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Fitch Ratings: Struggles Continue for U.S. NFP Hospitals in 2019

Fitch Ratings-Austin-05 December 2018: Not-for-profit hospitals will continue struggling to adapt to the paradigm shift in the broader health care sector into next year, according to Fitch Ratings 2019 not-for-profit hospital and health systems outlook report.

Fitch maintains a negative sector outlook for not-for-profit hospitals for 2019 due largely to ongoing operational weaknesses, which have evolved from an ongoing trend into a real fundamental shift in the sector. "Hospitals now have to continuously focus on operational, clinical and transformational initiatives to offset compressed commercial rate increases and little, if any, net rate increases from governmental sources," said Senior Director Kevin Holloran. Countering operational pressures for hospitals is the fact that balance sheets are stronger than they have been in over a decade.

It's this balance sheet flexibility that will benefit larger hospital systems most as they plan to cut billions from their expense bases in order to become profitable on Medicare rates. Lower rated hospitals, in contrast, are less able to trim expenses, and as such are more likely to be price takers than price makers when negotiating commercial rates.

Consolidation of hospital systems through M&A and alignment activity is also likely to continue in 2019. "Size and scale alone do not necessarily result in success, though further consolidation is a logical outcome given current industry pressures," said Holloran.

Operating pressures notwithstanding, Fitch maintains its stable outlook for not-for-profit hospitals next year. "Most hospitals will be able to offset short-term operational pressures with their absolute levels of cash and investments," said Holloran.

"Fitch 2019 Outlook: U.S. Not-for-Profit Hospital and Health Systems" is available at www.fitchratings.com.

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