

THE REAL ECONOMY

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THE MIDDLE MARKET AND THE COSTS OF A DEBT CEILING CRISIS

BY JOSEPH BRUSUELAS

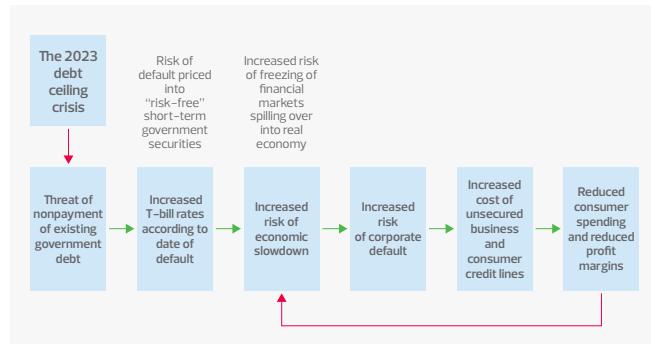
WE ARE IN THE EARLY STAGES of yet another round of policy brinkmanship over the nation's finances.

The risks to the middle market and the broader economy posed by a potential failure to raise the debt limit are bound to disrupt everything from local business financing to international trade, with the potential for long-term damage to growth.

The nation's debt reached its statutory limit on Jan. 19, causing the Treasury to begin taking extraordinary measures to avoid breaching that limit while continuing payments on existing debt. On Jan. 23, for example, the Treasury began [deferring payments to government pension plans](#).

Q: Who pays the cost of a debt ceiling crisis?

A: The business community and consumers.



Source: RSM US LLP

The risks to the middle market and the broader economy posed by a potential failure to raise the debt limit are bound to disrupt everything from local business financing to international trade.

But the costs of this political gambit are starting to show. Money markets have already exhibited signs of distress, with investors shying away from the six-month Treasury bill auction in anticipation of a June drop-dead date for government default.

This could translate into increased costs for lines of credit necessary for businesses to conduct day-to-day operations and an unwillingness to undertake expansion if businesses think it prudent to wait out the crisis.

In the longer run, there is the risk that a constant stream of manufactured crises will have more permanent consequences for U.S. financial markets, the dollar and the economy.

Already [a series of cascading shocks](#) have threatened global financial stability and economic growth, according to the International Monetary Fund.

That the economy has overcome these shocks is a testament to the strength of the global financial system.

But none of this can be taken for granted. Western economies have been able to grow only because of the soundness of the U.S. Treasury market and the dollar, operating within the rules and regulations of Western economies.

The mere threat of an outright default on the debt would send investors the world over into the safety of cash holdings.

MIDDLE MARKET INSIGHT

The costs of this political gambit are starting to show. Money markets have already exhibited signs of distress, with investors shying away from the six-month Treasury bill auction.

This isn't conjecture; investors sold off their holdings and moved into cash three years ago, during the height of the pandemic. That flight to safety also happened in the wake of the financial crisis.

A default on U.S. debt would prompt a similar move to cash and cause a [significant shock](#) to the global financial system, triggering large swings in stock prices, private interest rates and the value of the dollar.

Take, for instance, the diminished transaction demand for dollars, in which proceeds from trade for goods and commodities are parked in Treasury securities.

The decreased demand for those securities would pressure domestic interest rates higher, increasing the cost of credit and reducing domestic demand.

It took a decade to recover from the financial crisis, and that was set off by excessive leverage in the financial system. Another crisis, this one set off by a default on government debt, would reduce the long-term incentive to invest and further weaken the economy's potential growth.

For businesses, declines in consumer confidence and discretionary household spending would lead to a drop in revenue. That would result in the government's self-inflicted wound of reduced tax revenues and increased debt.

In the analysis that follows, we show that even brinkmanship would have a detrimental effect on economic growth, employment and price stability. A default on our debt would be devastating. ■

WHAT WILL HAPPEN IF THE GOVERNMENT DEFAULTS ON ITS DEBT?

BY JOSEPH BRUSUELAS AND TUAN NGUYEN

ANOTHER DEBT CEILING CRISIS is approaching, and it is in no one's best interest.

Policy brinkmanship over lifting the debt ceiling and the threat of default are increasing the cost of doing business and carry far more risk than is commonly acknowledged. At its core, the standoff is an artificial crisis induced by the political authority and will be difficult to contain if it is allowed to spiral out of control.

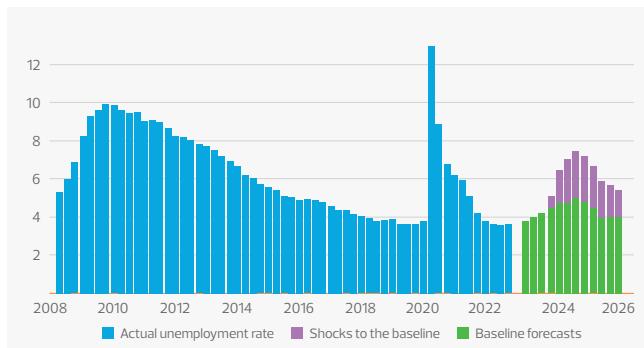
But what happens if a default takes place? To better understand the risks—and they are substantial—we modeled out scenarios to estimate the probable outcomes on employment, growth and inflation.

