



Strata Performance Trends Report

Market Insights from Q1 2025



Key findings from our latest data



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The following report combines financial, operational, and claims data from hospitals, health systems, and other healthcare organizations across the country. Key findings include:



Medical supply and drug expenses saw steady growth over the past two years, and that growth could accelerate due to the impacts of tariffs on imports.



U.S. health systems saw growth in charity and bad debt deductions in recent years, including a more than 20% increase in charity deductions from Q1 2023 to Q1 2025.



Medicaid accounts for more than 12% of revenue for most hospitals nationwide, with percentages ranging from 11.1% for hospitals in the Midwest to 14.4% for those in the West.



Operating margins for U.S. health systems narrowed slightly to 0.9% in March, falling below 1% for the first time in 15 months after holding steady at 1% for both January and February.



Patient demand was up nationwide across most metrics in March, following decreases in February, as growth in outpatient visits outpaced inpatient admissions.

Drug and Medical Supply Expenses Expected to See Further Growth

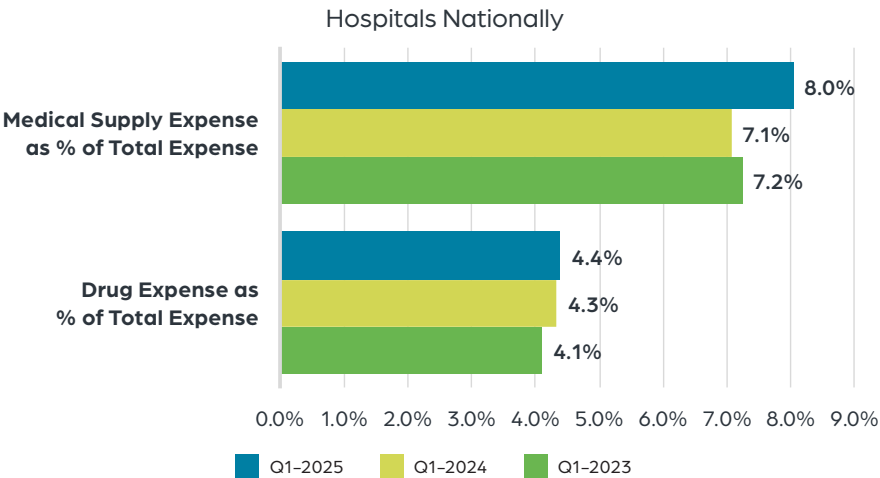
Healthcare leaders across the country anticipate tariffs on foreign imports could result in higher costs for drugs and medical supplies, including everything from gowns and gloves to syringes and surgical instruments. About 70% of medical devices used in the U.S. are manufactured exclusively outside of the U.S.,ⁱ and are therefore subject to tariffs ranging from 10% for goods from most countries worldwide to as much as 245% for certain goods from China, including syringes.ⁱⁱ President Trump has also said that “major tariffs” on pharmaceuticals will soon be introduced.ⁱⁱⁱ Strata will monitor how these policy changes affect various hospital and health system performance metrics going forward.

Even without the tariffs, non-labor expenses have long been on the rise for hospitals nationwide, with total non-labor expense increasing year-over-year (YOY) each month for more than three years, according to Strata data dating to early 2022. Medical supply and drug expenses, in particular, have steadily grown as a share of overall expenses in recent years. Medical supply expense as a percent of total expense increased from 7.2% in Q1 2023 to 8.0% in the first quarter of this year. At the same time, drug expense as a percent of total expense rose from 4.1% in Q1 2023 to 4.4% in Q1 2025.

