

MMBI

RSM US MIDDLE MARKET
BUSINESS INDEX
A REAL ECONOMY PUBLICATION



U.S. Chamber of Commerce



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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 approximately 1,500 middle market executives, and is designed to accurately reflect conditions in the middle market. The data is weighted to ensure that it corresponds 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.

This report was fielded April 4 to April 25, 2022, and based on the responses of 404 participants.



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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.



U.S. Chamber of Commerce



DESPITE THE RISKS TO THE ECONOMIC OUTLOOK LINKED TO INFLATION, SUPPLY CHAIN DISRUPTIONS AND THE ENERGY PRICE SHOCK, WE EXPECT GROSS DOMESTIC PRODUCT TO EXPAND BY 2% FOR THE YEAR, A DECELERATION FROM LAST YEAR'S 5.7% GROWTH.

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*. In addition, he was named 2020 Middle Market Thought Leader of the Year by The Alliance of Merger & Acquisition Advisors. A member of the *Wall Street Journal's* forecasting panel, Brusuelas regularly briefs members of Congress and other senior officials regarding the impacts of federal policy on the middle market and the factors by which middle market executives make business decisions.

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 companies are experiencing the same challenges we are seeing across companies of all sizes and sectors in the economy. Inflation, lingering supply chain disruptions and labor shortages are keeping expectations dampened despite the middle market’s improved outlook on revenue and earnings,” said U.S. Chamber of Commerce Executive Vice President and Chief Policy Officer Neil Bradley.

“While the Federal Reserve continues to address the demand side of the equation, Congress and the Biden administration need to focus on addressing the supply side. Getting people back to work, expanding legal immigration, increasing domestic energy production, lifting counterproductive tariffs, and increasing the housing supply are all critical for American families and businesses. Waiting longer to tackle these issues will only mean more uncertainty and less growth in the economy.”

RSM US MIDDLE MARKET BUSINESS INDEX

Bolstered by solid demand and strong productivity-enhancing business investment, the RSM US Middle Market Business Index rose to 130.6 in the second quarter.



Source: RSM US LLP

*seasonally adjusted

RSM US MIDDLE MARKET INDEX IMPROVES DESPITE PRICING PRESSURES

BY JOSEPH BRUSUELAS

BUSINESS CONDITIONS in the American real economy remained robust in the second quarter, bolstered by solid demand and strong productivity-enhancing business investment that sent the RSM US Middle Market Business Index to 130.6. The gain, up from 126.3 in the first quarter, came despite underlying inflationary pressures that have slightly soured sentiment on the economy.

Despite the risks to the economic outlook linked to inflation, supply chain disruptions and the energy price shock, we expect gross domestic product to expand by 2% for the year, a deceleration from last year's 5.7% growth.

Recent economic data implies that demand has shifted from goods to services and points toward sustained strong activity in the real economy.

This is borne out by the 44% of middle market executives who said gross revenues had increased during the quarter and the 41% who reported net earnings had improved during that time.

The survey, conducted by the Harris Poll from April 4 to April 25, compiled responses from 404 senior executives from middle market businesses who were asked for their views on business conditions and the economy.

Nearly three out of five executives, or 58%, said they expect gross revenues to improve during the next six months, and 56% expect net earnings to do the same.

In addition, 42% of respondents said they had increased capital expenditures and 51% expect to do so during next six months. Those investments on the margin will increase productivity and dampen inflationary pressures next year as that software, equipment and intellectual capital are put to work.

From our vantage point, this is one of the more encouraging aspects of the second-quarter data on business conditions in the real economy.

Real private final domestic demand expanded by 3.7% during the first three months of the year, and the MMBI data indicates that activity should continue.

But lingering supply chain issues and difficulties in finding labor have resulted in mounting pricing pressures that are creating concerns. Not surprisingly, 78% of respondents indicated they paid higher prices for inputs, while 74% expect to do so in the six months ahead. Respondents were divided on whether the economy had improved, remained the same or deteriorated.

We expect that until there is clear evidence of a return to price stability, sentiment around business conditions in the real economy will remain split.

The policy focus in Washington has changed noticeably in recent months. Price stability rather than fiscal stimulus is now the major policy objective, and the federal funds rate is likely to finish the year near 3%, which is restrictive terrain.



Movement into restrictive terrain will result in a slowing of overall growth even as demand remains solid, which in turn should provide some relief from the pricing pressures that dragged down the forward-looking components of the RSM index.

Of the 10 components that make up the index, seven increased from the first quarter while three stayed the same or declined. Current business conditions improved during the quarter, according to the executives.

The roughly 4 in 10 executives who reported an increase in revenue and profit in the second quarter was little changed from the first three months of the year, though there was a welcome decline in the share of executives reporting a quarterly reduction in sales and profit.

The service-concentrated middle market stands to gain from the shift in consumer spending from goods to services. Real consumer spending on goods has declined for consecutive months while spending on services has accelerated.

Looking ahead, however, executives seemed less sanguine: Their expectations for the economy in the next six months eased. On net, that component was the largest drag on the index from the first quarter to the second. The 42% of respondents expecting things to improve is the lowest since 2020.

Inflation is the most significant factor shaping the near-term outlook. Prices have grown faster than expected for longer than expected. As such, 66% of survey participants

reported passing along price increases downstream to clients, and 75% said they expect to do so over the next six months.

Inflation has largely been a function of scarce physical inputs and supply chain bottlenecks caused by pandemic-induced changes in consumer behavior. This dynamic has driven up the price of durable goods faster than that of services for most of the past year.

Within service-providing industries, the primary inflationary pressure comes from wages. Service-sector inflation through April increased 5.4% on a year-ago basis; excluding energy costs, that metric is up 4.9%. Those figures are still lower than the goods-producing sector, which is experiencing a rate of inflation well [above the 8.3% implied by the consumer price index](#).

