

THE REAL ECONOMY

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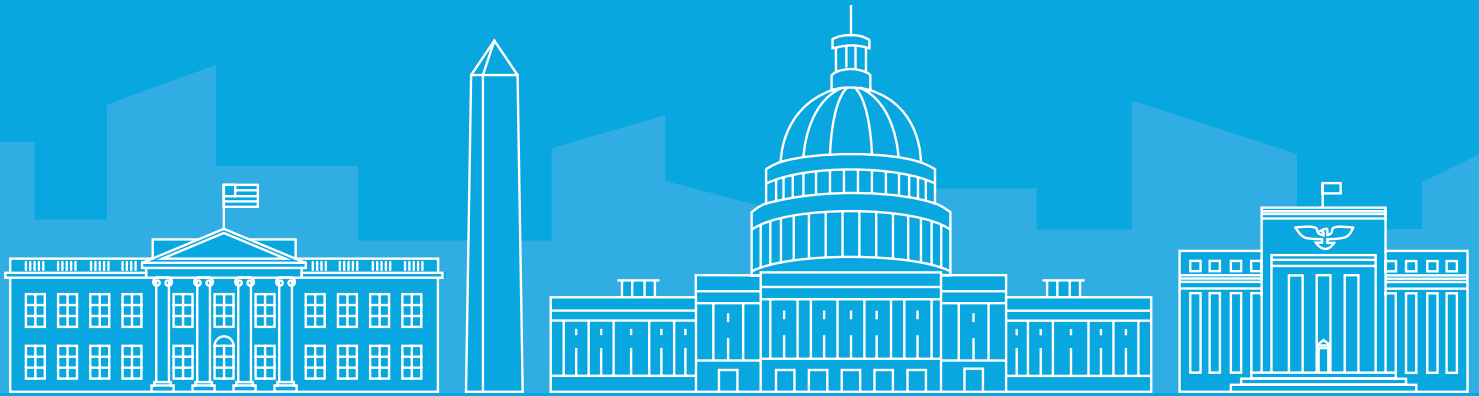


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ELECTION ECONOMICS: BIDEN VICTORY PROJECTED AS SENATE HANGS IN THE BALANCE

BY JOSEPH BRUSUELAS

JOE BIDEN'S PROJECTED VICTORY implies a possible era of significant changes to address the pandemic, expand domestic health care, modernize the nation's infrastructure and adopt expansionary fiscal policy—all of which will define the economic policy landscape over the next two years. However, the party that controls the U.S. Senate will determine the scope of that change, and that outcome is pending the two runoffs for the seats in Georgia.

While the prospect of a possible vaccine that could plausibly be produced and distributed over the next 12–24 months may damp the quantity of fiscal aid necessary in 2021, we do anticipate a flurry of economic proposals to be put forward next year.

If the Democrats take the Senate, spending will surely increase beyond any series of tax increases, which would require further deficit financing to fund what are likely to be aggressive fiscal and social policies. Moreover, it is highly likely that a Biden administration will adopt a regulatory and social policy framework that would put forward the interests of labor over capital.

Should the Republican Party hold on, much of a Biden administration's policy agenda will be scaled back, and a focus on a tax and regulatory agenda—beyond the need to address the pandemic—will be put on hold.

Our contacts in Washington indicate that a 50–50 tie in the U.S. Senate will likely result in shared power as opposed to unified Democratic rule.

Investors, firm managers and policymakers must consider the broader economic and financial implications of a unified government under Democratic control or a new status quo that features Democratic control of the House of Representatives and the executive branch, and GOP control or a 50–50 split of the Senate. Financial markets over the past month priced in a unified government under the Democrats, which resulted in a mild steepening of the yield curve in anticipation of a significant increase in fiscal activity. The recent news of a possible breakthrough on a vaccine has turbocharged both equity markets and sent bond yields soaring.

Nevertheless, our [RSM interest rate model](#) implies there is sufficient fiscal space to address the policy priorities laid out by the Biden campaign without stoking any major interest rate risk. While there is much to be determined, it is possible to sketch out the order of operations with respect to policy, the economy and financial markets under a Biden administration and a Democratic-controlled Congress or another four years of divided government.

Before doing so, though, it is important to note that the scope and scale of policy change will depend upon the rules of the game set out by the both the House and Senate, with the rules on the filibuster likely to define what is possible over the next 24 months.

Rules of the game

The rules that frame political interaction in the House and Senate will go a long way toward determining the extent of the economic and social changes.

In the House, majority rule has always held. But filibuster rules in the Senate were designed to slow down or stymie the process. If the filibuster is retained, that will limit the type of broader changes that Biden and the Democrats want. It is important to note that Senate rules require a supermajority of 60 votes to pass legislation under regular order, in contrast to the complex rules that permit the use of reconciliation to pass tax and spending bills.

If the Senate votes to eliminate the filibuster rule, there will be a greater chance of significant change to economic and social policies, as the minority will have few options to limit the scope of change. This could provide a major inflection point early in any government under unified Democratic control.

Of course, a divided government with the GOP controlling the Senate makes that prospect moot and will tend toward preventing any significant economic or social changes.

