Americans Still Seen Pinching On Health Care This Year

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Americans aren't about to clog waiting rooms in doctors' offices and hospitals after a long, recession-induced slowdown, according to the latest views from health companies.

High unemployment has left many patients without health coverage, and more expensive out-of-pocket costs for those with coverage have caused people to scale back usage of health services. Despite some signs of stability and improvement as the U.S. economy recovers, there isn't much evidence in recent earnings reports that patients are broadly seeking more care.

Hospitals, drug makers and medical-device firms would welcome any growth, while health insurers benefit from the slowdown because they have fewer bills to cover. For the companies banking on patient volume, the best news is the slowdown seems to be bottoming out.

"We think we're getting close to the bottom of the trough," William Weldon, chief executive at health-care conglomerate Johnson & Johnson (JNJ), said regarding elective surgery trends on the company's recent earnings call.

J&J's DePuy business is a big maker of replacement hips and knees, a market where sales have been hit by patients deferring surgeries. Competitors such as Zimmer Holdings Inc. (ZMH) and Stryker Corp. (SYK) have also felt pressure.

Echoing Weldon's take, medical test-maker Quest Diagnostics Inc. (DGX) cited signs that physician office visits may be stabilizing. Likewise, UnitedHealth Group Inc. (UNH), the biggest managed-care firm, said trips to doctors' offices contributed to growing health-system usage in the second half of 2011.

But, while the insurer expects more growth in utilization this year, Quest Chief Financial Officer Robert Hagemann said on an earnings call that it is "still too early to conclude the market has completely turned the corner."

C.R. Bard Inc. (BCR), which makes a wide array of hospital and surgical products and has a good view of patient-volume trends, said it hasn't seen much change in the U.S. market. Bard's forecasts for 2012 assume more of the same.

Nevertheless, stocks of publicly traded hospital firms have been rising this year following an sickly 2011 as labor-market improvement spurs expectations of better patient volumes.

"We are increasingly optimistic that we are in the early stages of a slow recovery in healthcare service utilization," Jefferies analyst Arthur Henderson said in a note on HCA Holdings Inc. (HCA), the hospital sector's biggest company.

HCA last week issued a solid report backed by continued growth in patient volumes, despite light surgical admissions. But the industry-wide view is more mixed, with light inpatient admissions an ongoing pressure point for competitor Health Management Associates Inc. (HMA), which reported earnings this week.

"I think the recession will continue to have a negative impact on volumes," said Alex Hunter, managing director in Navigant Consulting Inc's health-care practice. He noted that U.S. unemployment--which slid to 8.3% in January--still remains inflated.

Drug companies also continue to feel effects from the slowdown in health-care visits. "It's a challenging market right now," Deirdre Connelly, president of GlaxoSmithKline PLC's (GSK) North American unit, said in an interview.

While the drug industry was fairly immune during prior recessions, the depth and duration of this one has taken a toll. The slowdown has particularly affected the market for respiratory drugs, which include Glaxo's top-selling product, Advair, Connelly said.

Some of the more consistent forecasts for rising health-system usage come from insurers. They tend to be conservative, however, because they don't want to get pinched by low-ball estimates while setting prices with customers. Matthew Borsch, an analyst covering the sector for Goldman Sachs, has said he expects the medical-cost trend to remain moderate through next year.

Health-care executives have long said that patients can't stay away forever. But whether Americans' appetite for health services will remain muted after the economy fully recovers because of rising out-of-pocket costs remains an open question. Data from the Kaiser Family Foundation shows climbing use of $1,000 deductibles in health plans over the past five years, for example, meaning the insured person has to spend at least that much before their insurance actually kicks in.

"The consumer still seems retrenched," Joseph Zubretsky, Aetna Inc.'s (AET) chief financial officer, said in a recent interview. "We're guarded against whether this is the new normal."

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