

August 2015

# 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.

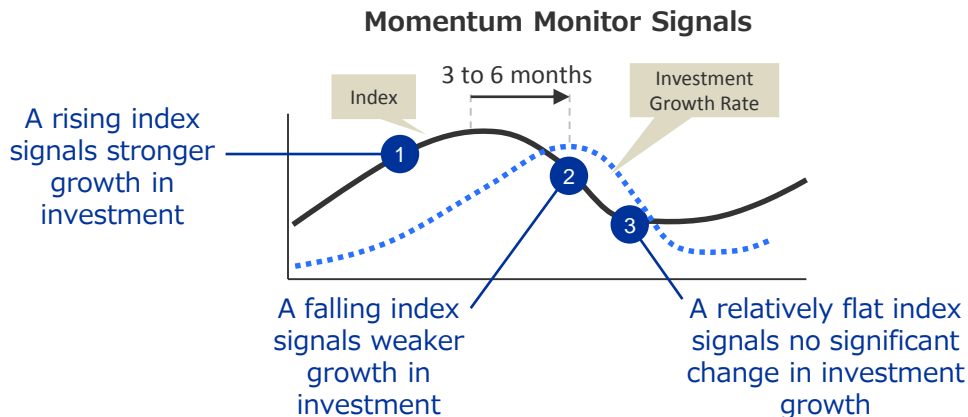
## U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

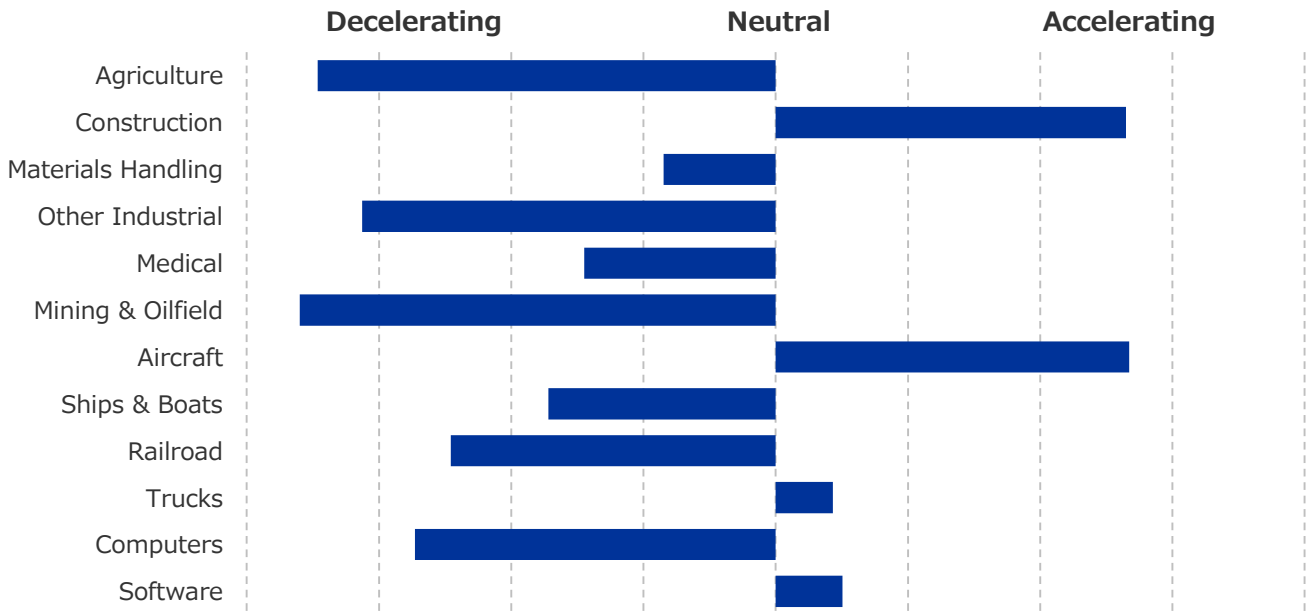
- 1) Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2) The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3) A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy 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 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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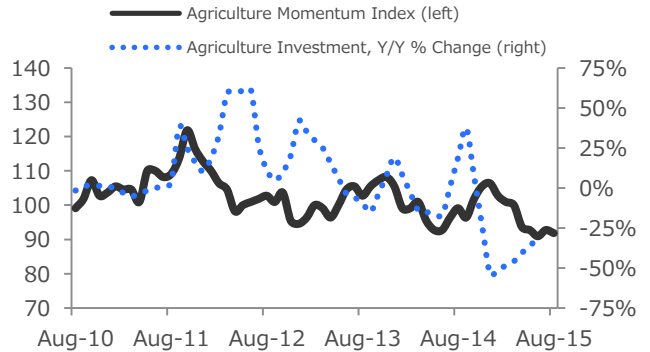
## Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

