



NATIONAL CENTER FOR
THE MIDDLE MARKET

Mid-Year | 2024

MIDDLE MARKET INDICATOR

**Growth and Investment
Accelerate Despite Uncertainty**

IN COLLABORATION WITH



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Executive Summary

Despite predicting returns to a more moderated rate of growth, the middle market continues to sustain the double-digit year-over-year growth it has experienced since the pandemic. Through the first half of 2024, YOY revenue growth reached yet another pinnacle, climbing to 12.9%, while YOY employment growth bumped back up to 10.3%. Three-quarters of middle market companies continue to say overall performance is improving each year and economic confidence levels are healthy and higher than one year ago. Investment appetites are improving, too, as a larger proportion of middle market leaders express a willingness to invest an extra dollar in the business right away, indicating a desire to put more resources toward people, footprint, equipment, or technology to continue to move their businesses forward. The largest middle market companies with revenues between \$100 million and \$1 billion experienced the most rapid growth, reporting record-setting YOY revenue and employment growth rates of 15.1% and 13.3% respectively.

Throughout the post-pandemic era beginning Q4 2021, the U.S. middle market has experienced average YOY revenue growth of 12.3%, five points above the overall average middle market revenue growth rate of 7.3%. Similarly, average YOY employment growth post-pandemic is 10.5%, more than double the overall average rate of 4.9%. Consistently, middle market companies are operating at an elevated performance standard, with 58% of companies sustaining double-digit growth compared to just 36% of companies performing at this level at the close of 2019. Most middle market companies project continued strong revenue and employment growth into 2025, estimating growth rates of 8.8% and 9.5% respectively over the next 12 months.

Maintaining such aggressive expansion won't come without its challenges. While nearly a quarter of middle market companies say that the current size of the workforce is insufficient for market conditions and there is a clear need to hire, talent issues—including recruitment, acquisition, and retention—remain some of the most significant obstacles middle market companies face. Nearly half (46%) of companies continue to experience considerable difficulty finding

and hiring people with the right skill for the job. Digital skills are a key pain point, with nearly all companies saying such skills are important to success and 46% of businesses describing digital-savvy talent as critical. Among the 45% of middle market companies reporting a digital skills gap, nearly all (91%) say the gap results in a noticeable impact on company performance; 63% describe that impact as significant or substantial. The largest middle market companies are much more likely than their smaller peers to need more people, and the most likely to experience related challenges, including a digital skills gap that negatively affects company performance or slows growth.

As companies look to bring more people on board, they are paying more for both current and future employees. More than two-thirds (68%) of companies have increased salaries and wages compared to one year ago by an average of 5.6%. Inflationary pressure, not just related to wages but overall, including the cost of supplies, other expenses, and the collective impact on profit margins, joins talent as a frequently mentioned concern for the future.

Middle market executives acknowledge several other top-of-mind headwinds, including economic issues such as interest rates and the cost of borrowing, operations issues, and technology challenges, including how to finance and integrate emerging advancements such as artificial intelligence and how to best manage the associated risks, including data privacy and security, ethical concerns, and impact on the workforce. When asked specifically, nearly half of middle market leaders expressed a significant level of concern related to climate change and the potential impact for disruptions to their businesses.

The headwinds and challenges on the horizon affect some industries more than others. Retailers and manufacturers, for example, feel the brunt of inflation with special acuity. While these sectors continue to report and project revenue growth, their numbers lag those of other industries. Conversely, the construction and financial services sectors have the most optimistic prospects for the remainder of 2024 and the first half of 2025.

Middle Market Indicator *from the National Center for the Middle Market*

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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) 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 found across almost all industries. The health of these businesses and their respective outlook serves as a solid indicator for the greater U.S. economy as a whole. (See 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 2024.



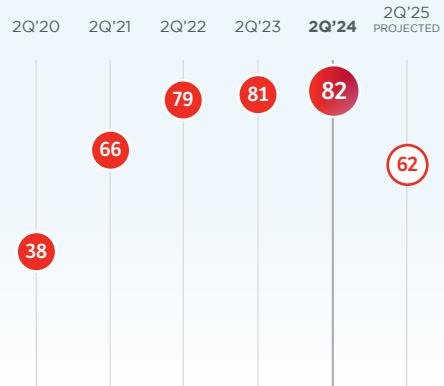
Revenue

Four out of five companies are growing, driving the year-over-year rate of growth to a new all-time high. Most businesses anticipate growth continuing into 2025, but at a less aggressive pace.

