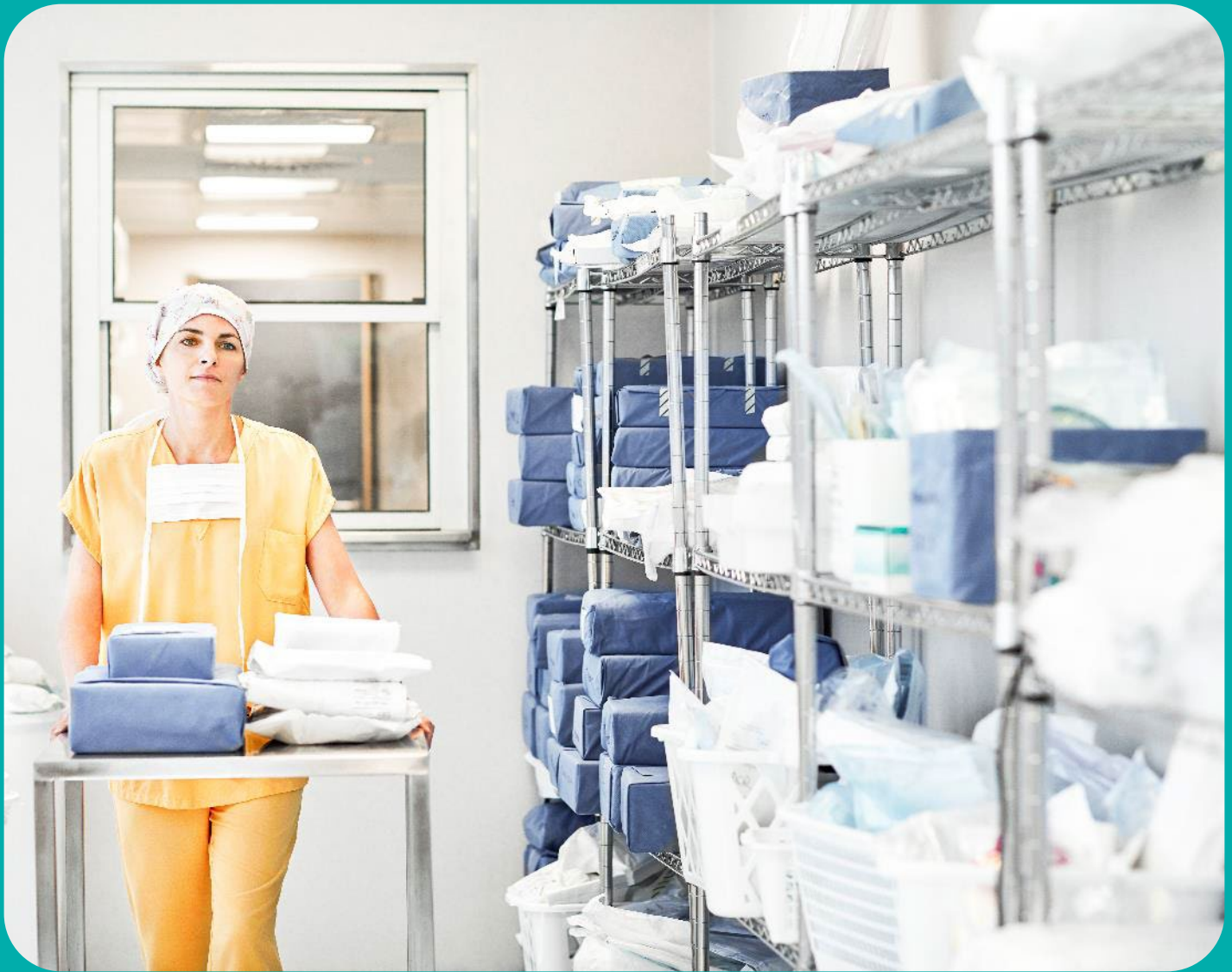


Category Insights

Beyond quantifying the impact of market dynamics for an individual provider, understanding key trends in the market at a category level is an important perspective when trying to accomplish strategic category management. A macro level view of price trends in the market across hundreds of providers and all suppliers in a category reveal quantifiable inflationary impact, an understanding of market price trends and shifts in supplier market share. Vizient's Category Insights, a module of Supply Analytics, uses a metric called Category Index to simplify understanding of market trends. Category Index is a weighted average market price for products in a category and measures whether the market prices for these products is rising or falling, and by how much. A view of Category Index can be seen by clinical sub-categories and suppliers to understand the key drivers of market movement. Insights like these aid in strategically planning sourcing activity within a category. Vizient's Category Insights is available to any member who provides automated data submissions to Vizient and subscribes to price benchmarking within Vizient's Supply Analytics solution.

References

1. National Association of Manufacturers' Outlook Survey. Published December 13, 2022. Accessed February 6, 2023. [2022 Fourth Quarter Manufacturers' Outlook Survey | NAM](#)



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As the nation's largest member-driven health care performance improvement company, Vizient provides solutions and services that empower health care providers to deliver high-value care by aligning cost, quality and market performance. With analytics, advisory services and a robust sourcing portfolio, we help members improve patient outcomes and lower costs.