

RSM US MIDDLE MARKET
**BUSINESS
INDEX**

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE

Q4 2021



U.S. Chamber of Commerce



RSM US MIDDLE MARKET **BUSINESS INDEX** IN PARTNERSHIP WITH THE U.S. CHAMBER OF COMMERCE

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. This report was fielded Oct. 4 to Oct. 21, 2021, and based on the responses of 408 participants.





TABLE OF CONTENTS

MIDDLE MARKET GRAPPLES WITH SUPPLY CHAIN WOES EVEN AS OVERALL CONDITIONS REMAIN SOLID, RSM US SURVEY FINDS	6
REMOTE WORK TAKES HOLD IN THE MIDDLE MARKET	8

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



MIDDLE MARKET FIRMS CONTINUE TO BE OPTIMISTIC OVERALL ABOUT FUTURE REVENUES, NET EARNINGS AND THE OVERALL ECONOMY COMPARED TO THE SOMEWHAT DOUBTFUL CURRENT OUTLOOK.

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.

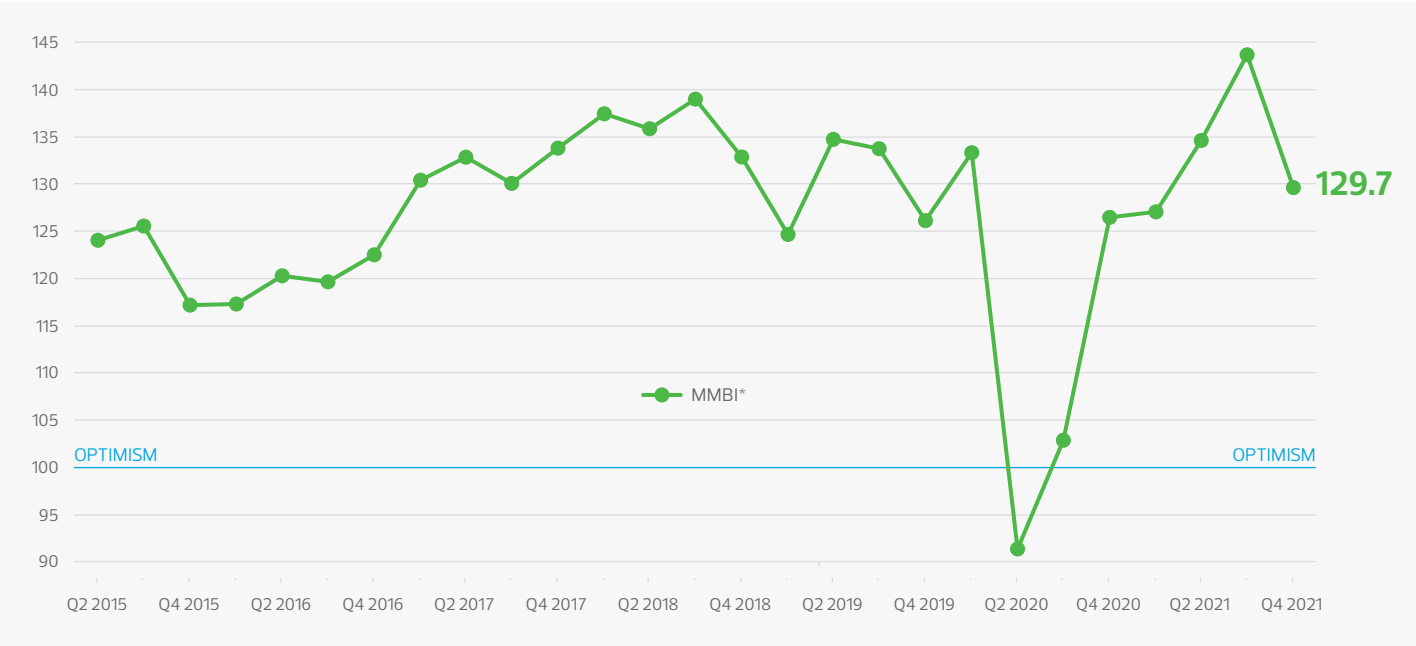
This publication represents the views of the author(s), and does not necessarily represent the views of RSM. This publication does not constitute professional advice.

“This quarter’s survey demonstrates the resiliency of the middle market. Despite continued inflationary pressures and supply chain difficulties, more than half of middle market leaders expect revenues and earnings to increase in the coming months,” said U.S. Chamber Executive Vice President and Chief Policy Officer Neil Bradley.

“However, the middle market sector does remain strained by persistent high inflation. Almost three in four businesses reported paying higher prices for goods. It’s critically important that policymakers in D.C. do not slow the recovery through tax increases and government spending that would only impede our path to full employment and economic growth.”

RSM US MIDDLE MARKET BUSINESS INDEX

The RSM US Middle Market Business Index decreased to 129.7 in the final quarter of the year from a peak of 143.7 the previous quarter.



Source: RSM US LLP

*seasonally adjusted

MIDDLE MARKET GRAPPLES WITH SUPPLY CHAIN WOES EVEN AS OVERALL CONDITIONS REMAIN SOLID, RSM US SURVEY FINDS

BY JOSEPH BRUSUELAS

SNARLED SUPPLY CHAINS and the spread of the delta variant combined to reduce the RSM US Middle Market Business Index to 129.7 in the final quarter of the year from a peak of 143.7 previously.

An easing was to be anticipated, though, and the current reading is in line with the pre-pandemic score of 126.2 in the final quarter of 2019.

Given that we expect a re-acceleration in household spending and higher fixed investment by businesses to close out the year, we anticipate that middle market business conditions will remain solid even as firms work to confront challenges in securing materials and workers.

