



NATIONAL CENTER FOR  
THE MIDDLE MARKET

# Mid-Year | 2023

MIDDLE MARKET INDICATOR

**Strong Performance Despite  
Growing External Challenges**

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# Executive Summary

Historically high rates of year-over-year revenue and employment growth continue in the U.S. middle market, with all key performance indicators, including economic confidence and investment appetites, signaling the robust health of this critical economic segment. More than three-quarters (81%) of companies report that overall business performance is better today than one year ago; just 5% say performance has deteriorated over the past 12 months. Middle market leaders project continued strong growth into 2024. At the same time, leaders acknowledge the broader macroeconomic forces that present potential headwinds. Inflation, talent shortages, and recession are the leading and most challenging risks for middle market businesses, and nearly four out of five companies have already taken steps to prepare for a potential recession, such as cutting expenses or conserving cash.

While 81% of middle market companies report increases in year-over-year revenue, the proportion of businesses reporting rapid year-over-year growth of 10% or more slipped from 59% at the end of 2022 to 52% this reporting period. The proportion of fast-growers remains well above prepandemic levels—36% of companies reported year-over-year revenue growth of 10%+ in 4Q 2019. The overall rate of revenue growth—11.8%— is also significantly above the 7% historical average. The slight slowing in growth rate seen this reporting period may be a sign that the recovery period has peaked and companies are easing back to a more sustainable rate of ongoing growth.

After reaching an all-time high of 11.1% for 2022, the rate of year-over-year employment growth also slowed slightly but remains in the double digits at 10.1%. Lower middle market companies (annual revenues between \$10M and \$50M) and core middle market companies (annual revenues between \$50M and \$100M) contributed to the overall slowdown in the employment growth rate, while the largest middle market businesses (those with annual revenues between \$100M and \$1B) report an increase in the rate of workforce expansion, from 12.1% at the close of 2022 to 12.4% in mid-2023. Overall, a growing proportion of middle market companies is now saying the workforce is just about the right size. However, 19% of businesses, and particularly those in the

healthcare industry, continue to say they need to hire to meet current market conditions.

Looking ahead, most middle market companies expect continued strong revenue and employment growth into 2024, but potentially at slightly moderated rates. Current economic confidence levels remain high and on par with the general sentiment reported six months ago. Compared to the end of 2022, a larger proportion of companies would invest an extra dollar in the business immediately as opposed to holding cash.

While middle market leaders are optimistic about their growth prospects for the next 12 months, they are clearly in tune with the challenges posed by the current economic and employment landscape. As workforce issues persist, with nearly half of middle market companies facing significant challenges finding and hiring employees with the right skills, companies continue to lean on their current staff to work longer hours and more shifts. Digital skills are particularly challenging for many organizations; most companies reporting a digital skills gap say that the problem is hampering growth or stymieing improvement initiatives within their organization. Approximately two-thirds of companies are paying higher salaries and wages to help attract and retain talent. In addition, almost half (45%) have begun offering compensation incentives and bonuses for retention purposes; the same proportion of companies has plans to offer such financial incentives over the next six to 12 months.

Regardless of the current high level of economic confidence, more companies are voicing concerns related to the government and economy. Thus far, the impact of inflation on middle market companies has been mixed, with 40% reporting a negative impact in the last six months and 30% saying they've benefited from inflation, particularly those in the financial services segment. Companies are raising prices and paying higher wages while looking for ways to cut costs and gain operational efficiencies in response to higher interest. They are also more proactively managing risk and pursuing digital innovation as a means of increasing revenues and efficiencies while mitigating threats to the business. About half of companies (49%) believe a recession will negatively impact their businesses.

## 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 \$10 MILLION AND \$1 BILLION.**

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.middlemarketcenter.org](http://www.middlemarketcenter.org): “The Market that Moves America,” seminal research on the definition, significance, and role of the middle market, Oct. 2011.)

