



CHUBB®



NATIONAL CENTER FOR
THE MIDDLE MARKET

MIDDLE MARKET INDICATOR: YEAR-END 2023

Manufacturing

Partnering with the National Center for the Middle Market (NCMM), we surveyed executives from middle market companies. Enclosed are the results, showcasing the general business trends and evolving risks affecting this segment.

01 Coming off of another strong performance in 2023, middle market manufacturers have a cautiously optimistic outlook

In the second half of 2023, middle market manufacturers continued their robust growth, but saw somewhat weaker expansion ahead

- Revenue growth reached a record high for the survey, but these companies expect that growth to slow considerably in 2024.
- Employment growth fell back by three points in 2023 after spiking in late 2022. However, middle market manufacturers expect employment to pick up somewhat this year.

Economic confidence has remained steady over the past year

- However, confidence at all levels has been trending lower since the COVID vaccine-inspired rebound in mid-2021.

Performance improvement edged higher

- More than three-fourths of responding companies improved their overall performance during 2023, slightly ahead of the year-end 2022 level.

More manufacturers are adopting artificial intelligence (AI)

- More than a third of middle market manufacturers are actively testing or already using AI, somewhat higher than the overall middle market, and their primary uses include improving efficiencies, collecting data, and customer service, all significantly higher than the middle market.

Companies rein in expansion plans

- For their top areas of future expansion – introducing a new product or service and expanding into new domestic markets – more than 60% of middle market manufacturers are still planning to grow.
- However, the 12-month outlook on several areas of potential expansion has declined since year-end 2022.

THE DATA BEHIND THE FINDINGS

Revenue growth steady; employment growth cools

Mean revenue growth



Projection (next 12 months): **8.2%**

Mean employment growth



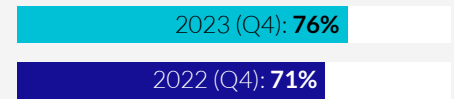
Projection (next 12 months): **9.8%**

Companies improving their performance over the past year

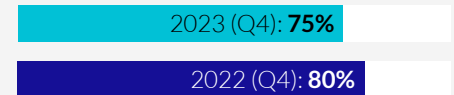


Confidence in the economy

Global economy



National economy



Local economy



Trending topics

Artificial intelligence (AI)

Adoption levels

- **37%** Testing/using (+3 from middle market overall)
- **63%** Learning/exploring/trying it out

Functions currently using AI

(Sum of 1st, 2nd, 3rd mentions)

- **69%** Improving efficiencies
- **66%** Collecting data
- **65%** Customer service
- **64%** Analyzing data

Expansion plans in 2024

(Extremely/very likely)

Introduce a new product/service

67% -7 from Q2 2023
-7 from Q4 2022

Expand into new domestic markets

62% -9 from Q2 2023
-1 from Q4 2022

Add a new plant/facility

40% -15 from Q2 2023
-10 from Q4 2022

02 Inflation and supply chain are top emerging risks for middle market manufacturers

Inflation remains the chief concern for these companies and will likely continue to be, due to rising labor costs and Middle East conflicts affecting trade routes, which also could impact their supply chains

- Employee pay has often been the leading contributor to inflation for middle market manufacturers in the pandemic recovery period.
- More than two-thirds of these companies have raised worker pay in the past year, an average of 5.5%.
- To retain talent, about half of these companies—significantly higher than the middle market overall—have offered incentive compensation or retention bonuses and plan to continue that in the future.

Supply chain issues are more of a challenge for middle market manufacturers

- More than a third of these companies have been directly impacted by recent disruptions or constraints in their supply chains, significantly higher than other industries.
- Middle market manufacturers are much more challenged than middle market companies overall by supply chain aspects such as service disruptions and supplier due diligence or audits.

Workforce was the leading factor in insurance purchasing decisions

- As middle market manufacturers hire more employees and ask them to work longer hours due to skilled-talent shortages, the importance of identifying and implementing strategies to reduce workplace injury risks increases.

In 2024, companies plan to fight macroeconomic conditions with AI and higher prices

- To prepare for potential impacts of inflation, ongoing high interest rates and a possible recession, nearly two in five companies expect to further integrate AI applications into their businesses, while a third plan to increase prices of their products and services and institute a hiring freeze.

Several risks remain concerning for middle market manufacturers

- Beyond economic and supply chain risks, a number of other risks registered as significant for these companies, including talent shortage/retention, competitive, cost of and access to capital, and cyber security.
- Additional risks they found concerning included regulatory/compliance, banking stability, litigation, public health concerns targeting common products and processes, change in leadership or control, and catastrophic incidents.

THE DATA BEHIND THE FINDINGS

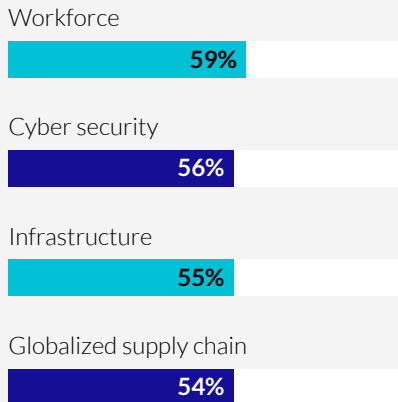
Top emerging risks

(sum of 1st, 2nd, 3rd responses)



