Strata Performance Trends Report

Market Insights from Q2 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:

Hospital drug expenses continue to rise nationwide, with hospitals that treat the sickest patients facing the steepest increases — a trend that could worsen under proposed pharmaceutical tariffs.

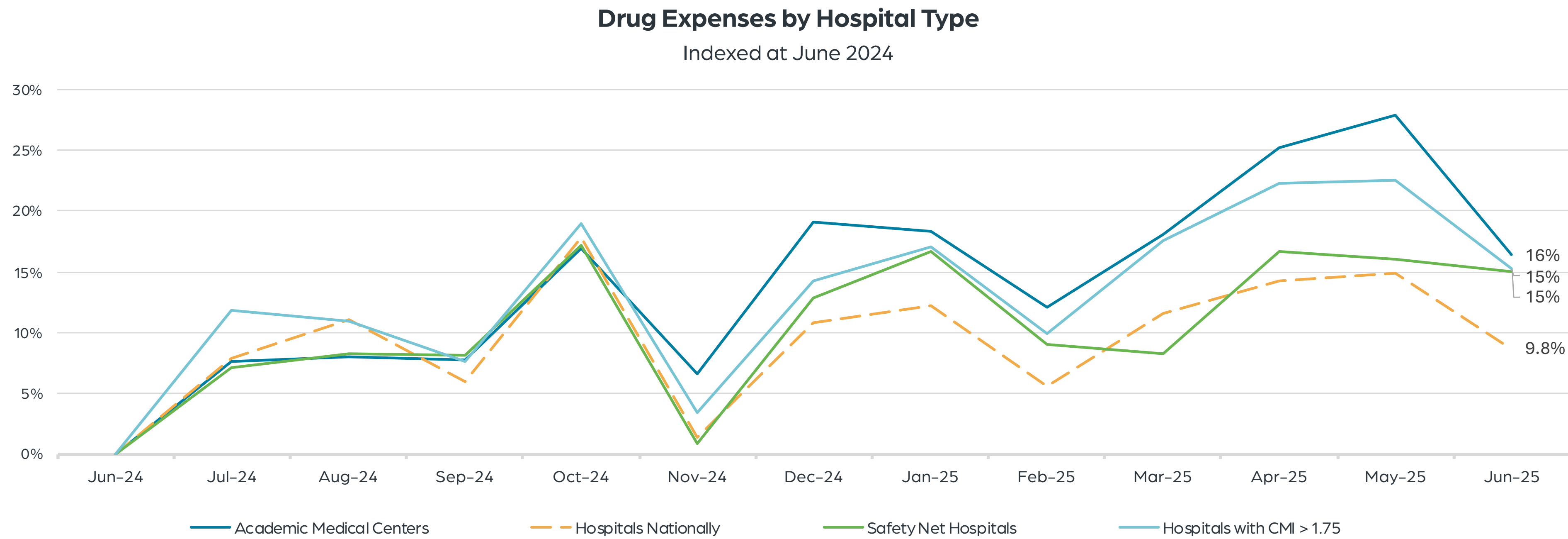
Drug costs surged across service lines, with a 65.4% spike for the cancer service line among the biggest year-over-year increases in inpatient drug cost per case.

Days Cash on Hand (DCOH) remained steady at a median of 128 in June 2025 for health systems nationally, but looming Medicaid cuts threaten this liquidity stability.

Expected Medicaid cuts could fuel shifts in patient behavior as more individuals lose coverage and delay or forgo care, placing greater financial strain on hospitals as illustrated by margin gaps in outpatient versus emergency care for similar services.

Health system operating margins held steady for a sixth consecutive month, with the median year-to-date operating margin of 1.2% in June, while hospital operating margins saw positive gains.

Drug Expenses Continue to Rise for Hospitals Nationwide



Source: Strata Comparative Analytics *Note: Case mix index (CMI) measures patient complexity; a higher CMI reflects more severe cases requiring more resources.*

As total drug expenses continue to climb for hospitals nationwide, those that treat the most vulnerable patients with the most complex cases have seen the steepest increases. While the pace of growth has varied, hospitals of all types saw drug expenses increase each month compared to a baseline of June 2024. Such increases could be exacerbated if the Trump administration moves forward with tariffs on pharmaceutical imports. President Trump has said he plans to impose tariffs as high as 200% for the industry within the next 18 months.[i]