Executives' responses to RSM US's proprietary survey reflected the slowing economy. Rising prices and what looks like a behavioral shift among workers provide a more challenging context for domestic middle market businesses. The survey, conducted from Oct. 4 to Oct. 21, asked 408 senior executives at middle market companies for their opinions on business conditions.

Responses to nine of the 10 survey questions declined, including the outlook on the economy, revenues and net earnings. Only 37% of respondents indicated the economy had improved in the quarter, even as 51% anticipated general improvement through the first half of next year.

Not surprisingly, 45% of executives reported higher gross revenues over the past three months, while 68% expected revenues to accelerate in the coming six months.

The story on net earnings was similar. Roughly 43% of respondents reported an increase over the past three months, while 62% expected an improvement through the end of next year's second quarter.

As has been the case for some time, middle market firms continue to be optimistic overall about future revenues, net earnings and the overall economy compared to the somewhat dour current outlook.

The cost of goods

In our estimation, the primary concern among middle market participants revolves around the cost of goods used at earlier stages of production and the cost of intermediate goods, as well as challenges around passing along those price increases.

For now, aggregate demand is more than sufficient to absorb the higher costs in the production process. In fact, we think that falling unemployment and rising income have made it somewhat easier to pass along price increases, which in turn is part of the relatively optimistic outlook.



Reflecting on the current quarter, 58% of respondents noted that they had increased prices charged (prices received) down from 60% previously, while 66% indicated they expect to do so over the next six months, which is also down modestly from 69% in the third quarter.

While that is a minor improvement, it is premature to conclude that those pricing challenges are in the rear view mirror. We do not expect any material relief on the supply front until the second half of next year.

Prices paid in the current quarter and expectations around the same also rose modestly in the survey, remaining at elevated levels. Roughly 72% of participants in the survey noted an increase in prices paid, which was essentially unchanged from the 73% who noted they paid more last quarter. In addition, 70% implied they expected to pay more for goods used in production and to provide services over the next 180 days, down from 75% previously.

Not surprisingly, only 34% of firms reported somewhat or substantially improved inventory levels and 46% indicated they expect the same over the next six months, which underscores our supply chain outlook of no substantial relief over that same time frame.

On employment, 45% of respondents noted that they had increased hiring, down from 56% in the second quarter, and 54% indicated they had increased compensation to obtain workers. Looking forward, 56% of participants indicated they will increase hiring, and 68% implied they would increase pay to attract workers.

Finally, 33% of respondents indicated they had slowed outlays on capital expenditures, which was to be expected as the economy adjusted to public health risks, while 53% said they would increase spending on productivity-enhancing equipment, software and intellectual property through the first half of next year. ■

REMOTE WORK TAKES HOLD IN THE MIDDLE MARKET

THE COVID-19 PANDEMIC has likely forever changed the way we work, leading to a more flexible work model for many businesses.

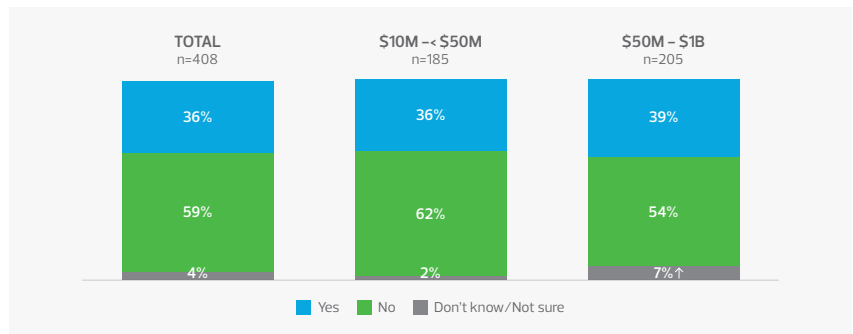
More than a third of middle market companies polled say they now have employees working remotely who weren't doing so prior to the onset of the pandemic in March 2020. Of those, 65% are embracing hybrid work, allowing their employees to work in the corporate workplace part of the time and in remote locations for the remainder.

Meanwhile, midsize companies are gearing up for significant challenges around recruitment, with nearly three quarters of executives polled expecting the labor environment for their businesses to be very challenging or extremely challenging in the coming year.

There appear to be some positives to the work-style shifts. Nearly half of respondents at businesses using remote workers said they are able to source employees from a broader geographic range; more than a third are reducing their physical offices and other workspaces—at least in the near term—and may be benefiting from reduced overhead as a result.

Forty-eight percent of businesses with workers currently working remotely indicated that reduced collaboration was a minor consideration, while 22% said it was not an issue at all. Responses were similar for negative impact on employee supervision, at 52% and 23%, respectively. Reduced productivity was even less of a concern, with 34% saying it was a minor consideration and 43% reporting it was not an issue.

Organizations with employees working remotely as a result of the pandemic who were not working remotely previously*