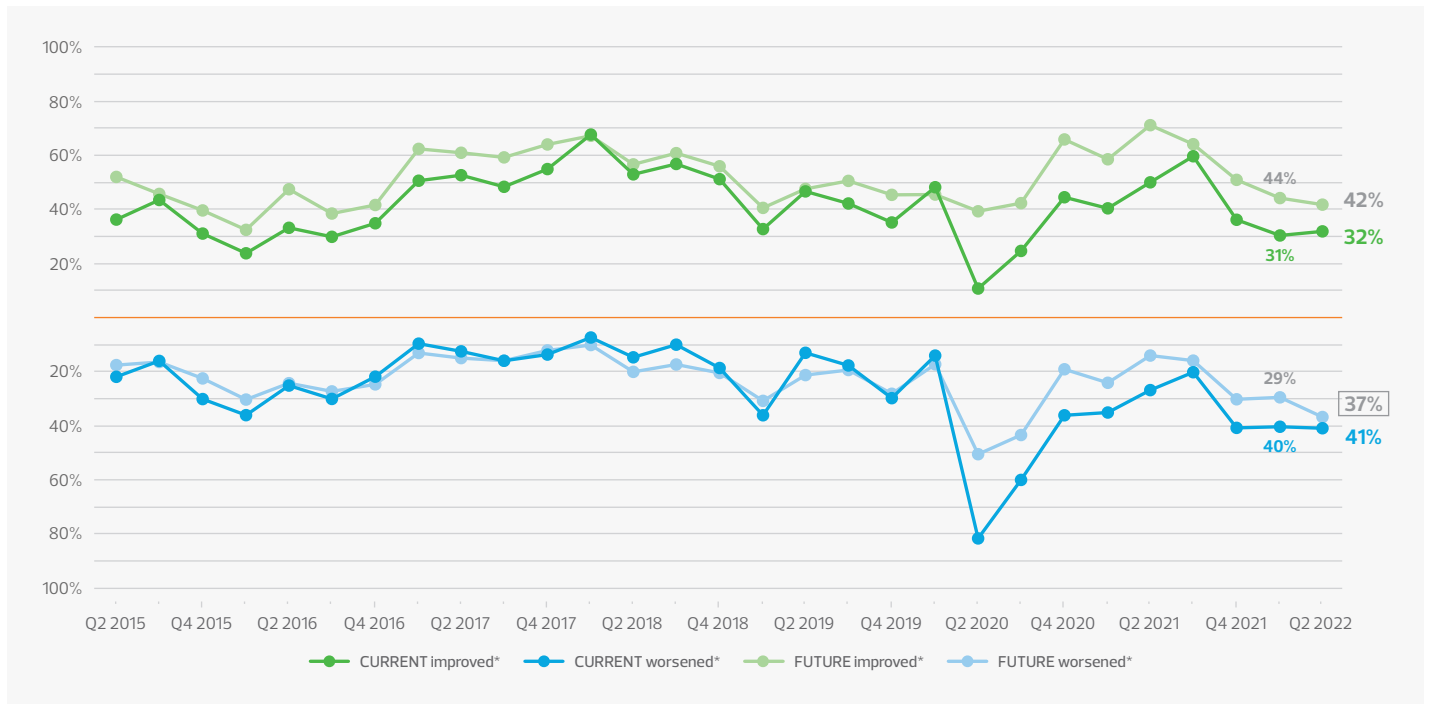
Businesses are also dealing with the long-term challenge of retaining and recruiting workers. Nearly two-thirds of executives, or 62%, reported raising employee compensation in the past three months, the highest in the index's history.

Cost pressures are causing middle market firms to pass along higher prices to customers. Nearly two-thirds of executives reported increasing prices in the past three months, also the highest share on record.

On the labor side, 61% of executives expect to increase hiring during the next six months, while 47% of those did so during the second quarter. ■

GENERAL ECONOMY PERFORMANCE

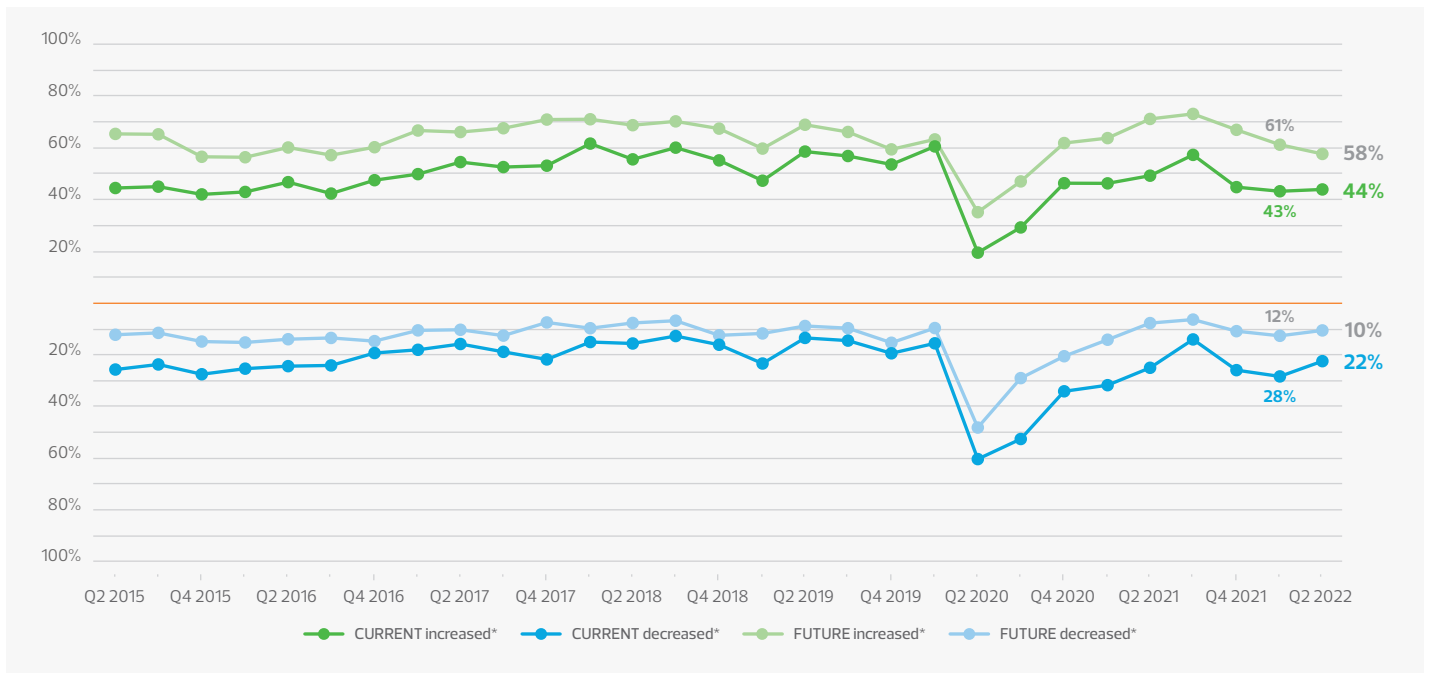
Thirty-seven percent of respondents expect the economy will worsen over the next six months, up sharply from 29% in the prior quarter.