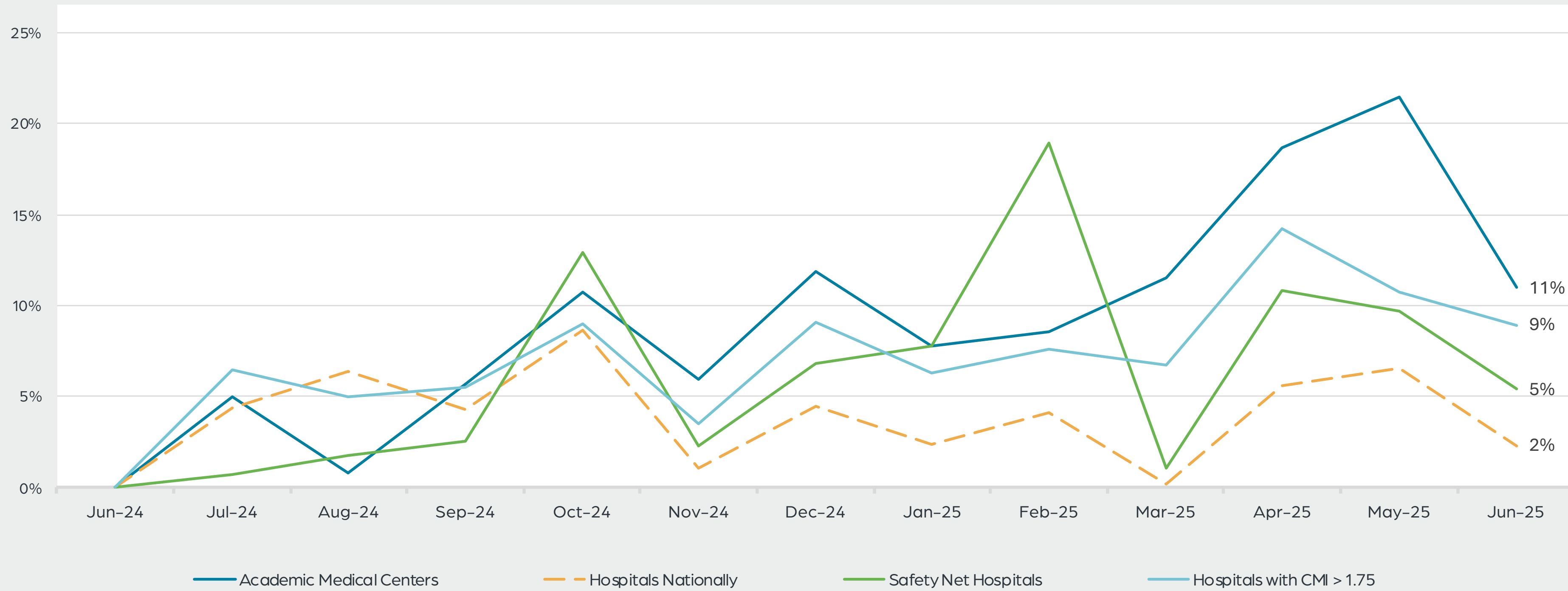
As drug costs rise under current economic conditions, academic medical centers — which handle many of the most complex patient cases — experienced some of the biggest increases over the course of the past 12 months. Compared to the June 2024 baseline, total drug expense jumped 19% in December 2024, 25% in April 2025, and 28% in May 2025. The metric was up 16% in June 2025 versus the June 2024 baseline.

Safety net hospitals saw the second largest increases most months, with total drug expense up 17% over the baseline in October 2024, January 2025, and April 2025. As of June, the metric was up 15% year-over-year (YOY). Nationally, the median increase was 9.8% across all hospitals from June 2024 to June 2025.

Across all hospital types, those with a case-mix index (CMI) greater than 1.75 — indicating a higher proportion of costly, more complex patient cases — peaked with a 23% increase in total drug expense in May 2025 and were up 15% in June 2025 versus the June 2024 baseline.