A technical default

The first scenario is a technical default, which is defined as an extended period of nonpayment of some or all U.S. financial responsibilities. Based on our shock model, a technical default would double the current unemployment rate of 3.4% to near 7%, tip the economy into recession within six months and, following a short bout of disinflation, result in a more persistent bout of inflation accompanied by a deterioration in the fiscal condition of the economy.

A technical default would double the current unemployment rate of 3.4% to near 7%, tip the economy into recession and result in a more persistent bout of inflation.

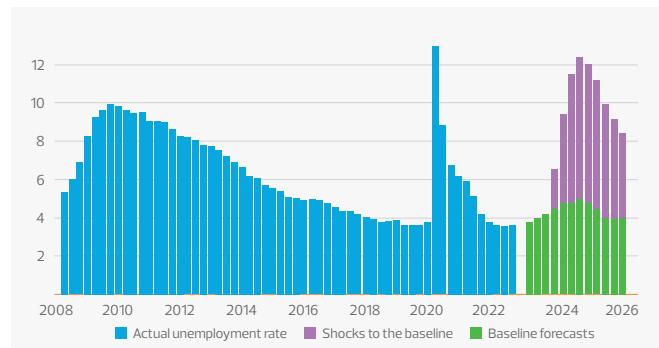
A technical default's impact on unemployment rate*



Source: U.S. Bureau of Economic Analysis; RSM US LLP

*Modeled after 2011 debt crisis on uncertainties (VIX) and credit default swaps

An actual default's impact on unemployment rate*



Source: U.S. Bureau of Economic Analysis; RSM US LLP

*Modeled after 2007–09 financial crisis on uncertainties (VIX) and credit default swaps

An actual default

The second scenario would be an actual default, in which the government, out of money, stops paying its obligations. It would be an unfettered economic catastrophe. Our model indicates that unemployment would surge above 12% in the first six months; the economy would contract by more than 10%, triggering a deep and lasting recession; and inflation would soar toward 11% over the next year.

Under both scenarios, the U.S. credit rating would be downgraded, the dollar would be put in jeopardy, and the cost of floating debt by both the American private sector and government would rise.

In addition, the small and medium-size enterprises that constitute the backbone of the American economy, unable to absorb such a shock, would suffer irreparable harm.

Based on the experience of the 2011 and 2019 debt ceiling standoffs, our base case is that the political authority will tempt fate, courting default and putting domestic and international economic stability at risk, before striking a deal.

But the deal would not accomplish much in the way of addressing the government's long-term spending imbalance. The primary budget deficit—the deficit minus interest owed on past debt, which in our estimation is the correct metric to focus on to achieve fiscal stability—stands at 3.27% of gross domestic product.

Putting the primary budget deficit on a path to a more sustainable rate of 2% over the next decade is something that the political authority could accomplish outside an unnecessary and artificially induced crisis.

In an actual default, unemployment would surge above 12% in the first six months, the economy would contract by more than 10% and inflation would soar toward 11%.

MIDDLE MARKET INSIGHT

Policy brinkmanship over lifting the debt ceiling and the threat of default are increasing the cost of doing business and carry far more risk than is commonly acknowledged.

Lessons learned

To better understand the risks, we simulated what a debt ceiling crisis would look like using two scenarios: the 2011 debt ceiling crisis and the 2007–09 financial crisis.

The 2011 debt ceiling crisis pushed down asset prices, reduced household spending and private business investment, and eroded consumer and corporate confidence. Even though the 2011 debt crisis was more benign than the financial crisis, a modest technical default along those lines that drags on for a few weeks would still damage the U.S. economy.

The financial crisis, by contrast, serves as a better comparison if there is a full-scale default. The impact of such a default would be transmitted through the economy through the financial markets and would affect the real economy following a short lag. The results would be catastrophic.

Debt ceiling shock model

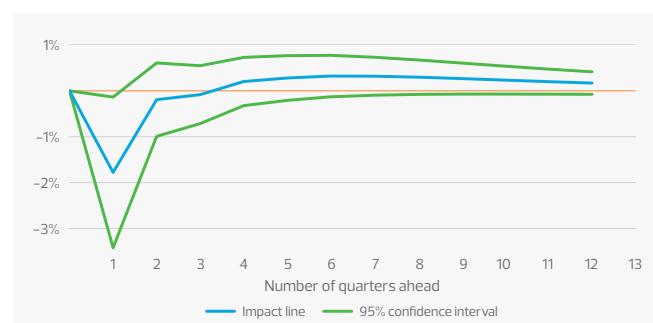
We used the Chicago Board Options Exchange volatility index, or the VIX, as a proxy for financial and economic risk and uncertainties and the one-year credit default swap rate as a proxy for credit risks.

Both serve as leading indicators in determining the full impact on growth, inflation and unemployment. A vector autoregression model captures the relationship among multiple factors over a period of time.

Our choice of proxies was motivated by the anticipation that the financial markets would be the initial channel through which the economy would be subject to stress. Our findings indicate that the selected proxies have strong correlations, with a 95% confidence level.

For instance, an increase of one standard deviation in the VIX would result in a decline of approximately 1.7 percentage points in gross domestic product on an annualized basis during the subsequent quarter. This decline would persist over the following two quarters before turning positive.

Impact of a one-time VIX shock on GDP growth*



Source: RSM US LLP

*Blue line represents the percentage point changes in GDP growth in multiple quarters ahead if the VIX increases by one standard deviation

The 2011 debt ceiling crisis pushed down asset prices, reduced household spending and private business investment, and eroded consumer and corporate confidence.

