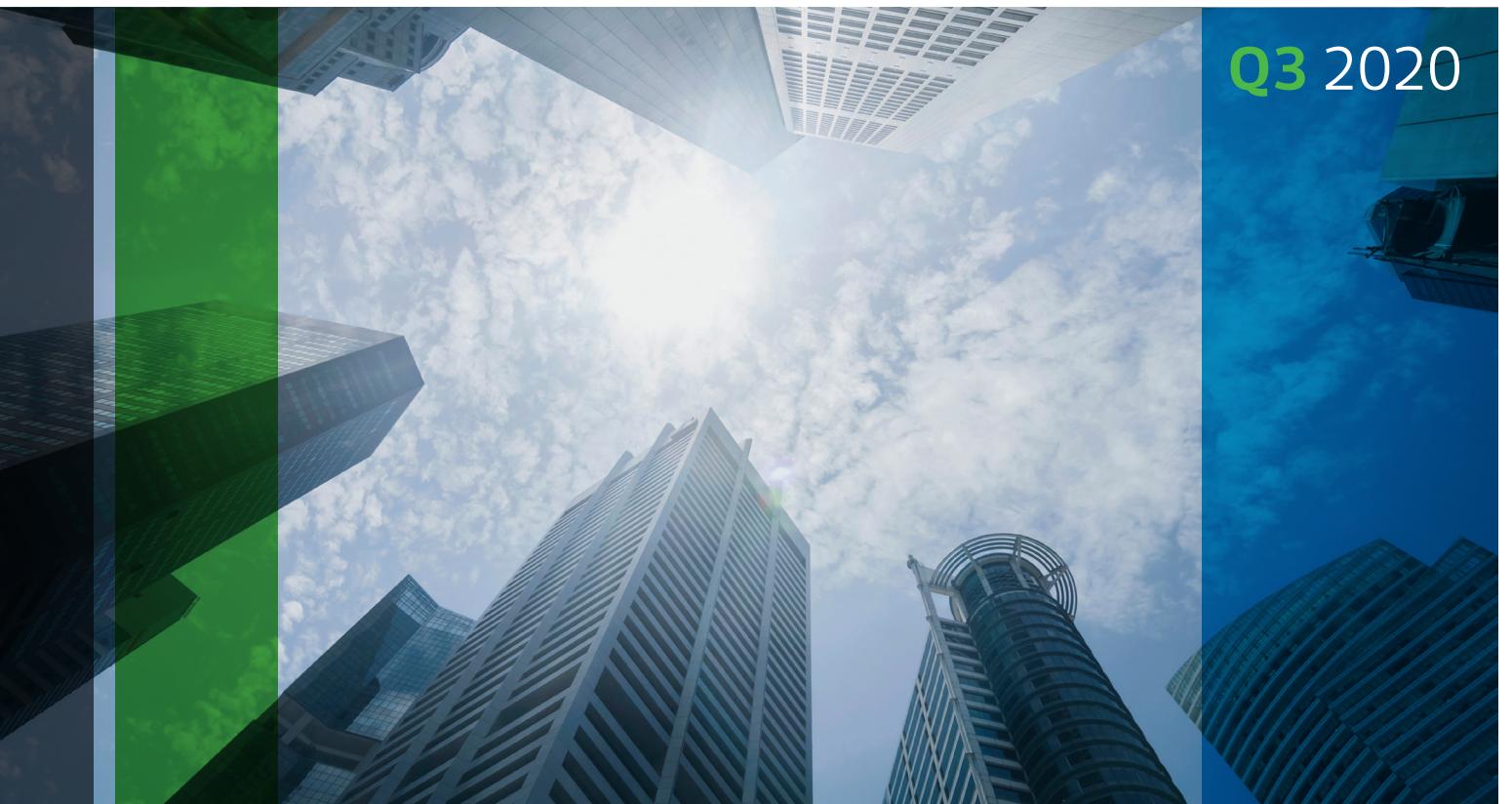


RSM US MIDDLE MARKET

BUSINESS INDEX

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE



Q3 2020



U.S. CHAMBER OF COMMERCE

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RSM US MIDDLE MARKET BUSINESS INDEX

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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 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 July 8 and July 23, 2020, 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.



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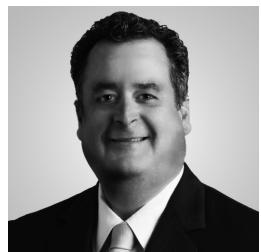
RSM US MIDDLE MARKET
BUSINESS INDEX Q3 2020





THE RSM US MIDDLE MARKET BUSINESS INDEX EASED TO 100.7 IN JULY FROM 109.1 IN JUNE, AS MIDSIZE FIRMS COPE WITH A RECESSION

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*.

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.

“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.

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.”

– Neil Bradley, Executive Vice President and Chief Policy Officer, U.S. Chamber of Commerce

The July MMBI reading of 100.7, down from 109.1 in June, implies that midsize firms remain mired in recession as the pandemic has caused a series of pauses, pullbacks and shutdowns across major portions of the economy.

RSM US MIDDLE MARKET BUSINESS INDEX



MIDDLE MARKET BUSINESS INDEX EASES ALONG WITH ECONOMY

BY **JOSEPH BRUSUELAS**, CHIEF ECONOMIST, RSM US LLP

FOLLOWING THE BURST of initial optimism that came with the reopening of the economy in May and early June, overall business conditions began to ease and then recede. This slowdown is showing up in a range of economic reports, including U.S. household spending and hiring, as well as alternative and near real-time data like the [Harvard-Chetty database](#), [Homebase hours-worked statistics](#) for small and midsize businesses, [mobility data](#) and Chase's credit card spending. All indicate that starting in mid-June, the U.S. economy began to move sideways and then down.

It is of little surprise that the proprietary RSM US Middle Market Business Index, a broad measure of middle market economic sentiment, eased to 100.7 in July* from 109.1 in June. This decline implies that midsize firms remain mired in recession as the pandemic has caused a series of pauses, pullbacks and shutdowns across major portions of the economy. A reading above 100 indicates that the middle market is generally expanding; below 100 suggests contraction.