The following analysis lays out the policy priorities of a Biden administration that could be enacted under the scenario of Democratic control of the Senate. Should this not transpire, policymakers, investors and firm managers should anticipate a period of continuing resolutions and new federal regulations until the 2022 midterm elections.

Financial markets, expansionary fiscal policy and interest rates

The American economy has undergone a fundamental structural change over the past two decades, especially in the aftermath of the financial crisis. Based on our model of long-term interest rates, the United States has considerable fiscal space to pursue wholesale economic reforms, including a large multidecade infrastructure project to modernize the economy.

RSM US 10-year interest rate model

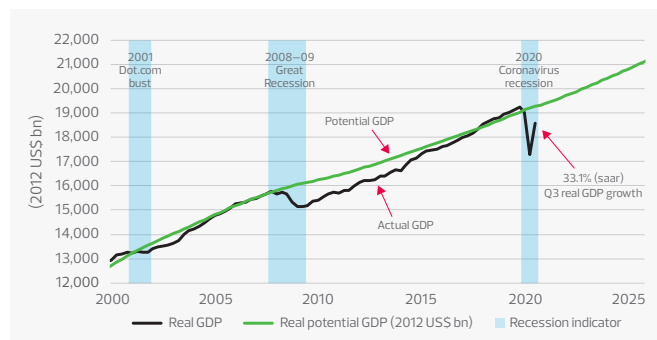
	Coefficients	Error	t Statistic
Intercept	-2.868	0.24	-12.18
L-W natural rate of interest (%) (smo)	0.708	0.04	15.91
UMich expected price change in next 5-10 years	1.497	0.09	17.50
Move index	0.006	0.001	4.54
Perceived cost of financing new debt (%)	0.732	0.05	15.36
Adjusted R square	0.91		
Standard error	0.59		
Observations	363		

Based on the Federal Reserve's [forward guidance](#) for keeping short-term interest rates at the zero bound and our interpretation of the factors that determine long-term interest rates, the data indicates a need to focus on closing the gap between actual growth and potential growth that has developed due to the pandemic.

For this reason, the probability of rising interest rates or an interest-rate shock that would derail the issuance of U.S. government securities is quite low. This provides a Biden administration with considerable policy space to take actions that close the gap between actual and potential growth and that address the need to increase productivity over the medium-to-long term.

U.S. actual and potential real GDP

AND RECESSION PERIODS



Source: CBO; BEA; NBER; Bloomberg; RSM US LLP

Our RSM model of 10-year Treasury bond yields indicates downward pressure through the end of 2020, with the 10-year yield staying below 1% through 2025 (pending an expected postelection boost in fiscal aid, stimulus and outlays on infrastructure that would send yields modestly higher).

This model is in line with the Bloomberg forward curve matrix, which implies a 1.28% yield on the 10-year Treasury in 2025. The market has priced in a zero policy rate until 2025, which implies a slightly steeper yield curve during a Biden administration. This, in turn, should increase net interest margin for banks and stimulate greater risk-taking within the financial sector, bolstering economic growth and closing the gap between actual and potential growth.

If that boost does not materialize, then interest rates at the 10-year maturity will remain depressed near current levels, from 0.5% to 0.7%, with the risk of lower rates.

We anticipate that the shock to the global economy from the pandemic will result in low levels of investment and low expectations of inflation and growth. Policy in 2021 and beyond [will need to focus on boosting productivity](#) to increase gross domestic product growth, which is currently 1.8% and will fall to 1.5% in the following 20 years if the status quo is not changed.

Actual and predicted 10-year Treasury yield

RSM MODEL OF MONTHLY VARIATION IN 10-YEAR YIELDS



Source: RSM US LLP

Most significantly, our interest rate models imply that under the current economic conditions, debt accumulation does not provide the outside risk to the economic outlook through an interest-rate shock, inflation and lower growth than previously thought. For this reason, the United States has the fiscal space to adopt the required policy changes to increase productivity and long-term growth.

Order of operations: Pandemic, vaccine and health care first

Based on our contacts in Washington, we anticipate that the order of operations during the first 100 days of a Biden administration would revolve around addressing the pandemic; development, production and distribution of a vaccine; shoring up the domestic health care system; and modernizing aging infrastructure.

Given that about 10 million Americans have been infected with the novel coronavirus and more than 225,000 have died, it is likely the public will demand action for the production and distribution of a safe vaccine—and for expanded health care in general—during the early days of the administration. We assume this will similarly be the administration's top priority and that policy efforts will be sustained until the pandemic ends, and the administration can ensure that necessary follow-up health care is put in place.

The Biden health care plan aims to expand the 2010 Affordable Care Act through an increase in subsidies for individual insurance purchases. This would include adding a public option that would directly compete with private health care plans and automatically enrolling some low-income households into the public option. The nonpartisan Committee for a Responsible Federal Budget estimates this would cost roughly \$85 billion per year over the next decade. Given the nature and duration of the pandemic, that estimate appears conservative and will most likely undershoot the total costs.