Drug Expense per Adjusted Patient Day by Hospital Type

Indexed at June 2024



Source: Strata Comparative Analytics

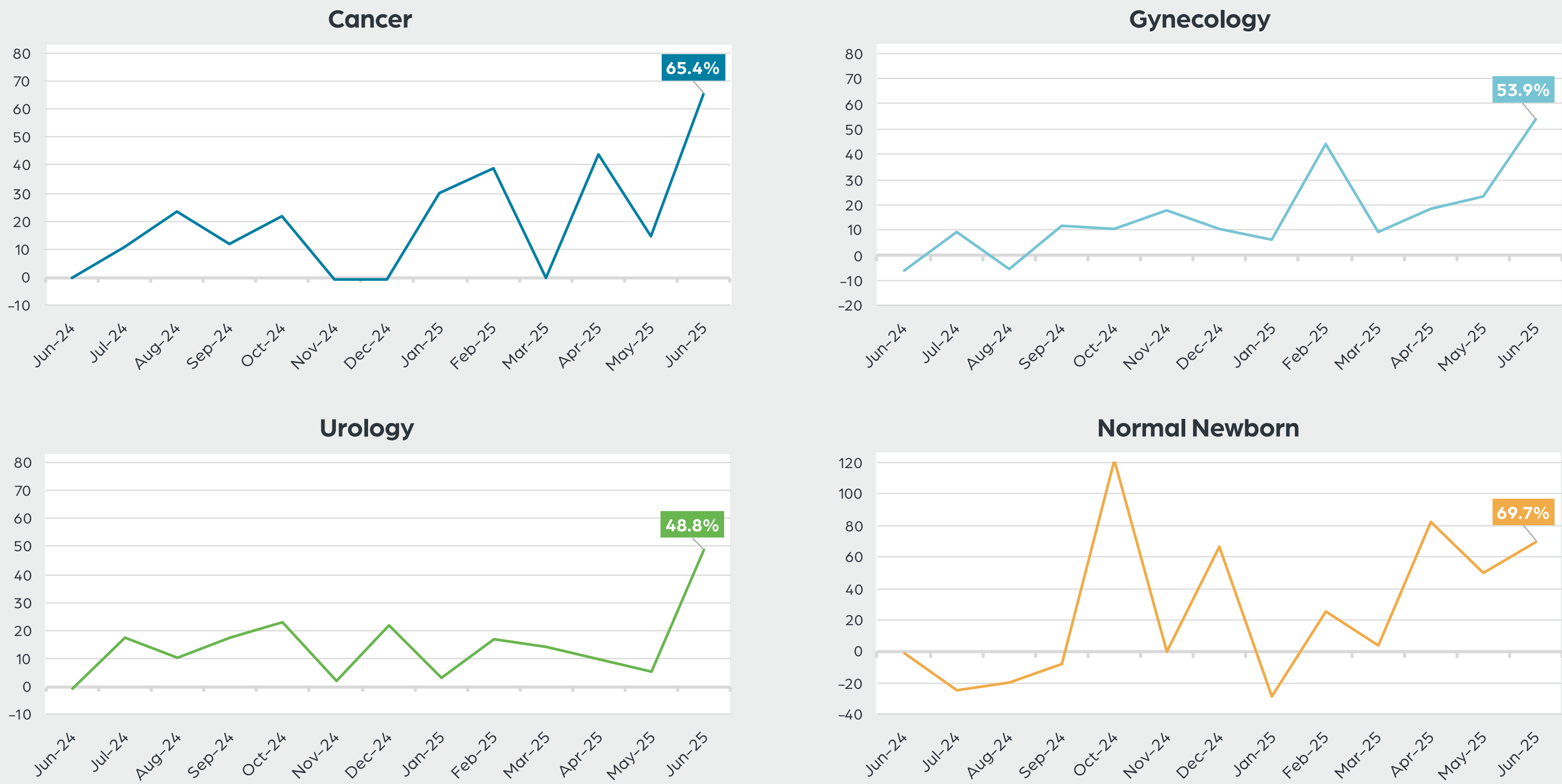
Drug expenses also remained elevated throughout the year on a per-patient basis. For academic medical centers, drug expense per adjusted patient day rose sharply in May 2025, up 21% compared to the June 2024 baseline. The metric was up 11% at the close of the second quarter in June 2025.

Safety net hospitals saw volatility in this measure in recent months. In February 2025, drug expense per adjusted patient day surged 19%. The following month, the metric was up just 1% and as of June it rose 5% versus the June 2024 baseline.

Hospitals with a high case-mix index of 1.75 or more experienced upward pressure, with expenses climbing 14% in April 2025 and 9% in June 2025 versus the baseline.

Total Drug Costs Rising Across Key Service Lines

Year-over-Year Percent Change, Per Case by Service Line, June 2024 to June 2025



Source: StrataSphere

Drug expenses also have continued to rise across key service lines. Looking at each month on a YOY basis, the graphs above show the four service lines that had the highest increases as of June 2025. The normal newborn service line experienced the largest increase at the close of the second quarter, with total inpatient drug cost per patient up 69.7% YOY in June 2025. The cancer service line recorded the second-largest jump at 65.4%, followed by gynecology at 53.9%, urology at 48.8% and ear, nose, and throat (ENT) at 43.5% over the same period.

