

RSM US MIDDLE MARKET

BUSINESS INDEX

IN PARTNERSHIP WITH THE
U.S. CHAMBER OF COMMERCE

Q1 2020



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.



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MMBI DATA SHOWS 14**

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.

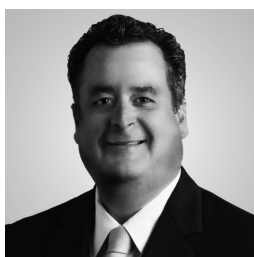


U.S. CHAMBER OF COMMERCE



ON A SEASONALLY ADJUSTED BASIS, THE RSM US MIDDLE MARKET BUSINESS INDEX ROSE TO 132.0 FROM 127.3 IN THE PRIOR PERIOD

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*.

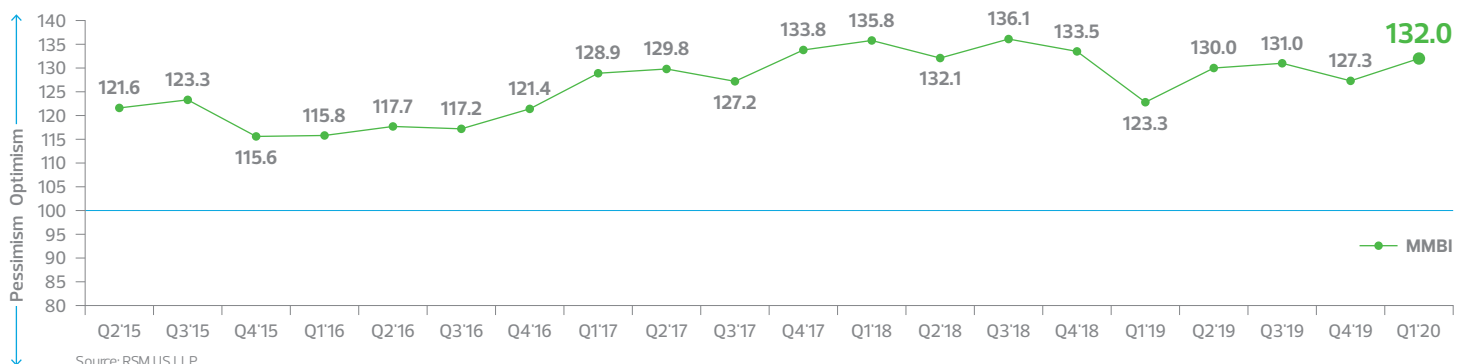
This publication represents the views of the author(s), and does not necessarily represent the views of RSM.
This publication does not constitute professional advice.

“The first-quarter results of the middle market business index show the fundamentals of the American economy are strong. That strength will help the U.S. economy weather the months ahead as we assess next steps to combat COVID-19 and its impact on businesses, our communities and the economy.”

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

On a seasonally adjusted basis, middle market economic sentiment strongly improved in the first quarter, boosted by improvement in gross revenues and net earnings; however, our data was aggregated prior to the economic impact of the coronavirus.

RSM US Middle Market Business Index (seasonally adjusted)



GROSS REVENUES AND NET EARNINGS LIFT MMBI, BUT CORONAVIRUS CONCERN DAMPS OUTLOOK

BY JOSEPH BRUSUELAS, CHIEF ECONOMIST, RSM US LLP

MIDDLE MARKET ECONOMIC sentiment strongly improved in the first quarter, boosted by improvement in gross revenues and net earnings. Responses to the RSM US Middle Market Business Index survey, however, were aggregated before the economic impact of the coronavirus, also known as COVID-19, which spread beyond China early this year to become a global health risk, and remains a threat to worldwide economic growth for 2020. Strong business fundamentals underlying the first quarter report should help middle market businesses weather the uncertainty around the pandemic.

The outbreak has roiled the trade channel and supply chains, curtailed travel and quarantined workers in many countries. Uncertainty surrounding the impact led to significant market losses and higher bond yields in late February and early March, prompting the Federal Reserve and other central banks around the world to cut lending rates in moves to mitigate financial impact.

To increase our ability to track the impact of COVID-19 on the real economy, we will be measuring and reporting the MMBI on a monthly basis for the next several months.

Our expectation for first quarter U.S. gross domestic product growth now stands at 1.0%, after shaving off 0.2% to 0.3% due to the virus and the lagged impact of Boeing's production shutdown of its 737-Max aircraft. We expect the economic impact of the virus to extend beyond the first quarter of 2020, with the most significant effect in the second quarter, as consumers pull back on big-ticket purchases, including large appliances and automobiles.

On a seasonally adjusted basis, the RSM US Middle Market Business Index rose to 132.0 in the first quarter, from 127.3 in the prior period. The breakout in confidence appears linked to improvement in gross revenues and net earnings, which stoked robust expectations of growth in those metrics.

The 4.7 point increase in the first quarter index reading is statistically significant at a level of 0.05. The MMBI's improvement also tracks with other surveys of consumer sentiment and CEO confidence at the start of the year.

