



**SENTIMENT
REPORT
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SECOND HALF
MIDWEST
REGION**

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Midwest leaders: Balancing optimism with economic concerns

Many business leaders in the Midwest are confident about their company outlooks heading into the third quarter of 2024, yet they have a less optimistic feeling about the U.S. economy in general.

In June, KeyBank surveyed owners and executives of middle market businesses across the United States, defined as those with \$10 million to \$1 billion in revenue. Over 700 business owners responded, including 120 based in the Midwest. Of those 120, 71% said they have an “excellent” or “very good” outlook for their companies. While that number feels positive at first glance, company outlook in the Midwest is lower than all other U.S. regions by 9% – 11%.

The overall U.S. economic outlook was even lower, with only 40% of Midwest middle market business leaders reporting an “excellent” or “very good” outlook for the U.S. economy over the next 12 months. This number represents the lowest of all regions and is a continued decrease from KeyBank surveys dating back to June of 2022. By comparison, 46% – 57% of business leaders in the Northeast, South, and West regions reported an “excellent” or “very good” outlook for the U.S. economy during the same time period.

One reason for the positive company outlook growing faster than economic outlook is the perception that businesses retain a degree of control within company walls, even during challenging economic times.

Amid concerns about talent retention, cybersecurity, and inflation, business owners are finding growth opportunities by adopting new technologies aimed at expanding operations, improving efficiency, and reducing external risks. Among middle market business owners nationwide, overall company outlook has seen its largest increase since late 2022.

So, how are middle market companies circumventing the obstacles to growth?

Regional breakdown

Percentage of companies with an excellent/very good outlook

	U.S. Economic Outlook	Company Outlook
Midwest	40%	71%
Northeast	57%	80%
South	46%	82%
West	56%	80%

Increased revenue expectations

Among businesses with excellent/very good company outlook

Base: Midwest respondents



Reasons for a positive company outlook

Dialing into the specific factors that contributed to a positive company outlook, 67% of Midwest middle market business owners who feel “very good” or “excellent” about their company outlooks credit improved efficiency in business operations, while 59% cited technology improvements.

While Midwest respondents had the highest percentage of positive outlook related to operational efficiencies, the region was the second-lowest ahead of only the South for positive outlook related to technology improvements.

Operational efficiencies often come with an upfront cost and business owners may question the return on investment (ROI) timeline.

Across all regions, middle market expansion plans reflect a deep commitment not just to surviving, but thriving, by exploring new opportunities, investing in their future, and adapting to the changing landscape. Expansion plans include entering new product markets, scaling operations, or implementing new technology and automation.

Of all technologies available to business owners today, AI is one of the most prevalent. In fact, AI adoption tops the list of methods U.S. middle market business leaders have for expanding operations, as 54% of leaders plan to implement AI before the end of 2024. This is a 10% increase since Q4 2023.



Middle market expansion plans reflect a continued resiliency of this sector, demonstrating an ability to adapt to the changing landscape, explore new opportunities, and invest in their future. Whether it’s adding new product lines, expanding markets, scaling their operations, or implementing new technology and automation, these businesses are setting the stage for a robust and sustainable future.

Ken Gavriety
President
KeyBank Commercial

Factors contributing to high company outlook

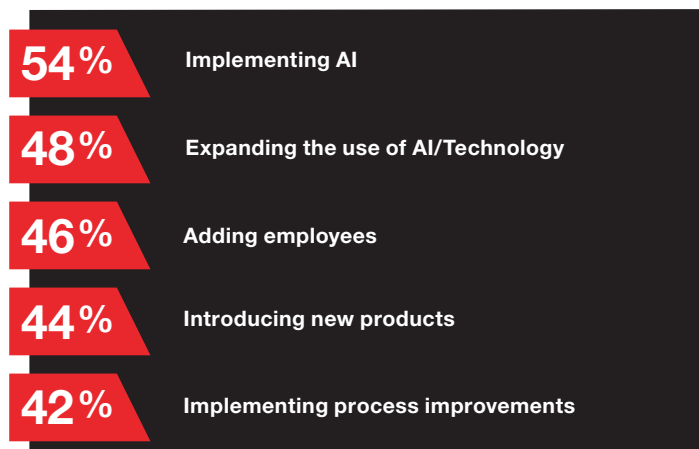
Among businesses with excellent/very good company outlook

Base: Midwest respondents



Top 5 methods for expanding scope of operations

Base: Total business owners/executives



Concerns holding back Midwest middle market businesses

Regardless of their outlook on the U.S. economy, businesses across the country indicate increased concerns of being able to offset unexpected expenses and financial emergencies as potential threats to overall company outlook. The ability to invest in growth and increase employee compensation are also concerns.