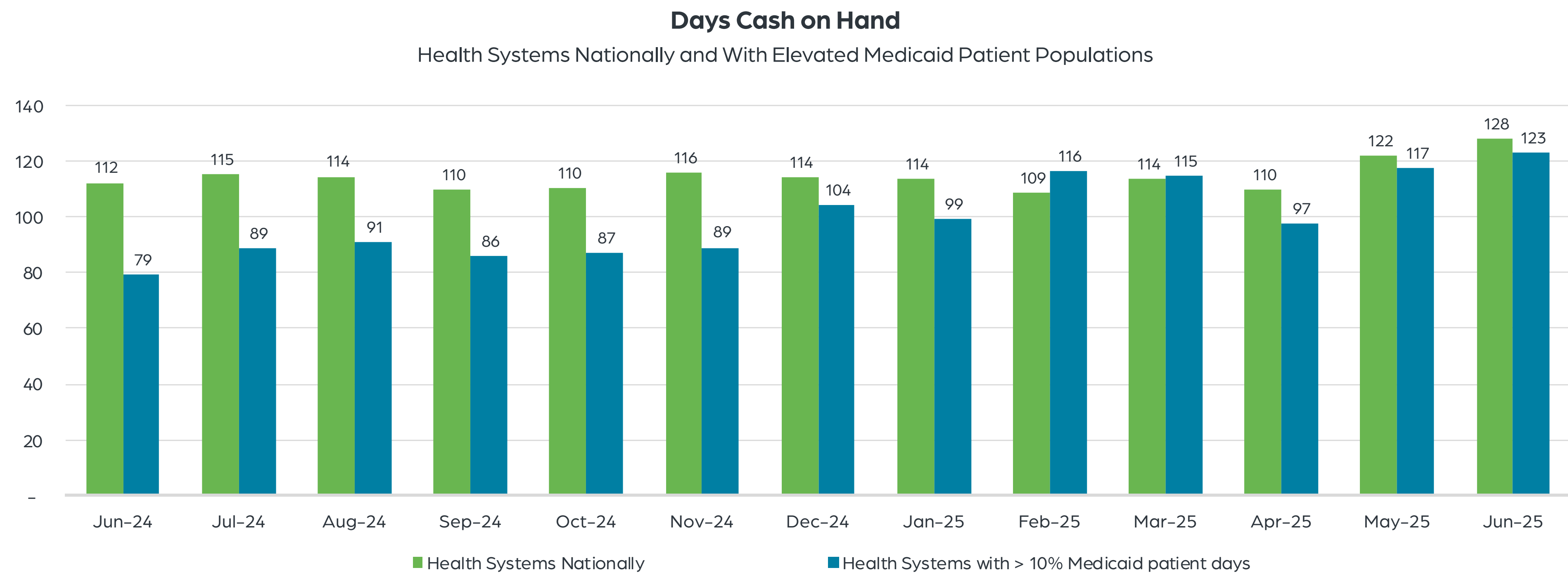
Month-to-month trends have shown significant fluctuations over the past year. For example, the normal newborn service line reached its peak increase in October 2024, with costs jumping 120.9% compared to a year earlier. In contrast, this same service line saw the metric drop 28.4% in January 2025 versus January 2024.

Days Cash on Hand Stabilizes for U.S. Health Systems, but Challenges Loom

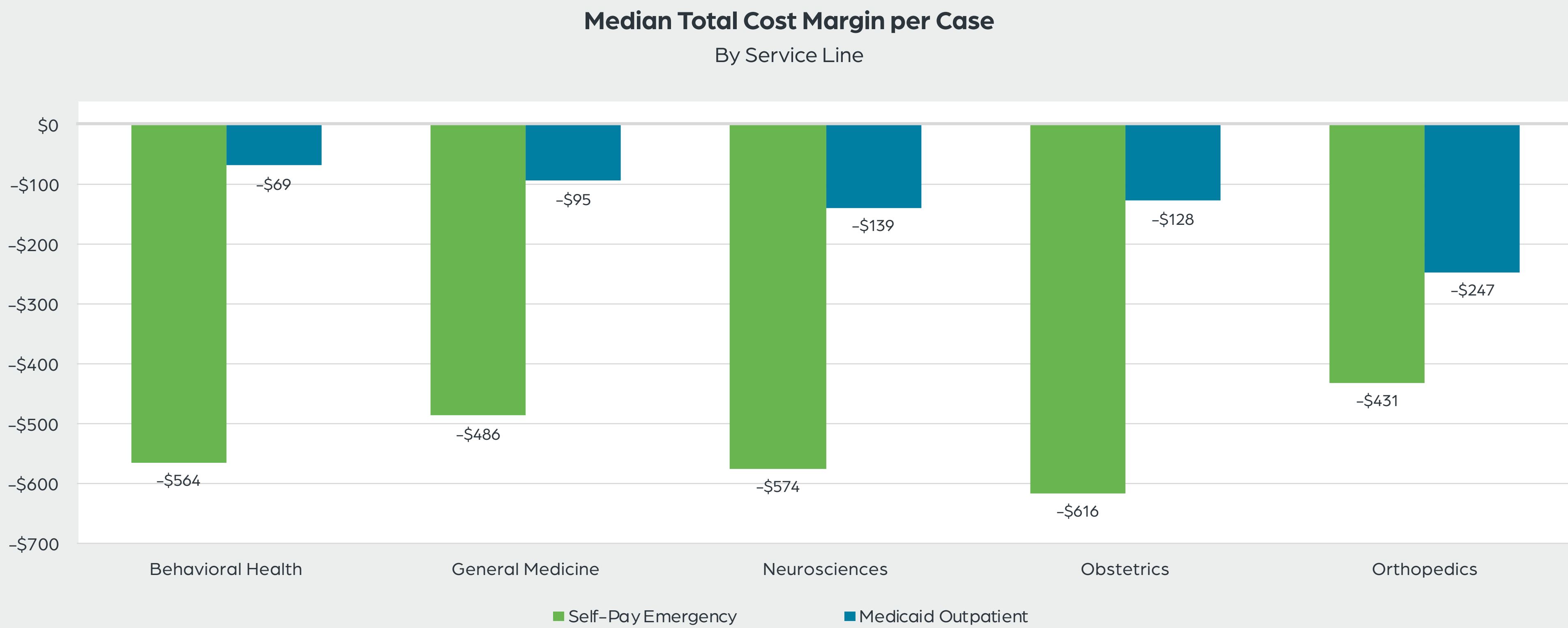
Days cash on hand (DCOH) — a critical measure of liquidity and a health system's ability to cover operating expenses if revenue were to suddenly stop — has remained relatively steady overall nationwide, but this stability may be at risk. While many organizations have seen recent gains, those improvements could reverse as Medicaid cuts take effect, posing a potential challenge to financial resilience. Millions of Medicaid beneficiaries are projected to lose coverage if proposed federal work requirements or other program changes are enacted.[ii]

