

2023 Midyear Business Leaders Outlook: Innovation Economy

Optimism wanes since January, even as growth plans remain ambitious.

When 2023 began, midsize startup leaders were extremely optimistic about the business environment. That optimism, however, has waned over the past six months.

Innovation economy business executives are still mostly optimistic about the national (50%) and local (59%) economies, far outpacing the sentiment among U.S. business leaders in general.

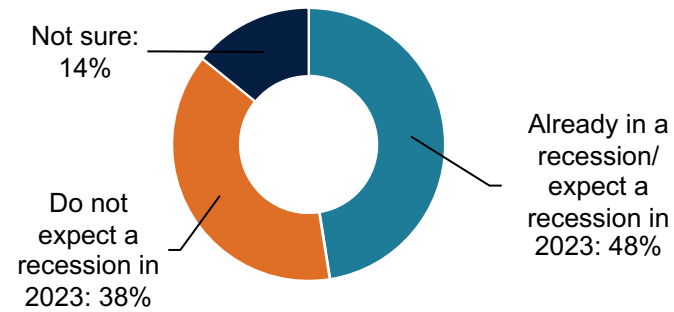
But the tech sector's optimism over the national economy fell 8 percentage points since January. And optimism over local and regional economies dropped even more; it's down 18 percentage points since the new year.

Just under half (48%) in the startup sphere expect a recession in 2023—or believe a recession has already begun.

Even with the market's uncertainty and pressures from rising rates, low unemployment and sliding tech valuations, innovation economy leaders have ambitious plans to grow their companies. A resounding 86% of executives said they plan to retain or add to their headcounts, and nearly 7 in 10 expect to adopt artificial intelligence tools.

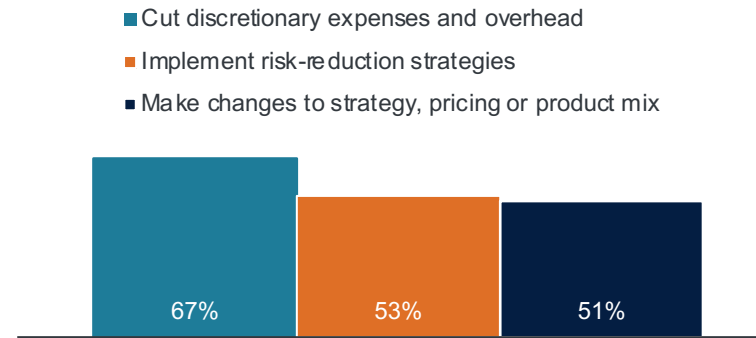
Executive summary

RECESSION CONCERNS



Just under half of U.S. innovation economy business leaders expect a recession this year or believe we are already in one.

RECESSION RESPONSE



Among those who do anticipate a recession, two-thirds said they will respond by cutting discretionary expenses and other overhead costs.

INDUSTRY PERFORMANCE

69%

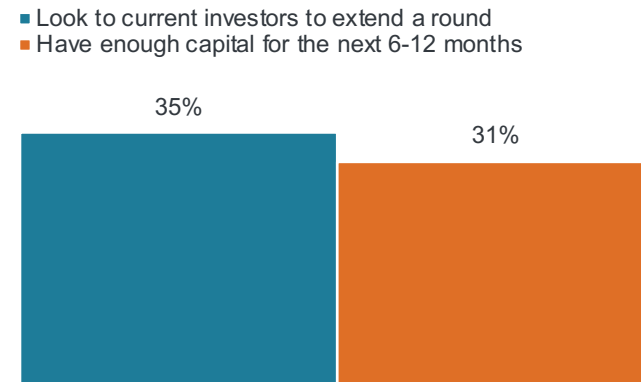
About 7 in 10 innovation economy business leaders are optimistic about their industry's performance this year.

WORKFORCE OUTLOOK

86%

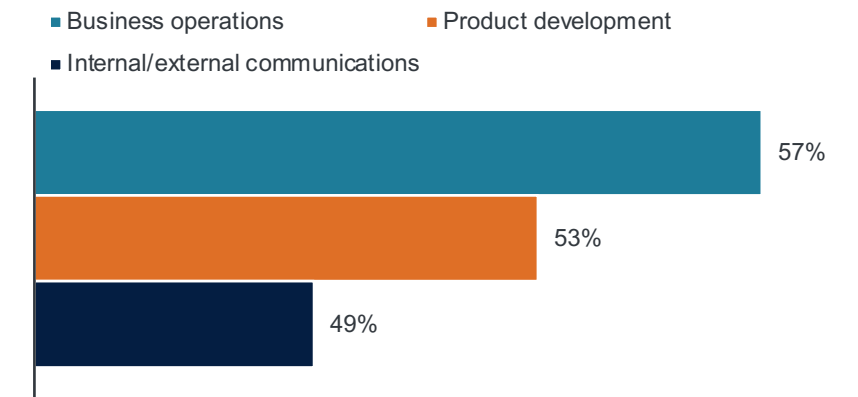
Even with a recession on their minds, most innovation economy leaders are planning to add or maintain headcount.

CAPITAL RAISING PLANS



35% of leaders anticipate they will look to current investors to extend a round or raise new equity over the next 6-12 months. Nearly as many (31%) say they have enough capital for the year.

