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Nonprofit hospital finances face market and tariff uncertainty

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The Buzz This Week

Nonprofit hospitals closed fiscal year 2024 with stronger financial performance than the prior year. Fitch Ratings reported median operating margins rose to 1.2% in 2024, a marked improvement from the negative margin of -0.5% observed in 2023. This recovery was primarily due to decreased reliance on costly contract labor, improved revenue cycle management, and higher patient volumes. Personnel costs as a percentage of total operating revenues also modestly declined—from 55.4% in 2023 to 54.5% in 2024—due to ongoing labor-management initiatives.

However, economic conditions have shifted unfavorably as hospitals progress through 2025. Significant market uncertainty has emerged, reflecting broader geopolitical tensions and inflation volatility. Recent stock market fluctuations have introduced new financial risks, potentially reducing hospital liquidity. Fitch emphasized that hospital balance sheets benefited substantially from robust investment returns between 2020 and 2024, during which the S&P 500 averaged annual returns over 14%. Hospitals with early fiscal year ends in 2024 had median investment returns of 9.8%, boosting key liquidity metrics such as days cash on hand (DCOH) and cash-to-adjusted-debt ratios. However, recent market instability has raised concerns that liquidity will erode as investment performance weakens.

Adding to the financial strain, recent tariff increases have placed significant new pressures on hospitals' operating expenses. Levies on medical equipment, devices, and certain medical supplies imported from China have risen dramatically, with rates now reaching up to 145%. These tariff hikes are increasing the cost burden for hospitals at a time when budget flexibility is already limited. Hospital executives currently maintain a cautious "wait-and-see" approach, given the uncertain duration and future trajectory of tariff policies.

Why It Matters

Although nonprofit hospitals experienced financial recovery in 2024, the current 2025 economic environment demands thoughtful scenario planning and cautious financial stewardship. Given the combined challenges of stock market volatility, tariff-induced cost hikes, and looming Medicaid funding reductions, healthcare leaders need to carefully evaluate potential outcomes before taking decisive action.

Whereas recent financial pressures were predominantly driven by escalating labor costs associated with contract staffing, 2025 is shaping up to be defined increasingly by rising supply costs and supply chain disruptions—conditions not seen since the early months of the pandemic.

Hospitals are actively reevaluating their operational structures in response to these pressures. Executives at provider organizations are aggressively analyzing their clinical staffing models, administrative cost structures, and revenue cycle performance to enhance efficiency and control expenses. These internal assessments are vital, especially as ongoing market volatility shortens investment planning horizons, complicating large-scale capital investment decisions and requiring a more immediate focus on operating cost reductions and expense management.

To mitigate supply chain cost increases driven by tariffs and potential product shortages, hospitals and healthcare organizations are employing various strategies, including shifting procurement sourcing to lower-tariff regions, seeking tariff exceptions through active lobbying, and consolidating vendor contracts to leverage improved pricing. These tactical responses can partially alleviate cost pressures in the short term, enabling hospitals to maintain essential liquidity and balance sheet stability.

Beyond immediate tactical measures, healthcare leaders are also encouraged to pursue structural operational improvements. Reducing procedural variability, enhancing patient throughput, prioritizing high-margin surgeries, and implementing innovative care models such as hospital-at-home and telehealth initiatives can further reduce operating expenses and bolster revenue streams.

Given the uncertainty around future Medicaid funding and continued economic instability, hospitals must regularly reassess likely future state scenarios based on evolving conditions and adjust as necessary. Agility and establishing/preserving financial degrees of freedom will separate successful organizations from those that will struggle in the next few years. Emphasizing operational discipline, prudent liquidity management, and responsive supply chain adjustments will be crucial for navigating the unpredictable financial landscape of 2025 and maintaining the long-term viability of nonprofit hospitals.

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