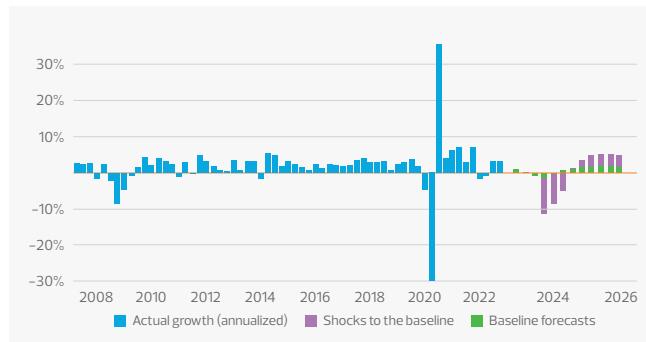
It will be some time—we think between July and September—before the U.S. government reaches a date that risks default. It is reasonable to assess the economic impacts from the last quarter of 2023 to the end of 2025.

At the depth of the financial crisis, market uncertainties stayed extremely elevated for nearly nine months—with the VIX at an average of three standard deviations above neutral. On top of that, the one-year rates on credit default swaps rose more than 40 basis points in six months.

If the same market movements took place this time because of a government credit default, the consequences would most likely be worse.

This underscores our analysis that the current crisis is already subjecting the economy to financial stress that is increasing the cost of doing business.

An actual default's impact on GDP growth*



MIDDLE MARKET INSIGHT

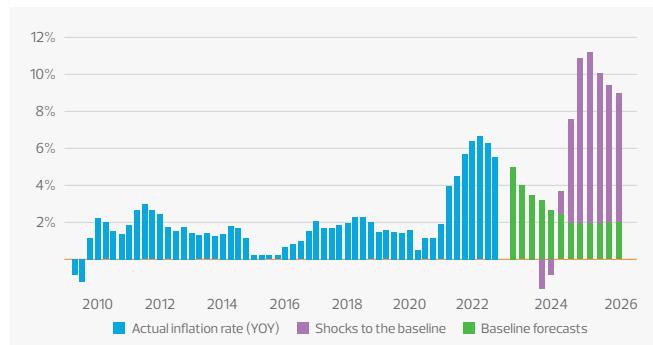
In an actual default, small and medium-size enterprises, unable to absorb such a shock, would suffer irreparable harm.

The economy would immediately sink into a deep recession in the following quarter, with a decline in gross domestic product exceeding 10%. The recession would last into next year before an economic rebound in 2025.

In that scenario, total GDP loss would approach \$700 billion while 11 million jobs would be lost.

The key difference between the current situation and the financial crisis is that the economy is on a trajectory to experience a mild recession during the second half of this year, while inflation remains at a multidecade high. The policy tool set to fix a deep recession today is therefore limited, and the probability of self-induced deep recession would increase substantially.

An actual default's impact on PCE inflation rate*



We believe there is a less than 10% chance of a full-scale payment default. A more likely scenario is a situation like 2011 when the talks go down to the wire.

MIDDLE MARKET INSIGHT

It will be some time—we think between July and September—before the U.S. government reaches a date that risks default.

As uncertainties and credit default swap rates rose, the first-order effect on pricing would be a sharp fall in the overall inflation rate. The model, however, assumes that both monetary and fiscal authorities would swiftly reduce the federal funds rate and increase fiscal support. This time around, though, reducing the federal funds rate may not prove sufficient to bring down long-term interest rates.

While both the monetary and fiscal actions would eventually lift the economy out of a recession, the inflation costs would be immense. Built upon the current level of sticky inflation, inflation could reach above 10% as the economy bounces back from the aftermath of the deep recession.

Still, we believe there is a less than 10% chance of a full-scale payment default. A more likely scenario, while undesirable, is a situation like 2011, when the negotiation over the debt limit went down to the wire.

If that happens, the GDP costs would be up to \$200 billion, and 4 million jobs would be lost.

In both scenarios, we do not assume a lasting default on U.S. government debt, which would be much more devastating.

It is important to bear in mind that the two scenarios we have modeled, a technical default versus a full-scale default, are based on historical events and are intended to provide benchmarks for evaluating the potential consequences of a default.

But no two crises are identical. With the current state of the economy, in which inflation is constraining both fiscal and monetary policy, we anticipate that our estimates of GDP declines, the number of lost jobs and the unemployment rate could be subject to upside risks.

The takeaway

The debt ceiling standoff is already raising the cost of doing business through an increase in the cost of issuing debt by both public and private actors.

While our baseline forecast indicates that a true catastrophe will be averted at the last minute, the idea of a relatively benign outcome similar to the 2011 crisis would appear to be somewhat of a rosy scenario given current conditions.

If the policy brinkmanship fails to produce a compromise, there would be a significant impact on overall output, inflation and employment.

Small and medium-size enterprises that do not have the resources to survive such a crisis are especially prone to insolvency risks under such conditions. In the end, households would bear the burden of a failure on the part of the American political authority. ■

FREQUENTLY ASKED QUESTIONS

BY JOSEPH BRUSUELAS

AS MIDDLE MARKET BUSINESSES weigh the costs of the standoff over raising the nation's debt ceiling, we offer some answers to frequently asked questions about how the dispute may play out.

What is the debt ceiling?

The debt ceiling sets a limit on how much debt the U.S. government can incur. It dates to 1917, during World War I, and was refined during the 1930s—two periods of elevated federal government expenditures.