Source: RSM US Middle Market Business Index, Q4 2021

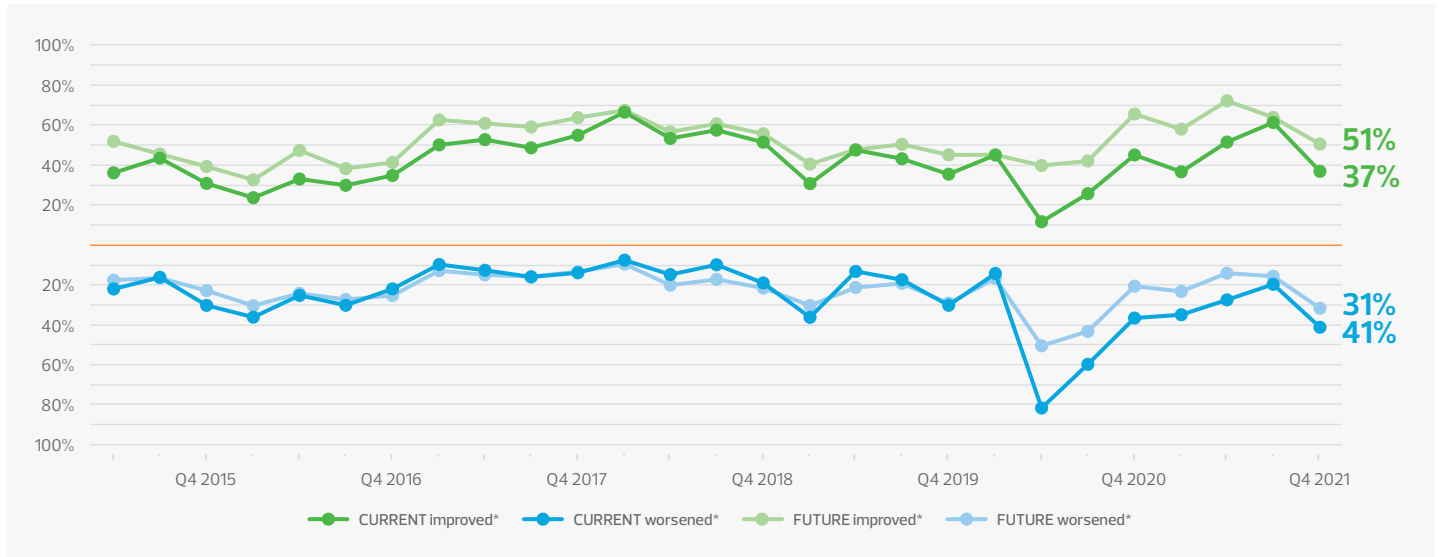
Arrows = significantly higher/lower than \$10M-<\$50M at .05 level of significance
*Base = total sample

And in a bright spot on the labor front, nearly two-thirds of executives polled said they don't expect challenges around turnover in the next year. To foster retention, in addition to embracing hybrid work, 47% of the companies polled offer employee recognition, flexible hours, health care benefits and retirement programs. ■

Look for the complete findings on the post-COVID-19 work environment for middle market businesses in the next MMBI special report, due out in January 2022, and follow our ongoing series on workplace transformation in [The Real Economy Blog](#).

GENERAL ECONOMY PERFORMANCE

Thirty-seven percent of respondents said the economy improved in October, down from 62% in the previous quarter, but more in line with pre-pandemic sentiment.

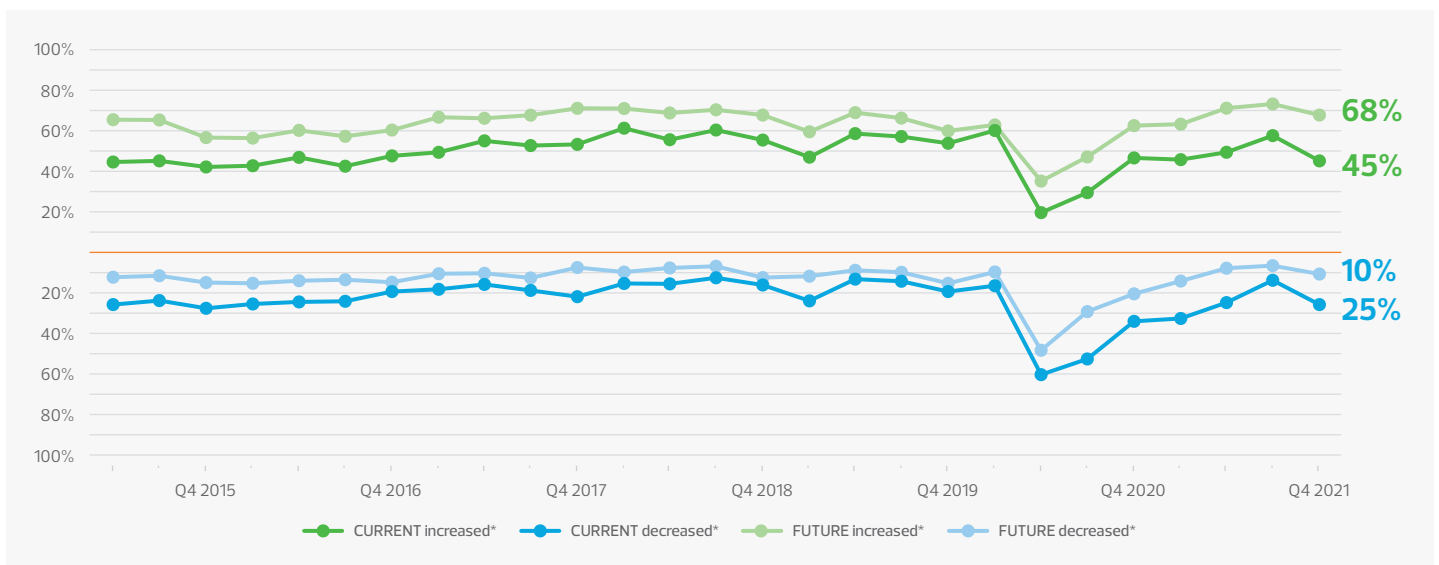


First, thinking about the general economy this quarter versus last quarter, how would you describe the current general economy? Would you say the general economy has...?
 What are your expectations regarding the general economy over the next six months? Do you expect the general economy will...?

*seasonally adjusted

GROSS REVENUES PERFORMANCE

Sixty-eight percent of executives expect future gross revenues to improve, down from 73% last quarter.



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...?

