1Q 2013

MIDDLE MARKET INDICATOR

NATIONAL CENTER FOR
THE MIDDLE MARKET

In Collaboration With
THE OHIO STATE UNIVERSITY FISHER COLLEGE OF BUSINESS
GE Capital

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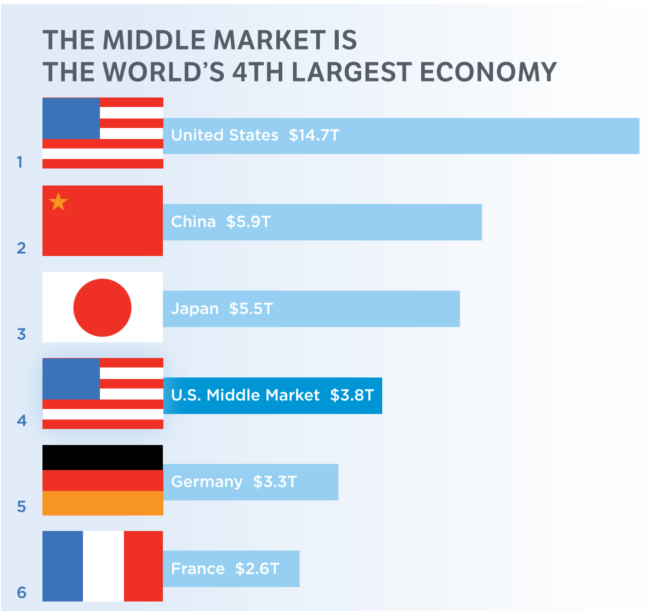
Middle Market Indicator

from The National Center for the Middle Market



Source: CIA World Fact Book, BEA, U.S. Census, National Center for the Middle Market survey

The Middle Market Indicator (MMI) from The National Center for the Middle Market is a quarterly 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 approximately 197,000 U.S. middle market businesses that represent one-third of private sector GDP, employing approximately 43 million people. These businesses outperformed through the 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: "Leading from the Middle," 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 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 197,000 U.S. businesses with revenues between $10MM and $1B, the upper and lower limits on middle market annual revenue. The quarterly survey is designed and managed by The National Center for the Middle Market.

ABOUT THE NATIONAL CENTER FOR THE MIDDLE MARKET

Founded in 2011 in partnership with GE Capital, and located at The Ohio State University Fisher College of Business, The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research 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. The Center's website, which offers a range of tools and resources for middle market companies, can be visited at www.middlemarketcenter.org.

Executive Summary

Middle market companies continue to show consistent growth, although at lower levels than they were seeing at the end of 2012. Many of the same challenges – higher tax rates, a lack of clarity concerning healthcare costs, and the ability to grow margins – persist as leading concerns for managers as they move further into 2013.

Confidence among middle market managers is improving in their expectations for the global, U.S. and local economies. Companies also are increasingly planning to invest extra cash instead of holding onto it, spending that could prove to be a positive sign for the future as the middle market remains a potent engine for growth and employment for the entire U.S. economy.

Employment prospects for middle market companies also are improving with more companies indicating their likelihood to add employees in 2013 – a trend that would continue to position the middle market as a critical job generator within the U.S. Companies, however, remain challenged with finding the right workers, and managers cite a gap in skills as one of their biggest barriers to adding jobs.

Overall, the middle market remains positive about their current and future growth prospects with sentiment returning to levels seen at the beginning of last year.

"We have rolled out several new product lines in the past few years. We will continue to invest in our core products and digital offerings."

— President, Business Services, $20MM annual revenue, 50 employees

Key Findings:

MIDDLE MARKET COMPANIES CONTINUE TO GROW, UP 5.8% FOR THE PAST 12 MONTHS

Revenue continues to grow with 63% of firms saying that gross revenue grew during the past 12 months. That's down slightly from the fourth quarter of 2012. The mean revenue growth fell to 5.8%, with most of the decline coming from the largest middle market companies.

Companies also expect performance in the coming year to be better with 64% projecting revenue to grow, although at a slightly lower average of 4.9% than the 5.2% average at the end of the fourth quarter.

CONFIDENCE IS RETURNING

Companies slowly are becoming more confident in the global and U.S. economies, while most remain confident in their local economies. More middle market companies said they were somewhat confident in the global economy (34% up from 29% a year earlier). Those "somewhat confident" in the U.S. economy grew to 43%. Those "somewhat confident" in the local economy remained at 46%.

Middle market companies also are increasingly confident that the global and U.S. economies will grow in the next 12 months with 38% expecting growth in the global economy and 58% expecting the U.S. economy to expand.

INVESTMENT IS PREDICTED TO INCREASE

Since the second quarter of 2012, the number of managers who plan to invest extra cash has increased with 63% now looking for opportunities to invest. That's up from 50% in the second quarter. The number of companies planning to hold onto cash has steadily decreased in the same period to 37% from 49%.

EMPLOYMENT GROWTH FORECASTED TO CONTINUE

More than a third of Middle Market companies plan to add employees in the next year. The mean growth in number of employees is expected to be 2.1%, a slight decline from 2.3% in the fourth quarter, but still evidence that companies will continue to hire workers. Growth is similar across the middle market with all industry sectors anticipating at least marginal employment increases during the year.

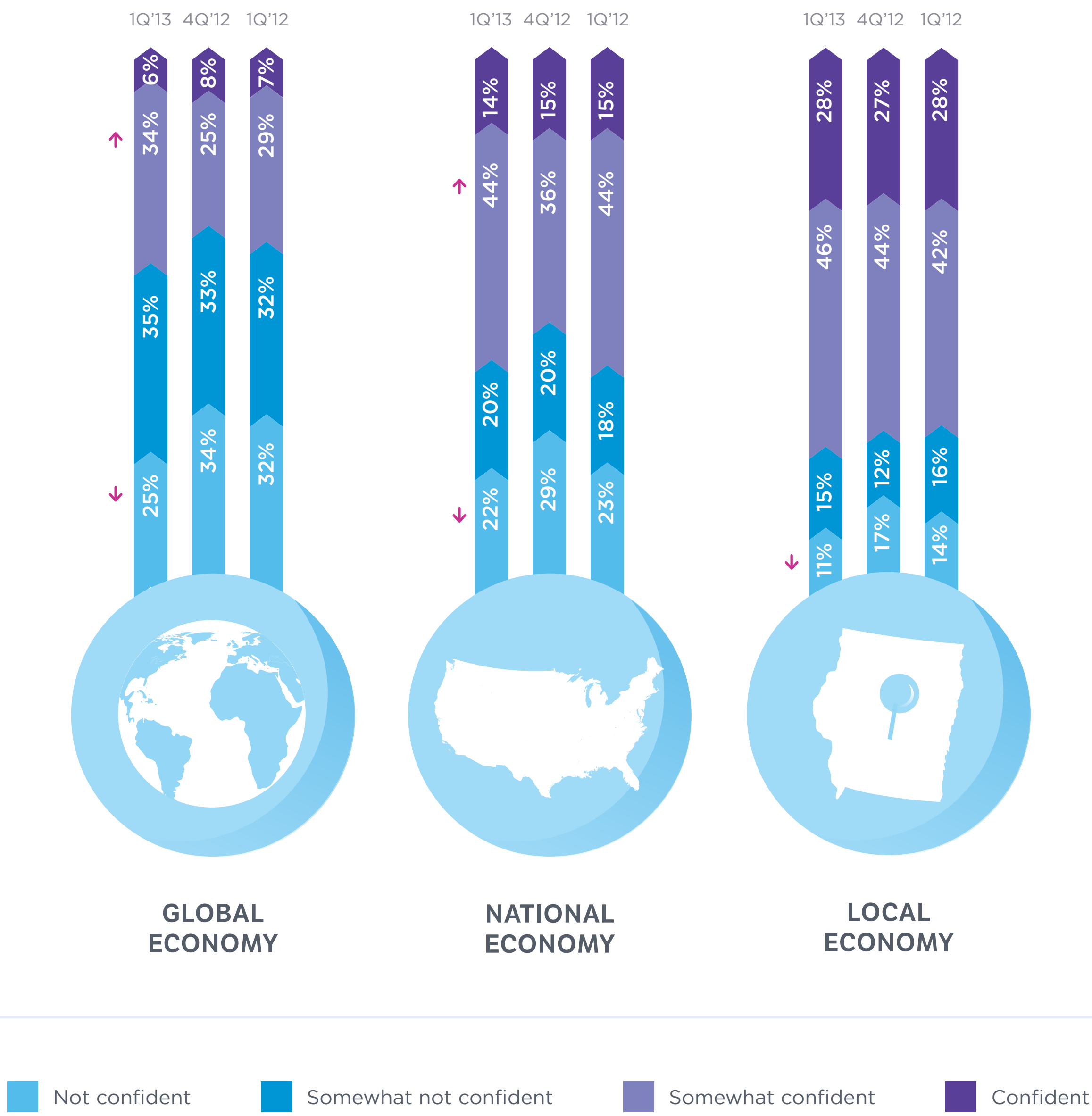
CHALLENGES INCLUDE HEALTHCARE, TAXES, AND THE SKILLS GAP

The middle market continues to cite the cost of healthcare as the main challenge to their businesses; this remains unchanged as the leading issue for these companies over the past 12 months. Companies also say the cost of doing business, the ability to continue to grow revenue, and maintaining margins will remain challenging in 2013.

Uncertainty over higher taxes and skills gap issues are also holding down growth rates: Companies say higher taxes would affect their businesses. Of those 71% that felt higher taxes would affect business, many would adopt painful mitigating strategies with 30% likely to institute a hiring freeze. Also, 30% of respondents would decrease investment, while 29% would reduce employee benefits and 20% would lay off employees.

Firms also were concerned about their abilities to maintain margins and the rising cost of doing business. This is unchanged from much of the year's responses.

Economic Confidence Indicators



Growth Indicators

Revenue Growth

MIDDLE MARKET

PAST 12 MO.		NEXT 12 MO.	
1Q'13 5.8%		1Q'13 4.9%	
4Q'12 7.0%	1Q'12 6.9%	4Q'12 5.2%	1Q'12 5.2%

S&P 500

PAST 12 MO.		NEXT 12 MO.	
1Q'13 5.6%		1Q'13 2.8%	
4Q'12 2.9%*	1Q'12 9.4%	4Q'12 3.5%	1Q'12 4.7%

Employment Growth

MIDDLE MARKET

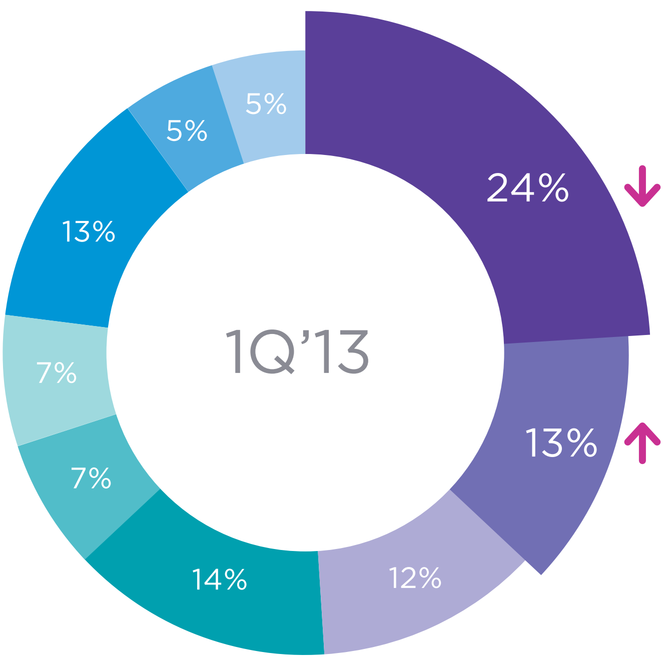
PAST 12 MO.		NEXT 12 MO.	
1Q'13 2.2%		1Q'13 2.1%	
4Q'12 2.7%	1Q'12 1.5%	4Q'12 2.3%	1Q'12 N/A

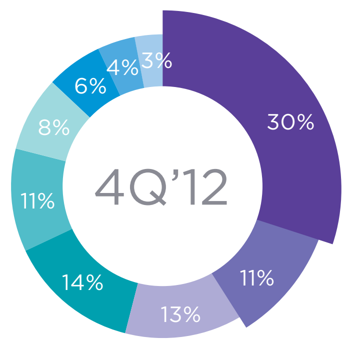
ADP (PAST 12 MO.)