ARTIFICIAL INTELLIGENCE ADOPTION

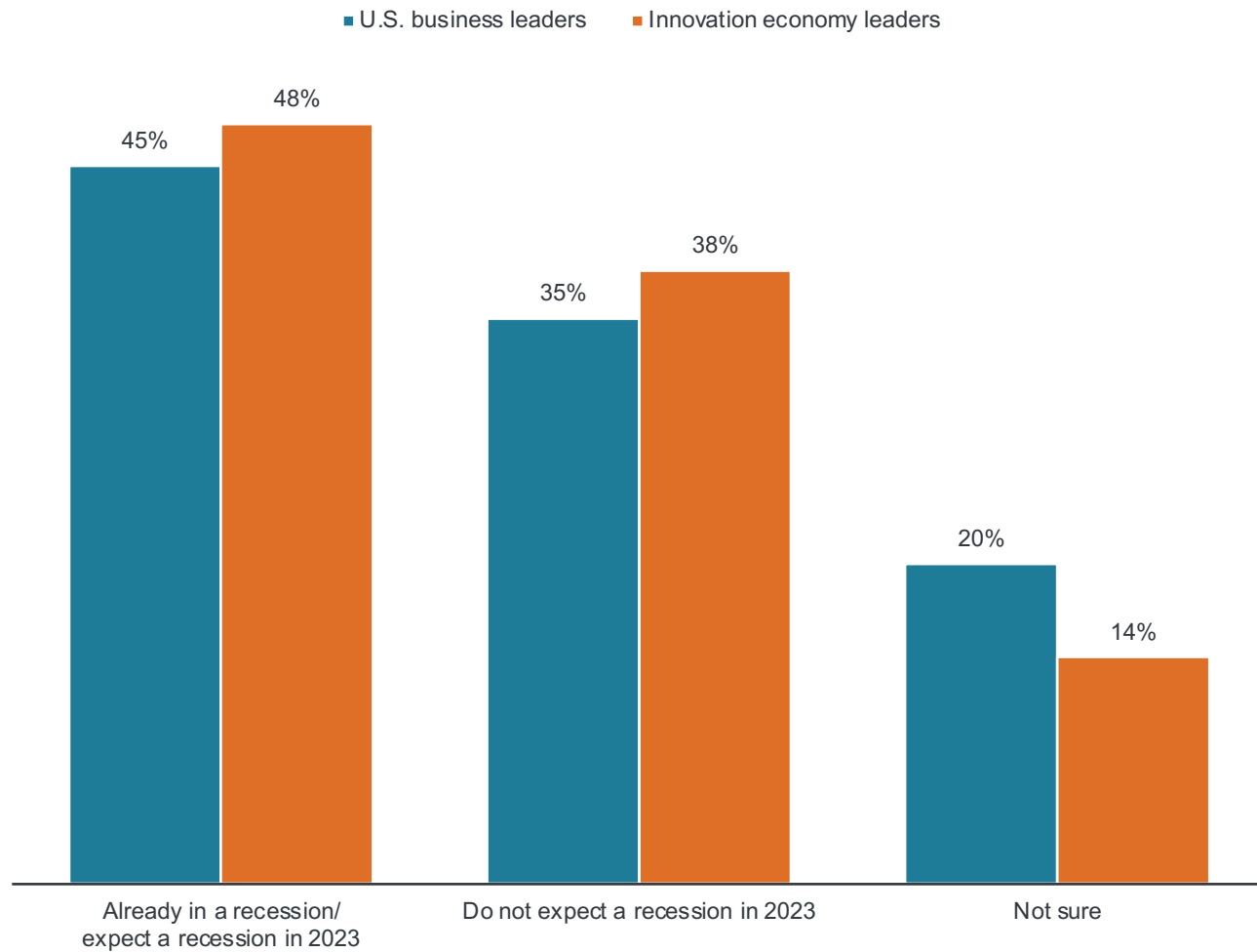


Most respondents (69%) plan to use artificial intelligence (AI) tools, with business operations, product development and communications the most cited applications.

Recession expectations

Nearly half of respondents believe the U.S. will enter a recession in 2023. As executives plan for a possible downturn, cutting discretionary expenses is the most frequently cited response strategy.

RECESSION EXPECTATIONS



RECESSION RESPONSE



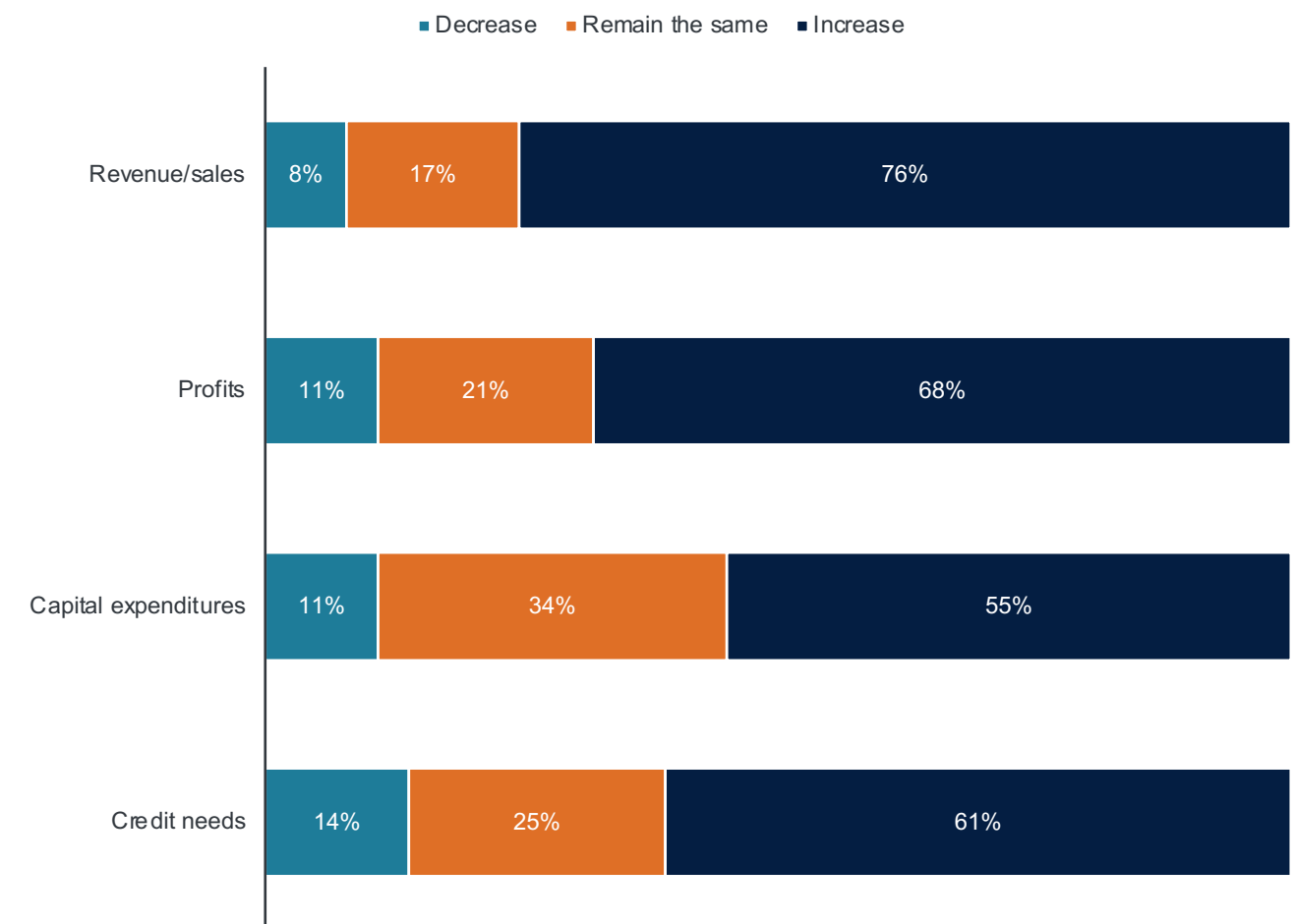
Economic outlook and expectations

Innovation economy leaders have soured somewhat on their economic outlook since the beginning of the year. Expectations for sales and profits are still rosy, but they've also dropped since January.