The evolution of public opinion would imply that addressing the pandemic is paramount, and that everything else is secondary. There will almost surely be a move toward a more scientific-based approach to addressing the pandemic and an attempt to rehabilitate the reputation of the Centers for Disease Control and Prevention.

Fiscal aid and stimulus

We expect a flurry of spending in the trillions of dollars early in a Biden administration to address the economic impact of the pandemic. The House of Representatives in mid-2020 passed a \$3 trillion aid package that was later reduced to \$2.4 trillion. Since no further fiscal aid was passed before the election, we now anticipate an initial shot of a further round of \$2 trillion in the lame-duck session of Congress or early next year. An opening salvo from the new administration is likely to include additional unemployment insurance and close to \$500 billion in aid to state and local governments.

In addition, we expect an additional spate of spending under the guise of Biden's Build Back Better plan, which would include \$300 billion in research and development, \$290 billion in Social Security, \$1.9 trillion in education, \$650 billion in housing, and more money to support manufacturing firms and tax credits, all over the next decade.

Economic inequality and the minimum wage

Twenty major metro areas are currently moving toward a \$15-per-hour minimum wage, so a Biden administration would most likely move early to address economic inequality. In our estimation, this will not cause any real disruption in hours worked or rising unemployment.

The Democratic platform called for raising the national minimum wage to \$15 by 2026, which is more than double the current \$7.25 per hour enacted in 2009. Given that the economy remains mired in a pandemic slump and is operating at roughly 80% capacity, any increase in the minimum wage will need to be phased in and tied to overall economic conditions.

Basic economic thought implies that an increase in wages should be predicated on increasing demand and that there is an implied trade-off between an increase in wages and less labor demand or fewer hours worked. But the increase toward \$15 per hour during the pre-pandemic economy did not cause a loss of hours worked or lead to rising unemployment. So as the structure of the economy continues to evolve, views on a higher minimum wage are evolving with it.

Rebuilding the future through an infrastructure bank

A prospective Biden administration would most likely turn quickly to address the modernization of the nation's infrastructure, which in some cases borders on third-world status. Under the Build Back Better program, the administration would put forward \$2 trillion over the next decade to address modernization of the economy's infrastructure, with a particular emphasis on technology. We would label such an approach as I2E, or big I for roads, bridges, ports and waterways; little i for broadband, 5G and other technologies integrated into the national infrastructure; and E for green technologies that would also be a part of the modernization of the nation's aging infrastructure.

MIDDLE MARKET INSIGHT

Under the Build Back Better program, the administration would put forward \$2 trillion over the next decade to address modernization of the economy's infrastructure, with a particular emphasis on technology.

Other than addressing the pandemic, such moves could provide the greatest upside for the administration. A well-executed infrastructure project will yield dividends for years at a time when real interest rates over a 10-year interval are negative. This means that one can repay less than one borrows while reaping medium- to long-term productivity gains, increasing employment and boosting growth.

It would not be surprising if a Biden White House and a Democratic-controlled Congress opt to create an infrastructure bank that utilizes the deep, broad American capital markets to leverage the seed capital put forward by the federal government over the next decade. This represents a tremendous opportunity for middle market firms and could spur legislation benefiting all Americans.

Taxes

It may seem odd that taxes fall so far down on our estimation of the policy priorities of the incoming Biden administration. With the economy still running at roughly 20% below its full capacity, increasing taxes out of the gate is a decidedly suboptimal path. While taxes will certainly rise, what remains uncertain is if those increases are phased in or what any prospective tax reform will look like.

Given the gravity of the pandemic and the long-term damage to the labor market and service sector, the status quo for the American tax landscape seems unlikely to continue. Given the state of the economy, federal relief spending, state budget shortfalls and the unknowns surrounding the pandemic, there will be a need to raise revenue to offset the deficit spending that occurred during the Trump administration and will similarly take place under a Biden administration. For a more in-depth look at the Biden tax plan, please read our [RSM Washington National Tax](#) team's take.

The Biden campaign signaled that it would like to restore the top marginal tax rate to 39.6%, up from the current 37%. Exempting 20% of unearned pass-through income would also be on the chopping block, in addition to the reintroduction of a cap on itemized deductions (via the Pease Limitation). Biden has said that he would like to increase revenue by applying a 12.4% Social Security tax (currently capped at incomes up to \$137,700) to incomes exceeding \$400,000. Businesses, regardless of size or entity type, should evaluate how their current and future operations and cash flow may be affected by Biden's proposed tax changes.

MIDDLE MARKET INSIGHT

With the economy still running at roughly 20% below its full capacity, increasing taxes out of the gate is a decidedly suboptimal path.

Trade

The past four years have been characterized by a series of trade wars, and we anticipate that those will cease as the new administration attempts to repair diplomatic and trade relationships across North America, Europe and Asia. This will most likely happen inside a revitalized and renewed Trans-Pacific Partnership (TPP) that encapsulates the trading nations responsible for 40% of global GDP.

With a global trade recovery underway, the trade channel will be a desirable and necessary component of what will be a challenging, yearslong recovery. We may observe a roll back of tariffs put in place during the Trump administration on U.S. trade partners, with the exception of China.