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



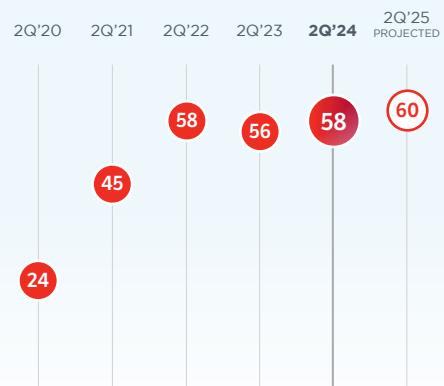
Employment

Year-over-year employment growth returns to double-digit levels after declining modestly over the past two reporting periods. Approximately three out of five companies continue to expand the size of the workforce.

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

Innovation slowed slightly with fewer companies introducing new offerings. Approximately a quarter of businesses added footprint while 20% borrowed to fuel expansion.

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



Economic Confidence

Economic confidence persists with all three indicators rising above 75% for the first time in since Q4 2021.

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





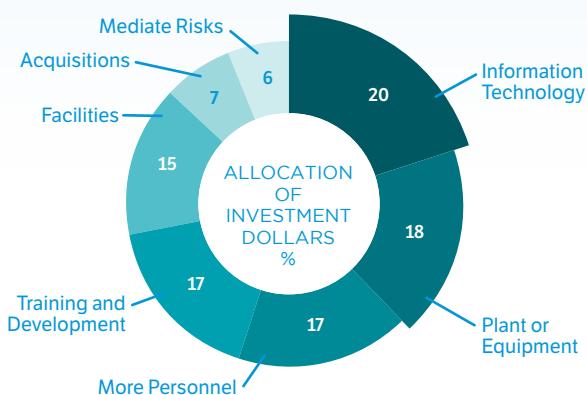
Capital Investment

Investment appetites increase, inching closer to pre-pandemic levels.

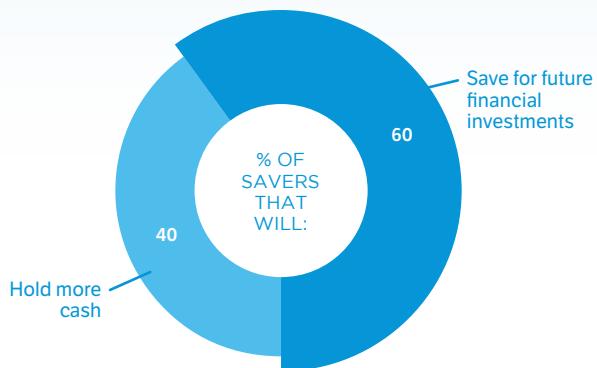
Percent of middle market executives who would invest vs. save an extra dollar



Technology, people, and capital expenditures are key areas for investment.



Most savers intend to put the dollars toward future investments.



Key Challenges

Inflation and talent shortages are expected to be the major headwinds over the next year.

INFLATION

- Impacting costs of supplies, salaries, overall expenses, profit margins

EMPLOYEE RETENTION AND RECRUITMENT/ TALENT ACQUISITION

- Finding and retaining skilled talent
- Motivating employees

ECONOMIC CHALLENGES/UNCERTAINTIES AND FINANCIAL ISSUES

- Fluctuations in the economy
- Global events like wars and geopolitical tensions
- Interest rates, borrowing costs, cash flow

TECHNOLOGY

- Efficiently integrating new technologies such as AI
- Cybersecurity risks and data protection concerns

OPERATIONS

- Supply chain disruptions
- Inventory management and logistics

REGULATORY COMPLIANCE

- Environmental and sustainability requirements
- Handling data privacy regulations

COMPETITION/EXPANSION/STRATEGY

- Maintaining market share and profitability
- Expanding into new markets



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.



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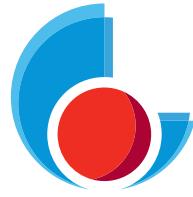
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Year-End | 2024

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Executive Summary

The U.S. middle market finished 2024 on a strong note, with a record-high 80% of companies indicating that overall company performance is improved compared to one year ago. The middle market continues to post double-digit year-over-year revenue and employment growth numbers with the largest-ever proportions of companies reporting growth—85% of companies say revenue grew this reporting period while 63% of businesses increased the size of the workforce. National and local economic confidence levels are up; so is companies' willingness to reinvest profits into their businesses. Even some ongoing challenges, including the ability to hire skilled talent, appear to be abating for some companies. Middle market leaders project ongoing growth while continuing to express concerns related to inflation and interest, as well as talent acquisition, retention and keeping up with the newest technologies. Some middle market leaders cite regulatory uncertainty, and voice concerns about changes in tariffs and other shifting government policies that could impact business operations.