Movement over the past three months inside the MMBI confirms our outlook of 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. Traditionally, the middle market tends to lag behind the fortunes of the multinational companies that populate the public equity markets. Thus, we would not be surprised if the top-line survey tends to be somewhat volatile going forward until a vaccine is discovered.

For the most part, responses to the 10 questions that make up the index were essentially unchanged or somewhat softer, which was the primary reason for the slipping of overall middle market sentiment.

Reduced plans for hiring

Most notable were reductions in the share of respondents expecting the economy to improve (42%) and those who plan to hire additional workers (35%). The increase in the share of respondents reporting that credit was harder to obtain (41%) paralleled the most recent Federal Reserve [Senior Loan Officer Opinion Survey](#) which indicated a general tightening of credit in anticipation of rising delinquencies and defaults as business bankruptcies rise.



Beneath the headline, 29% of respondents reported gross revenues increased during the month and 46% expect an improvement over the next six months. Respondents' views on net earnings were somewhat similar, with 31% saying that conditions had improved and 40% anticipating an improvement over the next six months. This underscores the 30% of respondents who said they had increased outlays on capital expenditures and the 39% who said they intended to do so over the next 180 days.

Only 23% of respondents indicated that they had increased hiring during the month; 35% stated they would do so six months ahead, and 38% noted that they would increase compensation over the next six months to attract talent. This clearly reflects the current dour mood among firms that populate the real economy, caused by pandemic-related uncertainty.

Seasonally adjusted numbers

The third-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.

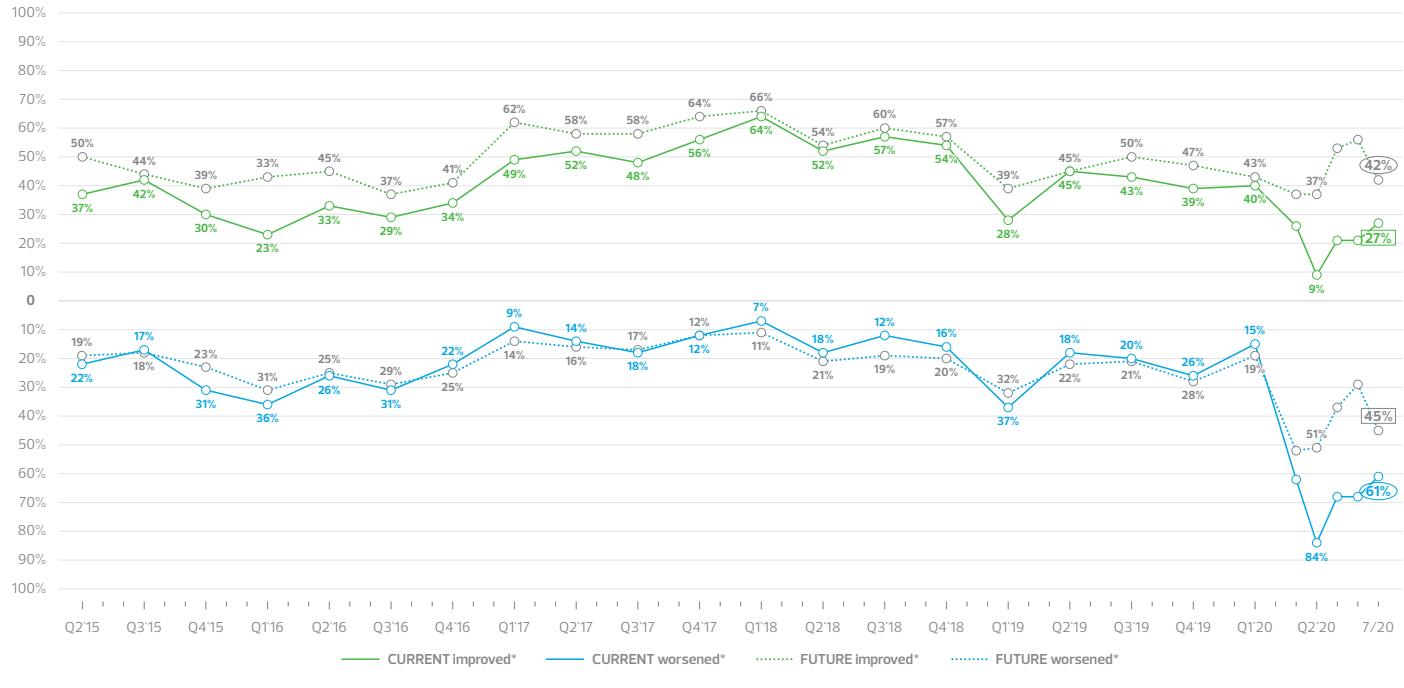
The pricing environment modestly improved, with 52% noting higher prices paid and the same percentage noting expectations of higher prices paid going forward. Firms continue to closely manage inventories and do not plan to pass along price increases downstream. Roughly, 31% of respondents increased inventories, and 49% expect to do so early next year. Not surprisingly, 24% of survey participants increased prices and 42% expect to do so six months ahead, both basically unchanged from last month. ■

*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.



GENERAL ECONOMY PERFORMANCE

About 27% of middle market executives said the general economy was better in Q3, compared with 21% in the June monthly survey.



▪ 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...?