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...? *seasonally adjusted
 What are your expectations regarding the general economy over the next six months? Do you expect the general economy will...?
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at 0.05 level of significance

GROSS REVENUES PERFORMANCE

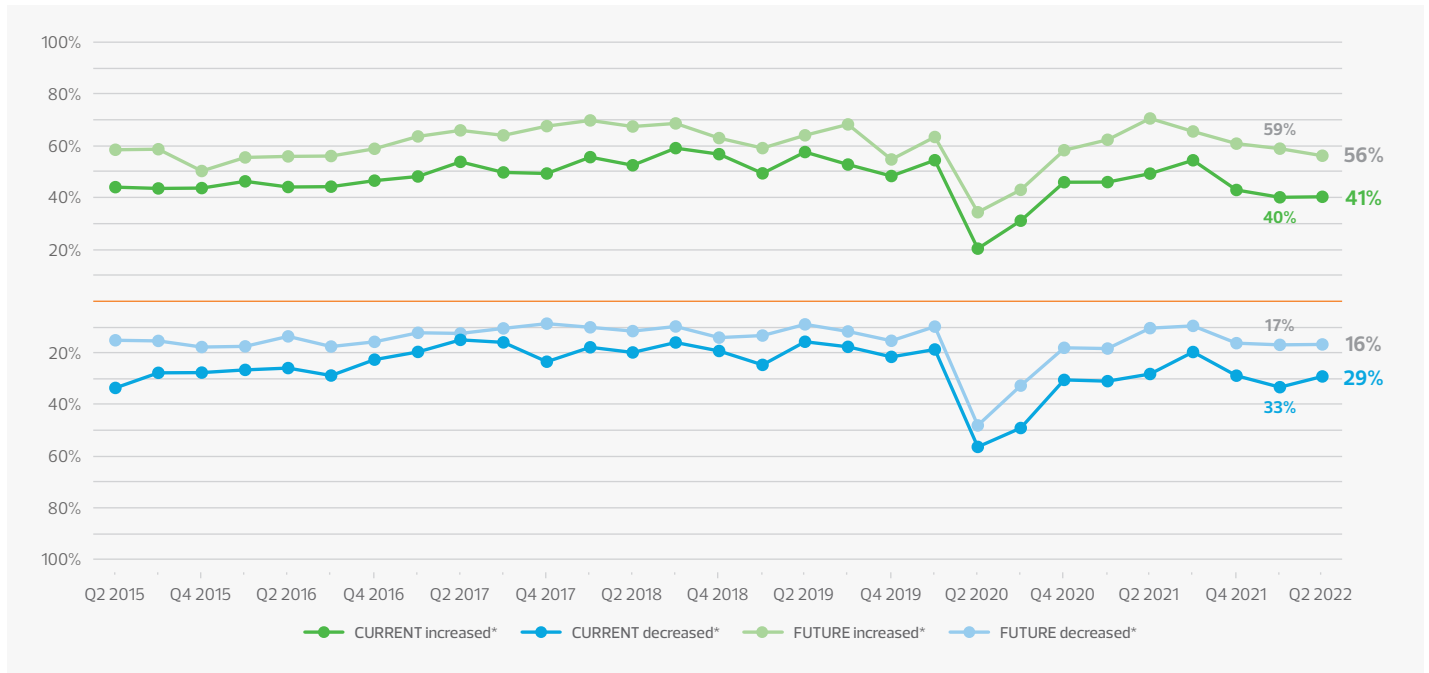
Forty-four percent of middle market executives polled said gross revenues improved in the second quarter, a slight uptick from 43% in the previous period. More than half see improvement over the next six months.



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? *seasonally adjusted
 Would you say gross revenues/all incoming funds have...?
 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...?

NET EARNINGS PERFORMANCE

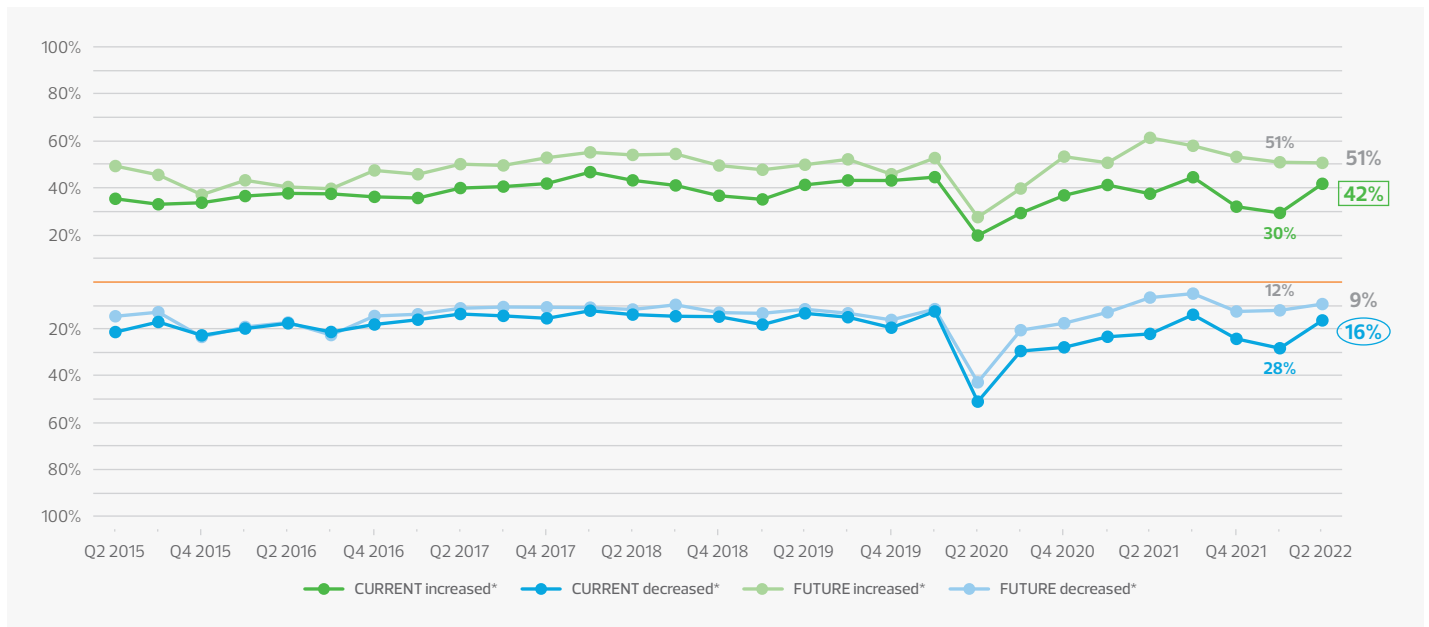
Net earnings improvement in the second quarter tracked closely to the prior period, with 41% of businesses seeing upside, compared to 40% in the first quarter.