When will the government enter default?

In January, the U.S. government exceeded the \$31.4 trillion debt limit set by Congress, kicking off a series of moves by the Treasury to fulfill the government's obligations.

At some point, though, the Treasury will exhaust what it can do, and, without a debt limit increase, the government will enter default. When that happens depends on the flow of revenues into the U.S. Treasury.

The Congressional Budget Office [said in February](#) that the date of an actual default would fall sometime between July and September.

What are extraordinary measures?

The Treasury has two effective means to stave off default: cash on hand in its Federal Reserve account, which was approximately \$455 billion near the end of January, and financial maneuvers known as extraordinary measures. About 24% of total debt is in nonmarketable securities, mostly consisting of the so-called government account series for federal pensions and other agency holdings.

Seventy percent, or \$16.7 trillion, of U.S. marketable debt is held domestically; of that, \$11.2 trillion, or 47%, is held by the public and \$5.5 trillion, or 23%, is held by the Fed.

MIDDLE MARKET INSIGHT

The Treasury has two effective means to stave off default: cash on hand in its Federal Reserve account, and financial maneuvers known as extraordinary measures.

The Treasury temporarily withholds payments into these funds to postpone the so-called X-date when default on marketable securities begins.

Who owns U.S. debt?

Seventy percent, or \$16.7 trillion, of U.S. marketable debt is held domestically; of that, \$11.2 trillion, or 47%, is held by the public and \$5.5 trillion, or 23%, is held by the Federal Reserve.

The overwhelming majority of Fed holdings is part of the quantitative easing program put in place in the financial crisis and then resurrected in response to the pandemic.

What about foreign holders?

Japan has long been a major holder of U.S. debt and has the largest share (15%) of U.S. debt held by foreigners.

Japan's interest in U.S. securities is a function of U.S.-Japanese trade and investment relationships as well as Japan's perennially low interest rates compared to the return on U.S. investments.

China, with 13% of total foreign holdings, and the United Kingdom, with 9%, are second and third, also likely byproducts of trade as well as London's role as a financial center. These are followed by smaller nations, many of which are financial centers.

What are the ways to resolve this?

One challenge to the current round of policy brinkmanship is the lack of viable options to defuse the standoff. The following is a quick synopsis of options that could avert a crisis:

- **Discharge petition:** One potential solution would be through Congress, where a simple majority, without support of leadership, brings a bill for lifting the debt ceiling to a vote on the floor. It is unclear whether GOP members, who hold the majority in the House, are willing to defy party leadership to use that procedure. In addition, such an action can be quite time-consuming and would be unsuitable as a last-minute solution.
- **Prioritization:** Various plans are circulating that would prioritize Treasury payments to avoid a default. Both parties have studied such an approach, which would involve picking winners and losers during an extended standoff. The idea that the U.S. government would choose to pay foreign holders of debt or large financial firms—the five largest private sector holders of public debt own about 5% of total debt worth \$1.2 trillion, according to Bloomberg—over Social Security, Medicare and Medicaid recipients strikes us as fanciful at best.
- **Platinum coin:** One of the odd talking points around the debt ceiling debate involves the Treasury minting a trillion-dollar coin and depositing it into its account at the Federal Reserve. Because of a quirk in the law, the face value of coins minted by the Treasury is not limited. We doubt this would survive legal much less political scrutiny, and it is a general nonstarter as a viable solution.
- **Fourteenth Amendment:** The "validity of the public debt of the United States ... shall not be questioned" is part of the 14th Amendment to the Constitution. One interpretation of this is that nonpayment of public debt is not constitutional. Since this has little jurisprudence around it and the prevailing legal interpretation is divided, we do not expect much political capital to be used on this option in the run-up to the more intense phase of this crisis through midyear. ■



U.S. INVENTORIES GROWING AT TWICE THE RATE OF SALES

BY JOSEPH BRUSUELAS, MIKE GRAZIANO AND TUAN NGUYEN

WITH DEMAND REMAINING STRONG, middle market firms have been increasing their inventories during the current quarter, with just under a majority expecting to do so over the next six months, according to the RSM US Middle Market Business Index.

Inventories are now growing at twice the rate of sales on a composite basis inside the manufacturing and trade ecosystems, according to composite data from the U.S. Census Bureau.

The surge in inventories raises the risk that firms will be caught with excess supplies just as demand begins to slow down this year.