The Democratic platform mentioned China 22 times, and there is something of a bipartisan consensus that Beijing needs to be confronted. It would not be surprising if the entry of the United States into the TPP were framed as a national security concern while other trade concerns were simultaneously set aside in order to economically confront the Chinese and limit their degree of freedom in trade, finance and global economics.

The Trump administration's approach to addressing China has been to create substantial conflict through administrative action in an effort to wrest concessions from Beijing. The result was a global manufacturing

recession; the U.S.–Chinese trade war played a part in pushing the United States into a manufacturing recession this year just before the pandemic.

The forum and location of the conflict may change, but the areas of conflict—thrift of intellectual property, currency manipulation and cybertheft—will not fade. Those areas of conflict will most likely pass to multilateral forums where the United States and its trade partners will seek to constrain the Chinese in the coming years. We do not discount the fact that there may be additional areas of conflict over human rights and regional security concerns.

Federal Reserve

The Federal Reserve is the single most important economic institution in the global economy. American presidents relish the opportunity to shape the 12-member Federal Open Market Committee that votes on the path and design of monetary policy. Over the next four years, the president will get a chance to replace the chair, vice chair and vice chair for supervision. Additionally, Trump's nomination of Judy Shelton appears to be stalled in the Senate, leaving a Biden administration with multiple opportunities to put its stamp on the central bank. Given the recent change in the policy framework, we expect a dovish tilt in whoever ascends to the central bank, with bias toward improved employment and the prevention of excess risk-taking in the financial sector.

Expect major change

There is likely to be a period of intense economic reform over the next two years linked to health care, infrastructure and the most robust set of fiscal outlays since the Johnson administration of the mid-1960s—and quite possibly the Roosevelt administration in 1933.

Based on prevailing public opinion, it is difficult to imagine the United States exiting the pandemic without rethinking its health care system or the diminishing lack of opportunity in traditional industrial employment. The economy is quickly moving toward advanced manufacturing and advanced service sector employment. At the same time, an increasingly educated society is fast approaching a racial reckoning, which, alongside economic policies, will form a parallel legislative track addressing civil rights, voter suppression and police reform. ■

Note: Article originally published on Nov. 10, 2020, rsmus.com.



FED POLICY TO REMAIN STEADY AMID ECONOMIC UNCERTAINTY

BY JOSEPH BRUSUELAS

THE FEDERAL OPEN MARKET COMMITTEE on Nov. 5 kept its policy rate steady at a range between zero and 25 basis points and made little meaningful change to its policy statement. The Fed continued its asset purchase program at \$120 billion per month and held the interest it pays on reserves at 0.1% and discount rate at 0.25%. There were no dissents.

Although there was no policy change, the Federal Reserve, facing the possibility of a divided government in Washington, remains the only game in town when it comes to providing sustained accommodation to an impaired economy.

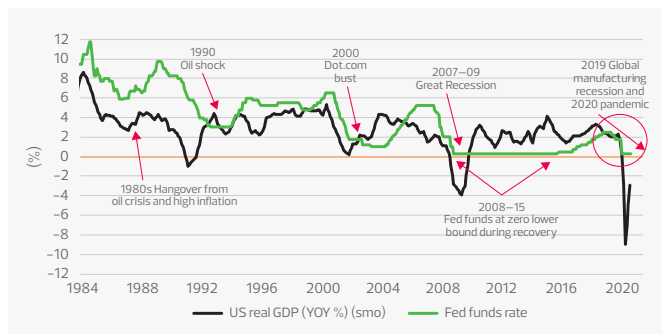
FOR NOW, INFLATION IS NOT A CONCERN FOR THE DIRECTION OF MONETARY POLICY. IF ANYTHING, THE THREAT OF THE ECONOMY SLIPPING INTO DEFLATION IS MORE OF A WORRY FOR MONETARY AUTHORITIES.

It is certain that Fed Chairman Jerome Powell and other key central bank policymakers will continue to call on Congress and the executive branch to use the fiscal cannon to address the substantial economic challenges that remain. The pandemic is intensifying as the cooler months approach.

In our estimation, the probability of a \$2 trillion stimulus is rapidly fading, and the central bank, like other central banks around the world, will again consider further unorthodox monetary policies should the pandemic intensify beyond current predictions. We do think that the upcoming minutes to the FOMC's October meeting will almost certainly include discussion around increasing the pace and intensity of asset purchases this year or next.

So far, the Fed has pushed money-market rates to the zero bound and is likely to keep them there until the economy has returned to normal levels of output and full employment. While the economy may return to pre-pandemic levels by late 2021 or early 2022, it will be years before the economy is anywhere near what one would consider full employment.