Thinking about your organization's net earnings (after expenses, etc.) for the most recent quarter results versus the prior quarter results, how would you describe the level of your most recent quarter net earnings results? Would you say net earnings results have... (among those not nonprofits)? *seasonally adjusted
 What are your expectations regarding your organization's net earnings results (after expenses, etc.) over the next six months? Do you expect net earnings results to... (among those not nonprofits)?
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at 0.05 level of significance

AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE

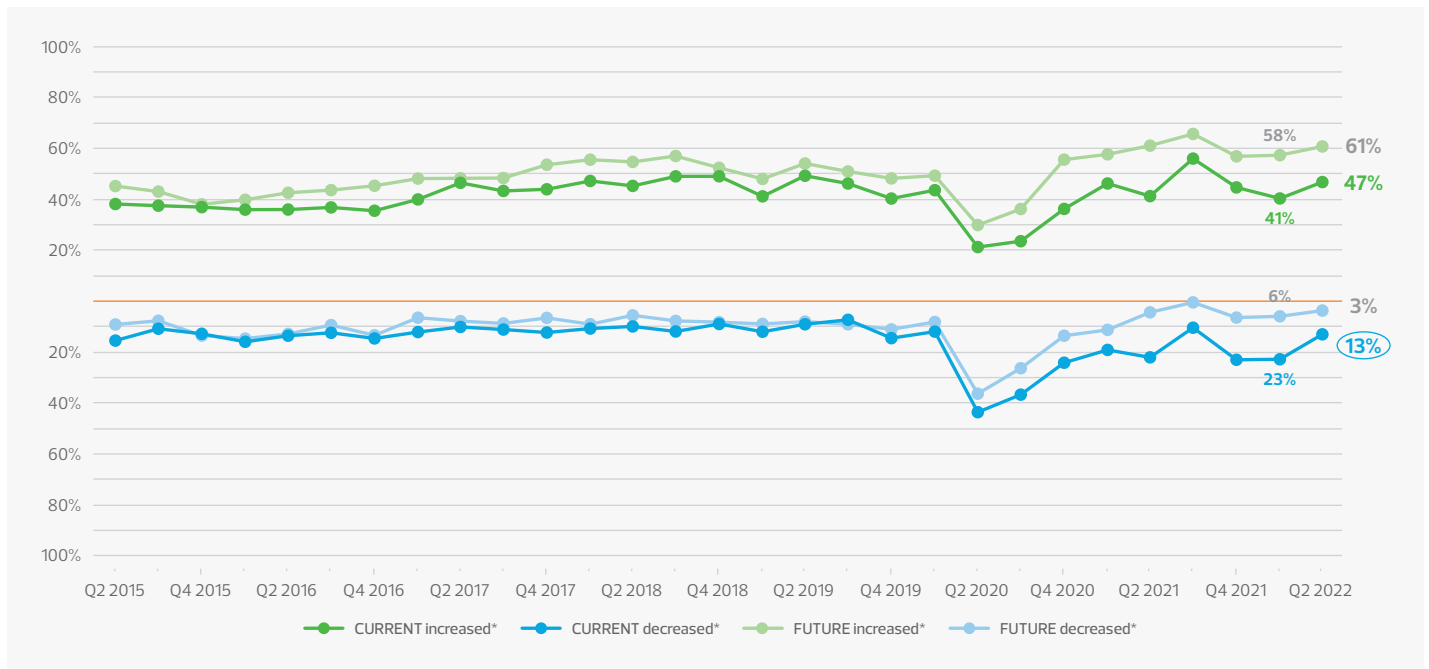
Capital outlays by midsize companies jumped in the second quarter, with 42% of executives indicating they spent more, up from 30% in the prior period.



Thinking about your organization's aggregate capital expenditures or investments this quarter versus last quarter, how would you describe your organization's current capital expenditures/investments? *seasonally adjusted
 Would you say capital expenditures/investments have...?
 What are your expectations regarding your organization's aggregate capital expenditures or investments over the next six months? Would you say capital expenditures/investments will...?
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at 0.05 level of significance