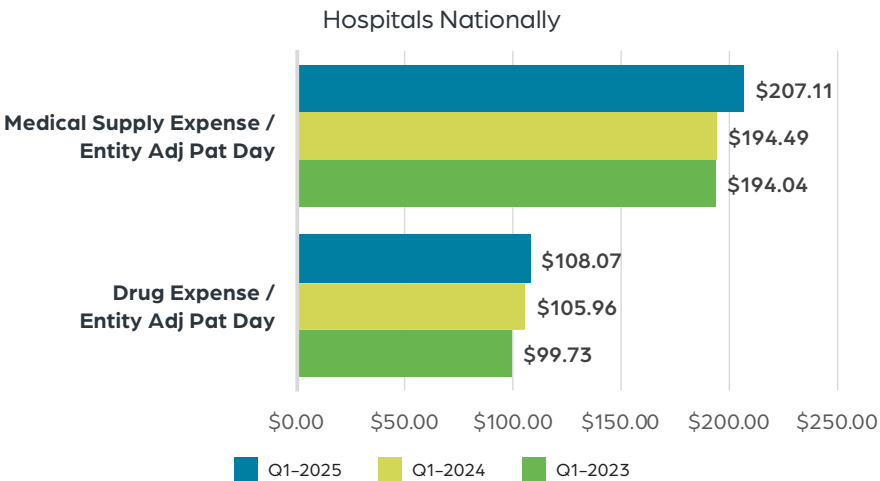
Medical supply and drug expenses also are increasing on a per-patient basis. Medical supply expense per adjusted patient day rose 6.7% from \$194.04 in Q1 2023 to \$207.11 in Q1 2025. Drug expense per adjusted patient day increased 8.4% from \$99.73 to \$108.07 over the same period.

To determine which hospital departments are likely to be most impacted by increased costs associated with tariffs, Strata analyzed those with the highest supply and drug expenses. The analysis found that the three hospital departments that incur the highest medical supply expenses are anatomic and clinical labs, invasive cardiology/ catheterization labs, and operating rooms. Hospital pharmacy departments consistently have the highest drug expenses. Among non-pharmacy departments, internal medicine, neurology, and family medicine incur the highest drug costs.

Growth in Drug and Medical Supply as % of Total Expense



Growth in Drug and Medical Supply per Adjusted Patient Days



Source: Comparative Analytics

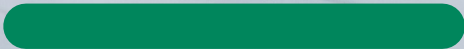
Q1 2025 Data on Medicaid Provide Baseline for Future Changes

Possible reductions to federal funding for Medicaid also have been in the news, with proposals including [per-beneficiary caps](#)^{iv} or imposing [work requirements](#) on beneficiaries.^v The Medicaid program, which provides healthcare coverage to 83 million low-income Americans, is jointly funded by the federal and state governments.

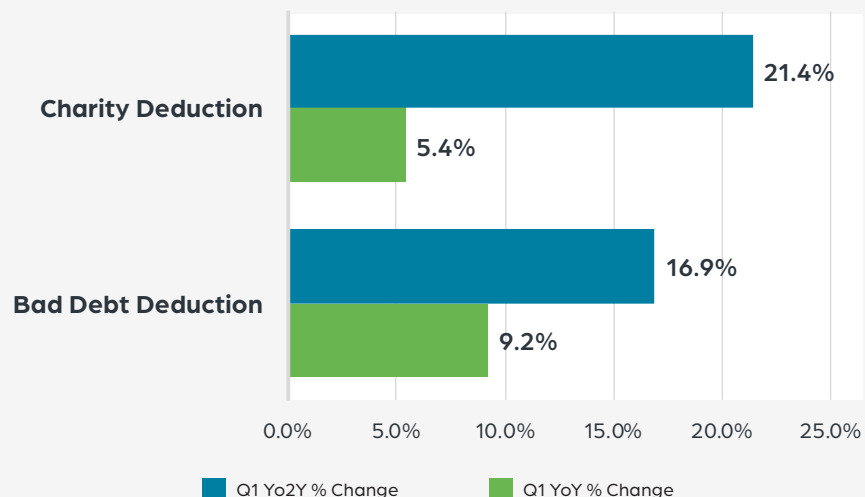
As of Q1 2025, the data show that Medicaid accounts for 12% or more of revenue for most U.S. hospitals. The share of Medicaid revenue varies by region. Hospitals in the Midwest have the lowest share of Medicaid revenue at 11.1%, followed by those in the South at 12.0%. Medicaid accounts for 12.2% of revenue for hospitals in the Northeast, and 14.4% of revenue for hospitals in the West.

Looking at organizations by size, hospitals with the highest levels of operating expense at more than \$1 billion also have the highest share of Medicaid as a percent of total revenue at 16.5%. Hospitals in the lowest operating expense category of \$50 million or less have the least share of Medicaid as a percent of total revenue at 10.9%.