ECONOMIC OUTLOOK



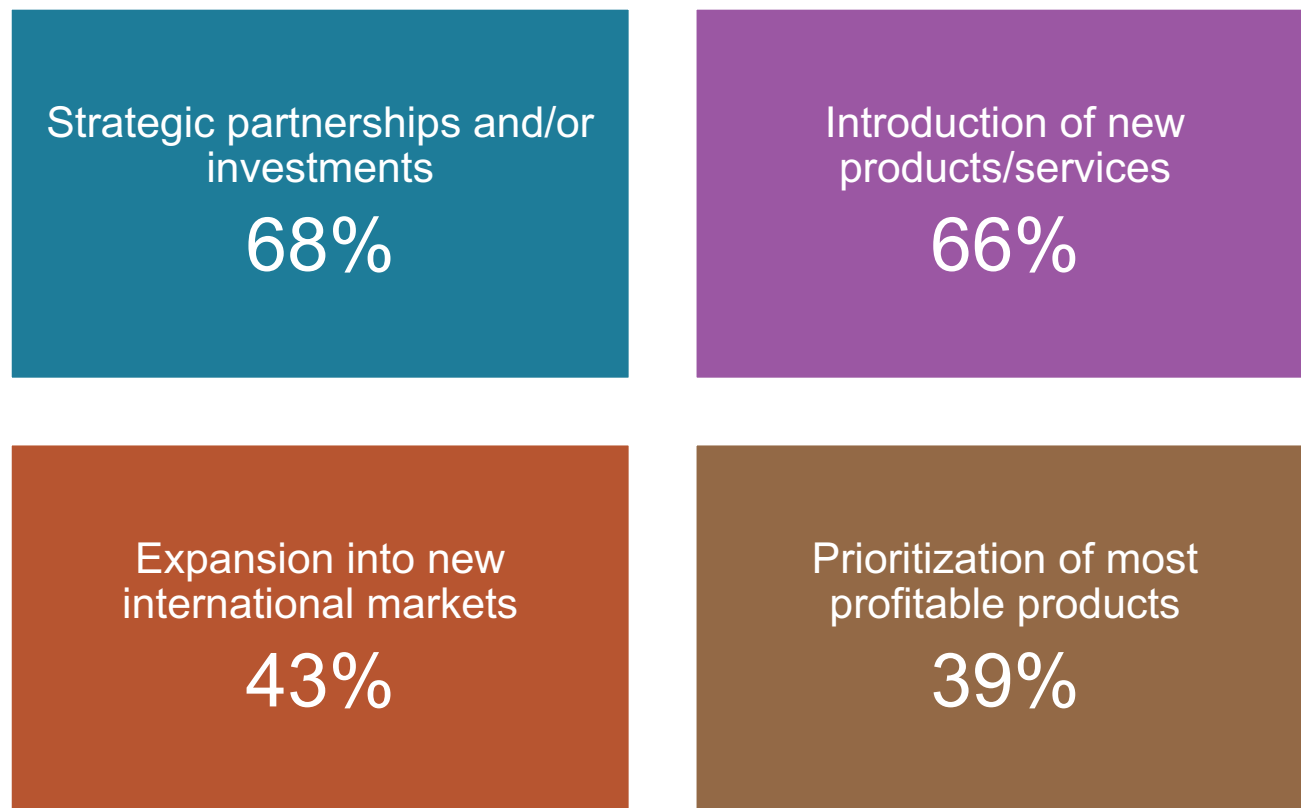
EXPECTATIONS FOR THE YEAR AHEAD



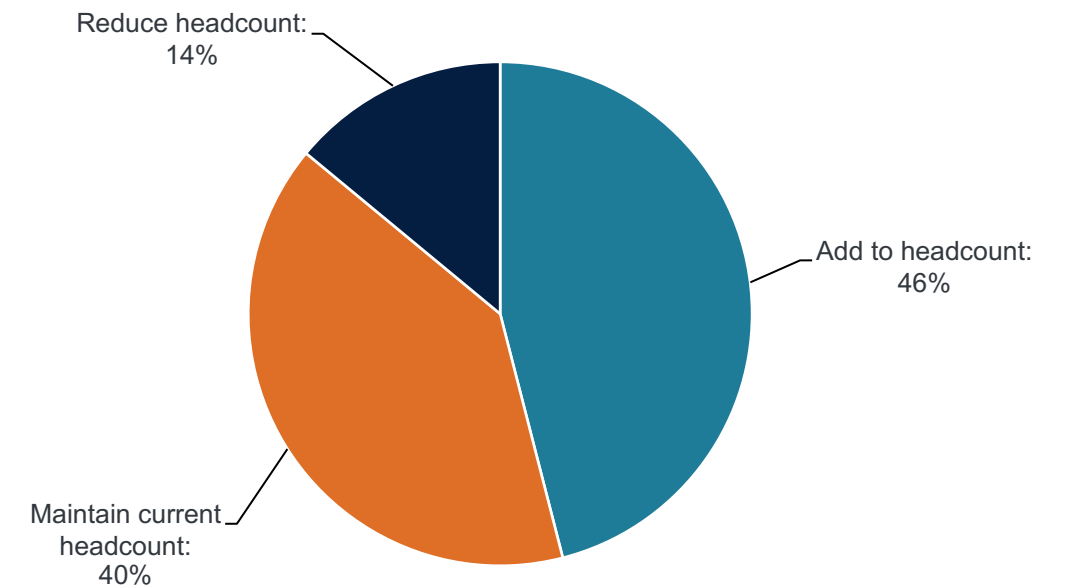
Business strategy

Leaders are leaning on strategic partnerships or investments and new products or services to grow their companies. Amid uncertainty, 86% of companies plan to maintain or keep their headcount.