OVERALL HIRING LEVELS

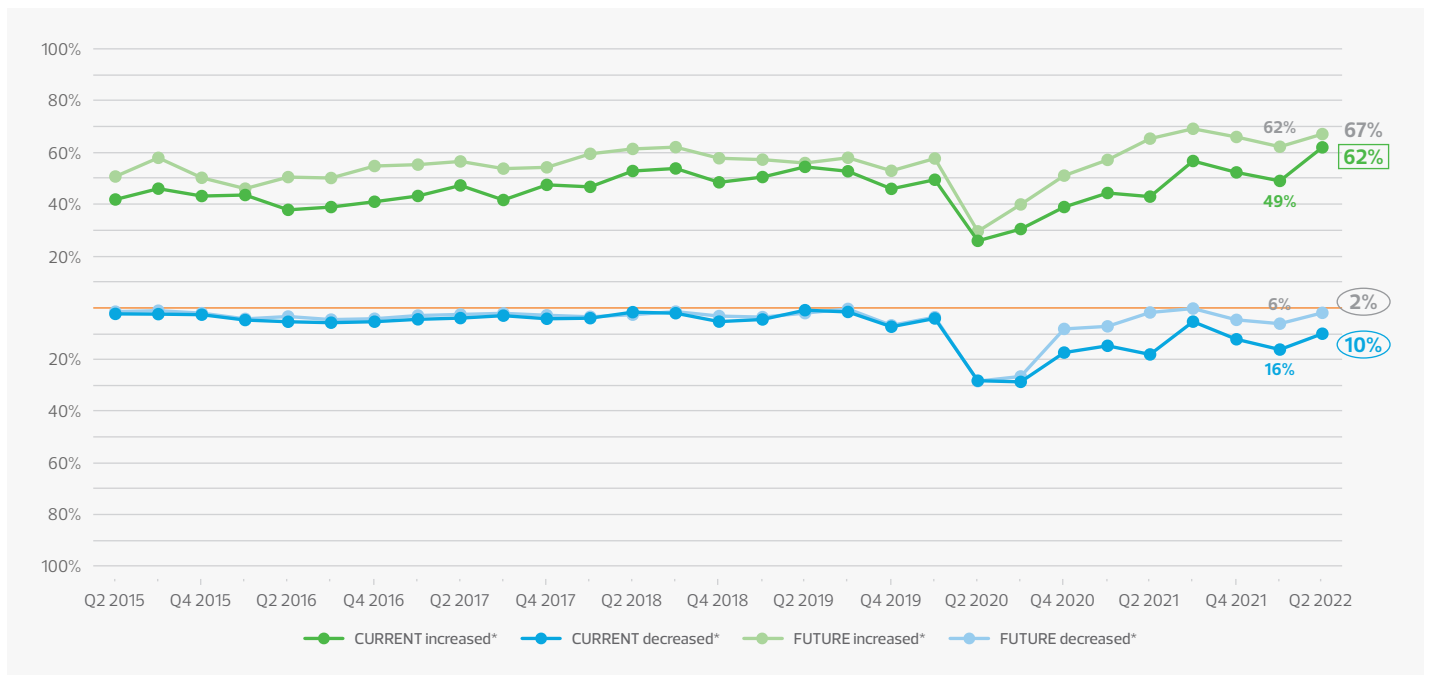
The competitive labor market was underscored by a six-point increase in hiring in the second quarter, as 47% of respondents said they increased their roles. Meanwhile, just 13% decreased hiring, down sharply from 23% a period ago.



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...? *seasonally adjusted
 What are your expectations regarding your organization's overall hiring levels over the next six months? Do you expect hiring levels to...?
 SQUARE/CIRCLE = Significantly higher /lower than previous quarter, respectively, at 0.05 level of significance

EMPLOYEE COMPENSATION

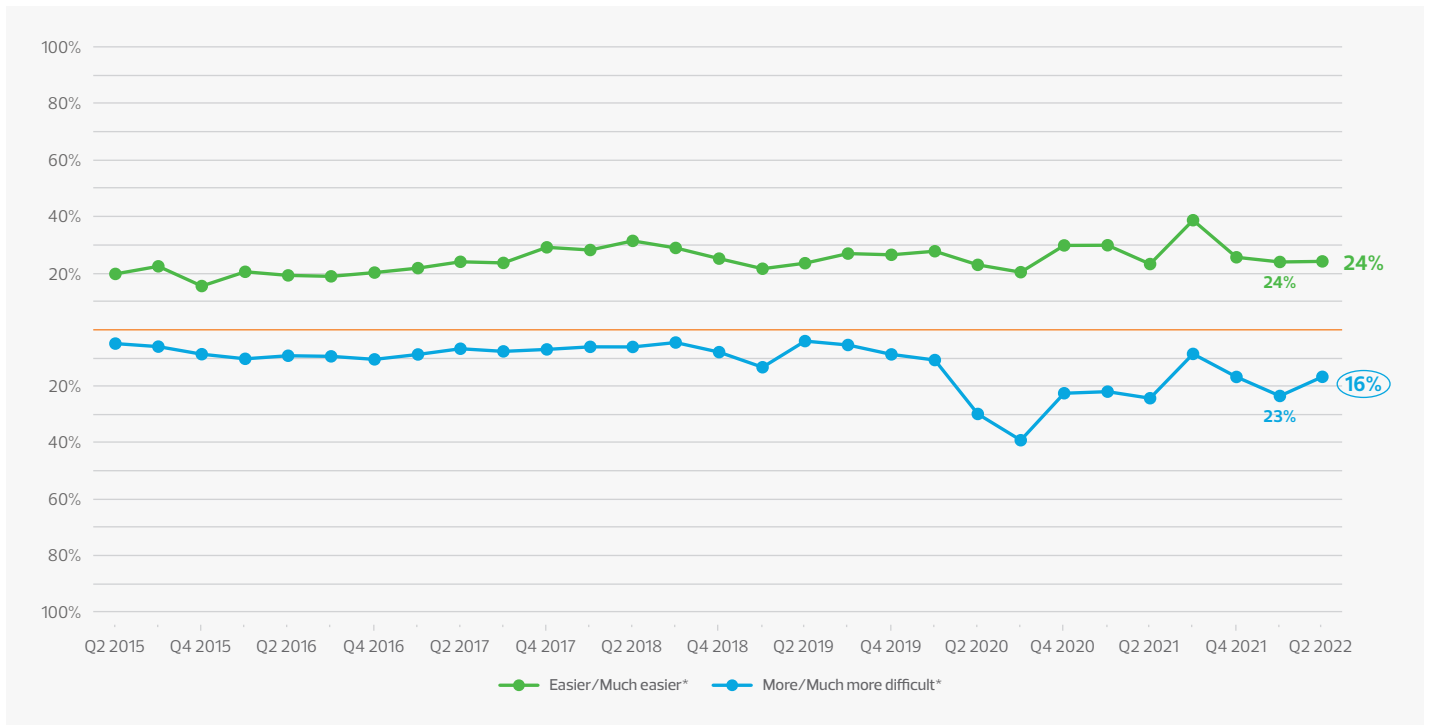
In another sign of the tight job market, the majority of middle market executives polled said they boosted compensation (62%), a sharp increase from 49% in the first quarter. Just 10% said they reduced wages.