### *How is the research conducted?*

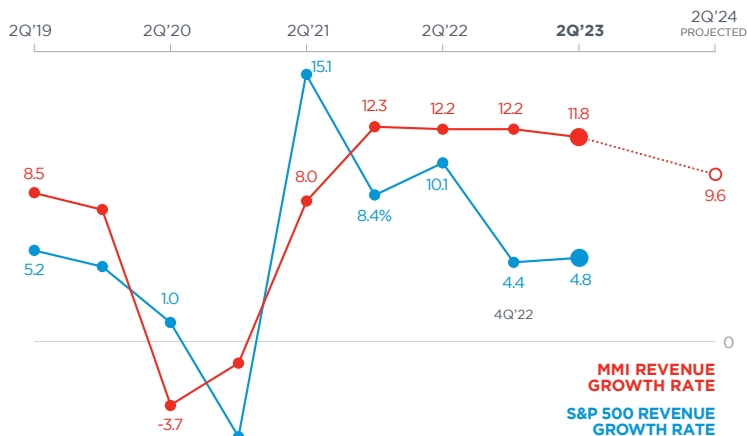
The MMI surveys 1,000 CEOs, CFOs, and other C-suite executives of America's middle market companies on key indicators of past and future performance in revenue, employment, and allocation of cash. The survey also reports middle market company confidence in the global, U.S., and local economies and identifies key business challenge areas. The survey was designed to accurately reflect the nearly 200,000 U.S. businesses with revenues between \$10 million and \$1 billion, the lower and upper limits of 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 June 2023.



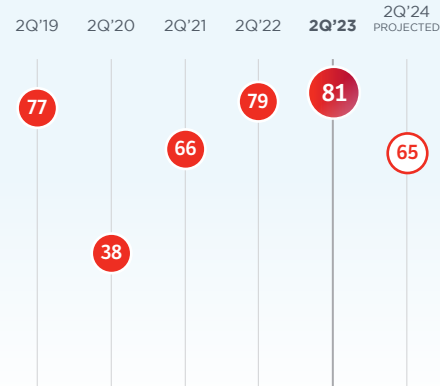
## Revenue

Middle market companies sustain double-digit year-over-year revenue growth for the fourth straight reporting period, with four out of five companies reporting topline growth over the past 12 months. Nearly two-thirds of companies expect strong growth to continue into 2024.

Past, current, and projected revenue growth rates for the middle market and the S&P 500 (%)



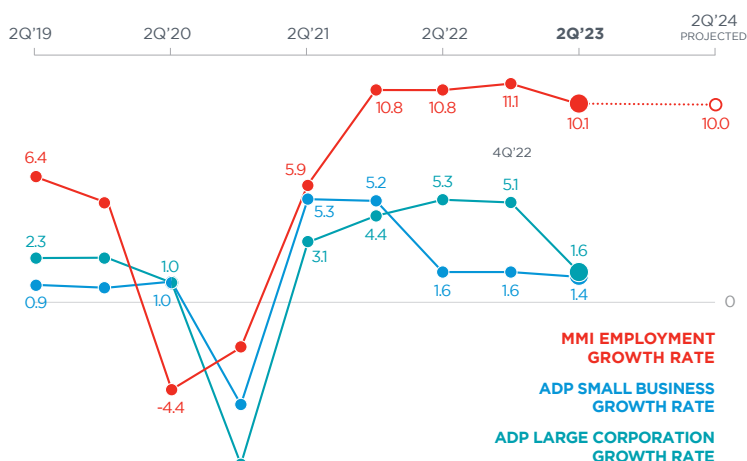
Percent of middle market companies reporting/projecting year-over-year revenue growth



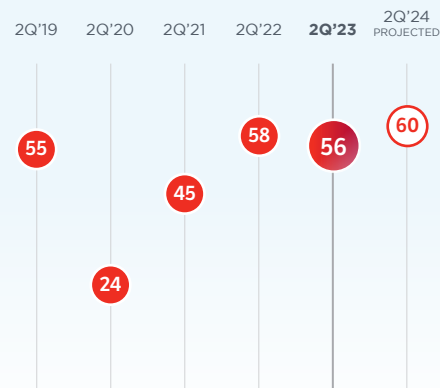
## Employment

While slowing among core and lower middle market companies, the overall rate of year-over-year employment growth in the middle market remains strong at 10.1%. A majority of companies continue to expand the workforce and expect to keep doing so at a continued rapid rate over the next 12 months.