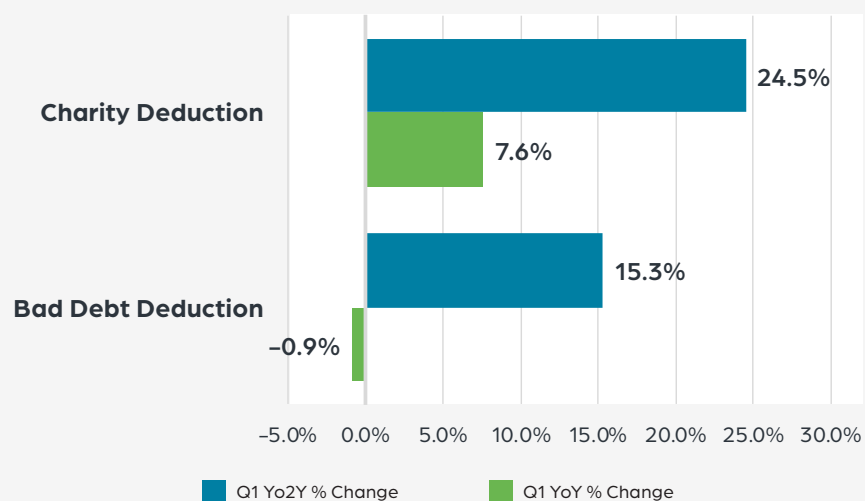
The share of Medicaid revenue also varies widely by service line. Neonatology has the largest share at 37.4% followed by normal newborn at 36.0% and behavioral health at 31.6%. The breast health service line has the lowest share of Medicaid as a percent of total revenue compared to other service lines at just 5.6%. Across all hospital service lines, Medicaid accounts for 12.1% of revenue.



Charity and Bad Debt Deductions Rising for Health Systems Nationwide



Hospitals See Increases in Bad Debt and Charity Care Over Past Two Years



Changes Could Drive Further Increases in Bad Debt and Charity Care

Disruptions in health insurance coverage can drive increases in bad debt and charity care deductions for U.S. hospitals and health systems. According to the latest data from Q1 2025, health systems across the country already experienced significant increases in bad debt and charity deductions in recent years. The median charity deduction for health systems nationwide increased 5.4% from Q1 2024 to Q1 2025, and jumped 21.4% versus the first quarter of 2023. Bad debt deductions also rose over the same periods. The median health system bad debt deduction increased 9.2% from Q1 2024 to Q1 2025 and 16.9% versus Q1 2023.

For the nation's hospitals, charity deductions for the first quarter of this year rose 7.6% from Q1 2024 and jumped 24.5% compared to Q1 of 2023. Bad debt deductions at hospitals actually decreased slightly at 0.9% from the first quarter of 2024 to Q1 of this year, but were up 15.3% compared to two years ago in Q1 of 2023.



Hospital KPIs

MARCH 2025

The top financial KPIs for U.S. hospitals for March 2025 versus March 2024 were:

Operating margin:	+2.1 PERCENTAGE POINTS
Outpatient visits:	+5.6%
Total expense:	+7.4%
Total non-labor expense:	+9.1%
Outpatient revenue:	+10.0%

Health system operating margins dip below 1% for first time in 15 months

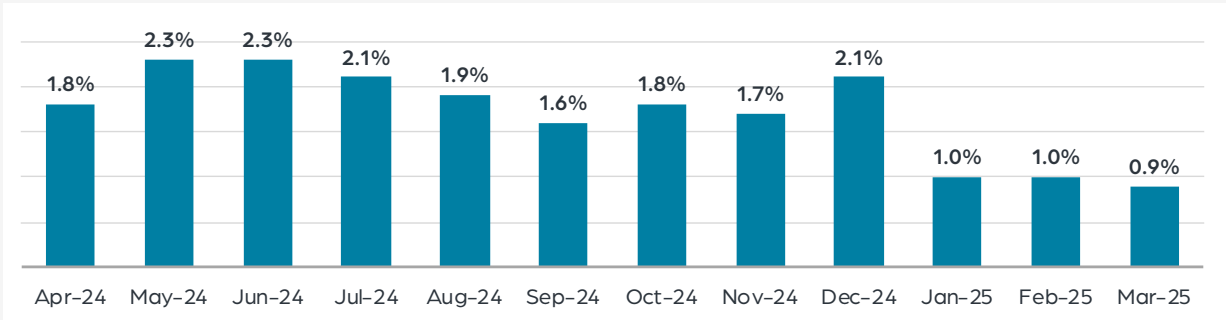
U.S. health systems saw operating margins narrow slightly to close the first quarter, dropping below 1% for the first time in 15 months. The median year-to-date (YTD) health system operating margin decreased to 0.9% in March, after holding steady at 1% for both January and February following a drop from 2.1% in December 2024. The last time the median YTD health system operating margin was below 1% was in December 2023, when the metric was also 0.9%.

