

June 2017

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.

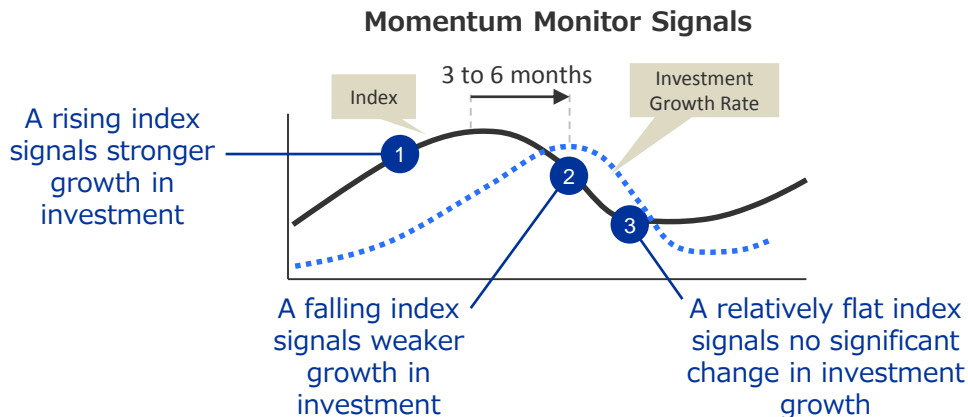
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- | | |
|-----------------------------------|-----------------------|
| 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:

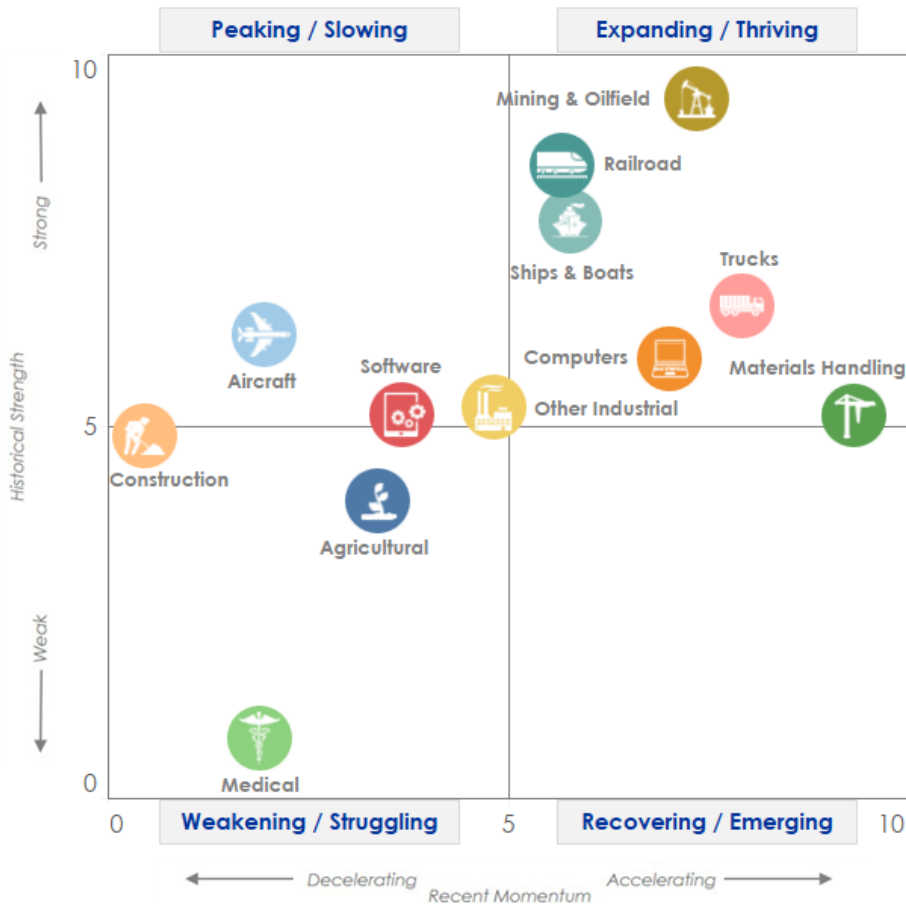
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy 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 recent movements of one or more indicators to help to explain the index's latest reading.
- 4) Finally, the report ends with an interpretation of where investment growth is heading over the next 3 to 6 months based the index's recent movement and historical strength.