PLANNED GROWTH STRATEGIES



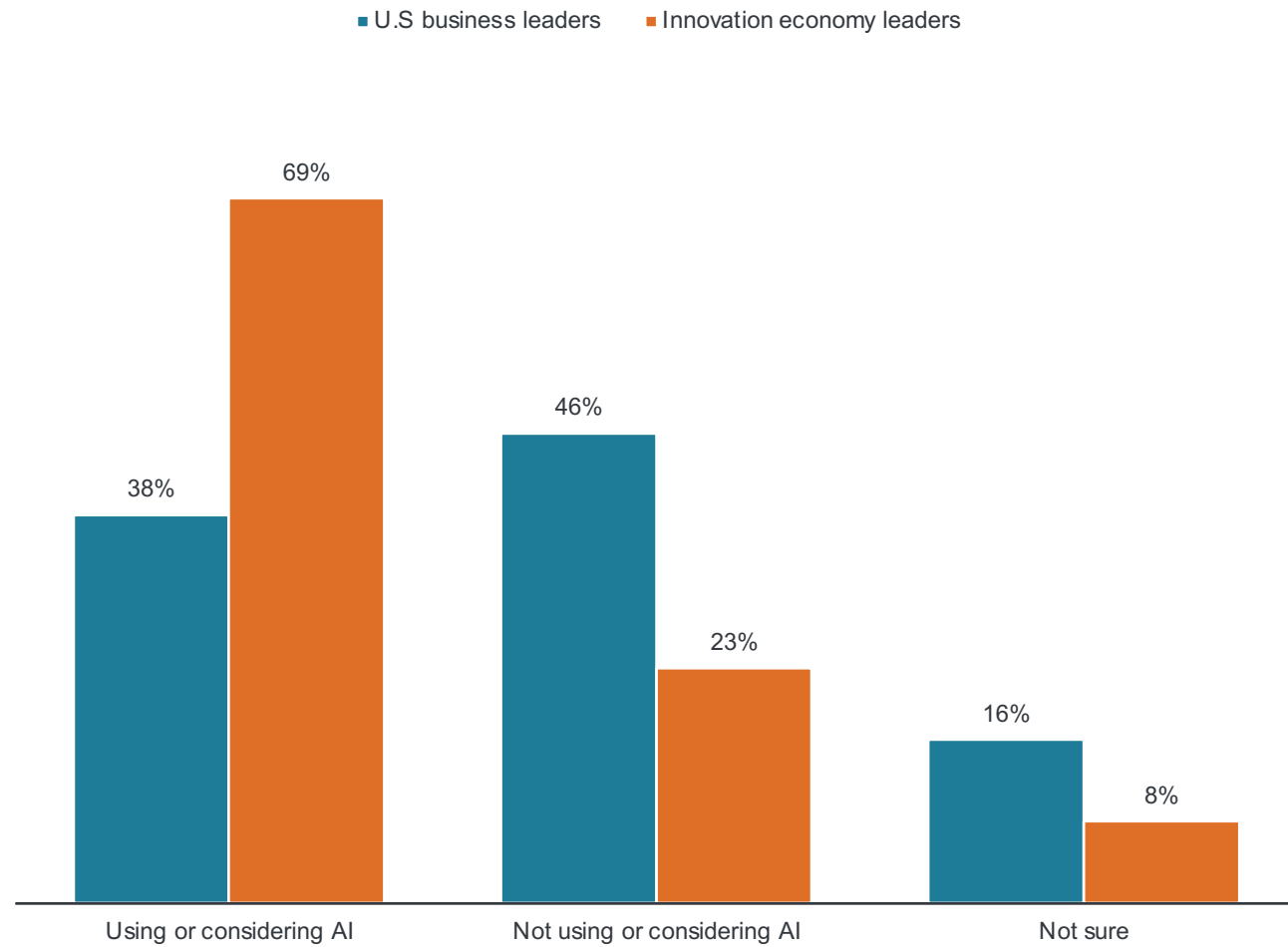
PLANS FOR HEADCOUNT



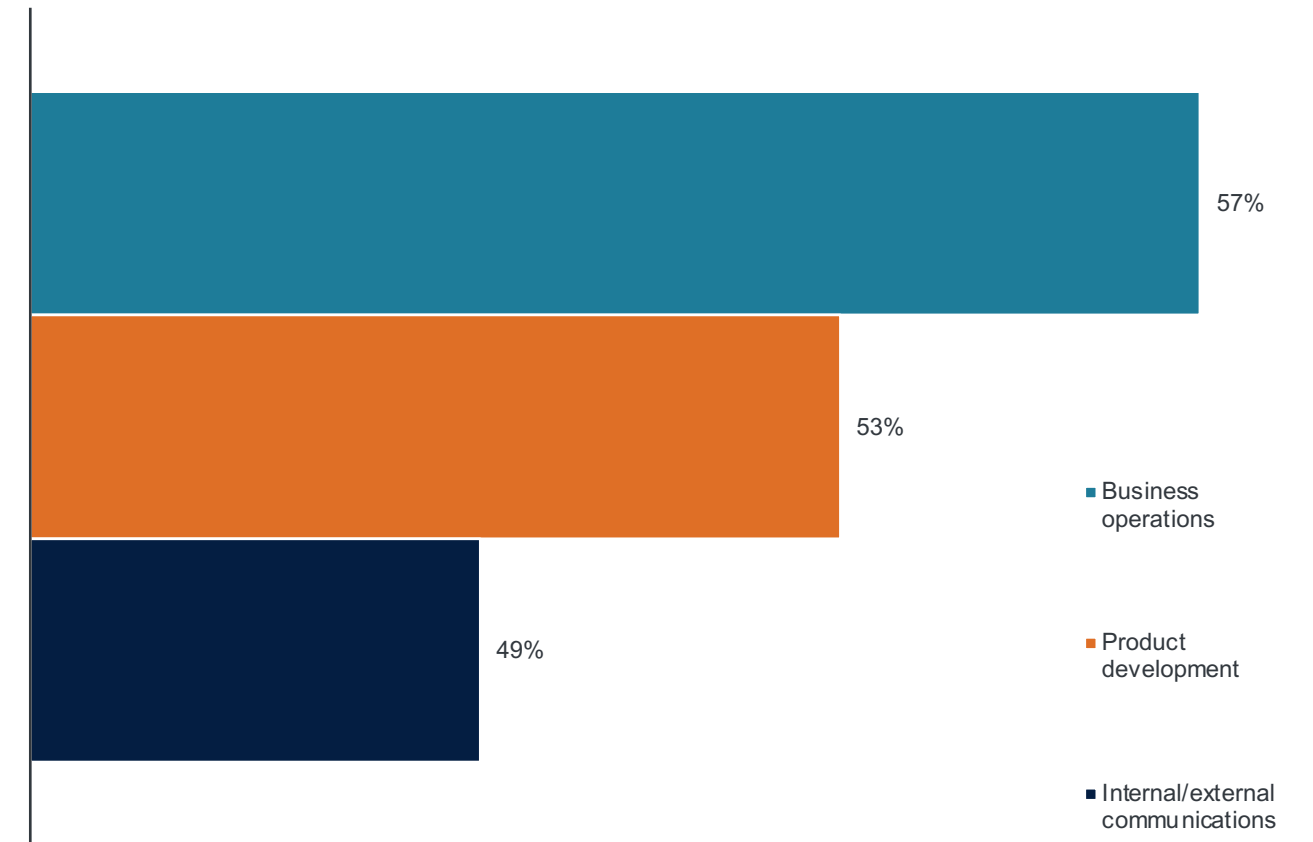
Artificial intelligence (AI) adoption

Innovation economy leaders are big believers in artificial intelligence. More than two-thirds said they use or plan to use AI in their business, compared with 38% of all U.S. industries.