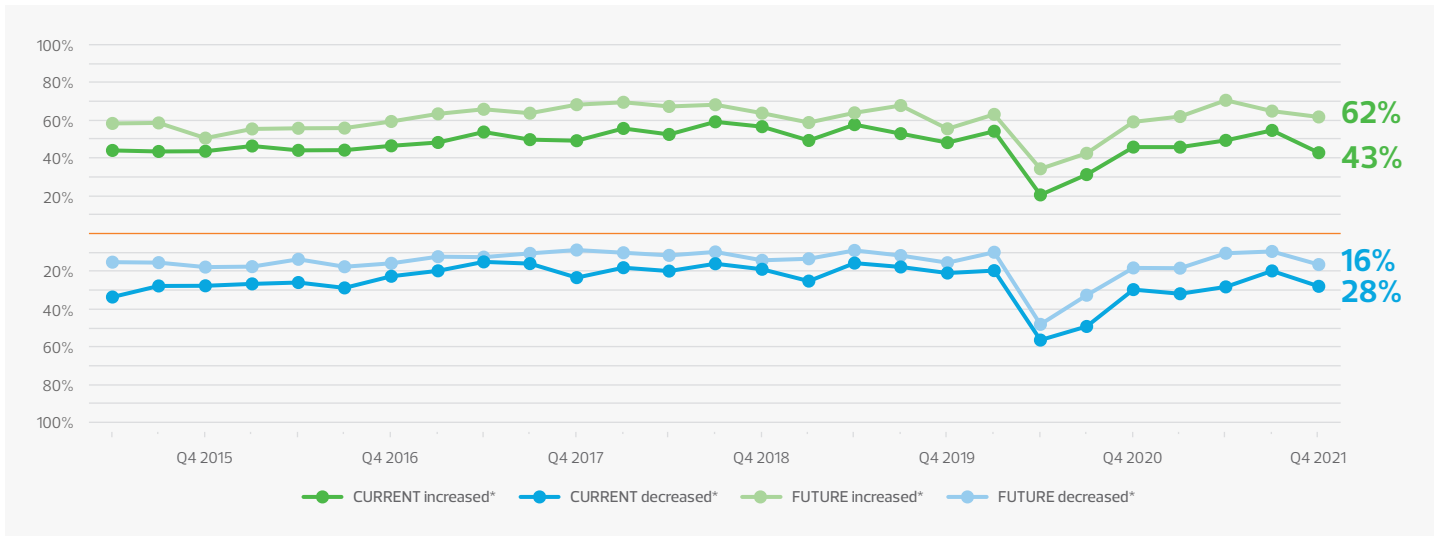
*seasonally adjusted

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

Forty-three percent of respondents noted an increase in net earnings in the fourth quarter, down from 55% in the prior quarter.

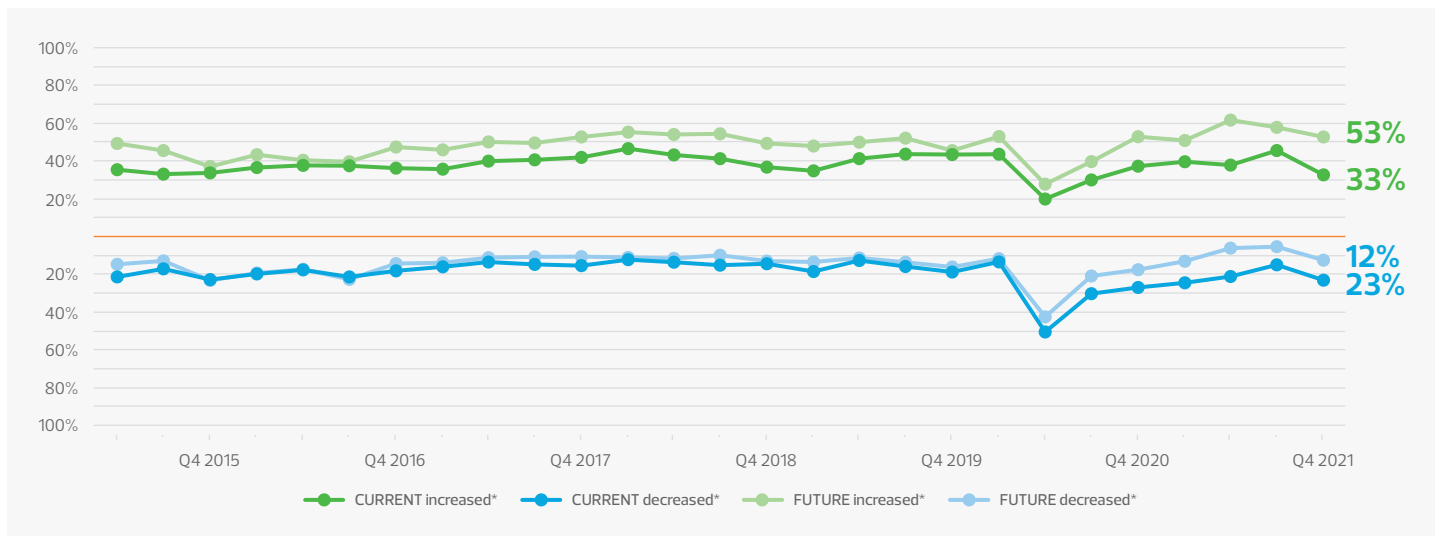


Thinking about your organization's net earnings (after expenses, etc.) for the most recent quarter results versus the prior quarter results, how would you describe the level of your most recent quarter net earnings results? Would you say net earnings results have... (among those not nonprofits)? *seasonally 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)?

AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE

Capital spending fell in the fourth quarter; 33% executives said their business made investments, down from 46% in the previous quarter.