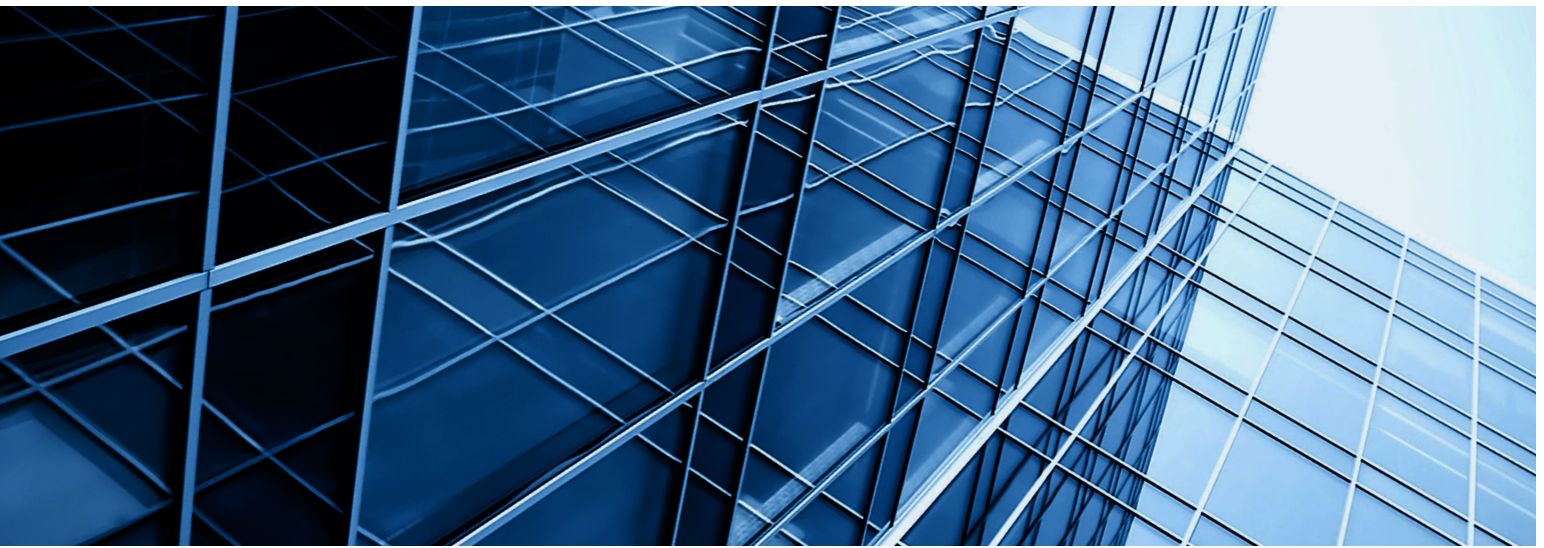
As virus concerns proliferate headlines, forward-looking executives, investors and policymakers should look past what we expect will be limited to a transitory slide in growth that will most surely define the first six months of this year. MMBI survey responses around current and future earnings and revenues, and the overall economy, imply a solid baseline for growth to resume later in the year, assuming governments can, as expected, contain the coronavirus's spread. Already the United States has passed temporary funding efforts to aid businesses affected by the outbreak. In the fourth quarter, we expect U.S. growth to return to 1.9%, on trend with our prior outlook.

Sectors most at risk

Transportation, leisure and hospitality sectors have already suffered significant losses, largely due to consumer aversion. Telecommunications, computers, pharmaceuticals, apparel, consumer products and electronics constitute the sectors most likely to be affected by a lack of goods used at earlier stages of production, as well as intermediate goods (both imports and exports).

NEW: Seasonally adjusted numbers

The first-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.



Despite the near-term virus considerations for businesses, forward-looking middle market survey responses remain encouraging. While MMBI survey data strongly implies that companies are not as upbeat on the economy as they were earlier in the expansion, a higher share of executives describe conditions as positive and expect the economy to improve, compared to the prior quarter. At the time of the survey, 40% of middle market leaders indicated the economy improved and 42% said they expected it to improve over the next six months.

Strong middle market fundamentals, low investment

Without a doubt, the strongest responses in the survey reside with data around gross revenues and net earnings. Sixty-one percent of respondents indicated an improvement in gross revenues; 52% reported a boost in net earnings. Perhaps more impressive was outlook around both measures, with 61% of participants expecting improvement in gross revenues, and 60% anticipating an increase in net earnings. The outlook on these measures is somewhat remarkable, given the duration of the business cycle and risks around the broader economy.

Responses around labor issues were somewhat more muted, with hiring mostly flat during the quarter and just 48% indicating a willingness to increase hiring over the next 180 days. Roughly half of executives polled stated an inclination to increase compensation to attract labor, while a robust 57% expressed an intent to do so going forward. It appears that difficulty finding and training suitable workers, as well as costs associated with retraining existing workers for changing roles, is taking a toll on medium-size firms.

As has been the case over the past number of years, capital expenditures still look weak, with no change in respondents' take on current investment. In fact,

commentary captured in the survey reveals that firms are beginning to exhibit concerns about capital expenditures related specifically to labor and outlays in general.

However, the higher share of respondents reporting they plan to invest more is consistent with more positive results on capital spending-related questions in a recent Federal Reserve regional survey. A soft 45% of MMBI respondents indicated they expanded productivity-enhancing investment, which reflects what we observed in early-quarter data. Meanwhile, 51% indicated they plan to do so going forward.

Importantly, hard data related to business investment has yet to pick up, and there are two issues not yet showing up that will temporarily restrain growth in the first quarter: the Boeing production halt and the impact of the coronavirus. Global economic damage continues to mount.

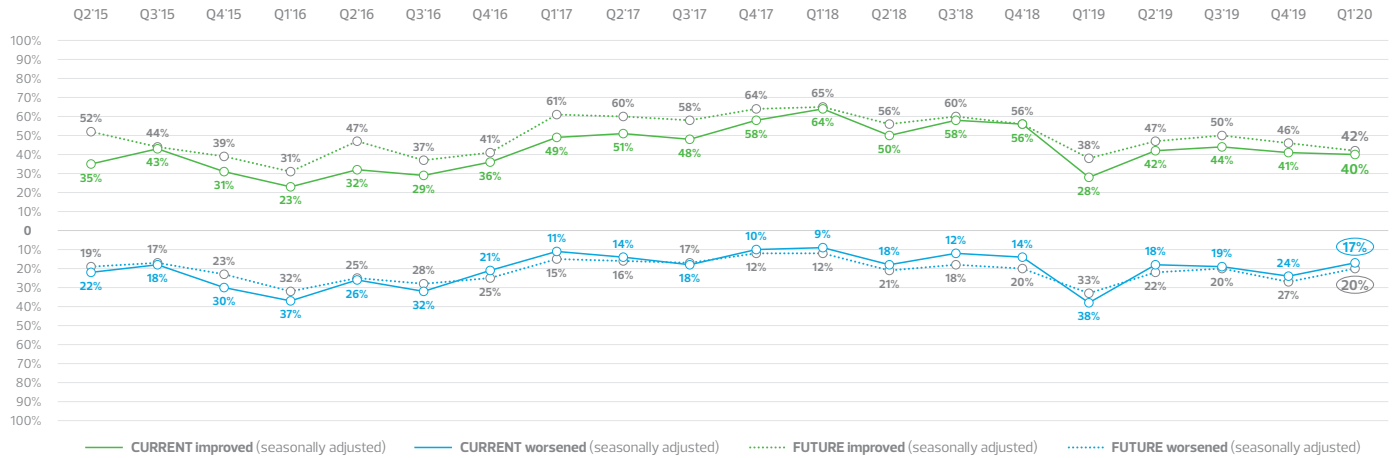
A notable uptick in planned borrowing stood out, and is likely related to the combination of still-low interest rates and healthy risk appetite.