DCOH fluctuated over the past 12 months for health systems nationally, ranging from a low of 109 days in February 2025 to a high of 128 days in June 2025. Health systems that serve a higher share of Medicaid patients (more than 10% Medicaid patient days) historically have had significantly lower cash reserves than the national average. In June 2024, they reported just 79 days cash on hand, but improved to 123 days by June 2025, narrowing the long-standing gap.

Despite this recovery, these health systems remain more vulnerable to policy and reimbursement changes — and the anticipated Medicaid reductions could quickly erode those gains. The Medicaid program, which provides healthcare coverage to more than 70 million low-income Americans, is jointly funded by the federal and state governments.[iii] As reported in the *Q1 2025 Strata Performance Trends Report*, Medicaid accounts for more than 12% of revenue for most hospitals nationwide.



Source: Strata Comparative Analytics



Source: StrataSphere

If fewer people qualify for Medicaid benefits due to policy changes, a troubling shift in patient behavior is likely to put additional strain on hospital finances. People who lack insurance coverage are more likely to [delay or forgo care] due to costs, according to the Kaiser Family Foundation.[iv] When they do seek help, it is often after conditions have worsened — pushing treatment into the emergency department, where care is more expensive and margins are lower. This not only increases clinical risk but also changes the payor mix, moving more cases into self-pay.

This pattern is already evident in recent data. After the end of Medicaid "continuous enrollment" protections beginning in 2023, self-pay (uninsured) emergency visits rose across all age groups. The largest spike was among children under 18, with a [60% increase] in emergency visits paid out-of-pocket.[v] Such shifts can be financially damaging for hospitals, as self-pay cases typically result in low or no reimbursement.

The latest service line data from November 2024 illustrate the potential financial impact across different service lines. In the orthopedic service line, outpatient Medicaid cases carried a median total cost margin of –$247 per case, but for emergency self pay orthopedic patients, the margin dropped to –$430. The same pattern is evident in obstetrics, where outpatient Medicaid cases had a median per-case margin of –$128, compared to –$616 for emergency self pay cases.

When care moves from outpatient to emergency settings, hospitals take a double hit: higher care costs combined with lower likelihood of payment. If care shifts occur in the wake of Medicaid reductions, hospitals could see a widening gap between cost and reimbursement, particularly in high-volume service lines.

Hospital KPIs

JUNE 2025

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

Operating margin:	+2.4 PERCENTAGE POINTS
Outpatient visits:	+8.2%
Total expense:	+5.1%
Total non-labor expense:	+8.2%
Outpatient revenue:	+12.3%

Health System Operating Margins Held Steady Throughout Q2

Health system operating margins remained narrow but relatively stable in June, holding around 1% for a sixth consecutive month. The median year-to-date (YTD) operating margin for health systems nationally was 1.2% in June, up slightly from 1.1% in May.

For the nation's hospitals, margins also showed gains at the close of the second quarter. The median change in hospital operating margin increased 2.4 percentage points YOY and rose 1.3 percentage points month over month.

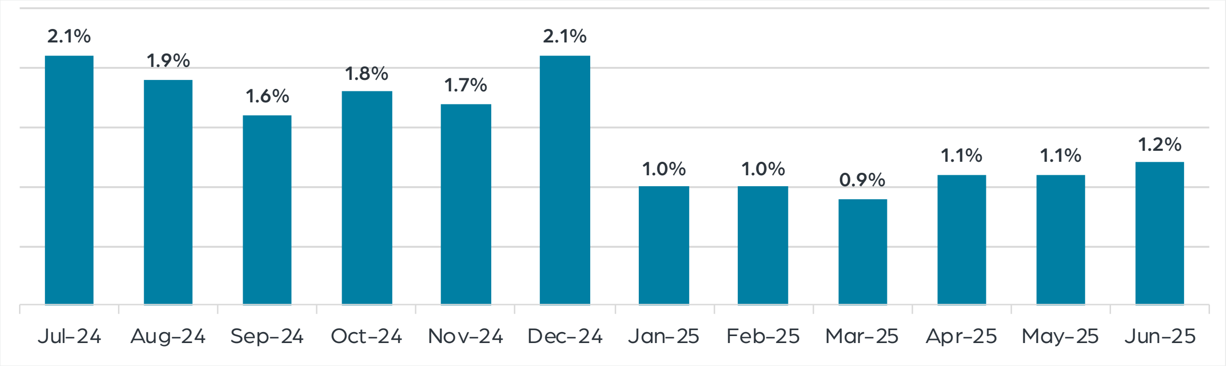
Hospitals in the South experienced the largest YOY margin increase, with the metric jumping 6.1 percentage points from June 2024 to June 2025. Hospitals in the Midwest saw a 2.5 percentage-point increase, while those in the Northeast posted a 1.6 percentage-point gain YOY. The West was the only region to record a decline, with the median change in hospital operating margin down 2.2 percentage points over the same period.