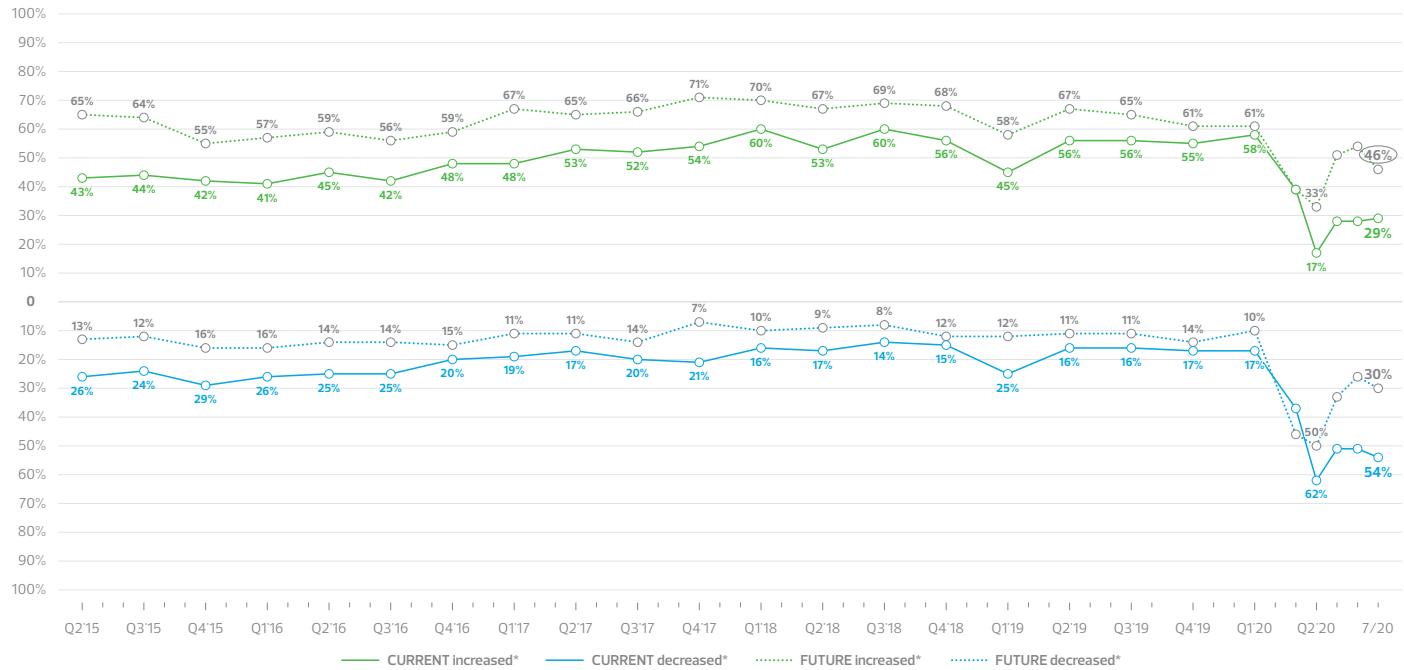
▪ What are your expectations regarding the general economy over the next six months? Do you expect the general economy will...?

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

*seasonally adjusted

GROSS REVENUE PERFORMANCE

Fifty-four percent of executives said gross revenues fell in the quarter, up from 51% in the June monthly survey.



▪ 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...?

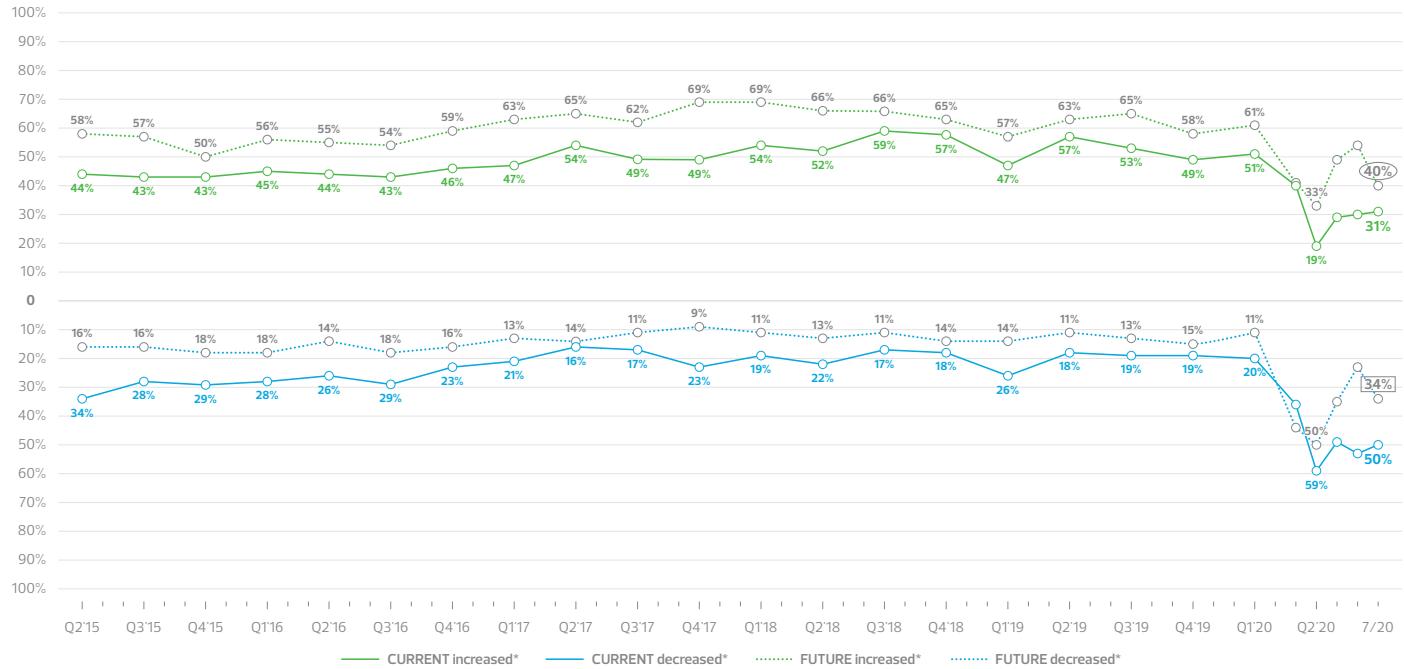
▪ What are your expectations regarding your organization's gross revenues/all incoming funds over the next six months? Do you expect gross revenues/all incoming funds to...?

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

*seasonally adjusted

NET EARNINGS PERFORMANCE

Forty percent of executives polled expect net earnings to improve over the next six months, down from 54% in the June monthly survey.



