

WEBINAR RECAP

Dental Economic Trends & Perspectives



ABOUT THE WEBINAR

TOPIC: Dental Economic Trends & Perspectives, presented by PNC Bank

DATE: October 28, 2021

MODERATED BY: Mary Kay Schneider, Executive Vice President and Director, Industry Segmentation at PNC Bank Business Banking

To say that there has been “economic volatility” amid COVID-19 might be an understatement: Global and national macroeconomics have experienced ongoing fluctuation, which has prompted ongoing uncertainty — from the initial economic contraction in early 2020 to the expansion and inflation seen in late 2021.

Many national factors have driven and continue to drive these evolving trends, including labor shortages, stimulus payments, infection trepidation, vaccine optimism, interest rates and consumer spending.

As sector leaders plan their recovery after this once-in-a-generation event, dentists are among those who have experienced dramatic and rapid change in their field over the past several months. How can they navigate these trends for a sustained recovery in the year ahead?

That’s what a recent PNC Bank webinar explored as it tackled both the trends unique to the dental industry and the broader national narratives that provide a backdrop to these sector-wide changes.

Moderated by PNC’s Mary Kay Schneider and with special presentations by leaders from PNC and the American Dental Association, the webinar discussed the conditions that are both within and outside of dentists’ control. Also highlighted were opportunities for providers to capitalize on dentistry trends, such as demographic shifts, technological advancements, payment reform and intensified consumerism.

In this new normal, dentists are becoming more proactive to overcome the field’s many barriers while seizing opportunities — from buying office space instead of leasing to incentivizing employees with more competitive benefits, pay and perks.

Inside, we provide an overview of the webinar’s three parts and key takeaways. Read on to learn valuable insights, trends and strategic recommendations designed to help all dental practitioners optimize the opportunities of a changed era.

SPEAKERS



**Augustine
“Gus” Faucher**

*Chief Economist at
The PNC Financial
Services Group*



**Dave Preble,
DDS, JD, CAE**

*Senior Vice President
of the Practice Institute
at the American Dental
Association*



Kevin Wills

*Senior Vice President,
Territory Practice
Manager at PNC Bank
Healthcare Business
Banking*

Continued on next page >

The National Bureau of Economic Research indicates that the U.S. economy has been in recovery since May 2020. While the economic recovery has strongly rebounded in many areas, many measures are still under their pre-pandemic levels — including in the dental industry.



U.S. ECONOMIC OUTLOOK: WHERE WE WERE, WHERE WE ARE, WHERE WE'RE GOING

Gus Faucher with The PNC Financial Services Group opened the webinar discussion with a presentation about the national economic outlook. In that presentation, he summarized this: The acute recession was short, but recovery is long.

The National Bureau of Economic Research indicates that the U.S. economy has been in recovery since May 2020. While the economic recovery has strongly rebounded in many areas, many measures are still under their pre-pandemic levels — including in the dental industry.

NOTABLE DIFFERENCES WITH COVID-19

In framing this challenge, Gus reminded webinar viewers that 2020's economic impacts varied from those of previous recessions. In early 2020, the economy was quite strong. Unlike previous economic events, the problems originated from something external to the economy: COVID-19.

Consumers were unable or unwilling to go out and spend, which caused a fast and dramatic drop in March and April 2020 across varying measures of economic activity (such as inflation, consumer spending and gross domestic product).

In addition, Gus pointed out that the federal response to these economic events has been swift and aggressive. This response includes governmental support (such as fiscal stimulus, expanded unemployment insurance, child tax credit payments, and the Paycheck Protection Program — which many dentists participated in) as well as Federal Reserve support (such as the manipulation of interest rates to push down borrowing costs for small businesses like dental practices).

As a result of these combined measures, the national economic story varied compared to previous recession events. Notably, household income jumped even though the U.S. economy lost more than 22 million jobs. With an influx of cash, consumers had more to spend yet limited options for spending it.

VARIATIONS IN ECONOMIC RECOVERY BY SPENDING

The aggressive federal response has encouraged people to go out and spend, which has bolstered overall economic recovery. However, Gus emphasized that recovery is uneven across spending categories, which is why the dentistry landscape has seen many of the impacts it has.

For example, spending on goods has increased even beyond pre-pandemic levels, with Q2 2021 consumer durables (such as cars or appliances) and nondurables (such as clothing and food) up roughly 30% and 10%, respectively, compared to Q4 2019.

With consumer services, a category that includes dental services, the narrative is much different. These services have not yet recovered from the pandemic's lasting effects, leading to a 3%–4% reduction in 2021 compared to 2019.

THE “INCOMPLETE STORY” OF DENTAL RECOVERY

Zooming specifically into the dental industry, the gaps are more pronounced in some areas than in others. Gus calls this an “incomplete story” of dental recovery.

For example, dental spending dropped by nearly 70% at the start of COVID-19. Right now, dental spending has recovered from the worst but hasn't yet rebounded completely: Levels are still 20% below what they were pre-pandemic.

