

February 2016

U.S. Equipment & Software Investment Momentum Monitor



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About the U.S. Equipment & Software Investment Momentum Monitor

Business leaders require actionable forward-looking intelligence to make strategic decisions. Accordingly, the Equipment Leasing & Finance Foundation commissioned Keybridge LLC to develop a series of custom leading indicators for the equipment sector. Published monthly, the “U.S. Equipment & Software Investment Momentum Monitor” consists of indices for the 12 equipment and software investment verticals listed below. These indices are designed to identify turning points in their respective investment cycles with a 3 to 6 month lead time.

The Momentum Monitor is based on Keybridge’s extensive research which shows that not all movements in economic data are reliable signals of future economic trends. Keybridge has operationalized its research by constructing indices, each comprised of between 10 to 20 high-frequency indicators. These indicators undergo rigorous testing to determine the optimal thresholds at which their short-term fluctuations are economically meaningful. In simpler terms, the Momentum Monitor sifts out the “noise” in the data and identifies the dominant trends. As a result, each Momentum Monitor index is statistically optimized to signal turning points in the investment cycle without giving false readings of shifts in momentum.

The Momentum Monitor covers 12 equipment and software verticals as defined by the U.S. Department of Commerce Bureau of Economic Analysis.

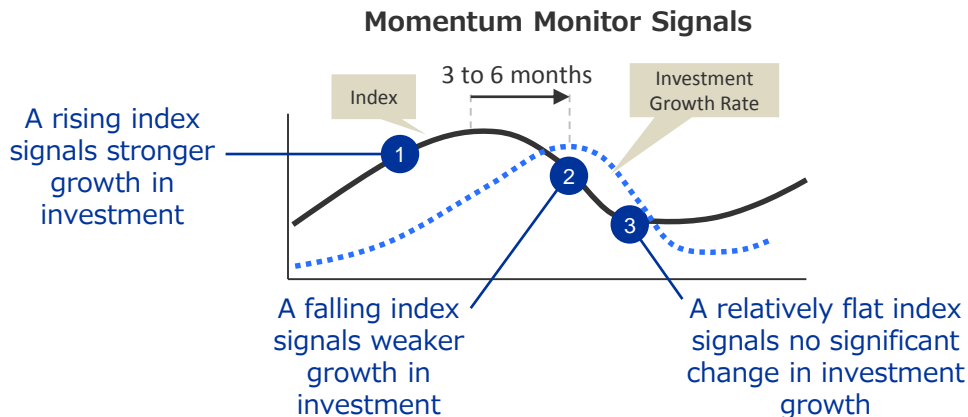
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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|-----------------------------------|-----------------------|
| 1) Agriculture machinery | 7) Aircraft |
| 2) Construction machinery | 8) Ships and boats |
| 3) Materials handling equipment | 9) Railroad equipment |
| 4) All other industrial equipment | 10) Trucks |
| 5) Medical equipment | 11) Computers |
| 6) Mining & oilfield machinery | 12) Software |

How to Read the Monitor

Each Momentum Monitor index provides a signal of the direction and magnitude of growth in equipment investment over the next 3 to 6 months. It is important to note that index values do not correspond to particular growth rates. Instead, the Momentum Monitor indices should be interpreted within the context of prior index readings and investment growth rates. For example, there are several simple rules to follow when examining the latest index values:

- 1) A rising index signals that growth in investment will accelerate from the current rate;
- 2) A falling index signals that growth in investment will decelerate from the current rate; and
- 3) No change in the index signals no meaningful change from the current growth rate.



To help the reader interpret the latest Momentum Monitor signals, a summary report for each equipment vertical follows a specific outline:

Materials Handling Equipment:

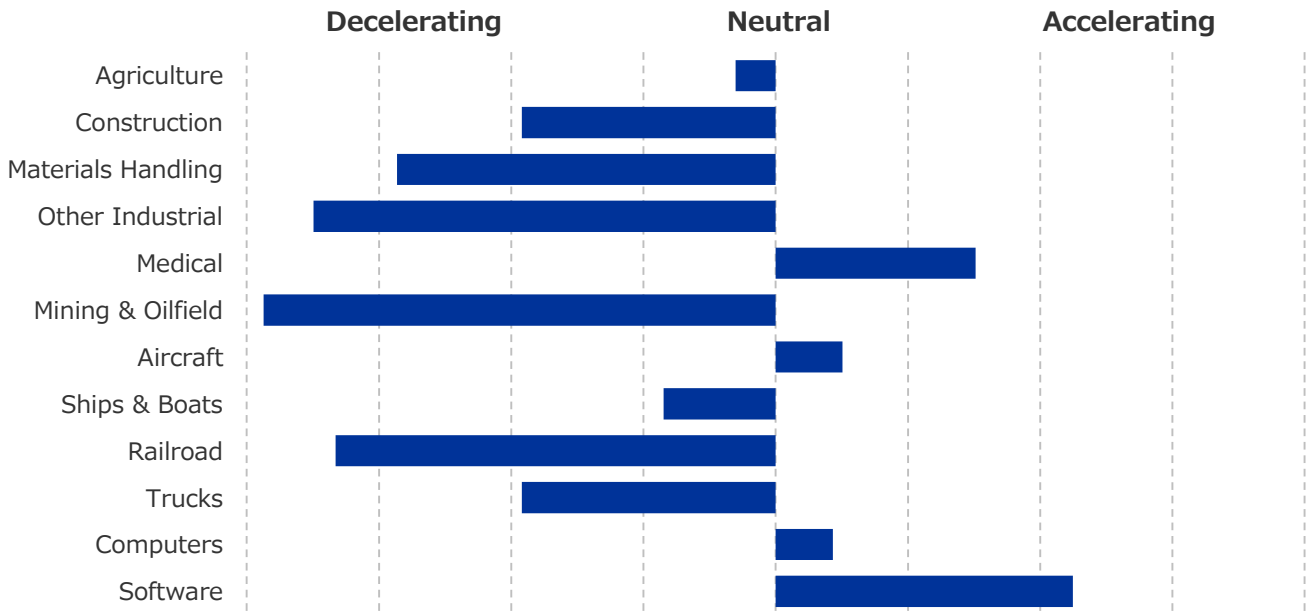
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy Uncertainty offset gains in Machinery Sales, Manufacturing Sales, and the ISM Manufacturing Suppliers Deliveries Index.
- 4 The Index's recent trend continues to indicate that growth may moderate over the next three to six months.

- 1) The first sentence reports the latest growth rate for investment in a given vertical. This provides a context for interpreting the order of magnitude of growth over the next 3 to 6 months.
- 2) The second sentence explains the latest movement in the index, indicating whether momentum is accelerating or decelerating.
- 3) The report then describes the specific indicators driving the latest index value. This allows readers to understand the key drivers of the outlook.
- 4) Finally, the report ends with an interpretation of where investment growth is heading over the next 3 to 6 months.

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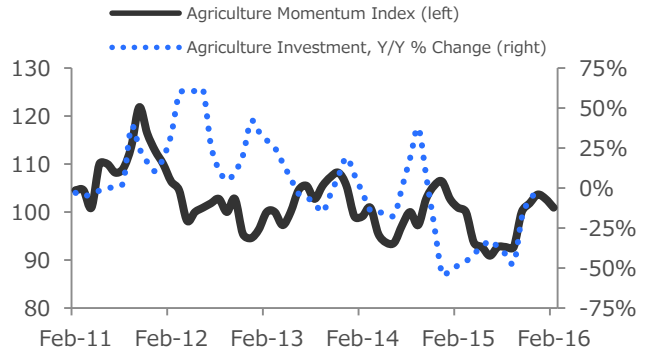
Equipment Vertical Momentum Relative to 10-Year Historical Average



The chart above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices relative to the index values for each quarter over the last 10 years. Verticals for which momentum is below the 10-year median are “decelerating,” verticals for which momentum is near the 10-year median are “neutral,” and verticals for which momentum is near the 10-year maximum are “accelerating.” Note that the current momentum trend for each vertical may differ from the current investment volume. For example, a vertical for which the level of investment activity is low — but which is exhibiting signs of a comeback in the near future based on the momentum suggested by its leading indicators — will be labeled “accelerating” (and vice-versa).