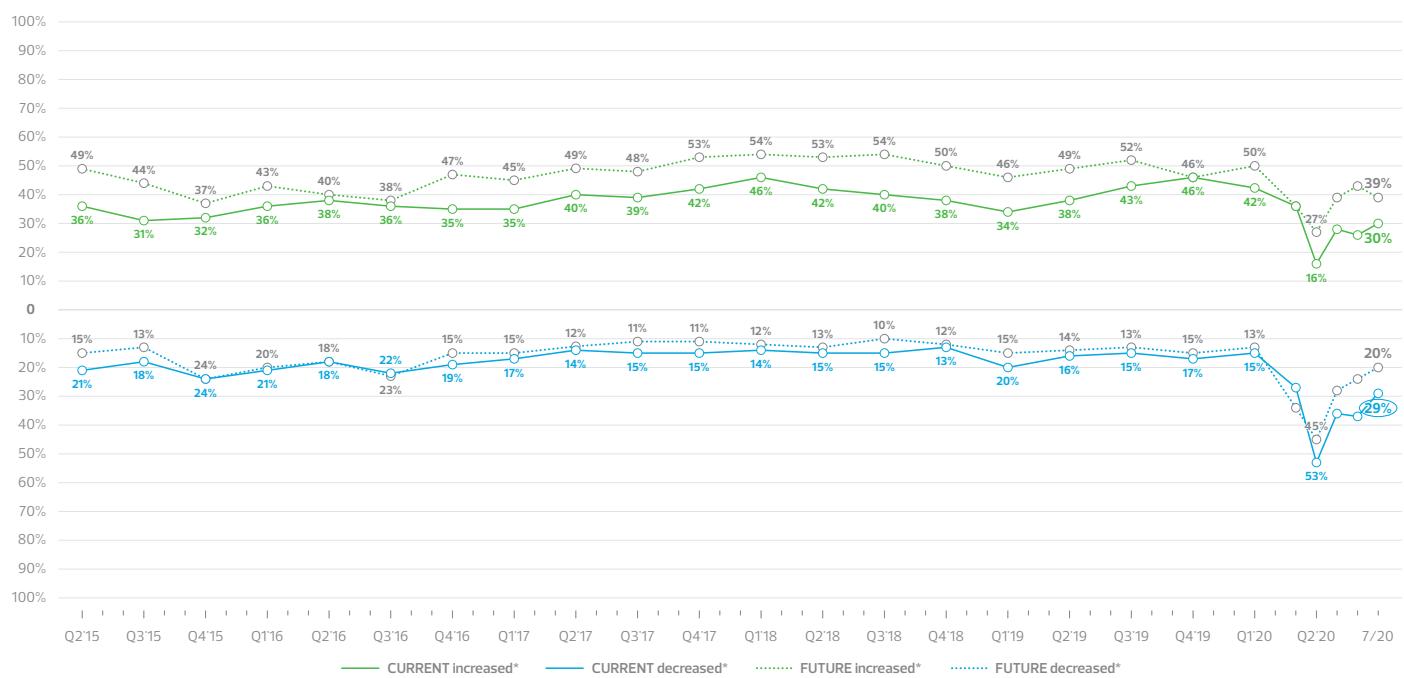
- Thinking about your organization's net earnings (after expenses, etc.) for the most recent quarter results versus the prior quarter results, how would you describe the level of your most recent quarter net earnings results? Would you say net earnings results have (among those not nonprofits) ...?
-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

*seasonally adjusted

AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE

Thirty percent of middle market executives boosted capital spending in the quarter, up from 26% in the June monthly survey.



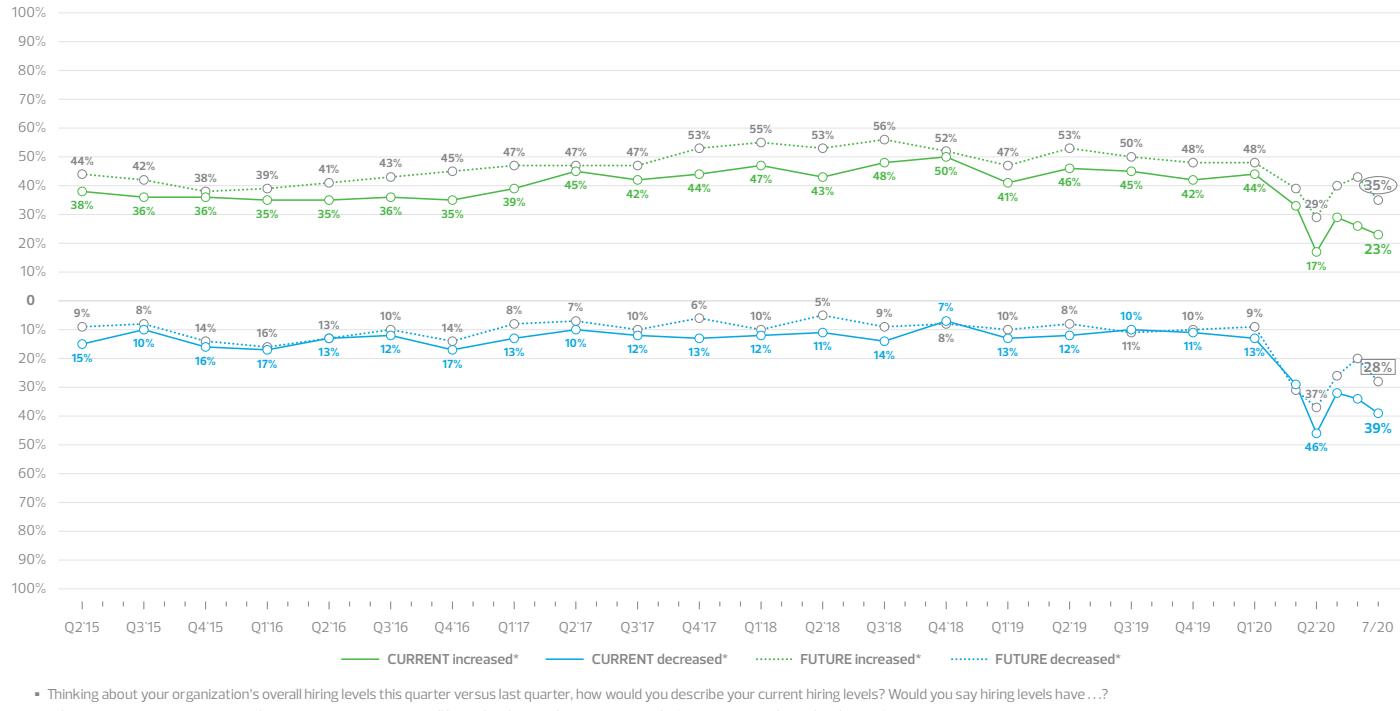
- Thinking about your organization's aggregate capital expenditures or investments this quarter versus last quarter, how would you describe your organization's current capital expenditures/investments? Would you say capital expenditures/investments have ...?
- What are your expectations regarding your 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 .05 level of significance

*seasonally adjusted

OVERALL HIRING LEVELS

Twenty-eight percent of executives said they will reduce hiring over the next six months, up from one-fifth in the June monthly survey.



