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S&P: U.S. Not-For-Profit Health Care Rating Actions, September 2022 And Third-Quarter 2022

S&P Global Ratings' not-for-profit health care rating actions for the third quarter of 2022 skewed negative with 11 downgrades and four upgrades. In comparison, upgrades and downgrades in the third quarter of 2021 and the first two quarters of 2022 were essentially even. The heightened level of downgrades stems from relentless operating pressures affecting financial performance, that along with investment market volatility, has caused balance sheet deterioration. These pressures remain sector wide with operating headwinds concentrated around staffing and supply challenges. For further sector insight see "U.S. Not-For-Profit Acute Health Care Midyear 2022 Update: Providers Face Mounting Pressures From Inflation And Labor Costs," published June 27, 2022, on RatingsDirect.

As a percent of rating actions, upgrades and downgrades were higher during the third quarter of 2022 compared with the second quarter of 2022 resulting in fewer affirmations. That said, affirmations still make up most of our rating actions with 81% of our rated acute-care providers carrying stable outlooks as of Sept. 30, 2022.

Unfavorable outlook revisions in the third quarter outnumbered favorable outlook revisions by a ratio of 10 to one, which is accelerated compared with the trends in the second quarter where the ratio was three to one. This trend largely reflects materially higher staffing expense including elevated agency nursing costs as well as inflationary pressures that we believe could lead to future downgrades for certain providers. That said, balance sheet flexibility remains important and for many providers, offers a near-term cushion to volatile operations (see "U.S. Not-For-Profit Acute Health Care Medians: Peak Performance Highlights Cushion As Sector Encounters A Challenging Period" published Aug. 24, 2022, on RatingsDirect.)

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