Health Care Facilities

# Health Care Labor Tracker: Jan data mixed, but generally improving labor market

Industry Overview

06 February 2024

Equity
United States
HC Facilities

BofA Data Analytics

## Jan tracker up m/m, but generally trending down

Our BofA Health Care Labor Tracker measures 10 metrics across the health care and social assistance industry, hospitals, and the macroeconomy to determine the extent of labor pressure facing the industry since 2000. In January, the preliminary score of our tracker was 7.6, higher m/m, pointing to a tightening health care labor market. However, we note our December Tracker was revised downward (to 7.4 from 7.9). Today's January reading is still below last month's preliminary reading of 7.9, and down 1.3 y/y, which highlights the non-linear improvement in labor. That said, today's January reading is still above the 6.9 score we saw in December 2019 (which itself was elevated relative to historic levels) as well as the long-term average monthly score of ~5. We also note that our analysis of temporary job postings, indicates that hospitals could see some pressure in Q1, which underscores that the improvement we expect is unlikely to be linear.

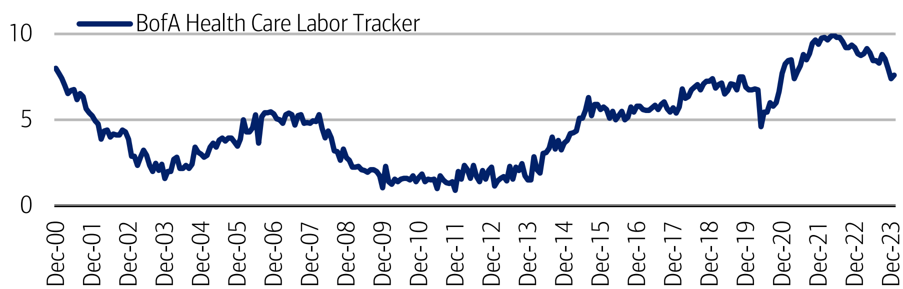
## Hospital unemployment lower, wages decelerate m/m

In January, the hospital unemployment rate decreased 10bps (1.7% vs 1.8% prior). Meanwhile, in December, hospital wage inflation decelerated to +2.5% y/y vs +3.5% prior. However, the December HC & SA vacancy rate worsened m/m (7.7% vs 7.5%).

## Slowly improving labor market, emphasis on slowly

The current score is still well above the 6.9 score we saw in December 2019 (which itself was elevated relative to historical average of ~5). As a result, we think that purely looking at the improved score without context may overstate how quickly/easily the HC labor constraints will be solved. In general, the data points are indicating that the HC labor market is slowly improving, but given how elevated the scores are, we think it is still safe to call this a difficult labor backdrop.

**Exhibit 1: The preliminary Jan weighted average score was 7.6, higher m/m**
BofA Health Care Labor Tracker weighted average score over time




**Source:** Bureau of Labor Statistics, BofA Global Research
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HC = Health Care

BLS = Bureau of Labor Statistics

HC & SA = Health Care and Social Assistance


**Refer to important disclosures on page 17 to 22. Analyst Certification on page 16. Price Objective Basis/Risk on page 15.** **12655576**

# Jan worse at 7.6, +0.2 m/m but -1.3 y/y

At an average of 47% of revenue, salaries, wages, and benefits (SWB) is the largest cost item for the hospital industry and one of the four main swing factors for profitability (along with pricing, volumes and payer mix). Labor also tends to be the largest cost item for other subsectors, such as home health and hospice.

**Exhibit 2: Labor as a % of revenue by subsector**
Labor represents the largest cost for inpatient settings

| | 2021 | 2022 | y/y change |
|---|---|---|---|
| Physician Staffing | 67.9% | 70.1% | 226bps |
| Home Health/Hospice | 60.6% | 61.7% | 104bps |
| Acute Inpatient Rehab | 54.5% | 57.8% | 328bps |
| Inpatient Psych | 53.2% | 53.8% | 65bps |
| Senior Housing | 53.0% | 53.7% | 72bps |
| Dialysis | 46.4% | 47.8% | 142bps |
| Acute Hospitals | 44.2% | 45.5% | 129bps |
| Ambulatory Surgery Centers | 27.2% | 27.4% | 17bps |
| Home Infusion | 14.8% | 15.0% | 13bps |
| **HC Provider Average** | **46.9%** | **48.1%** | **122bps** |

**Source:** Company filings, BofA Global Research estimates

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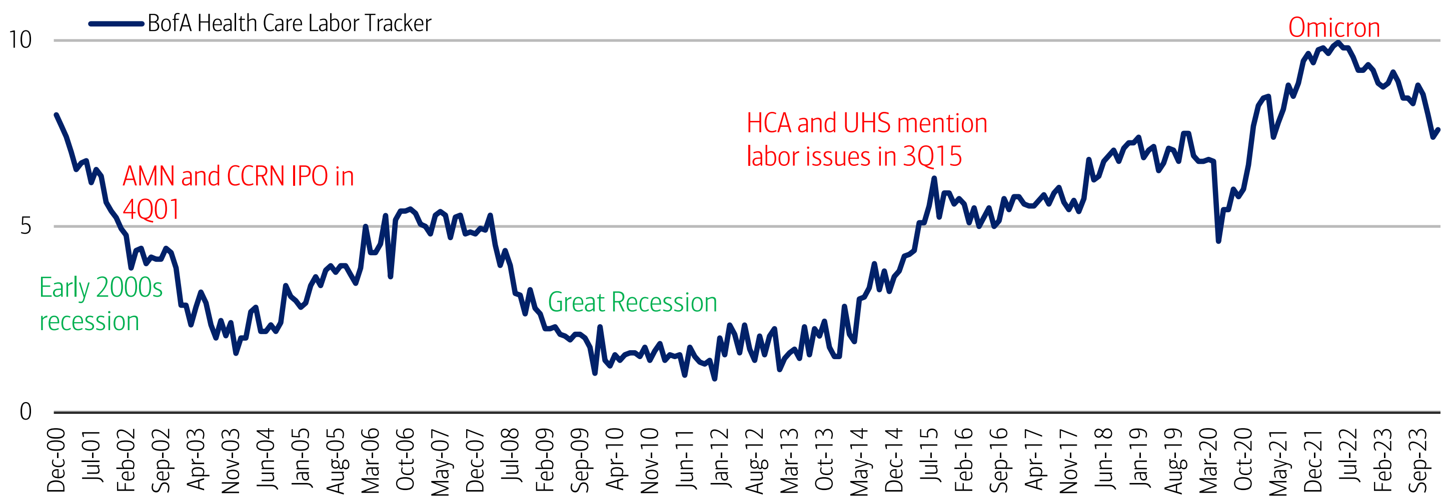
Our deep dive on labor shows that the health care labor market was already constrained heading into COVID. The pandemic created unprecedented health care labor stress as COVID patients filled hospitals, while also pushing nurses into quarantine, requiring hospitals to staff up with contract labor to meet demand. The supply/demand imbalance came to a head in 1Q22 during the Omicron spike as hospitals saw record contract labor utilization. Since then, contract labor utilization and rates have slowly fallen. Initially, as companies attempt to fill their workforce with permanent labor, wage growth and sign on/incentive bonuses have been elevated compared to historical levels, continuing to put pressure on labor costs. However, we are starting to see moderation in these bonuses as well (although still above normal).

Based on the timing of data releases from the BLS, our February report largely reflects January data for the macroeconomy and December data for the HC & SA and hospital metrics. In January, the preliminary score of our tracker was 7.6, higher m/m, pointing to a tightening health care labor market. However, we note our December Tracker was revised downward (to 7.4 from 7.9). Today's January reading is below last month's preliminary reading of 7.9, and down 1.3 y/y, which highlights the non-linear improvement in labor. Today's January reading is still above the 6.9 score we saw in December 2019 (which itself was elevated relative to historic levels) as well as the long-term average monthly score of ~5.

Given the timing of data releases, we would expect to continue to see uneven progress from month to month on labor, but directionally we would expect a slow improvement in the labor market over time as wages grow, bringing more nurses back to full time jobs. Please see our Methods and limitations section for more information on the metrics and how we derive our tracker score.

**Exhibit 3: The preliminary January weighted average score was 7.6, above December**
BofA Health Care Labor Tracker weighted average score over time

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In January, the hospital unemployment rate was down 10bps sequentially (higher score m/m). National wage inflation accelerated in January, resulting in a higher score m/m.

Meanwhile, in December (the latest period available), hospital wage inflation decelerated to +2.5% y/y, resulting in a lower score m/m. The HC & SA vacancy rate was up 20bps m/m, but the quit rate improved in December.