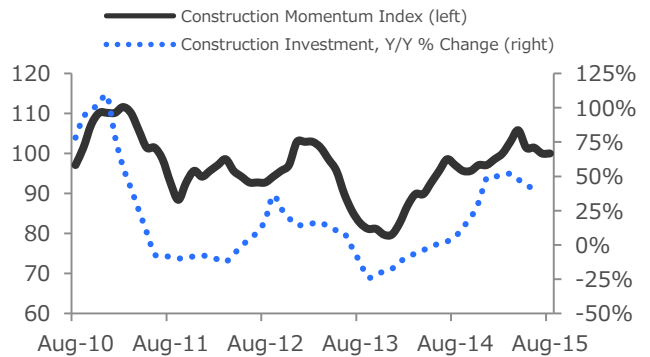
**Agriculture Machinery:**

Investment in Agricultural Machinery increased at an annual rate of 15.3% in Q2 2015 yet is down 31.9% from one year ago. The Agriculture Momentum Index slipped from 92.7 (revised) in July to 91.8 in August. Agriculture Equipment Sales jumped nearly 20% and Cattle Exports continued to increase, yet Milk Production and Food Export Prices both declined. Overall, the Index continues to indicate weak or negative investment growth over the next three to six months.



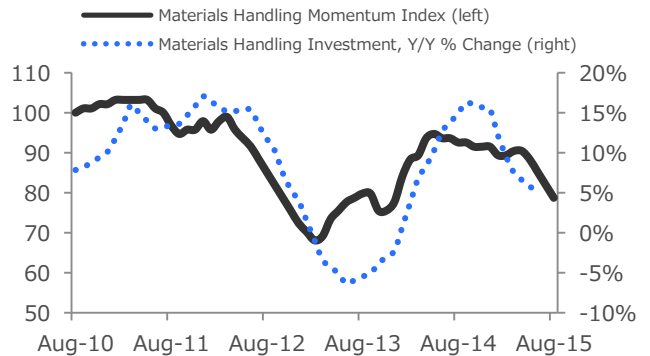
**Construction Machinery:**

Investment in Construction Machinery declined at a 15.2% annual rate in Q2 2015 — the first decrease in six quarters — yet is still up 40.3% year-over-year. The Construction Momentum Index held steady at 100.0 (revised) from July to August. Housing Starts increased nearly 10% in June and Nonresidential Private Construction rose 1.5%; however, Consumer Confidence declined 3 points in June, and Residential Construction Employment slipped. Overall, the Index's elevated position points to steady growth over the next three to six months.



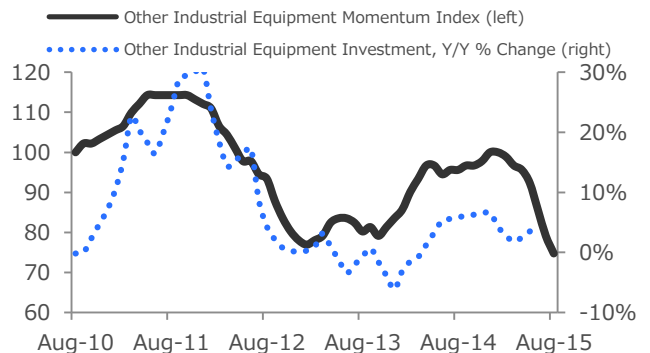
**Materials Handling Equipment:**

Investment in Materials Handling Equipment rebounded at a 6.2% annual rate in Q2 2015 and is up 5.1% year-over-year. The Materials Handling Momentum Index declined from 81.9 (revised) in July to 78.7 in August, a 20-month low. Although Economic Policy Uncertainty dropped to a 7-month low in July, the ISM Manufacturing Supplier Delivery Index fell to its lowest level since 2012. The Index's recent trend continues to indicate that investment growth may slow over the next three to six months.



**Other Industrial Equipment:**

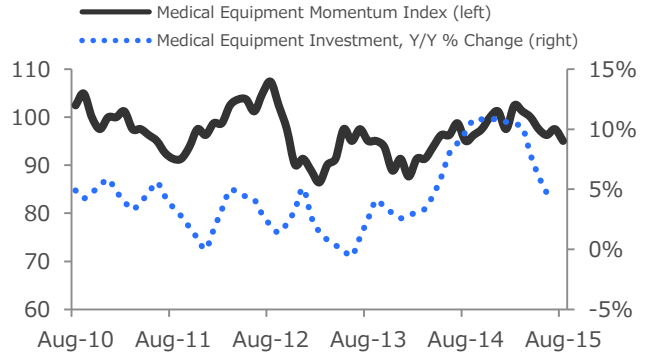
Investment in All Other Industrial Equipment jumped at a 28.2% annual rate in Q2 2015, the fastest rate since Q3 2011, and is up 4.9% year-over-year. The Other Industrial Equipment Momentum Index dropped from 79.1 (revised) in July to 74.7 in August, the lowest level since 2010. Both New Orders and Shipments of Industrial Machinery increased, yet Machinery Industrial Production slipped. Overall, the Index continues to suggest that investment growth will decline over the next three to six months.