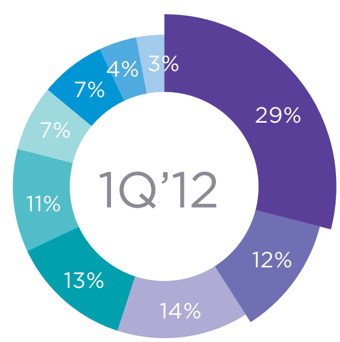
LARGE CORP.		SMALL BUS.	
1Q'13 2.3%		1Q'13 1.5%	
4Q'12 2.1%	1Q'12 1.7%	4Q'12 1.2%	1Q'12 1.9%

*4Q Sales/Share Data not available so estimate was used for calculation.

Incremental Investment Allocation







- Hold Cash
- Hold It for Investing
- Information Technology
- Capital Expenditures — Plant or Equipment
- Acquisitions
- Capital Expenditures — Facilities
- HR — More Personnel
- HR — Training & Development
- Other

Recent & Expected Growth

Revenue

The performance of middle market companies remained steady in the first quarter of 2013 compared with the same period a year ago. Of the companies surveyed, 58% said business in the first quarter improved compared with the first quarter of 2012. That's slightly down from 62% in the previous year's period. But those who said business deteriorated dropped to 10% from 13% a year ago.

Average revenue growth of 5.8% dipped marginally from 6.9% in the first quarter of 2012, but is still slightly better than the third quarter's growth of 5.5%.

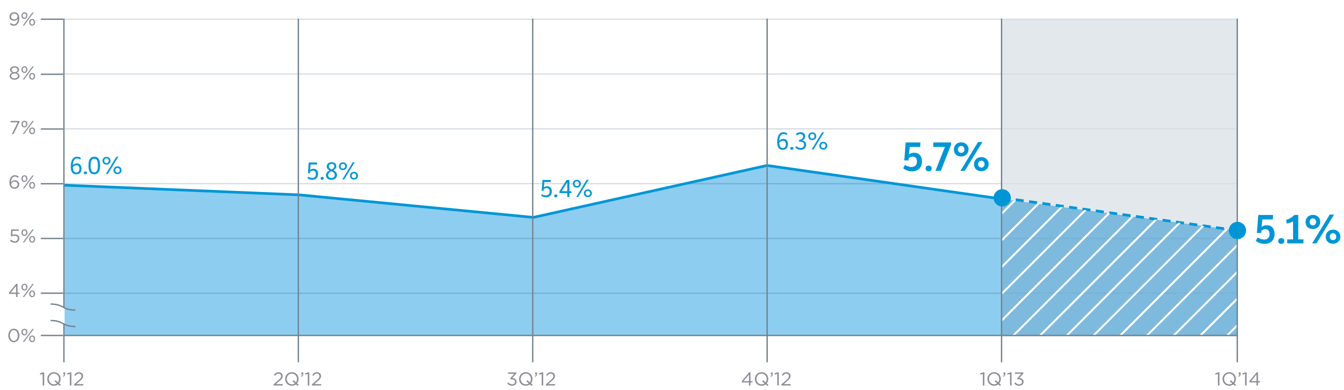
While revenue growth was down across the board, larger middle market companies, those with more than $100 million in annual revenue, had the biggest decline in growth with the average dropping to 5.8% from 8.3% in last year's first quarter. While companies with smaller revenues also showed signs of slowing growth, they still haven't dropped below the lowest levels in 2012.

And most of the middle market expects the trend of revenue growth to continue albeit at a slower pace with an average predicted growth of 4.9% in the next 12 months. Companies of all sizes anticipate revenue growth while those with revenues less than $100 million expect slightly higher rates of growth than their larger counterparts.

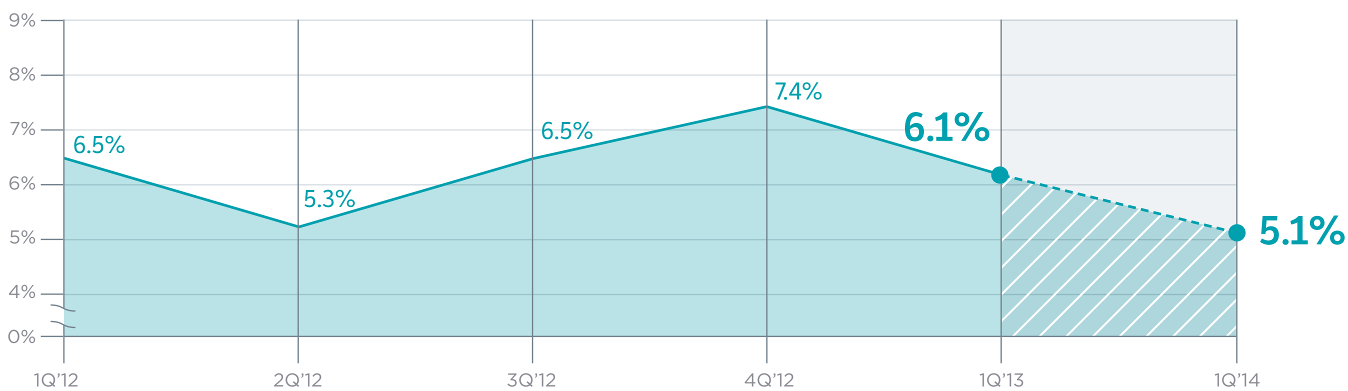
All sectors anticipate gains in the next 12 months with service companies expecting to post the strongest increases, expecting a mean growth rate of 7% in the next 12 months, up from 6.3% in the fourth quarter of 2012. Construction showed one of the larger declines in expected growth with levels returning to those at the beginning of 2012.

Revenue Growth By Segment

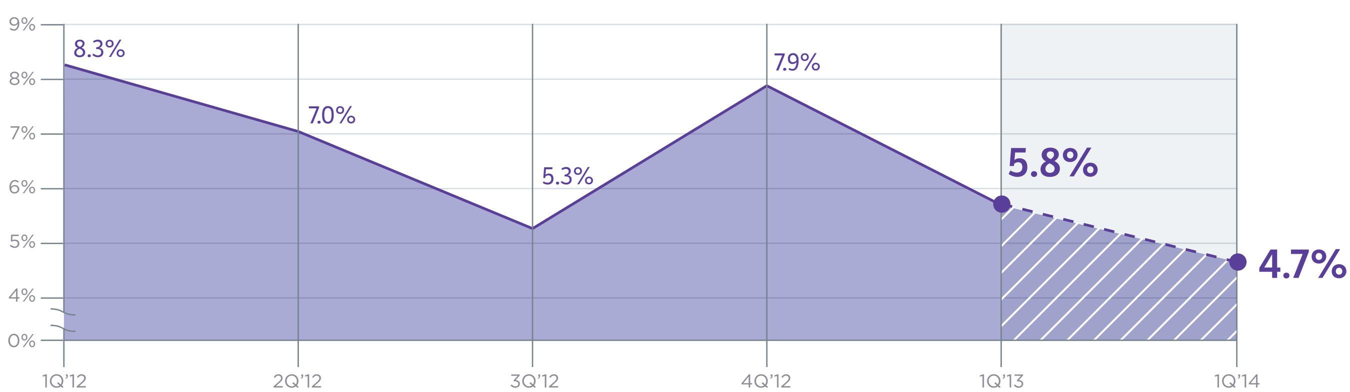
$10MM–<$50MM



$50MM–<$100MM



$100MM–$1B



Revenue Performance

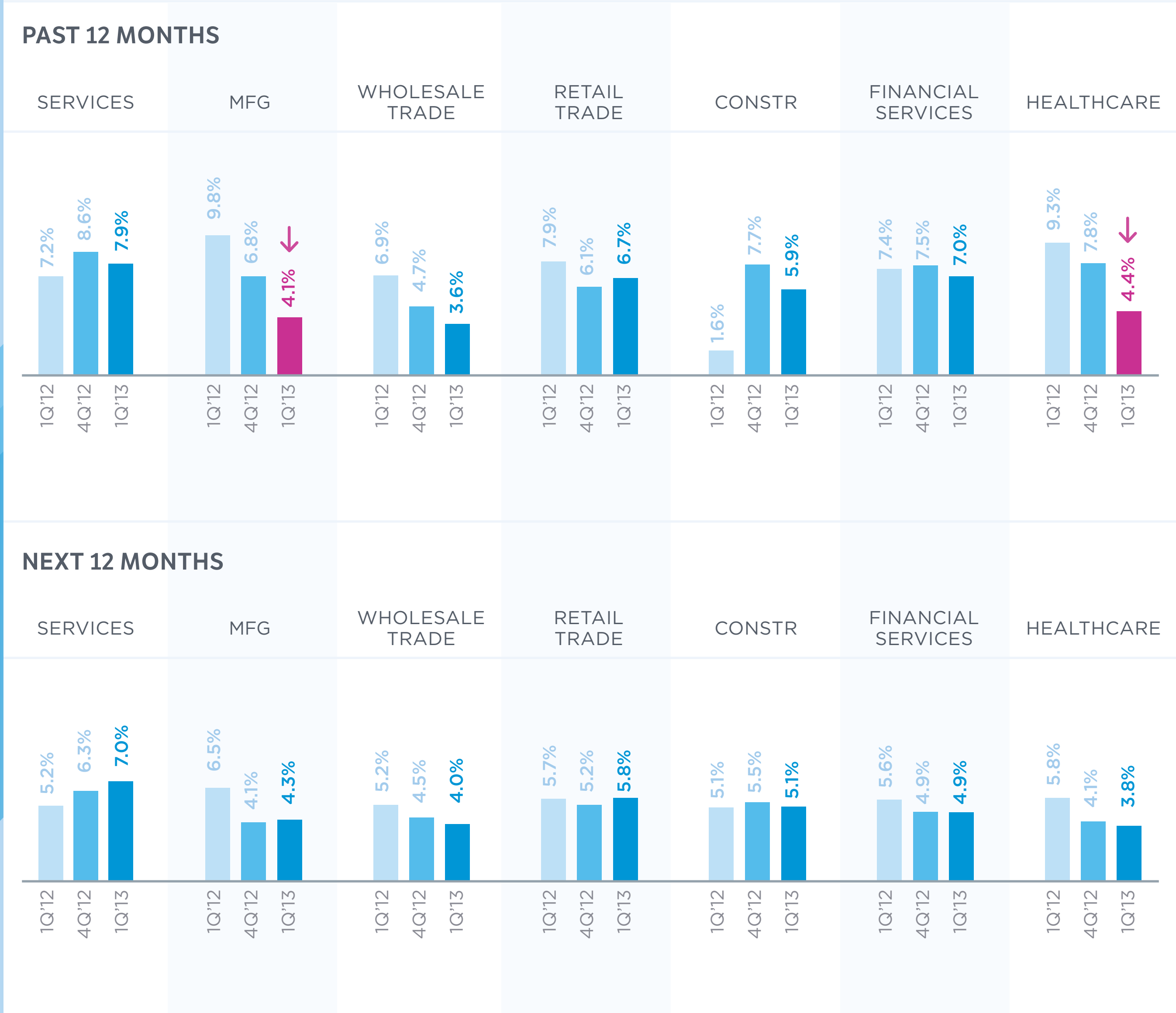
Year over year gross revenue continues to grow, although not at the higher rate reported at the end of 2012.