Past, current, and projected employment growth rates for middle market, small, and large companies (%)



Percent of middle market companies reporting/projecting year-over-year employment growth



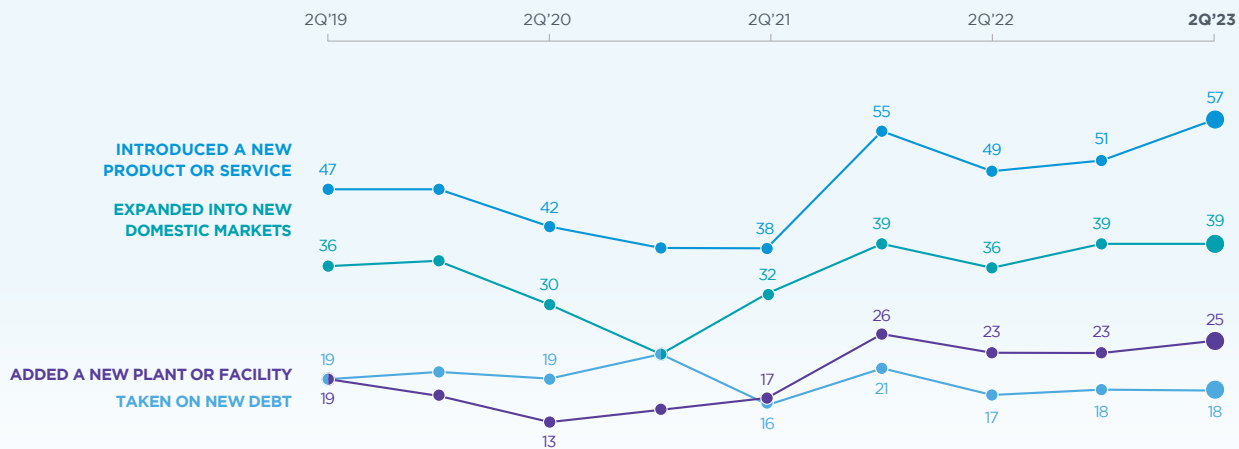
## KEY FINDINGS



## Expansion

*Companies continue to expand their businesses, primarily through innovation, with a greater proportion of organizations introducing new products and services over the past 12 months.*

Percent of middle market companies engaging in expansion activities over the past 12 months



## Economic Confidence

*The rebound in economic confidence levels continues after dipping in 2022.*

Percent of middle market leaders expressing confidence in the global, national, and local economies

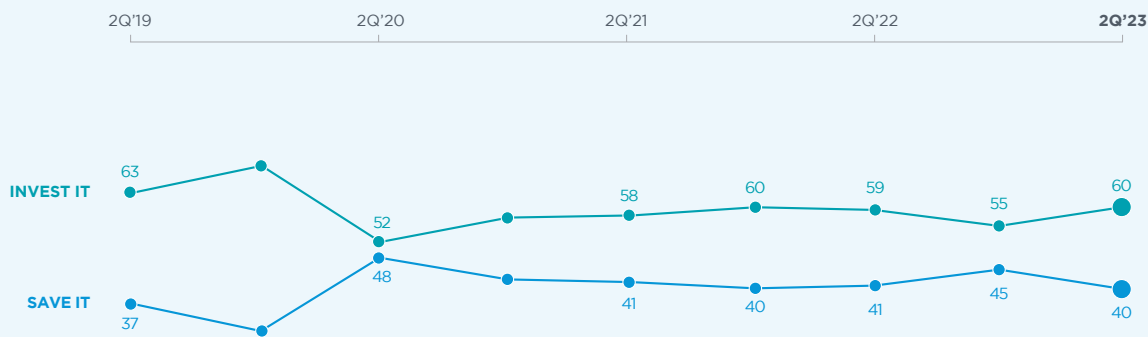




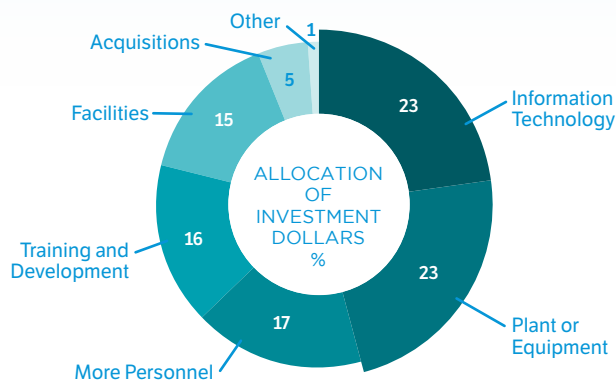
## Capital Investment

*More middle market companies are willing to invest extra cash compared to six months ago.*