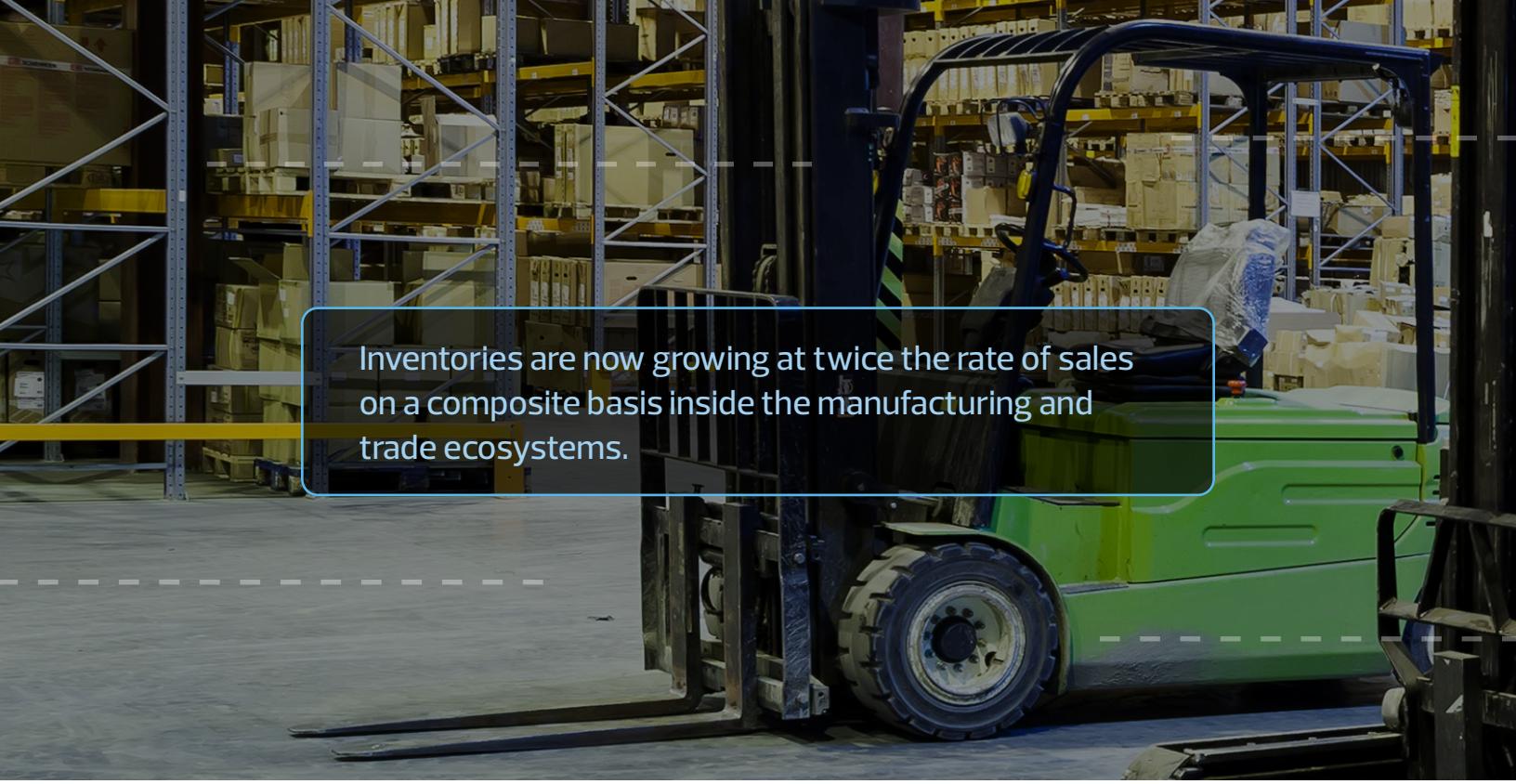
In the past, abnormal increases in inventories have led to dampened economic growth as manufacturing and trade firms drew down their supplies.

Given the general uncertainty over economic activity and the ability of U.S. households to sustain the recent strong pace of spending, the growth of inventories highlights risks to middle market firms.

Inventory-sales ratio of manufacturers, retailers and wholesalers



Source: U.S. Census Bureau; Bloomberg; RSM US LLP



Inventories are now growing at twice the rate of sales on a composite basis inside the manufacturing and trade ecosystems.

MIDDLE MARKET INSIGHT

The strong buildup of inventory in the second half of last year accounted for most of the rebound in our RSM US Supply Chain Index, which has normalized to the pre-pandemic level.

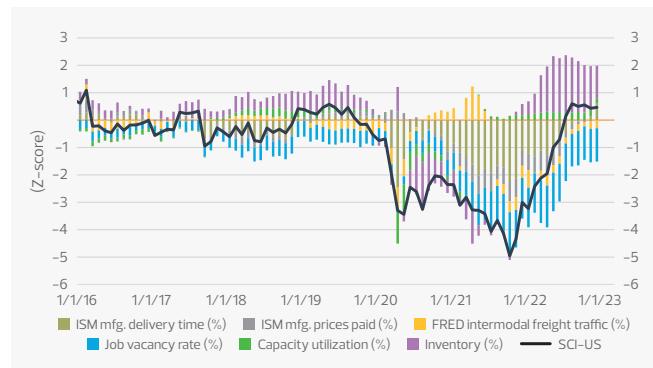
The inventory accumulation seen in the most recent MMBI survey of senior executives at middle market firms, taken from Jan. 9 to Jan. 30, seems a logical response to shortages in sectors hard hit by the supply chain crisis and the inflation that followed.

It should be noted that the growth of both inventories and sales has been decelerating in what turned out to be a disappointing holiday shopping season and a downturn in manufacturing activity.

Still, both inventory and sales growth remain substantially higher than at any other period since 1992. Inventories grew at a 12.7% rate compared to December 2021 and sales grew at a 6.4% yearly rate.

In fact, the strong buildup of inventory in the second half of last year accounted for most of the rebound in our RSM US Supply Chain Index, which has normalized to the pre-pandemic level.

