Middle Market Business Leaders’ Sentiment Remains Solid

The Q4 2019 RSM US Middle Market Business Index experienced a seasonally adjusted decline, but the broader economic outlook remains stable heading into 2020.

CHICAGO (December 19, 2019) – The RSM US Middle Market Business Index (MMBI), presented by RSM US LLP (“RSM”) in partnership with the U.S. Chamber of Commerce, fell slightly in the fourth quarter, reflecting an overall slowing of economic growth. Despite the decline, strong demand in the U.S. and positive forecasts for revenues and net earnings continue to sustain current conditions and will provide a sound foundation for modest growth and economic activity in 2020.

In the fourth quarter of 2019, the MMBI experienced a seasonally adjusted decline, posting a composite score of 127.2, a decrease from last quarter’s 131.0 and well below the cyclical peak of 136.2 posted in the first quarter of this year. Among the business leaders surveyed, 41% indicated that the economy improved in the fourth quarter, while nearly half (46%) expect it to improve in the next six months. The broader economic deceleration did not affect the positive outlook for revenues and net earnings. In fact, more than half (54%) of business leaders reported improved revenues in the current quarter, and 62% said they expect improvement to continue over the next six months. Similarly, 50% of owners said net earnings increased during the past ninety days, while 59% foresee profit increasing in the next 180 days.

"This quarter’s reading of 127.2 is consistent with growth trends in the broader economy," said Joe Brusuelas, RSM US LLP chief economist. "If expectations in the middle market remain in sync with economic activity in 2020, conditions are ripe for growth in the new year. Unless there is a major economic event, such as a reacceleration of the trade conflict or an unexpected shock emerging from the energy sector, the U.S. economy is unlikely to experience a downturn to the business cycle."
The MMBI showcases a generally positive overall economic outlook, but results also revealed softening in expectations around hiring and capital expenditures. Since the index was introduced in March 2015, finding willing and available workers has been a major issue for the middle market, and it continues to be a top challenge for executives. Of the leaders surveyed, 42% stated their businesses increased hiring this quarter, reflective of the general labor market, and 48% plan to do so in the first half of 2020. Regarding compensation, 48% increased compensation this quarter and over half (54%) showed willingness to increase compensation early in the new year.

Additionally, nearly 60% of middle market executives indicated that both prices paid increased in the current quarter and that prices paid are expected to increase over the next six months, and almost half (46%) of leaders said their firms plan to increase capital expenditures during the next six months. Similarly, 46% said they boosted capital expenditures in the current quarter.

“Midsize businesses are a powerhouse of the U.S. economy, employing approximately 30 million Americans,” said Neil Bradley, US Chamber of Commerce executive vice president and chief policy officer. “The segment’s overall business sentiment remains robust, however, we continue to see an economic drag due to U.S. trade policy. We must continue to deescalate trade tensions with China, and Congress must complete enactment of USMCA to ensure growth conditions remain solid in the coming year.”

**Expectations of Business Involvement in Social Issues Continues to Shift**

Stakeholders want to engage with businesses that are prioritizing social issues, like environmental, social and governance concerns (ESG), and middle market companies are starting to pay attention. Similar to Q3 in 2018, more than 90% of leaders indicated their companies supported social, community or philanthropic causes the past two years. However, while the middle market has long engaged in social responsibility efforts, they have been slower to embrace ESG measures – only 39% of executives said they’re familiar with ESG criteria to evaluate the performance of organizations, businesses or investments. Of that group, 79% use ESG to track their own activities, while 74% say they use it to measure the performance of other organizations.

The topic of ESG will be in RSM’s upcoming MMBI special report, which will be released in early 2020.

The survey data that informs the index reading was gathered between October 7 and October 25, 2019.

To learn more about the middle market and the MMBI, visit the RSM website.

**About the RSM US Middle Market Business Index**

RSM US LLP and the U.S. Chamber of Commerce have partnered to present the RSM US Middle Market Business Index (MMBI). It is based on research of middle market firms conducted by Harris Poll, which began in the first quarter of 2015. The survey is conducted four times a year, in the first month of each quarter: January, April, July and October. The survey panel consists of 700 middle market executives and is designed to accurately reflect conditions in the middle market.

Built in collaboration with Moody’s Analytics, the MMBI is borne out of the subset of questions in the survey that ask respondents to report the change in a variety of indicators. Respondents are asked a total of 20 questions patterned after those in other qualitative business surveys, such as those from the Institute of Supply Management and National Federation of Independent Businesses.

The 20 questions relate to changes in various measures of their business, such as revenues, profits, capital expenditures, hiring, employee compensation, prices paid, prices received and inventories. There are also questions that pertain to the economy and outlook, as well as to credit availability and borrowing. For 10 of the questions, respondents are asked to report the change from the previous quarter; for the other 10 they are asked to state the likely direction of these same indicators six months ahead.
The responses to each question are reported as diffusion indexes. The MMBI is a composite index computed as an equal weighted sum of the diffusion indexes for 10 survey questions plus 100 to keep the MMBI from becoming negative. A reading above 100 for the MMBI indicates that the middle market is generally expanding; below 100 indicates that it is generally contracting. The distance from 100 is indicative of the strength of the expansion or contraction.

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RSM’s purpose is to deliver the power of being understood to our clients, colleagues and communities through world-class audit, tax and consulting services focused on middle market businesses. The clients we serve are the engine of global commerce and economic growth, and we are focused on developing leading professionals and services to meet their evolving needs in today’s ever-changing business environment.

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