		PAST 12 MONTHS	NEXT 12 MONTHS
+10% OR MORE	1Q'13	29% ↓	22%
	4Q'12	35%	23%
	1Q'12	38%	28%
+5% OR MORE	1Q'13	19%	21%
	4Q'12	17%	21%
	1Q'12	18%	21%
+1–4%	1Q'13	15%	22%
	4Q'12	12%	20%
	1Q'12	14%	20%
NO CHANGE	1Q'13	21%	29%
	4Q'12	22%	31%
	1Q'12	14%	22%
-1-4%	1Q'13	4%	3%
	4Q'12	4%	2%
	1Q'12	3%	2%
-5-9%	1Q'13	6% ↑	2%
	4Q'12	3%	2%
	1Q'12	4%	3%
-10% OR MORE	1Q'13	6%	2%
	4Q'12	7%	3%
	1Q'12	9%	4%

	PAST 12 MONTHS	NEXT 12 MONTHS
TOTAL GROWTH	1Q'13 5.8%	1Q'13 4.9%
	4Q'12 7.0% 1Q'12 6.9%	4Q'12 5.2% 1Q'12 5.2%

Revenue Performance by Industry

Revenue growth has maintained the levels seen in the fourth quarter of 2012 in all industry segments.



Recent & Expected Growth

Employment

The middle market also is adding jobs with 38% saying their workforce has increased from the same period last year. The average growth for middle market companies was 2.2%, compared with 1.5% in the first quarter of 2012.

Companies of all sizes and across industry sectors are adding jobs. Much like revenue, the services sector added the most employees, with an average growth of 4%. Healthcare added 1.9%, which was on the lower side, but not unexpected given continued uncertainty about implementation of expected reforms.

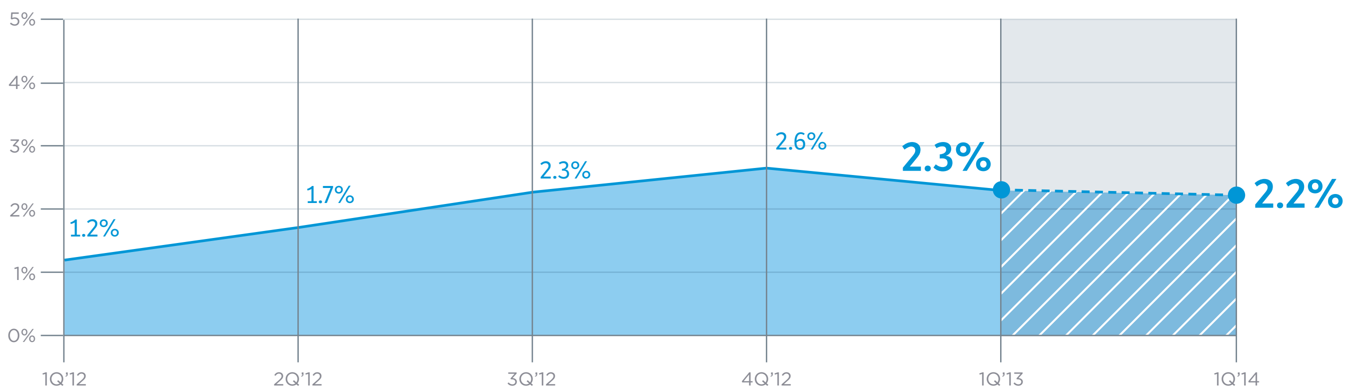
Employment gains likely will continue as 38% of middle market companies say they plan to add workers in the coming year. The overall average expected increase in employment is 2.1%, an increase from 1.8% in the first quarter of 2012. Middle market companies of all sizes and in every sector plan to add workers.

About one in five companies said they plan to introduce a new product or service in 2013, a strong signal that the middle market is healthy and poised for growth. Of executives surveyed, 18% said they would add new products while 15% planned to expand into new domestic markets.

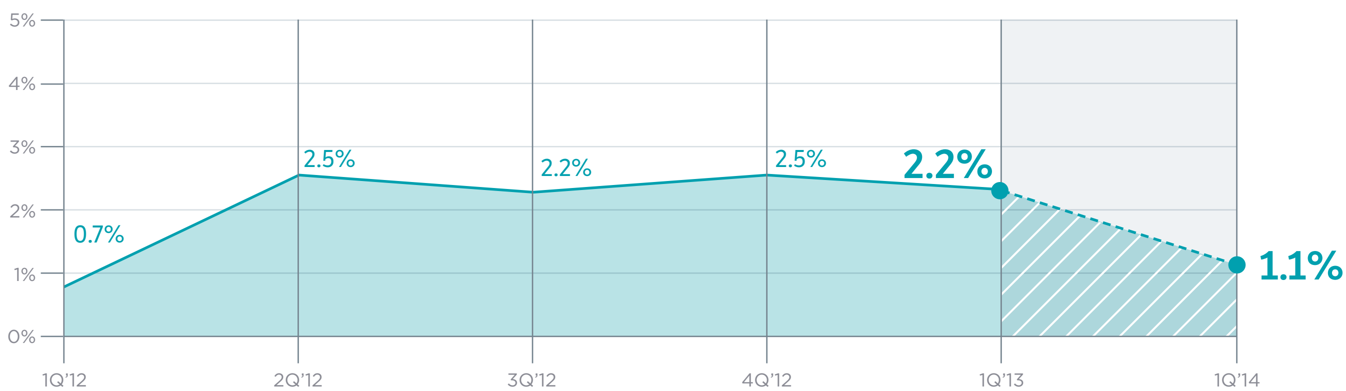
With nearly a third of the private sector GDP and employment in the U.S. coming from the middle market, such plans for expansion should help boost the U.S. economy in 2013.

Employment Growth By Segment

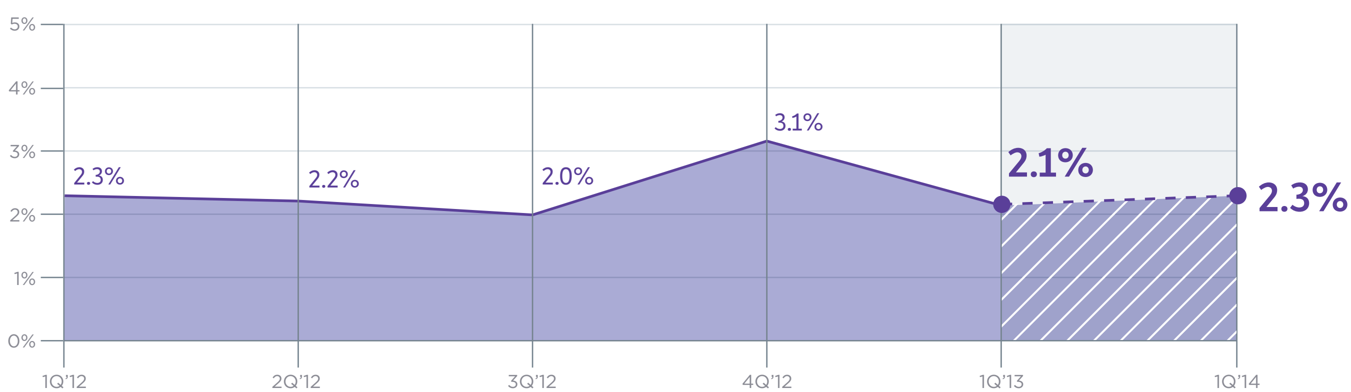
$10MM–<$50MM



$50MM–<$100MM



$100MM–$1B



Employment Performance

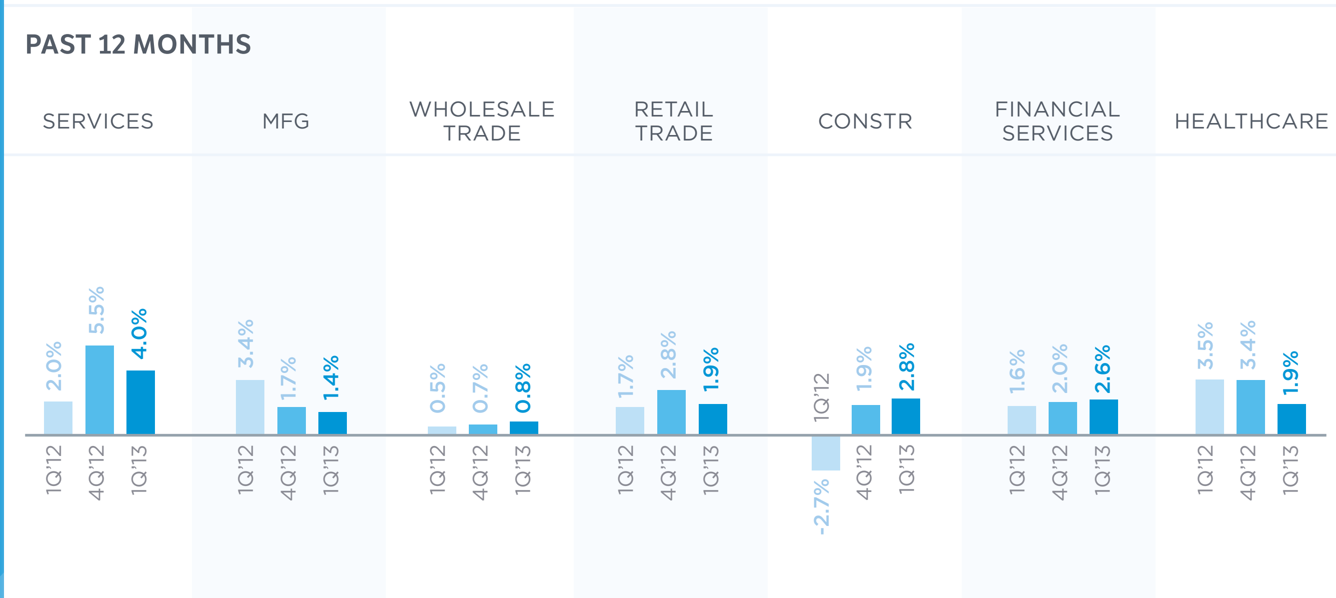
Employment continues to show growth compared to the same time period one year ago.