USING OR CONSIDERING AI TOOLS



TOP AI BUSINESS APPLICATIONS¹

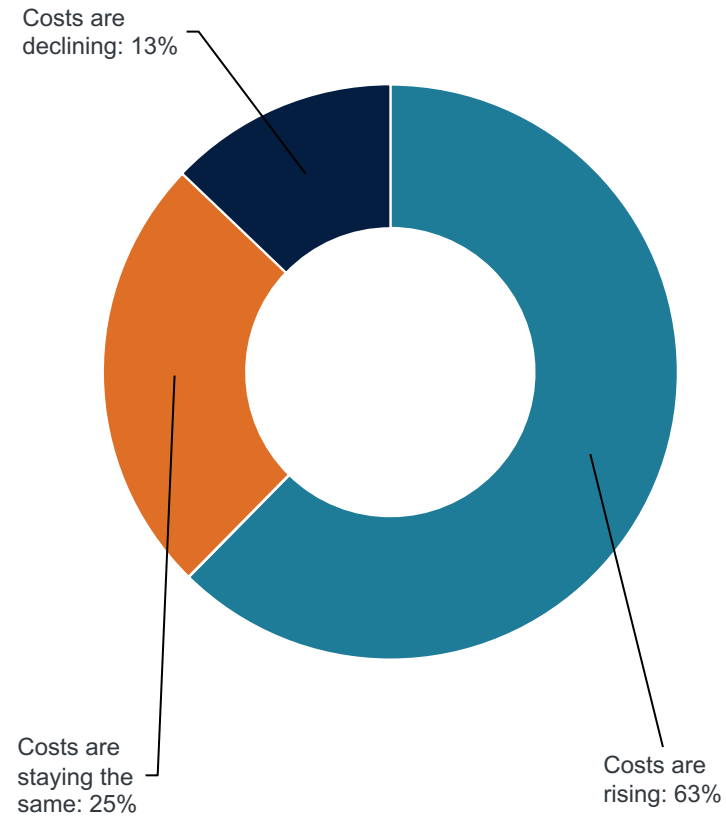


1. Among respondents who are currently using or considering using AI, or who are not sure.

Business challenges

More than 60% of innovation economy leaders said their costs continue to rise—and that's going to translate to increased prices for consumers and buyers, the survey found.

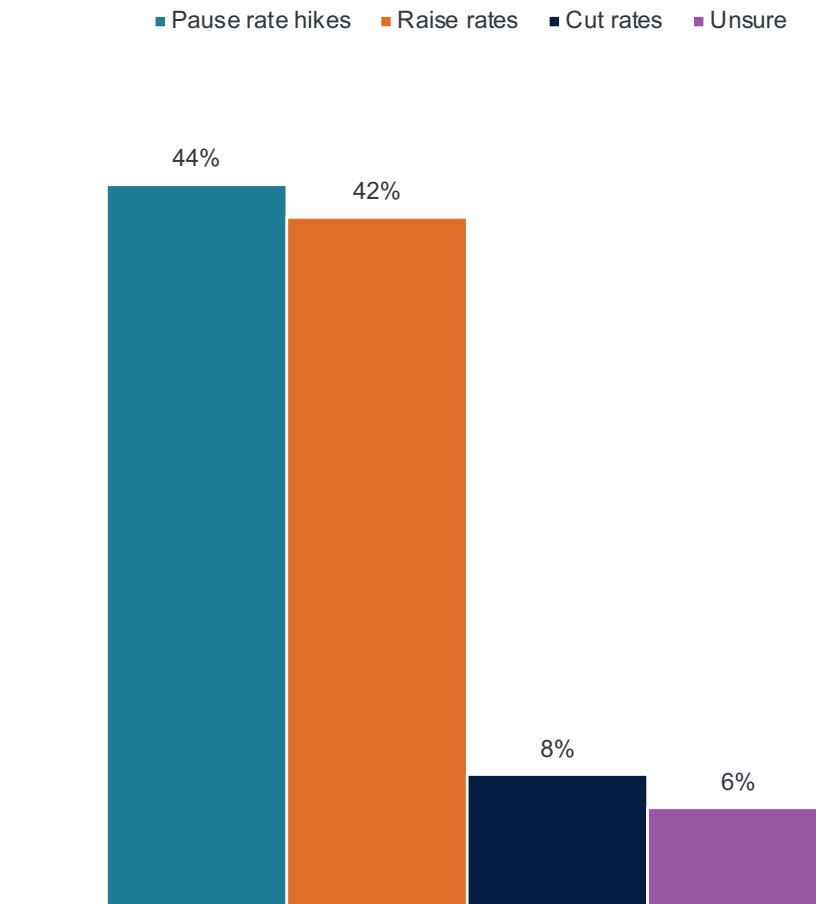
CHANGES IN COSTS OF BUSINESS OVER PAST 6 MONTHS



75%

of those experiencing rising costs plan to increase prices for consumers/buyers.

HOW LEADERS THINK THE FED SHOULD RESPOND TO THE CURRENT ECONOMIC LANDSCAPE

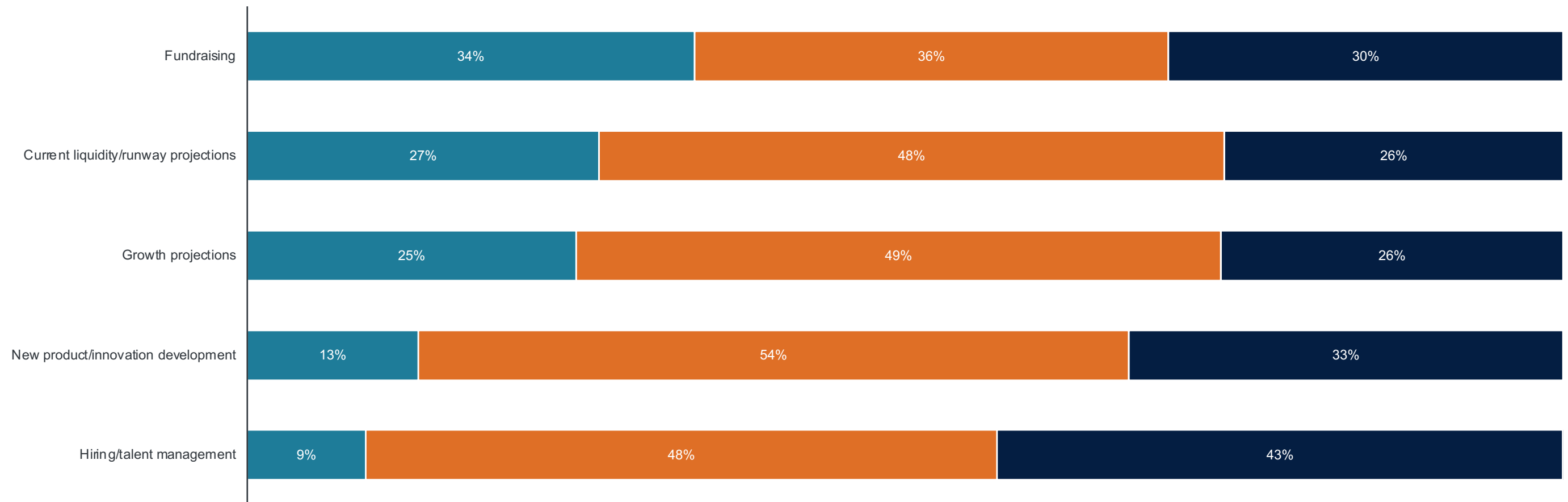


Innovation economy challenges

As tech valuations have dipped, companies are feeling the pinch. The most dramatic impacts are on fundraising and liquidity, while product development and hiring are less affected.