It is also important to note that there was a sharp drop in imports in the fourth quarter of 2019, and a likely related sharp cooling in inventory accumulation. Imports picked up somewhat in December, and they will likely bounce back in the second half of 2020. Inventories could firm, especially considering that the now-concluded UAW strike depressed auto inventories late last year. While the shutdown of 737 MAX production should be a meaningful drag on inventories early this year, MMBI survey responses on inventories point to faster accumulation over the next quarter, consistent with the signal from the hard data. This may form the base of a rebound in views on the economy in the second half of the year. ■



GENERAL ECONOMY PERFORMANCE

Forty percent of middle market executives believe the general economy improved in the current quarter.



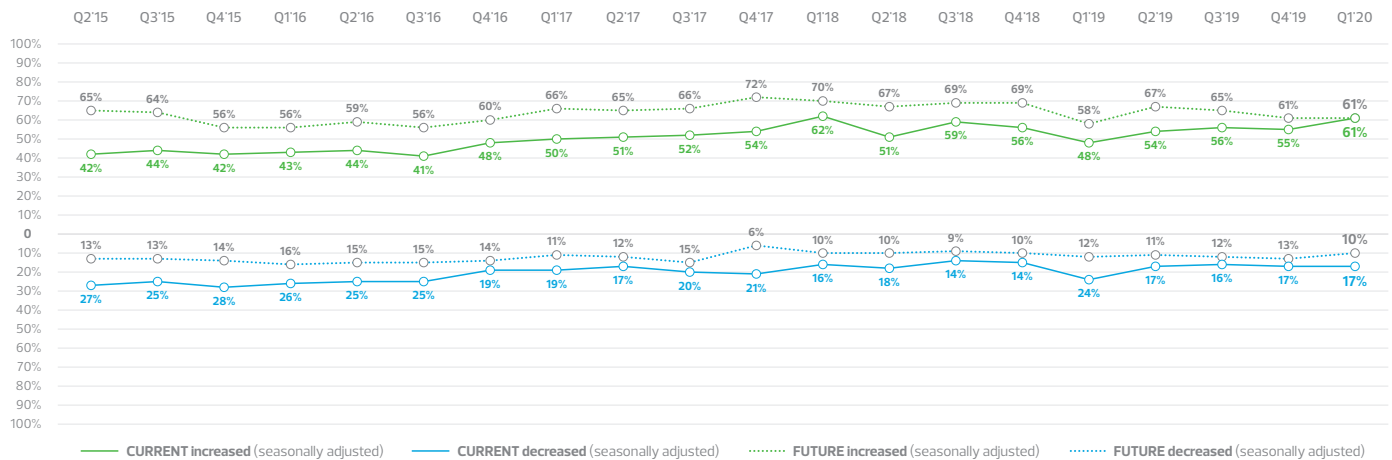
		Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19	Q1 20
FUTURE	CURRENT	(n=210)	(n=252)	(n=208)	(n=424)	(n=404)	(n=400)	(n=406)	(n=409)	(n=400)	(n=406)	(n=399)	(n=412)	(n=402)	(n=402)	(n=404)	(n=404)	(n=409)	(n=402)	(n=400)	(n=399)
		41%	43%	41%	37%	41%	42%	45%	37%	34%	37%	34%	23%	31%	34%	32%	31%	38%	40%	36%	40%
		(n=210)	(n=252)	(n=208)	(n=424)	(n=404)	(n=397)	(n=402)	(n=409)	(n=400)	(n=406)	(n=399)	(n=412)	(n=402)	(n=402)	(n=404)	(n=404)	(n=409)	(n=401)	(n=400)	(n=399)
		31%	41%	41%	31%	29%	37%	36%	17%	26%	27%	26%	16%	25%	24%	25%	24%	33%	31%	27%	34%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

GROSS REVENUE PERFORMANCE

Sixty-one percent of middle market executives reported gross revenues increased in the current quarter. Sixty-one percent expect revenues to increase in the next six months.



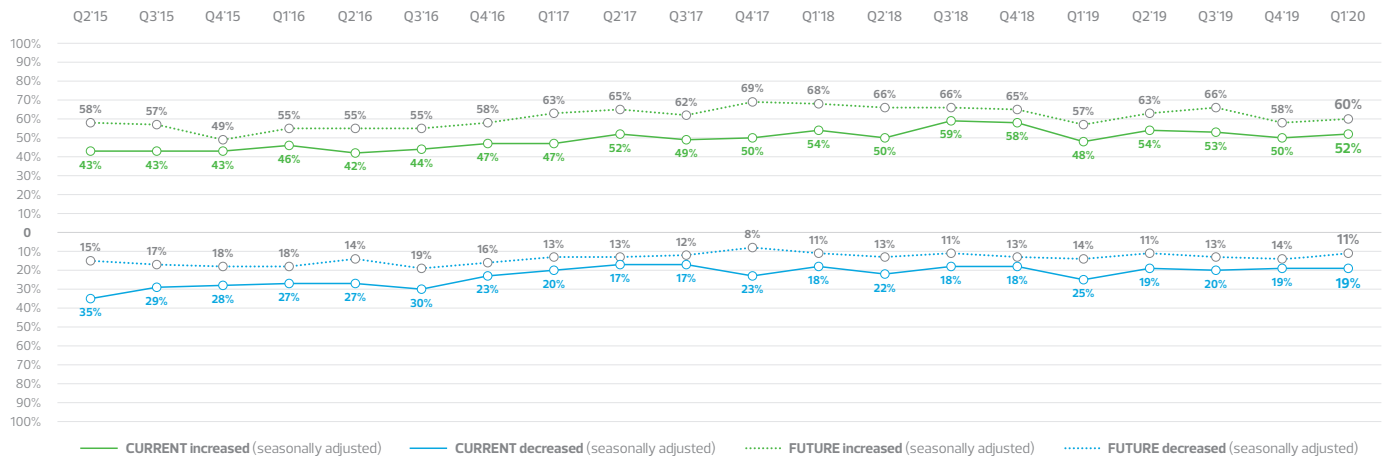
		Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
FUTURE	CURRENT	(n=210) 28%	(n=250) 29%	(n=208) 31%	(n=424) 35%	(n=403) 28%	(n=398) 32%	(n=406) 33%	(n=408) 36%	(n=399) 29%	(n=405) 25%	(n=400) 26%	(n=412) 27%	(n=398) 28%	(n=399) 24%	(n=403) 30%	(n=403) 33%	(n=405) 26%	(n=402) 25%	(n=398) 30%	(n=399) 27%
		(n=210) 23%	(n=250) 25%	(n=208) 30%	(n=426) 25%	(n=404) 26%	(n=400) 31%	(n=403) 27%	(n=409) 20%	(n=400) 23%	(n=406) 22%	(n=399) 23%	(n=412) 17%	(n=401) 23%	(n=401) 25%	(n=401) 21%	(n=404) 27%	(n=408) 22%	(n=403) 26%	(n=400) 26%	(n=399) 26%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