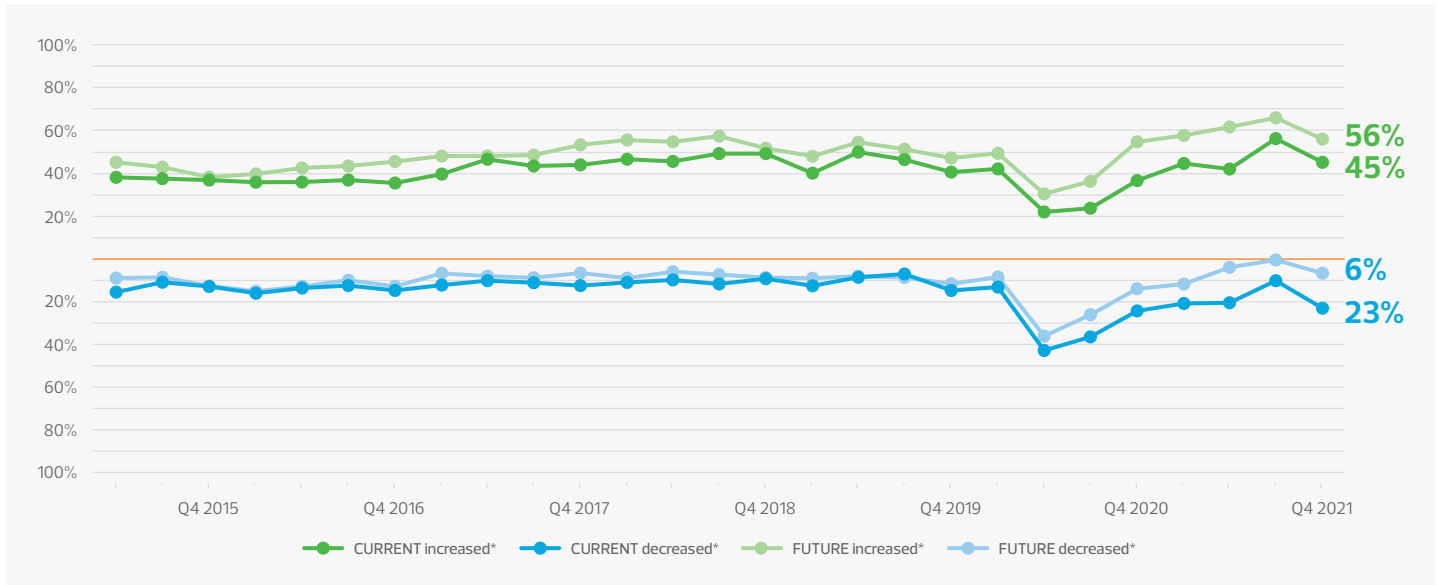


Thinking about your organization's aggregate capital expenditures or investments this quarter versus last quarter, how would you describe your organization's current capital expenditures/investments? Would you say capital expenditures/investments have...? *seasonally adjusted

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...?

OVERALL HIRING LEVELS

Hiring dipped in the fourth quarter, with 45% of executives indicating they added staff, compared to 56% last quarter.

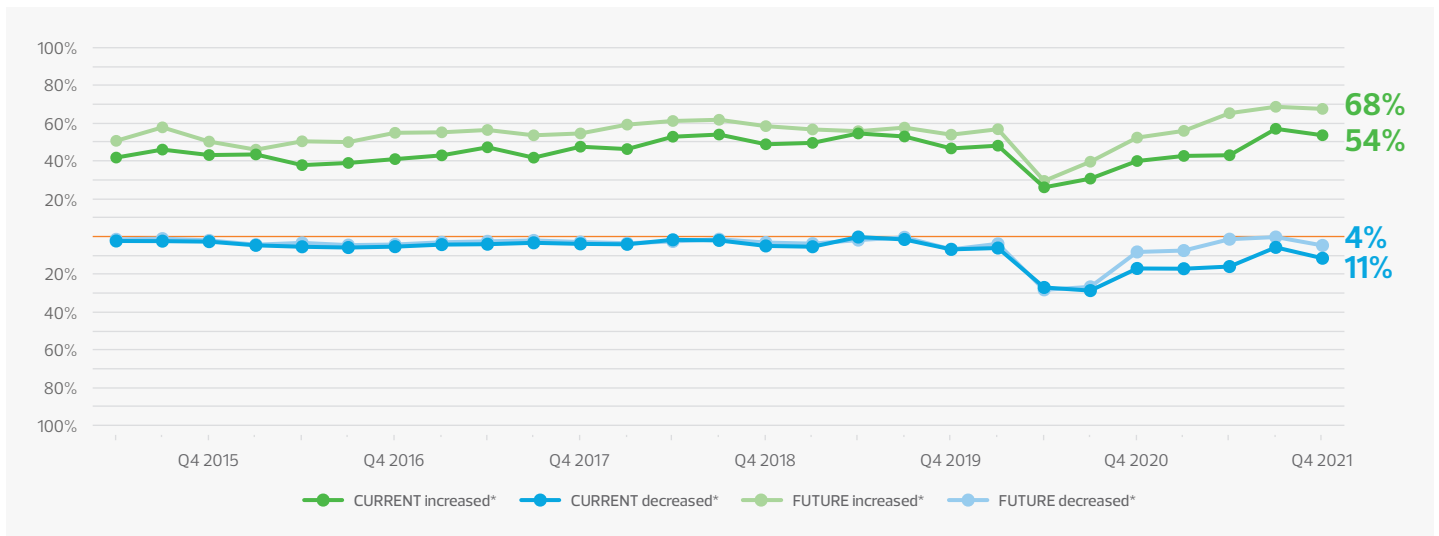


Thinking about your organization's overall hiring levels this quarter versus last quarter, how would you describe your current hiring levels? Would you say hiring levels have...?
 What are your expectations regarding your organization's overall hiring levels over the next six months? Do you expect hiring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

*seasonally adjusted

EMPLOYEE COMPENSATION

Fifty-four percent of respondents indicated worker compensation increased, down just slightly from the previous quarter's 57%, the highest in five years.