**Exhibit 4: M/m, hospital unemployment was lower and national wage inflation accelerated, resulting in a higher overall score**
Preliminary January Health Care Labor Tracker (based on January and December data), vs December Health Care Labor Tracker (based on December data)

| | | Data | | | | Growth | | | Prior score | Current score | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Health Care and Social Assistance industry** | **Most recent period** | **Current** | **Prior period** | **Prior year** | **Historical average/ growth** | **Sequential** | **y/y** | **vs historical** | **0-10** | **0-10** | **Weighting** |
| HC & SA vacancy rate (%) | Dec-23 | 7.7% | 7.5% | 8.3% | 4.7% | 0.2% | (0.6%) | 3.0% | 9 | 9 | 20% |
| HC & SA openings/hires ratio (#) | Dec-23 | 2.56x | 2.10x | 2.36x | 1.63x | 21.7% | 8.3% | 57.1% | 9 | 10 | 15% |
| HC & SA quit rate (%) | Dec-23 | 2.1% | 2.4% | 2.7% | 1.8% | (0.3%) | (0.6%) | 0.3% | 9 | 8 | 15% |
| HC & SA fill rate (%) | Dec-23 | 39.1% | 47.6% | 42.3% | 64.6% | (8.5%) | (3.3%) | (25.5%) | 10 | 10 | 5% |
| **Hospital industry** | | | | | | | | | | | |
| Hospital unemployment rate (%) | Jan-24 | 1.7% | 1.8% | 1.5% | 1.9% | (0.1%) | 0.2% | (0.2%) | 5 | 6 | 5% |
| Hospital hourly wage ($) | Dec-23 | $41.53 | $41.69 | $40.52 | 3.4% | (0.4%) | 2.5% | (0.9%) | 5 | 2 | 15% |
| Hospital employment/65+ population (%) | Dec-23 | 8.4% | 8.4% | 8.3% | 10.4% | 0.0% | 0.1% | (1.9%) | 10 | 10 | 5% |
| **Macro** | | | | | | | | | | | |
| Unemployment rate, 3mo lag (%) | Oct-23 | 3.8% | 3.8% | 3.6% | 5.8% | 0.0% | 0.2% | (2.0%) | 9 | 9 | 5% |
| Hourly wage - production & nonsupervisory employees ($) | Jan-24 | $29.66 | $29.53 | $28.31 | 3.2% | 0.4% | 4.8% | 1.5% | 8 | 9 | 10% |
| Temporary employment/total employment (%) | Jan-24 | 1.76% | 1.76% | 1.93% | 1.85% | (0.00%) | (0.17%) | (0.09%) | 2 | 2 | 5% |
| | | | | | | | | | **Weighted average Tracker score 7.4** | **Weighted average Tracker score 7.6** | |

**Source:** Bureau of Labor Statistics, BofA Global Research estimates
Note: historical average represents the average/average growth of the metric since December 2000 through the current month, except for hospital wage growth (historical average growth is based on data since March 2007), openings/hires ratio (historical average is based on data since January 2001), and fill rate (historical average is based on data since January 2001).
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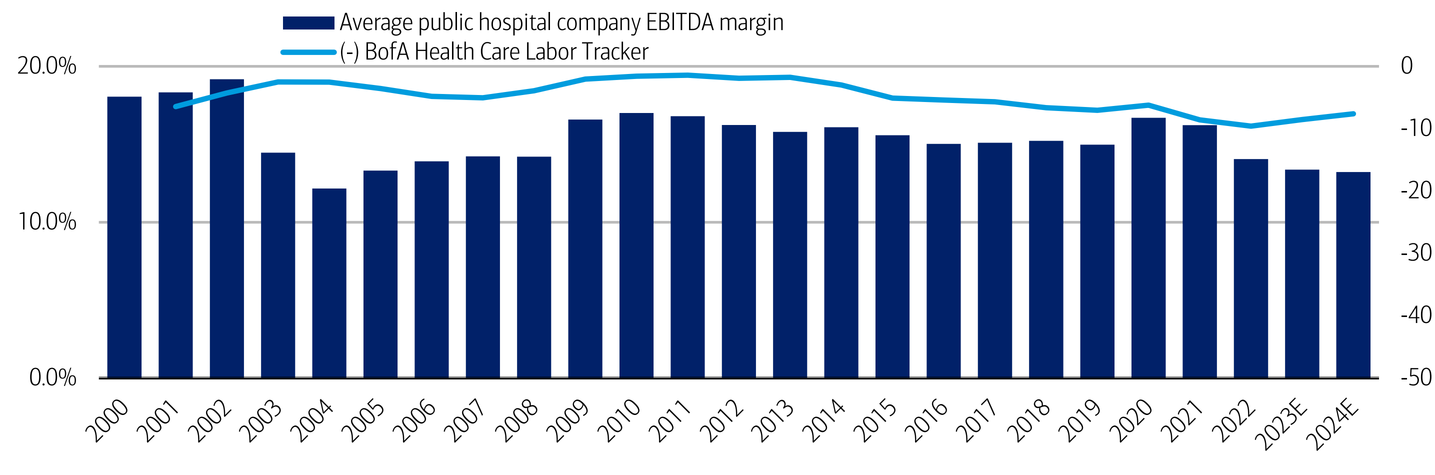
## Implications for the hospital group

Below we show the average EBITDA margin between HCA, THC, and UHS compared with the inverse of our Health Care Labor Tracker (-1 * score). Historically, when the Health Care Labor Tracker signals a more competitive labor market, there is pressure on hospital margins. Below we show the historical correlation as well as the average Tracker score in 2023 and 2024 YTD against estimated 2023-24 EBITDA margins.

**Exhibit 5: Some noise in the margins over time, but directionally in line with our tracker**
Average public hospital company EBITDA margin vs inverse of BofA Health Care Labor Tracker

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### SWB expense (~47% of revenues)

Our bullish call on hospitals is based more on pricing catching up to costs, rather than costs decelerating. As a result, consistently high (but stable) labor costs are already factored into our estimates. If labor does improve, it could be upside to our estimates. At approximately 47% of revenues, SWB expense represents the largest cost item on a hospital P&L. We estimate that for every 10bps (better or worse), it could impact EBITDA by ~0.3% at the median. Any change in labor (positive or negative) affects UHS the most (given the higher labor exposure in psych, as well as somewhat depressed margins today), while it affects HCA the least, given its higher margins.

**Exhibit 6: Sensitivity to SWB changes**
We estimate that if SWB comes in 10bps higher, it could yield a median cut of -0.3% to EBITDA

| | 0.1% | 0.5% | 1.0% | 1.5% | 2.0% |
|---|---|---|---|---|---|
| **HCA** | | | | | |
| EBITDA impact | -$31.3 | -$156.6 | -$313.2 | -$469.8 | -$626.3 |
| % of 2024E EBITDA | -0.2% | -1.2% | -2.4% | -3.5% | -4.7% |
| **THC** | | | | | |
| EBITDA impact | -$9.6 | -$48.0 | -$96.1 | -$144.1 | -$192.1 |
| % of 2024E EBITDA | -0.3% | -1.4% | -2.7% | -4.1% | -5.4% |
| **UHS** | | | | | |
| EBITDA impact | -$7.5 | -$37.5 | -$75.0 | -$112.6 | -$150.1 |
| % of 2024E EBITDA | -0.4% | -1.9% | -3.8% | -5.7% | -7.6% |
| **Average** | -0.3% | -1.5% | -3.0% | -4.4% | -5.9% |
| **Median** | -0.3% | -1.4% | -2.7% | -4.1% | -5.4% |

**Source:** BofA Global Research estimates. HCA = HCA Healthcare, THC = Tenet Healthcare, UHS = Universal Health Services

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## Company commentary on labor outlook

Overall, the companies that have given guidance on labor are continuing to assume modest improvement in the labor market, driven by declining contract labor utilization, somewhat offset by investments in recruiting and retaining full-time staff. For 2024 specifically, only HCA has given guidance, but it expects to continue to see improvement in labor capacity.

While some of the publicly traded hospitals have mentioned higher professional fees from physicians since the beginning of this year, it was one of the biggest themes in Q3. For more information on professional fees (what they are, why they're a problem now, how hospitals can manage the pressure, and more), see our 10-31-23 report.