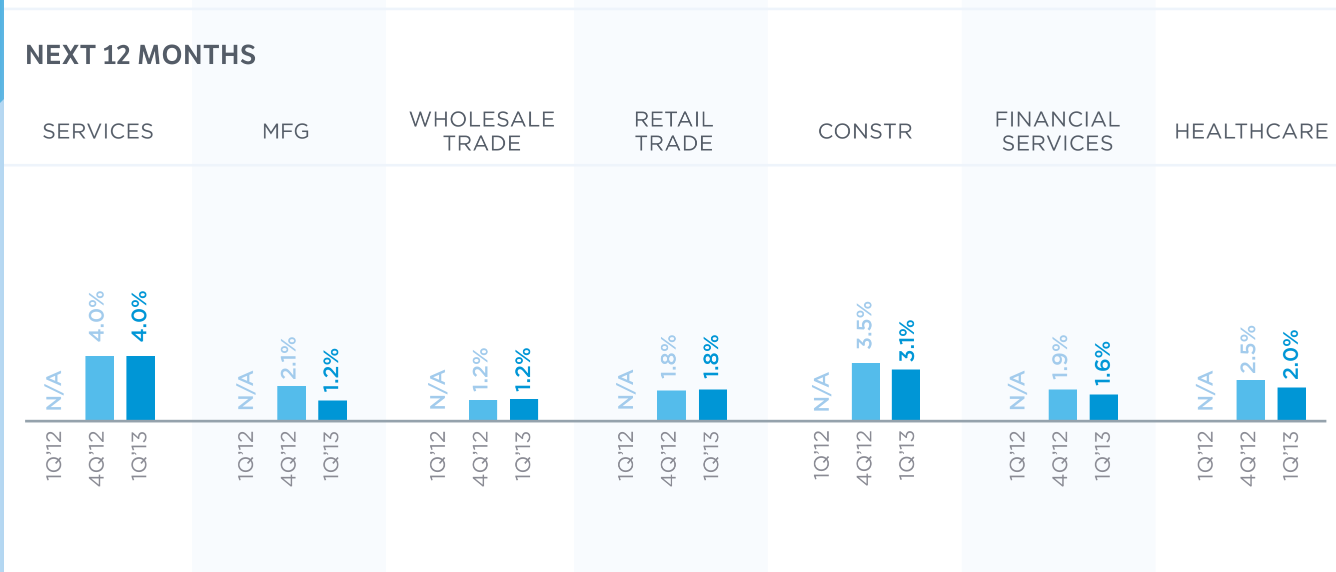
		PAST 12 MONTHS	NEXT 12 MONTHS
+10% OR MORE	1Q'13	18%	13%
	4Q'12	19%	13%
	1Q'12	17%	N/A
+5% OR MORE	1Q'13	9%↓	10%↓
	4Q'12	13%	14%
	1Q'12	11%	N/A
+1-4%	1Q'13	11%	15%
	4Q'12	10%	14%
	1Q'12	8%	N/A
NO CHANGE	1Q'13	43%	51%
	4Q'12	42%	49%
	1Q'12	42%	N/A
-1-4%	1Q'13	4%	3%
	4Q'12	4%	3%
	1Q'12	6%	N/A
-5-9%	1Q'13	6%	4%
	4Q'12	5%	3%
	1Q'12	6%	N/A
-10% OR MORE	1Q'13	9%	4%
	4Q'12	7%	4%
	1Q'12	10%	N/A

	PAST 12 MONTHS	NEXT 12 MONTHS
TOTAL GROWTH	1Q 2.2%	1Q 2.1%
	4Q 2.7% 1Q/12 1.5%	4Q 2.3% 1Q/12 N/A

Employment Growth by Industry

All industry sectors have enjoyed at least marginal employment growth since a year ago.





Confidence & Future Outlook

Confidence in the global and U.S. economies is improving gradually, but remains close to levels reported in the first quarter of 2012. Nearly half of middle market companies are at least “somewhat confident” in the U.S. economy with companies in the middle revenue segment showing the most confidence.

Middle market companies express the most confidence about their local areas with 28% “confident” in the economic outlook, little changed from most of 2012. Services, retail trade and healthcare companies showed the biggest gains in sentiment about the global economy.

In terms of future outlook, most companies believe that their local economies will grow. Gains seen at the company level in the fourth quarter of 2012 have held steady with 64% of firms expecting to grow in the next 12 months. Lower and mid-sized middle market companies are growing more confident about the prospects for the global economy with 63% of mid-sized companies ($50MM - $100MM) believing the U.S. economy will get better.

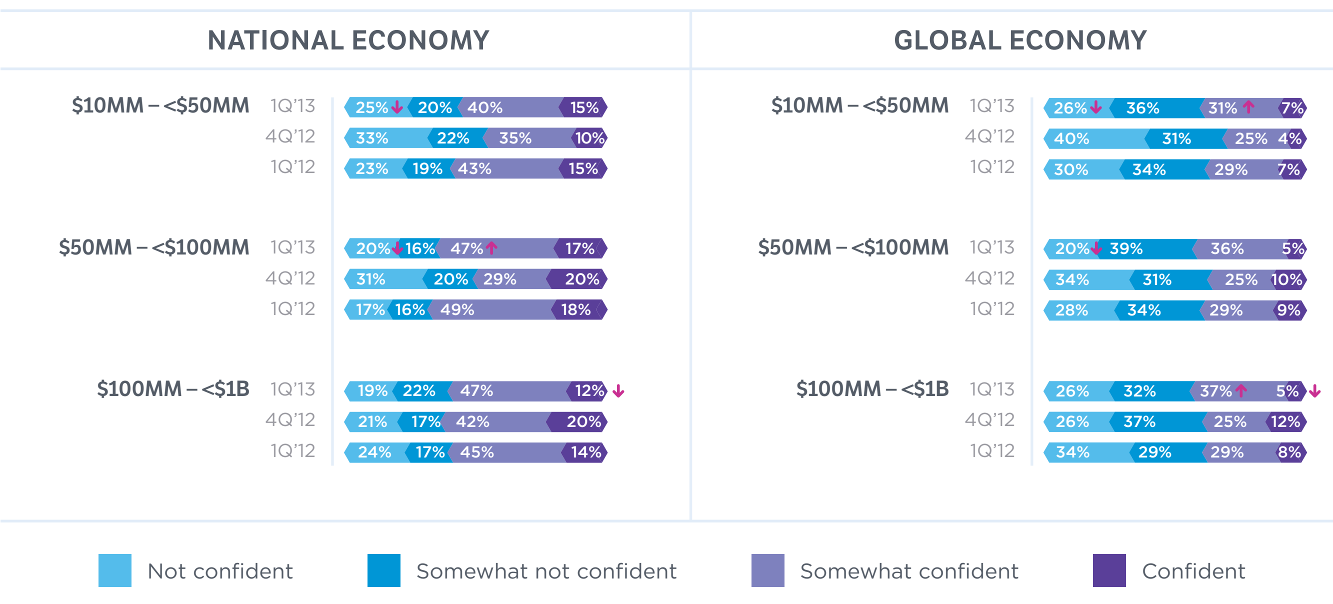
The services and financial sectors are the most optimistic about growth in the U.S. and global economies with 68% of services companies and 62% of financial companies saying the U.S. economy will expand.

“We have previously sourced some products from China but with environmental concerns, plant shutdowns, and supply chain disruptions we are being asked by customers to make more and more products. We have identified a few to make domestically and supply to North American customers.”

— CFO, Manufacturing, $55M annual revenues, 450 employees

Confidence by Revenue Segment

Middle market companies of all sizes are becoming more confident in the global economy.
Core middle market firms are driving increasing confidence in the national economy.



Confidence by Industry

Increases in confidence in the global economy are most apparent in the services, retail trade and healthcare industries.

Economic Growth Outlook by Revenue Segment

Small and mid-size middle market firms are increasingly optimistic about the growth prospects of the gloabal economy. More mid-size companies are also indicating an expectation of national economic growth.

Revenue Segment	Period	National Economy: Will Contract	National Economy: No Change	National Economy: Will Grow	Global Economy: Will Contract	Global Economy: No Change	Global Economy: Will Grow
$10MM – <$50MM	1Q'13	13%	32%	55%	17%	45%	38%
	4Q'12	13%	37%	50%	20%	51%	29%
	1Q'12	10%	29%	61%	23%	44%	33%
$50MM – <$100MM	1Q'13	8%	29%	63%	14%	44%	42%
	4Q'12	11%	40%	49%	20%	54%	26%
	1Q'12	5%	29%	66%	23%	32%	45%
$100MM – <$1B	1Q'13	10%	30%	60%	17%	45%	38%
	4Q'12	8%	31%	61%	18%	43%	39%
	1Q'12	7%	24%	69%	25%	33%	42%

Will Contract | No Change | Will Grow

Economic Growth Outlook

The increases in assessments for positive growth at the local economy and firm level observed in the fourth quarter of 2012 have held steady, while the number of companies expecting global and US economy growth has continued to climb steadily since the second quarter of 2012.

	Period	LOCAL ECONOMY	NATIONAL ECONOMY	GLOBAL ECONOMY
WILL GROW	1Q'13	58%	58%	38%
	4Q'12	60%	54%	32%
	1Q'12	62%	65%	38%
+5% OR MORE	1Q'13	19%	8%	6%
	4Q'12	18%	7%	5%
	1Q'12	23%	12%	8%
+1–4%	1Q'13	38%	50%	32% ↑
	4Q'12	42%	47%	27%
	1Q'12	39%	53%	30%
NO CHANGE	1Q'13	38%	31%	45%
	4Q'12	34%	35%	49%
	1Q'12	31%	27%	39%
WILL CONTRACT	1Q'13	5%	12%	17%
	4Q'12	6%	11%	19%
	1Q'12	7%	8%	23%
-1–4%	1Q'13	3%	6%	11%
	4Q'12	3%	6%	12%
	1Q'12	3%	4%	12%
-5% OR MORE	1Q'13	2%	5%	6%
	4Q'12	3%	5%	7%
	1Q'12	4%	4%	11%

TOTAL GROWTH	LOCAL ECONOMY	NATIONAL ECONOMY	GLOBAL ECONOMY
1Q'13	2.0%	1.0%	0.3%
4Q'12	2.0%	09%	0.0%
1Q'12	2.2%	1.6%	0.2%

Economic Growth Outlook by Industry

The outlook for the global and national economy is most improved in the services and financial sectors.

Challenges

"We'll do what we can to avoid additional taxes, especially by avoiding hiring unless absolutely necessary. We can't pass on any additional costs, so increased taxes will reduce our profits."

— President, Business Services, $20MM annual revenue, 50 employees

"We are planning on keeping our health and medical programs as close to before as possible. Our biggest concern is how much additional everyone will have to pay because of this program that will not benefit our employees."

— CFO, Manufacturing, $55MM annual revenues, 450 employees

Despite receiving some clarity around new healthcare laws, the U.S. debt debate and budget negotiations, middle market companies expressed concern about lingering challenges going into 2013.

Uncertainty over healthcare costs remains the biggest challenge for the middle market with 92% of respondents calling it somewhat or highly challenging. This is unchanged from previous quarters and remains a constant across size, industry and confidence level.

Besides healthcare, executives are concerned about the cost of doing business (89% of respondents called this highly or somewhat challenging) and the ability to continue to grow revenue (88%). Margins also are coming under pressure, with 84% of managers citing it as an area to watch.

While many companies continue to face the same pressures, a healthy majority of the middle market plans to invest extra cash in 2013. Companies have increasingly said they plan to invest cash instead of holding onto it. As of the first quarter, 63% of middle market companies plan to invest cash, up from a low of 51% in the socond quarter of 2012.

In looking at projected spending by industry, the construction sector reversed the fourth quarter trend and now plans to spend more cash than it will hold. Financial Services companies also are more likely to invest extra money than they were in the fourth quarter.

One other area to watch will be how companies handle tax increases. The vast majority of respondents said that higher tax rates would cause them to hold off on hiring full-time workers, decrease investment, reduce employee healthcare benefits and could lead to lay-offs.