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Momentum Monitor Sector Matrix



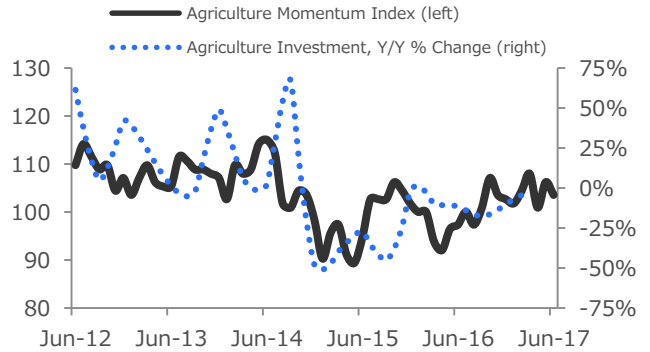
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"Recent Momentum"** represents the degree of an indicator's recent acceleration or deceleration in the past month relative to its average movement during the previous 3 months. Ratings closer to "0" represent an indicator that is rapidly decelerating, while ratings closer to "10" represent an indicator that is rapidly accelerating.
- **"Historical Strength"** represents the strength or weakness of an indicator in the past month relative to its typical level since 1999. Ratings closer to "0" represent an indicator that is weaker than average, while ratings closer to "10" represent an indicator that is stronger than average.

The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting that investment levels may fall over the next 1-2 quarters. Verticals located in the bottom-right quadrant, however, have momentum readings that are below average, but recent movement shows promise — suggesting that investment levels may rise over the next 1-2 quarters. This makes them potentially attractive targets for new short-term leasing and finance opportunities.

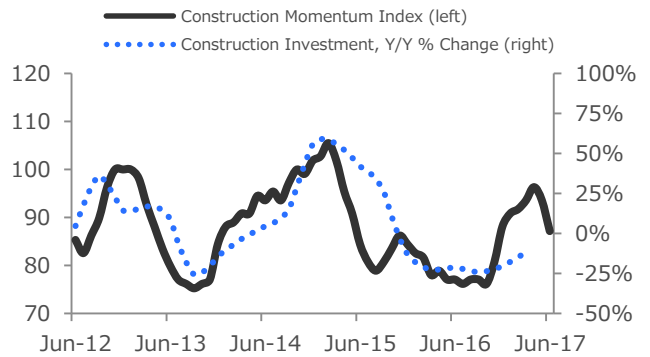
Agriculture Machinery:

Investment in Agricultural Machinery contracted at an annual rate of 13% in Q1 2017 and is down 2.7% from a year ago. The Agriculture Momentum Index fell from 106.2 (revised) in May to 103.5 in June. In April, National Average Precipitation surged 33.5%, but Lamb & Mutton, Pork, and Poultry Production each fell by more than 11%. Overall, the Index and recent movement suggest little change in agricultural machinery investment over the next three to six months.



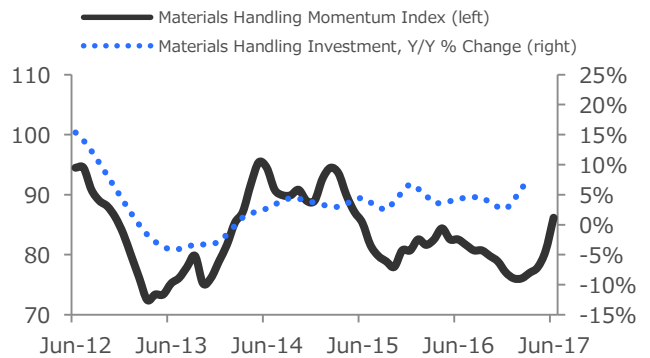
Construction Machinery:

Investment in Construction Machinery rose at a 15% annual rate in Q1 2017 but remains down 12% year-over-year. The Construction Momentum Index dropped from 93.6 (revised) in May to 87.2 in June. Median Months for Sale rose 0.1 to 3.7 in April, while Mobile Home Shipments fell 3.2%. Overall, the Index continues to point to improved construction machinery investment in Q2 and Q3, but recent declines in the index are concerning.



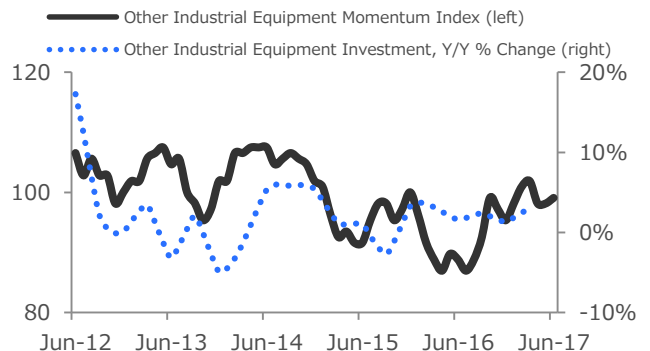
Materials Handling Equipment:

Investment in Materials Handling Equipment increased at an 18% annual rate in Q1 2017 and is up 8.0% year-over-year. The Materials Handling Momentum Index jumped from 80.7 (revised) in May to 86.2 to June. Machinery Inventory Prices rose 0.4%, their fourth straight monthly increase, while Materials Handling Import Prices fell 0.7%. Overall, the Index's recent movement signals improvement in materials handling equipment investment growth over the next two quarters.