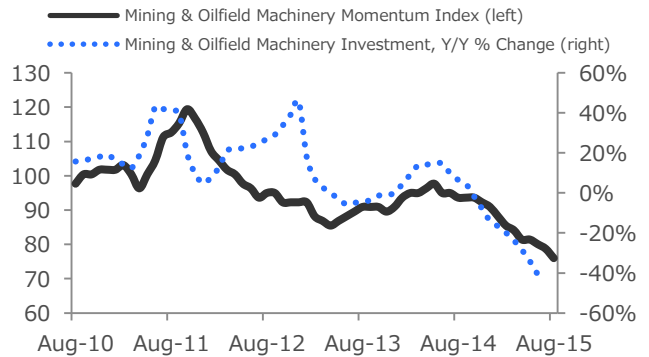
**Medical Equipment:**

Investment in Medical Equipment contracted at a 5.8% annual rate in Q2 2015 — the first decline in two years — but remains up 4.7% year-over-year. The Medical Equipment Momentum Index decreased from 97.5 (revised) in July to 95.1 in August. New Orders of Non-defense Capital Goods fell 7.4% and Federal Medicare Outlays declined 4%, offsetting an increase in Medicaid Receipts. Overall, the Index suggests that growth in medical equipment investment may continue to slow over the next three to six months.



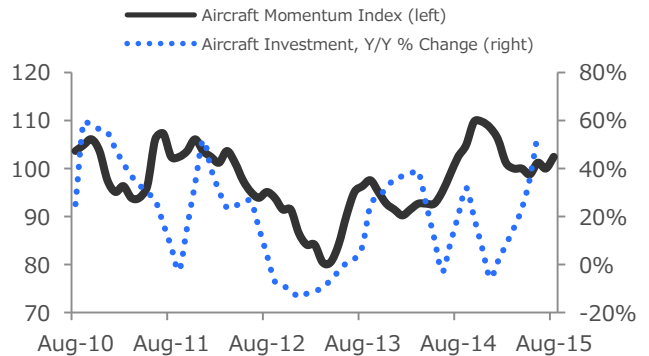
**Mining & Oilfield Machinery:**

Investment in Mining & Oilfield Machinery plummeted at a 55.8% annual rate in Q2 2015, the largest contraction since 2009, and is now down 41.0% year-over-year, the third consecutive decline. The Mining & Oilfield Machinery Momentum Index slipped from 78.7 (revised) in July to 76.0 in August. Despite a 4% increase in the Oil Rig Count, the WTI Crude Spot Price fell 20% in July and Shipments of Oil & Gas Field Machinery declined for the tenth consecutive month. The Index suggests continued weak investment over the next three to six months.



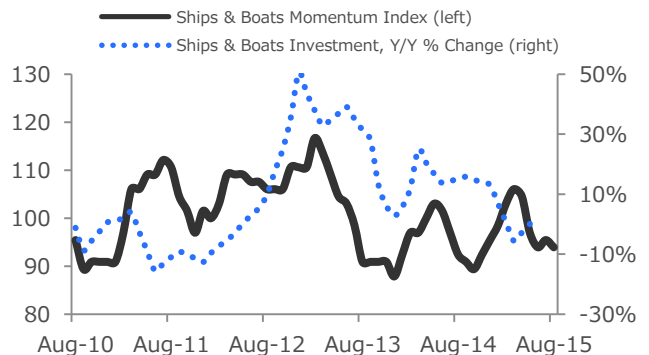
**Aircraft:**

Investment in Aircraft expanded at a 14.9% annual rate in Q2 2015 and is up 55.2% on a year-over-year basis, a 19-quarter high. The Aircraft Momentum Index rose from 100.0 (revised) in July to 102.4 in August, a 7-month high. New Orders of Defense Aircraft jumped 17% and U.S. Overseas Tourism increased nearly 16%, while Exports of Computer and Electronic Products decreased for the second straight month. Overall, the Index's recent movement suggests solid aircraft investment growth over the next three to six months.