At the same time, individual hospitals continued to see gains, with operating margin trends for U.S. hospitals rising for the month. The median change in hospital operating margin rose 2.1 percentage points from March 2024 to March 2025, marking a fourth consecutive month of increases for the metric. The median change in operating earnings before interest, taxes, depreciation, and amortization (EBITDA) margin increased 1.7

percentage points over the same period. Month-over-month increases were minimal, with the median change in hospital operating margin up just 0.4 percentage point and the median change in operating EBITDA margin up 0.1 percentage point.

Margin changes varied by census region. Hospitals in the Northeast saw the biggest increase, with median change in operating margin up 3.1 percentage points YOY, while hospitals in the Midwest had the least increase at 1.5 percentage points YOY. There also was variation for hospitals of different sizes. Hospitals with more than 500 beds had the lowest increase in median change in operating margin at just 0.1 percentage point YOY. The smallest hospitals with 0-25 beds saw the median change in operating margin increase 1.2 percentage point, while hospitals with 300-499 beds had the biggest increase at 3.3 percentage points.

Median Health System Operating Margins
Nationally, Year-to-Date



Source: Comparative Analytics

Patient demand rose across most metrics to close the first quarter

Patient demand was up nationwide across most metrics in March, following decreases in February, as growth in outpatient visits outpaced inpatient admissions. Outpatient visits had the biggest YOY increase compared to other volume metrics at 5.6%, followed by inpatient admissions at 4.6%. Observation visits increased 1.9% and emergency visits were up 1.8% from March 2024 to March 2025. Compared to the previous month, outpatient visits increased 7.9%, inpatient admissions were up 6.6%, observation visits rose 8.6%, and emergency visits were up 5.5%.

Looking at patient volumes across different census regions, hospitals in the South had the biggest increase in outpatient visits at 6.3% YOY, followed by those in the Midwest at 6.2% YOY. Compared to two years ago in March 2023, outpatient visits were up 1.1% nationally and inpatient admissions increased 7.5%.

February data show patient demand decreased YOY across most service lines. Ear, nose, and throat (ENT) had the largest YOY decrease, with patient volumes down at 14.6%, followed by ophthalmology at 6.0% YOY. Some of the decreases can be attributed to the fact that 2024 was a leap year, so there was an extra day in February 2024 versus February 2025 for the YOY comparisons. Infectious disease was one of the few service lines to see patient demand increase, with

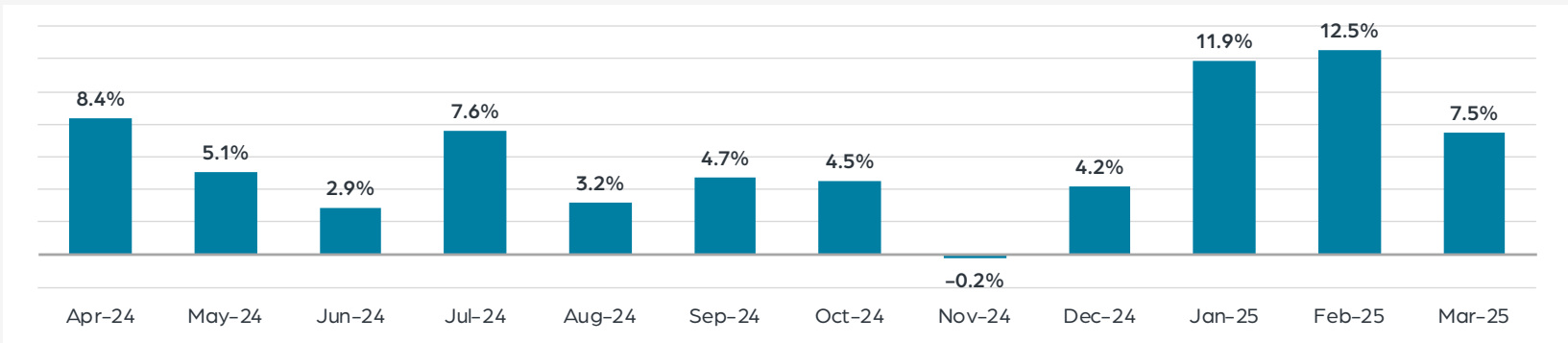
patient volumes jumping 18.7% YOY even with the shorter month in February 2025. Other service lines to see YOY increases were hepatology at 1.5%, genetics at 0.9%, and cancer at 0.7%.

