

August 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.

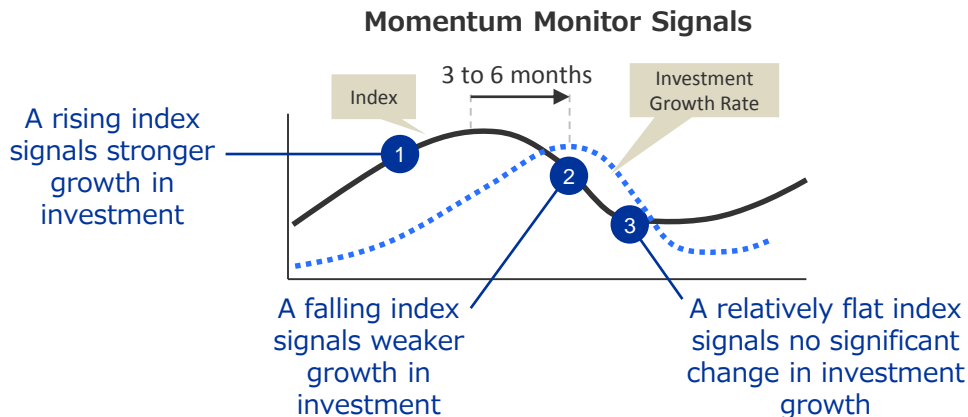
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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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:

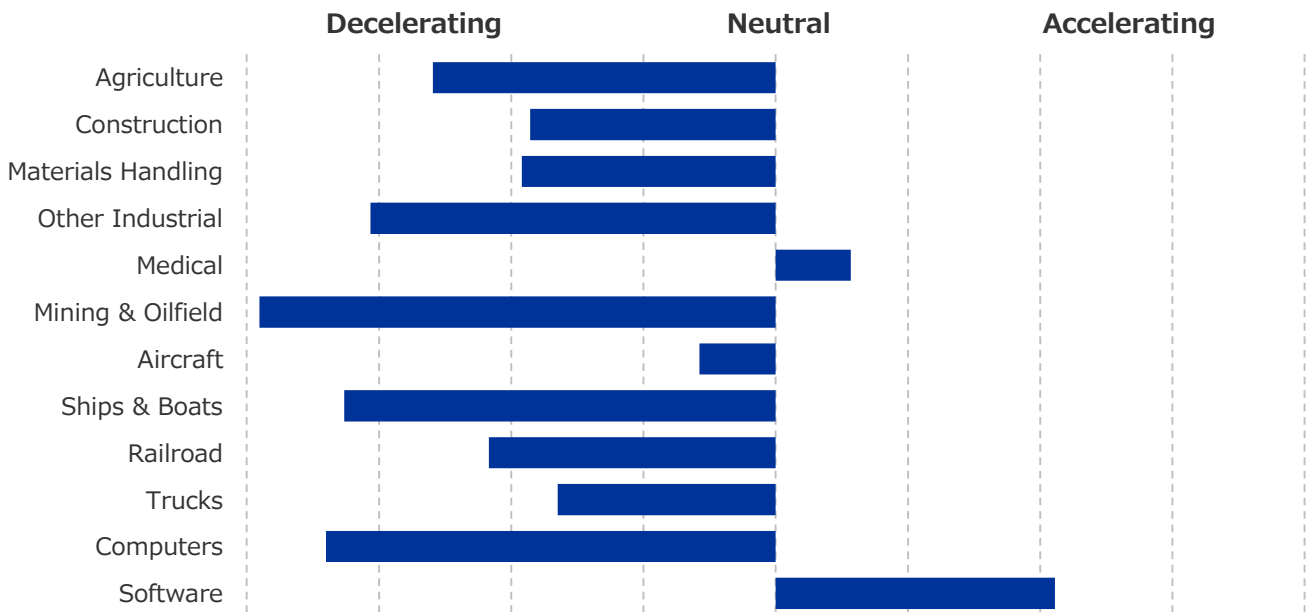
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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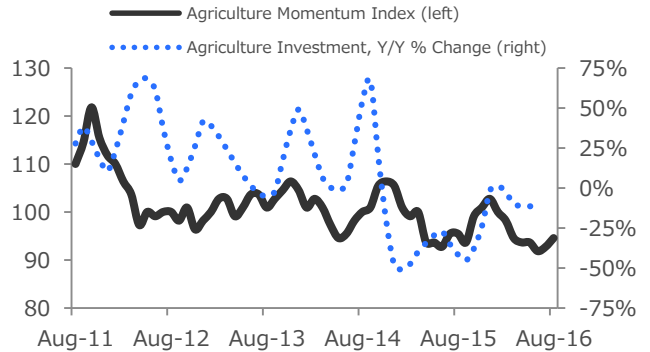
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