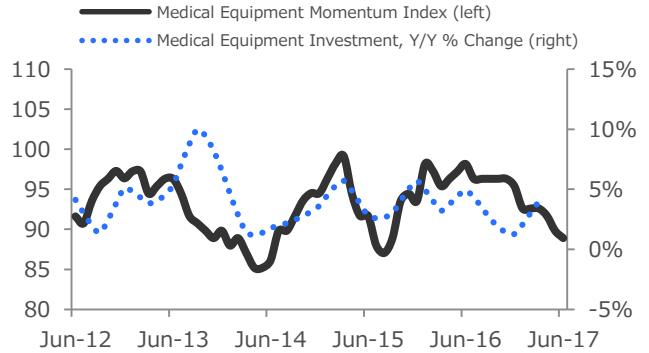
Other Industrial Equipment:

Investment in All Other Industrial Equipment rose by a 2.5% annual rate in Q1 2017 and is up 3.0% from a year ago. The Other Industrial Equipment Momentum Index ticked up from 98.1 (revised) in May to 99.1 in June. Industrial Machinery Shipments rose 3.1% in April, but Average Weekly Earnings: Production & Nonsupervisory fell 0.2%. Overall, the Index suggests continued slow growth in industrial equipment investment over the next three to six months.



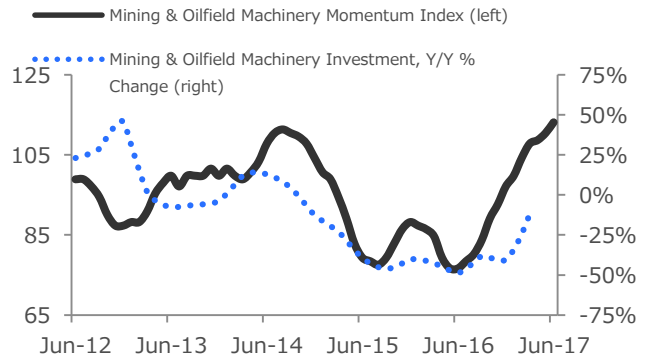
Medical Equipment:

Investment in Medical Equipment expanded at a 5.6% annual rate in Q1 2017 and is up 4.0% year-over-year. The Medical Equipment Momentum Index slipped from 89.8 in May to 88.9 in June. CPI Medical: Physicians' Services fell 1.2% in April, but Personal Spending on Medical Products rose 0.6%. Overall, the Index suggests slower medical equipment investment growth over the next two quarters.



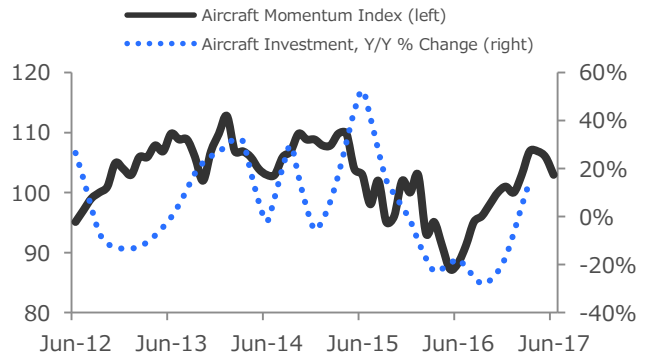
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery rebounded at a robust 181% annual rate in Q1 2017, but remains down 12% year-over-year. The Mining & Oilfield Machinery Momentum Index increased from 110.5 (revised) in May to 113.2 in June, its strongest reading since June 2010. Industrial Production for Oil & Gas Drilling surged 8% in April, the 11th straight monthly increase, while Crude Oil Distillation Capacity increased 0.6%. Overall, the Index points to a strong rebound in mining & oilfield machinery investment over the next three to six months.



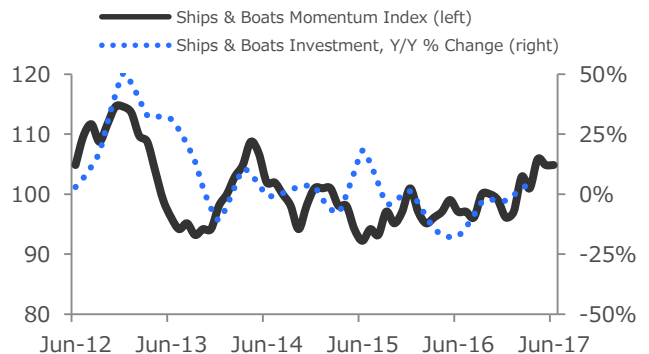
Aircraft:

Investment in Aircraft rallied at a 103% annual rate in Q1 2017 and is up 15% on a year-over-year basis. The Aircraft Momentum Index declined from 105.9 (revised) in May to 102.9 in June. In April, Inventories of Defense Aircraft expanded 6.5%, the largest one-month change since July 2016, while the Transportation Services Index: Freight fell 1.5% in March. Overall, the Index's recent movement indicates that aircraft investment is likely to remain solid in the next 1-2 quarters, but may moderate after that.