Overall, sentiment and outlook are decidedly positive, yet some signs of potential softening around key performance indicators are emerging. Despite a larger proportion of companies indicating the introduction of new offerings and entry into new markets, the rate of year-over-year revenue growth slipped nearly a full percentage point from its high of 12.9% last reporting period to 12.1%, just below the average revenue growth rate of 12.3% for the post-pandemic period (Q4 2021-Q4 2024). The largest middle market companies (annual revenues between \$100 million and \$1 billion) saw the largest decline in the growth rate.

While the year-over-year employment growth rate holds steady at a strong 10.3%, core middle market companies (annual revenues between \$50 million and \$100 million) are driving the growth. Companies on both the upper and lower ends of the middle market revenue spectrum

report slight decreases in the rate of employment growth. Nearly all companies continue to point to at least some degree of challenge finding and hiring employees with the right skills for available jobs. However, the proportion of companies indicating this as a major challenge fell by seven percentage points compared to six months ago.

Looking forward, most companies signal that strong revenue and employment growth will continue throughout 2025, but at slower rates. While a quarter of companies continue to express significant concerns related to the global economy, domestic economic confidence is nearing record highs. National economic confidence is up six points to 84%, with local confidence increasing to 90%. Investment appetites are strong as well, with 65% of companies willing to put an extra dollar immediately to work within their businesses as opposed to stashing it in savings.

As middle market companies look to drive ongoing growth, they continue to prioritize digitization and move further along in their adoption journeys of new technologies, such as artificial intelligence (AI). Overall, information technology is the top investment area for companies looking to put extra dollars back into the business. Human resources, too, is a key target for reinvestment, and the focus appears to be shifting from hiring more people to investing in developing and training existing staff.

As middle market companies move further into 2025, they will need to adjust to a new administration's policies in order to achieve their growth goals, and they will have to stay on top of their costs, their talent and their technology. Leaders perceive inflation and recession as the greatest risks on the horizon, followed by cybersecurity issues. Yet they are decidedly confident in their ability to continue driving the U.S. economy forward in the year ahead.

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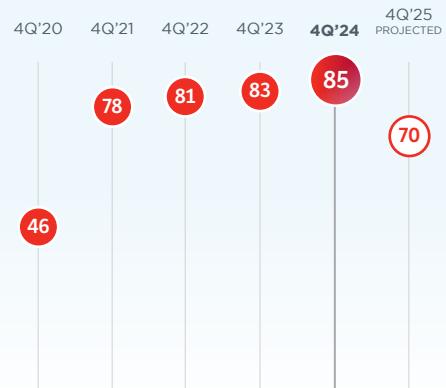
Revenue

With 85% of companies reporting year-over-year revenue growth at an average rate of 12.1%, the middle market finished 2024 on a strong note. The slight downtick in the rate of growth accompanied by fewer companies anticipating continued growth could signal headwinds on the horizon.

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



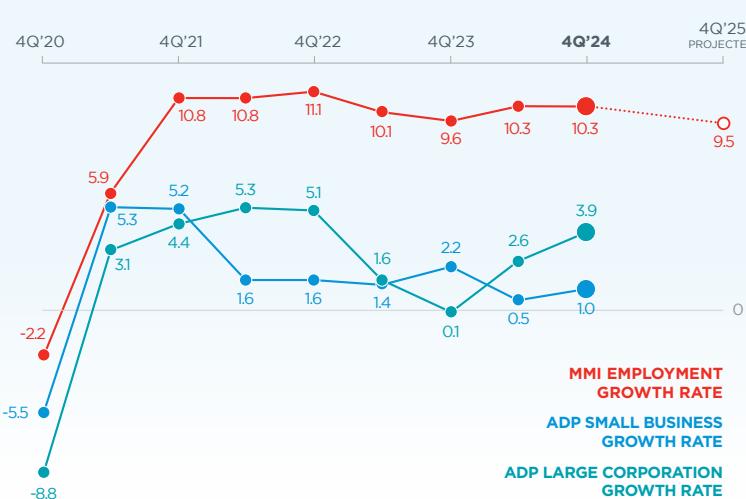
Percent of middle market companies reporting/projecting year-over-year revenue growth



Employment

Nearly two-thirds of middle market companies expanded the size of the workforce over the past year. Companies say their staff is 10% larger today than one year ago, and a majority of companies expect to continue growing their teams at a similar pace in 2025.