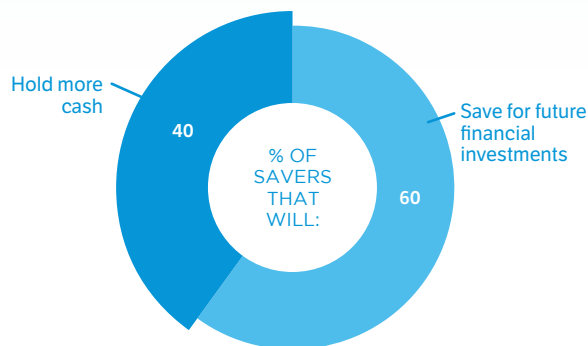
Percent of middle market executives who would invest vs. save an extra dollar



Capital expenditures, HR, and IT remain critical investment areas.



Two out of five middle market companies are inclined to build cash reserves.



## Key Challenges

*Economy, government, and talent-related concerns continue to increase.*

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

### INTERNAL CHALLENGES

1. CORE BUSINESS ISSUES*	60%
2. TALENT MANAGEMENT	54%
3. COSTS	14%
4. ECONOMY	14%

### EXTERNAL CHALLENGES

1. CORE BUSINESS ISSUES*	40%
2. ECONOMY	25%
3. TALENT MANAGEMENT	14%
4. GOVERNMENT	14%

\*Core business issues include maintaining revenue and sales growth, ensuring customer satisfaction/retention, and IT/technology challenges.



NATIONAL CENTER FOR  
THE MIDDLE MARKET

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](mailto:middlemarketcenter@fisher.osu.edu).



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VISA

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# Year-End | 2023

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**Performance Reaches New Highs  
As Outlook Softens**

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FISHER COLLEGE OF BUSINESS

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# Executive Summary

The U.S. middle market continues to thrive in the post-pandemic era with record-setting proportions of companies reporting year-over-year improvements in overall company performance, increases in revenue growth and expansion in the size of the workforce. The rate of year-over-year revenue growth reached a new all-time high (12.4%) with 55% of middle market businesses experiencing double-digit growth compared to 2022. While a majority of companies grew employment, the overall rate of year-over-year employment growth slowed as an increasing number of middle market companies report achieving their optimal size. Economic confidence remains stable; however, middle market leaders have softening expectations for both revenue and employment growth in 2024, signaling that the U.S. middle market may be returning to the more sustainable ongoing growth rates experienced prior to the pandemic.

In 2023, revenues increased for 83% of middle market companies at an average rate of 12.4%, representing two new high marks for the middle market. Middle market companies of all sizes and across nearly all industry segments reported strong growth with most of the growers growing at a rate of 10% or more. These fast growers are expanding through innovation and entry into new markets and are actively investing in technology and people, demonstrating greater interest in digitization and artificial intelligence (AI) as well as a higher average increase in wages for their workforce compared to their slower-growing companies.

In contrast to increasing revenue growth, the rate of employment growth among middle market businesses slowed throughout the year, declining for the second straight reporting period even as the proportion of companies reporting employment growth rose. Nearly three out of five middle market companies (59%) increased the size of the workforce at an average rate of 9.6%. This represents the lowest recorded rate of year-over-year employment growth in the post-pandemic era (since Q4 2021) but remains well above the overall average middle market employment growth rate of 4.8%. The decline may signal that many

middle market companies have reached their ideal size. Indeed, 78% of businesses describe the current size of the company's workforce as just about right. Nevertheless, companies across industry segments continue to report challenges finding and hiring employees with the right skills and digital skills in particular. The healthcare segment continues to express the greatest demand for more people overall.