RSM US Supply Chain Index*

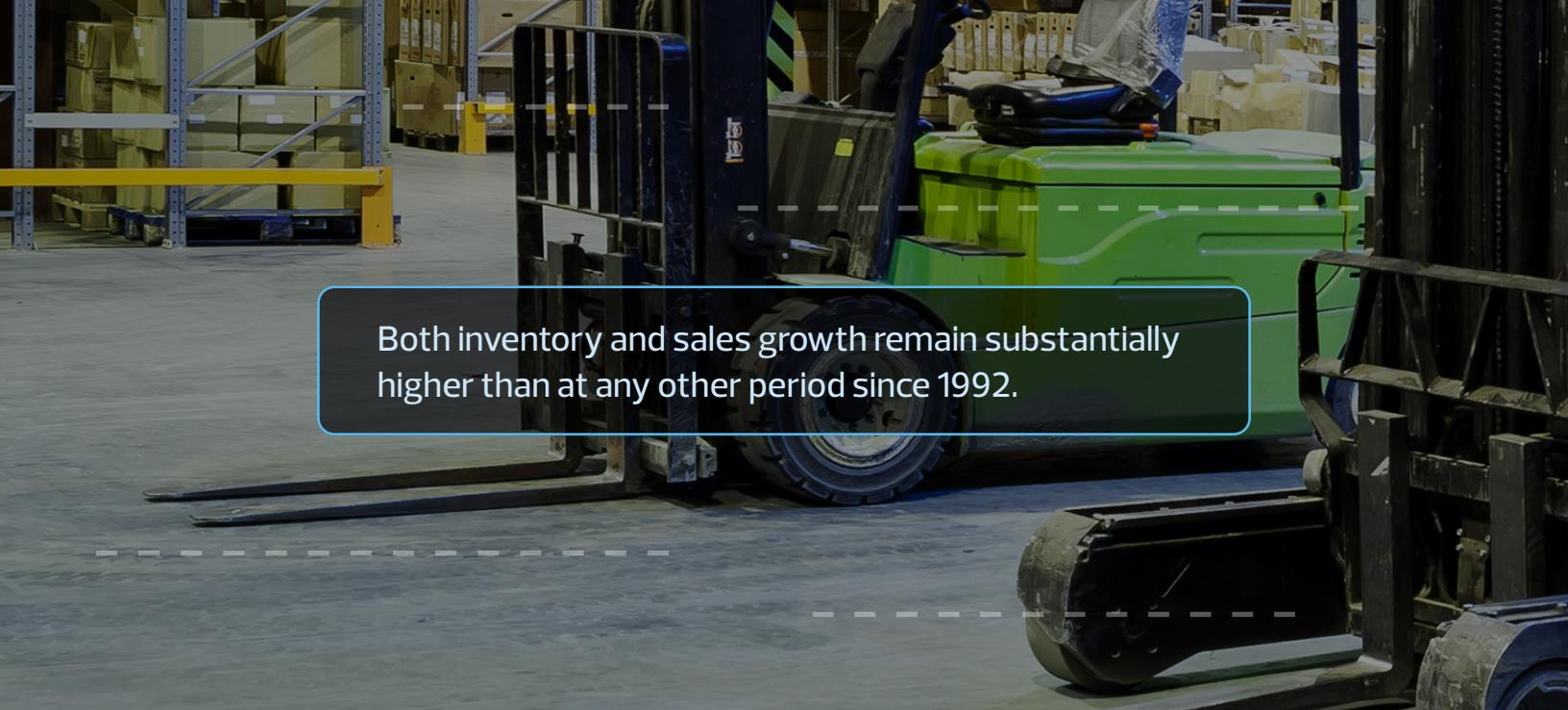


Source: Bloomberg; RSM US LLP

*Monthly component contribution

In addition, some of the rapid growth last year was the result of base effects in the data, or comparisons to the low levels of 2021. Because supply chain issues continued last year, these issues will most likely play a part in the rate of growth this year.

On top of that, as the inflation and job components of the supply chain index most likely remain underwater for the foreseeable future, a potential swing in inventory to the downside because of excess supplies and slowing demand could cause the U.S. supply chain to contract again.



Both inventory and sales growth remain substantially higher than at any other period since 1992.

A breakdown of inventory growth by industry gives a clearer picture of the state of the supply chain.

Most important, as business cycles approach their end, large firms sometimes engage in what is known as channel stuffing, which tends to end up harming small and medium-size firms.

Channel stuffing is an attempt to inflate bottom lines by filling distribution channels through excess inventories to meet quarterly sales targets well ahead of actual demand.

While we have yet to observe blatant channel stuffing in the current cycle, it is worth flagging given the general uncertainty over demand.

Inventory–sales ratio overview

Another way to look at inventory accumulation is to standardize each industry by the ratio of inventories to sales.

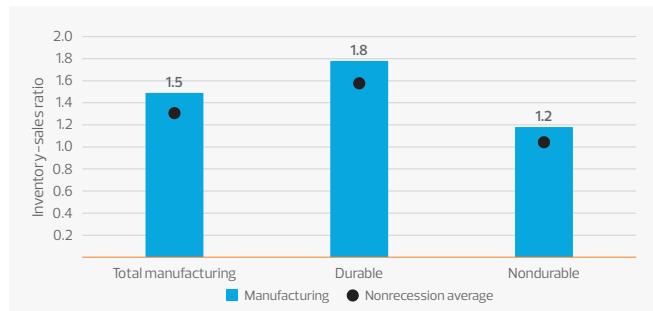
Over time, manufacturing and trade firms would be expected to optimize their levels of inventory to meet the demand of their customers.

As we show, inventory–sales ratios declined on trend from 1992 to 2007 as the global supply chain increased efficiency, making just-in-time production and inventory minimization possible.