**Exhibit 7: Nurse labor continues to improve, partially offset by more pressure on physician labor**
Company commentary on labor trends in 2023/24

| Company | Quarter | Comment |
|---|---|---|
| Acadia Healthcare (ACHC) | 3Q23 | "In addition to our core financial metrics, we were pleased to see further sequential improvement in our labor trends with 2023 wage inflation decreasing from 7.5% in the first quarter to 6.3% in the second quarter, to 5.7% in the third quarter, an improvement of 180 basis points so far this year." |
| AMN Healthcare (AMN) | 3Q23 | "I would say that most of our clients, did see sequential increases in Q4 over Q3 and their utilization, but there were several large clients that we're continuing to reduce utilization with the progress they've made on hiring and retention. So as we just look at the pace where they're pacing relative to those that behave that as we thought they would, there could be room for them to improve further in the first quarter and reduce their utilization, which, you know, could lead to Nurse and Allied, you know, being flat to slightly down in Q1 over Q4. From a bill rate standpoint, you know, in Q2 and Q3, we saw sequential declines in the bill rate of about 7%. The expectation is that bill rates will be down 4% in Q4 over Q3 and that could continue to move, you know, low single digits moving into next year downward." |
| Cross Country Healthcare (CCRN) | 3Q23 | "As a result of the pullback in bill rates this year, amidst elevated compensation expectations for nurses, we are seeing some margin depression due to a tightening in the billpay spreads. Though this appears to be a broader issue across the industry that may persist for the next several quarters, we will strive to remain competitive in order to preserve our market share while protecting our profitability." |
| DaVita Inc (DVA) | 3Q23 | "Our experience on labor is consistent with recent macroeconomic trends. The tight labor market and low unemployment has continued to put pressure on retention and training, offset by slight easing in the wage environment." |
| Encompass Health (EHC) | 3Q23 | "Our Q3 contract labor plus sign-on and shift bonuses of $33.3 million was comprised of approximately $18.9 million in contract labor and $14.4 million in sign-on and shift bonuses. This compares favorably to $24.8 million in contract labor and $24.2 million in sign-on and shift bonuses in Q3 last year. Contract labor utilization declined year-over-year and sequentially. Q3 '23 contract labor FTEs of 388 represented a 19% decline from Q3 '22 and an 18% decline from Q2 of '23. Contract labor FTEs as a percent of total FTEs was 1.5%, a 40 basis-point decline from Q3 '22 and a 30 basis-point decline sequentially. Agency rates declined year-over-year and were up modestly sequentially. Our Q3 '23 agency rate per FTE was approximately $192,700, down from approximately $204,600 in Q3 '22. I'll remind you that rates are impacted by the licensed level of the clinician utilized as well as by geographic specific market conditions. Sign-on and shift bonuses decreased $9.8 million or 41% from Q3 '22 and were roughly flat sequentially. As we consider contract labor and shift bonuses for Q4, it is worth noting that holiday coverage typically requires premium pay rates. Partially offsetting the benefit of lower premium labor costs in Q3 was an increase in our internal SW per FTE rate. This rate which excludes contract labor and sign-on and shift bonuses increased 6% over Q3 '22, similar to the level of increase we saw in Q2. The increase was attributable to proactive market adjustments, primarily for nurses, higher compensation for new hires and planned merit increases. These actions are contributing to our success in new hiring and improvement in turnover. Our updated guidance assumes a continuation of this trend in Q4." |
| HCA Healthcare (HCA) | 4Q23 | "Contract labor declined 20% for the year and equated to 5.3% of SWB in the fourth quarter."<br>"In other words, we weren't able to take roughly 10% of the patients who were referred to us through our transfer centers and such. [...] We're still below where we were in 2019. What we have seen is more patients coming through our transfer centers and other patient navigation programs than we did in 2019. So we feel good about the inflow, if you will. We are still at times in situations where all of our capacity is not open and available. That's what generates these situations where we can't receive the patients that are coming through these navigation programs and transfer centers. We think that will continue to get better in '24, as we have capital coming online, as our hiring patterns continue to improve, our turnover, as I mentioned in my commentary, has also improved. We've been very intentional in trying to create a great environment for our people with good leadership, resource capabilities, and just overall training to support the effort so that they can be successful in what they do. And we think that will help us push through '24 and hopefully have more capacity available and be able to receive the patients that want to get into our system." |
| Select Medical Corp (SEM) | 3Q23 | "This past quarter, we had a sequential reduction from Q2 to Q3 in our RN agency costs and utilization but had a slight increase in RN agency rate. The reductions we realized were 17% in RN agency costs having $22.1 million versus $18.4 million this quarter and a drop in RN utilization from 18% to 15%. The agency rates increased by only 1% from $77 to $78 and we experienced very little change in the rate throughout Q3. RN agency utilization during the quarter inched down from 15.6% in July, 15.5% in August and 15.1% in September. And the related costs were $6.2 million in July, $6.3 million in August and $5.8 million in September. Nursing sign on an incentive bonus dollars remain consistent with Q2 at $7.8 million while we had a 19% increase in orientation hours 143,000 hours compared to 120,000 hours with the fluctuation during the quarter from 44,000 hours in July, 51 in August and 48 in September." |
| Surgery Partners (SGRY) | 3Q23 | "Starting with anesthesia, I would like to point out that anesthesia availability and cost pressures are not new, but rather something that we have been managing for a few years. It's widely known that the current supply of anesthesia providers from MDs to CRNAs is constrained and that recent reimbursement changes for their services has impacted their profitability. Other than the limited number of providers that we employ, the anesthesiologist or CRNA is responsible for billing and collecting for their services performed in our facilities. These providers have chosen to work with us and our facilities for the same reason our surgeons and other stakeholders do, for the convenience, efficiency, and clinical quality we are known for. In other words, they generally prefer working with our surgeons in our facilities. [...] To reiterate, this has not been a material issue for us, and I do not expect this will be a material issue for us in 2024." |
| Tenet Healthcare (THC) | 3Q23 | "We continue to make significant progress, improving nurse retention and accelerating hiring. This has resulted in a substantial reduction in contract labor usage to 3.1% of consolidated SW&B, which is the high-end of pre-pandemic levels."<br>"We continue to manage cost pressures from medical fees. Medical fees, while higher than last year remained relatively flat from Q2 to Q3 '23." |
| Universal Health Services (UHS) | 3Q23 | "The amount of premium pay in the third quarter was $69 million, reflecting a 15% decline from the amounts in the previous several quarters. The continued robust increase in acute volumes is the major reason the premium pay has not declined farther."<br>"we had originally anticipated and what we included in our 2023 original guidance was that physician expense would be $55 million to $60 million |

**Exhibit 7: Nurse labor continues to improve, partially offset by more pressure on physician labor**
Company commentary on labor trends in 2023/24

| Company | Quarter | Comment |
|---|---|---|
| | | higher in 2023 than it was in 2022. As it turned out, I think this has been a bigger issue than we anticipated and I think virtually all of our peers anticipated around the country. And what we said is that we anticipated that the second half of the year would also reflect another $55 million or $60 million increase over the second half of 2022, and we are tracking very closely to those numbers in the third quarter. So, in other words, I don't think we've had a material sequential increase in our pro-fees or in our position expenses." |

**Source:** Bloomberg, company commentary

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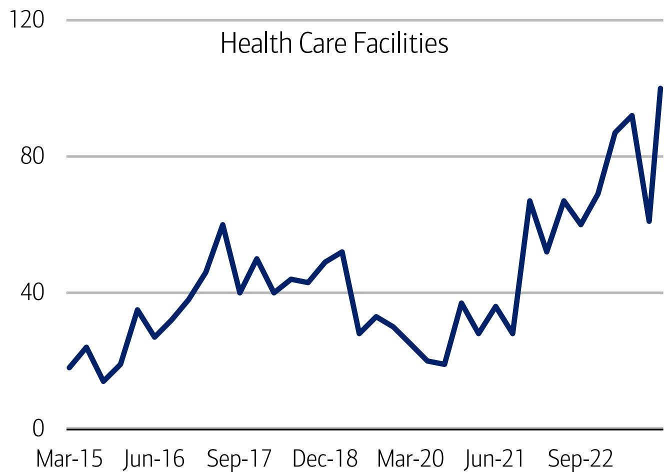
## Text analysis of Health Care Facilities earnings calls

Mentions of improved labor availability/productivity by health care management teams have been rising broadly since September 2022 (vs March 2021 for the overall stock market ex Health Care Facilities).

**Exhibit 8: Mentions of "better/improving labor availability" have been increasing since September 2022…**
Mentions of "better/improving labor availability" by management on Health Care Facilities earnings/conf./guidance calls through 11/7/23




**Source:** Alphasense
Trend line (ranging 0-100) is normalized function of no. of documents with keyword/ total number of documents

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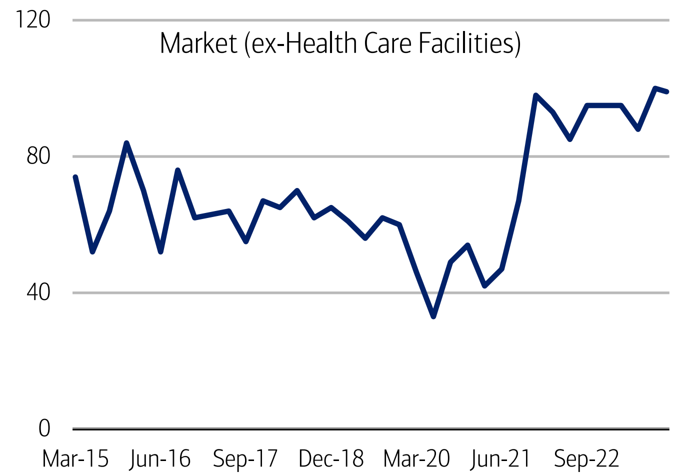
**Exhibit 9: …vs March 2021 for the overall market ex Health Care Facilities**
Mentions of "better/improving labor availability" by management on US (ex Health Care Facilities) earnings/conf./guidance calls through 11/7/23




**Source:** Alphasense
Trend line (ranging 0-100) is normalized function of no. of documents with keyword/ total number of documents

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# Jan worse, Dec Tracker restated down

## HC & SA vacancy rate worse m/m, but quit rate better

Within the Health Care and Social Assistance data from the Bureau of Labor Statistics, we identified four key metrics to use in our tracker:

- **Vacancy rate** (number of job openings on the last business day of the month as a % of total employment plus job openings). Based on historical ranges, we defined a vacancy rate of 4.1-4.8% as normal, while anything above that would indicate a tight labor market and anything below would be an accommodative market.