However, we may be just at the base of a dental spending surge. Gus predicted that consumers are likely to increase their spending on dental services going forward because of a combination of two things: lots of cash and very little debt.

Between stimulus payments, unemployment payments and limited opportunities to spend, households are sitting on an estimated \$2 trillion in extra savings. Additionally, debt is extremely low, indicating that many people may have more borrowing power for big-ticket items like dental procedures.

ENORMOUS RECOVERY WITH ONGOING CONCERNS

In general, Gus' presentation indicated an enormous recovery in the U.S. economy — such that PNC has even improved its economic forecast from earlier in 2021 thanks to more confidence and optimism around stimulus funding and vaccines.

Even so, many questions remain. Most importantly, when will the pandemic end, and will variants continue to be problematic? The answer to this question has a tremendous bearing on the economic recovery moving forward. On whether the pandemic has already permanently damaged the economy, Gus said he doesn't think so, though the potential is out there.

Similarly, questions of policy are in flux — including that additional infrastructure spending in human services, as Gus implies, may have both upside and downside risks. Housing market volatility is also a significant contributor to economic growth since where people live can affect dental practice models.

As dentists chart their recovery paths, they should consider these questions and the ongoing challenges they present.

CONNECTING COVID-19'S BROADER IMPACTS TO THE NUANCES OF THE DENTAL INDUSTRY

After the national overview with Gus, Dr. Preble took the webinar mic to give a dentistry-specific perspective on these underlying trends.

Notably, Dr. Preble articulated that economic changes to the dental industry mirror what's seen more broadly in the U.S. economy. However, exceptional circumstances and trends within dentistry are creating both new opportunities and new challenges for practitioners.

Dr. Preble emphasizes that in consideration of these trends, dentists would do well to recognize patterns so that they can "skate to where the puck is going." In particular, he pointed out three problems worth keeping in mind:

1. PATIENT VOLUME DECREASES

In the context of the pandemic's acute impacts on dentistry overall, Dr. Preble started with the big consideration: patient volume. Because of the slow recovery in dental spending mentioned by Gus, patient volume is still less than pre-pandemic levels.

Many factors have contributed to these reductions in patient volume, from the early 2020 closures of dental offices to the ongoing trepidation of patients, causing them to delay procedures or routine visits.

Additionally, Dr. Preble discussed the added infection control protocols now expected of dental offices — such as personal protective equipment (PPE), disinfection and social distancing — which can prolong appointment spacing and limit practices' volume capacity.

So, will dental spending ever recover fully? Nobody knows, Dr. Preble remarked. Even though there is more cash in consumers' pockets, reduced patient volumes may be a new reality from here on out because of those additional needs for PPE and social distancing in the office. However, time will tell.

2. STAFFING SHORTAGES

Staffing shortages — which connect to broader market forces seen nationally — are another problem pointed out by Dr. Preble.

Some of these labor factors are outside of dentists' control, such as the fact that much of the workforce is still stuck at home with unmet childcare needs. Additionally, some workers may have fears that even if they're vaccinated, they might bring breakthrough cases home to their too-young-to-be-vaccinated kids. And across the healthcare continuum, some workers have had second thoughts about healthcare as a career entirely.

These market forces significantly affect dentists' ability to hire the right people needed to recover and thrive after COVID-19. However, some things are within dentists' control, including wages and benefits, to make employment more attractive to candidates.

In general, Gus' presentation indicated an enormous recovery in the U.S. economy — such that PNC has even improved its economic forecast from earlier in 2021 thanks to more confidence and optimism around stimulus funding and vaccines.

3. NET INCOME REDUCTIONS

Dr. Preble went on to share insights tied to net income, another challenge complicating dentistry's response to the pandemic's economic impacts.

Across the board, net income declined for all dentists. However, these reductions were especially pronounced among women and older dentists. This may be because women had more childcare responsibilities, and older dentists may have had more fears of contracting COVID-19.

OVERARCHING DENTAL TRENDS

It's essential to consider these acute COVID-19 challenges in the context of overarching dental trends, many of which existed prior to the pandemic. As Dr. Preble explained, four trends were noted in a recent report from the American Dental Association's Health Policy Institute:

- **Intensified consumerism:** Consumers want to be more empowered and involved in their healthcare — they want it when they want it, how they want it, with ease of use and cost transparency.
- **Shifting demographics:** More women are entering dentistry (enrollment in dental schools is already more than 50% female, and the dynamics may change in that earning tendencies for women are less at the start and more at the later part of their careers). There are also more minorities entering dentistry. Finally, fewer dentists are practice owners. This diversity, combined with the growth in dental support organizations, or DSOs, changes the dental practice model, Dr. Preble noted.
- **Enabling technology:** There have been substantial increases in diagnostic teledentistry, but there is a limit to what dentists can do remotely. Artificial intelligence (AI) is also changing the landscape by automating time-intensive

tasks such as X-ray interpretation. Tech is not a replacement for a dentist, but there is an operational and a clinical benefit to these innovations.

