



After Healthy Near Term, Hospitals Could Face Uncertain 2009

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Moody's healthcare group projects that not-for-profit hospitals may do well this year, but a weak economy and a new president cast shadows across 2009 and beyond.

The weakening economy isn't likely to affect not-for-profit hospitals in 2008. But a new U.S. president and weaker economic climate creates lots of uncertainty about the sector in 2009 and 2010, according to a Moody's credit analyst.

Lisa Goldstein, head of Moody's healthcare ratings team, gives a stable outlook to the not-for-profit healthcare sector in 2008 even though the U.S economy may be headed into recession in her "Not-for-Profit Healthcare Sector: 2008 Industry Outlook" report.

"Our outlook for 2009 and 2010, however, is less certain as several industry challenges may outweigh the positive factors," Goldstein writes. "These include uncertainties about the outcome of the 2008 presidential election and the persistent scrutiny of the not-for-profit hospital industry, and the rising numbers of uninsured and underinsured patients."

Goldstein said Moody's has identified other "worrisome" trends affecting the sector through 2010 that could pressure the sector, including possible staff shortages, more aggressive investment strategies and rising operational risk associated with large construction projects.

"Many hospitals borrowed large amounts of debt to fund these capital projects at a time when interest rates were low and financial performance was strong," according to the report. "As these projects come on line, we expect to see labor and supply expenses grow during a time of what will likely be lower Medicare reimbursement and deceleration in commercial rates, placing pressure on ratings."

Some industry experts say healthcare providers under financial pressure may seek more collections assistance. Some creditors may even be open to selling receivables.

Goldstein noted that Moody's does expect some favorable trends for the sector to continue, including investments in information technology, and more baby boomers seeking healthcare services. She added that "despite changes in the program, Medicare reimbursement rates are still favorable."

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