RSM US and The Harris Poll have collected data on middle market firms from a quarterly survey that 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, the Middle Market Leadership Council, consists of 700 middle market executives, and is designed to accurately reflect conditions in the middle market. The data is weighted to ensure that they correspond to the U.S. Census Bureau data on the basis of industry representation.

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.

In March 2020, RSM began conducting the economic portion of the MMBI survey on a monthly basis to capture the effects of the COVID-19 crisis on the middle market. The report was fielded between April 8 and April 23, 2020, and based on the responses of 404 participants.
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PANDEMIC PUTS DISPROPORTIONATE PRESSURE ON SMALLER MIDDLE MARKET COMPANIES, MMBI DATA SHOWS ............................................................................................................................................................................................................................................................................14

RSM US LLP and the U.S. Chamber of Commerce have joined forces to present the RSM US Middle Market Business Index (MMBI)—a first-of-its-kind middle market economic index developed by RSM in collaboration with Moody’s Analytics, the financial intelligence provider. We publish the MMBI quarterly to give voice to the middle market and raise awareness of this crucial, yet underrepresented, segment of the economy.
THE MAJOR TAKEAWAY FROM THE DATA SHOWS THAT A MAJORITY OF EXECUTIVES SURVEYED INDICATED THAT THESE SHOCKS ARE LARGE AND PERVERSIVE.

JOSEPH BRUUESLAS, CHIEF ECONOMIST, RSM US LLP

Joseph Brusuelas is the chief economist for RSM US LLP. Brusuelas has 20 years of experience analyzing U.S. monetary policy, labor markets, fiscal policy, economic indicators and the condition of the U.S. consumer. As co-founder of the award-winning Bloomberg Economics Brief, Brusuelas was named one of the 26 economists to follow by the Huffington Post.

This publication represents the views of the author(s), and does not necessarily represent the views of RSM. This publication does not constitute professional advice.
Middle market business conditions suffered significant declines, sending the MMBI to a historical low of 88.4 in the April monthly reading, from 109.8 in March 2020.
MIDDLE MARKET BUSINESS INDEX CAPTURES SEVERE SHOCKS TO ECONOMY

BY JOSEPH BRUSUELAS, CHIEF ECONOMIST, RSM US LLP

THE SHOCKS THAT CASCADED through the American economy due to the COVID-19 pandemic struck a blow to the heart of the real economy in April. Middle market business conditions suffered significant declines, sending the proprietary RSM US Middle Market Business Index to a historical low of 88.4 in the April monthly reading, from 109.8 in March. These monthly readings show the depth of the pandemic’s impact on the middle market, when compared to the first quarter final reading of 131.4, as the combination of self-imposed social distancing by the public and shelter-in-place guidance from federal, state and local governments effectively shut down the economy.

The major takeaway from the data shows that a majority of executives surveyed indicated that these shocks are large and pervasive. They do not anticipate significant improvement in the economy, earnings or revenues over the next six months. In addition, it is highly probable that the decline in sentiment across the board, as well as future expectations on growth, employment, revenues and earnings, were related to difficulty accessing the Small Business Administration’s Paycheck Protection Program and the delayed launch of the Treasury/Federal Reserve’s Main Street Lending Program. Indeed, borrowing conditions for middle market firms deteriorated in April, as 33% of participants indicated a more difficult situation; however, just 14% expect the problem to continue in the six months ahead.

The data strongly imply that the $2.9 trillion in aid put forward by the federal government and nearly $650 billion in liquidity commitments, which underscore the central bank’s Main Street Lending Program, will not be sufficient to revive the beating heart and soul of the real economy in the near term. A robust aid plan and subsequent stimulus package will be required to achieve escape velocity for the economy later this year, and into 2021.

The MMBI survey readings are consistent with our forecast for a near-40% decline in second-quarter gross domestic product; the dour six-month-ahead outlook is a risk to our optimistic expectation for a rebound of greater than 20% in the final three months of 2020. Roughly 83% of MMBI survey respondents indicated a general decline in economic prospects during April, while 51% stated they expected a decline in economic conditions over the next six months. If those expectations hold, we will be lowering our optimistic forecast for a rebound in the fourth quarter.

IN PARTNERSHIP WITH
THE U.S. CHAMBER OF COMMERCE
The outlook on gross earnings and net revenues was equally bleak. Approximately 61% of participants noted a decline in gross revenues during April, while half expected a decline in middle market prospects until late fall. Fifty-nine percent of executives said they experienced a decline in net earnings in April, and 50% expect to see a decline over the next six months.