IMPACTS OF DECLINING TECH VALUATIONS

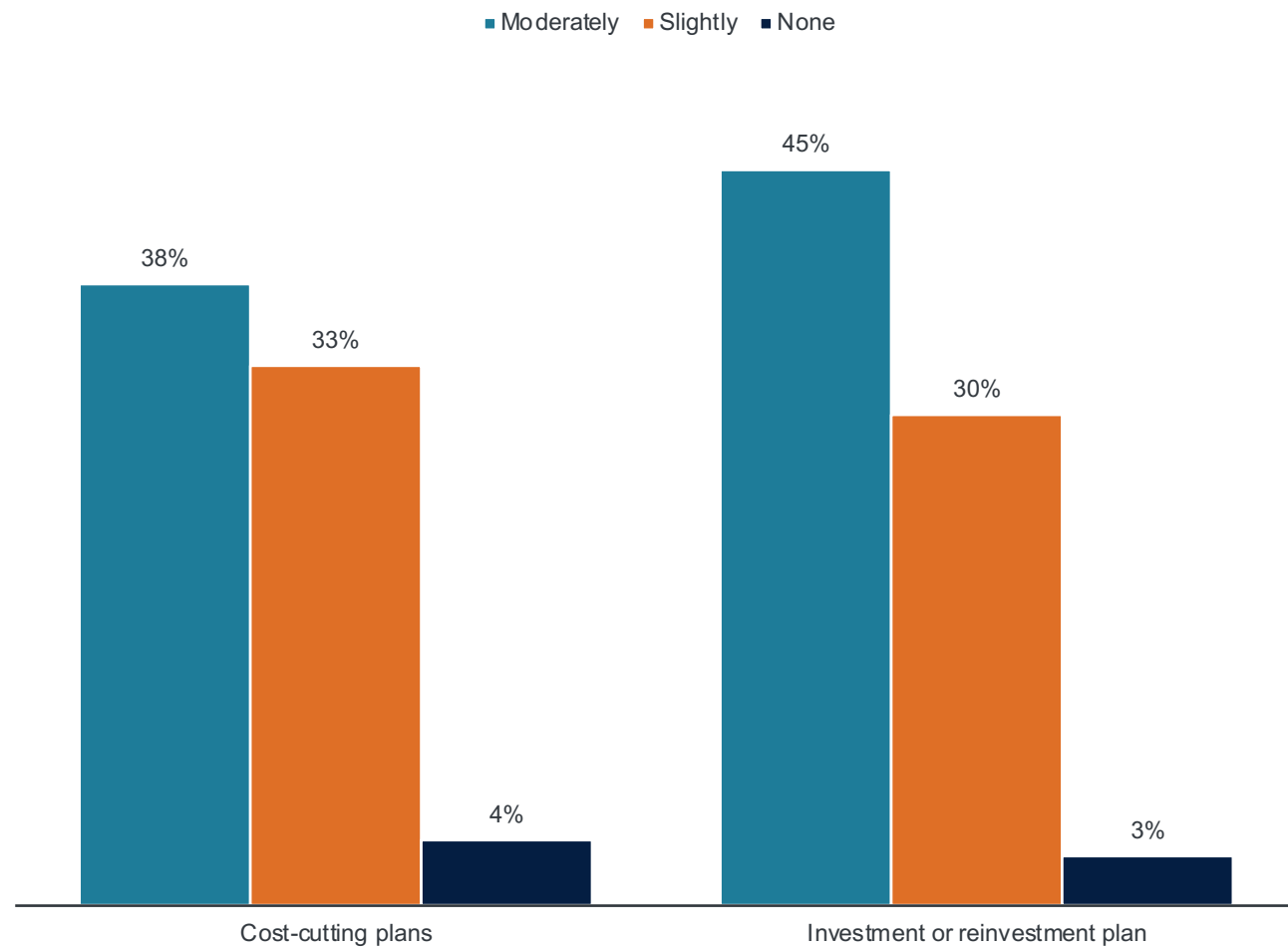
■ Negative impact ■ No impact ■ Positive impact