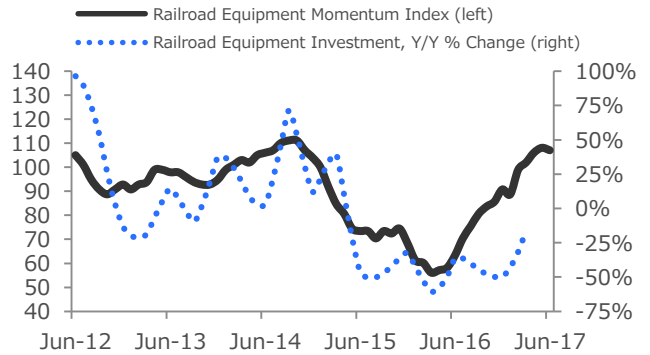
Ships & Boats:

Investment in Ships & Boats rose at an annual rate of 7.4% in Q1 2017 and is up 4.6% year-over-year. The Ships & Boats Momentum Index held steady at 104.9 from May (revised) to June. Shipments of Ships & Boats fell 3.1% in April, while Grain & Oilseed Milling Shipments inched up 0.1%. Overall, the Index continues to signal improved growth in ships & boats investment over the next three to six months.



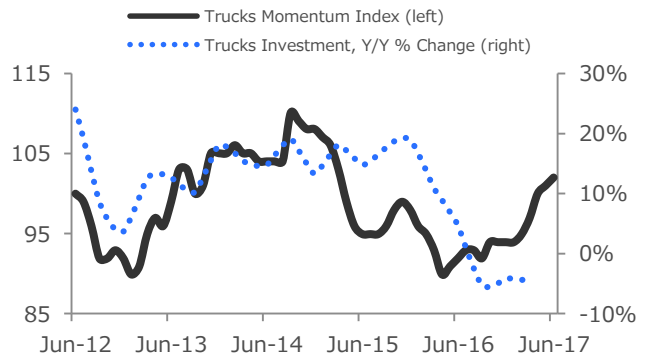
Railroad Equipment:

Investment in Railroad Equipment surged at a 48% annual rate in Q1 2017 but remains down 16% year-over-year. The Railroad Equipment Momentum Index slipped from 108.2 (revised) in May to 107.1 in June. Although the Passenger Transportation Services Index fell 0.6 points, Crude Oil Imports rose 2.7%. Overall, the Index signals that railroad equipment investment will continue to rebound over the next two quarters.



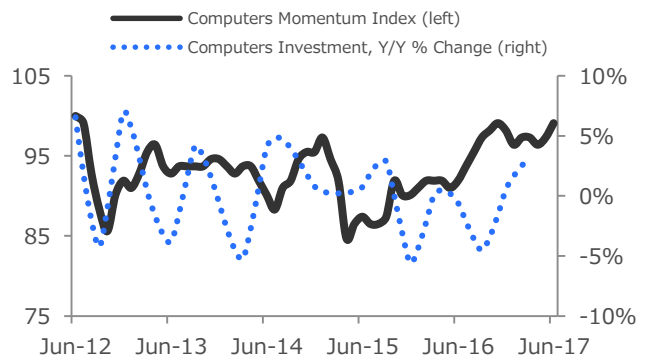
Trucks:

Investment in Trucks rose by a 2.9% annual rate in Q1 2017 but is down 4.3% from year-ago levels. The Trucks Momentum Index inched up from 101.0 (revised) in May to 102.0 in June. The ISM Manufacturing Index ticked up 0.1 point to 54.9 in May, marking its ninth straight month above the expansionary threshold. Overall, the Index continues to suggest that trucks investment growth will accelerate over the next three to six months.



Computers:

Investment in Computers expanded at an annual rate of 16% in Q1 2017 and is up 3.1% year-over-year. The Computers Momentum Index climbed from 97.3 (revised) in May to 99.1 in June. Industrial Production of Consumer Goods rose 2.1% in April, while Microsoft's Market Cap closed 2.0% higher in May. Overall, the Index points to positive investment growth in computers over the next two quarters.



Software:

Investment in Software rose by a 7.1% annual rate in Q1 2017, and is up 4.8% year-over-year. The Software Momentum Index slipped from 96.6 (revised) in May to 94.8 in June. Although the ISM Chicago Business Barometer rose 1.9% in May, the NFIB Small Business Optimism Index moderated in April. Overall, the Index's recent movement suggests little change in software investment growth over the next three to six months.

