RSM US LLP 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 Oct. 5 to Oct. 23, 2020, and based on the responses of 403 participants.
SENTIMENT REMAINED ROCK SOLID. THE MMBI EASED MODESTLY TO 127.5 IN OCTOBER FROM 127.8 IN SEPTEMBER.

JOSEPH BRUSUELAS, 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.

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“As business leaders cautiously navigate an uncertain and uneven economic recovery, it is encouraging that the Middle Market Business Index holds steady. However, it’s clear that without additional support soon, the recovery could quickly backslide,” said Neil Bradley, executive vice president and chief policy officer at the U.S. Chamber of Commerce.

“That's why the U.S. Chamber is urging Congress and the White House to come together now on a much-needed relief package to support small and midsize businesses, and disproportionately impacted industries, during this precarious period.”

Readings on the economy, revenues, net earnings and hiring remained essentially unchanged as the economy continued to emerge from the recession earlier this year.
MIDDLE MARKET STAYS CONFIDENT ABOUT RECOVERY AHEAD

BY JOSEPH BRUSUELAS, CHIEF ECONOMIST, RSM US LLP

U.S. MIDDLE MARKET business sentiment remained rock solid in October. The proprietary RSM US Middle Market Business Index eased modestly to 127.5 from 127.8 in September. For the most part, readings on the economy, revenues, net earnings and hiring remained essentially unchanged as the economy continued to emerge from the recession earlier in the year. While it is clear that business leaders do not expect a V-shaped recovery, they do see an improvement in business conditions through the early part of 2021.

The recent intensification of COVID-19 infections in the United States and Europe has yet to dampen sentiment, but the rapid rise in cases, coupled with volatility in equity markets, suggests limited upside as the pandemic rages on. Our analysis finds that there is a strong link between the ability to contain the pandemic and the economy’s performance. Even without widespread shutdowns, consumers and businesses are likely to pull back if the pandemic intensifies, resulting in significant economic damage. For the economy to get back on track, the pandemic must be contained.

It is important to note that the survey was conducted before the U.S. election, and the announcements of promising new vaccines from Pfizer and Moderna, which may change the perception of current and future-looking business conditions well into next year. We would anticipate changes in middle market business sentiment in coming months. Stay tuned!

Current and future expectations around the economy did not change in October; 51% of respondents noted current improvement, and 68% indicated they expected it over the next six months. For the second consecutive month, 38% of participants stated they increased hiring and 56% noted they expected to do so in the near term. Roughly 40% said they increased compensation last month, and 53% intend to do so over the next 180 days.

The percentage of executives who said revenues improved dipped to 47% from 50% previously, but 64% thought they would see an uptick by early spring. Accordingly, only 47% of participants stated that net earnings improved, while a stout 63% expects
improvement by next April. The capital expenditure outlook was modestly better, with 40% of executives stating they increased outlays on productivity-enhancing investments and 53% indicating they will do so over the next six months.

The responses to questions pertaining to credit and borrowing signal tighter lending standards and less appetite for taking on debt, results that align with evolving trends in the Federal Reserve’s quarterly Senior Loan Officer Opinion Survey. Middle market firms were generally more upbeat about the future than about current conditions, with a slight uptick in the net percentage of respondents who said they plan to invest and hire in the next six months.

Pricing conditions eased somewhat in October, with 57% of respondents indicating an increase in prices paid and 58% noting they expect to pay more in coming months. Forty-four percent attempted to pass along price increases in the last quarter, and 47% expect to do so in the near term. Finally, inventory restocking continued to modestly improve as 42% stated an increase, and 50% noted they would improve over the next six months.

*To provide a more accurate gauge of middle market sentiment during the pandemic, RSM is providing monthly index readings in addition to the more extensive historical quarterly updates.

**SEASONALLY ADJUSTED NUMBERS**

The fourth-quarter MMBI data reflects seasonally adjusted numbers for the main index and all subindices. We have transitioned to seasonally adjusted numbers in an effort to remove the influences of seasonal patterns.
GENERAL ECONOMY PERFORMANCE
Fifty-one percent of executives said the economy had improved in October, while 68% see it improving over the next six months, on a par with September responses.

GROSS REVENUE PERFORMANCE
Forty-seven percent of respondents said gross revenues improved in October, down slightly from 50% in September.
**NET EARNINGS PERFORMANCE**

Net earnings in October were better for 47% of respondents, while 63% see them improving over the next six months, views that closely matched those in September.

**AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE**

More midsize companies (40%) boosted capital outlays in the fourth quarter, up significantly from 16% in April.
OVERALL HIRING LEVELS
Thirty-eight percent of respondents said they had boosted hiring in October, matching views in September; 56% said they expect to increase hiring over the next six months.