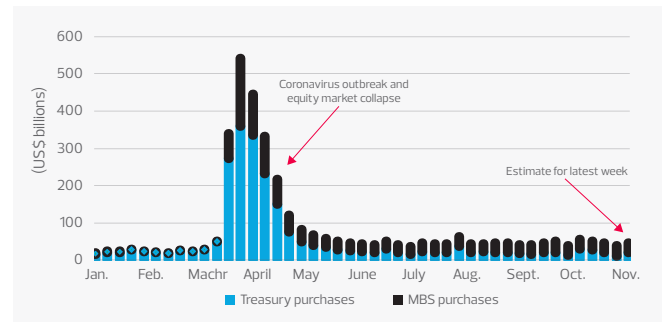
Fed response to economic downturns (real GDP growth and Fed funds rate since 1984)



Source: BEA; Federal Reserve; Bloomberg; RSM US LLP

To facilitate business and residential investment, the Fed will likely maintain its asset-purchase program, pressuring long-term interest rates lower with weekly purchases of Treasury bonds and mortgage-backed securities.

Weekly Federal Reserve purchases of Treasuries and mortgage-backed securities

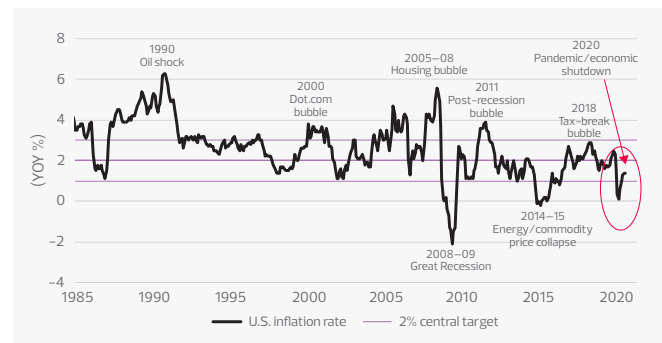


Source: FRBNY; Bloomberg; RSM US LLP

For now, inflation is not a concern for the direction of monetary policy. If anything, the threat of the economy slipping into deflation is more of a worry for monetary authorities.

Should Congress agree to an additional stimulus package, lower long-term interest rates will allow the government to fund the program at a near-zero interest rate and real negative rates. This is the policy landscape that the Fed must navigate over the next few years. Those who say that the Fed is out of ammunition do so at their own risk. ■

Consumer price inflation in the modern era of monetary policy (and the Fed's 1% to 3% target range for inflation)



Source: BEA; Federal Reserve; Bloomberg; RSM US LLP

THE ALTERNATIVE

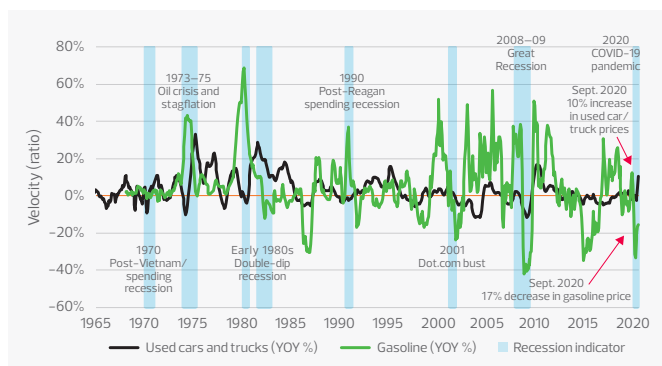
ALTERNATIVE ANALYSIS FOR INFORMED MIDDLE MARKET DECISION-MAKING

GLORY DAYS FOR USED CAR SALES

BY JOSEPH BRUSUELAS

A CONFLUENCE OF TRENDS linked to the pandemic—including the fleeing of millennials to the suburbs and a rising preference for private transportation—has driven the price of used automobiles up by the quickest monthly gain since 1969, according to data from the Bureau of Labor Statistics.

Cost of used cars and gasoline before and after recessions



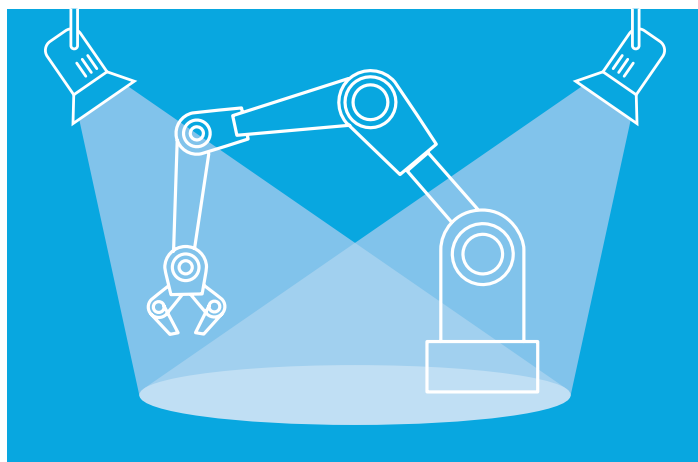
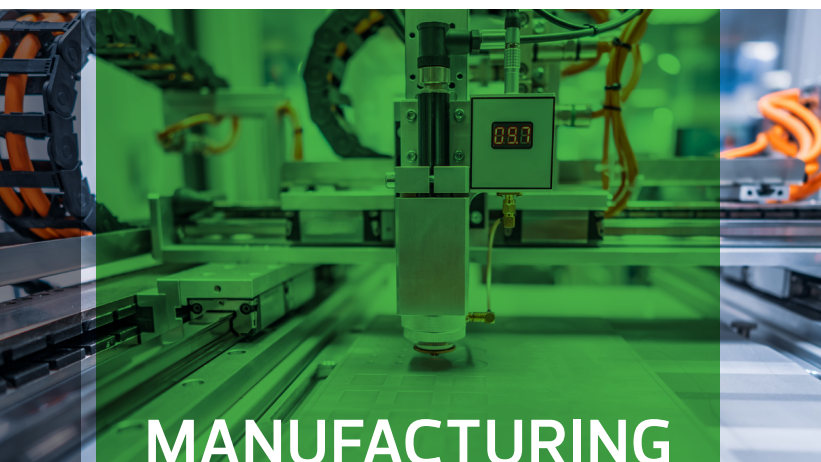
Source: Federal Reserve of St. Louis; BLS; NBER; RSM US LLP

