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Fitch: Recessionary Pressure to Intensify for U.S. Public Finance

Fitch Ratings-New York-13 April 2023: Positive rating momentum continued last quarter for U.S. public finance, though Fitch Ratings' latest quarterly rating actions recap says inflation, labor shortages and higher capital costs point to increased pressure overall in the coming months.

Fitch upgraded 38 U.S. public finance ratings and downgraded 12 in first-quarter 2023 (1Q23), continuing a similar trajectory from 4Q22 (43 upgrades and 18 downgrades). However, aggressive Federal Reserve monetary policy tightening likely means a mild recession in the near future while recent banking sector concerns add to the potential for contraction. This is creating a ripple effect for state and local government ratings, according to Arlene Bohner, Fitch's head of U.S. public finance.

'With a handful of states already reporting revenue declines, fiscal pressure could escalate if economic conditions deteriorate rapidly, though most states are well-positioned to absorb a moderate economic downturn,' said Bohner. Despite a 'deteriorating' sector outlook for 2023, states and local government ratings will remain stable.

The same cannot be said for not-for-profit hospitals (two upgrades, eight downgrades in 1Q23). Healthcare providers remain under considerable pressure, particularly with respect to labor, inflation, and equity market volatility, with elevated downgrades and negative outlook actions in the coming quarters likely. The outlook is more balanced for life plan communities (one upgrade, no downgrades in 1Q23) with limited coronavirus outbreaks and favorable demographic trends allowing for stable to improving occupancy across most communities. More fiscal pain also awaits higher education (six upgrades, four downgrades in 1Q23) due largely to inflation, labor and wage pressure and generally soft enrollment, which could further erode operating margins.

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

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