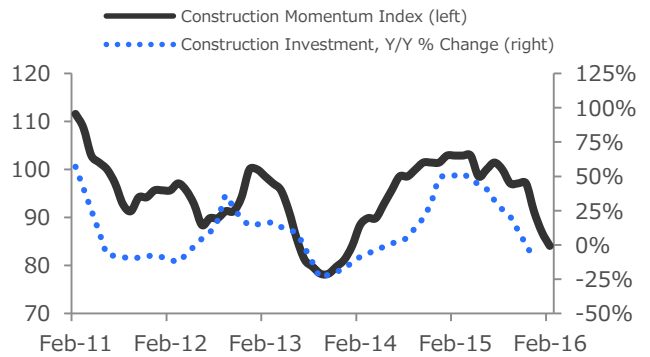
Agriculture Machinery:

Investment in Agricultural Machinery dropped at an annual rate of 25.7% in Q4 2015, and is down 2.7% from one year ago. The Agriculture Momentum Index slipped from 102.7 (revised) in January to 100.9 in February. Durable Good Inventories declined for the second straight month and Shipments of Farm Machinery fell 5%. However, Cattle Exports surged more than 85%. Overall, the Index indicates that investment growth could rebound somewhat in the next three to six months, but will likely remain weak relative to historical norms.



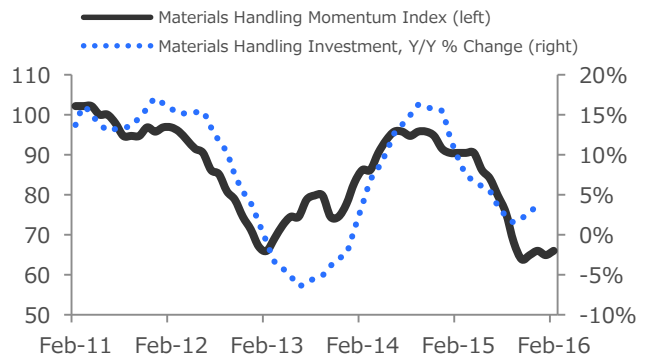
Construction Machinery:

Investment in Construction Machinery declined at a 25.3% annual rate in Q4 2015, the third straight contraction, and is now down 10.3% year-over-year, a two-year low. The Construction Momentum Index fell from 87.0 (revised) in January to 84.1 in February, its lowest reading since early 2014. Multi-Family Housing Permits dropped 15% in December, while Residential Construction Employment ticked up 1% — the fourth consecutive month of positive growth. Overall, the Index continues to suggest slow (and potentially negative) investment growth over the next three to six months.



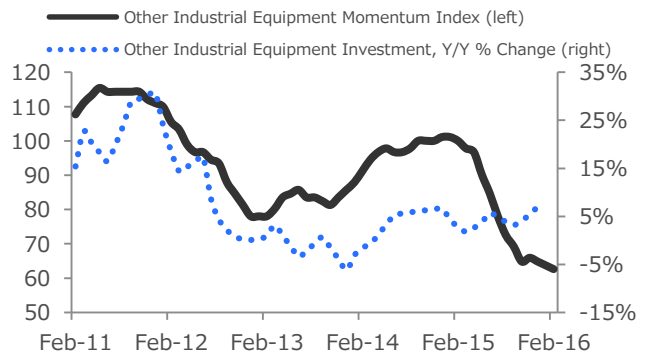
Materials Handling Equipment:

Investment in Materials Handling Equipment increased at a 14.3% annual rate in Q4 2015, its fastest pace since Q3 2014, and is up 3.8% year-over-year. The Materials Handling Momentum Index rose slightly from 64.9 (revised) in January to 66.0 in February. The MNI-Chicago Business Barometer Index rebounded nearly 30% in January, yet Economic Policy Uncertainty rose 11% (the second consecutive increase). Overall, the Index's low level indicates that investment growth will remain positive, but weak over the next three to six months.



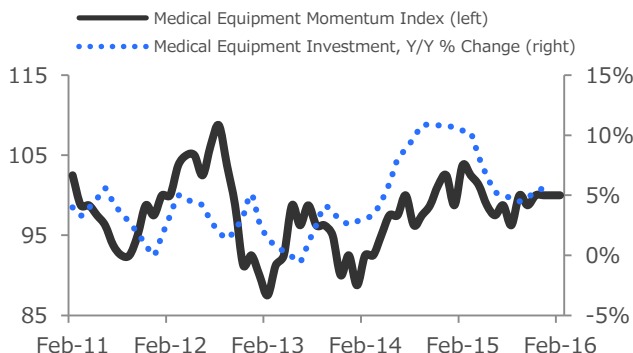
Other Industrial Equipment:

Investment in All Other Industrial Equipment rebounded at a 4.0% annual rate in Q4 2015 and is up 7.1% year-over-year. The Other Industrial Equipment Momentum Index eased from 63.7 (revised) in January to 62.6 in February — its lowest level since 2009. Offsetting a 1% gain in Industrial Production of Durable Goods, the ISM Manufacturing Index indicated contraction for the fourth consecutive month. Overall, the Index's recent movement and low position continue to suggest weak and potentially negative investment growth over the next three to six months.