While inflation on a year-ago basis can't crack 1.4%, the prices of used cars and trucks have been rising at a faster rate in the past two months, after bottoming out in June. Back then, too many households with insecure incomes were cutting back on spending, and used car prices dropped from April to June.

But then two factors changed that dynamic.

First, gasoline prices dropped even faster than car prices as households kept close to home and consumer demand for fuel plummeted. Second, consumer transportation preference has evolved, as people eschew crowded buses and trains in metropolitan areas and long-distance travelers increasingly drive rather than fly.

The result is a booming market for used cars and trucks, with dealerships looking for supply to meet the demand of housebound families. And the fact that gasoline is 15% cheaper than it was last year is certainly supporting that demand, with prices of used cars and trucks 10% higher than they were in September 2019. ■



RSM MANUFACTURING OUTLOOK INDEX BREAKS ABOVE 2-YEAR DOWNTREND

BY JOSEPH BRUSUELAS AND JASON ALEXANDER

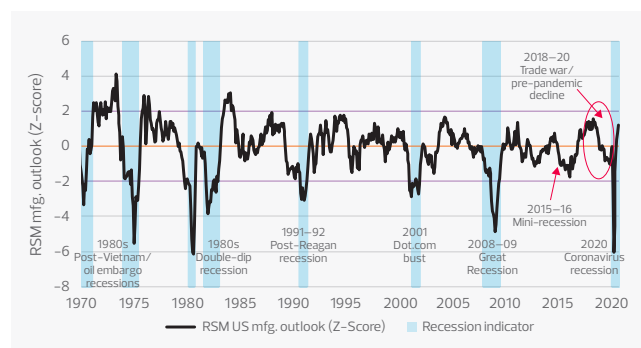
A REBOUND in U.S. manufacturing sentiment to the pre-trade war levels of the summer of 2018 implies that the domestic economy is moving briskly toward recovery. For this reason, the October Institute for Supply Management manufacturing index reflected a modest improvement in overall sentiment and another month of robust new orders.

Additionally, since bottoming out in April, the [RSM US Manufacturing Outlook Index](#) has bounced back to 1.2 standard deviations above what would be expected from manufacturers' responses to surveys conducted by the regional Federal Reserve banks.

This was the third month in a row of above-average responses to those Fed surveys and a positive sign of an economic recovery in the making. While the recent intensification of the pandemic will ultimately drive the timetable for the recovery and eventual economic

expansion, we are confident that there are better days ahead for manufacturers. This will be reinforced as the auto industry recovers and once Boeing solves regulatory challenges and closes the book on the 737 Max scandal.

RSM US Manufacturing Outlook Index and U.S. recessions



Source: NBER; Bloomberg; RSM US Calculations

THE RESURGENCE OF THE PANDEMIC WILL MOST LIKELY HAVE AN INCREASING IMPACT ON MANUFACTURING SENTIMENT.

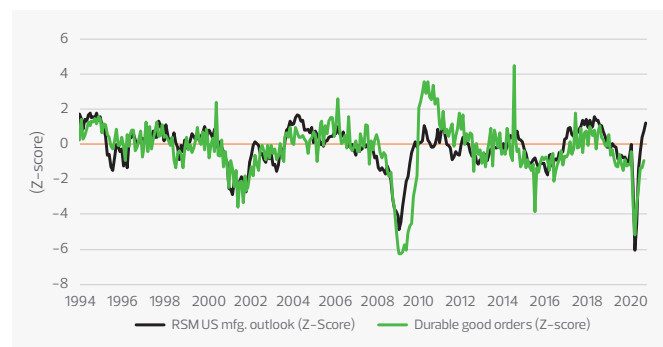
MIDDLE MARKET INSIGHT

This was the third month in a row of above-average responses to those Fed surveys and a positive sign of an economic recovery in the making.

Whether this manufacturing rebound will be sustained, however, will be determined by the health of the global community. As the United States enters the colder months, the threat of the coronavirus's spread will undoubtedly affect consumers' propensity to spend, which will have a negative effect on manufacturing.

Keep in mind that industrial production's yearly growth has been negative for 13 months in a row. And while manufacturing sales have increased since earlier this year, manufacturing sales in August (the latest available data) remain 0.4% lower than last year—not a big difference, but still a decline. And durable goods orders in September remain underwater by 0.9% relative to last year. There is reason to maintain a cautious investment planning profile.