Looking at hospitals by size, the smallest hospitals (0 to 25 beds) had the biggest decrease, with the median change in operating margin down 1.0 percentage point. The metric was down just 0.2 percentage point for the largest hospitals with 500 beds or more. The median change in operating margin rose for all other hospitals, with increases ranging from 0.8 percentage point for hospitals with 300 to 499 beds to 4.2 percentage points for hospitals with 100 to 199 beds.

The median change in operating earnings before interest, taxes, depreciation, and amortization (EBITDA) margin for hospitals nationwide increased by 2.2 percentage points YOY and 1.0 percentage point from May to June 2025.

Median Health System Operating Margins

Nationally, Year-to-Date



Source: Strata Comparative Analytics

Drug expenses jumped nearly 10% for U.S. hospitals

Hospitals nationwide continue to face rising overall expenses compared to 2024 levels, with growth in non-labor expenses outpacing labor expense increases. Drugs expense once again experienced the largest YOY increase compared to other expense categories, jumping 9.8% compared to June 2024. This increase — along with an 8.7% YOY increase in supply expense and a 6.9% YOY increase in purchased services expense — drove an 8.2% YOY increase in total non-labor expense. Total labor expense increased 3.8% from June 2024 to June 2025, and total expense rose 5.1% over the same period.

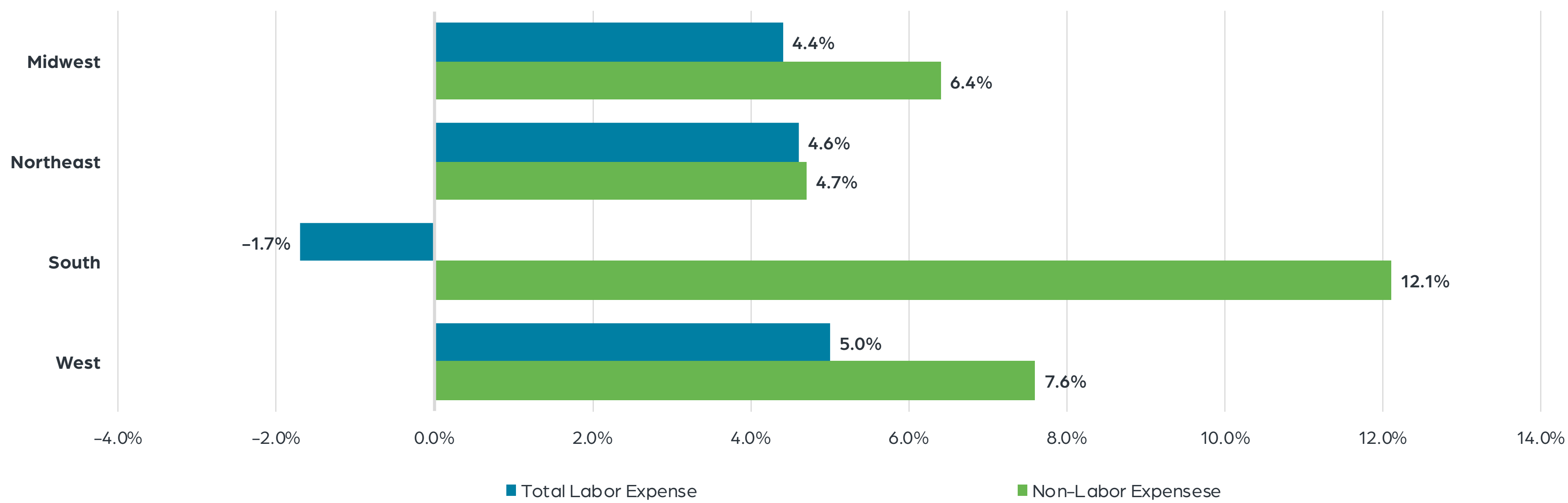
By census region, hospitals in the Northeast and West saw the most significant increases in drugs expense, with the metric up 17.7% and 14.7% YOY, respectively. Looking at total non-labor expense by region, hospitals in the South recorded the largest YOY increase at 12.1%.