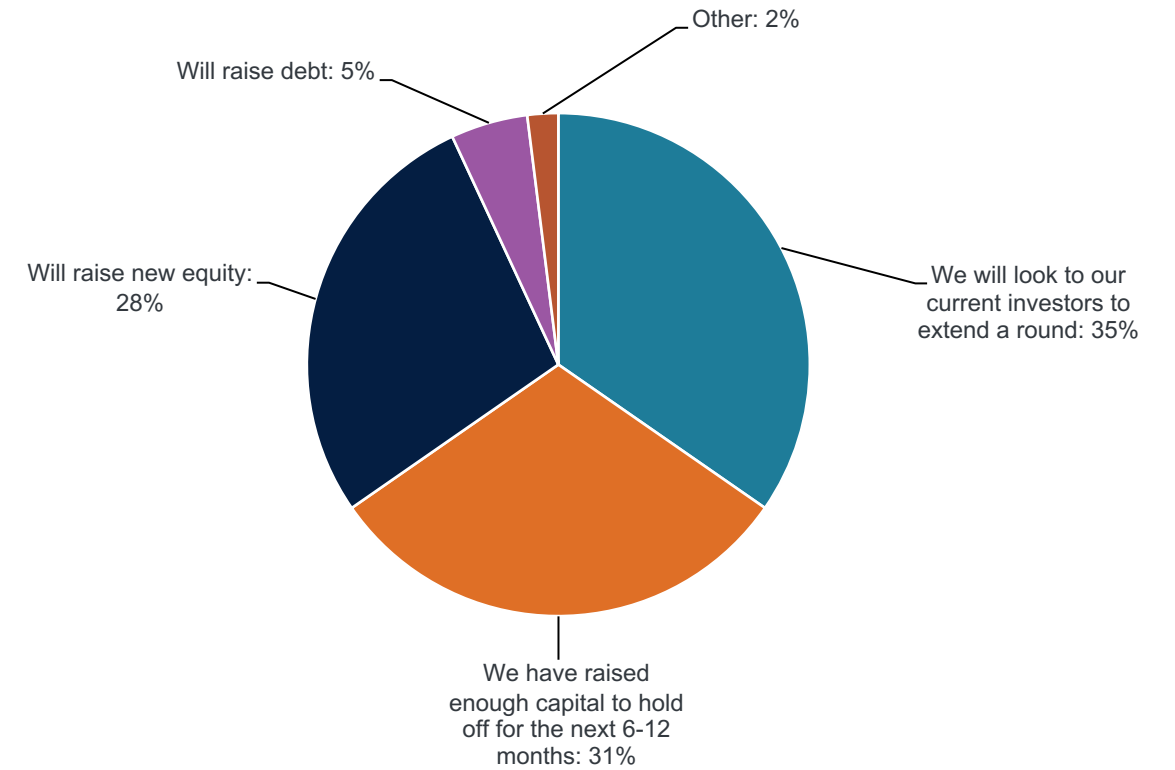
Innovation economy challenges

About 3 in 10 leaders said they have enough capital on hand for the next several months; others expect to lean on current investors or to raise new equity.