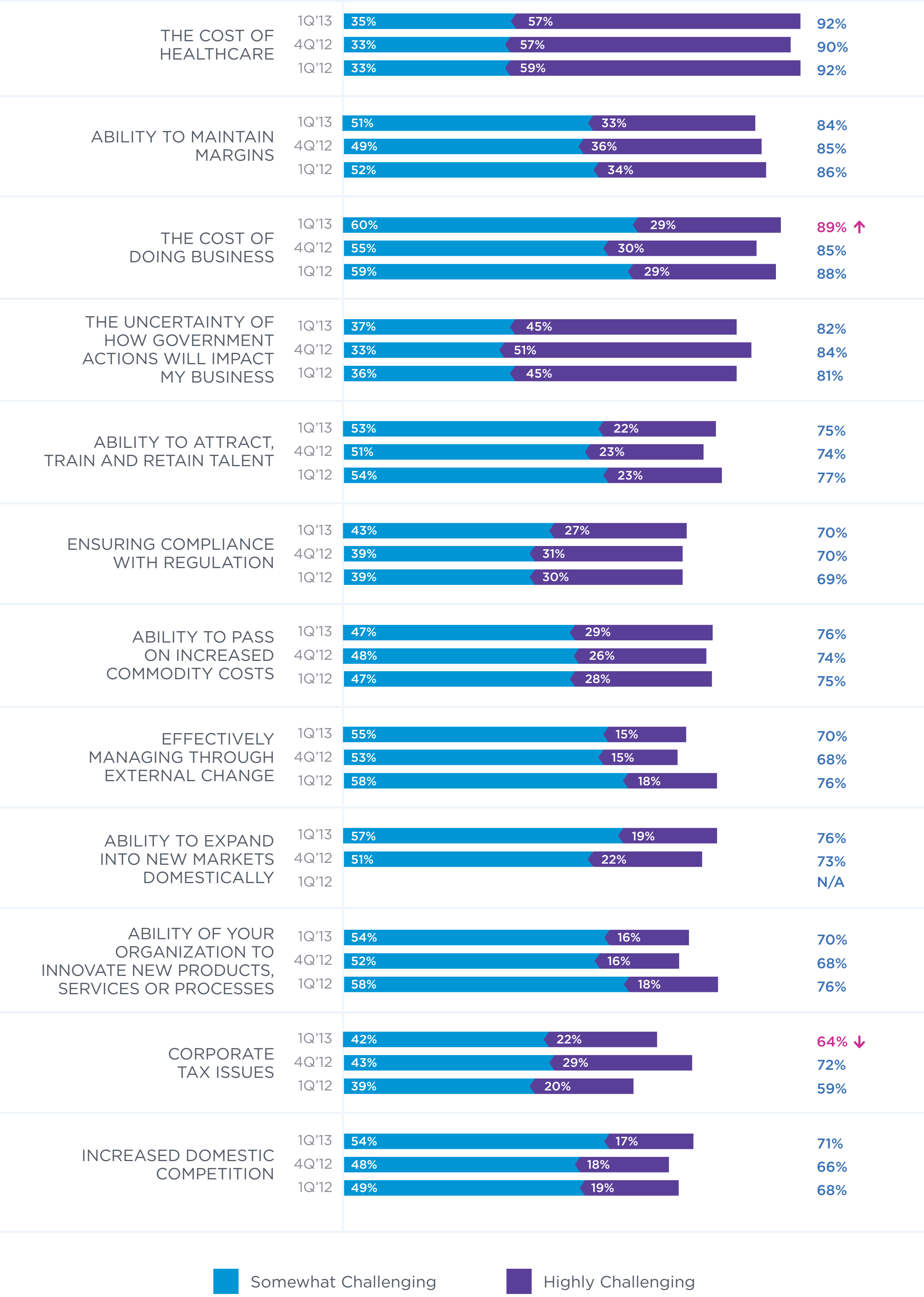
Base: Total Respondents: 4Q=1000; 3Q=1000; 2Q=1000; 1Q=1002.

Note: Arrows indicate significant difference compared to immediate previous time period.

Q11b. Shown below are different confronting businesses. Please indicate how much of a challenge each is for your business.

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. The uncertainty of government actions is also a key issue.



Perspectives

Despite challenges, middle market firms continue to hire new workers and perform during a crucial moment for U.S. economic growth. Employment and revenue growth continue to outpace average national growth.

With average revenue growth over the past 12 months of 5.8%, the middle market continues to show robust growth. In an economy that overall experienced a mere 0.4% GDP growth in the fourth quarter of 2012, the growth of the middle market is nothing short of remarkable. Even so, it is not all good news. The corresponding growth rate in the Q4 2012 survey was much higher, 7.0%, so that the current growth rate constitutes a softening of the middle market. Indeed, projected revenue growth rates for the next 12 months are also down, 4.9% in this survey relative to 5.2% in the previous survey. We attribute this softening to some lingering challenges faced by the middle market. In particular, there are concerns about healthcare costs, higher burdens arising out of tax reform, and a skills gap in the workforce. These concerns are later addressed in more detail.

ACTUAL GROWTH IN 2012 FOR THE MIDDLE MARKET HAS DONE WELL RELATIVE TO EXPECTATIONS

In the first quarter of 2012, middle market firms projected an average growth of 5.2% in the coming year. When asked about past year's growth at the beginning of 2013, firms reported an average of 5.8% increase in revenue. This is consistent with what we have noted before. Middle market managers display a conservative disposition, making subdued forecasts and delivering better performance.

Companies were able to continue hiring new workers, adding 2.2 million people to the payrolls from 2007 to 2011. Given that large business shed over 3 million jobs during the recession, middle market firms continued to be an important part of the economy, helping drive the recovery. The recent survey results are consistent with the ability of the middle market to create jobs during recessionary and normal periods. In this survey, we find that middle market grew employment by 2.2% in the past 12 months, and is projected to grow by 2.1% in the next 12 months. With a base likely in excess of 44 million jobs, that suggests this segment will add more than 900,000 jobs in the next year.

However, productivity, measured by the relationship of revenue to employees, may be reaching its limits since the gap between revenue and employment growth continues to narrow. As we go farther out in the recovery, this is not surprising.

FOR FUTURE GROWTH, GREATER CAPITAL INPUT MAY BE AN ALTERNATIVE FRUITFUL CHANNEL

And, there are signs that middle market firms are raising their investment levels. Middle market firms are now reporting the lowest percentage of respondents willing to hold an extra dollar as cash (or short-term securities) in the five quarters of our survey. Only 37% of the managers said that they would not invest the extra dollar. This percentage had been as high as 49% at one point in 2012. This shows that many firms are beginning to invest in future growth amid increased confidence in the environment.

But this willingness to invest could be temporary since increasing business costs may cause companies to again hold back from investments, and revert to holding cash. Middle market confidence in the U.S. and global economies has grown slightly, but still remains low. Since confidence and hiring are closely related, we could see firms pull back on the number of workers they add in 2013.

SOME OF THE UNCERTAINTY IS VERY LIKELY RELATED TO CONCERN OVER HEALTHCARE COSTS

With 92% of firms surveyed citing it as the most challenging issue they face, it appears that there is insufficient clarity or control yet on these costs.

We also see that middle market managers are concerned about tax reform and a skills gap in the workforce. Some 71% of the respondents reported that tax increases will affect their business decisions. To mitigate the effects of a tax increase, some 30% would consider a hiring freeze and 30% decreased investment. In addition, 29% would reduce employee benefits, and 20% would consider layoffs.

As larger firms cut workers during the recession, middle market companies were able to hire top talent, giving them an advantage as the economy picks up. Despite these gains, a third (37%) of executives cited finding qualified employees as a challenge. And among these managers, 84% feel that the skills gap has an adverse effect on their growth, 76% on their productivity, 74% on their ability to maintain current business, 73% on their competitiveness, 72% on creating a culture of innovation, and 69% on maintaining margins. Sales, operations, skilled trades and information technology were listed as some of the most difficult areas to find skilled employees.

Going forward, middle market companies will have to overcome challenges in several areas in order to continue growing. While confidence is increasing and companies indicate they're more willing to invest, significant challenges remain, dampening productivity and actual revenue growth.

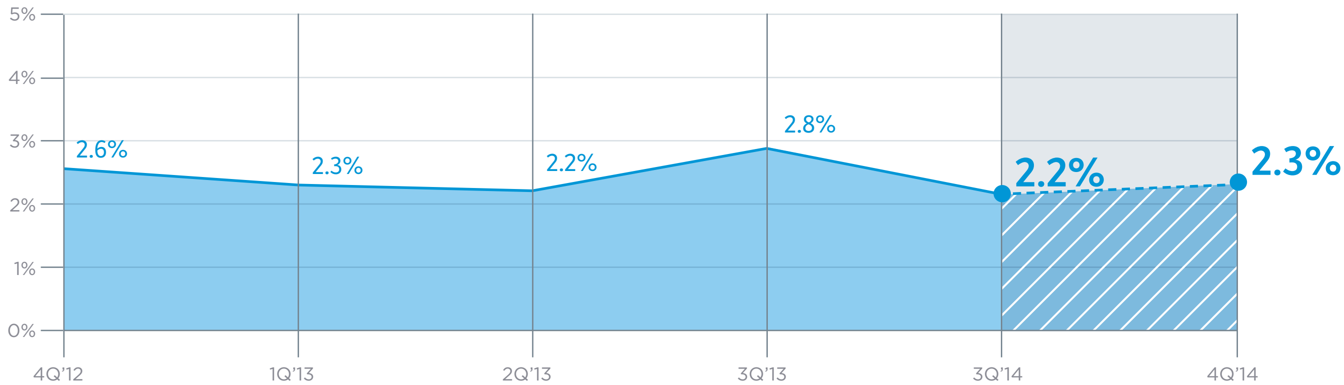
The National Center for the Middle Market is the leading source of knowledge, leadership, and innovative research focused on the U.S. Middle Market economy. The Center provides critical data, analysis, insights, and perspectives to help accelerate growth, increase competitiveness, and create jobs for companies, policymakers, and other key stakeholders in this sector. Stay connected to the Center by contacting middlemarketcenter@fisher.osu.edu.

Fisher College of Business at The Ohio State University is dedicated to training the next generation of business professionals through world-class faculty and a highly innovative curriculum elevated by close partnerships with industry leaders. The market has spoken: a recent survey of corporate recruiters conducted by The Wall Street Journal ranked Fisher second in the nation among business schools with the most sought-after graduates. Stay connected to Fisher via Twitter.

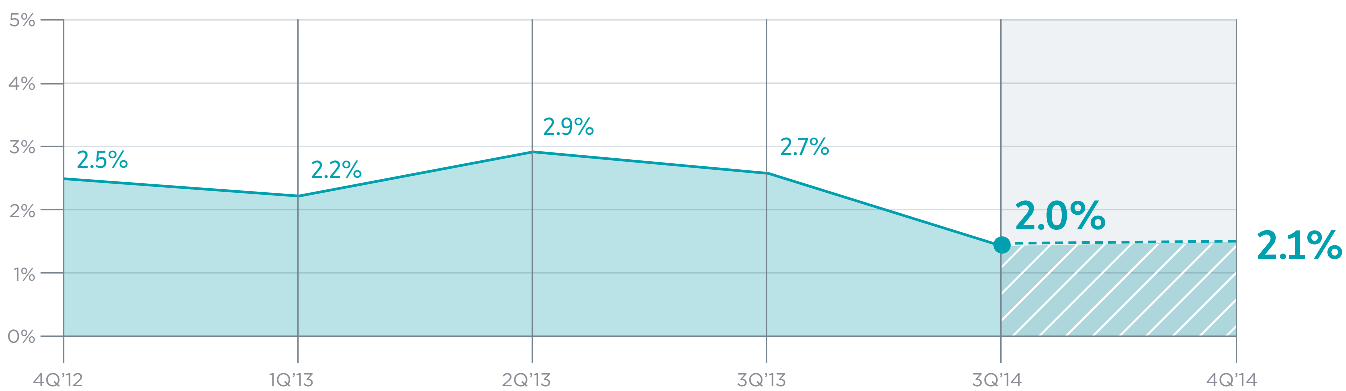
GE Capital offers consumers and businesses around the globe an array of financial products and services. For more information, visit gecapital.com or follow company news via Twitter. GE (NYSE:GE) is a diversified infrastructure, finance, and media company taking on the world's toughest challenges.

