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Fitch: U.S. NFP Hospitals May Be Nearing Return to 'Neutral'

Fitch Ratings-Austin/New York-15 August 2024: Despite ongoing challenges, recent positive developments could help U.S. Not For Profit hospitals achieve a 'Neutral' sector outlook sooner, according to Fitch Ratings analysts in a sector webinar yesterday.

According to sector head Kevin Holloran and senior director Mark Pascaris, hospital operations have stabilized, while the chasm between revenue growth and expense growth has leveled out. Fitch's 2023 statistics reveal 7.6% expense growth for hospitals versus 7% revenue growth, a more favorable comparison following the 9.5% expense growth against 5.8% revenue growth of 2022. However, credit 'trifurcation' remains an issue and will remain so well into 2025, according to Holloran, at which point the environment should start to normalize, with a credit 'bifurcation' emerging soon after.

According to Pascaris, the vast majority of NFP hospitals (65%-75%) will be somewhere in the middle, steadily working to improve operating margins. Additionally, struggles will intensify and may accelerate for 5%-10% of health systems, while an equal number on the opposite end of the spectrum will thrive in stronger markets.

Countering the recent moderate upswing are ongoing struggles for hospitals. Median days cash on hand continues to decline, dropping to 211.3 in 2023 from 216.2 in 2022, and down from a high of 260.3 in 2021. The imbalance between revenues and expenses remains a structural issue for the sector. Although the labor situation is improving, it still falls short of pre-pandemic levels. However, Holloran noted that the labor environment is stabilizing overall.

Improving labor productivity remains a high priority for NFP hospitals, with the advent of AI offering intriguing possibilities over time. Hospitals may need to redesign standard processes and partially incorporate AI advancements, although the significant cost of AI will be a limiting factor for many health systems.

Fitch's webinar follows the release of the agency's latest NFP hospital medians report, available at www.fitchratings.com.

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