IMPACTS OF A POTENTIAL RECESSION ON GROWTH STRATEGY



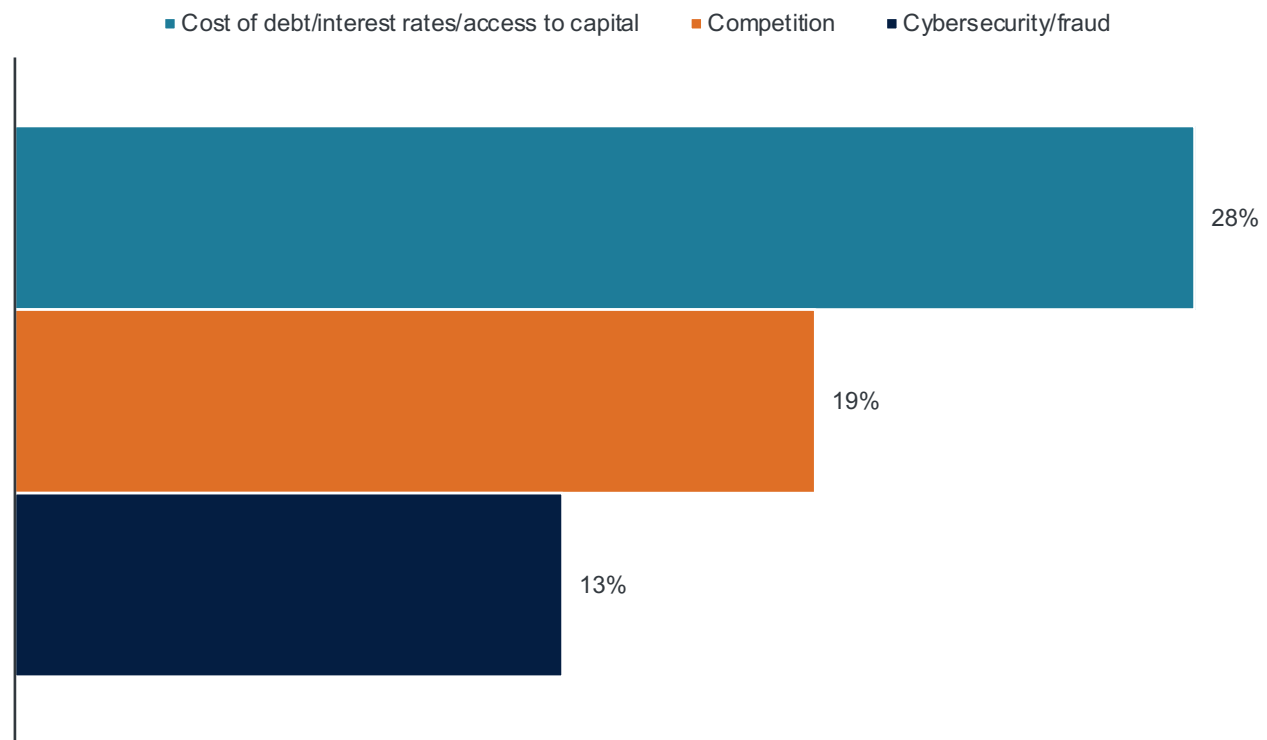
IMPACT OF CURRENT MARKET DYNAMICS ON CAPITAL RAISING OVER THE NEXT 6-12 MONTHS



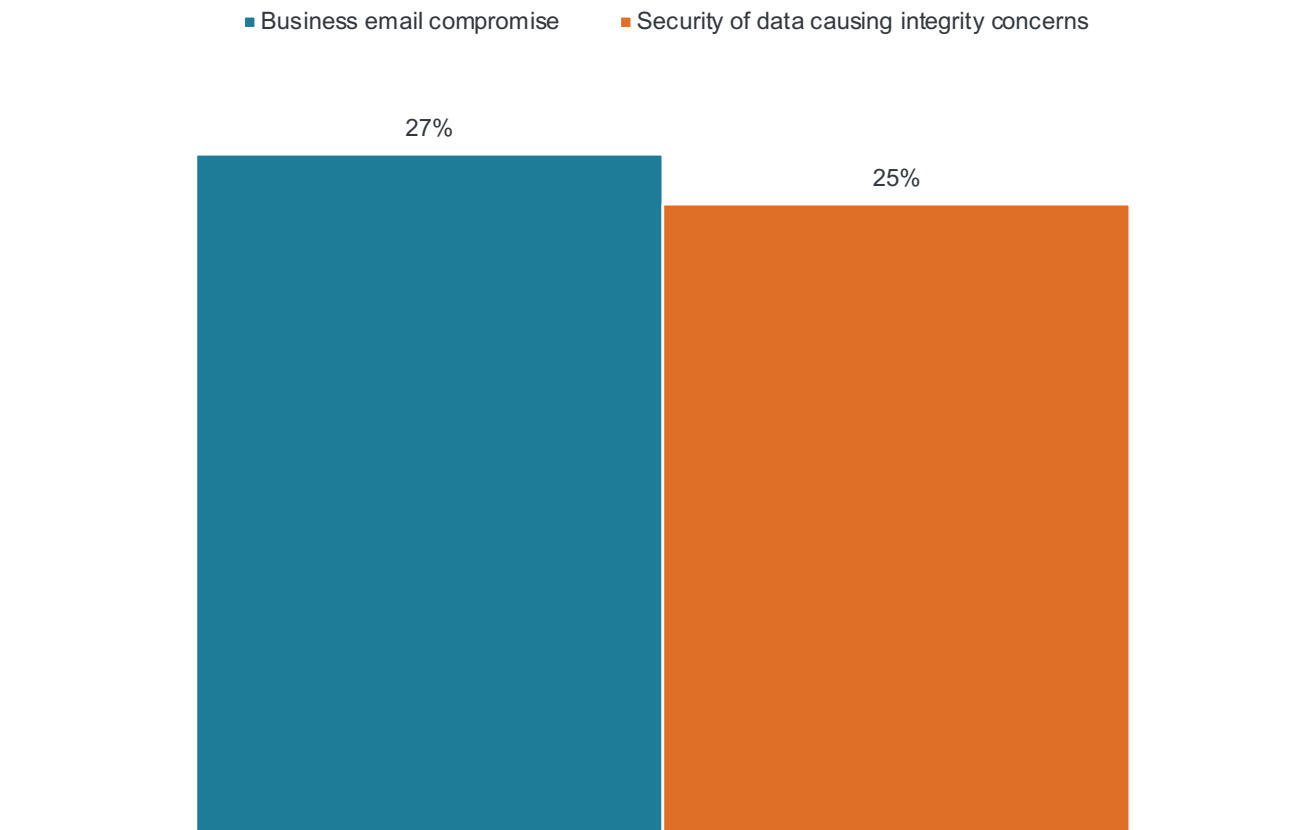
External threats

More than a quarter of innovation economy leaders cited the rising rate environment as their top business threat; other common responses were business competition and cybersecurity.

TOP EXTERNAL BUSINESS THREATS



TOP CYBERATTACKS IN THE LAST 6 MONTHS¹



1. Among respondents who were impacted by a cyberattack this year.

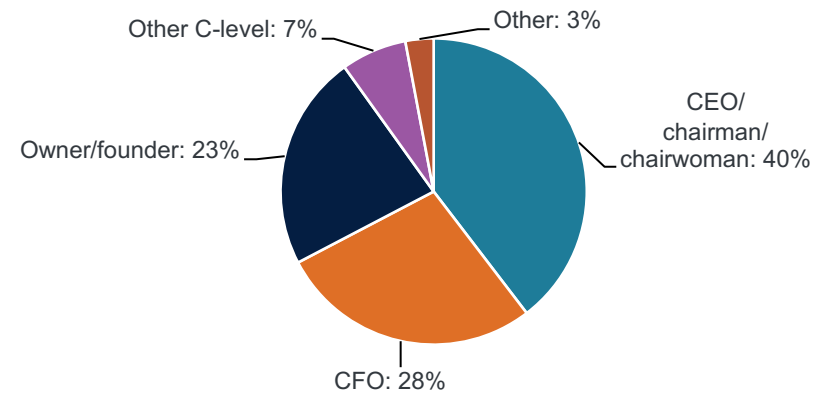
About the survey

Started in 2011, the annual and midyear Business Leaders Outlook survey series provides snapshots of the challenges and opportunities facing executives of midsize companies in the United States.

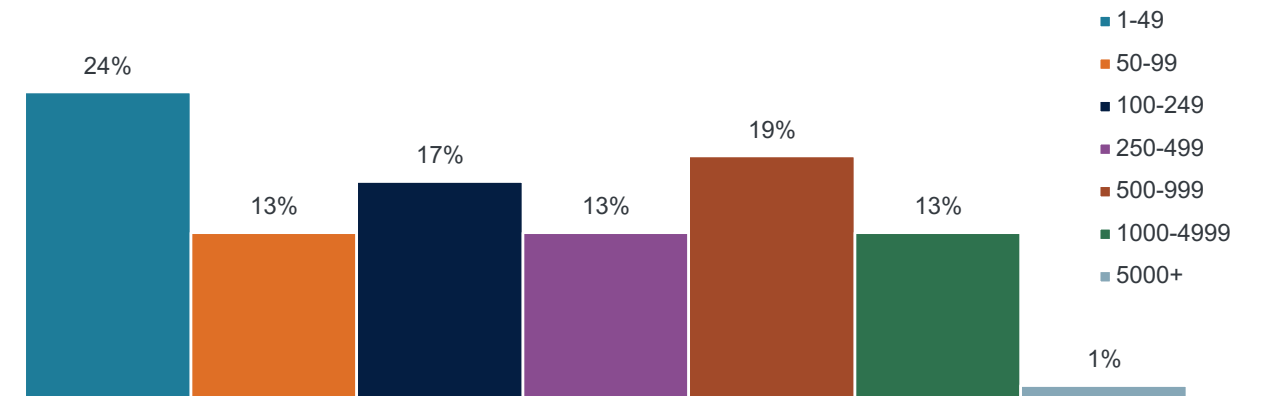
This year, 120 respondents completed the midyear online survey between June 14 and July 5, 2023. Results are within statistical parameters for validity; the error rate is plus or minus 9.0% at the 95% confidence interval.

Who took the survey

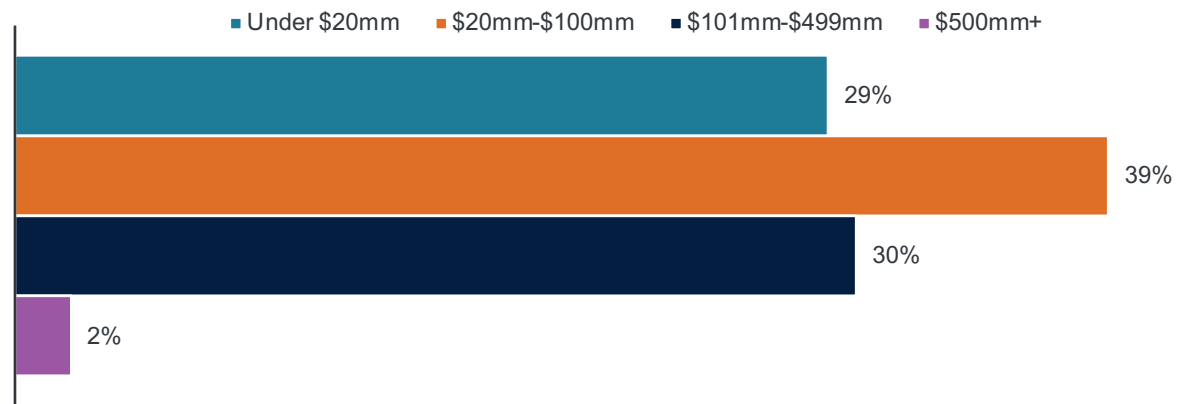
BY TITLE



BY NUMBER OF EMPLOYEES



BY ANNUAL REVENUE



BY INDUSTRY

Healthcare	15%	Other professional / business services (nonfinance)	3%
Health and Fitness	4%	Real estate	1%
Industrials	3%	Technology	28%
Life sciences	13%	Transportation/logistics	1%
Manufacturing	5%	Wholesale/retail	17%
Media/Entertainment	8%	Other	3%

Note: Some charts may not equal 100% because of rounding.

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