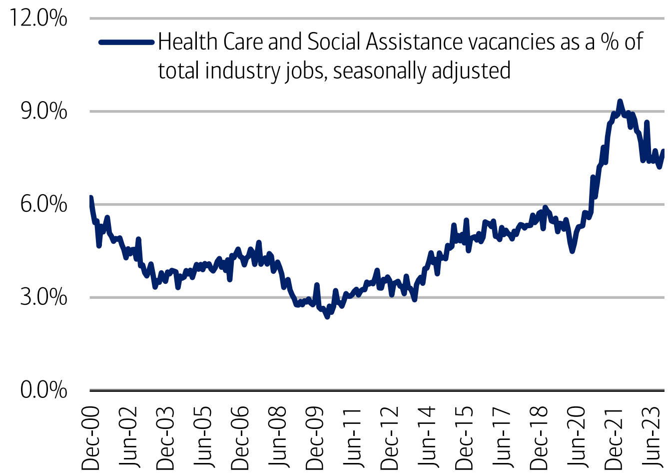
- **Openings/hires ratio** (the average of this month's and last month's job openings on the last business day of each month divided by number of hires during the entire month). Based on historical ranges, we defined an openings/hire ratio of 1.46-1.62x as normal, while anything above that would indicate a tight labor market and anything below would be an accommodative market.

- **Quit rate** (number of quits during the entire month as a % of total employment). Based on historical ranges, we defined a quit rate of 1.7-1.8% as normal, while anything above that would indicate a tight labor market and anything below would be an accommodative market.

- **Fill rate** (number of hires during the entire month divided by the average number of this month's and last month's job openings on the last business day of each month). Based on historical ranges, we defined a fill rate of 62-69% as normal, while anything below that would indicate a tight labor market and anything above would be an accommodative market.

In December, the vacancy rate worsened m/m to 7.7% from 7.5%. This month's vacancy rate still resulted in a score of 9 (in line with 9 last month). Meanwhile, the openings/hires ratio also worsened m/m to 2.56x from 2.10x as hiring slowed. This resulted in a score of 10, vs 9 last month.

**Exhibit 10: The vacancy rate of 7.7% in December worsened m/m, and scored a 9 (same as last month)**
Health Care and Social Assistance vacancy rate




**Source:** Bureau of Labor Statistics

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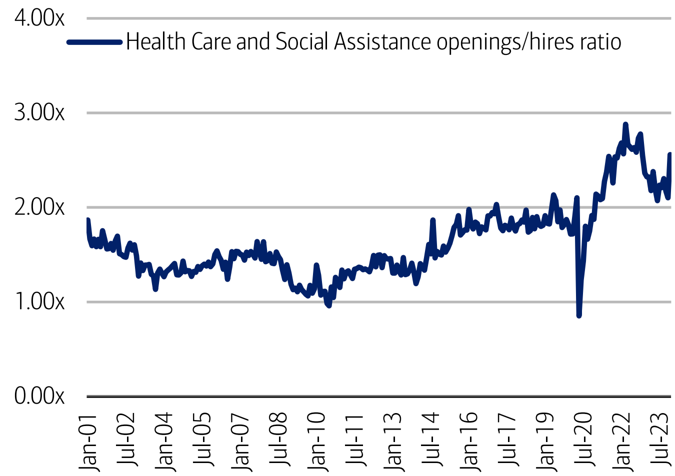
**Exhibit 11: The openings/hires ratio was 2.56x in December, +22% m/m and +8% y/y, resulting in a score of 10 (higher m/m)**
Health Care and Social Assistance job openings/hires ratio




**Source:** Bureau of Labor Statistics, BofA Global Research
Note: We calculate the openings/hires ratio as the average of this month's and last month's job openings on the last business day of each month, divided by total hires during the entire month

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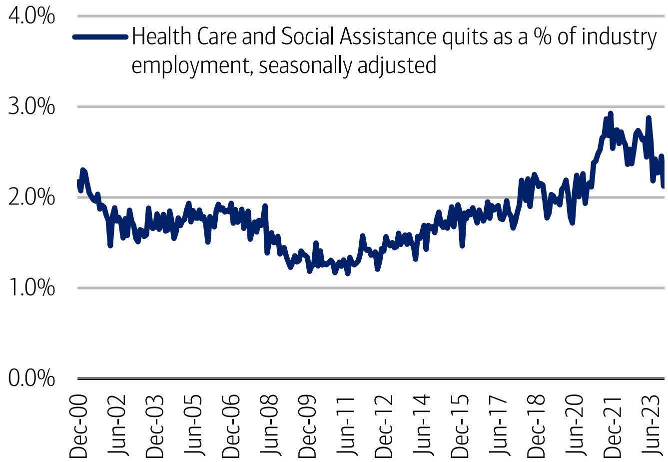
In a positive, the quit rate of 2.1% improved 30bps m/m and 60bps y/y in December, resulting in a score of 8 (vs 9 last month). Meanwhile, the December fill rate was 39%, down -8% m/m and -3% y/y. The score was unchanged m/m at 10, demonstrating how constrained the market still is.

**Exhibit 12: The 2.1% quit rate in December improved m/m, score of 8 lower vs last month**
Health Care and Social Assistance quit rate




**Source:** Bureau of Labor Statistics

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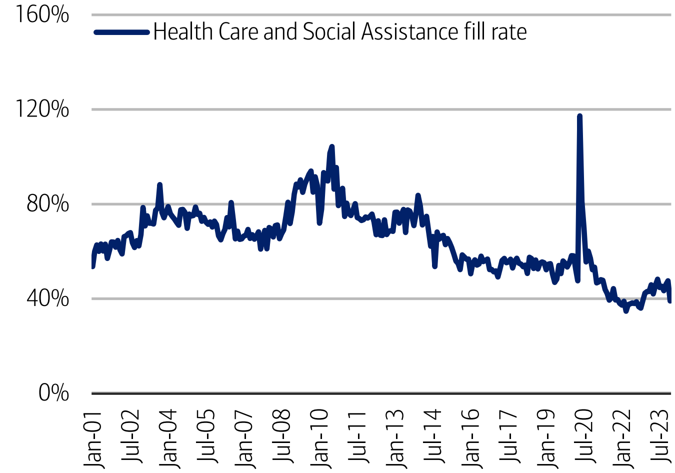
**Exhibit 13: The fill rate of 39% was down -8% m/m in December, but scored a 10 (same as last month)**
Health Care and Social Assistance fill rate




**Source:** Bureau of Labor Statistics, BofA Global Research
Note: we calculate the fill rate as hires during the entire month/average of this month's and last month's job openings on the last business day of each month

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## Hospital wages decelerated in December

Within the hospital industry data from BLS, we identified 3 key metrics:

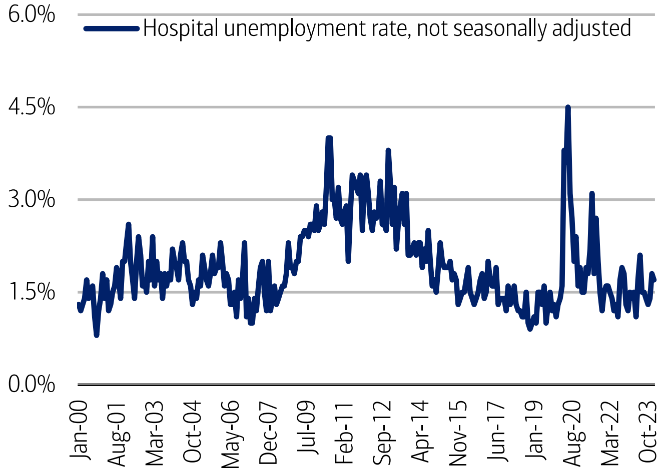
- **Hospital unemployment rate** (number of unemployed people 16+ in the hospital industry as a percentage of people 16+ in the hospital industry labor force). Based on historical ranges for this metric, we defined an unemployment rate of 1.7-1.9% as normal. Anything below that would indicate a tight labor market and anything above would be an accommodative market.

- **General medical and surgical hospital employee average wage** (average hourly earnings of all employees in general medical and surgical hospitals). Based on historical ranges for this metric, we defined wage growth of 2-3% y/y, i.e. in line with inflation, as normal. Anything above that would indicate a tight labor market and anything below would be an accommodative market.