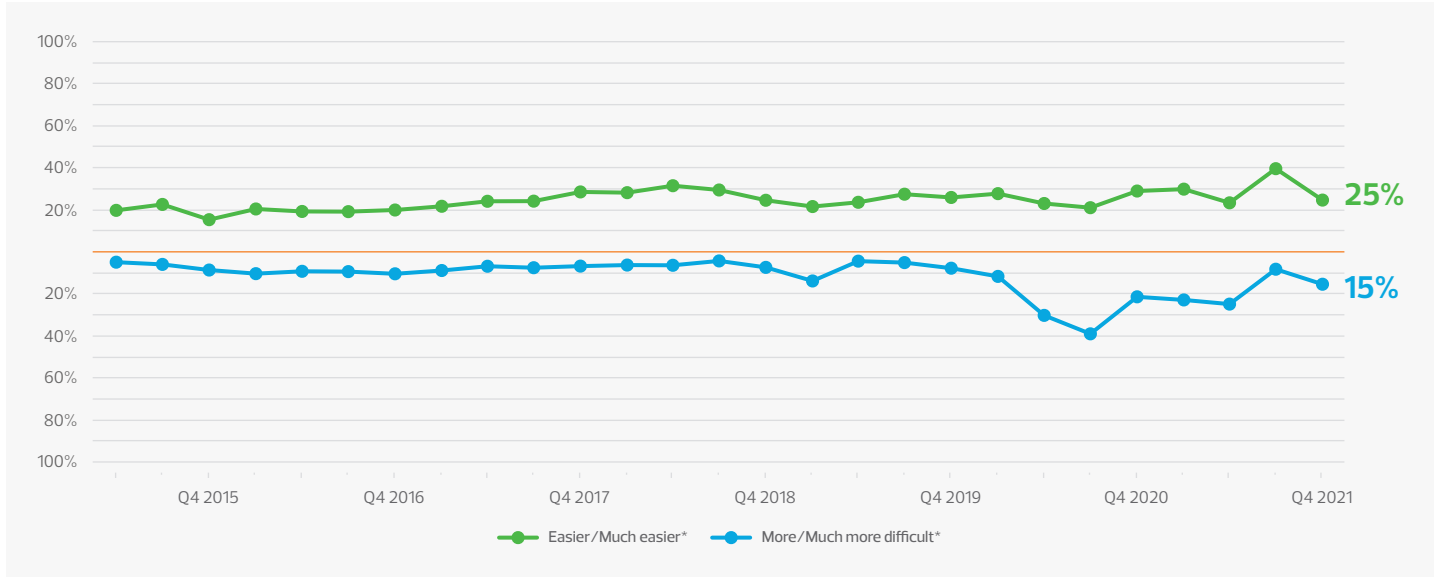
Thinking about employee compensation at your organization this quarter versus last quarter, how would you describe the current employee compensation level on average?
 Would you say employee compensation, on average, has...?
 What are your expectations regarding your organization's employee compensation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

*seasonally adjusted



ACCESS TO CREDIT

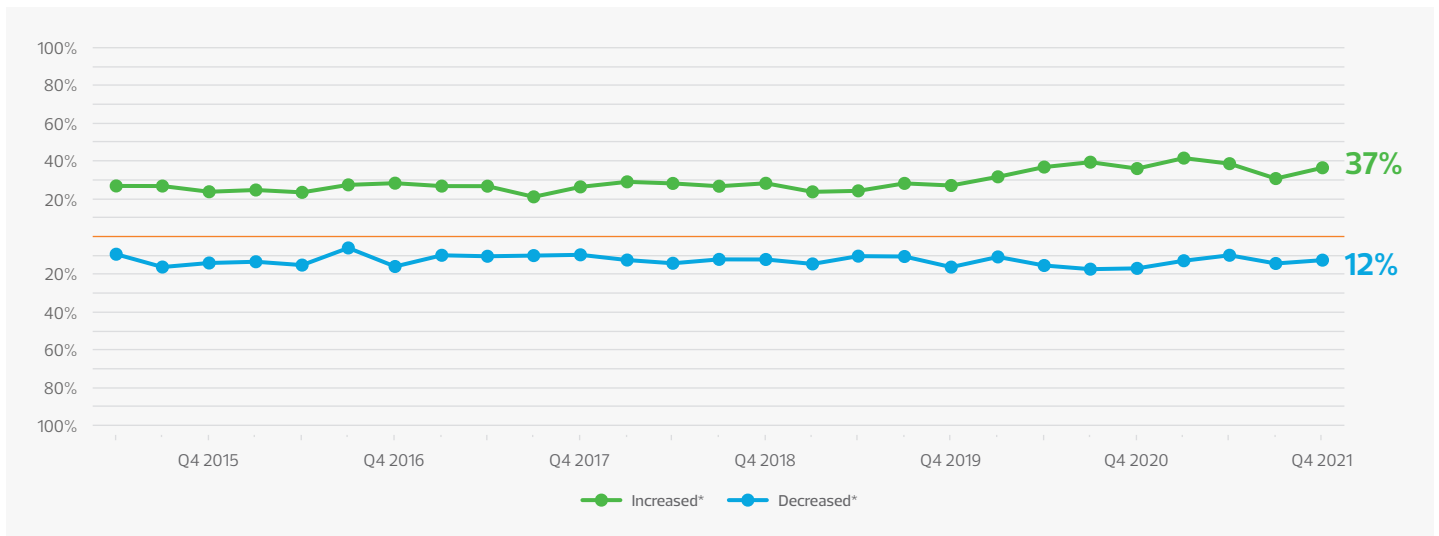
Twenty-five percent of survey respondents indicated that loans were easier to get in the fourth quarter, significantly down from last quarter's 40%, but on par with pre-pandemic sentiment.