- **Payment reform:** Everyone is talking about payment reform right now, including a potential Medicare dental benefit. While dental care is still largely fee-for-service, value-based-care models that are discussed at large could change everything.

Combined with the pandemic's immediate challenges to dental practices, these broader trends give further color to the landscape of dentistry recovery in 2021 and beyond. Dentists should consider these industry-specific conditions in short- and long-term strategies as they approach their business plans.

TAKING ACTION TO SECURE A MORE SUSTAINABLE FUTURE

In the webinar's third and final session, PNC's Kevin Wills brought it all together for viewers by pairing these national and sector-specific trends with best practices designed to manage revenue cycle, grow capital and mitigate risks.

As Kevin said, the most important thing to remember is that healthcare is a team sport. Now more than ever, dental offices are taking that mantra to heart by engaging the advice of trusted outside advisors. From financial and legal experts to real estate brokers, these consultants can provide the commercial support needed to help dental providers weather economic volatility with fortitude and vision.

Across the board, net income declined for all dentists. However, these reductions were especially pronounced among women and older dentists. This may be because women had more childcare responsibilities, and older dentists may have had more fears of contracting COVID-19.

In collaboration with such third-party experts, Kevin mentioned a few tactics worth pursuing in this new normal:

1. TRY NEW WAYS TO GROW CASH FLOW.

Considering the increasing costs of doing business — from providing PPE to increasing wages amid labor shortages — increasing cash flow and expanding capital have become urgent imperatives sector-wide.

Many dentists have leaned on financial experts, including PNC, to access PPP assistance or expand established practices with other loan options (such as opening a second location or buying into a group practice).

Kevin emphasized that banks are still eager to lend to this industry; it's seen as a safe and stable investment. With the current low interest rates, timing is also ideal.

2. INVEST IN COMMERCIAL REAL ESTATE AND TECHNOLOGY.

As dentists accelerate their retirement plans, many practices are going up for sale, providing opportunities for younger providers to have a stake in commercial space. As a result, Kevin noted that long-term dentist tenants are becoming real estate owners, which in turn provides more longevity and sustainability to the practice.

Similarly, Kevin has seen a higher uptake in technology utilization among the practice of dentistry. All dentists, especially younger ones, are moving toward online payment portals, tech-powered point-of-care pay, and other innovations in dental operations.

3. EMPHASIZE HIRING, RETENTION AND EMPLOYEE BENEFITS.

As dental providers reckon with national labor shortages, compensation and benefits are top of mind. This includes offering more wages and perks and helping employees utilize historically underutilized benefits like their 401(k). Providing financial education can also alleviate workforce stress as many people are under economic pressures that create lasting emotional concerns.

NAVIGATING THE TRENDS OF A CHANGED ERA

COVID-19 has introduced many changes, but it has also presented opportunities for dentists who can read the tea leaves and identify trends coming out of this changed era.

While dentistry has yet to recover to pre-pandemic volumes, the increased confidence and spending power among U.S. households indicate that change may be just around the corner. Even so, the scope of recovery may need to evolve given the expanding safety considerations of the dental industry's day-to-day operations.

As we learned in PNC's webinar, dentists have an opportunity to act now to prepare for lasting commercial success. Expanding their cash flow while investing in people, spaces and technology will be critical to practices moving forward.

And yet, as Kevin said in his session, don't neglect your own needs. The three-legged stool analogy applies: Tend to your practice operations but also the workforce's and your own well-being. Conditions are highly stressful in this changing environment, but preparation can restore confidence in what's ahead.

For more insights, including monthly write-ups, check out pnc.com/economicreports. You can also watch the on-demand recording of the "Dental Economic Trends & Perspectives" [webinar here](#).

To speak with a PNC Healthcare Banker, contact us at 1-877-566-1355.



These articles are for general information purposes only and are not intended to provide legal, tax, accounting or financial advice. PNC urges its customers to do independent research and to consult with financial and legal professionals before making any financial decisions. This site may provide reference to internet sites as a convenience to our readers. While PNC endeavors to provide resources that are reputable and safe, we cannot be held responsible for the information, products or services obtained on such sites and will not be liable for any damages arising from your access to such sites. The content, accuracy, opinions expressed and links provided by these resources are not investigated, verified, monitored or endorsed by PNC.

The material presented is of a general nature and does not constitute the provision of investment or economic advice to any person, or a recommendation to buy or sell any security or adopt any investment strategy. Opinions and forecasts expressed herein are subject to change without notice. Relevant information was obtained from sources deemed reliable. Such information is not guaranteed as to its accuracy. You should seek the advice of an investment professional to tailor a financial plan to your particular needs.

©2022 The PNC Financial Services Group, Inc. All rights reserved.

BB PDF 0122-051-1966604