- **General medical and surgical hospital employment as a percent of 65+ population** (all general medical and surgical hospital employees as a percent of population 65+ in the US). This is a proxy for healthcare employment vs volumes (with people over 65 using the system the most). Based on its historical range, we defined a rate of 9.8-11.3% as normal. Anything below that would indicate a tight labor market and anything above would be an accommodative market.

The hospital unemployment rate of 1.7% was down 10bps m/m in January and as a result, scored a 6 (above 5 last month). Meanwhile, general medical and surgical hospital wages grew +2.5% y/y in December, 100bps below +3.5% y/y in November 2023 and 280bps below +5.3% y/y in December 2022. With hospital wage inflation decelerating further in December, it scored a 2, below 5 in November.

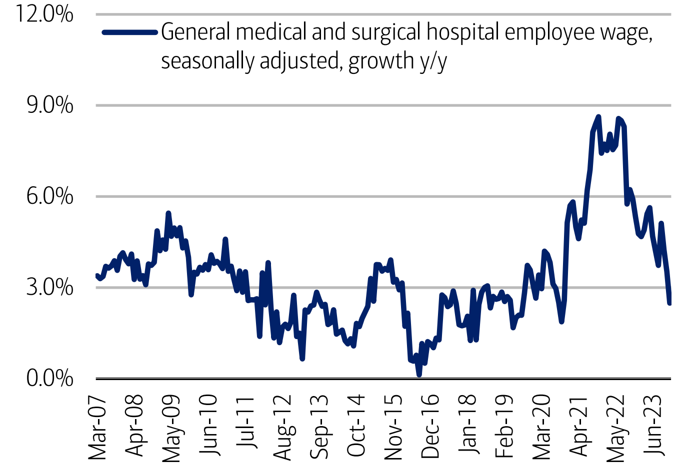
**Exhibit 14: The hospital unemployment rate fell 10bps m/m to 1.7% in January, resulting in a score of 6 (vs 5 last month)**
Hospital unemployment rate, 16+, not seasonally adjusted




**Source:** Bureau of Labor Statistics

BofA GLOBAL RESEARCH

**Exhibit 15: Hospital wage growth of +2.5% y/y decelerated m/m, and scored a 2, below last month**
General medical and surgical hospital employee average wage inflation

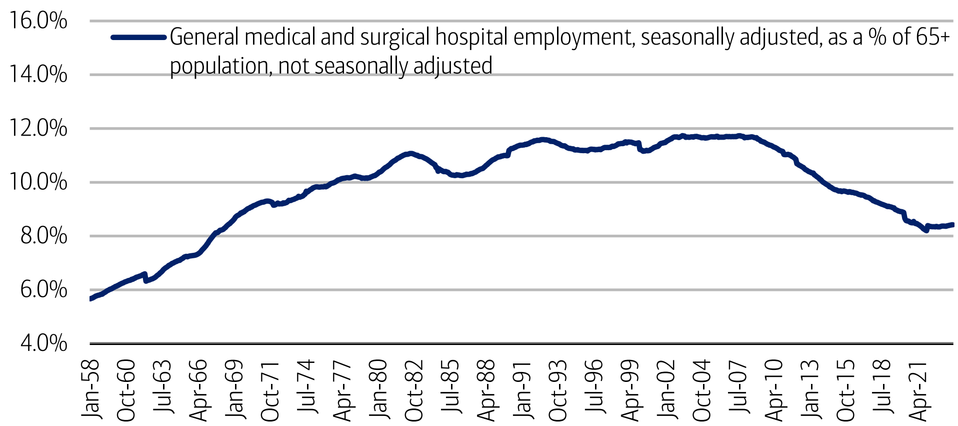



**Source:** Bureau of Labor Statistics, BofA Global Research

BofA GLOBAL RESEARCH

General medical and surgical hospital employment represented 8.4% of the 65+ population, which was roughly stable m/m and y/y, resulting in a score of 10 (same as last month).

**Exhibit 16: Hospital employment as a % of the 65+ population was stable m/m in December at 8.4%, score of 10 unchanged vs last month**
General medical and surgical hospital employment as a % of 65+ population




**Source:** Bureau of Labor Statistics, BofA Global Research

BofA GLOBAL RESEARCH

## Macro roughly stable

Within the broader macro data from BLS, we focus on 3 key metrics:

- **Unemployment rate** (number of unemployed people 16+ as a percentage of people in the labor force). Based on historical ranges for this metric, we defined an unemployment rate around 5-6% as normal. Anything below that would indicate a tight labor market and anything above would be an accommodative market.

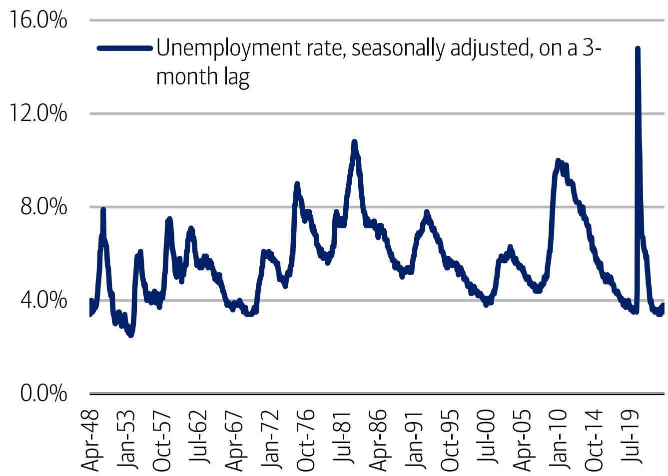
- **Production and nonsupervisory employee average wage** (average hourly earnings of production and nonsupervisory employees). Based on historical ranges for this metric, we defined wage growth of 2-3% y/y, i.e. in line with inflation, as normal. Anything above that would indicate a tight labor market and anything below would be an accommodative market.

- **Temporary help services employment as a percent of total nonfarm payrolls** (all temporary help services employees as a percent of total employees excluding farm workers and others). Based on historical ranges for this metric, we defined a rate of 1.85-1.93% as normal. Anything above that would indicate a tight labor market and anything below would be an accommodative market.

We track the national unemployment rate on a 3-month lag as we believe a weaker economy eases the health care supply/demand imbalance and vice versa, but it takes some time for the broader labor weakness to impact health care labor. In October 2023, the unemployment rate was 3.8%, stable m/m and up 20bps y/y, and resulted in a score of 9, the same as last month. Wage inflation in January accelerated +20bps m/m to +4.8% y/y and yielded a score of 9 (above 8 last month). However, according to a Bloomberg article, the January wage data was impacted by bad weather and may not be sustainable. Average hourly wages are weighted by hours, so decreases in hours, particularly in retail trade and leisure and hospitality, increased average hourly earnings according to Bloomberg.

**Exhibit 17: The unemployment rate was stable at 3.8% in October, still below historical levels, resulting in a score of 9 (unchanged m/m)**

National unemployment rate, on a 3 month lag




**Source:** Bureau of Labor Statistics

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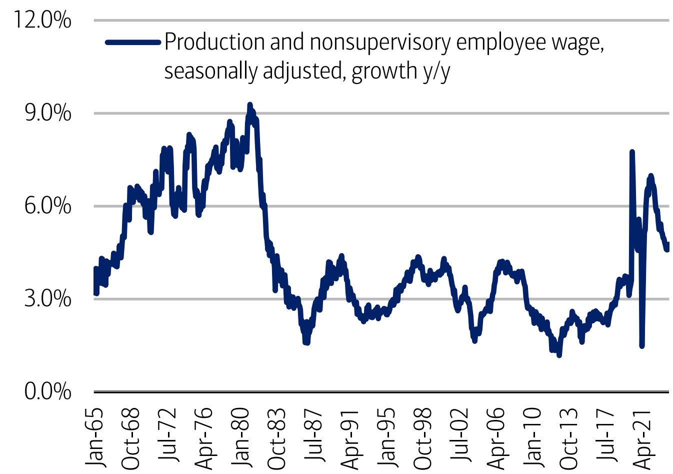
**Exhibit 18: Wages grew +4.8% y/y in January, accelerating m/m, resulting in a score of 9, vs 8 last month**

Production and nonsupervisory employee wage inflation




**Source:** Bureau of Labor Statistics, BofA Global Research

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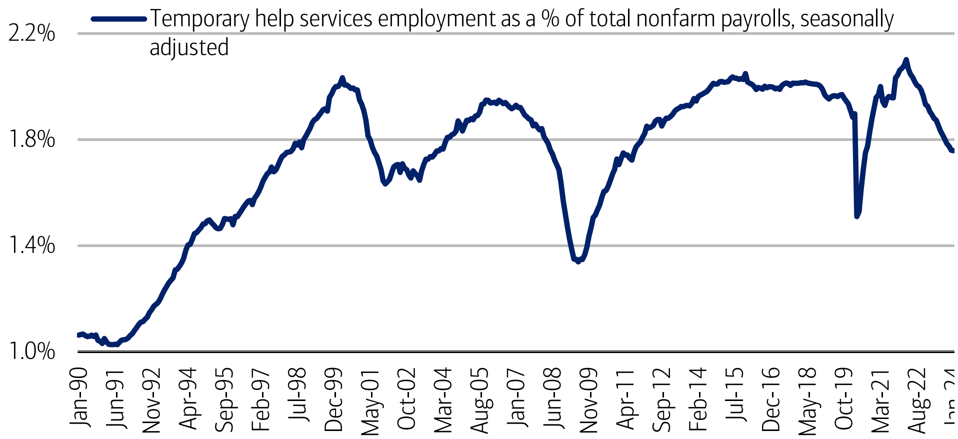
Temporary help services employment as a percentage of total nonfarm payrolls was stable m/m at 1.76%. This resulted in a score of 2, same as last month.