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...? *seasonally adjusted

PLANNED BORROWING

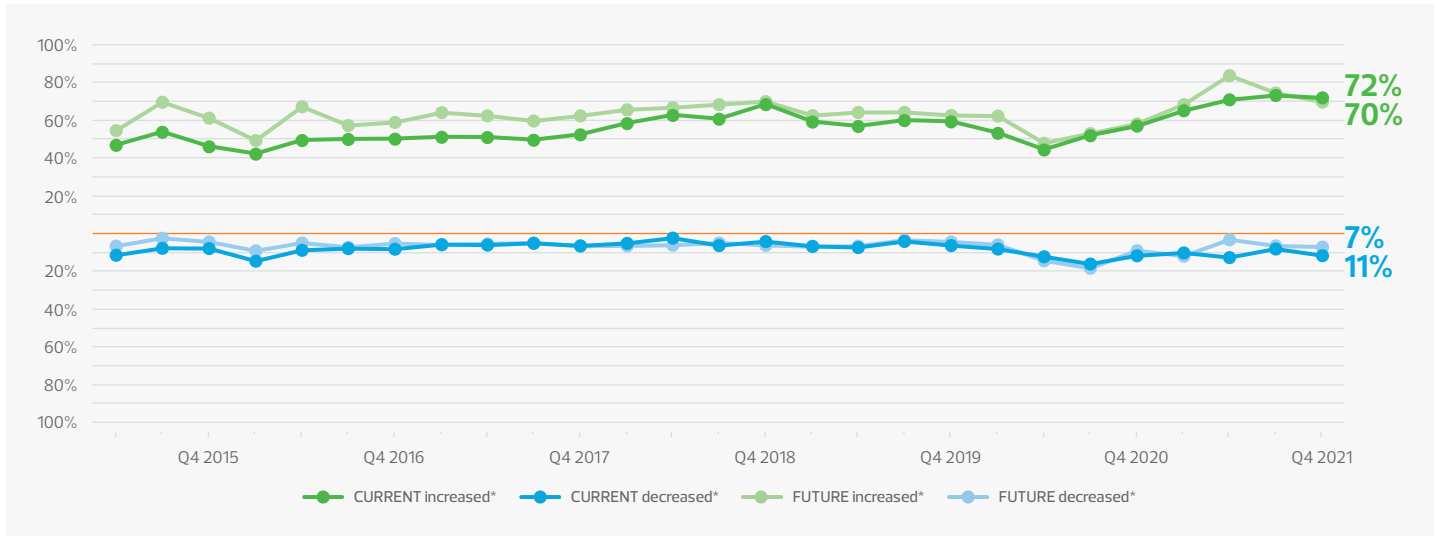
Thirty-seven percent of respondents plan to take on more debt over the next six months, up from 31% who planned to do so in the third quarter.



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

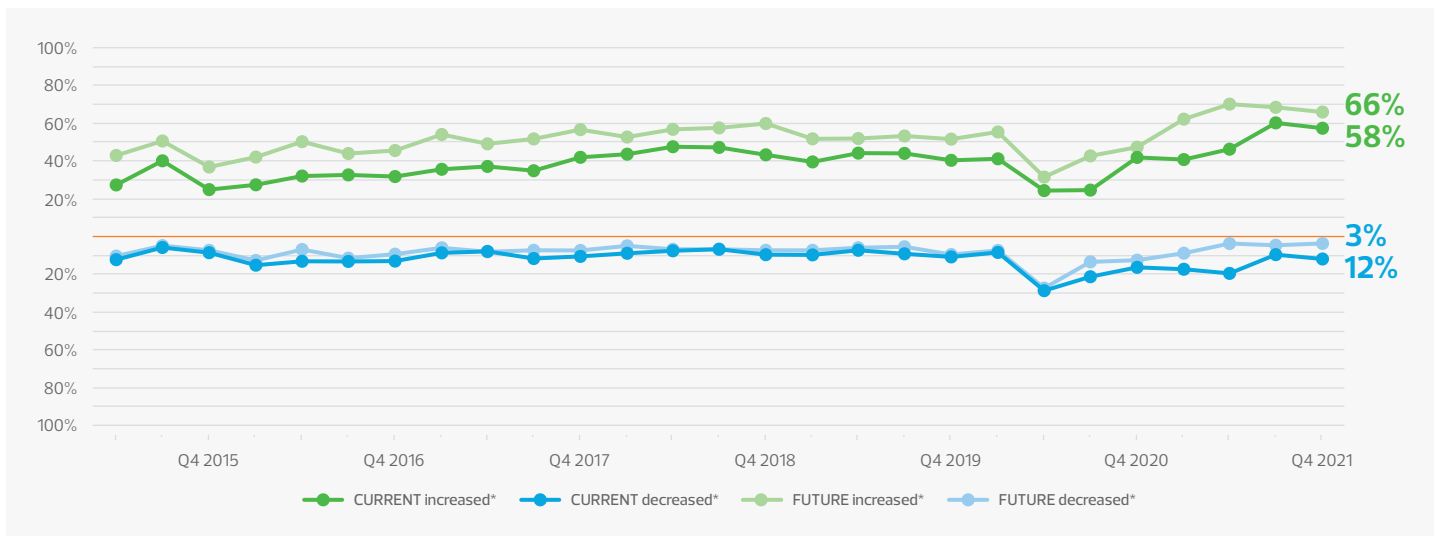
Seventy-two percent of middle market businesses paid more for goods and services in the fourth quarter, down slightly from 73% in the prior quarter.