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

After slowing for several consecutive periods, expansionary activity surged back with more companies introducing new offerings, entering new markets and borrowing to fuel growth.

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



Economic Confidence

Local and national economic confidence climb while global confidence remains flat, indicating cautious optimism among middle market leaders.

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

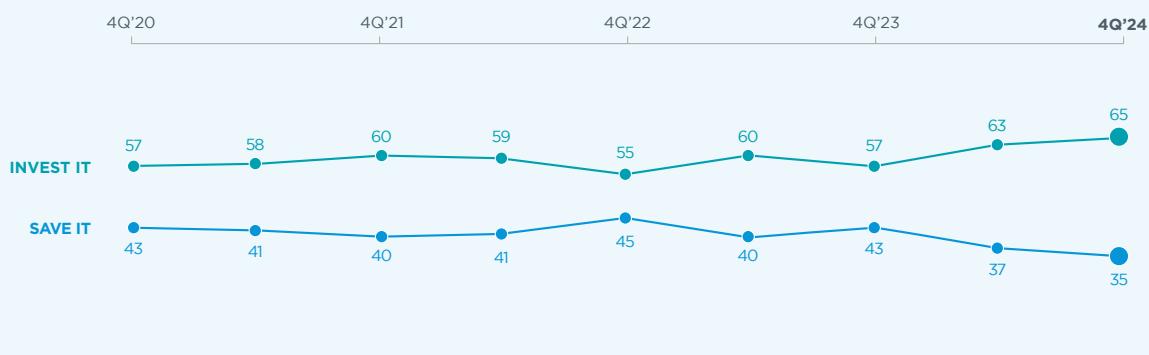




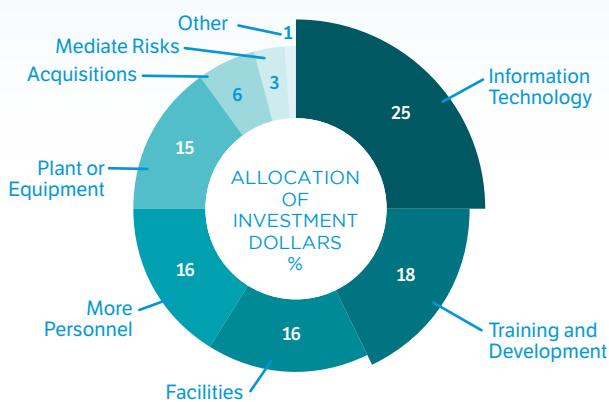
Capital Investment

The gap between investors and savers continues to widen, with nearly two-thirds of companies willing to immediately put an extra dollar to work in their businesses.

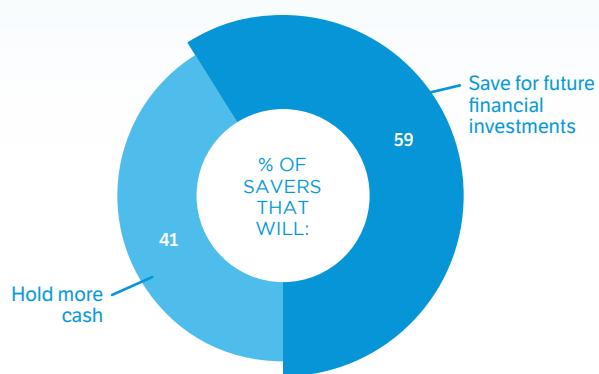
Percent of middle market executives who would invest vs. save an extra dollar



A quarter of investors would allocate dollars toward IT initiatives.



The majority of savers have future financial investments in mind.



Key Challenges

In 2025, companies expect to continue to contend with costs, staffing and operational challenges as they adapt to changes in government policies.

ECONOMIC CHALLENGES AND RISING COSTS

- Inflation, interest rate volatility and escalating costs for materials, labor and energy

WORKFORCE AND STAFFING ISSUES

- High turnover, talent shortages and difficulties in hiring, retaining and training skilled employees

TECHNOLOGY AND OPERATIONAL ADAPTATION

- Supply chain disruptions and adopting AI to enhance efficiency, manage rising costs and maintain competitiveness

MARKET AND REGULATORY PRESSURES

- Competition, challenges in market expansion, regulatory uncertainty and shifting government policies



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