**Exhibit 19: Temp employees represented 1.8% of total nonfarm employment in January, stable m/m**
Temporary help services employees as a % of total nonfarm payrolls




**Source:** Bureau of Labor Statistics, BofA Global Research

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# Methods and limitations

## First, metrics and scoring

As described throughout this report, we track 10 metrics using data from BLS, assign them scores based on percentile rankings, and weight them to come up with a single weighted average tracker score for each month. Below we walk through each of these metrics and how we score them.

### Macro

These metrics are sourced from the Bureau of Labor Statistics and are meant to provide a snapshot of the entire US labor market. The data are released on a 1 month lag, i.e. in February we have data on January. Our deep dive on labor (report link) shows that a weaker economy tends to ease the health care supply/demand imbalance as nurses may return to the industry (either from retirement or a non-health care setting), pick up more shifts, or work longer hours.

- Unemployment rate for people 16+, seasonally adjusted, on a 3-month lag: we track the unemployment rate on a 3-month lag as we believe a weaker economy eases the health care supply/demand imbalance, but it takes some time to flow through to the labor market given unemployment benefits. We assign a score from 0-10 based on the percentile rankings of unemployment rates from December 2000-current, (although the data goes back to January 1948, for the purposes of our tracker, we wanted to keep the time period consistent with the metrics that don't go back as far).

- Production and nonsupervisory employee average wage, seasonally adjusted: we track the average wage for production and nonsupervisory employees instead of all employees because hospitals are struggling most to hire/retain nurses, who are considered nonsupervisory employees. We assign a score from 0-10 based on the percentile rankings of wage growth y/y from December 2000-current (although the data goes back to January 1964, for the purposes of our tracker, we wanted to keep the time period consistent with the metrics that don't go back as far).

- Temporary help services employment, seasonally adjusted, as a percent of total nonfarm payrolls, seasonally adjusted: The temporary help services industry supplies workers to businesses to supplement their workforce, and is an overall indicator of whether it is easy to find full time employees. Temporary nurses, who hospitals contract, are included in the industry. We then take the industry employment as a percent of total nonfarm payrolls. We assign a score from 0-10 based on the percentile rankings of the temporary help services rate from December 2000-current (although the data goes back to January 1990, for the purposes of our tracker, we wanted to keep the time period consistent with the metrics that don't go back as far).

### Hospital industry

These metrics are sourced from the Bureau of Labor Statistics. Two of the metrics represent data for general medical and surgical hospitals specifically (released on a 2 month lag), while the third metric represents the hospital industry generally (released on a 1 month lag).

- Hospital unemployment rate for people 16+, not seasonally adjusted: There is no seasonally adjusted data. We assign a score from 0-10 based on the percentile rankings of unemployment rates from January 2000-current.

- General medical and surgical hospital employee average wage, seasonally adjusted: We assign a score from 0-10 based on the percentile rankings of wage growth y/y from March 2007 (the earliest the BLS data is available for this metric's growth y/y)-current.

- General medical and surgical hospital employment, seasonally adjusted, as a percent of US population 65+, not seasonally adjusted: There is no seasonally adjusted 65+ population data. We track employment as a percent of the 65+ population as a proxy for demand, particularly as that demographic has higher demand for health care services than overall. We assign a score from 0-10 based on the percentile rankings of the rates from December 2000-current (although the data goes back to January 1958, for the purposes of our tracker, we wanted to keep the time period consistent with the metrics that don't go back as far).

**Health Care and Social Assistance industry**

These metrics are sourced from the Bureau of Labor Statistics Job Openings and Labor Turnover Survey. The Health Care and Social Assistance industry includes the following subsectors: ambulatory health care services, hospitals, nursing and residential care facilities, and social assistance. The data are released on a 2-month lag (i.e. in February we have data on December).

- Vacancy rate (job openings on the last business day of the month, seasonally adjusted, as a percent of job openings + industry employment, seasonally adjusted): We assign a score from 0-10 based on the percentile rankings of the vacancy rate from December 2000-current.

- Openings/hires ratio (the average of this month's and last month's job openings on the last business day of each month, seasonally adjusted/total hires during the entire month, seasonally adjusted): We assign a score from 0-10 based on the percentile rankings of the openings/hires ratio from January 2001-current (as far back as the BLS data goes).

- Quit rate (quits during the entire month, seasonally adjusted, as a percent of industry employment, seasonally adjusted): We assign a score from 0-10 based on the percentile rankings of the quit rate from December 2000-current.

- Fill rate (hires during the entire month, seasonally adjusted divided by the average of this month's and last month's job openings on the last business day of each month, seasonally adjusted): We assign a score from 0-10 based on the percentile rankings of the fill rate from January 2001-current (as far back as the BLS data goes).

## Assigning a score

We provide a score based on the current level of the metric relative to its range since December 2000, when the job openings and labor turnover survey data begins, although some metrics have more historical data. For example, the scores for a December 2023 data point and all data points prior are based on a range from December 2000-December 2023. Once January 2024 data is out, the scores for the January 2024 data point and all data points prior would now be based on a range from December 2000-January 2024. For metrics which don't go back to December 2000 (hospital wage growth, HC & SA openings/hires ratio, and HC & SA fill rate in particular), we provide a score based on the current level of the metric relative to its own historical range. To make the average score a 5, we gave a number in the 95%-100% percentile a score of 10, 86-95% a 9, etc, down to 0%-5% getting a score of 0.

**Exhibit 20: A score of 10 represents a value in the 95th+ percentile**
Percentile range for each score

| Assigned score | Percentile |
|---|---|
| 10 | 0.95 |
| 9 | 0.86 |
| 8 | 0.77 |
| 7 | 0.68 |
| 6 | 0.59 |
| 5 | 0.50 |
| 4 | 0.41 |
| 3 | 0.32 |
| 2 | 0.23 |
| 1 | 0.14 |
| 0 | 0.05 |

**Source:** BofA Global Research

BofA GLOBAL RESEARCH

**Exhibit 21: Preliminary January 2024 Tracker score of 7.6 in the 87th percentile**
Historical percentile rankings of the BofA Health Care Labor Market Tracker score since December 2000

| Percentile | BofA Health Care Labor Tracker Score |
|---|---|
| 1.00 | 10.0 |
| 0.95 | 9.2 |
| 0.90 | 8.5 |
| 0.85 | 7.4 |
| 0.80 | 6.8 |
| 0.75 | 6.5 |
| 0.70 | 5.8 |
| 0.65 | 5.6 |
| 0.60 | 5.4 |
| 0.55 | 5.1 |
| 0.50 | 4.8 |
| 0.45 | 4.2 |
| 0.40 | 3.9 |
| 0.35 | 3.3 |
| 0.30 | 2.9 |
| 0.25 | 2.4 |
| 0.20 | 2.1 |
| 0.15 | 2.0 |
| 0.10 | 1.6 |
| 0.05 | 1.5 |

**Source:** BofA Global Research

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## Then, we weight each metric to derive our tracker score

To get our tracker score for each month, we take a weighted average of the 10 metrics we are tracking. We weight the macro metrics (20% total) the least compared to the hospital industry (25%) and the health care and social assistance industry (55%). We weight the health care and social assistance industry metrics the most given that job openings and turnover levels can impact health care providers' contract labor utilization and decisions on base wage increases.

**Exhibit 22: Our metric weightings**
Health Care Labor Tracker weightings

| Health Care and Social Assistance industry | Weighting |
|---|---|
| Vacancy rate | 20% |
| Openings/hires ratio | 15% |
| Quit rate | 15% |
| Fill rate | 5% |
| **Hospital industry** | |
| Unemployment rate | 5% |
| Wage | 15% |
| Employment as a % of 65+ population | 5% |
| **Macro** | |
| Unemployment rate, 3mo lag | 5% |
| Wage - production and nonsupervisory employees | 10% |
| Temporary employment as a % of total employment | 5% |

**Source:** BofA Global Research

BofA GLOBAL RESEARCH

## Limitations

Hospitals are struggling most to hire and retain nurses. None of these data points are specific to nurses. Registered nurses represent 31% of the general medical and surgical hospital workforce as of May 2022.

