
Fitch: Momentum Slows for U.S. Public Finance

Fitch Ratings-New York-18 October 2023: With continued Federal Reserve tightening increasing the likelihood of a mild recession early next year, there are signs that positive rating momentum has begun to slow, according to Fitch Ratings' third-quarter U.S. public finance ratings review.

Last quarter showed a relatively even split between public finance upgrades (25) and downgrades (27) compared to 61 and 20, respectively, in 2Q'23. State government rating activity consisted exclusively of affirmations for states such as California, New York and New Jersey; while Fitch upgraded ratings for seven local governments, among them Buffalo (NY), Minneapolis (MN) and Sweetwater Union High School District (CA). That said, "Revenue growth is beginning to slow for U.S. states and local governments and an expected recession in the first half of next year will weaken macro conditions even further," said Arlene Bohner, Fitch's Head of U.S. Public Finance.

Not surprisingly, NFP hospitals are where the tilt towards more negative rating actions becomes more pronounced (two upgrades and six downgrades in 3Q'23).

"Staffing shortages and elevated labor costs, the delay of certain services due to lack of staffing, and an admission mix skewed towards more medical than surgical have become the new norm for many hospitals," said Bohner.

Despite a flat quarter (one downgrade in 3Q'23), higher education will remain under formidable pressure for the foreseeable future. "A subdued consumer spending environment driven in part by resuming student loan payments will keep a damper on overall enrollment prospects, particularly for community colleges, while squeezing an important pipeline into traditional four-year schools," said Bohner.

Fitch's "U.S. Public Finance Rating Actions Report and Sector Updates: Third-Quarter 2023" is available at www.fitchratings.com.

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