

U.S. Not-For-Profit Hospitals and Health Systems Outlook 2024

Signs of Life After Challenging 2022–2023 but Margins Will Remain Pressured

Fitch's Sector Outlook: Deteriorating

Fitch Ratings continues to expect core credit drivers for the sector to remain challenged for the sector writ large again in 2024, coming off a generationally challenged period in 2022 and 2023. The industry continues to struggle with labor shortages and salary/wage/benefit pressure that is still compressing margins for a sizable portion of the sector, even as other core credit drivers, specifically volumes and overall liquidity, begin to improve.

As the largest single expense for healthcare providers, managing salary, wages and benefits has emerged as the single most meaningful differentiator between operational success and failure. Organizations that have successfully attracted and retained staff at all levels, not simply nursing, have experienced reductions in both usage and cost per hour of external contract labor (ECL), as well as more new hires compared to "leavers". These are all positive signs and contribute to cost savings and, perhaps more importantly, to quality and patient safety.

The larger macroeconomic headwinds, specifically the labor supply shortage, became highly pronounced in calendar year 2022 and remained a pressure point, with operating metrics challenged for many providers in 2023, some significantly. Fitch believes this pressure will remain for the foreseeable future yet slowly resolve, with the expectation for added incremental operational recovery in 2024. Fitch also expects a number of health providers to lag significantly behind any recovery.