NET EARNINGS PERFORMANCE

Fifty-two percent of middle market executives reported net earnings increased in the current quarter. Sixty percent expect earnings to increase in the next six months.



— CURRENT increased (seasonally adjusted) — CURRENT decreased (seasonally adjusted) FUTURE increased (seasonally adjusted) FUTURE decreased (seasonally adjusted)

% REMAIN UNCHANGED (nonseasonally adjusted)

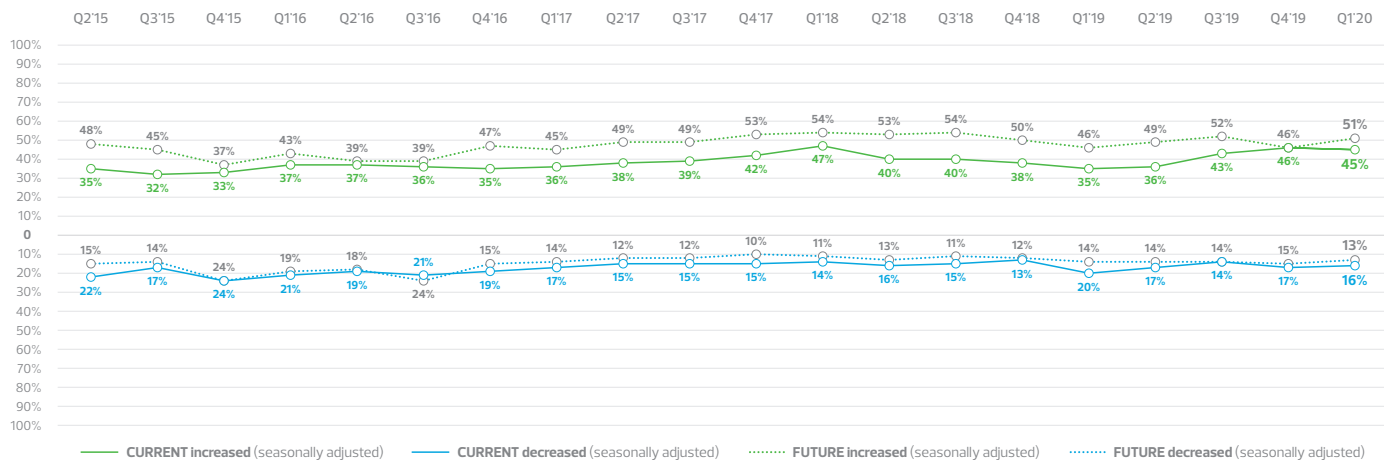
	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
FUTURE	(n=191) 22%	(n=230) 30%	(n=189) 28%	(n=394) 26%	(n=370) 30%	(n=368) 28%	(n=375) 31%	(n=380) 31%	(n=362) 32%	(n=380) 35%	(n=379) 27%	(n=392) 26%	(n=386) 28%	(n=383) 24%	(n=382) 25%	(n=386) 26%	(n=384) 27%	(n=389) 28%	(n=387) 32%	(n=383) 27%
CURRENT	(n=191) 28%	(n=230) 26%	(n=191) 33%	(n=396) 25%	(n=369) 31%	(n=369) 27%	(n=375) 27%	(n=381) 22%	(n=362) 22%	(n=378) 26%	(n=379) 24%	(n=392) 19%	(n=386) 21%	(n=383) 23%	(n=382) 22%	(n=387) 28%	(n=386) 27%	(n=392) 22%	(n=387) 28%	(n=383) 28%

- 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) ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

AGGREGATE CAPITAL EXPENDITURES/INVESTMENTS PERFORMANCE

Forty-five percent of middle market executives indicated capital expenditures increased during the current period, and 51% expect them to increase over the next six months.



— CURRENT increased (seasonally adjusted) — CURRENT decreased (seasonally adjusted) FUTURE increased (seasonally adjusted) FUTURE decreased (seasonally adjusted)

% REMAIN UNCHANGED (nonseasonally adjusted)