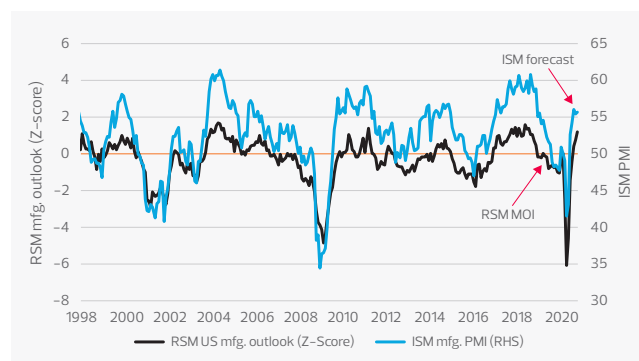
RSM US Manufacturing Outlook Index and U.S. durable good orders



Source: Federal Reserve Banks; Census; Bloomberg; RSM US LLP

Interestingly, forecasts for the ISM manufacturing index are centered on a slight decrease in sentiment from its August peak. Again, the resurgence of the pandemic will most likely have an increasing impact on manufacturing sentiment.

RSM US Manufacturing Outlook Index and forecasts of the ISM Manufacturing Index



Source: Federal Reserve Banks; ISM; Bloomberg; RSM US LLP

Guide to the RSM US Manufacturing Outlook Index

Six regional Federal Reserve banks conduct monthly surveys of manufacturing activity and sentiment. We have aggregated those surveys into the composite RSM US Manufacturing Outlook Index that anticipates the direction of national manufacturing activity.

The RSM US Manufacturing Outlook Index is measured in Z-scores, which are the number of standard deviations above or below normal levels. The bank surveys are reported as diffusion indices, which vary from bank to bank (but are generally measured as positive responses minus negative responses).

The survey results are standardized relative to average sentiment during the period from 1994 to 2008, just before the Great Recession. Values of the index below two are regarded as significantly different from zero and suggest abnormal levels of stress. Values above two indicate the possibility of a bubble, which could also have negative consequences for the economy—should that bubble burst.

The following table shows that regional sentiment has dropped since the peaks reached before the pandemic, but has recovered above its medium-term downtrends. Of particular note: manufacturing sentiment in the Richmond region shows signs of a full recovery.



Regional Federal Reserve bank surveys of manufacturing and the RSM Manufacturing Outlook Index (and change from post-2017 peak values)

	Post-2017 peak	Latest	Increase/decrease
Philadelphia Fed Mfg. Bus. Outlook	36.70	32.30	-4.40
Empire State Mfg. Survey	25.80	10.50	-15.30
Richmond Fed 5th District Mfg. Survey	29.00	29.00	0.00
Chicago Fed Midwest Mfg. Survey *	0.42	0.16	-0.26
Dallas Fed Gen. Bus. Cond.	35.60	25.50	-10.10
Kansas City Fed 10th District Mfg. Activity	25.00	13.00	-12.00

Source: Regional Central Banks; RSM US calculations

* Chicago survey as of August 2020

Regional surveys over time

Time series for the individual surveys are included below, with the regional diffusion indices shown relative to the growth of national manufacturing sales.

Each of the surveys shows:

- **A decline in manufacturing sentiment** from 2017 through the present that coincides with a deceleration in manufacturing sales growth.
- **An uptick in manufacturing sales** at the end of 2019 and into January and February.

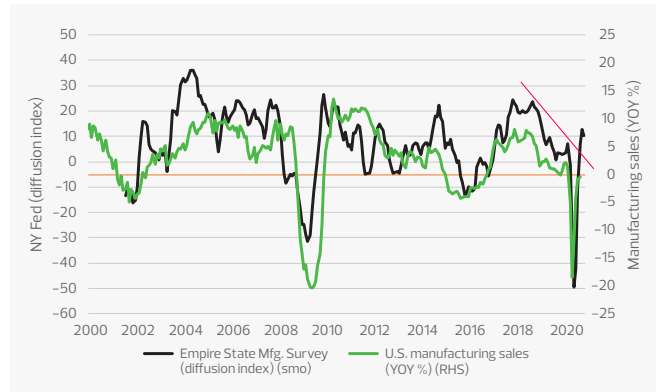
- **A sharp drop in the surveys reported in March to May** because of the coronavirus outbreak. Note that the Chicago survey is updated through August.

In the following, we show the three-month moving average for each of the surveys. This is done to more easily identify the underlying trend in sentiment, which has clearly broken above the 2018–20 downtrend in all regions. ■

Note: See additional charts on the next page.

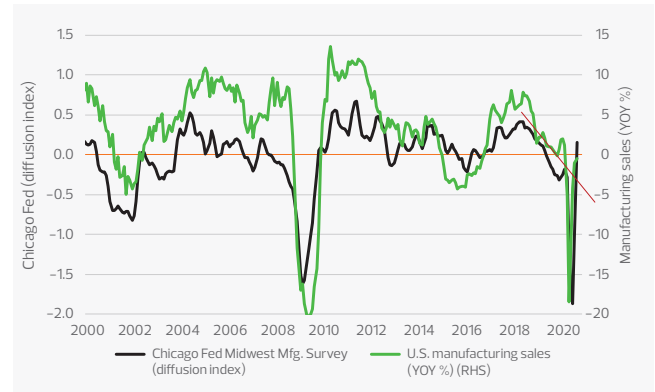
INDUSTRY SPOTLIGHT (CONT.)