The section that we weight the most – the health care and social assistance industry – has the least amount of historical context (22 years) compared to the other metrics we are tracking. Similarly, for general medical and surgical employee average wage, we track data going back to 2006 compared to 1964 for the production and nonsupervisory employee average wage.

All of our data inputs are sourced from the Bureau of Labor Statistics which may have its own sampling errors.

**Exhibit 23: Stocks mentioned**

Prices and ratings for stocks mentioned in this report

| BofA Ticker | Bloomberg ticker | Company name | Price | Rating |
|---|---|---|---|---|
| AMN | AMN US | AMN Healthcare | US$ 73.73 | B-2-9 |
| CCRN | CCRN US | Cross Country | US$ 20.14 | C-3-9 |
| HCA | HCA US | HCA Healthcare | US$ 310.62 | B-1-7 |
| THC | THC US | Tenet Healthcare | US$ 90.04 | C-1-9 |
| UHS | UHS US | Universal Health | US$ 162.67 | B-1-7 |

**Source:** BofA Global Research

BofA GLOBAL RESEARCH

## Price objective basis & risk

### AMN Healthcare (AMN)

Our $82 PO is based on 10.0x our 2024E EBITDA, above the midpoint of its historical 8-11x multiple range, which we think is justified given AMN's diversification into higher growth services, the company's ability to cross-sell with the Managed Serviced Provider (MSP) focus, and the opportunity for growth off a more normalized base.

Risks to the downside are that demand slows as providers focus on reducing contract labor further, bill rates decline faster than expected, and a recession could put more pressure on demand for temp staffing than expected (it took seven years for temp staffing revenues to reach pre-recession levels following 08/09).

### Cross Country Healthcare (CCRN)

Our $20.00 PO is based on a 6.6x 2024E EBITDA est, well below the midpoint of the 8-13x range where it has traded historically. We believe this multiple is warranted given the underlying growth factored into our 2023 estimate and the structural changes that the industry is currently seeing, driven by tailwinds in both pricing and volumes due to COVID and high labor demand. This is offset by the low visibility into operations post 2022, and the LT margin sustainability.

Upside risks to our PO are if the company is able to cut costs more aggressively than we forecast, if demand for staffing assignments rebounds sooner or to a higher magnitude than we forecast, if the company sees an uptick in COVID related orders similar to 1Q21, and if the company's WSG asset contributes more to growth than expected.

Risks to the downside are that CCRN's clients do not regain the same demand levels as pre-COVID, cost cutting does not come in as expected, or if there is disruption to the company's growth from shrinking its physical footprint.

### HCA (HCA)

Our $360 price objective is based on 10.5x our 2024E EBITDA, above the high end of its historical 6-9x multiple range, given what we see as a favorable backdrop for hospitals broadly and a strong balance sheet.

Risks to the downside are that labor costs continue to rise, volumes recover slower than expected, or margins are pressured if payor mix deteriorates as volumes normalize.

### Tenet Healthcare (THC)

Our $95 PO is based on 8.4x our 2024 EBITDA less non-controlling interests estimate, above the high end of the company's historical 5.5x-8.5x range. While growth in the Acute care business will likely continue to be impacted by labor headwinds, the company's strong cost control should drive earnings and position the company well heading into the expected ramp in volumes as COVID normalizes. Meanwhile, continued repositioning into Ambulatory Surgery Centers (ASCs) will help both the organic growth and FCF profile.

Downside risks to our PO are: 1) Volume trends rebound slower than expected following COVID-19, 2) Government reimbursement reductions, 3) Margin pressure/integration issues at recently acquired assets, 4) Above average leverage, 5) labor costs pressures.

Upside risks to our PO are: 1) Volumes are better than expected, 2) Continued acuity strength and pricing growth, 3) Better than expected cost controls.

**Universal Health Services (UHS)**

Our $190 price objective (PO) is based on 9.2x our 2024E EBITDA estimate. This represents a multiple near the high end of the company's historical range of 6-10x EBITDA. We see this as justified given the favorable backdrop broadly for hospitals.

Upside risks to our PO are a quicker-than-expected recovery in labor, Acute vols returning faster, larger-than-expected demand tailwinds in the behavioral business. Downside risks to our PO are a slower-than-expected labor recovery, worse-than-expected Psych business performance, a slower volume recovery, slowing economies in UHS' other markets, and government reimbursement cuts.

## Analyst Certification

I, Kevin Fischbeck, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

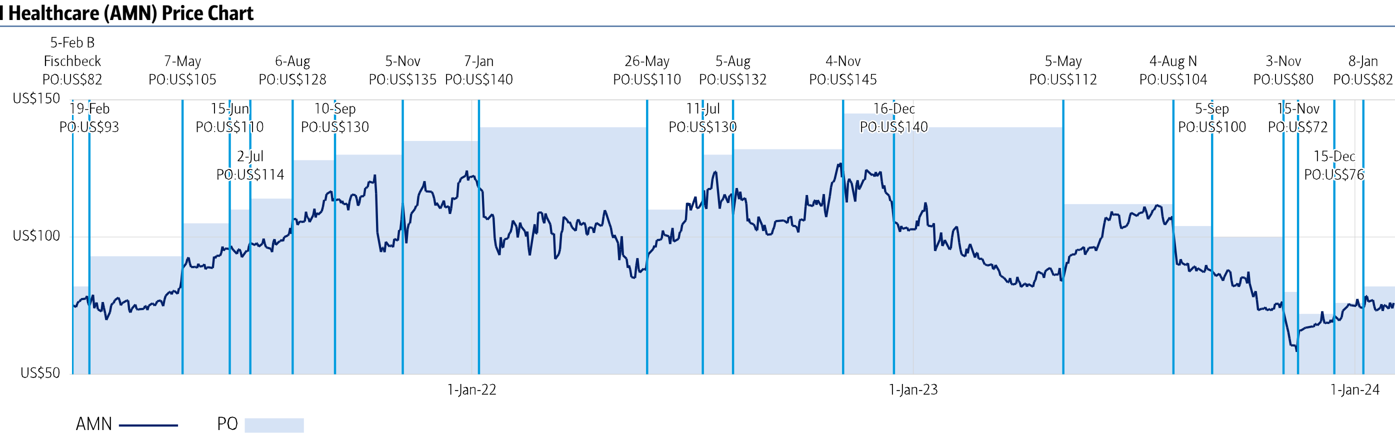
**US - Facilities, Hospitals and Managed Healthcare Coverage Cluster**

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---|---|---|---|---|
| **BUY** | | | | |
| | Acadia Healthcare | ACHC | ACHC US | Kevin Fischbeck, CFA |
| | Addus HomeCare | ADUS | ADUS US | Joanna Gajuk |
| | Agilon Health | AGL | AGL US | Adam Ron |
| | Chemed Corporation | CHE | CHE US | Joanna Gajuk |
| | Elevance Health Inc | ELV | ELV US | Kevin Fischbeck, CFA |
| | Encompass Health | EHC | EHC US | Kevin Fischbeck, CFA |
| | HCA | HCA | HCA US | Kevin Fischbeck, CFA |
| | Humana Inc | HUM | HUM US | Kevin Fischbeck, CFA |
| | Option Care Health | OPCH | OPCH US | Joanna Gajuk |
| | Oscar Health | OSCR | OSCR US | Adam Ron |
| | Privia Health | PRVA | PRVA US | Adam Ron |
| | Select Medical Corp. | SEM | SEM US | Kevin Fischbeck, CFA |
| | Service Corp. | SCI | SCI US | Joanna Gajuk |
| | Surgery Partners, Inc | SGRY | SGRY US | Kevin Fischbeck, CFA |
| | Tenet Healthcare | THC | THC US | Kevin Fischbeck, CFA |
| | The Cigna Group | CI | CI US | Kevin Fischbeck, CFA |
| | UnitedHealth Group | UNH | UNH US | Kevin Fischbeck, CFA |
| | Universal Health Services | UHS | UHS US | Kevin Fischbeck, CFA |
| | US Physical Therapy | USPH | USPH US | Joanna Gajuk |
| **NEUTRAL** | | | | |
| | Alignment Healthcare | ALHC | ALHC US | Adam Ron |
| | AMN Healthcare | AMN | AMN US | Kevin Fischbeck, CFA |
| | Apollo Medical | AMEH | AMEH US | Adam Ron |
| | Brookdale | BKD | BKD US | Joanna Gajuk |
| | Centene Corporation | CNC | CNC US | Kevin Fischbeck, CFA |
| | Molina Healthcare, Inc. | MOH | MOH US | Kevin Fischbeck, CFA |
| **UNDERPERFORM** | | | | |
| | AdaptHealth Corp. | AHCO | AHCO US | Joanna Gajuk |
| | Agiliti Health Inc | AGTI | AGTI US | Kevin Fischbeck, CFA |
| | Cross Country Healthcare | CCRN | CCRN US | Kevin Fischbeck, CFA |
| | DaVita Inc | DVA | DVA US | Kevin Fischbeck, CFA |
| | Enhabit Home Health & Hospice | EHAB | EHAB US | Joanna Gajuk |
| | Pediatrix Medical Group, Inc. | MD | MD US | Kevin Fischbeck, CFA |