Most middle market companies expect ongoing growth in 2024 but at notably slower rates than they have enjoyed over the past three years. The fastest growing middle market businesses are planning for growth through the introduction of new products or services and expansion into new domestic markets in the months ahead.

Middle market leaders continue to express healthy levels of confidence in the local, national and global economies and just 17% of companies report a negative business impact due to the current geopolitical uncertainty. Nevertheless, leaders cite the economy as a top external challenge for the next 12 months along with maintaining revenue and sales growth. Specifically, inflation and recession continue to top the list of risks middle market companies face today followed by the talent shortage and need to retain employees.

To prepare for the macroeconomic environment in 2024, many middle market businesses are raising their prices while looking at ways to more fully integrate AI capabilities, an area where the fastest-growing middle market businesses have taken a strong lead and are already using or actively testing AI across various business functions. Information technology is the number one destination for companies that would immediately invest an extra dollar into the business. However, compared to six months ago, a greater proportion of middle market leaders say they would save that dollar as opposed to invest it, which could signal a growing degree of uncertainty among some leaders.

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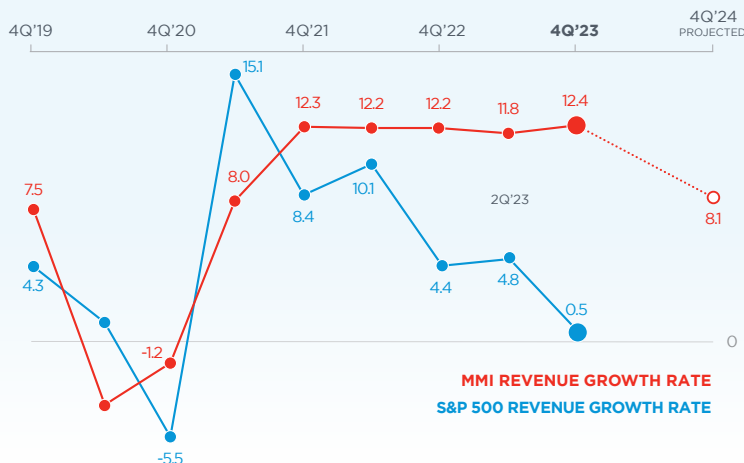




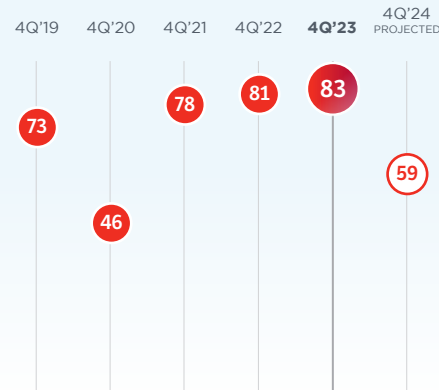
## Revenue

The proportion of middle market companies reporting revenue growth over the past 12 months and the average rate of that growth both reached new all-time highs. Many leaders anticipate that accelerated rates of revenue growth will slow in 2024.

Past, current, and projected revenue growth rates for the middle market and the S&P 500 (%)



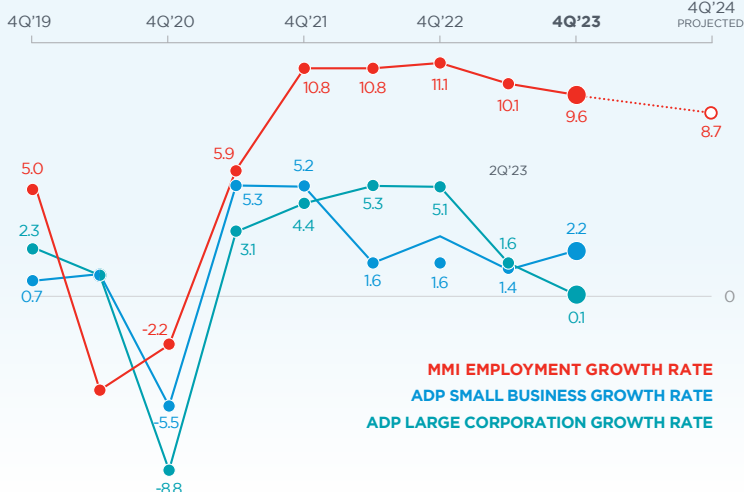
% of middle market companies reporting/projecting year-over-year revenue growth