▪ 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...?

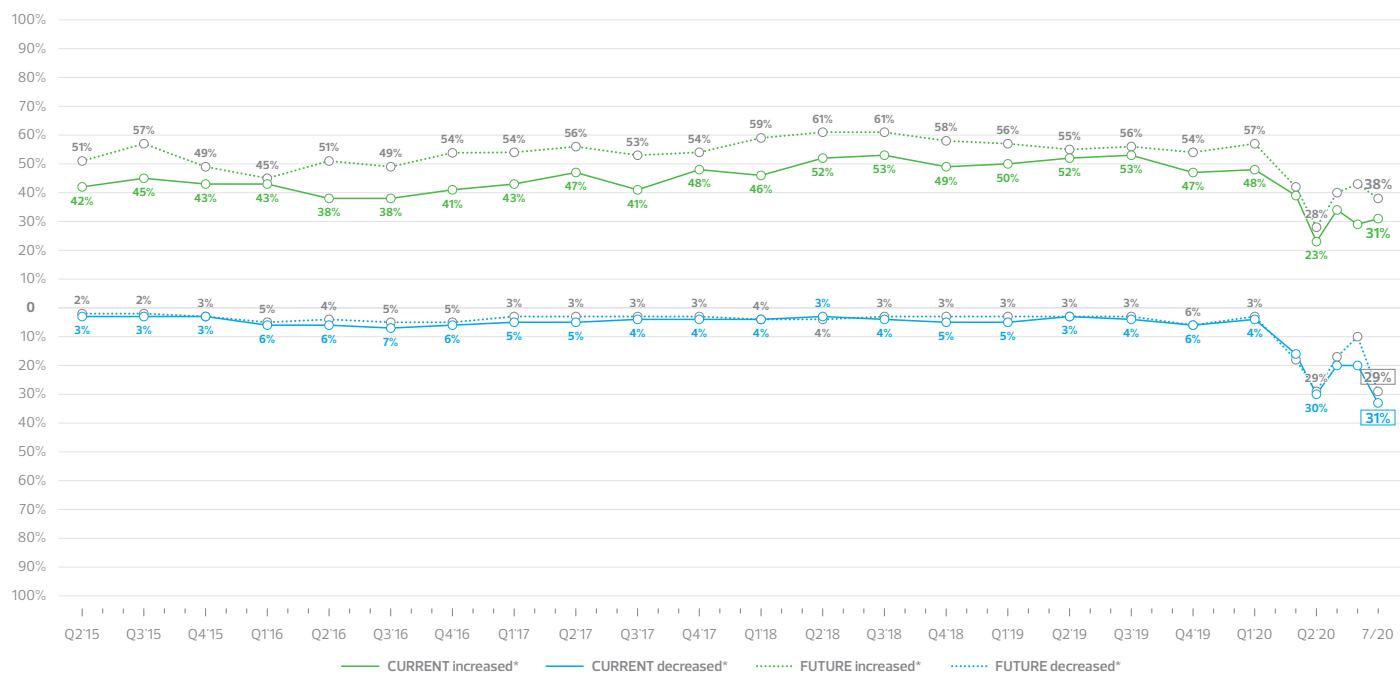
▪ What are your expectations regarding your organization's overall hiring levels over the next six months? Do you expect hiring levels to...?

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

*seasonally adjusted

EMPLOYEE COMPENSATION

Thirty-one percent of executives said they boosted employee compensation in the quarter, while the same percentage said they reduced it.



▪ 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...?

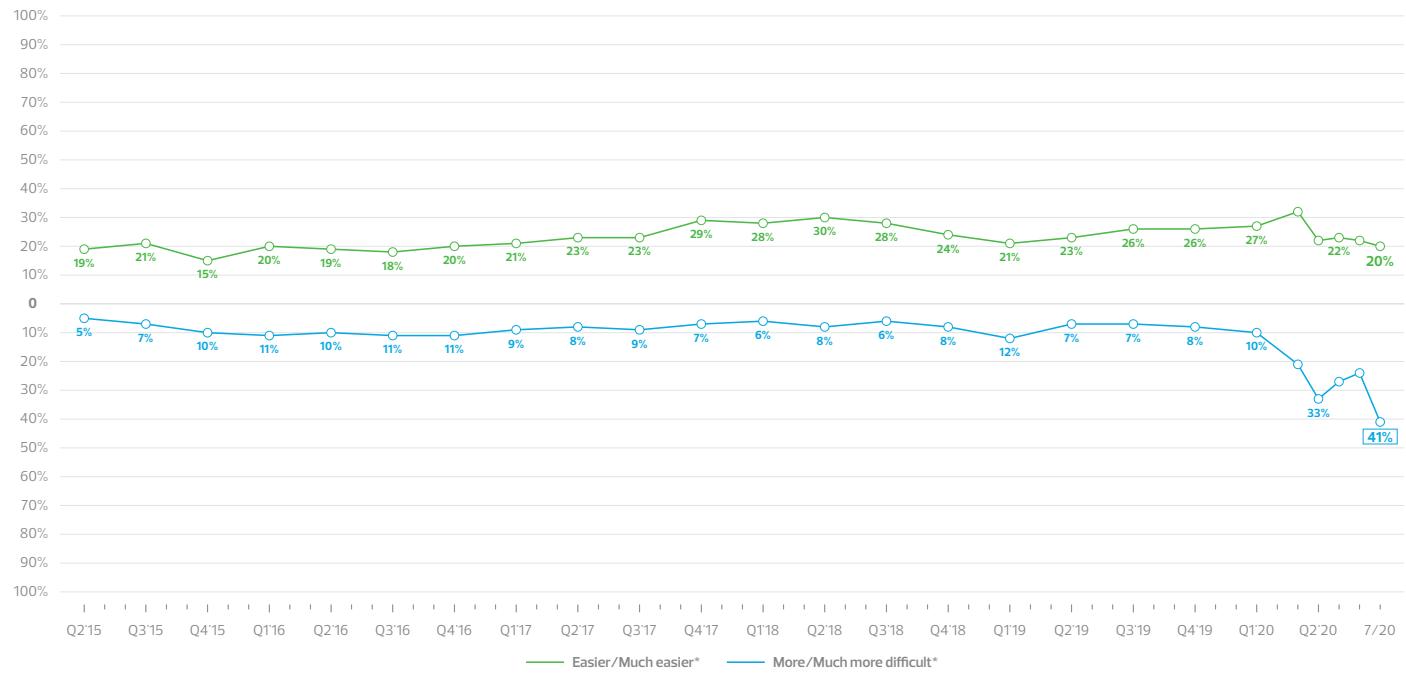
▪ What are your expectations regarding your organization's employee compensation over the next six months? Would you say employee compensation, on average, will...?