And during economic downturns, sales would be expected to fall while some basic level of inventories was maintained.

This would tend to push inventory–sales ratios sky-high during recessions and keep them higher than normal during periods of reduced demand, as happened following the financial crisis.

Manufacturing inventory–sales ratios are above average



Source: U.S. Census Bureau; Bloomberg; RSM US LLP

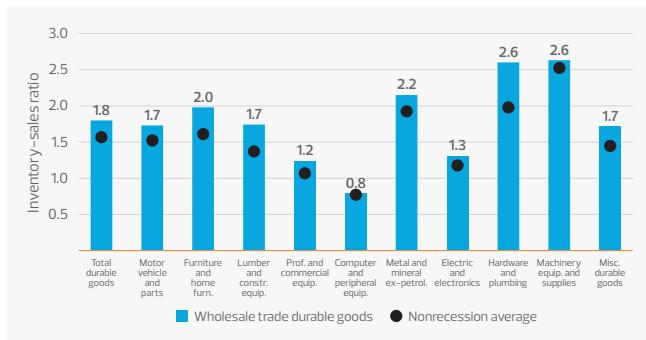
Manufacturers

Durable goods manufacturers have historically carried higher inventories compared to sales, operating with an average inventory–sales ratio of 1.6 in nonrecessionary periods. Now they are operating with an inventory–sales ratio of 1.8, which is significantly higher.

Manufacturers of nondurable goods that normally operate with an inventory–sales ratio of 1.0 are carrying an inventory–sales ratio of 1.2, which is also substantially higher than normal.

As business cycles approach their end, large firms sometimes engage in what is known as channel stuffing, which tends to end up harming small and medium-size firms.

Wholesale durable goods inventory–sales ratios



Source: U.S. Census Bureau; Bloomberg; RSM US LLP

Wholesalers of durable goods

The inventory–sales ratios for wholesalers of durable goods are above average for all products and significantly so for all but computer and machinery wholesalers.

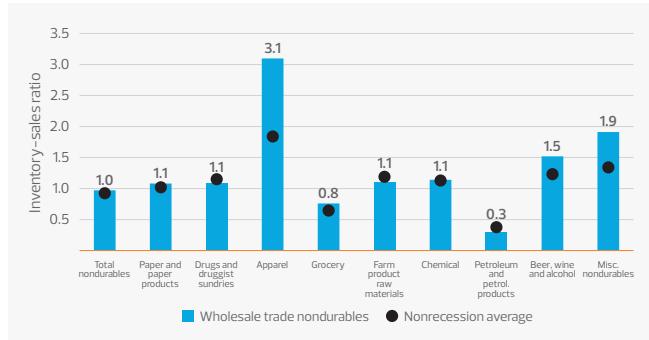
The increase in durable wholesale inventory–sales ratios accelerated last year, which suggests both the recovery of the supply chain and a decrease in manufacturing activity.

Wholesalers of nondurable goods

The status of inventory–sales ratios for wholesalers of nondurable goods is mixed. The ratios for drugs and farm products are only slightly below normal. The ratio for petroleum and petroleum products has been in a long–term downtrend that continued into last year.

At the other end of the spectrum, the inventory–sales ratio for apparel wholesalers approached its all-time low in June 2021 and has since soared to a record high.

Wholesale nondurable goods inventory–sales ratios



Source: U.S. Census Bureau; Bloomberg; RSM US LLP

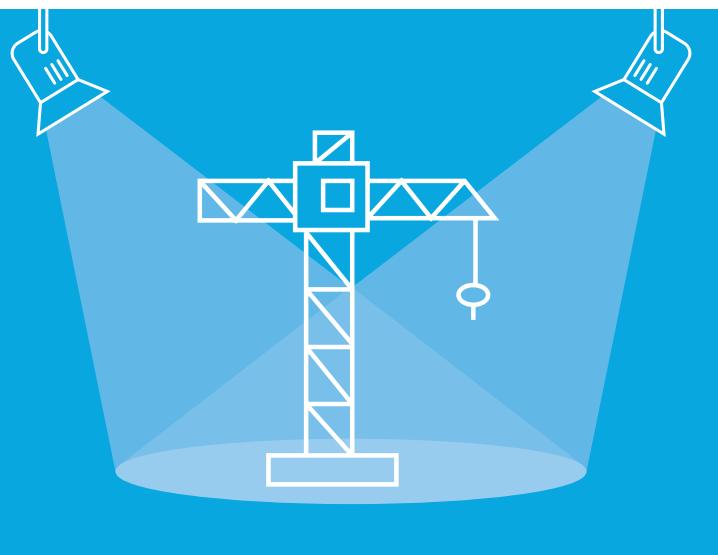
We suspect this has something to do with the downstream inventories of apparel retailers and this year's dismal holiday shopping season.

Retailers

Anyone who bought a new dishwasher or car over the past two years knows how difficult it has been to get exactly what you wanted when you needed it.

Even now, the inventory–sales ratios for motor vehicle retailers are significantly below normal. The lack of inventory for car dealers and household appliance dealers can be attributed to the shortage of computer chips, which is likely to persist for some time.

It's a different story among retailers of furniture, food and beverage, and general merchandise, whose inventory–sales ratios remain slightly lower than usual, but appear to be getting back to normal. ■



GENERATIVE AI: DISRUPTIVE OR FLAWED INNOVATION FOR REAL ESTATE?