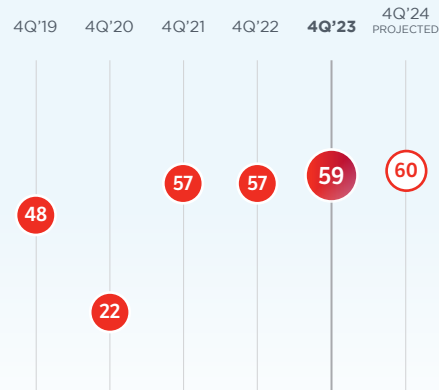
## Employment

A majority of middle market companies expanded the size of the workforce in 2023 and employment growth persists at historically high rates. However, the rate of growth moderated throughout the previous 12 months and leaders expect the growth rate to continue to slow in 2024.

Past, current, and projected employment growth rates for middle market, small, and large companies (%)



% of middle market companies reporting/projecting year-over-year employment growth



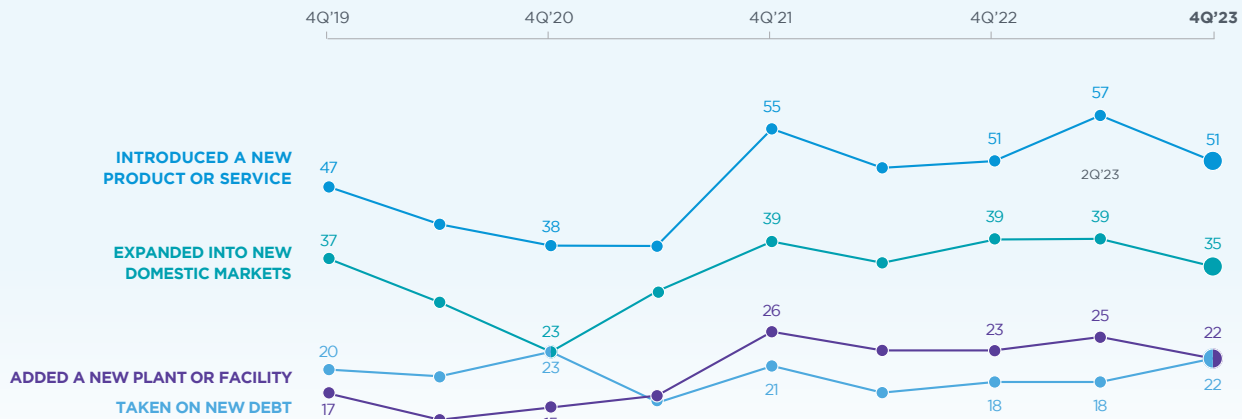
## KEY FINDINGS



## Expansion

*Expansionary activity slowed slightly in 2023 but remains on par with pre-pandemic levels. Innovating new products and services remains the primary expansionary lever for middle market businesses.*

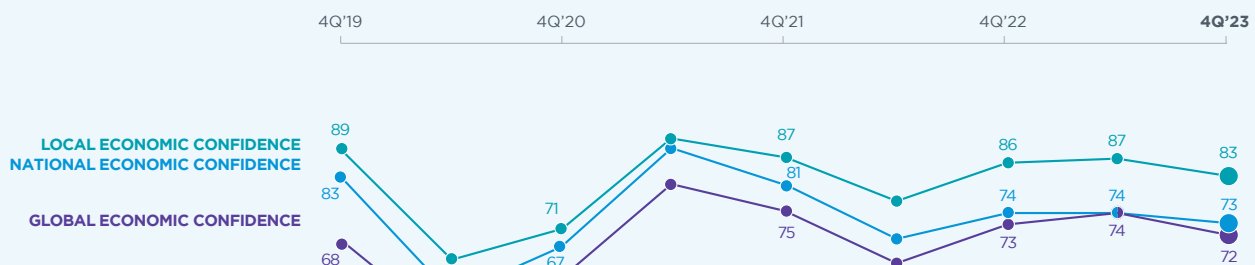
% of middle market companies engaging in expansion activities over the past 12 months



