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Middle Market Business Index Shows Long-Term Economic Impact of COVID-19

RSM US Middle Market Business Index captures sentiment among businesses that the effects from the pandemic will not be a short-term affair.

CHICAGO (August 18, 2020) –The RSM US Middle Market Business Index (MMBI) presented by RSM US LLP (“RSM”) in partnership with the U.S. Chamber of Commerce, dropped to 100.7 in July from 109.1 in June. Though the index remains well above its historic low in Q2 2020 of 87.7, this latest drop reflects the decline of the U.S. economy that began in mid-June and aligns with a range of economic reports capturing household spending, corporate hiring and other alternative and near real-time economic data showing the middle market is settling in for a prolonged pandemic.

“When we began to see shutdowns in late March/early April, business and policy leaders assumed it would be a short disruption, and policy expectations were formed around that,” said Joe Brusuelas, RSM US LLP chief economist. “We now know the pandemic will not be a 15-week affair, and firm leaders are hunkering down for what’s to be an extended adjustment. Movement over the past three months inside the MMBI confirms our outlook for a swoosh-like recovery that is dependent on the progress toward the production and distribution of a vaccine, along with follow-on care, to terminate the pandemic.”

RSM US MIDDLE MARKET BUSINESS INDEX



With the ongoing pandemic and recent surge in cases, the economic outlook remains bleak. A mere 27% of middle market leaders saw an improvement in the economy, and only 42% expect to see improvement in the next six months. This is a drop in confidence from the previous monthly MMBI, where 56% of executives said they expected the economy to improve in six months. Hiring has also decreased in the middle market, with only 23% of leaders reporting an increase in hiring, dropping from 26% in June.

The MMBI decline demonstrates the middle market remains in a recession. At the time of the survey, only 29% of respondents indicated an improvement in gross revenues and 54% don’t anticipate an improvement in the next six months. Net earnings have remained flat compared to previous reports, with

31% reporting an increase, and only 40% anticipating improvement over the next six months. On a positive note, pricing showed moderate improvement with 52% of respondents reporting prices went up and the same number expecting an increase over the next six months.

“While economic activity rebounded in May and June, that growth is now being suppressed by a surge of coronavirus cases that have undermined economic activity, consumer confidence, and business recovery. Concerns linger for businesses as they navigate an uneven pattern to reopening, and while those concerns manifest differently across regions and industries, the most important thing we can do is make sure business leaders have the support they need to continue to weather the uncertainty,” said Neil Bradley, executive vice president and chief policy officer at the U.S. Chamber of Commerce. “We need consistent public health guidance, temporary and targeted financial assistance, and liability protections for businesses that are following public health guidelines. Business leaders having the confidence to reopen, without fear of being penalized with lawsuits later on, is critical to reopening and restoring our economy.”

Reopening the Middle Market

While the pandemic has surged and is forcing a rollback of local economies, middle market businesses remain optimistic about reopening in the next year. To successfully accomplish this, those organizations must consider several factors including employee readiness, availability of testing and strong worker health protections.

Middle market executives have varying opinions of remote work. Sixty-six percent say remote employees are somewhat or completely effective, but a quarter (25%) disagreed, saying remote work was only somewhat effective or completely ineffective. The number of remote employees also varies depending on the size of the company. Only 5% of larger middle market firms say they have zero remote employees compared to 24% of leaders at smaller organizations. Almost all respondents (98%) said employee readiness was a consideration for returning to work, and 40% of that group said it was a critical factor in reopening plans. Eighty-two percent of middle market leaders with plans to reopen in the next 12 months said they conducted surveys to gauge employee opinions about returning to the workplace.

Middle market executives want to reopen workplaces with specific safety criteria being met, though have differing views about following state guidelines. Fifty-three percent said their approach to reopening was consistent with state and local guidelines while 35% said they had or would reopen sooner than the guidelines specified. Nearly all (93%) said access to COVID-19 testing was a reopening consideration and two-thirds (65%) said they would provide personal protection equipment to employees.

The survey data that informs the index reading was gathered between July 8 and July 23, 2020.

To learn more about the middle market and the MMBI, visit the RSM website. To stay informed with the latest insights, ideas and countermeasures to minimize the outbreak’s negative effects, as well as prepare for future emergency events, visit [RSM’s COVID-19 Resource Center](#).

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. In March 2020, RSM began measuring the MMBI monthly to track the impact of the COVID-19 crisis.

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.

ABOUT THE U.S. CHAMBER OF COMMERCE

The U.S. Chamber of Commerce is the world's largest business organization representing companies of all sizes across every sector of the economy. Members range from the small businesses and local chambers of commerce that line the Main Streets of America to leading industry associations and large corporations.

They all share one thing: They count on the U.S. Chamber to be their voice in Washington, across the country, and around the world. For more than 100 years, we have advocated for pro-business policies that help businesses create jobs and grow our economy.

ABOUT RSM US LLP

RSM's purpose is to deliver the power of being understood to our clients, colleagues and communities through excellent 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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