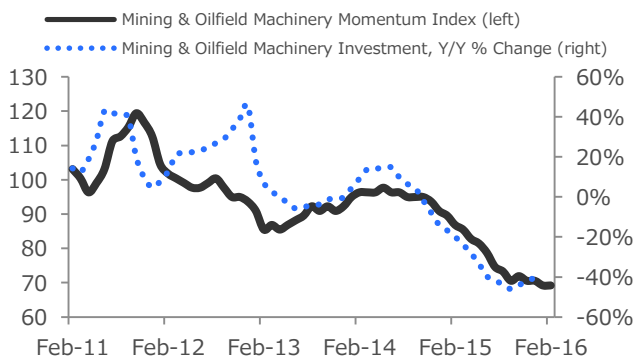
Medical Equipment:

Investment in Medical Equipment rose at an 8.6% annual rate in Q4 2015 and is up 5.6% year-over-year. The Medical Equipment Momentum Index held steady at 100.0 (revised) from January to February. New Orders of Non-Defense Capital Goods declined 6%, yet Federal Health and Medicare Outlays both rebounded in December. Overall, the Index continues to suggest stable and solid growth in medical equipment investment over the next three to six months.



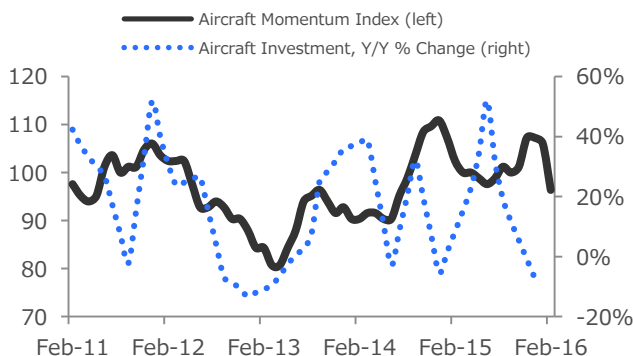
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery decreased at a 30.9% annual rate in Q4 2015 and remains down 40.2% year-over-year, the fifth consecutive drop. The Mining & Oilfield Machinery Momentum Index was unchanged at 69.2 from January to February. The WTI Spot Price dropped to its lowest level in more than a decade, and the Oil Rig Count fell to a five-year low. However, WTI Futures rebounded partially from the previous month's drop. The Index points to continued weakness in mining & oilfield machinery investment over the next three to six months.



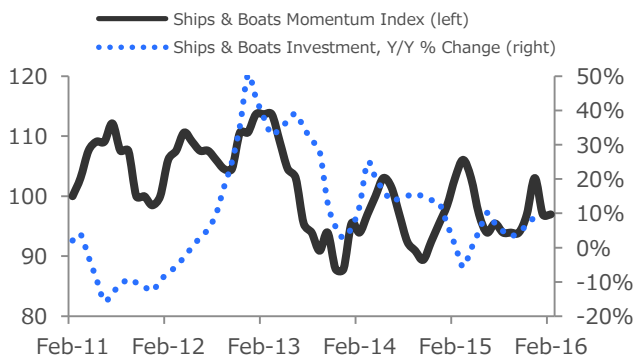
Aircraft:

Investment in Aircraft fell sharply at a 58.9% annual rate in Q4 2015 and is down 7.3% on a year-over-year basis, the first decline in a year. The Aircraft Momentum Index decreased from 106.0 (revised) in January to 96.4 in February, its lowest level since July 2014. Overseas Tourism fell for the fourth consecutive month, Capacity Utilization declined to its lowest level since mid-2013, and Computer & Electrical Product Exports decreased nearly 13%. Overall, the Index's recent movement suggests that aircraft investment growth may moderate over the next three to six months.