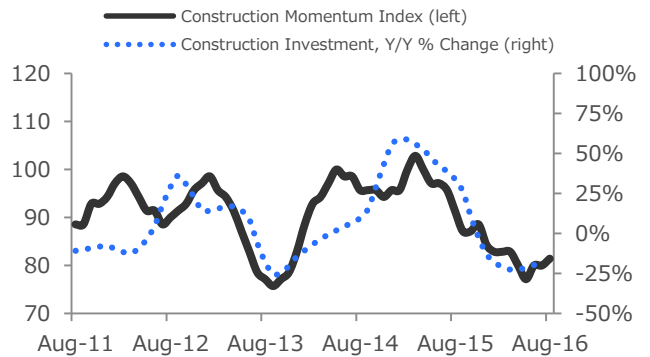
Agriculture Machinery:

Investment in Agricultural Machinery increased at an annual rate of 14.2% in Q2 2016, yet remains down 11.5% from one year ago. The Agriculture Momentum Index rose from 92.7 (revised) in July to 94.5 in August. Farm Machinery Shipments rose 2.1% and the Food Export Price Index increased 2.5%, while Agricultural Equipment Sales dropped 1.1%. The Index's low position continues to suggest weak agricultural investment growth for the next three to six months, although the Index's recent movement is encouraging.



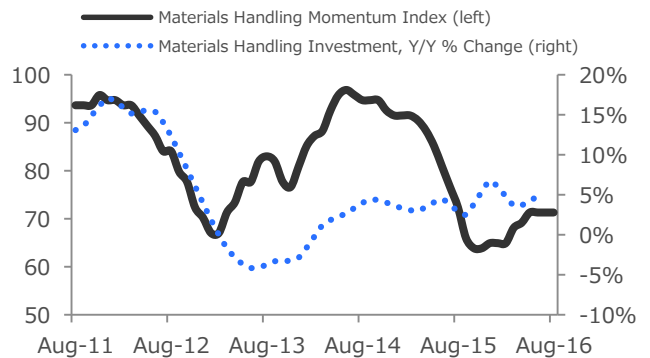
Construction Machinery:

Investment in Construction Machinery contracted at a 7.3% annual rate in Q2 2016 (the fifth straight decline), and is down 19.7% year-over-year. However, the Construction Momentum Index ticked up from 80.0 (revised) in July to 81.4 in August. Housing Starts jumped 4.8% and Multifamily Housing Permits rose 2.5% in June, while Residential Construction lost 2,400 jobs. Overall, the Index suggests that the decline in construction investment may have bottomed out, but short-term growth is likely to remain subdued.



