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Healthcare and the Financial Crisis

As noted previously (page 19), healthcare is one of the only major sectors forecast to buck the major decline forecast in IT spending for 2009.

To get a bird's eyeview of the impact of the current financial crisis, we selected the Top Four companies by US market capitalization in five key healthcare sub-sectors and assessed the 52 week change in share prices, as compared to the situation at noon October 21st. We excluded pharmaceuticals and biotechnology, whose stockmarket and industry dynamics vary from the rest, and bear far less directly on investment plans by hospitals the key area of interest for healthcare IT.

We also excluded heavyweights such as GE, Siemens and Philips (with market capitalizations of 204.3 billion, 58.2 billion and 18.3 billion US dollars, respectively). Share price movements by such large firms both drive and reflect trends in the wider market as a whole.

The sectors we selected were medical instruments and suppliers (cumulative market capitalization [CMC] 199 billion dollars), medical appliances (CMC 128.5 billion dollars), healthcare plans (CMC 94 billion dollars), specialized health services (CMC 14 billion dollars) and hospitals (CMC 9 billion dollars).

Compared to the 52-week decline of the Dow Jones Industrial Average by 80% (from 13,990.7 to 7,773.7), the changes for our indicator sectors were as follows:

Ó Medical Instruments and Suppliers: 50% fall (far below the Dow Jones average), with a tightly-knit range of 39 to 61% for the Top Four firms, indicating the relative inelasticity of this key healthcare sector.

Ó Medical Appliances: 72% fall, with a small range of 65 to 79% declines for the Top Four, again underlining the relative inelasticity of this major healthcare sector.

Ó Healthcare Plans: 208% fall (well above the Dow Jones average), indicating the relatively high exposure of this sector to the crisis in the financial services industry. The range of share price falls for the Top Four firms varied from 168 to 310%.

Ó Specialised Health Services: 96% fall, with a wide range of 51 to 164%, indicating an impending shakeout in the sector.

Ó Hospitals: 109% fall, again with a fairly large range of 65 to 164%, underscoring the relatively higher vulnerability of some groups to the financial crisis

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