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

*seasonally adjusted

ACCESS TO CREDIT

Forty-one percent of those polled said access to credit was much more difficult in the third quarter, up significantly from 24% in the June monthly survey.



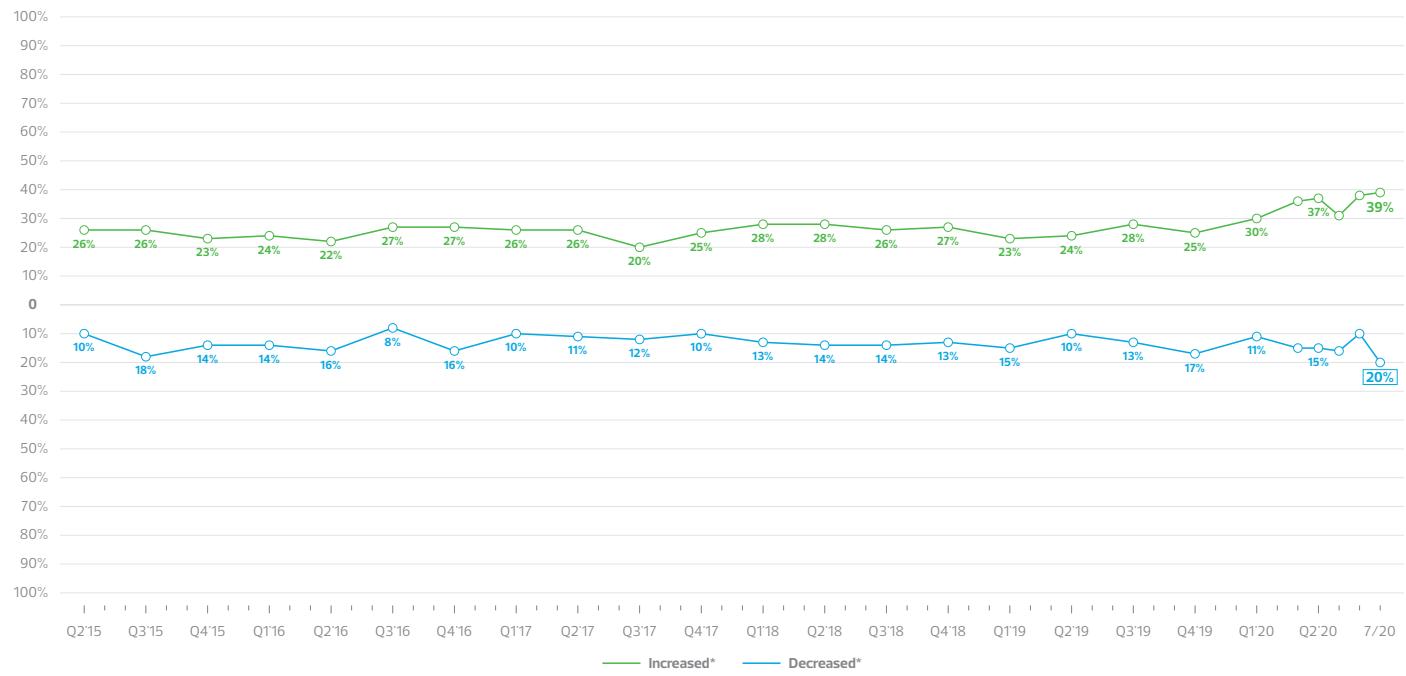
▪ Thinking about the availability or ease with which your organization can borrow money this quarter versus last quarter, how would you describe current access to credit?
Would you say that accessing credit is...?

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

*seasonally adjusted

PLANNED BORROWING

One-fifth of executives said they reduced borrowing in the quarter, up from 10% in the June monthly survey.