Expenses eased somewhat month over month. From May to June 2025, total expense decreased 2.2%, total labor expense was down 3.7%, and total non-labor expense decreased 0.8%. Drugs expense decreased 4.8% and supply expense was down 2.5% month over month.

Expense performance was more mixed after adjusting for patient volumes. Total expense per adjusted discharge increased 2.1% and non-labor expense per adjusted discharge rose 3.1% YOY, but labor expense per adjusted discharge declined slightly (0.6%) from June 2024 to June 2025.\

Total Non-Labor Expenses Growing Faster Than Total Labor Expenses

Year-Over-Year for June 2025, By Census Region



Source: Strata Comparative Analytics

Demand for outpatient services continued to grow

Patient demand continued to show mixed results, but increased across both inpatient and outpatient categories from June 2024 to June 2025. Outpatient visits experienced the largest gain, rising 8.2% YOY as patients continue to seek more convenient and lower cost outpatient care. Inpatient admissions also increased at 3.7% YOY, while emergency visits declined 5.2% and observation visits were down 1.0% YOY. Looking at outpatient visits by region, the metric rose 11.0% YOY in the South, 7.5% YOY in the Midwest, 6.5% YOY in the Northeast, and 6.2% in the West YOY.

Compared to two years ago in June 2023, inpatient admissions were up 6.1%, and outpatient visits rose 5.2% for hospitals nationally. Patient demand decreased across all four measures month over month. Emergency visits saw the steepest decline, dropping 10.4%, followed by a 6.3% decrease in observation visits. Outpatient visits were down 3.5%, and inpatient admissions decreased 3.3% from May to June 2025.

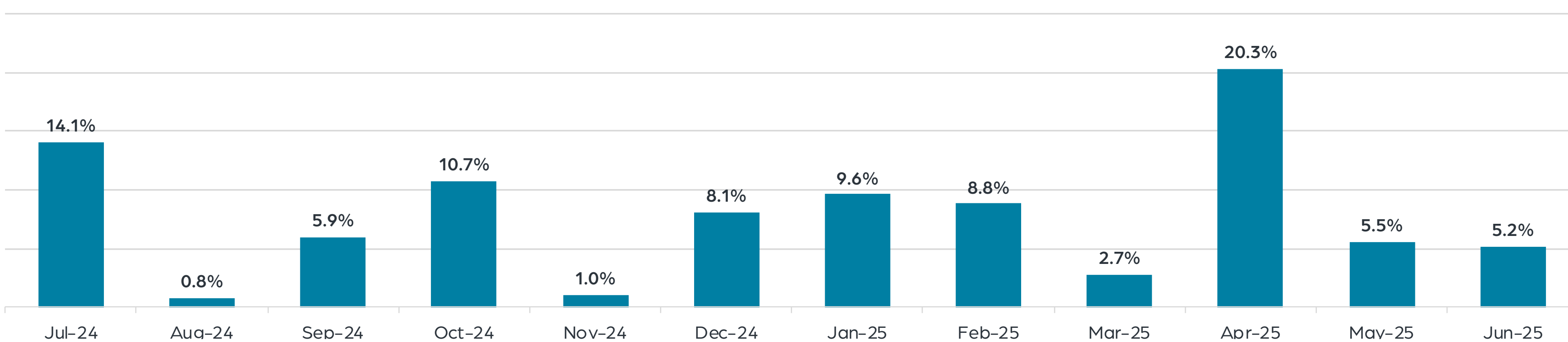
Changes in patient demand varied across different service lines, according to the latest service line data as of May 31. The normal newborn service line recorded the highest YOY increase at 5.1%, followed by hepatology and genetics — which both saw patient volumes increase 4.6% YOY. Conversely, ear, nose, and throat (ENT) services saw the largest decline, with patient volumes down 8.2% YOY.

Among 15 common procedure types, patient volumes decreased YOY for 10 and increased YOY for five. Inpatient primary knee replacements had the most significant decline, with volumes down 18.8% versus the same period in 2024. By contrast, routine outpatient diagnostic electrocardiograms (ECGs) experienced the largest increase, with procedure volumes jumping 17.0% YOY.

Children's hospitals saw patient volumes decline across most categories in June. According to the latest available data from June 30, emergency visits showed the largest YOY drop at 11.9%, followed by a 4.9% decrease in inpatient admissions and a 2.6% decline in observation visits. Outpatient visits were the only metric to increase, rising 4.0% YOY.

Outpatient Visits

Monthly Volume Changes vs. 2023



Source: StrataSphere

Gross hospital revenues rose for a 26th consecutive month

Hospital revenues remained on the rise YOY across both inpatient and outpatient categories, with outpatient revenues showing the most significant growth. Outpatient revenue increased 12.3% from June 2024 to June 2025, while inpatient revenue rose 7.0% YOY. Gross operating revenue was up 10.3% YOY, marking the 26th consecutive month of YOY growth across the three gross revenue metrics.