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...? *seasonally adjusted
 What are your expectations regarding your organization's employee compensation over the next six months? Would you say employee compensation, on average, will...?
 SQUARE/CIRCLE = Significantly higher /lower than previous quarter, respectively, at 0.05 level of significance

ACCESS TO CREDIT

Tightness in the credit markets eased in the second quarter. The percentage of executives indicating that it had become harder to obtain loans fell to 16% from 23% in the first quarter.

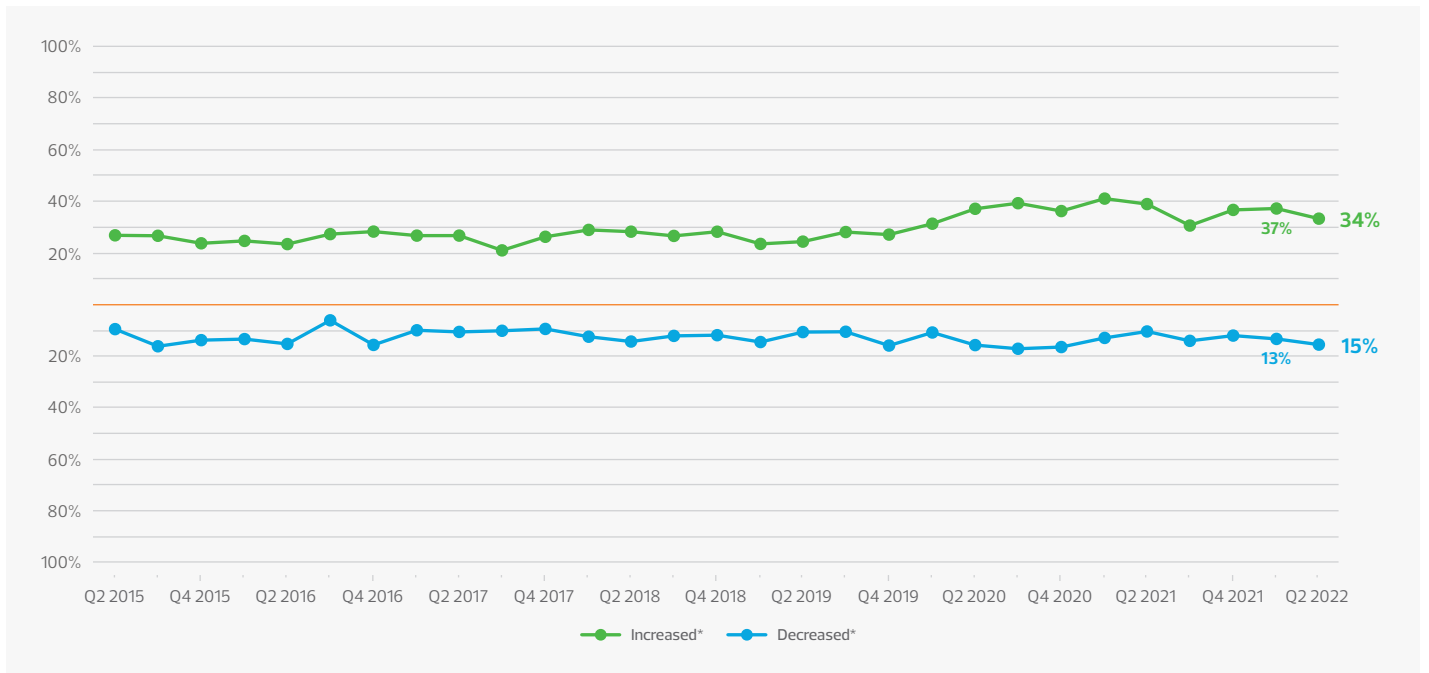


Thinking about the availability or ease with which your organization can borrow money this quarter versus last quarter, how would you describe current access to credit?
Would you say that accessing credit is...?
SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at 0.05 level of significance

*seasonally adjusted

PLANNED BORROWING

The middle market's expectations for borrowing more over the next six months eased to 34% in the second quarter from 37% in the prior period. Meanwhile, plans to decrease loans taken ticked up to 15% from 13%.