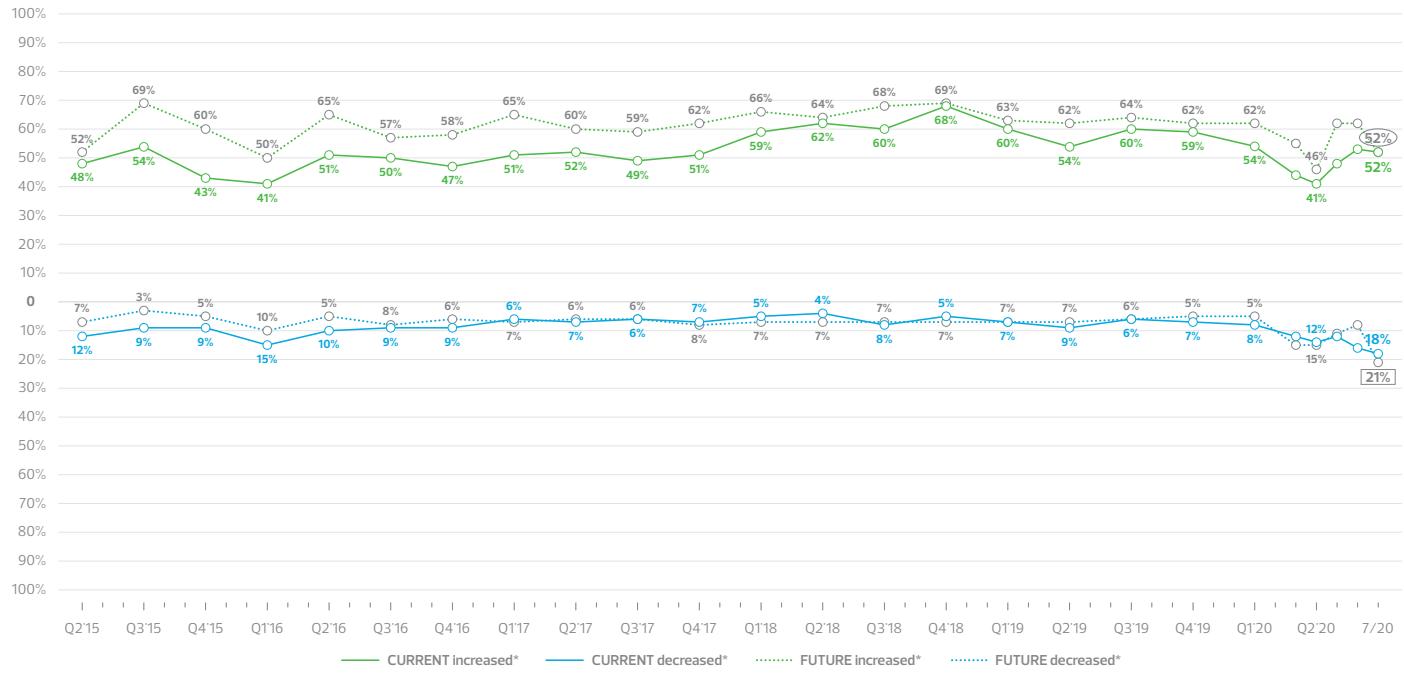
▪ What are your expectations regarding your organization's planned borrowing over the next six months? Would you say your organization's borrowing will...?

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

*seasonally adjusted

AMOUNT PAID FOR GOODS AND SERVICES

Slightly more than half of executives polled said they expect to pay higher prices for goods and services over the next six months, down from 62% who expected higher prices in the June monthly survey.



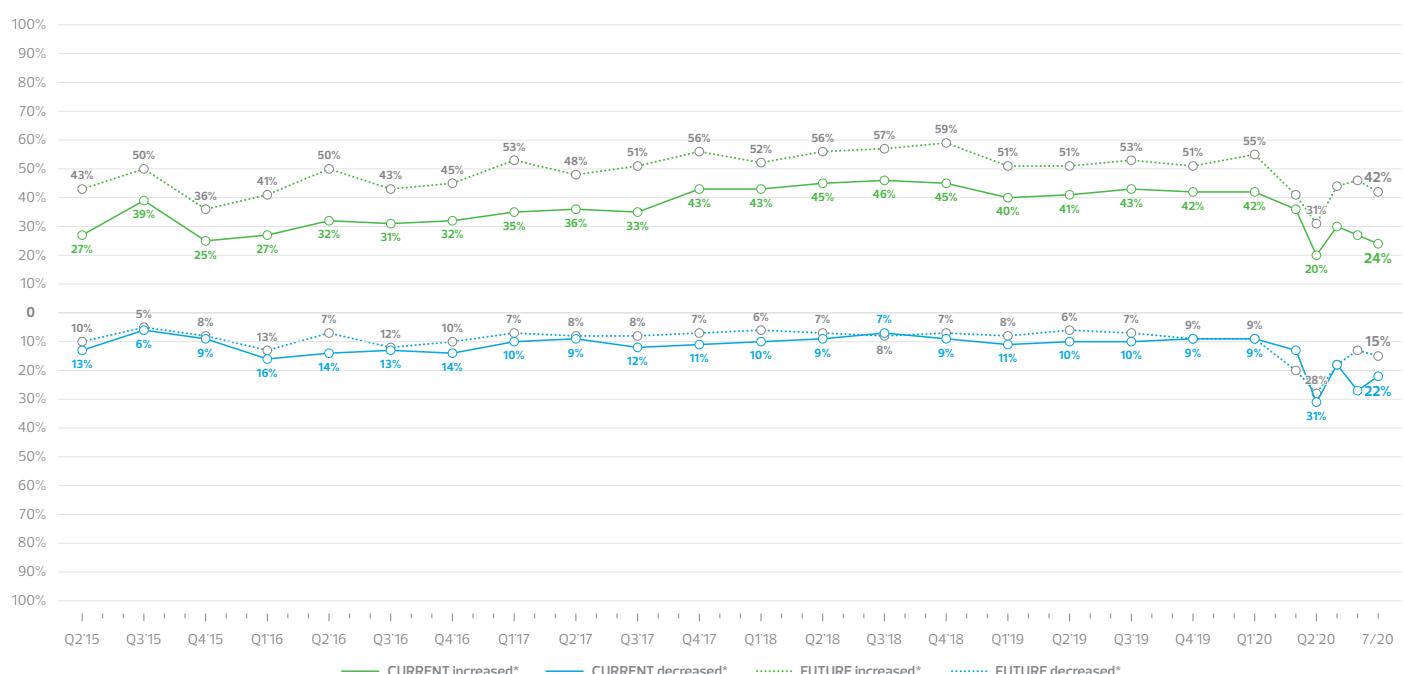
- Thinking about the prices that your organization pays for all goods and services, except labor, this quarter versus last quarter, how would you describe the current general level of prices paid? Would you say prices paid, on average, have...?
- What are your expectations regarding the general level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

*seasonally adjusted

AMOUNT RECEIVED FOR GOOD AND SERVICES

Twenty-four percent of executives polled said their businesses received more for goods and services in the quarter, down from 27% in the June monthly survey.



- 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)...?