Across 15 common procedure types, data from February show patient volumes increased for five and decreased YOY across 10, again due in part to 2024 being a leap year. Not surprisingly, inpatient primary knee replacements had the biggest drop at 18.1% YOY, as such surgeries continue to shift to outpatient settings. Examples of procedures that saw patient volume increases are outpatient positron emission tomography (PET) imaging, up 6.1% YOY, and outpatient primary hip replacements, up 3.0% YOY.

Patient volumes were down YOY across most metrics for the nation's children's hospitals in March. Emergency visits decreased 5.5% YOY, according to data as of March 31. Inpatient admissions were down 2.4% YOY, and outpatient visits decreased 2.1% YOY. Observation visits had the only YOY increase at 2.7%.

For additional Patient Volume data, please see this [supplemental file](#) containing detailed charts and graphs featuring StrataSphere data.

Inpatient Admissions
Monthly Volume Changes vs. 2023



Source: StrataSphere data as of March 31, 2025.

Non-labor expenses continue to rise faster than other expense categories

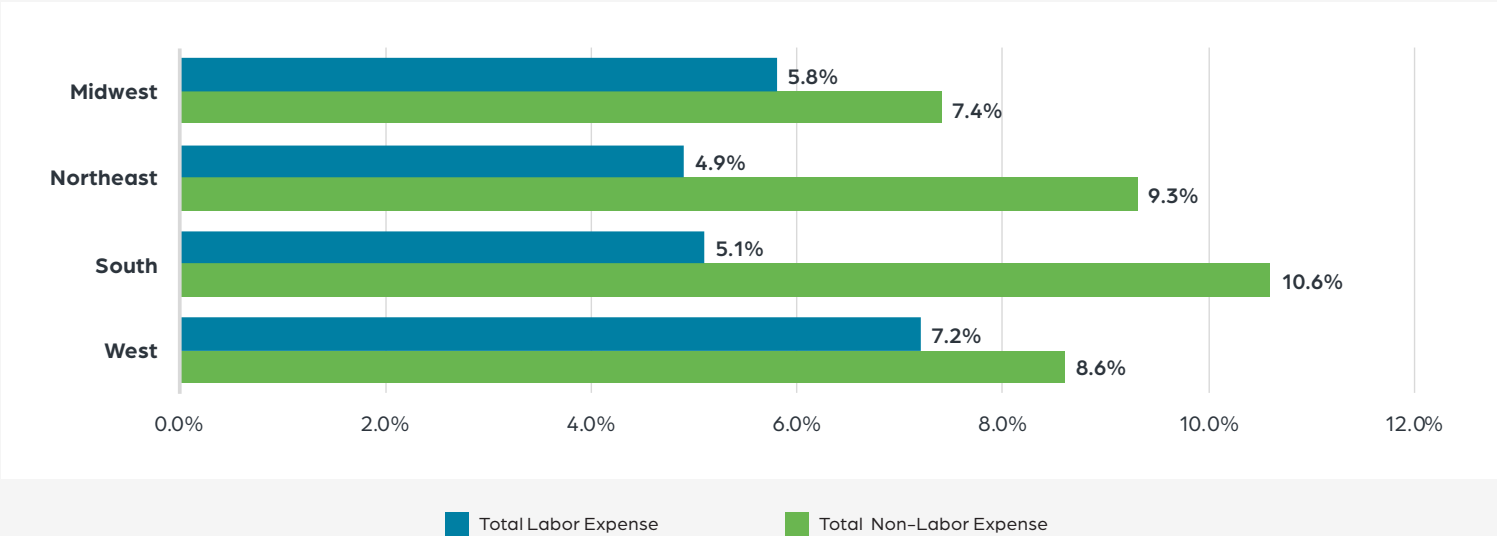
Hospitals across the country continued to see expenses rise across most measures, with non-labor expenses seeing the biggest YOY increases. Total non-labor expense jumped 9.1% from March 2024 to March 2025, due in part to double-digit increases in both drug and supply expenses versus the same month last year. Total labor expense was up 5.6% and total expense increased 7.4% over the same period. Looking at specific non-labor expense categories, drugs expense had the biggest increase at 11.5% YOY, followed by supply expense at 10.8%, and purchased service expense at 9.5% YOY.