# Disclosures

## Important Disclosures

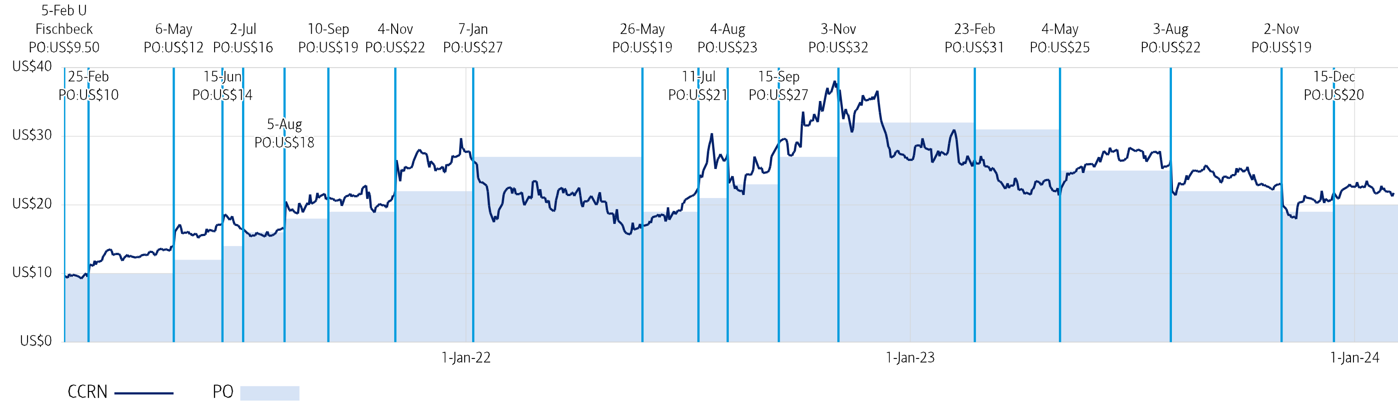
**AMN Healthcare (AMN) Price Chart**




B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Cross Country (CCRN) Price Chart**

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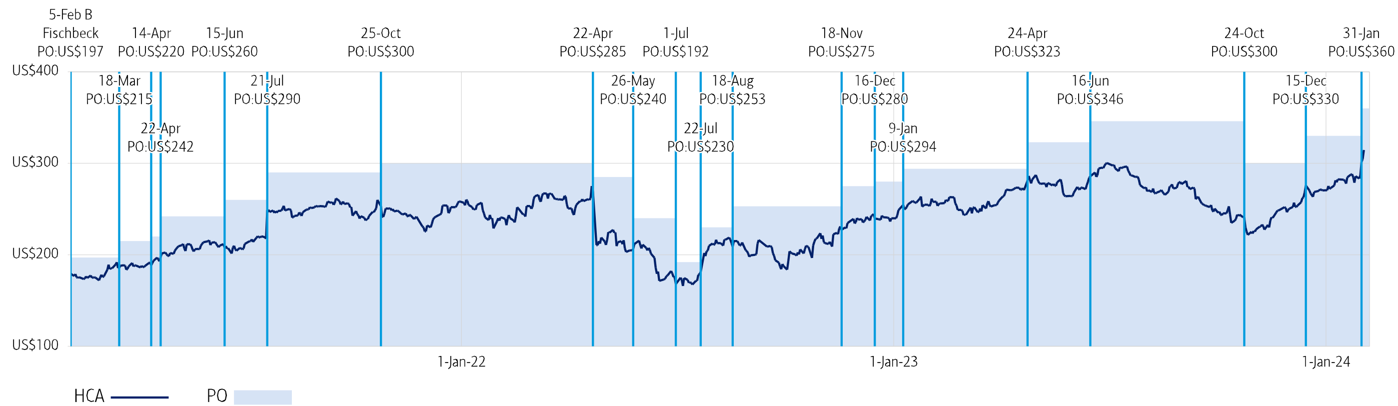
**HCA Healthcare (HCA) Price Chart**

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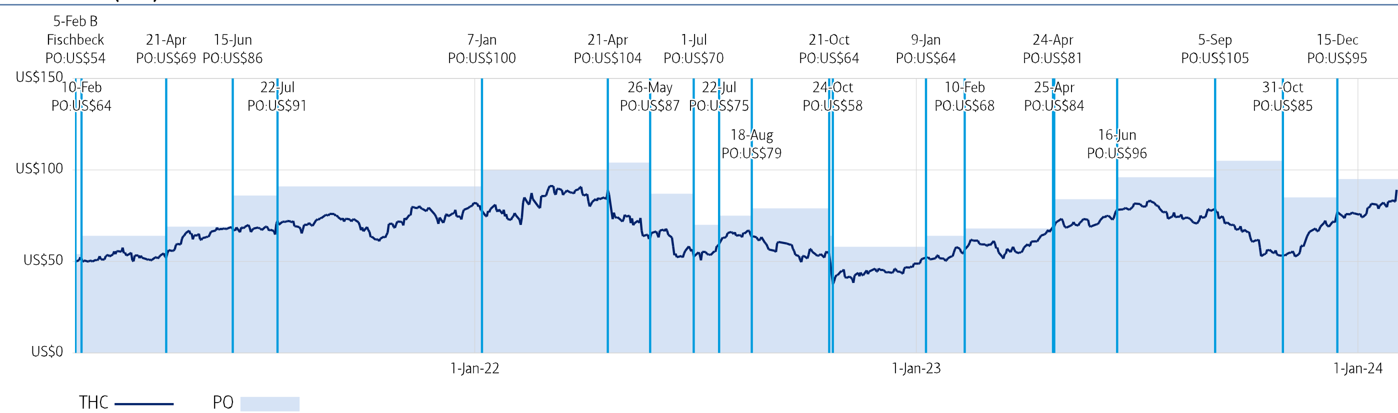
**Tenet Healthcare (THC) Price Chart**




B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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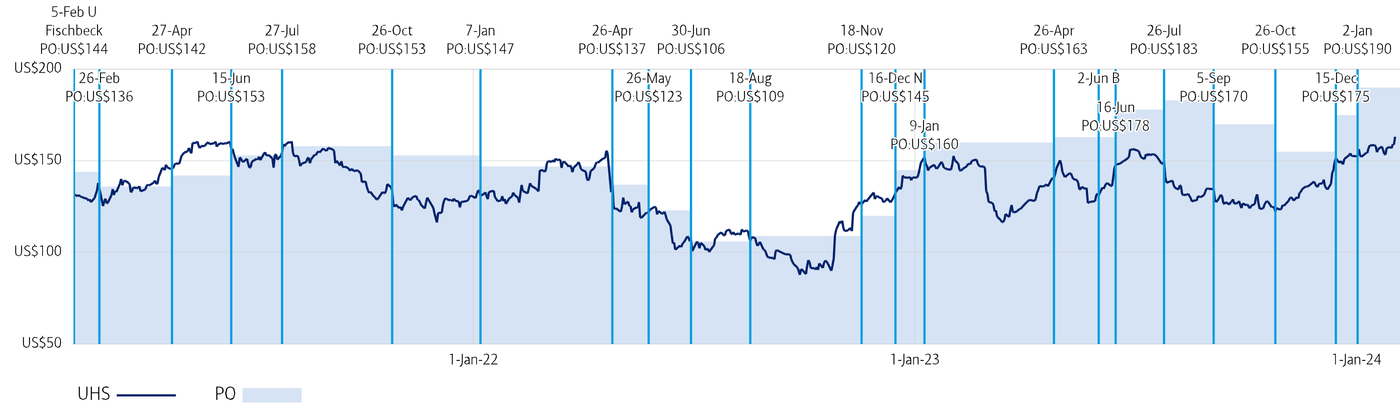
**Universal Health (UHS) Price Chart**




B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

**Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships [R1] | Count | Percent |
|---|---|---|---|---|---|
| Buy | 234 | 60.94% | Buy | 115 | 49.15% |
| Hold | 80 | 20.83% | Hold | 36 | 45.00% |
| Sell | 70 | 18.23% | Sell | 29 | 41.43% |

**Equity Investment Rating Distribution: Services Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships [R1] | Count | Percent |
|---|---|---|---|---|---|
| Buy | 5 | 41.67% | Buy | 3 | 60.00% |
| Hold | 2 | 16.67% | Hold | 1 | 50.00% |
| Sell | 5 | 41.67% | Sell | 2 | 40.00% |

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

| Coverage Universe | Count | Percent | Inv. Banking Relationships [R1] | Count | Percent |
|---|---|---|---|---|---|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster[R2] |
|---|---|---|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

[R2] Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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