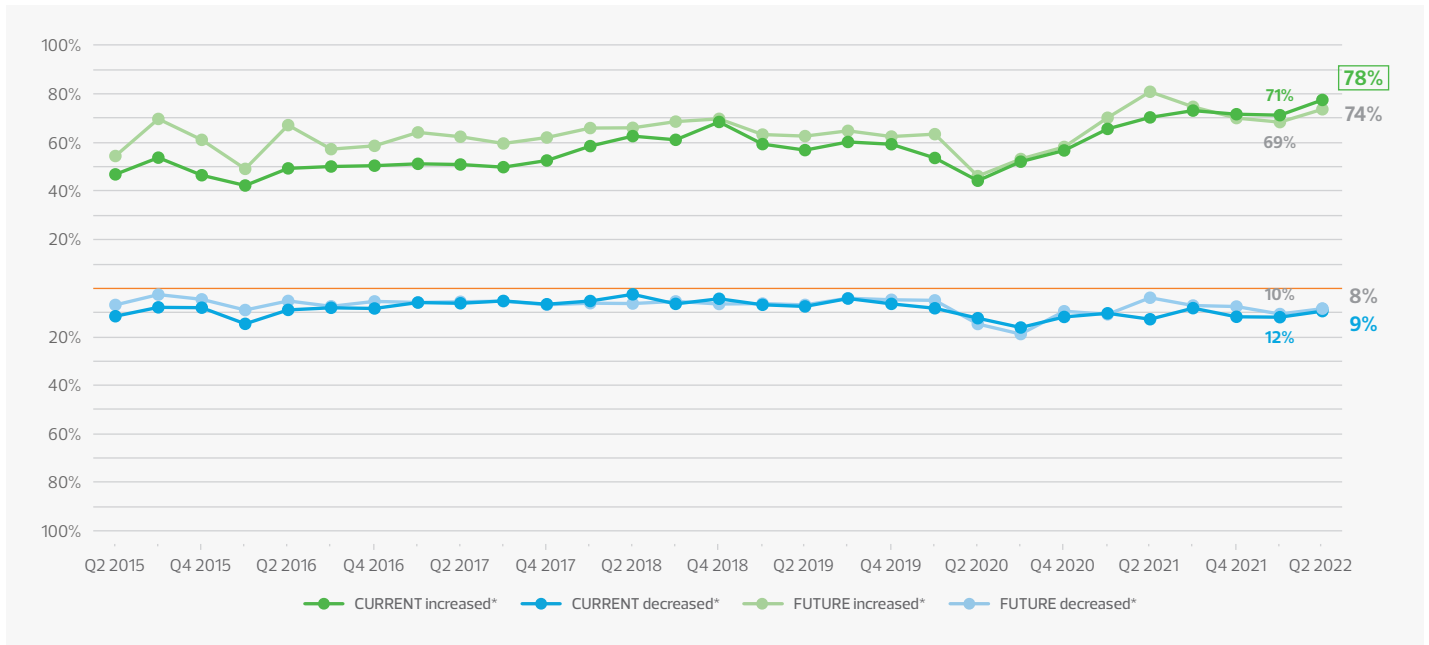


What are your expectations regarding your organization's planned borrowing over the next six months? Would you say your organization's borrowing will...?

*seasonally adjusted

AMOUNT PAID FOR GOODS AND SERVICES

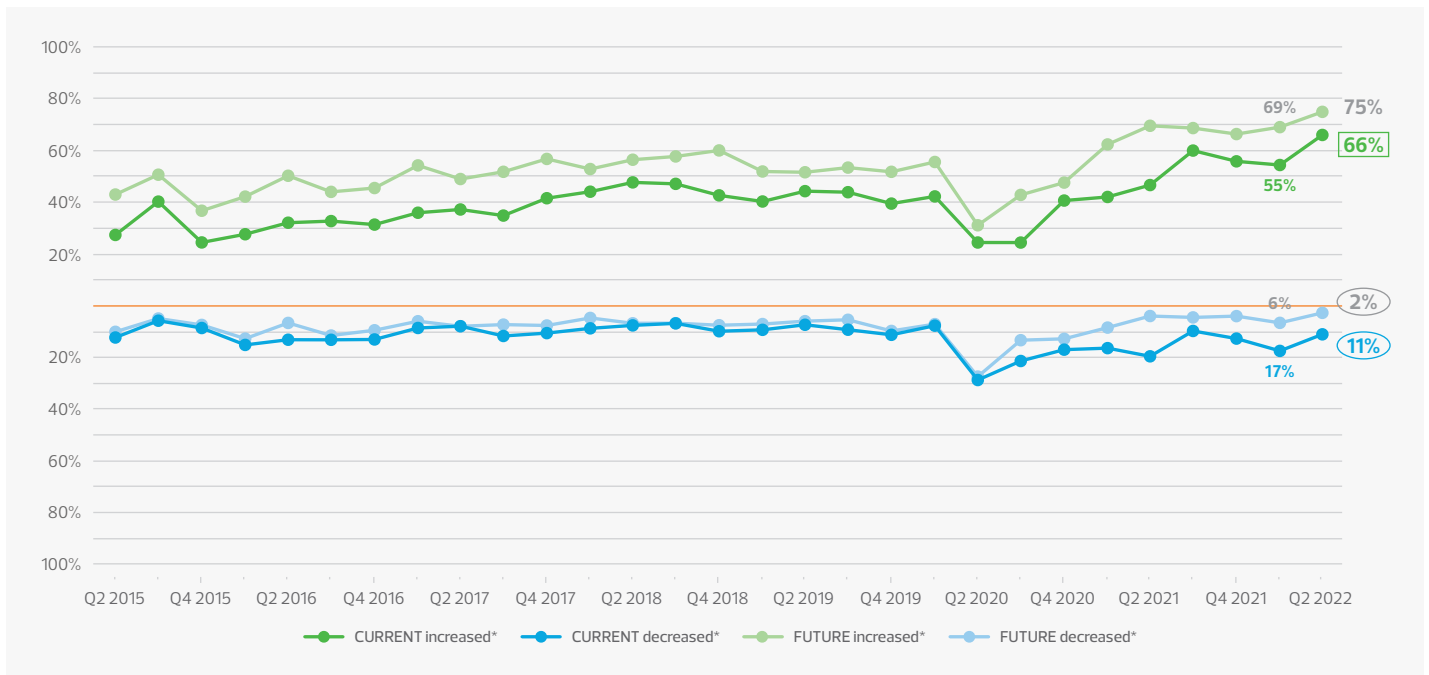
More than three-quarters (78%) of midsize companies paid significantly more for goods and services in the second quarter amid supply chain disruptions, up from 71% in the first quarter. Seventy-four percent expect the trend to continue over the next six months.



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? *seasonally adjusted
 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...?