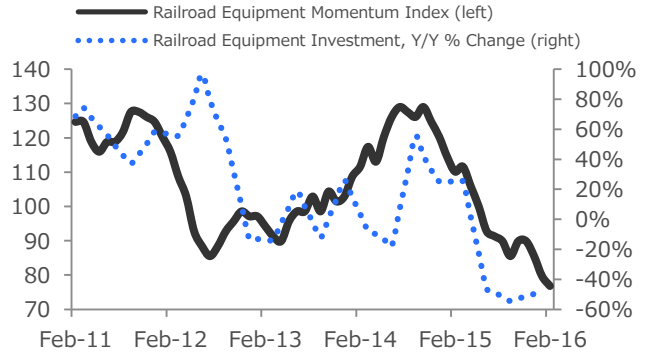
Ships & Boats:

Investment in Ships & Boats expanded at an annual rate of 5.5% in Q4 2015, and is up 9.2% year-over-year. The Ships & Boats Momentum Index was unchanged at 97.0 (revised) from January to February. Nonfarm Employment Growth jumped to 292,000 in December 2015 and Raw Steel Production rose 10% in January, while the ISM Manufacturing Employment Index fell to its lowest level since 2009. Overall, the Index suggests that ships & boats investment growth could slow over the next three to six months.



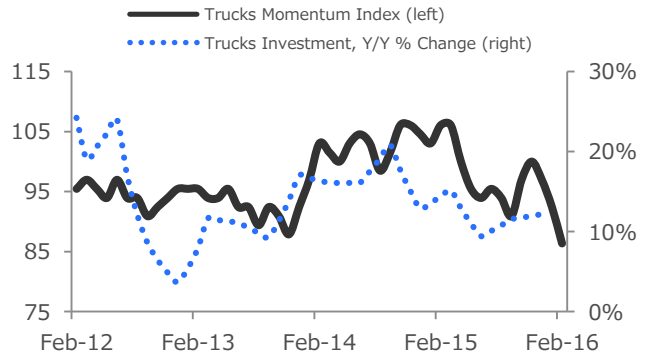
Railroad Equipment:

Investment in Railroad Equipment slipped at a 3.8% annual rate in Q4 2015, and remains down 49.8% year-over-year, the third straight decline. The Railroad Equipment Momentum Index declined from 79.7 (revised) in January to 76.8 in February. Machine Tool Orders ticked up 1%, yet Petroleum Carloads, Mining Exports, and Industrial Production of Energy Materials all decreased last month. Overall, the Index's recent movement and low position suggests continued weakness in railroad equipment investment over the next three to six months.



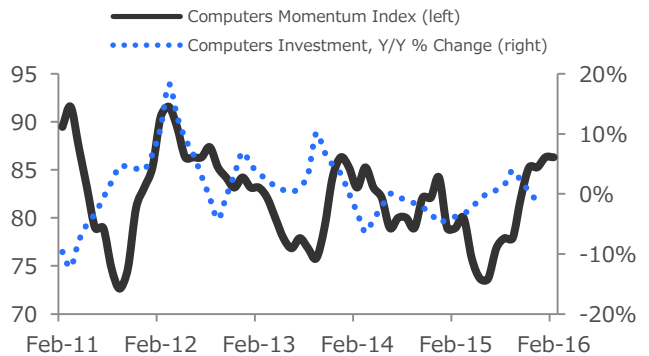
Trucks:

Investment in Trucks declined at a 3.0% annual rate in Q4 2015, yet is still up 12.2% year-over-year. The Trucks Momentum Index decreased from 92.4 in January to 86.4 in February, a six-year low. The ISM Manufacturing Index indicated industrial sector contraction and Shipments of Primary Metals dipped 1% (the 12th straight decline), offsetting a 12% jump in Housing Permits. Overall, the Index's recent movement suggests slower growth in truck investment over the next three to six months.



Computers:

Investment in Computers fell at an annual rate of 21.8% in Q4 2015 — the sharpest drop since early 2014 — and is down 1.3% on a year-over-year basis. The Computers Momentum Index held steady at 86.3 (revised) from January to February. Industrial Production of Computer Components jumped 1.6%, while Appliance & TV Retail Sales surged nearly 25%. However, Computer Shipments decreased 5%. Overall, the Index's elevated position continues to point to stronger computer investment growth over the next three to six months.



Software:

Investment in Software grew at a 1.8% annual rate in Q4 2015, and is up 3.9% year-over-year. The Software Momentum Index slipped from 100.1 in January to 98.8 in February, but remains elevated relative to historical norms. Although the NASDAQ Composite Index declined nearly 8% in January, the Richmond Fed Survey on Equipment Spending climbed to a six-month high, and Consumer Revolving Credit increased nearly 1%. Overall, the Index suggests that software investment growth may strengthen over the next three to six months.