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...? *seasonally adjusted
 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

Fifty-eight percent of midsize organizations received higher prices for their own goods and services in the fourth quarter, down slightly from the previous quarter.

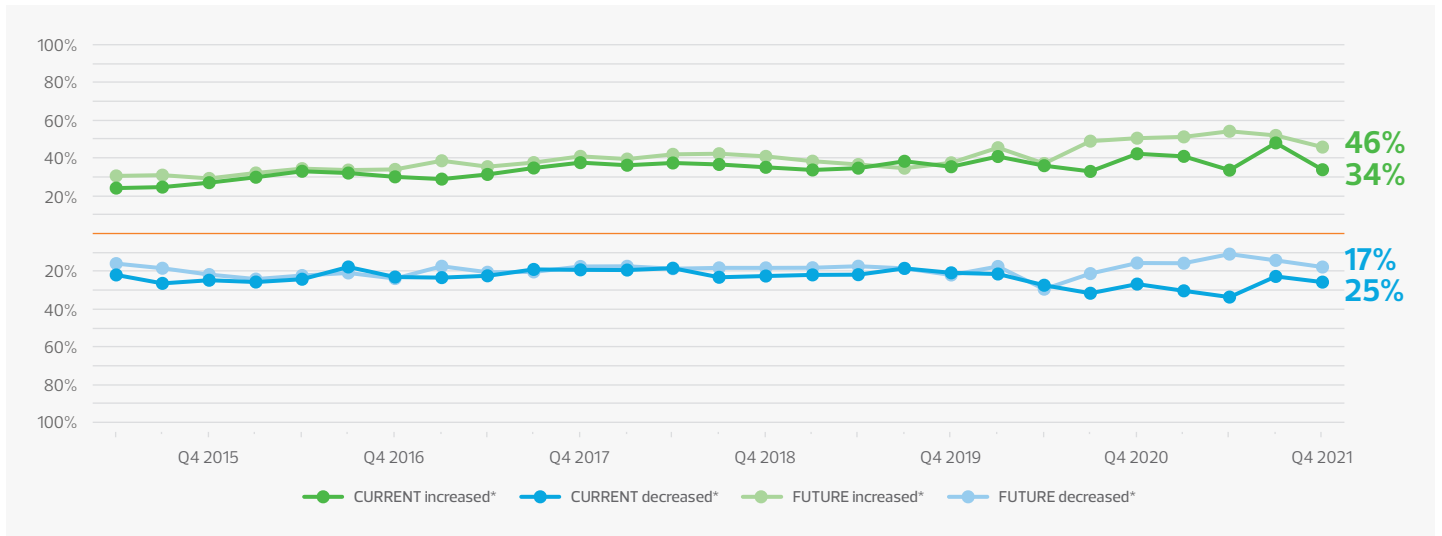


Thinking about the prices that your organization received for all of its goods and services this quarter versus last quarter, how would you describe the current general level of prices received? Would you say prices received by your organization, on average, have (among those not nonprofits)...? *seasonally adjusted
 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-four percent of executives indicated increased inventories in the fourth quarter, significantly down from last quarter's 48%.



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 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.

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?

REAL BUSINESS INSIGHTS FOR MIDDLE MARKET COMPANIES

Check out *The Real Economy: Industry Outlook* and get data-driven, sector-specific insights from RSM's senior industry analysts, a select group of professionals dedicated to studying economic and industry data, market trends and the emerging issues faced by middle market businesses like yours.

Each outlook provides unique perspectives and planning opportunities affecting businesses in the following industries:

- Business and professional services
- Consumer products
- Financial services
- Health care
- Life sciences
- Manufacturing and energy
- Real estate and construction
- Technology, media and telecom

Get the [Winter 2022 issue](#) now.



For more information on RSM, please visit rsmus.com.

For media inquiries, please contact Kim Bartok, national public relations director, +1 212 372 1239 or kim.bartok@rsmus.com.

For more information on RSM thought leadership, please contact Deborah Cohen, thought leadership director, +1 312 634 3975 or deborah.cohen@rsmus.com.



www.rsmus.com

This document contains general information, may be based on authorities that are subject to change, and is not a substitute for professional advice or services. This document does not constitute audit, tax, consulting, business, financial, investment, legal or other professional advice, and you should consult a qualified professional advisor before taking any action based on the information herein. RSM US LLP, its affiliates and related entities are not responsible for any loss resulting from or relating to reliance on this document by any person. Internal Revenue Service rules require us to inform you that this communication may be deemed a solicitation to provide tax services. This communication is being sent to individuals who have subscribed to receive it or who we believe would have an interest in the topics discussed.

RSM US LLP is a limited liability partnership and the U.S. member firm of RSM International, a global network of independent audit, tax and consulting firms. The member firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each member firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmus.com/aboutus for more information regarding RSM US LLP and RSM International.

RSM, the RSM logo and *the power of being understood* are registered trademarks of RSM International Association.

© 2021 RSM US LLP. All Rights Reserved.



For more information on the U.S. Chamber of Commerce, please visit www.uschamber.com.

For media inquiries, please contact the U.S. Chamber of Commerce at +1 202 463 5682 or press@uschamber.com.

The U.S. Chamber of Commerce is the world's largest business federation representing the interests of more than 3 million businesses of all sizes, sectors, and regions, as well as state and local chambers and industry associations.

Copyright © 2021 by the United States Chamber of Commerce. All rights reserved. No part of this publication may be reproduced or transmitted in any form—print, electronic, or otherwise—without the express written permission of the publisher.



U.S. Chamber of Commerce