AMOUNT RECEIVED FOR GOODS AND SERVICES

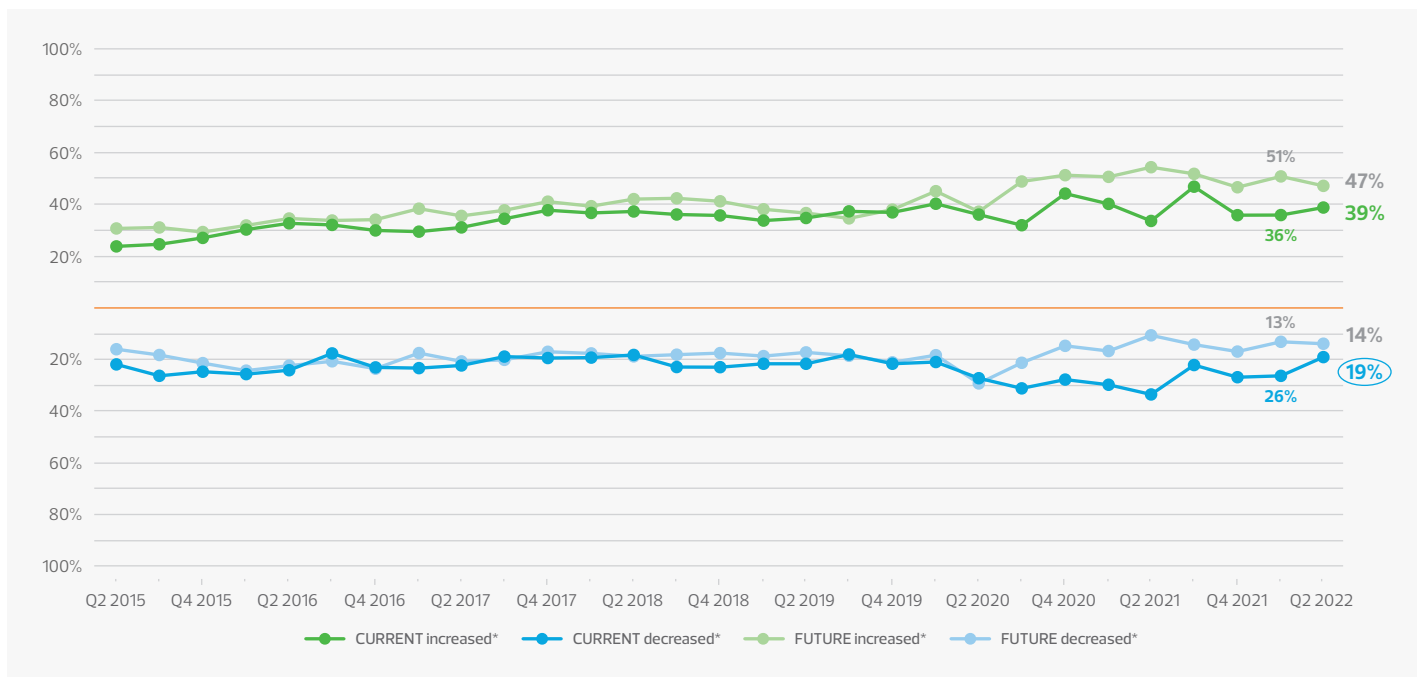
Middle market companies charged more for their own goods and services in the second quarter (66%), up sharply from 55% in the first quarter.



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? *seasonally adjusted
 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)?

INVENTORY LEVELS

Thirty-nine percent of executives polled said their businesses stockpiled more inventory in the second quarter, up from 36% in the prior period. At the same time, those who reduced their inventories fell to 19% from 26%.



Thinking about your organization's inventory levels this quarter versus last quarter, how would you describe current inventory levels? Would you say inventory levels have...?
 What are your expectations regarding your organization's planned inventory levels over the next six months? Would you say your inventory levels will... (among those that have inventory)?

*seasonally adjusted

How the MMBI is constructed

The MMBI is born 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.

RSM US Middle Market Business Index questions

- What are your expectations regarding the general economy?
- What are your expectations regarding your organization's gross revenues?
- How would you describe the level of your organization's most recent quarter net earnings results?
- What are your expectations regarding your organization's aggregate capital expenditures or investments?
- What are your expectations regarding your organization's overall hiring levels?
- How would you describe your organization's current employee compensation level on average?
- How would you describe current access to credit?
- What are your expectations regarding your organization's planned borrowing?
- How would you describe the current general level of prices received?
- What are your expectations regarding your organization's planned inventory levels?

SUPPLY CHAIN DISRUPTIONS CONTINUE, WITH OUTSIZE IMPACTS ON SMALLER FIRMS

NEARLY HALF of the respondents to the second-quarter MMBI survey—48%—said their organizations experienced significant negative effects due to unexpected changes or disruptions in supply from an upstream supplier during the previous 12 months.

The survey showed a marked difference between smaller middle market organizations and their larger middle market counterparts on this front; among businesses with \$10 million to \$50 million in annual revenue, 64% reported significant negative effects, compared to 36% for businesses with annual revenue of \$50 million to \$1 billion.

The data—derived from special survey questions on the topic of supply chains—sheds light on how supply chain disruptions are affecting middle market businesses overall, which issues are having an outsize impact on smaller middle market firms, and the specific ways companies are responding.

Businesses have grappled with countless supply chain issues since the onset of the pandemic (and for some companies, these challenges surfaced even earlier, stemming from the tariff clash between the United States and China). The MMBI data shows that supply challenges persist more than two years into the global health crisis, and that companies continue to pivot accordingly.

Seventy percent of respondents whose organizations had experienced negative effects due to disruptions in supply from an upstream supplier said their organizations found other sources of materials in the United States during the previous 12 months. This figure was 80% for businesses in the \$10 to \$50 million annual revenue group, and 55% for those in the higher annual revenue group. Some actions were more prevalent for organizations in the larger-size cohort; 42% of larger middle market companies exited one or more product lines, the data shows, compared to 25% of smaller middle market firms.



The top three negative impacts respondents reported due to disruptions in supply from an upstream supplier were a significant increase in operating costs (61%), erosion in operating margins (54%) and a reduction in organizational profitability (50%).

The disruption from upstream suppliers had impacts on downstream customers for both the smaller midsize companies and the larger businesses as well. Sixty-eight percent of respondents at firms with \$10 million to \$50 million in annual revenue said unexpected changes or disruptions the upstream supplier organization experienced resulted in negative or adverse consequences for any downstream customers; 69% of the respondents from larger businesses said the same.

Despite various disruptions and challenges, however, 81% of respondents either agreed or mostly agreed that their organization can adapt to changes in demand or supply without sacrificing product or service quality.

For a closer look at how supply chain disruptions are affecting middle market businesses, check out our [digital report](#). We'll also include findings on how middle market organizations are handling increased cost pressures, the impact of the inflationary environment, and top concerns related to the war in Ukraine. ■

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