Employment Growth By Segment

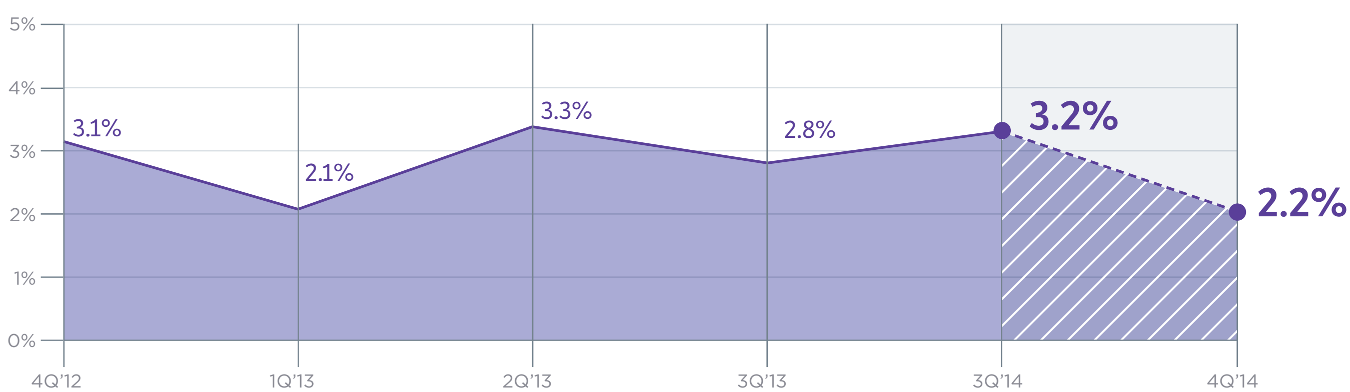
$10MM–<$50MM



$50MM–<$100MM

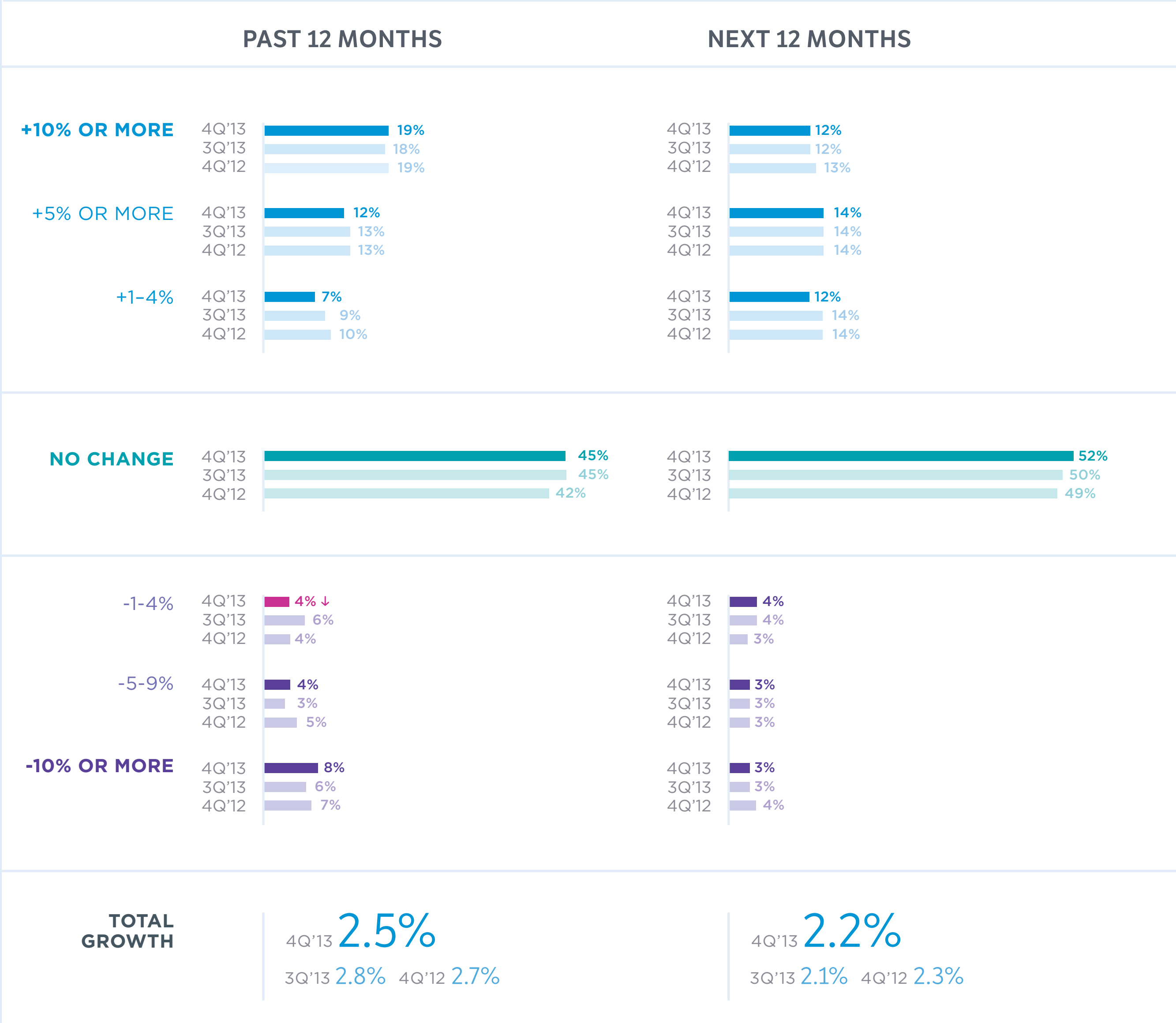


$100MM–$1B



Employment Performance

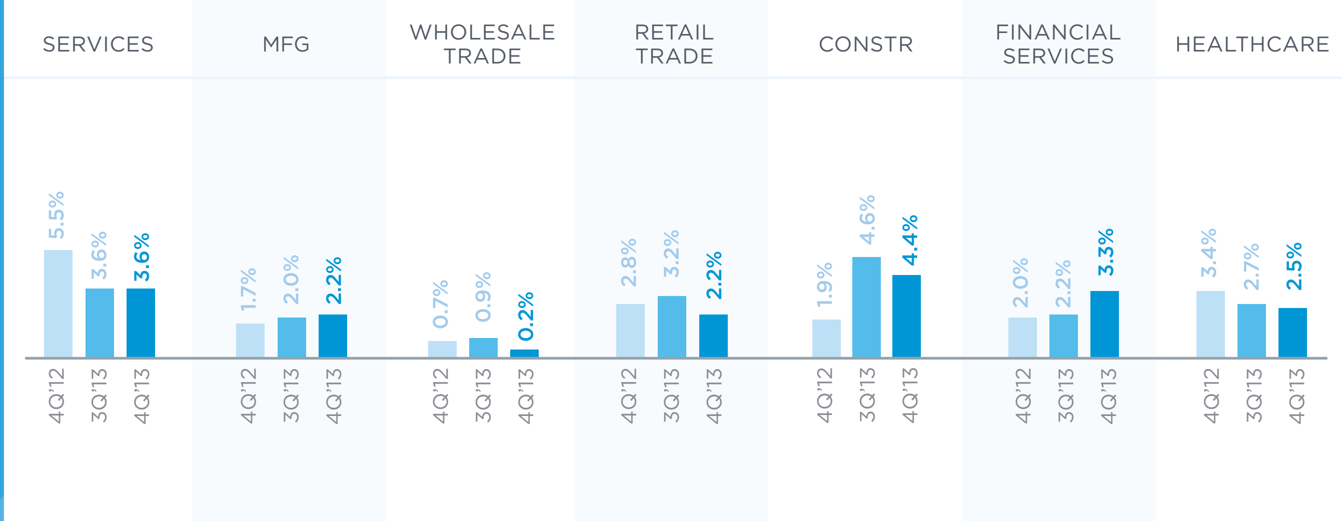
Employment growth is stable over the past year.



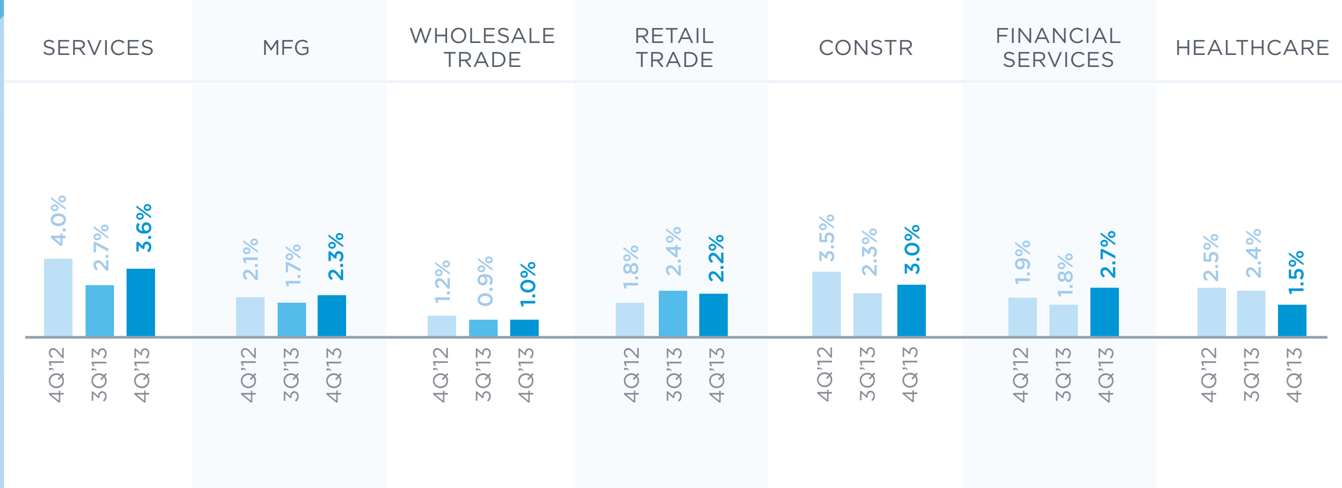
Employment Growth by Industry

Employment growth is stable across industries.

PAST 12 MONTHS



NEXT 12 MONTHS



Confidence & Future Outlook

Financial decision makers at middle market companies increasingly are confident in the global economy. A year ago, more than two-thirds of respondents were at least partially not confident about the global economic outlook. That sentiment has almost completely reversed, with 56% of executives saying they are at least somewhat confident in their global outlook.

However, there was a 25% increase in just three months in the number of executives who said they lacked confidence in the U.S. economy. The percentage of executives at least partially confident in the domestic economy overall increased slightly from 62% in the third quarter to 64% in the fourth. On a local level, there appears to be some stability in confidence, with 76% of middle market executives at least somewhat confident in the fourth quarter, compared with 77% in the prior quarter and 79% in the period before that.

Retail trade respondents had a far less negative outlook on the global economy. Only 12% of retailers said they lacked confidence in the global economy during the fourth quarter, down from 31% three months earlier.

Wholesalers had an increasingly negative outlook for the U.S., with 28% of respondents reporting they are not confident in the period, up from 11% in the third quarter.