While Midwest middle market leaders who rated their company outlook as “very good” or “excellent” led all regions in credit given to operational efficiency, they ranked last in several other categories, including confidence in retaining talent, pricing power, and cybersecurity.

Not surprisingly, inflation remained a top concern in the middle market at mid-year. More than one-third of survey respondents (38%) reported that overall increases in inflation are negatively impacting business operations.

For nationwide middle market business leaders with a less optimistic outlook, the primary strategy for fighting inflation is passing increased costs on to customers, with 37% reporting this approach.

In contrast, leaders who feel more confident about their companies’ future are countering inflation by streamlining processes, improving efficiencies, adopting automation, and boosting sales and marketing efforts.

Effects of rising energy/oil/gas

Among businesses currently impacted by higher energy/oil/gas costs
Base: Midwest respondents

56% Smaller profit margins

30% Increased renewable energy/energy efficiency efforts

38% Decreased revenues

The top five actions leaders plan to take because of inflation

Those with at least some inflation impact
Base: Business owners/executives

Excellent/very good company outlook

- 37%** Increase sales/marketing efforts
- 36%** Improve processes/create efficiencies
- 36%** Increase automation to improve productivity
- 33%** Implement changes to the supply chain
- 30%** Identify alternative suppliers/sources

Good/fair/poor company outlook

- 37%** Pass increased costs to customers through higher prices
- 33%** Increase sales/marketing efforts
- 32%** Improve processes/create efficiencies
- 30%** Increase automation to improve productivity
- 25%** Identify alternative suppliers/sources

Growth opportunities and access to needed capital are available

Overall, U.S. middle market business leaders are seeking improvements through technology investments designed to increase operational efficiencies, reduce cybersecurity risk, and decrease the overall cost of doing business.

Middle market business leaders expecting moderate revenue increases in the next 12 months are much more likely this quarter to view implementing AI as a top method of expansion, along with continued focus on additional process improvements.

And while the majority of Midwest middle market business leaders remain optimistic about their own companies' futures, it's clear they're lagging behind other regions when it comes to a number of potential factors that can help drive growth and uncover new opportunities to strengthen their organizations.

Whether you're seeking access to capital to consider investing in AI or technologies to scale your business and/or reduce your cybersecurity risk, KeyBank's middle market experts have a deep understanding of the unique challenges Midwest middle market business leaders face, and we can provide customized insights and real-time counsel to power growth to meet your business objectives.

Read the full [Second Half 2024 Middle Market Sentiment report](#) for more national survey results and insights.



KeyBank has the industry expertise, insights, and solutions to help your business manage growth and identify opportunities in an uncertain economic environment.

Our banking teams offer integrated solutions and strategic expertise to help your business raise capital and manage payments, liquidity, and cash flow. To learn more about KeyBank's middle market capabilities, [contact a KeyBank Relationship Manager](#).



Tim Burke is KeyBank's Central Region Commercial Executive and leads a dedicated team that delivers strategic and industry-specific solutions to middle market companies. He brings more than 20 years of leadership in banking and is actively engaged in the communities he serves. His passion for winning delivers the corporate resources of KeyBank to communities to drive market share expansion.



"KeyBank Middle Market Business Sentiment Survey," May 14 – June 12, 2024. KeyBank's Middle Market Sentiment survey asked more than 700 owners and executives of businesses with \$10 million to \$1 billion in annual revenue about their outlook for the year, the challenges currently affecting their businesses, and their growth plans for 2024.

The data presented for the Midwest region is based on survey responses from companies headquartered in the following states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin.

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