New York Fed Empire State Manufacturing Survey and U.S. manufacturing sales



Source: Federal Reserve Bank of New York; Census; Bloomberg; RSM US LLP

Chicago Fed Midwest Manufacturing Survey and U.S. manufacturing sales



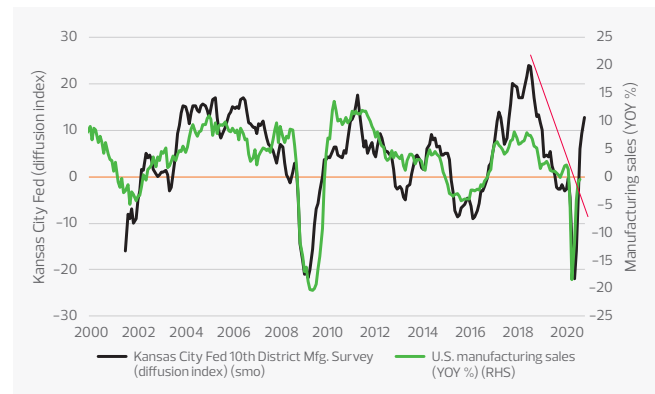
Source: Federal Reserve Bank of Chicago; Census; Bloomberg; RSM US LLP

Philadelphia Fed Manufacturing Business Outlook and U.S. manufacturing sales



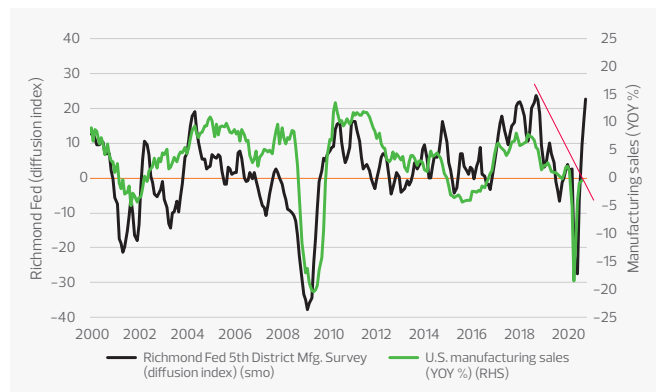
Source: Federal Reserve Bank of Philadelphia; Census; Bloomberg; RSM US LLP

Kansas City Fed 10th District Manufacturing Survey and U.S. manufacturing sales



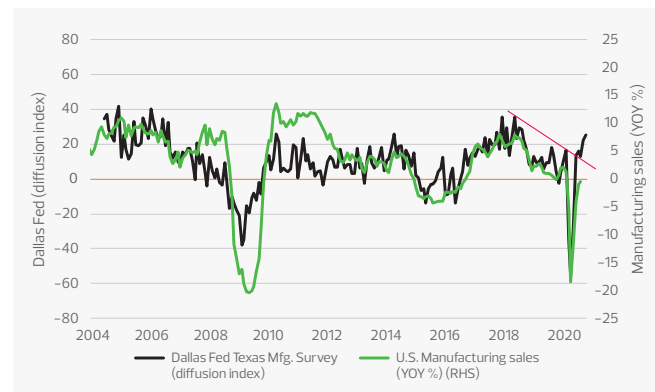
Source: Federal Reserve Bank of Kansas City; Census; Bloomberg; RSM US LLP

Richmond Fed 5th District Manufacturing Survey and U.S. manufacturing sales



Source: Federal Reserve Bank of Richmond; Census; Bloomberg; RSM US LLP

Dallas Fed Texas Manufacturing Survey and U.S. manufacturing sales



Source: Federal Reserve Bank of Dallas; Census; Bloomberg; RSM US LLP



INVENTORY DATA AND HOLIDAY SPENDING

A MODEST IMPROVEMENT in economic activity following the gradual reopening of the economy gave a boost to middle market business sentiment. The [RSM US Middle Market Business Index](#) improved to 128.0 in September from 124.9 in August.

52% of MMBI respondents said the economy improved.

And 68% stated they expected the economy to improve over the next six months.

Inventory management, as one would expect following a severe shock to the economy, remains paramount to the middle market. In this time of positive sentiment, are businesses stocking up inventories or scaling down? As noted in the MMBI report:

Only 40% of executives polled stated that they increased inventories on the month.

54% indicated an expectation to increase inventories going forward.

THE TAKEAWAY

Since early fall signals when middle market firms begin to build up inventories in anticipation of holiday-induced demand, this somewhat cautious outlook on inventories in September implies expectations for a possible weak holiday spending season. While overall sentiment is improving, middle market businesses remain carefully restrained in some areas of operations. Organizations may look to bridge business challenges with process efficiencies and technology solutions, especially when it comes to optimal inventory management.

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