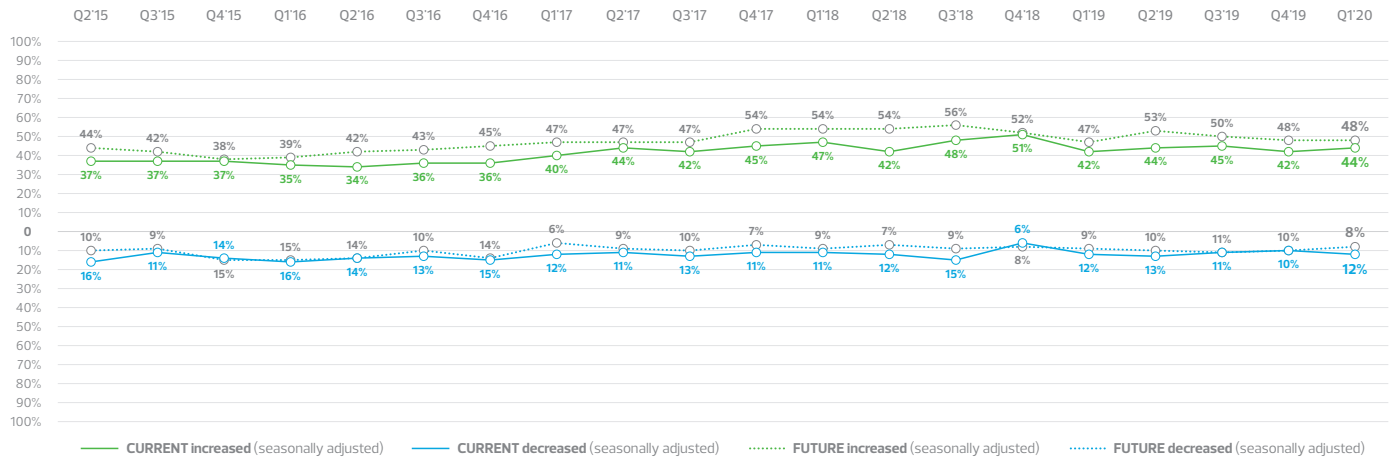
	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
FUTURE	(n=209) 40%	(n=250) 50%	(n=207) 45%	(n=424) 45%	(n=403) 42%	(n=399) 41%	(n=404) 47%	(n=407) 49%	(n=398) 44%	(n=405) 44%	(n=397) 44%	(n=412) 42%	(n=402) 42%	(n=401) 44%	(n=402) 50%	(n=404) 47%	(n=403) 45%	(n=397) 41%	(n=399) 38%	(n=395) 43%
CURRENT	(n=210) 35%	(n=252) 44%	(n=207) 39%	(n=425) 37%	(n=404) 42%	(n=400) 39%	(n=405) 37%	(n=407) 40%	(n=399) 38%	(n=405) 41%	(n=398) 36%	(n=412) 34%	(n=402) 37%	(n=401) 37%	(n=402) 38%	(n=404) 39%	(n=403) 37%	(n=398) 36%	(n=399) 39%	(n=394) 36%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

OVERALL HIRING LEVELS

Forty-four percent of middle market executives reported hiring levels increased in the current quarter.



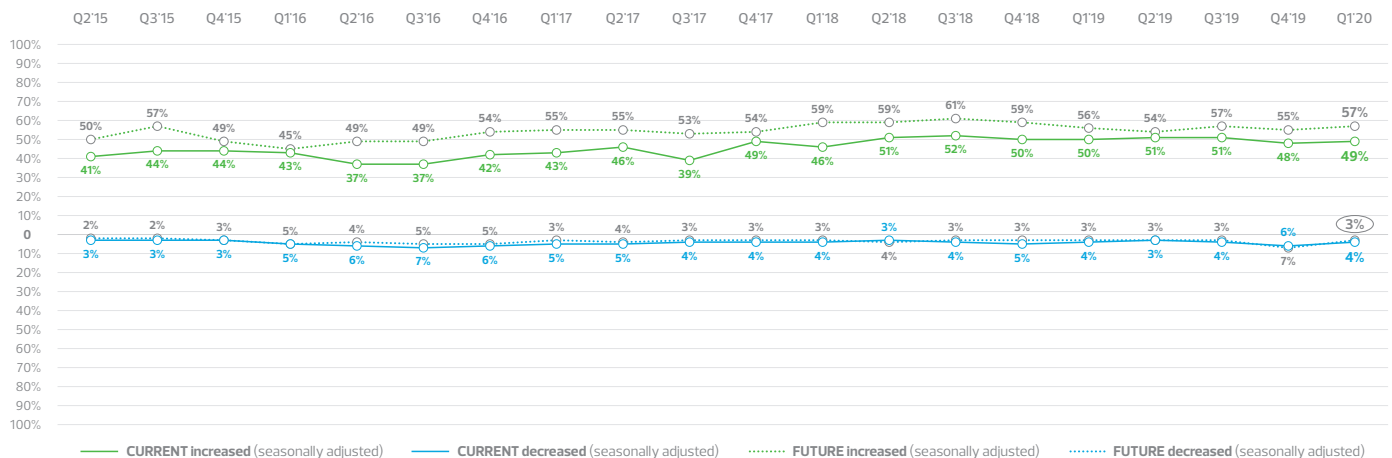
		% REMAIN UNCHANGED (nonseasonally adjusted)																			
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
		(n=210)	(n=251)	(n=209)	(n=426)	(n=404)	(n=400)	(n=405)	(n=409)	(n=400)	(n=406)	(n=400)	(n=412)	(n=402)	(n=402)	(n=403)	(n=404)	(n=409)	(n=402)	(n=400)	(n=399)
		46%	53%	47%	51%	51%	51%	47%	50%	44%	45%	42%	44%	46%	36%	42%	49%	42%	43%	46%	46%
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
		(n=210)	(n=251)	(n=209)	(n=426)	(n=404)	(n=400)	(n=405)	(n=409)	(n=400)	(n=406)	(n=399)	(n=412)	(n=402)	(n=402)	(n=404)	(n=404)	(n=409)	(n=402)	(n=400)	(n=399)
		45%	48%	48%	43%	44%	50%	41%	43%	44%	45%	40%	33%	40%	37%	40%	41%	38%	41%	42%	40%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

EMPLOYEE COMPENSATION

Almost half of middle market executives (49%) say employee compensation has increased.