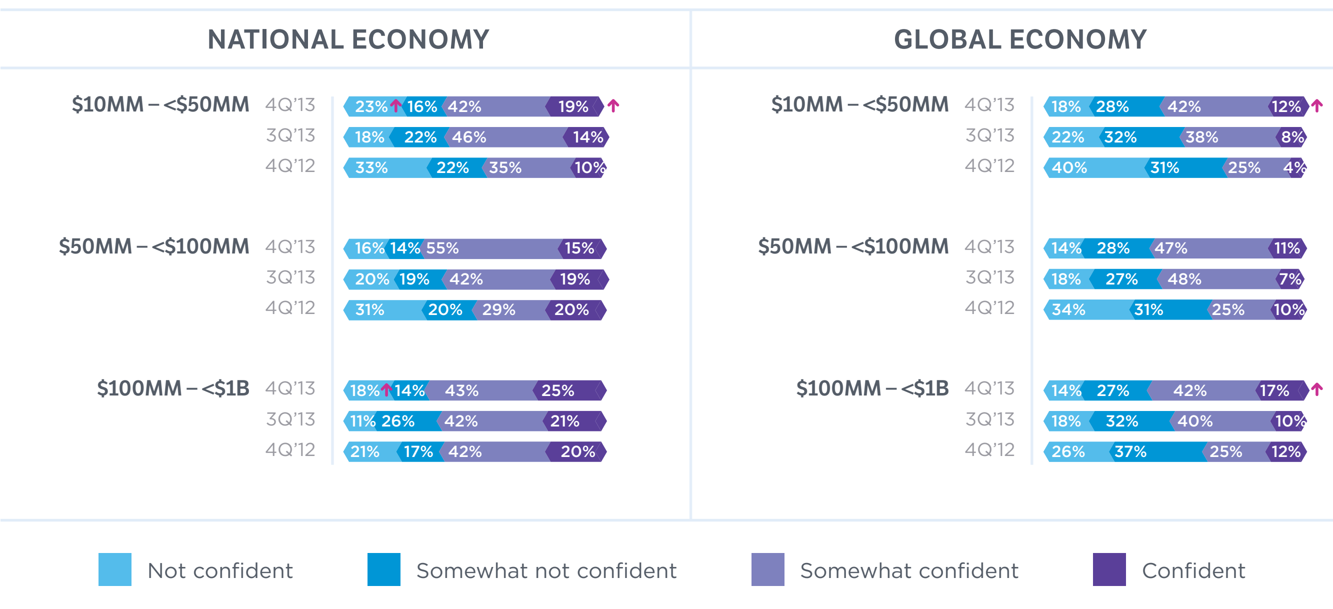
Growth expectations of the US economy are deteriorating among leaders of the smaller middle market firms, with 51% reporting in the fourth quarter that the U.S. economy will grow, down from 59% in the past three months.

"We anticipate top-line growth of 20% and hiring close to 15%. We do have momentum in spite of Washington and the economy as we have re-engineered the organization and executed on opportunities successfully."

— CFO, Services, $220MM annual revenue, 3,000 employees

Confidence by Revenue Segment

Confidence in the global economy is higher among all revenue segments.



Confidence by Industry

The proportion of retail trade business leaders with a negative outlook on the global economy has decreased significantly.

NATIONAL ECONOMY

Industry	Quarter	Not confident	Somewhat not confident	Somewhat confident	Confident
CONSTRUCTION	4Q'13	18%	20%	44%	18%
	3Q'13	16%	17%	47%	20%
	4Q'12	33%	17%	31%	19%
FINANCIAL SERVICES	4Q'13	19%	11%	47%	23%
	3Q'13	13%	17%	51%	19%
	4Q'12	30%	19%	39%	12%
HEALTHCARE	4Q'13	16%	18%	46%	20%
	3Q'13	19%	20%	48%	13%
	4Q'12	30%	17%	30%	23%
MANUFACTURING	4Q'13	18%	21%	49%	12%
	3Q'13	18%	23%	38%	21%
	4Q'12	27%	20%	41%	12%
RETAIL TRADE	4Q'13	22%	14%	39%	25%
	3Q'13	24%	12%	47%	17%
	4Q'12	25%	24%	35%	16%
SERVICES	4Q'13	10%	17%	47%	26%
	3Q'13	15%	18%	43%	24%
	4Q'12	18%	18%	39%	25%
WHOLESALE TRADE	4Q'13	28%	18%	42%	12%
	3Q'13	11%	37%	46%	6%
	4Q'12	39%	16%	37%	8%

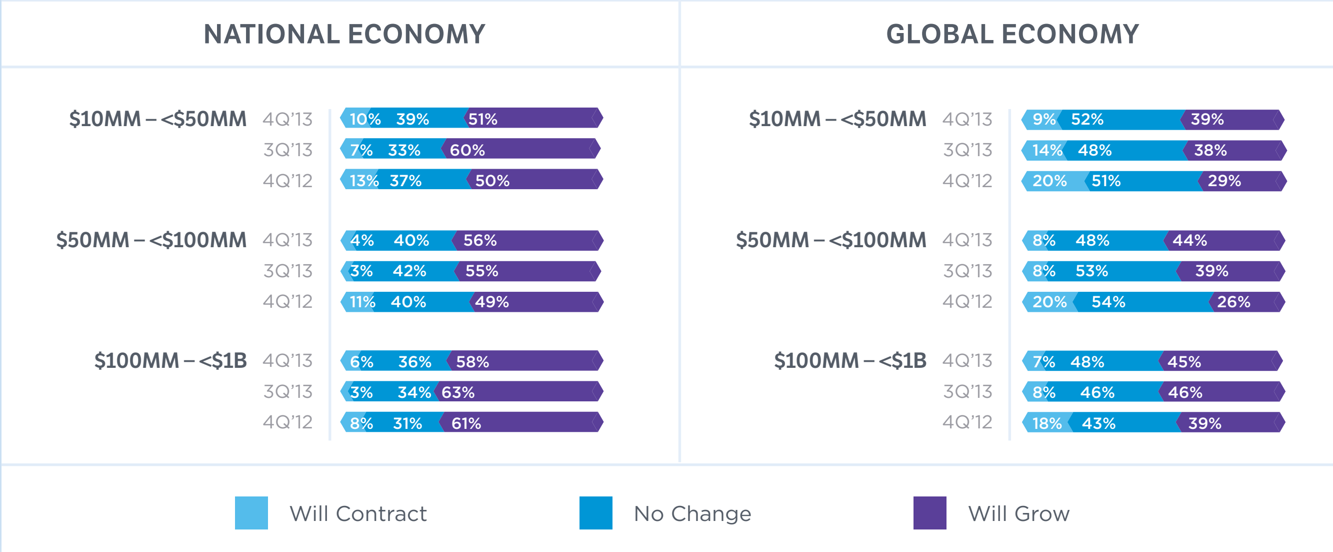
GLOBAL ECONOMY

Industry	Quarter	Not confident	Somewhat not confident	Somewhat confident	Confident
CONSTRUCTION	4Q'13	23%	27%	38%	12%
	3Q'13	23%	21%	51%	5%
	4Q'12	35%	27%	29%	9%
FINANCIAL SERVICES	4Q'13	16%	20%	48%	16%
	3Q'13	12%	33%	43%	12%
	4Q'12	33%	32%	31%	4%
HEALTHCARE	4Q'13	17%	23%	43%	17%
	3Q'13	21%	35%	35%	9%
	4Q'12	33%	31%	25%	11%
MANUFACTURING	4Q'13	13%	29%	46%	11%
	3Q'13	16%	28%	45%	11%
	4Q'12	27%	36%	30%	7%
RETAIL TRADE	4Q'13	12%	35%	42%	11%
	3Q'13	31%	27%	33%	9%
	4Q'12	33%	50%	13%	4%
SERVICES	4Q'13	11%	20%	57%	12%
	3Q'13	19%	25%	46%	10%
	4Q'12	30%	25%	30%	15%
WHOLESALE TRADE	4Q'13	18%	33%	38%	11%
	3Q'13	23%	32%	41%	4%
	4Q'12	46%	27%	22%	5%

Not confident | Somewhat not confident | Somewhat confident | Confident

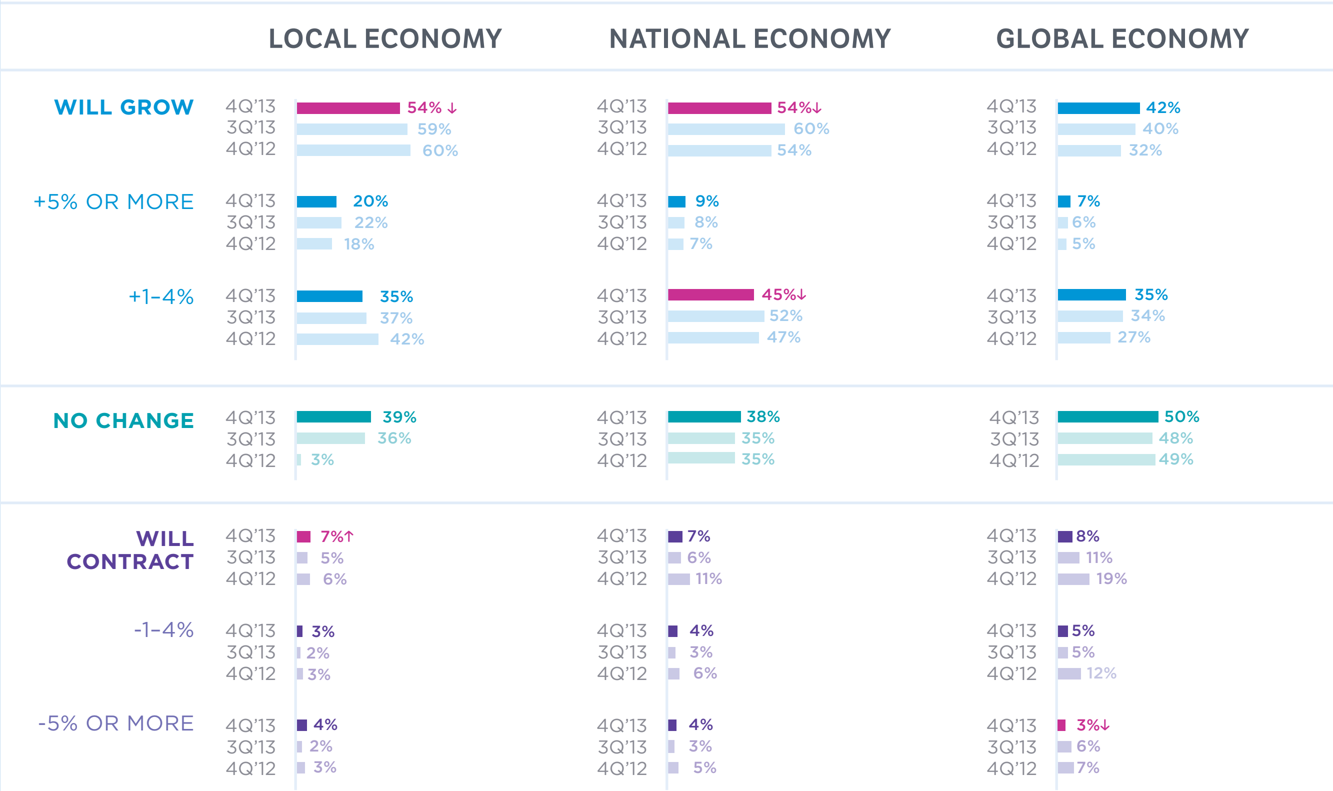
Economic Growth Outlook by Revenue Segment

Growth expectations of the U.S. economy are deteriorating among leaders of smaller MM firms.



Economic Growth Outlook

Despite decreasing expectations of the local economy growth rate, MM leaders expectations' for their own business growth remains strong.



TOTAL GROWTH	Local Economy	National Economy	Global Economy
4Q'13	1.9% ↓	1.3%	0.9% ↑
3Q'13	2.2%	1.4%	0.5%
4Q'12	2.0%	0.9%	0.0%

Economic Growth Outlook by Industry

Global and U.S. economic growth expectations are stable across industries.

Challenges

The most challenging issue to middle market executives remains healthcare costs, even as the U.S. enters into the implementation stage of the Affordable Care Act. Almost nine in ten executives cited the cost of healthcare as somewhat or highly challenging, extending its ranking as the No. 1 concern to more than a year. More than half of all respondents cited healthcare as highly challenging; it was the lone concern in which more than half of respondents said the issue was highly challenging.