**Economic reset likely**

Data on employment, compensation and capital outlays, while not as bleak as that on the economy, gross earnings and net revenues, is still troubling and strongly implies that expectations of a third-quarter rebound should be reset. Approximately 46% of survey participants noted a decline in April hiring and 37% anticipate a downturn over the next six months.

The outlook on capital expenditures implies a productivity slide through the middle of 2020, as 53% of respondents noted that they reduced expenditures during the month, and 44% are likely to do so over the next six months.

Roughly 29% of participants noted a decline in current compensation offered in April, and expect that to be the case over the six months. If those expectations bear out, they would imply general wage stickiness across the economy, a reduced risk of deflation, rising real wages and a sustained outsize decline in production and output. This data is the foundation of our current baseline forecast of “Depression-Like Shock, No Depression.”

The economy is likely to avoid the major risk of the moment: deflation eating away at individual wages, increasing the U.S. household and commercial debt overhang and causing large declines in industrial output and economic activity. Should wages not remain sticky, then the risks of a much more pronounced decline in the economy increase.

Inflation expectations inside the prices paid and received questions in both the current quarter and six months ahead remained relatively stable, with a modest downward bias toward lower prices, but not outright deflation. The inventory outlook indicated modest declines in inventory in April and over the next 180 days.

---

Note: The seasonally adjusted decline in the April reading is statistically significant at a 0.05 significance level. RSM began measuring the MMBI on a monthly basis in March 2020.
**GENERAL ECONOMY PERFORMANCE**

Eighty-three percent of middle market executives believe the economy worsened in the current period and 51% expect conditions to worsen over the next six months.

First, thinking about the general economy this quarter versus last quarter, how would you describe the current general economy? Would you say the general economy has . . .?

- **CURRENT worsened**
  - 9%
  - 69%

- **FUTURE worsened**
  - 11%
  - 26%

- **CURRENT increased**
  - 41%

- **FUTURE increased**
  - 43%
  - 45%
  - 42%

**What are your expectations regarding the general economy over the next six months? Do you expect the general economy will . . .?**

- **CURRENT worsened**
  - 13%
  - 59%

- **FUTURE worsened**
  - 16%
  - 59%

**GROSS REVENUE PERFORMANCE**

Sixty-one percent of middle market executives noted gross revenues decreased in the current period and 50% expect a decrease in the six months ahead.

Thinking about your organization’s gross revenues/all incoming funds this quarter versus last quarter, how would you describe current gross revenues/all incoming funds? Would you say gross revenues/all incoming funds have . . .?

- **CURRENT decreased**
  - 41%

- **FUTURE decreased**
  - 12%
  - 64%

- **CURRENT increased**
  - 31%

- **FUTURE increased**
  - 43%

**What are your expectations regarding your organization’s gross revenues/all incoming funds over the next six months? Do you expect gross revenues/all incoming funds to . . .?**

- **CURRENT decreased**
  - 41%

- **FUTURE decreased**
  - 12%
  - 64%

- **CURRENT increased**
  - 31%

- **FUTURE increased**
  - 43%

**NOTE:** Due to seasonal adjustment, % top–two box, % bottom–two box and % remained unchanged may not add to 100%

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance
NET EARNINGS PERFORMANCE

Nearly six out of 10 middle market executives indicated net earnings decreased in the current period and 50% expect a decrease in the next six months.

AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE

Over half of middle market executives indicated a decrease in capex in the current period and 44% will decrease capex in the six months ahead.

NOTE: Due to seasonal adjustment, % top–two box, % bottom–two box and % remained unchanged may not add to 100%.

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance.
OVERALL HIRING LEVELS
Forty-six percent of middle market executives responded that hiring decreased in the current period.

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- Thinking about your organization’s overall hiring levels this quarter versus last quarter, how would you describe your current hiring levels? Would you say hiring levels have . . .?
- What are your expectations regarding your organization’s overall hiring levels over the next six months? Do you expect hiring levels to . . .?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

EMPLOYEE COMPENSATION
Nearly a third of middle market executives said employee compensation decreased in the current period.

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- Thinking about employee compensation at your organization this quarter versus last quarter, how would you describe the current employee compensation level on average? Would you say employee compensation, on average, has . . .?
- What are your expectations regarding your organization’s employee compensation over the next six months? Would you say employee compensation, on average, will . . .?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance
ACCESS TO CREDIT
A third of middle market executives noted access to credit was more difficult in the current period.

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* Thinking about the availability or ease with which your organization can borrow money this quarter versus last quarter, how would you describe current access to credit? Would you say that accessing credit is . . .?