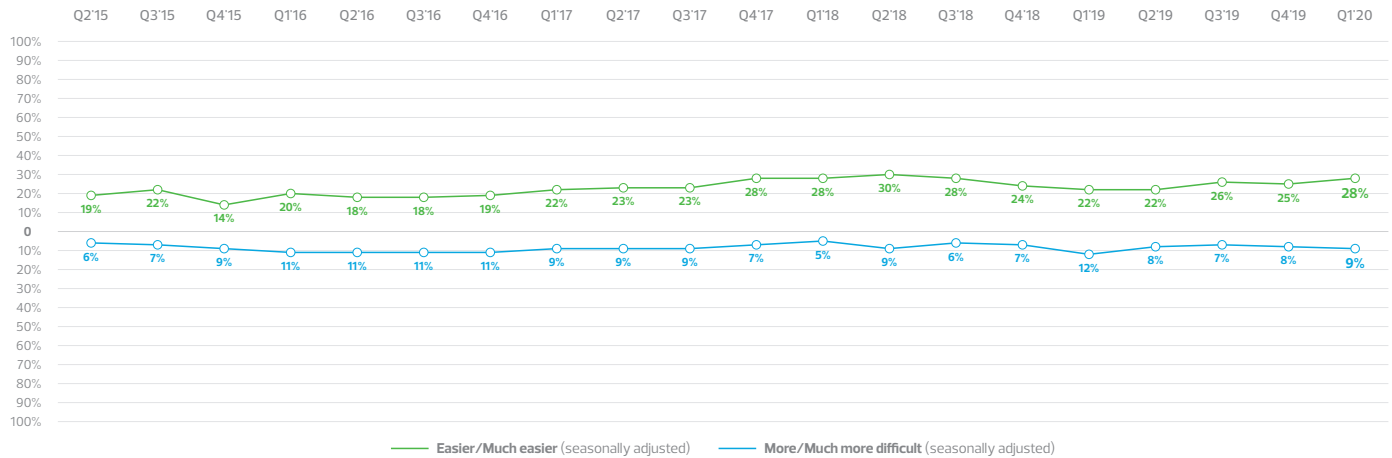
		% REMAIN UNCHANGED (nonseasonally adjusted)																			
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
		(n=210)	(n=252)	(n=208)	(n=424)	(n=403)	(n=399)	(n=406)	(n=407)	(n=400)	(n=404)	(n=400)	(n=412)	(n=402)	(n=401)	(n=404)	(n=404)	(n=409)	(n=403)	(n=399)	(n=400)
		56%	53%	56%	49%	57%	56%	55%	50%	49%	56%	50%	47%	46%	44%	48%	44%	46%	44%	48%	45%
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
		(n=209)	(n=252)	(n=208)	(n=426)	(n=404)	(n=400)	(n=406)	(n=409)	(n=400)	(n=405)	(n=400)	(n=412)	(n=402)	(n=401)	(n=402)	(n=404)	(n=409)	(n=403)	(n=400)	(n=400)
		48%	44%	47%	48%	46%	48%	40%	40%	41%	47%	42%	35%	37%	39%	38%	38%	43%	44%	38%	38%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

ACCESS TO CREDIT

Current perceptions regarding access to credit are comparable to the levels observed in the fourth quarter.



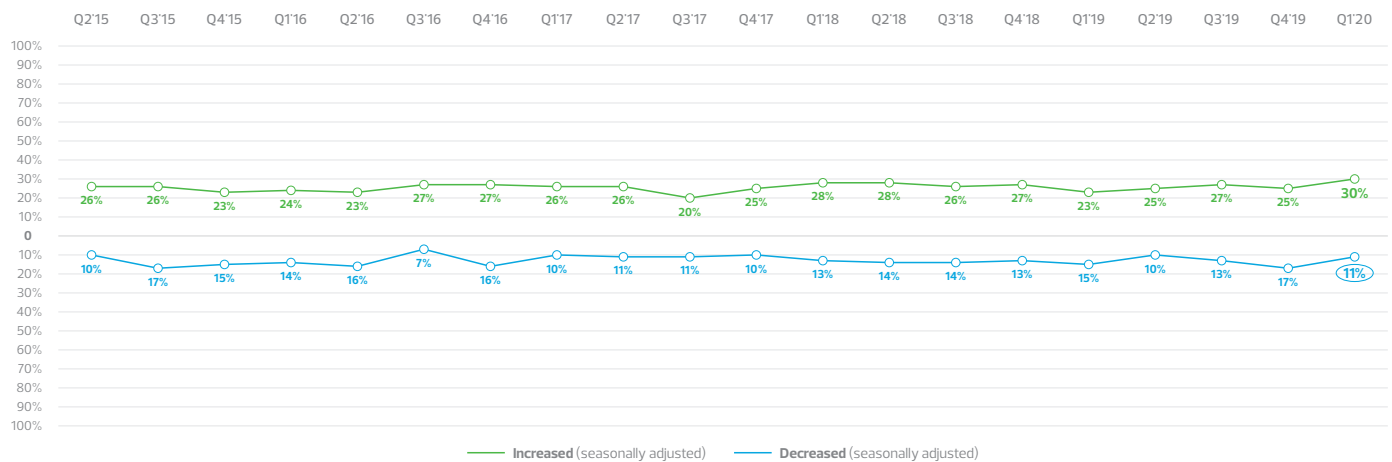
CURRENT	% REMAIN UNCHANGED (nonseasonally adjusted)																			
	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
	(n=210) 76%	(n=247) 71%	(n=202) 75%	(n=420) 70%	(n=398) 72%	(n=394) 71%	(n=397) 69%	(n=405) 71%	(n=394) 69%	(n=400) 68%	(n=397) 64%	(n=410) 68%	(n=394) 62%	(n=393) 65%	(n=392) 67%	(n=402) 68%	(n=396) 70%	(n=394) 66%	(n=390) 66%	(n=392) 64%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

PLANNED BORROWING

Eleven percent of middle market executives expect planned borrowing over the next six months to decrease, significantly fewer than Q4 '19.



