

Hospitals and Healthcare Systems Labor Tracker: September 2023

Payrolls Continue to Grow as Wage Growth Decelerates

Recent labor data for the hospitals and ambulatory healthcare services sectors are showing alleviating labor inflationary pressure. Yoy average hourly earnings (AHE) growth has decelerated for three consecutive months for hospitals, four consecutive months for ambulatory healthcare services, and payrolls have continued to grow, highlighting two key points:

- Recruitment and retention efforts are reducing job openings, but with increased baseline staffing rates that have likely become the new normal for the sector.
- Generally reduced seasonal cases of COVID, flu and RSV have helped to reduce the operational strain on the U.S. healthcare system that resulted from staffing shortages and competition for a limited supply of nurses.

Fitch's conversations with rated health systems have largely confirmed that these two factors have led to reduced external contract labor (ECL) utilization and rates in 2023 compared to 2022. If labor market improvements are sustained and COVID hospitalizations remain at a level that does not create a surge in demand for nurses or disruption of surgical volumes, health systems should be able to manage through expense challenges over the next few years to improve profitability gradually. Given the acute care sector's reset of wages to a higher level, management teams are expected to turn to additional levers to improve operations, including payor contract negotiations, supply chain/purchased service efficiency initiatives, capacity optimization by reducing average length of stay, adjusting staffing and eliminating/consolidating less profitable service lines, corporate overhead reductions and the exiting of financially challenging markets.

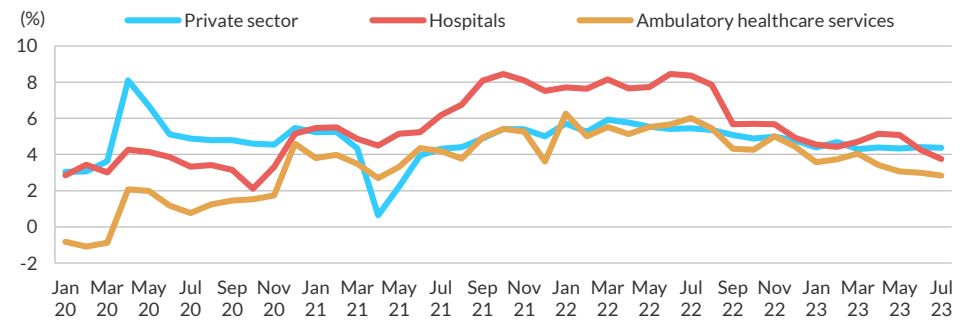
Wage Growth Decelerating: AHE growth of hospital employees slowed to 3.75% yoy in July 2023, down from a high of 8.4% since the start of the COVID-19 pandemic and 5.15% this year (April 2023). Even with the decline, AHE growth of hospital employees remains well above the 2.3% growth of hospital employees from 2010 to 2019. A deeper look into hospital subsectors shows modestly high yoy AHE growth for employees at general med/surg hospitals of 4%, low yoy AHE growth for specialty hospital employees of 0.9% and negative yoy AHE growth for psych/substance abuse hospital employees at -1%, as of July 2023.

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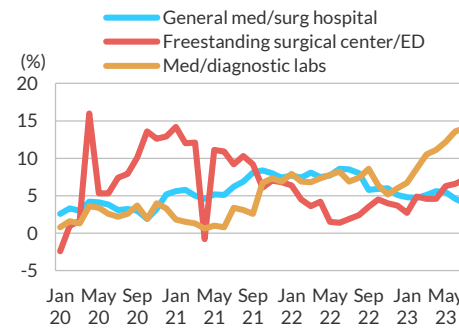
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YOY Growth in Average Hourly Earnings



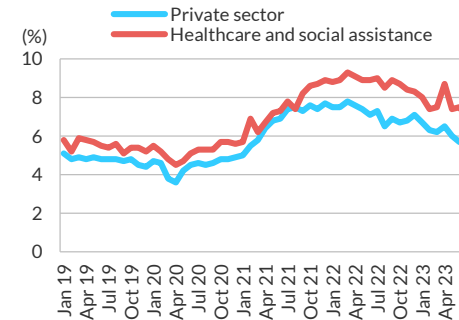
Source: Fitch Ratings, U.S. Bureau of Labor Statistics

Sub Sectors w/ Higher Inflation



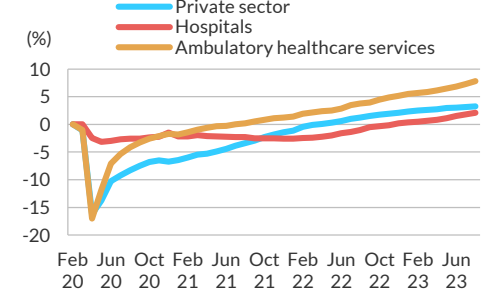
Source: Fitch Ratings, U.S. Bureau of Labor Statistics

Job Openings



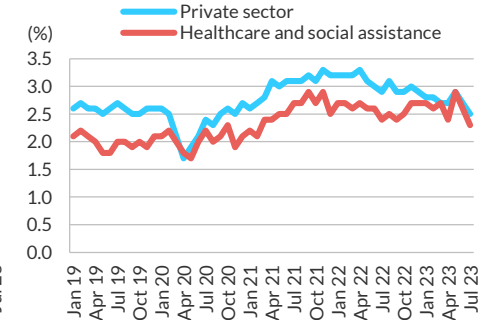
Source: Fitch Ratings, U.S. Bureau of Labor Statistics

% Change in Employees vs. February 2020



Source: Fitch Ratings, U.S. Bureau of Labor Statistics

Quits Rate



Source: Fitch Ratings, U.S. Bureau of Labor Statistics

AHE growth of ambulatory healthcare services employees slowed to 2.84% yoy in July 2023 from a high of 6.3% since the start of the COVID-19 pandemic and 4.05% this year (March 2023). This figure remains above the 2.4% AHE growth of ambulatory healthcare services employees from 2010 to 2019. Though wage growth of ambulatory care employees is slowing overall, yoy AHE growth of employees of freestanding ambulatory surgical and emergency centers and medical and diagnostic laboratories remains very high at 7.2% and 14%, respectively, as of July 2023, perhaps highlighting the fundamental shift from inpatient to outpatient care.

Hospital/Ambulatory Payrolls Continue to Rise: Hospital and ambulatory healthcare services payrolls have risen for 19 and 31 consecutive months, respectively, as of August 2023, resulting in hospital and ambulatory healthcare services payrolls being 2.1% and 7.8%

above the February 2020 level. Hospital and ambulatory healthcare services monthly job additions have averaged +13,500 and +26,510 per month, respectively, over the twelve-month period from September 2022 - August 2023 compared to -5,500 and +23,610, respectively, per month over the twelve-month period from September 2021 to August 2022.

Job Openings Rate and Quits Rate Declining: The healthcare and social assistance sector's job openings rate has lowered from a peak of 9.3% as of March 2022 to 7% as of July 2023. Despite the decline, the latest job openings rate remains very high compared to the 4.2% average job openings rate from 2010 to 2019. The quits rate in the healthcare and social assistance sector has lowered from a recent peak of 2.9% in May 2023 to 2.3% as of July 2023. The current quits rate remains high compared to the 1.6% average from 2010 to 2019.

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