The ability to grow revenue and maintain margins and the cost of doing business follow as other major concerns with 86% of all respondents citing both.

For the first time the Middle Market Indicator survey asked respondents about the impact of federal policy and 58% responded that uncertainty about federal policy impacts their business planning and almost two-thirds of those respondents said it has resulted in holding off on hiring, cutting back on expenses like travel and bonus, and shelving plans to invest their capital.

Middle market leaders expressed overwhelming disapproval of the rollout of the ACA, with 79% of respondents saying they disapproved of the President's rollout of the healthcare plan with most respondents (85%) saying the rollout was poorly handled and 66% disagreeing with having the individual mandate provision.

Debt ceiling concerns also continue to cast a shadow over the middle market with most respondents anticipating a serious negative impact on their business if the government defaults on its debt. The most likely outcome relates to decreased confidence in the creditworthiness of the U.S. economy.

Access to capital has remained stable overall. For healthcare providers and construction firms, the restrictive lending environment in the third quarter appears to have eased, with only half of respondents in those sectors saying that lending is more restrictive, down from 74% and 68%, respectively, in the third quarter for healthcare and construction respondents.

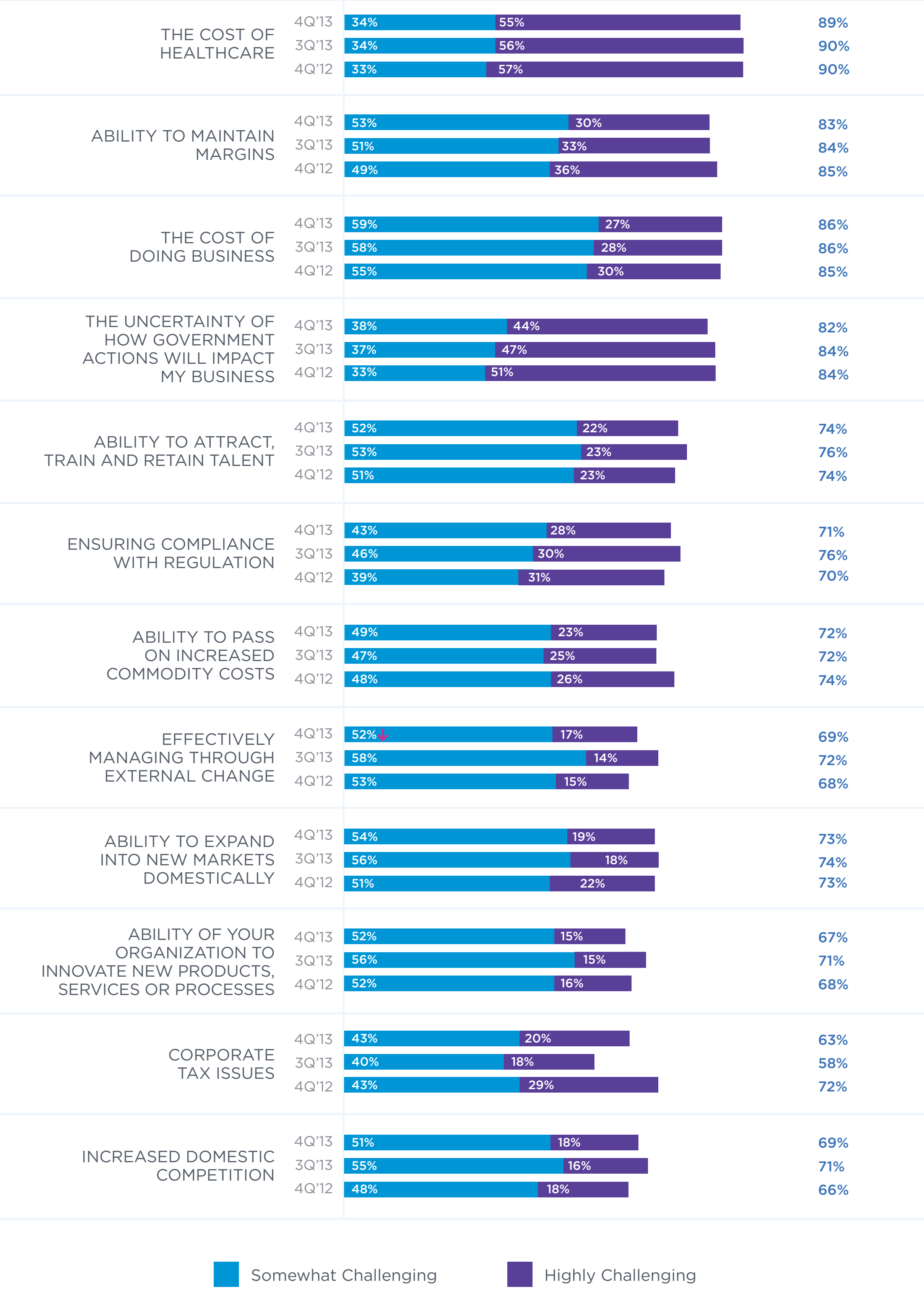
Meanwhile, executives said they are more likely to invest excess cash than hold it by a margin of almost 2-to-1. The percentage of those saying they are more likely to invest rose to 64%, matching the second quarter number, the highest level of the past five quarters.

"We'll invest in technology before people...government is making it too costly to hire people. Healthcare cost uncertainty only adds to the problem."

— CEO, Business Services, $55MM annual revenue, 270 employees

Key Challenges

Healthcare costs and other margin pressures are most challenging to Middle Market Leaders. The uncertainty of government actions is also a key issue.



Perspective

MIDDLE MARKET CONTINUES TO DELIVER CONSISTENT, STEADY, AND STRONG PERFORMANCE

One of the notable attributes of the middle market is that it has continued to deliver consistently strong performance in both recessionary and growth periods for the overall economy. When the annualized revenue growth for S&P 500 firms was meager (e.g., only 0.9% and 1.0% in Q3 and Q4 2013, respectively), middle market firms in our survey report growing revenue at an impressive 5.0% rate over the past 12 months. Going forward, there are signs that the U.S. economy may continue to gain momentum. According to the Conference Board, U.S. GDP is forecasted to grow at 2.3% in 2014 after growing at 1.6% in 2013. The upper range for GDP growth according to Morning Star is 2.5%. This is relatively slow compared to China's growth rate of 7.0%, but represents a marked change for the U.S. economy which was stuck at 2% in 2011 and 2012. So, it may be surprising for some that middle market growth is predicated to slow over the next 12 months - 4.3% in our survey - in a faster growing economy. However, to put this in perspective, a couple of observations are worth highlighting. One, we have seen a consistent pattern of conservative forecasting by middle market managers in past surveys. Thus, the 4.3% growth rate prediction is likely understated. Two, even at the 4.3% growth rate, the middle market is expected to grow at a significantly higher rate than revenue growth rates predicted for large firms. Thus, the middle market has been the bedrock of the economy, delivering strong performance throughout this recovery.

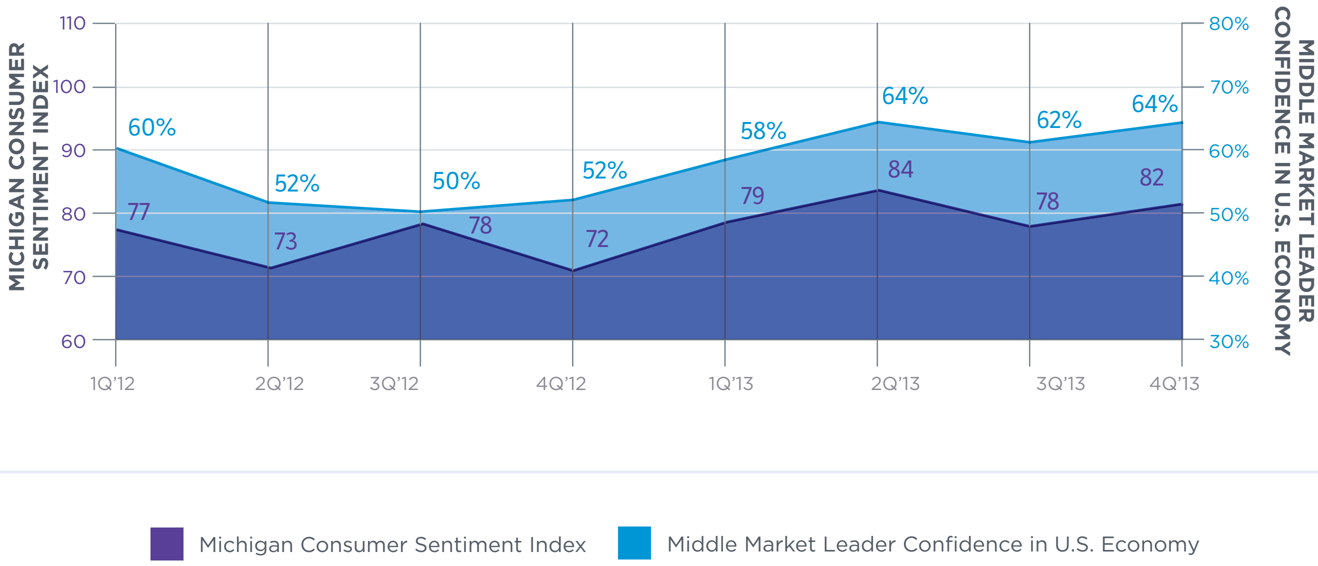
In terms of job creation, the middle market continues to show similarly remarkable performance. Employment grew at 2.5% in the previous 12 months and is expected to grow at a comparable rate in the next 12 months. The ability of the middle market to create jobs in good and bad times is particularly striking when we review its performance during the period 2007 to 2010. The National Center for the Middle Market has previously reported that during this period, which contains the Great Recession, middle market firms added 2.2 million jobs, even as large firms lost 3.7 million jobs over the same period.

GOVERNMENT IS ADVERSELY AFFECTING THE MIDDLE MARKET, LEADING TO STRONG DISAPPROVAL OF PRESIDENT OBAMA'S PERFORMANCE

To understand the extent of confidence middle market managers have in the U.S. economy, we regularly ask about the challenges they face. One of the challenges consistently raised is the uncertainty of government action and its impact. So, in the Q4 survey we also asked how it was impacting business: an overwhelming percentage of middle market managers (87%) report that uncertainty of government action is stifling growth. In particular, nearly two-thirds (63%) state that it has adversely affected hiring. Also, about two-thirds (63%) claim to have cut back on discretionary expenses (e.g., travel) to conserve resources in an uncertain environment. Some 56% of the respondents report that they are less likely to undertake capital outlays. With the fundamental ways in which uncertainty arising out of government actions is impacting business, it is not surprising that a large proportion of middle market managers (68%) disapprove of how President Obama is handling the U.S. economy.

Consumer vs. Business Sentiment

Consumer and business leader confidence runs in tandem.



INTRODUCING A NEW BAROMETER OF CONFIDENCE IN THE U. S. ECONOMY: MIDDLE MARKET EXECUTIVE SENTIMENT

With the eighth quarterly survey of the middle market, there are now growing data to start examining how well the middle market captures overall confidence in the U.S. economy. While 8 points are clearly not enough yet to statistically compare our MM Leader Confidence Index (percentage of middle market managers that are confident or somewhat confident in the U.S. economy) with other indexes, we can at least begin to graphically see how our index moves relative to other indexes, such as the Michigan Consumer Sentiment Index. The adjoining plot shows that the two indexes generally move together, although our MM Leader Confidence Index shows smoother trends ("less jerky"). While the Michigan Consumer Sentiment views confidence from the consumer's perspective, our index is based on views from the producer's point of view. Arguably, their similarities and differences complement to provide a more holistic view of the economy. Apparently, consumer confidence has grown faster in recent days relative to the confidence exhibited by middle market managers.

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