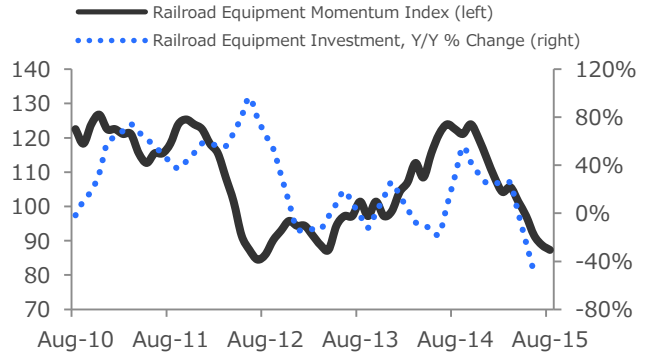
**Ships & Boats:**

Investment in Ships & Boats contracted at an annual rate of 8.7% in Q2 2015, but is still up 2.9% year-over-year. The Ships & Boats Momentum Index declined from 95.5 in July to 93.9 in August. Raw Steel Production surged 27% in June, and the ISM Manufacturing Employment Index increased to a 6-month high; however, Nonfarm Employment Growth slowed in June. Overall, the Index suggests that investment growth may continue to slow over the next three to six months.



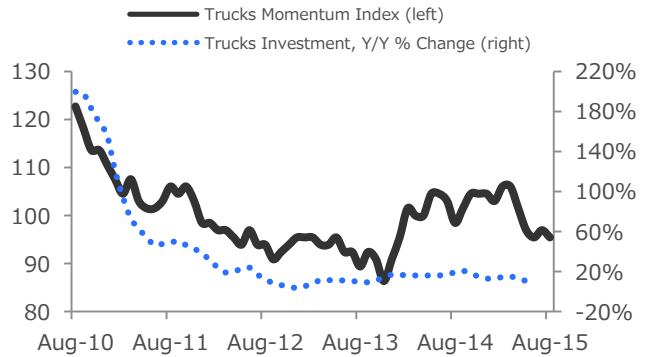
**Railroad Equipment:**

Investment in Railroad Equipment dropped at a 92.4% annual rate in Q2 2015, an all-time low, and is now down 49.7% year-over-year (also a new low). The Railroad Equipment Momentum Index dipped from 88.7 (revised) in July to 87.3 in August. Although Petroleum Carloads increased 18%, Coal Production fell for the third straight month and the ISM Manufacturing Supplier Delivery Index dropped below 50. Overall, the Index continues to indicate negative growth in railroad equipment investment over the next three to six months.



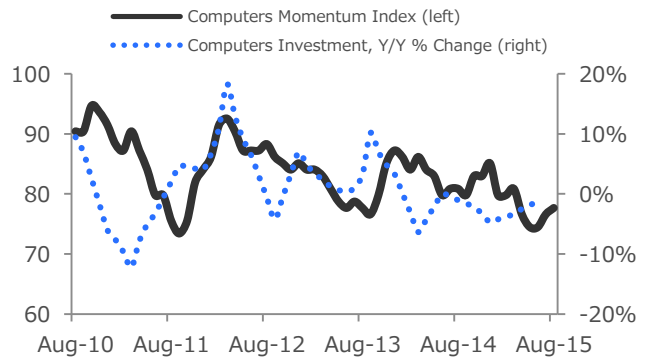
**Trucks:**

Investment in Trucks inched up at a 2.1% annual rate in Q2 2015 and is up 9.0% year-over-year, the slowest annual gain since Q4 2012. The Trucks Momentum Index slipped from 97.0 (revised) in July to 95.5 in August. Housing Starts increased nearly 10% in June, yet Coal Production, Shipments of Primary Metals, and New Orders of Motor Vehicles all decreased. Overall, the Index suggests that growth in truck investment could ease somewhat over the next three to six months.



**Computers:**

Investment in Computers rebounded at an annual rate of 19.6% in Q2 2015, yet is down 1.4% on a year-over-year basis. The Computers Momentum Index increased from 76.6 (revised) in July to 77.7 in August, the highest level since March. While Shipments of Electronic Computers decreased 2%, Appliance Retail Sales rebounded 8% and the Morgan Stanley High-Tech 35 Index rose in July. Overall, the movement of the Index suggests that computer investment growth may increase modestly over the next three to six months.



**Software:**

Investment in Software increased at a 7.8% annual rate in Q2 2015 and remains up 8.1% year-over-year, maintaining Q1's 3-year high. The Software Momentum Index held steady at 94.9 (revised) from July to August. The ISM Services Employment Index fell for the second straight month, yet the ZEW Economic Sentiment Survey and the Richmond Fed Survey of Equipment Spending both increased. Overall, the Index continues to suggest relatively stable investment growth over the next three to six months.