Across different census regions, YOY increases in total non-labor expense ranged from 7.4% for hospitals in the Midwest to 10.6% for those in the South. By comparison, total labor expense increased 5.8% YOY for hospitals in the Midwest and 5.1% YOY for hospitals in the South. Month-over-month, however,

growth in total labor expense for hospitals nationally outpaced total non-labor expense at 9.1% versus 3.3%, respectively. Total expense increased 6.0% from February to March 2025.

Expenses rose YOY after adjusting for patient volumes, but decreased across most metrics month-over-month. Non-labor expense per adjusted discharge rose 5.7% YOY, driven by a 7.9% increase in supply expense per adjusted discharge, a 6.6% increase in drugs expense per adjusted discharge, and a 5.9% increase in purchased service expense per adjusted discharge. Labor expense per adjusted discharge was up 1.1% YOY while total expense per adjusted discharge rose 3.0% YOY. Compared to the prior month, non-labor expense per adjusted discharge decreased 2.8% and total expense per adjusted discharge was down 1.1%, while labor expense per adjusted discharge rose 1.4%.

Total Non-Labor Expenses Growing Faster Than Total Labor Expenses
Year-Over-Year for March 2025, By Census Region



Source: Comparative Analytics

Outpatient revenue growth outpaced inpatient growth in March

Hospitals continued to see growth in overall revenues, but some declines in adjusted patient revenues. Gross outpatient revenue had the biggest increase at 10.0% from March 2024 to March 2025. Inpatient revenue rose 9.6% and gross operating revenue increased 9.7% over the same period. March was the 23rd consecutive month of YOY increases across the three metrics.

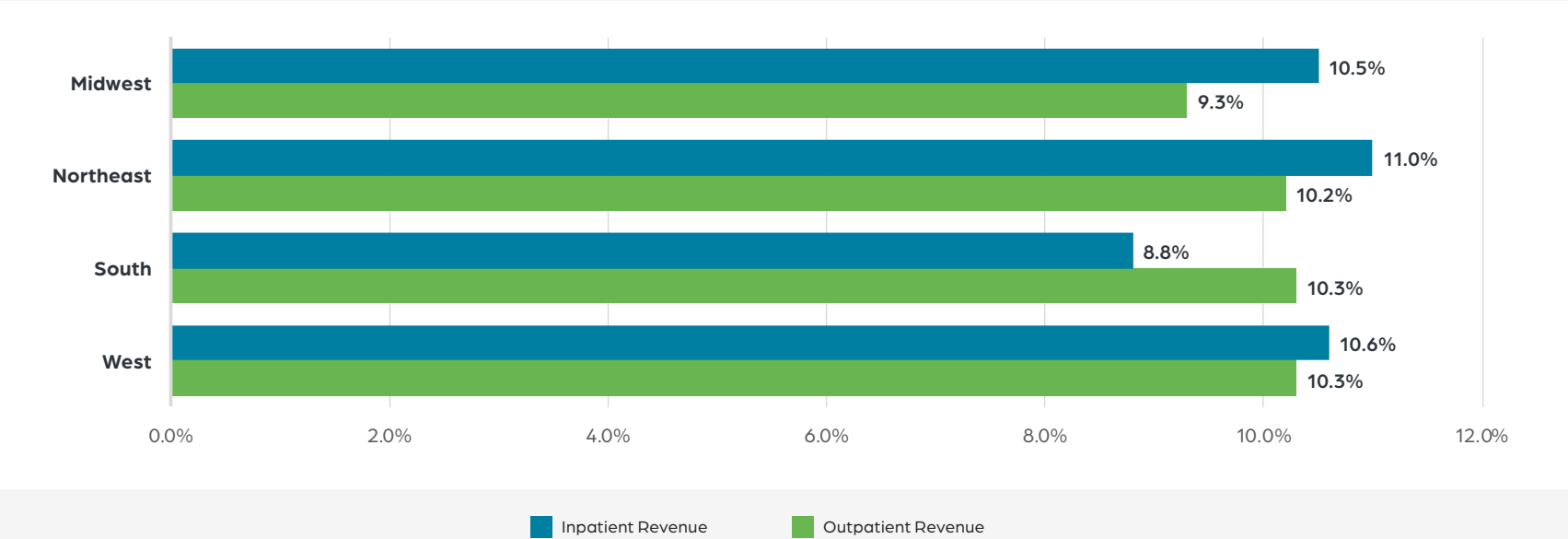
Month-over-month, outpatient revenue rose 7.2%, inpatient revenue increased 5.4%, and gross operating revenue was up 6.2%.