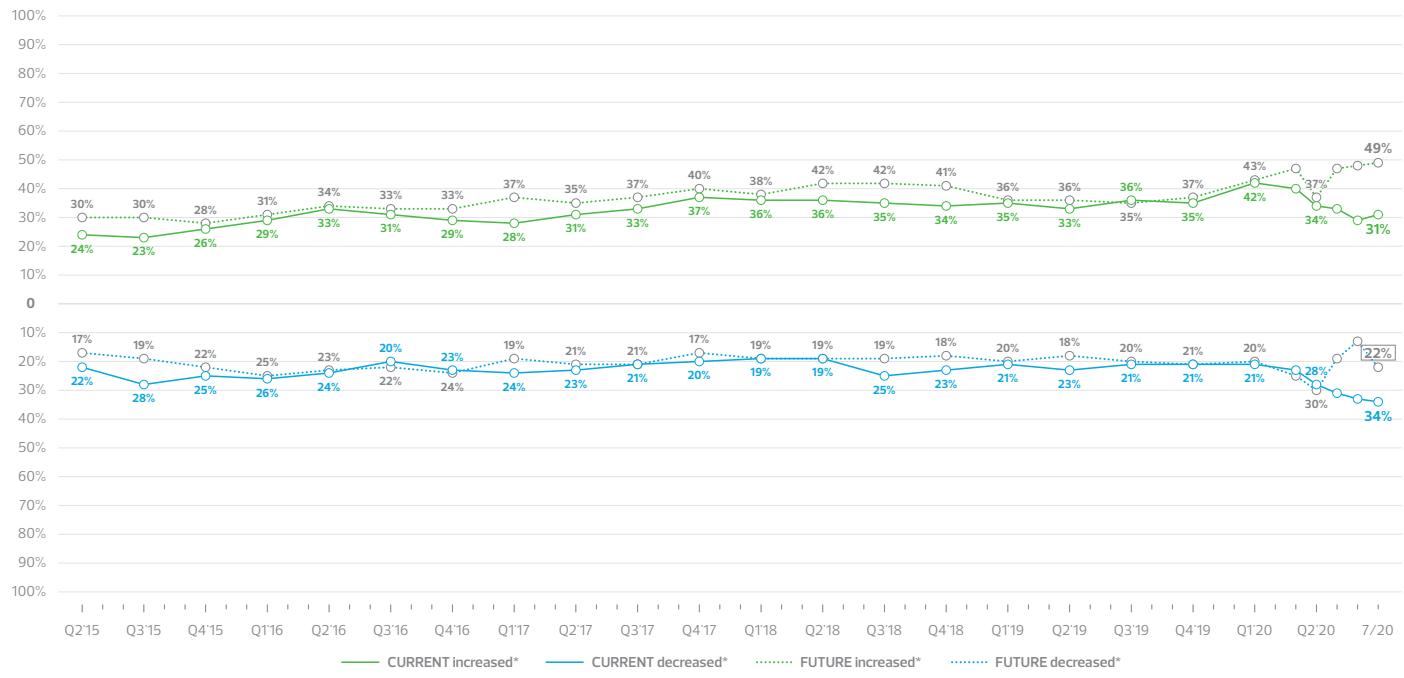
- What are your expectations regarding the general level of prices that your organization will receive for all goods and services over the next six months? Would you say the prices received by your organization, on average, will (among those not nonprofits)...?

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

*seasonally adjusted

INVENTORY LEVELS

Twenty-two percent of executives polled said they expect to reduce inventory over the next six months, up sharply from 13% in the June monthly survey.



▪ 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) ...?

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.

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?

REOPENING MIDDLE MARKET BUSINESSES

Executives consider protections, guidelines, employee readiness and more

EVEN AS CORONAVIRUS cases have surged and forced local economies to pull back, middle market businesses have remained largely optimistic that they will be able to reopen in the next 12 months, according to middle market executives surveyed in the Q3 MMBI. But before they do, businesses are adamant that certain conditions, like employee readiness, a declining coronavirus case count and strong worker health protections, must be met, the executives told RSM.

When middle market executives of multiple locations were asked whether they planned to reopen U.S. work locations within the next 12 months, 51% said they planned to reopen all locations, and 29% said they would reopen most. Only 7% said they planned to open some workforce locations.

Of those businesses with a single location, 45% of executives said they had already reopened or planned to reopen, while 46% said their organization had been deemed essential and never closed.

While there was general agreement on the desire to reopen workplaces, executives had differing views of how consistent their timing would be with state and local guidelines.

Of the executives surveyed with one workplace location who said they were extremely or very familiar with relevant state or local guidelines for reopening a workplace, 35% said they had reopened or would reopen their businesses much sooner or somewhat sooner than state and local guidelines specified. And 53% said their approach was consistent with state and local guidelines. The remaining 12% said they would wait longer.

There was near uniformity when it came to the importance of health considerations. Of those executives who said they planned to reopen a location within the next 12 months, 86% said that it was at least somewhat important that they see a two-week decline in the number of confirmed COVID-19 cases in the workplace location and surrounding areas. Eighty-seven percent said they wanted to see a two-week decline in the number of COVID-19 cases requiring intensive care in the workplace location and surrounding area. And 82% of executives said that ready access to COVID-19 testing was a consideration.

But would workers accept the idea of returning to a location? That, too, was important to executives. Nearly all, or 98%, of the executives surveyed said that employee readiness was a consideration, with 40% saying it was critically important.



And when workers do return, most executives said they would outfit them with proper protections. Nearly two-thirds, or 65%, of middle market executives said that they would provide personal protection equipment to their employees. Though the percentages decreased when it came to offering or expanding structural changes like drive-thru service or curbside pickup.

The executives also were careful to ask their employees for their opinions. More than four-fifths, or 82%, of the executives who plan to reopen workplace locations in the next 12 months said they had conducted formal or informal surveys for returning to their workplaces.

One reason that executives wanted to get workers back on location is to improve their staffs' effectiveness, the survey suggested.

When asked to rate the overall effectiveness of their employees' efforts to work remotely, about two-thirds, or 66%, said their employees were completely or somewhat effective. But that still left 25% of employees who executives felt were somewhat or completely ineffective.

Views on PPP and Main Street Lending Program

Finally, the survey asked executives about their views of the Paycheck Protection Program and the Main Street Lending Program—two government programs aimed at helping small and midsize businesses navigate the pandemic-induced downturn. While executives had embraced the PPP—57% said they had applied for the forgivable loan—a lower percentage, 26% overall, had applied to the Main Street Lending Program, the survey found. ■



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