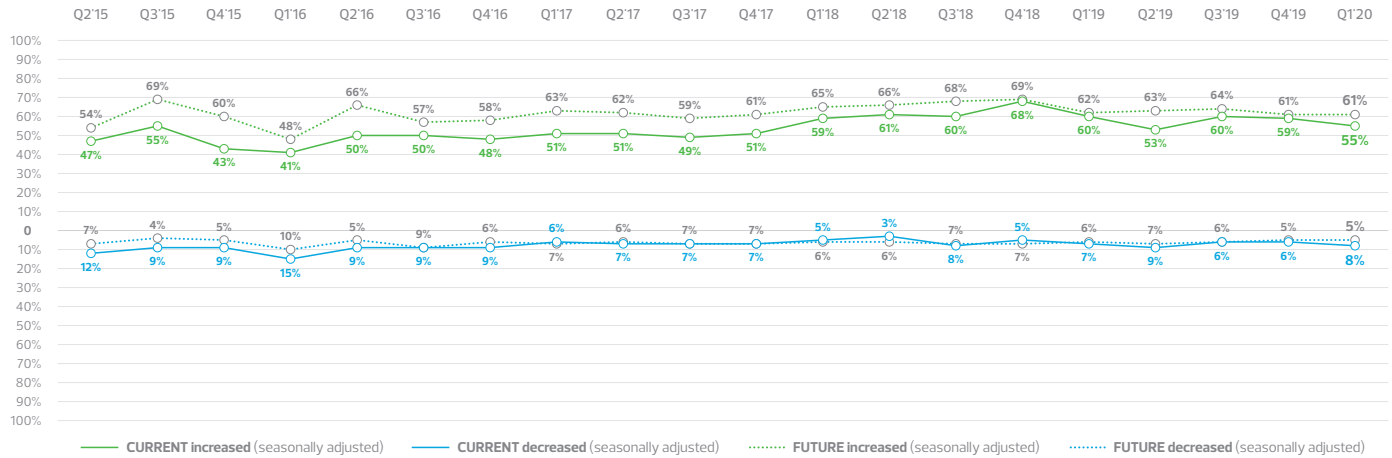
FUTURE	% REMAIN UNCHANGED (nonseasonally adjusted)																			
	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
	(n=209) 61%	(n=251) 56%	(n=203) 64%	(n=419) 64%	(n=401) 59%	(n=399) 65%	(n=400) 58%	(n=406) 65%	(n=396) 60%	(n=400) 68%	(n=398) 66%	(n=411) 61%	(n=396) 55%	(n=398) 60%	(n=394) 62%	(n=401) 64%	(n=401) 63%	(n=396) 60%	(n=391) 58%	(n=392) 60%

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

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

AMOUNT PAID FOR GOODS AND SERVICES

Fifty-five percent of middle market executives reported the amount paid for goods and services increased in the current quarter.



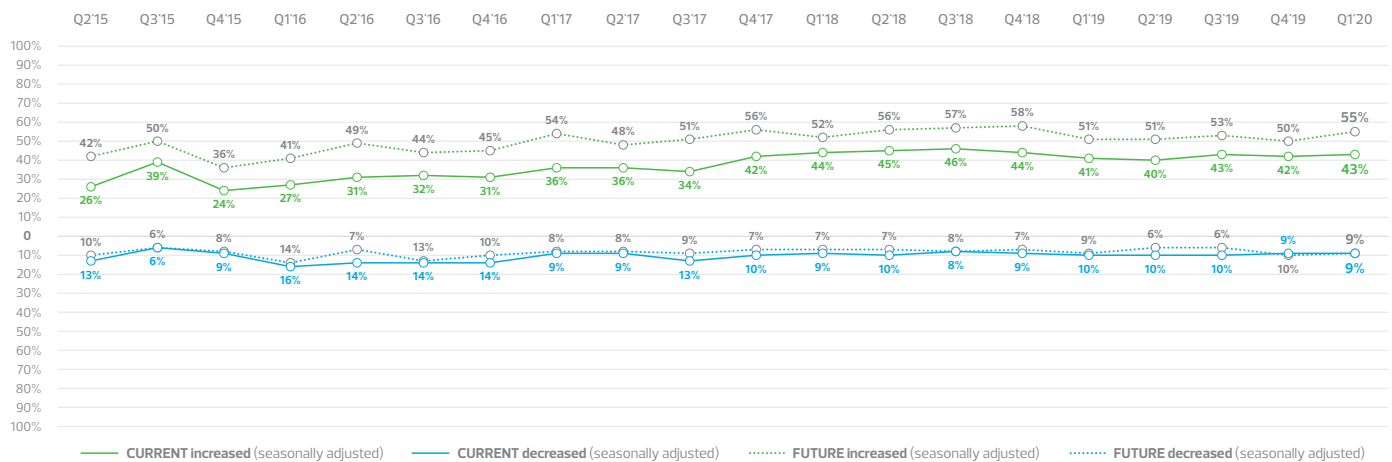
		Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
FUTURE	CURRENT	(n=209)	(n=252)	(n=208)	(n=426)	(n=401)	(n=399)	(n=406)	(n=408)	(n=399)	(n=405)	(n=400)	(n=411)	(n=400)	(n=400)	(n=402)	(n=404)	(n=407)	(n=402)	(n=399)	(n=399)
		40%	37%	48%	43%	39%	42%	44%	43%	41%	45%	42%	35%	34%	33%	28%	33%	37%	35%	34%	37%
		(n=210)	(n=252)	(n=208)	(n=426)	(n=403)	(n=399)	(n=406)	(n=407)	(n=399)	(n=404)	(n=400)	(n=411)	(n=401)	(n=401)	(n=402)	(n=404)	(n=407)	(n=401)	(n=398)	(n=399)
		44%	29%	32%	38%	33%	37%	34%	26%	36%	37%	29%	25%	31%	27%	22%	28%	33%	32%	31%	30%

- 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 ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

AMOUNT RECEIVED FOR GOOD AND SERVICES

Forty-three percent of middle market executives reported the amount received for goods and services increased in the current quarter.