## Economic Confidence

*Economic confidence levels remained relatively steady throughout 2023. Slightly fewer middle market leaders express confidence in their local economies compared to one year ago.*

% of middle market leaders expressing confidence in the global, national, and local economies

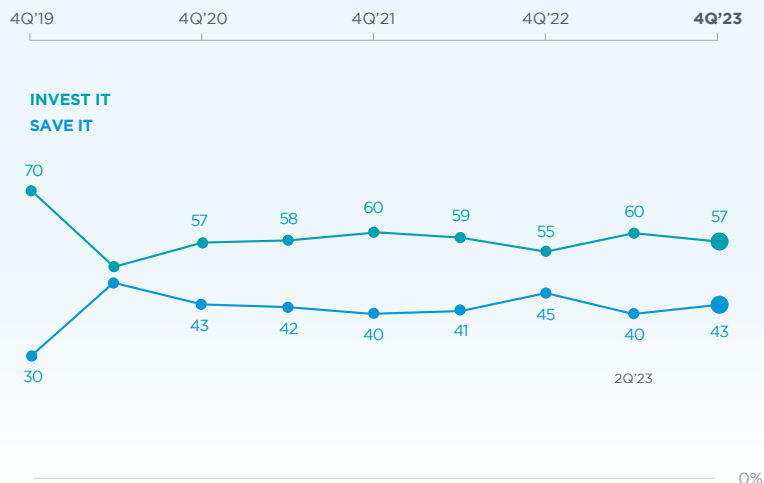




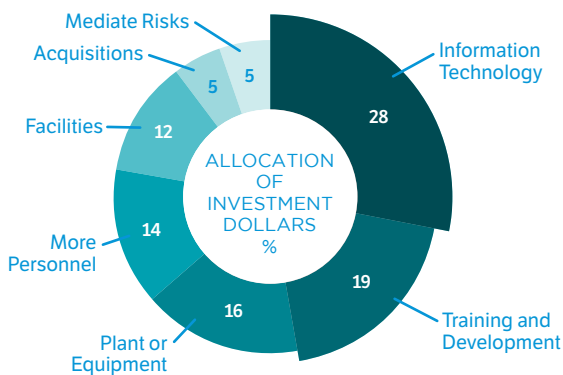
## Capital Investment

*Investment appetites are similar to one year ago.*

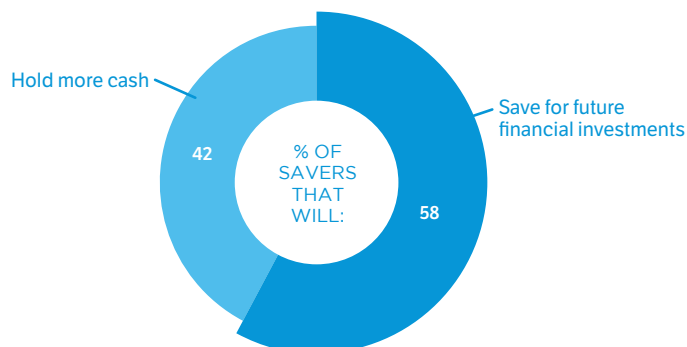
% of middle market executives that would invest vs. save an extra dollar



Information technology is the leading area for investment in the business.



The proportion of companies inclined to build cash reserves increases.



## Key Challenges

*Maintaining growth is the top concern.*

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

### INTERNAL CHALLENGES

- |                          |     |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 58% |
| 2. TALENT MANAGEMENT     | 51% |
| 3. COSTS                 | 16% |
| 4. ECONOMY               | 14% |

### EXTERNAL CHALLENGES

- |                          |     |
|--------------------------|-----|
| 1. CORE BUSINESS ISSUES* | 41% |
| 2. ECONOMY               | 23% |
| 3. COSTS                 | 12% |
| 4. GOVERNMENT            | 12% |

\*Core business issues include maintaining revenue and sales growth, ensuring customer satisfaction/retention, and IT/technology challenges.



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