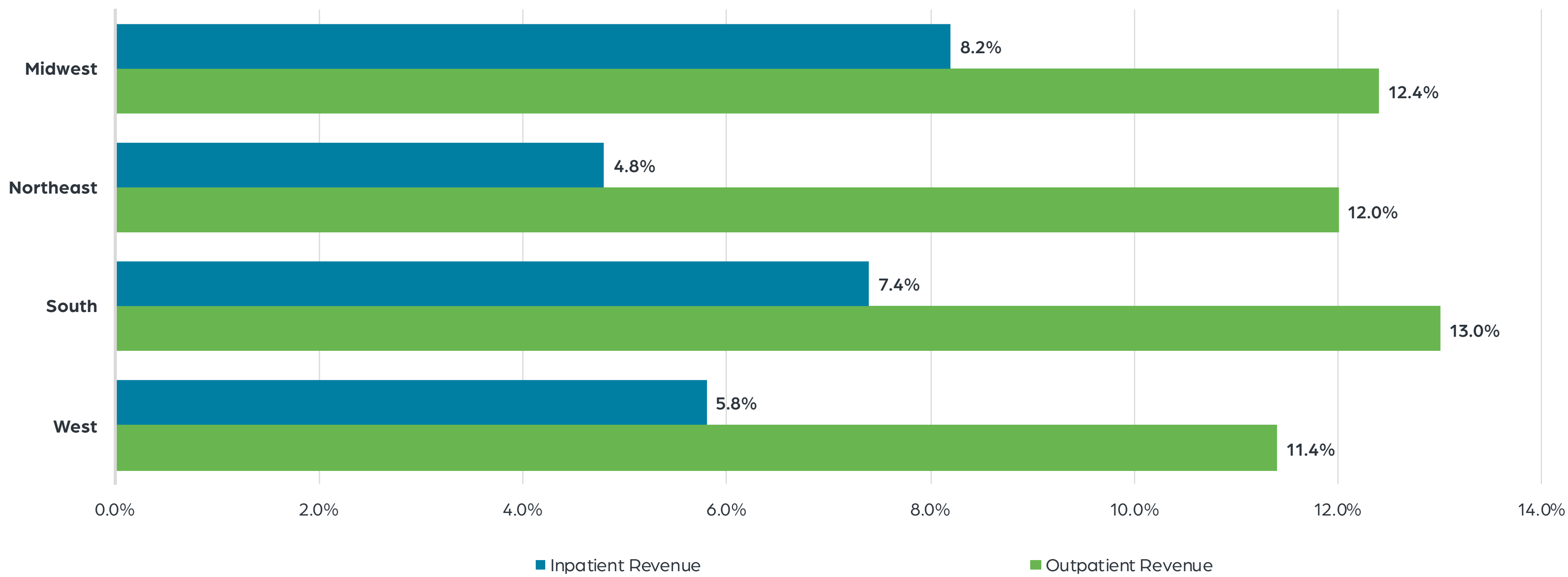
Month over month, however, gross hospital revenues decreased. Outpatient revenue declined 2.1%, inpatient revenue decreased 3.4%, and gross operating revenue was down 1.9% from May to June 2025.

Regional trends reflected continued strength in outpatient revenue growth. Hospitals in the South saw the largest YOY increase, with outpatient revenue up 13.0%. This was followed by increases of 12.4% in the Midwest, 12.0% in the Northeast, and 11.4% in the West.

Bad debt and charity care deductions decreased for hospitals nationally, falling 3.0% YOY and 0.5% month over month. Net patient service revenue (NPSR) per adjusted discharge rose 3.3% compared to the prior year and was up 2.2% month over month. NPSR per adjusted patient day increased 2.0% YOY and edged up just 0.3% from May to June 2025.

Outpatient vs. Inpatient Revenue Changes Year-Over-Year for June 2025

By Census Region



Source: Strata 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 152,000 physicians from over 10,000 practices and 139 specialty categories, and from 500+ unique departments across more than 1,850 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.

References

[i] Gilchrist, K.: "Trump's 200% Tariff Threat Leaves Pharma Firms Scrambling with Scenario Planning." CNBC, July 11. 2025.

[ii] Galewitz, P., et. al.: "5 Ways Trump's Megabill Will Limit Health Care Access." NPR, July 3, 2025.

[iii] Centers for Medicare and Medicaid Services: "April 2025 Medicaid & CHIP Enrollment Data Highlights." Medicaid.gov, July 25, 2025.

[iv] Tolbert, J., et. al.: "Key Facts About the Uninsured Population." Kaiser Family Foundation, Dec. 18, 2024.

[v] Alban, C., Bartelt, K.: "Uninsured Emergency Visits on the Rise Since the End of Medicaid Continuous Enrollment." Epic Research, Oct. 10, 2024

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