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Fitch: Omicron is an Added, but Manageable Risk for NFP Hospitals

Fitch Ratings-New York/Austin-08 December 2021: The Omicron coronavirus variant, while concerning, should not have an outsized effect on not-for-profit (NFP) hospital operations and cash flows, says Fitch Ratings. Coronavirus-related hospitalizations in the US have been increasing since Nov. 14, due in large part to a current surge of the Delta variant, and the Omicron variant may add to that trend, particularly among the unvaccinated. Early data shows Omicron is highly transmissible, so it could become a common strain of the coronavirus but so far there is not a corresponding surge of severe illness or hospitalizations.

There are still many unknowns about Omicron and it could be weeks at the earliest before vaccine effectiveness against the variant and its severity can be discerned. The World Health Organization (WHO) designated Omicron as a variant of concern. Omicron's transmissibility is likely to result in a greater number of cases, particularly if it is better at evading immune responses. The general consensus is that vaccines will still provide some form of protection but it is not yet certain if hospitalizations could increase among the unvaccinated.

Nevertheless, hospitals are preparing for another winter coronavirus surge of the Delta variant, with some hospitals in regions that are currently seeing a spike in cases already stretched thin. US coronavirus hospitalizations are up 17% in the last 14 days with more than 58,000 people hospitalized daily per US Health and Human Services (HHS) data.

Hospitals are remaining vigilant in the midst of an evolving situation but continue to be pressured by a shortage of healthcare workers, high turnover, and, in many areas at the moment, high coronavirus infection and hospitalization rates. Hospitals that are already overwhelmed with coronavirus cases have limited capacity to treat additional patients and some have paused higher reimbursement elective procedures as a result. The risk of severe illness among patients with other health issues also increases as care is delayed due to the pandemic.

The lost volume from elective procedures delays revenue growth. Operating margins will also be pressured in the near term, as the surge in new infections is postponing the restoration of normal volumes. Should Omicron not be as mild as generally anticipated at this time, additional coronavirus hospital admissions would result, furthering this negative margin effect.

Lower rated, typically smaller hospitals that have full intensive care units are less able than higher-rated hospitals to absorb a decline in reimbursement, lower elective volumes and an increase in expenses caused by the cost of maintaining sufficient healthcare staff. Healthcare job vacancies are the highest of any industry and average hourly hospital wages continue to rise. Highly-rated hospitals generally have enough financial cushion to manage a decline in revenue and an increase in operating costs, given liquidity remains high. However, this liquidity cushion could decline if there are continued pandemic-related shocks to the healthcare system.

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