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US Not-for-Profit Hospital Margins Decline with Operating Pressures

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Related Fitch Ratings Content: U.S. Not-for-Profit Hospitals and Health Systems Face Mounting Operating Stress (Pandemic, Labor and Inflation Pressures to Persist Through 2022 and Beyond)

Fitch Ratings-Chicago/New York/Austin-12 May 2022: Not-for-profit hospitals and healthcare systems are pressured as they continue to face significant operating challenges, Fitch Ratings says. Revenue declines during pauses in elective procedures due to coronavirus surges and escalating operating expenses due to coronavirus care and high labor costs are leading to thinner margins, as we discuss in our report US Not for Profit Hospitals and Health Systems Face Mounting Operating Stress. Without effective, ongoing cost-cutting or the ability to grow top-line revenues, operating margins will continue to decrease.

We expect margins to improve later this year but will likely stabilize at levels lower than those seen prior to the pandemic. Healthcare providers have generally been able to absorb what are now the well-known implications under surge conditions, but they no longer have the benefit of federal stimulus funds to boost liquidity and help cover higher incremental operating expenses or lost revenue.

Operations will improve as staffing costs moderate and surgical volumes return, similar to months following prior surges. Hospitals will need to maintain some level of coronavirus care capacity going forward as the virus becomes endemic, especially if variants are difficult to contain and vaccination rates and immunity levels begin to wane. This will require resources to be able to sustain operations through periods of lower revenues and elevated expenses.

The vast majority of credits in our rated portfolio have healthy balance sheets, which continue to provide cushion to manage through inflationary pressures and intermittent coronavirus disruptions. Current balance sheet strength is a key credit factor, stabilizing ratings in the sector. However, additional coronavirus surges and negative equity market trends will erode the existing balance sheet cushion, which could lead to negative rating actions.

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