While gross outpatient revenues grew faster than inpatient revenues for hospitals nationally, hospitals in some regions saw faster growth in inpatient

revenue for the month. For example, inpatient revenues increased 11.0% YOY for hospitals in the Northeast compared to a 10.2% increase in outpatient revenues over the same period. Hospitals in the Midwest had a 10.5% YOY increase in inpatient revenue versus a 9.3% YOY rise in outpatient revenue, and hospitals in the West saw a 10.6% YOY increase in inpatient revenue compared to a 10.3% YOY increase in outpatient revenue.

Revenue results were mixed after adjusting for patient volumes. Net patient service revenue (NPSR) per adjusted discharge rose 4.9% YOY, and NPSR per adjusted patient day increased at 5.6% YOY — but both metrics decreased 0.2% month-over-month.

Outpatient vs. Inpatient Revenue Changes Year-Over-Year for March 2025
By Census Region



Source: Comparative Analytics

For the latest financial performance data on U.S. hospitals, health systems, and physician groups, please see our [Monthly Healthcare Industry Financial Benchmarks](#).



About the data

This report uses data from Strata's Comparative Analytics solution, which offers access to near real-time data drawn from more than 135,000 physicians from over 10,000 practices and 139 specialty categories, and from 500+ unique departments across more than 1,600 hospitals. Comparative Analytics also provides data and comparisons specific to a single organization for visibility into how their market is evolving.

In addition, the report includes data from Strata's StrataSphere database. StrataSphere is a unique and comprehensive data-sharing platform that helps providers leverage the power of a network that represents approximately 25% of all provider spend in U.S. healthcare. The data presented in this report were pulled from the StrataSphere encounter data set, which aggregates hospital billing data from across the U.S. As such, all reported metrics are from the hospital setting, and encounters were categorized by patient type depending on the presence of particular UB revenue codes. Procedures were identified using the Sg2 CARE Grouper. Depending on the specific data requirements for each section, different hospital inclusion criteria were applied.

ⁱ American Hospital Association: [The Cost of Caring: Challenges Facing America's Hospitals in 2025](#). April 2025.

ⁱⁱ Bade, G.: ["How Did Trump's Team Get to a 245% Tariff Level for China? What Is New?"](#) *The Wall Street Journal*, April 16, 2025.

ⁱⁱⁱ Fields, A.: ["Trump: 'Major' Pharmaceutical Tariffs Coming Soon."](#) *The Hill*, April 9, 2025.

^{iv} Weixel, N.: ["Republicans Eye 'Per Capita Caps in Medicaid Savings Search."](#) *The Hill*, May 5, 2025.

^v Douglas, L.: ["Trump 'Shows an Openness' to Medicaid Work Requirements, Committee Chair Says."](#) Reuters, May 5, 2025.



