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Fitch Revises Sector Outlook for U.S. NFP Hospitals to Neutral

Fitch Ratings-Austin/Chicago-09 December 2024: U.S. not-for-profit hospitals have made enough meaningful strides over the last several months to lead Fitch Ratings to revise its sector outlook to Neutral from Deteriorating, according to the rating agency's 2025 outlook report.

While headwinds are still formidable, the sector has shown steady and notable improvement in operating margins following considerable margin compression over the last three years. "The rate of labor expense escalation in particular continues to attenuate as inflationary pressures subside, while balance sheets are benefiting from improving operating cash flows and strong equity market returns," said Senior Director and Sector Head Kevin Holloran.

Improving operating margins should translate to continued slow yet steady improvement for core credit drivers in 2025. Fitch forecasts a median operating margin of between 1% and 2%, barring any unforeseen shocks to the system. Volumes remain very healthy, particularly in growth markets, leading to a renewed focus on access and capacity. Labor shortages remain a preeminent struggle for hospitals, though the staffing picture has stabilized compared to the pronounced challenges that reached a peak in 2022.

As for potential headwinds for health systems in the coming year, major policy shifts that resulted in a considerable decline in health insurance coverage for a broad segment of the population or a material decline in net cash flows from supplemental funding streams could shift the sector outlook to Deteriorating. In addition, "a macroeconomic disruption leading to a combination of payor mix deterioration, volume softening, or equity market losses could lead to Fitch revising the sector outlook back to Deteriorating," said Senior Director Mark Pascaris.

Fitch's "U.S. Not-For-Profit Hospitals and Health Systems Outlook 2025" report is available at www.fitchratings.com.

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