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U.S. Public Finance ‘Predictability’ Continues in 1Q22; Inflation a Concern - Fitch

Fitch Ratings-New York-07 April 2022: Fiscal predictability is now firmly in place for U.S. public finance to kick off 2022, according to Fitch Ratings in its latest quarterly rating actions report.

Fitch upgraded 29 U.S. public finance ratings and downgraded seven last quarter, compared to 34 and 12, respectively, in 4Q21. Many of last quarter’s upgrades were for local governments (15 upgrades versus one downgrade 1Q22), which like state governments are benefiting from the enormous coronavirus-related stimulus funding provided by the federal government since spring 2020.

“The funds are a windfall for some local governments, whereas others, including dense urban areas and those with dependence on travel and tourism, may still see some shortfalls and will likely take longer to recover,” said Arlene Bohner, Head of U.S. Public Finance for Fitch Ratings.

Inflation remains firmly top of mind as a concern for public finance heading into the second quarter. “Rising inflation, continuing supply-chain pressures and energy supply risks elevate the possibility state revenue growth could weaken more aggressively, or turn negative, if economic conditions deteriorate rapidly,” said Bohner.

Rising operating costs are another area of concern, particularly for not-for-profit hospitals and life plan communities given industry-wide shortages of nursing and hospitality staff. Lower rated hospitals and LPCs, particularly those undergoing expansions, could experience more pronounced rating pressure if construction costs rise significantly enough to precipitate more debt borrowing.

“U.S. Public Finance Rating Actions Report and Sector Updates: First Quarter 2022” is available at www.fitchratings.com.

Contact:

Arlene Bohner
Managing Director, Head of U.S. Public Finance
+1-212-908-0554
Fitch Ratings, Inc.
300 W. 57th Street
New York, NY 10019

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

