

Industry Top Trends Update

# Health Care

## Inflationary pressures on margins

### What's changed?

**Outlook no longer has a positive bias.** Our outlook for the sector and across all four major subsectors is stable, but with inflation possibly persisting into next year, the labor-intensive services subsector could face downside pressure.

**Pharma outlook has improved.** As the larger companies de-levered, as legislative activity was quiet, and as COVID-19 leant a halo effect (as well as a financial windfall for some), our outlook on the pharmaceutical subsector improved to stable from negative. Pharma mergers and acquisitions (M&A) has also been strangely muted, though we expect an uptick.

**Volumes are back up.** Patient volumes have largely recovered to pre-pandemic levels, with organic growth offsetting decline in COVID cases.

### What to look out for?

**Margin compression.** We are projecting mid-single-digit revenue growth for the health care industry in 2022 and 2023. But with inflationary pressures potentially lasting into 2023, higher costs on health care products, transportation, and especially labor will weigh on EBITDA margins and cash flows.

**Ability to pass on costs to payors.** Negotiations with providers will be difficult, and health care companies will have to absorb higher costs at least temporarily. This should not be an issue for high-rated issuers, but others could see ratings pressure.

**Further impact from COVID-19.** The recent COVID wave in Europe and the omicron variant led to disruptions, but a steep drop in COVID-related admissions could lead to top-line misses should the recovery in non-COVID admissions lag.

### What if there's a recession?

**Potential drag on top-line growth.** A steep recession will weigh on revenues, given the discretionary component of health care and increasing out-of-pocket costs. However, we believe the decline is manageable and industry will see continued, albeit lower, growth.

**Loosening of labor market?** A recession could be a positive for the hard-pressed service providers, such as hospitals, that have seen significantly elevated labor costs, especially on nursing.

**Delay in return to normal.** While the healthcare industry remains largely insulated from a recession, many companies' patient and acuity mixes have yet to normalize, pandemic uncertainties remain, federal aid monies have dried up, and inflation remains persistently high.

### Latest Related Research

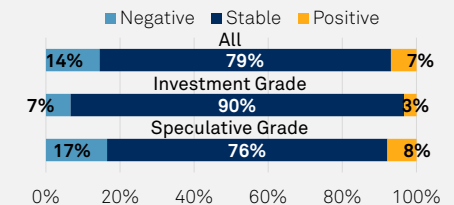
- [How Business Strength Varies Across Top Branded Pharmaceutical Companies](#), June 17, 2022
- [Pharmaceutical Industry's Credit Prospects Brighter Due to Deleveraging, Disciplined M&A Spending, and Subsiding Legal and Reimbursement Risks](#), May 23, 2022
- [The Outlook for Health Services Sector is Stable, with a Positive Bias](#), March 21, 2022

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### Outlook Distribution



### Ratings Statistics (YTD)\*

	IG	SG	All
Ratings	30	116	146
Downgrades	4	11	15
Upgrades	8	4	12

Ratings data as of end-June 2022. \* Year-to-date

### Ratings Outlook Net Bias

