Historically High Growth Rates Continue with Few Signs of Slowing
Executive Summary

The U.S. middle market continues to sustain double-digit year-over-year revenue and employment growth for the third straight reporting period. Overall, 72% of companies say performance has improved compared to one year ago while just 6% say performance deteriorated in 2022. Middle market companies of all sizes and across all industry segments are sharing in the success and growth story with historically high proportions of businesses reporting growth of 10% or more for both revenue and employment. Furthermore, most companies anticipate ongoing strong growth in 2023. Overall economic confidence levels are rebounding after dipping in 2022 and recent concerns related to supply chains and inflation appear to be abating to some degree. Yet at the same time, twice as many middle market leaders voice concerns related to the economy compared to one year ago. Investment plans also appear to lag behind despite sustained growth rates and strong prospects for the future.

Throughout 2022, middle market companies experienced year-over-year revenue growth of 12.2%. Four out of five companies reported revenue growth for this period and most of these growers reported growth of 10% or more. While the largest middle market businesses (those with annual revenues between $100M and $1B) report the strongest growth (13.2%), lower middle market companies (annual revenues between $10M and $50M) and core middle market companies (annual revenues between $50M and $100M) are keeping pace with year-over-year growth rates of 11.6% and 11.9% respectively.

Similarly, middle market companies of all sizes report strong year-over-year employment growth, propelling the rate of employment growth to 11.1% for the entire middle market, a new high in the history of the MMI. In 2022, 57% of middle market companies increased the size of the workforce and most made significant expansions for the second straight year. Nevertheless, nearly a quarter (23%) of middle market companies say that the current size of the workforce remains insufficient for market conditions; they still have significant hiring to do. Healthcare and manufacturing companies report the greatest need for people, but companies across industries continue to have unmet human resources requirements.

Across industries, most middle market businesses see the strong growth continuing in 2023. Companies are calling for 10% year-over-year growth in both revenue and employment over the next 12 months with 58% of businesses expecting revenues to increase and 55% saying they will expand the size of the workforce. As companies pursue these forecasts, core business issues and talent management will remain the most pressing challenges overall. For nearly half (48%) of middle market businesses, finding and hiring employees with the right skill sets remains a significant challenge. Two out of four companies point to a digital skills gap. To address these issues, a growing proportion of businesses will make changes to training requirements. A third of companies will begin transitioning from employees to technology and automation alternatives.

While talent is a formidable challenge, when asked specifically about the top areas of concern for the business right now, inflation still tops the list, followed by the potential of a recession. Approximately two out of five businesses report negative impacts from inflation over the past six months. With gas prices dropping, the negative effect of inflation on fuel is more subtle now compared to mid 2022 and companies are feeling the biggest impact when it comes to wages and salaries followed by the costs of goods and raw materials. Compared to one year ago, 61% of middle market companies have increased wages and salaries with an average increase of 5.9%. Nearly the same proportion (62%) of businesses report raising prices to mitigate the effects of inflation.

Inflation, higher interest rates, and the lingering threat of recession may be factoring into slowing investment appetites. Approximately two out of five companies say they have delayed capital investments as an outcome of inflation. Overall, the proportion of companies that would invest an extra dollar immediately (55%) remains higher than those who would save it (45%), but the gap between the two has narrowed. Among the investors, companies would put the money toward resources to fuel growth, including new plants and equipment, more people, better training, and additional IT resources.

How is the research conducted?

The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America’s middle market companies on key indicators of past and future performance in revenues, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between $10MM and $1B, the lower and upper limits on middle market annual revenue. The survey is designed and managed by the National Center for the Middle Market. The most recent survey reflected in this report was fielded in December 2022.

Middle Market Indicator

from the National Center for the Middle Market

THE MIDDLE MARKET INDICATOR (MMI) FROM THE NATIONAL CENTER FOR THE MIDDLE MARKET IS A BUSINESS PERFORMANCE UPDATE AND ECONOMIC OUTLOOK SURVEY CONDUCTED AMONG 1,000 C-SUITE EXECUTIVES OF COMPANIES WITH ANNUAL REVENUES BETWEEN $10MM AND $1B.

There are nearly 200,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 48 million people. These businesses outperformed through the last financial crisis (2007–2010 period) by adding 2.2 million jobs across major industry sectors and U.S. geographies, demonstrating their importance to the overall health of the U.S. economy. They are private and public, family owned, and sole proprietorships, geographically diverse, and span almost all industries. The health of these businesses and their respective outlook serve as a solid indicator for the greater U.S. economy as a whole. (See www.middlmarketcenter.org: “The Market that Moves America,” seminal research on the definition, significance, and role of the middle market, Oct. 2011.)
Revenue

Middle market companies report continued strong year-over-year revenue growth with the average rate of growth holding steady at 12.2%. Four out of five companies reported gains compared to 2022. Most companies expect 2023 to be another year of solid growth.

Employment

In 2022, the rate of year-over-year employment growth in the middle market jumped to an all-time high of 11.1% with 57% of companies expanding the size of their workforce. Nearly as many businesses say they will continue to aggressively expand the workforce in 2023.
**Expansion**

Expansionary activity remains steady with half of middle market companies bringing new offerings to market in 2022 and two out of five entering new domestic markets.

**Economic Confidence**

Confidence levels, especially global confidence, rebound after declining for 12 straight months.
Capital Investment
The proportion of companies inclined to save an extra dollar increases.

% of middle market executives that would invest vs. save an extra dollar

People and equipment move ahead of IT as top destinations for extra investment dollars.

Even as the proportion of savers increases overall, most of these companies are saving for future investment.

Key Challenges
Cost and economy concerns mount.

% of middle market leaders citing an issue as a key challenge over the next 12 months

INTERNAL CHALLENGES
1. CORE BUSINESS ISSUES* 51%
2. ECONOMY 22%
3. TALENT 11%
4. COSTS 9%

EXTERNAL CHALLENGES
1. CORE BUSINESS ISSUES* 32%
2. ECONOMY 22%
3. TALENT 11%
4. COSTS 9%

*Core business issues include maintaining revenue and sales growth, ensuring customer satisfaction/retention, and IT/technology challenges.
The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.

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