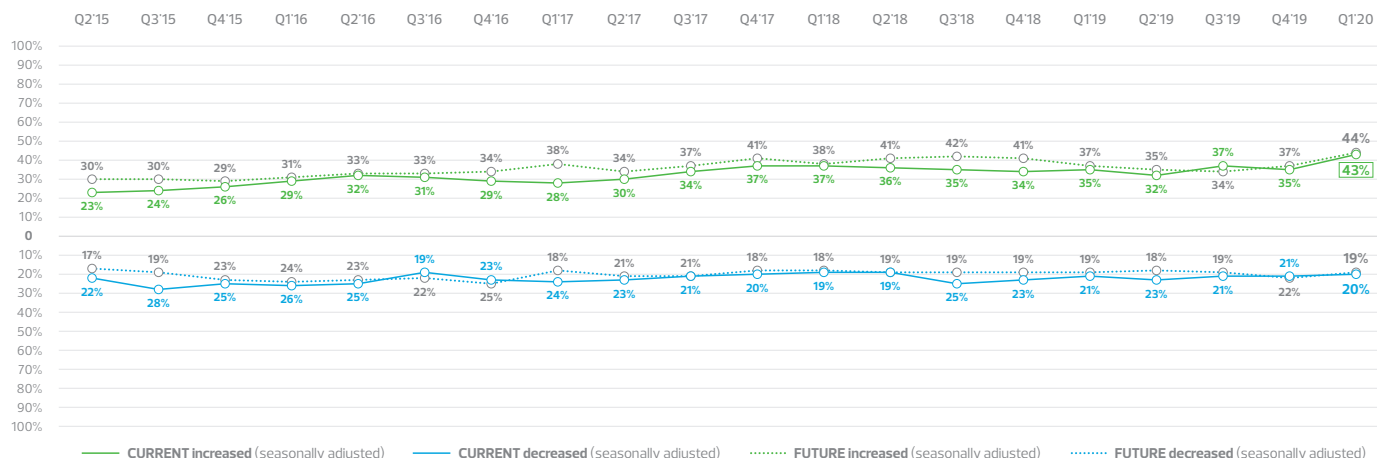
		Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
FUTURE	CURRENT	(n=189) 59%	(n=230) 56%	(n=191) 67%	(n=396) 57%	(n=370) 54%	(n=365) 56%	(n=375) 56%	(n=381) 55%	(n=365) 54%	(n=378) 55%	(n=379) 48%	(n=392) 47%	(n=387) 44%	(n=382) 47%	(n=382) 48%	(n=386) 49%	(n=386) 49%	(n=392) 48%	(n=388) 49%	(n=385) 49%
		(n=189) 45%	(n=230) 46%	(n=191) 53%	(n=396) 44%	(n=370) 45%	(n=368) 46%	(n=377) 44%	(n=381) 38%	(n=365) 45%	(n=378) 43%	(n=379) 34%	(n=392) 41%	(n=387) 38%	(n=383) 38%	(n=381) 31%	(n=386) 39%	(n=386) 44%	(n=392) 43%	(n=388) 37%	(n=385) 35%

- 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) ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

INVENTORY LEVELS

Forty-three percent of middle market executives reported inventory levels increased in the current quarter, significantly more than Q4'19.



		% REMAIN UNCHANGED (nonseasonally adjusted)																			
FUTURE	CURRENT	Q2'15	Q3'15	Q4'15	Q1'16	Q2'16	Q3'16	Q4'16	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
		(n=210) 38%	(n=252) 33%	(n=209) 33%	(n=426) 35%	(n=402) 29%	(n=399) 39%	(n=400) 39%	(n=408) 40%	(n=399) 36%	(n=405) 35%	(n=400) 37%	(n=412) 37%	(n=402) 34%	(n=402) 33%	(n=400) 35%	(n=403) 39%	(n=405) 36%	(n=402) 35%	(n=399) 38%	(n=399) 32%
		(n=155) 52%	(n=174) 51%	(n=141) 50%	(n=310) 45%	(n=286) 42%	(n=320) 46%	(n=330) 43%	(n=317) 45%	(n=324) 42%	(n=320) 42%	(n=336) 42%	(n=315) 44%	(n=327) 38%	(n=337) 39%	(n=328) 42%	(n=328) 45%	(n=349) 45%	(n=333) 46%	(n=342) 41%	(n=316) 38%
		% DO NOT HAVE INVENTORY (nonseasonally adjusted)																			
FUTURE	CURRENT	(n=210) 26%	(n=252) 31%	(n=209) 32%	(n=226) 27%	(n=402) 29%	(n=399) 20%	(n=400) 18%	(n=408) 22%	(n=399) 19%	(n=405) 21%	(n=400) 16%	(n=412) 23%	(n=402) 19%	(n=402) 16%	(n=400) 18%	(n=403) 19%	(n=405) 14%	(n=402) 17%	(n=399) 14%	(n=399) 21%

- 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) ...?

NOTE: Due to seasonal adjustment, % top-two box, % bottom-two box and % remained unchanged may not add to 100%
 SQUARE/CIRCLE = Significantly higher/lower than previous quarter, respectively, at .05 level of significance

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 Table 1.

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.

Table 1: 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?

MIDDLE MARKET CYBERTHREATS REMAIN HIGH, MMBI DATA SHOWS

SECURITY THREATS remain a dominant concern for middle market companies, as data breaches ticked up from a year earlier, responses from the RSM US Middle Market Business Index show.

Unauthorized access to data has occurred at 18% of businesses polled in the first quarter of 2020, up from 15% a year earlier, according to the MMBI survey. In addition, more than one-fifth of respondents said they experienced data-related incidents that took the form of ransomware attacks, up slightly from a year ago. Meanwhile, a majority of middle market executives (55%) said they are worried bad actors will attempt unauthorized access to their information again this year, on a par with last year's level of concern.

Despite the relatively high level of threat, an overwhelming majority (95%) of survey respondents remain confident in their organizations' ability to safeguard sensitive data, including their customer information and corporate transactions.

Businesses appear to be taking security threats more seriously. The percentage of organizations with dedicated internal functions committed to data security and privacy edged up to 71%, from 68% a year ago. And the number of midsize businesses with some form of cyber insurance rose to 62%, according to MMBI Q1 data, up five

points from the same period last year; at the same time, executives report their familiarity with their insurance coverage has also increased.

The MMBI findings, part of a set of special questions in the first quarter survey dedicated to data and privacy issues, come as the regulatory landscape in the United States is shifting toward higher levels of consumer protection. Following the establishment of the General Data Protection Regulation in Europe in 2016, known as GDPR, the state of California instituted the California Data Privacy Act in 2018. Maine and Nevada are among other states following suit.

Please watch for our MMBI special report based on the first quarter MMBI cybersecurity findings, with additional data, insights from our security experts as well as best practices for middle market businesses. ■

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:

- Consumer products
- Financial services
- Health care
- Industrial products
- Life sciences
- Real estate
- Technology, media and telecom

Read our current issue and subscribe to receive future outlooks.



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