NOTE: Due to seasonal adjustment, % top–two box, % bottom–two box and % remained unchanged may not add to 100%

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

PLANNED BORROWING
Thirty-seven percent of middle market executives indicated planned borrowing increased in the current period.

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* What are your expectations regarding your organization’s planned borrowing over the next six months? Would you say your organization’s borrowing will . . .?

NOTE: Due to seasonal adjustment, % top–two box, % bottom–two box and % remained unchanged may not add to 100%

SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance
Fifteen percent of middle market executives noted prices paid decreased in the current period.

Nearly a third of middle market executives said prices received decreased in the current period.
How the MMBI is constructed

The MMBI is borne out of the subset of questions in the survey that ask middle market executives to report the change in a variety of indicators. Middle market executives 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 the 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. Middle market executives are asked to report the change from the previous quarter and to state the likely direction of these same indicators six months ahead. See a sample of the questions in Table 1.

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. The index is designed to capture both current and future conditions, with five questions on middle market executives’ recent experience and five on their expectations for future activity.

Table 1: RSM US Middle Market Business Index questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>What are your expectations regarding the general economy?</td>
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<td>What are your expectations regarding your organization’s gross revenues?</td>
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<tr>
<td>How would you describe the level of your organization’s most recent quarter net earnings results?</td>
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<tr>
<td>What are your expectations regarding your organization’s aggregate capital expenditures or investments?</td>
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<tr>
<td>What are your expectations regarding your organization’s overall hiring levels?</td>
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<tr>
<td>How would you describe your organization’s current employee compensation level on average?</td>
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<tr>
<td>How would you describe current access to credit?</td>
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<tr>
<td>What are your expectations regarding your organization’s planned borrowing?</td>
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</tr>
<tr>
<td>How would you describe the current general level of prices received?</td>
<td></td>
</tr>
<tr>
<td>What are your expectations regarding your organization’s planned inventory levels?</td>
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</tbody>
</table>
COVID-19’s impact on the economy has been particularly disabling for the middle market, with smaller midsize companies bearing the brunt of the pressure, according to RSM data.

Smaller middle market businesses sought lending relief at significantly higher rates than their larger counterparts and appeared less able to shift to remote work, responses to the second quarter RSM US Middle Market Business Index survey questions show.

More than half of executives at companies with annual sales of $10 million to $50 million said they sought special financing to ensure liquidity amid the swift business downturn spurred by the pandemic, while 43% said they planned to do so over the next six months, according to the MMBI. Thirty-four percent of their larger middle market counterparts, or those with revenues of $50 million to $1 billion, sought this type of financing, while just 28% of them expected to do so in the next six months.

Problems securing loans for the middle market were underscored by difficulties around the rollout of the federal government’s Paycheck Protection Program under the CARES Act, which was quickly oversubscribed, making access to financing hard for applicants.

MMBI survey responses highlighted the growing pressure on middle market companies’ cash flows: within U.S. operations, 66% of executives overall said their companies lost revenue because of the pandemic, with smaller midsize businesses experiencing losses at a higher 74% rate, and 72% of them expecting to see revenue decline over the next six months. More than half of all middle market executives polled experienced disruptions to U.S. operations or production, marketing or sales operations, and supply chains, with the smaller cohort experiencing rates of 60% of higher.

Before the outbreak, more than two-thirds of middle market businesses had some employees working remotely, according to executives polled. Amid the crisis, a much higher 90% said some employees were working off-site, with a disproportionate 96% of those workers at larger middle market businesses, compared to 83% at smaller midsize companies. Among other factors, this disparity may highlight higher levels of capital investment made by larger companies toward technologies that facilitate remote work.

The crisis galvanized middle market organizations of all sizes to respond with unusual measures: 56% of both smaller and larger middle market companies assembled emergency response teams to communicate with employees. Thirty-one percent overall closed at least one U.S. work site, while roughly a third or more said they reduced the hours of hourly and salaried employees, and furloughed some hourly workers. Only 19% laid off hourly employees, and just 15% downsized salaried staff.

The vast majority undertook tactical moves that included asking sick employees to stay home, increasing workplace surface cleanings, ensuring that hand-washing stations were amply stocked with soap and paper towels, and reducing or restricting face–to–face meetings, among other actions.
Business insights to bolster your response to COVID-19

As middle market businesses like yours respond to the impact the coronavirus pandemic has had within organizations, it’s important for you to stay on top of the evolving issues related to this crisis in order to mitigate risks and plan accordingly.

RSM can help you stay informed with the latest insights, ideas and countermeasures to minimize the outbreak’s negative effects, as well as prepare you for future emergency events.

Visit our Coronavirus Resource Center to learn more, and register for upcoming webcasts or view on-demand presentations.