BY MATT RICCIO AND CHRIS WETMORE

IT'S HARD TO IMAGINE that ChatGPT, the artificial intelligence technology, was introduced only weeks ago. Users have wasted little time testing the limits of the technology.

While several AI-powered text generators exist, ChatGPT is perhaps the best known. The technology was launched in November 2022 by San Francisco-based OpenAI. ChatGPT builds on generative pre-trained transformer architecture, which uses unsupervised machine learning to find patterns in a data set without being given labeled examples or explicit instructions.

The training process of generative AI involves powerful algorithms and advanced computer hardware, allowing the chatbot model to learn from vast amounts of data ingested from the internet, with the objective of generating informative communication.

Generative AI has a wide range of applications that will revolutionize the real estate industry. Already, AI-powered solutions are helping transform real estate organizations by:

- **Streamlining workflows:** Real estate organizations analyze large amounts of data, such as property listings, contracts and client information. Generative AI can help automate many of these manual processes and eliminate repetitive responsibilities, freeing up time for real estate professionals to focus on more important tasks.
- **Improving decision-making:** Real estate organizations can leverage AI to make data-driven decisions. AI algorithms can be trained on large amounts of real estate data to identify patterns and trends that can be used to inform investment decisions.
- **Enhancing customer experience:** Generative AI can help real estate organizations provide a better experience for their clients. For example, AI-powered chatbots can be used to provide quick and personalized responses to client inquiries.
- **Reducing risks:** Real estate transactions often involve large sums of money, making it important to minimize risks. Generative AI can help real estate organizations identify potential risks, such as fraud or technology gaps, early on.



MIDDLE MARKET INSIGHT

Generative AI can help real estate organizations identify potential risks, such as fraud or technology gaps, early on.

Limitations emerge

As the use of generative AI spreads globally, so does widespread criticism of its potentially serious flaws. The technology is trained to absorb and learn from multiple sources, including unverified, unsourced and secondhand data, which creates a material risk of disinformation that may be incomplete, biased or wrong. Additionally, generative AI systems might not pick up on controversial or unethical nuances, and therefore could exacerbate the spread of misinformation and, in extreme cases, serve as potential weapons for deceit.

Regardless, the popularity of generative AI continues to grow. Intense demand for the technology has resulted in server bottlenecks that have affected user access during high-volume periods, which will hopefully be alleviated with the launch of subscription models.

A competitive market

Despite the risks, technology giants are betting heavily on generative AI. Microsoft deepened its relationship with OpenAI in January, with a multiyear investment valued at \$10 billion that gave it a share of OpenAI's future profits in exchange for the computing power of Microsoft's Azure cloud network. In addition, Microsoft is integrating the technology into its Bing search engine.

OpenAI will have competitors, with Google as well as the Chinese search engine firm Baidu each preparing their own AI tool.

Generative AI is rapidly becoming a reality. According to Bloomberg Business, the AI market is projected to reach \$422.37 billion by 2028. Most large technology companies have already boosted capital spending on generative AI through the incorporation of large language models into their cloud infrastructure. LLMs are used in systems such as generative AI and machine learning.

The takeaway

Generative AI further expands the AI landscape that includes predictive analytics, computer vision and machine learning. Swiftly moving toward the point of singularity, technology is transforming our reality as we know it—and while there is room for improvement and a need for oversight, we expect to see increased adoption across every sector of real estate as a key driver of the industry's digital transformation. ■

THE MIDDLE MARKET CONTINUES TO EXPAND

A RESILIENT American economic expansion is continuing in the middle market as firms navigate economic headwinds and crosscurrents, according to a recent survey of executives from RSM US LLP.

Easing inflation and solid household consumption underscored the 9.4-point increase in the RSM US Middle Market Business Index, which boosted the top-line figure to 134.0 in the first quarter from 124.6 during the final three months of last year.

Business is improving in the middle market ...

53%

of respondents reported an increase in gross revenues, up from 42% in the final quarter of last year.

49%

of participants reported an increase in net earnings.

... and prospects remain strong ...

57%

expect an increase in both gross revenues and net earnings through the middle of the year.

... while the view of the overall economy is positive.

47%

said that the economy had improved, up from only 28%.

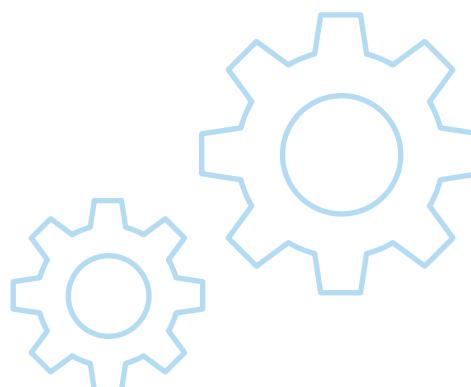
41%

expect it to improve over the next six months.

The survey was conducted from Jan. 9 to Jan. 30 and reflects the views of 406 senior executives at middle market firms across industries.

If one would have asked a year ago if the American real economy would be able to absorb the twin shocks of surging inflation and rising interest rates, the answer would have almost certainly been no.

Among the other findings in the survey:



THE MIDDLE MARKET EMBRACES REMOTE WORK

The pandemic has brought profound change to the American economy, and now, three years since the start, the lasting effects are starting to become clear. One of these changes is the shift to remote work, including among middle market businesses. RSM asked senior executives at middle market firms for their views on this transformation, and their answers offered new insight into the changing American workplace.



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