Moody's: Outlook for US not-for-profit hospitals remains negative for 2013

New York, January 22, 2013 -- The outlook for the US not-for-profit hospitals in 2013 continues to be negative, says Moody's Investors Service. Although revenue growth will remain positive, Moody's expects the rate of this growth to diminish.

Negative pressures on growth include Federal cuts to medical spending and limited reimbursement increases from insurers. In addition, tepid economic growth and elevated unemployment will dampen demand for healthcare, says Moody's in the report "US Not-for-Profit Healthcare Outlook Remains Negative for 2013."

"Our sector outlook has been negative since 2008, reflecting the lasting impact of the recession on patient volumes, significant challenges facing the industry resulting from changes in how hospitals are paid, and heightened pressure from businesses and all levels of government to lower the cost of healthcare services," says Daniel Steingart, a Moody's Assistant Vice President -- Analyst and lead author of the report.

The hospital industry is already facing more than $300 billion in reductions to Medicare payments through 2019 as part of healthcare reform, says Moody's. Furthermore, additional cuts to Medicare's payments to hospitals will likely be part of any legislation intended to reduce the long-term Federal deficit.

Some positive developments have softened the impact of the negative trends in healthcare. Most important has been that hospital performance has remained mostly favorable.

"Operating margins and leverage metrics have not deteriorated in recent years, despite negative headwinds, because management teams have successfully managed expenses in light of weak patient volumes and less robust revenue growth," says Moody's Steingart.

Other positive trends include the strategic decisions hospital boards and management teams have taken to engage in mergers, affiliations, and other forms of collaboration with various market participants. These have often improved operating performance over time.

The negative outlook expresses Moody's expectation for the fundamental credit conditions in the industry over the next 12 to 18 months. It is not a prediction of the expected balance of rating changes during this timeframe.