Other: Access to credit/capital 18%, regulatory or compliance risk 17%, banking stability 15%, litigation 11%, increasing public health concerns targeting common products and processes 11%, change in leadership or control (CEO succession, M&A) 9%, catastrophic incidents (not cyber) 8%

Concerns factoring into insurance purchasing decisions



Wages fuel inflation

69% +9 from Q4 2022
Have increased wages

5.5% Average salary/wage increase

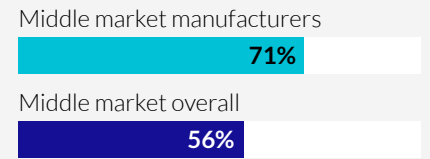
52% Have offered incentive compensation or bonuses to retain talent

Supply chain challenges for middle market manufacturers

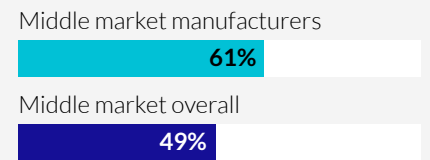
35% experienced supply chain disruptions/constraints in the past six months

Most challenging aspects of managing supply chains

Service disruptions (e.g. port closures)



Supplier due diligence/audit



How middle market manufacturers are preparing for 2024's macroeconomic environment*

- 38%** Greater integration of AI
- 34%** Raising prices
- 31%** Hiring freeze
- 29%** Buying more inventory
- 28%** Delaying significant changes

*Inflation, interest rates, recession

03 Risk management challenges reflect top emerging risks

Inflation, by far, leads the risks that middle market manufacturers find most challenging to manage

- While the worst supply chain concerns have receded for these companies, their difficulty managing these risks remains well above the middle market overall.
- Nearly three fourths of companies will consider increasing their insurance coverage in response to higher replacement costs of their assets due to inflation.
- The current replacement values of equipment and building contents are notable areas where many companies remain underinsured, often discovered only after an actual loss occurs.

Companies recognize gaps in insurance coverages

- For several types of insurance, middle market manufacturers noted that their potential needs for coverage were greater than their perceptions that they had adequate coverage, especially multinational, environmental, and cyber insurance.

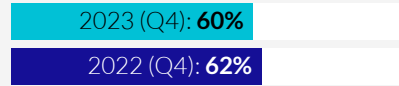
Many middle market manufacturers are not well prepared for disruptions

- More than two in five middle market manufacturers are not adequately prepared for fundamental disruptions, including catastrophic incidents, prolonged power outages, and fire or water damage.
- These companies experienced a significantly higher negative revenue impact from operational disruptions than other industries, and nearly a third recognize that they could have been covered for some of these disruptions if they had purchased available insurance.
- In addition to potentially being underinsured for higher property and equipment values, these companies often underestimate how long it will take to get back up and running after an insured loss, which points to the need for adequate **business interruption coverage** and more thorough and realistic **business continuity plans**.
- Risk mitigation strategies can often help in minimizing or preventing damage from occurring. For example, water shutoff valves can prevent water damage within properties. Companies can improve their climate resiliency through a full-spectrum **natural hazard risk assessment**, featuring a physical locations risk analysis, mitigation and adaptation strategies, and business continuity planning services to help manage climate-related exposures and impacts.

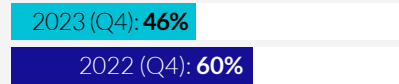
THE DATA BEHIND THE FINDINGS

Middle market manufacturers find risks extremely/very challenging to manage

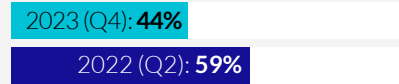
Inflation risk



Recession risk



Supply chain risk



Operational disruptions**

Revenue impact

81% of middle market manufacturers that experienced operational disruptions had a 10% or higher revenue impact from them

Role of insurance

46% Covered
31% Coverage available but not purchased

**natural disasters, port closures, strikes, facility shut-downs, etc.

Preparedness for disruptions

(Completely/very prepared)

Catastrophic incidents **56%**
 Prolonged power outage **58%**
 Fire/water damage **59%**

Insurance impacts of inflation

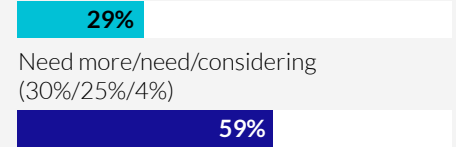
73% of companies say the replacement value of covered assets has increased due to inflation

71% +3 from Q4 2022 of companies say they will consider increasing coverage amounts

Insurance adequacy/needs

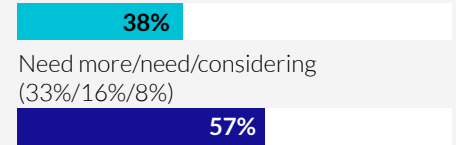
Multinational

Adequately covered



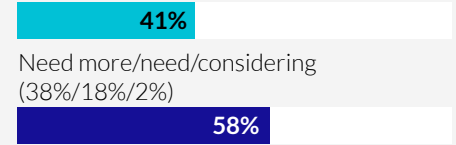
Environmental (pollution liability)

Adequately covered



Cyber

Adequately covered



Middle market manufacturers can rely on Chubb for expert advice on managing their unique risks

Whether you may need to close gaps in coverage from emerging risks, level up coverage for today's higher replacement values, or create plans for business continuity, Chubb and its agent and broker partners can provide specialized services to help mitigate exposures and offer customized, comprehensive insurance solutions for managing your risks.

For more information about these or other topics, visit [chubb.com](https://www.chubb.com).

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