EMPLOYEE COMPENSATION
Forty percent of respondents said their companies gave raises in October, down slightly from September.
ACCESS TO CREDIT

Twenty-nine percent of executives said access to credit had improved in the fourth quarter, ticking up one point from September.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Easier/Much easier</th>
<th>More/Much more difficult</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 '19</td>
<td>39%</td>
<td>15%</td>
</tr>
<tr>
<td>Q3 '19</td>
<td>34%</td>
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<tr>
<td>Q4 '19</td>
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<td>19%</td>
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<td>Q1 '20</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Q2 '20</td>
<td>30%</td>
<td>20%</td>
</tr>
</tbody>
</table>

*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 . . .?

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

*seasonally adjusted

PLANNED BORROWING

Thirty-four percent of midsize businesses boosted their planned borrowing in October, down from 39% in September.

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Increased</th>
<th>Decreased</th>
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</thead>
<tbody>
<tr>
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<td>26%</td>
<td>18%</td>
</tr>
<tr>
<td>Q4 '19</td>
<td>23%</td>
<td>19%</td>
</tr>
<tr>
<td>Q1 '20</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>Q2 '20</td>
<td>25%</td>
<td>23%</td>
</tr>
</tbody>
</table>

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

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

*seasonally adjusted
AMOUNT PAID FOR GOODS AND SERVICES
Fifty-seven percent of executives polled said their companies paid more for goods and services in October.

- Thinking about the prices that your organization pays for all goods and services, except labor, this quarter versus last quarter, how would you describe the current general level of prices paid? Would you say prices paid, on average, have . . . ?
- What are your expectations regarding the general level of prices that your organization will pay for all goods and services, except labor, over the next six months? Would you say prices paid, on average, will . . . ?

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

AMOUNT RECEIVED FOR GOODS AND SERVICES
The amount received for goods and services rose 44% of businesses polled in October, largely unchanged from the prior month.

- Thinking about the prices that your organization received for all of its goods and services this quarter versus last quarter, how would you describe the current general level of prices received? Would you say prices received by your organization, on average, have (among those not nonprofits) . . . ?
- What are your expectations regarding the general level of prices that your organization will receive for all goods and services over the next six months? Would you say the prices received by your organization, on average, will (among those not nonprofits) . . . ?

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

*seasonally adjusted
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 the table.

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.

INVENTORY LEVELS

Forty-two percent of executives said their companies had boosted inventories in October, up slightly from a month earlier.
MIDDLE MARKET BUSINESSES have differing views of how long the U.S. economy will remain partially shuttered by the coronavirus pandemic, with a plurality (41%) of respondents expecting COVID-19 to prevent full reopening for another six to nine months, according to the fourth-quarter RSM US Middle Market Business Index survey.

Smaller percentages of midsize companies expect differing time frames. Nine percent see the economy fully reopening in three months or less; 21% expect three to six months; 19% see nine months to a year; and another 9% expect the process to take a year or longer.

The MMBI survey heard from 403 respondents from Oct. 5 to Oct. 23 about their views on the topics of reopening business and the importance of their positioning around racial equity within their corporate culture amid the backdrop of social unrest in the United States.

A strong majority of executives said addressing issues around racial equity is good for business (82%) and that their organization is taking the right actions to address racial tensions (87%). Despite these sentiments, just 28% of respondents in the MMBI survey made a public statement in support of racial equity or facilitated discussions among their employees about the topic (27%).
More than 80% of executives polled expect that development of a vaccine for the novel coronavirus will be integral to successfully reopening the economy, the survey found. Executives also overwhelmingly cited the development of therapeutics (83%), vaccination (79%) and herd immunity (73%) among other important factors.

Middle market companies have deployed a variety of strategies to respond to the pandemic’s impact on their businesses. At the top of the list was leveraging technology for remote work—49% of companies expressed the highest level of agreement with this action. They were led by 57% of smaller middle market companies with revenue of $10 million to $50 million annually, followed by 42% of their larger counterparts, with yearly revenue of $50 million to $1 billion.

Among the other top responses to the pandemic were leveraging customer-facing technology in new ways (46%); identifying new ways to retain workers and to attract them (37% and 32%, respectively); leveraging technology in operations or manufacturing in new ways (31%); and enhancing information technology security (31%).

At the time of the survey, 65% of middle market businesses said they had employees working remotely who were not doing so before the onset of the pandemic.

For the more extensive details on the middle market’s response to COVID–19, please watch for our second special report on this topic due out early next year.