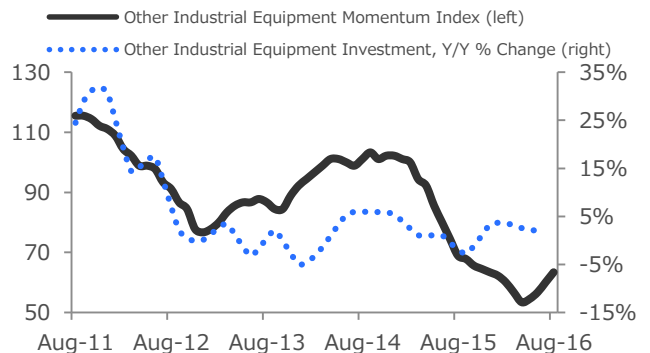
Materials Handling Equipment:

Investment in Materials Handling Equipment rose by a 13.0% annual rate in Q2 2016, and is up 4.9% year-over-year. The Materials Handling Momentum Index held steady at 71.3 from July (revised) to August. The S&P Industrial Index rose 27 points, while Manufacturing added 14,000 jobs in June. Overall, the Index suggests no major change in materials handling investment growth over the next three to six months.



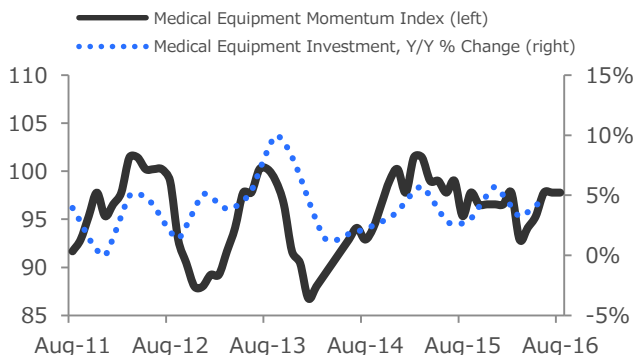
Other Industrial Equipment:

Investment in All Other Industrial Equipment expanded by an 11.4% annual rate in Q2 2016, and is up 2.1% from one year ago. The Other Industrial Equipment Momentum Index rose from 60.0 in July to 63.3 in August, its highest level in 2016. Copper Warehouse Stocks increased 11.1%, and the Industrial Production Index for Machinery rose 1.1% to 92.3, an 8-month high. The Index's overall low position suggests modest investment growth over the next two quarters, but recent movement is encouraging.



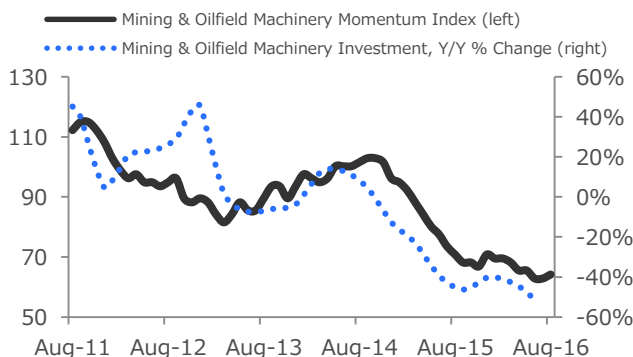
Medical Equipment:

Investment in Medical Equipment increased at a 4.0% annual rate in Q2 2016 and is up 4.7% year-over-year. The Medical Equipment Momentum Index held steady at 97.8 from July (revised) to August. While New Orders of Electro-Medical Devices rose 0.4% in June and the S&P Global Healthcare Index climbed to 103.2 (its highest level this year), Shipments of Electro-Medical Devices dropped 0.3%. Overall, the Index suggests no major change in medical investment over the next three to six months.



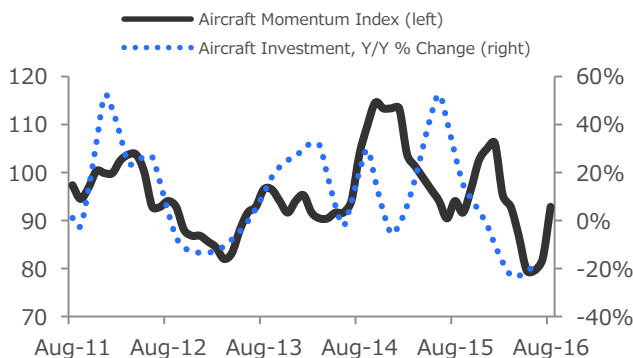
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery plummeted at a 76.9% annual rate in Q2 2016 (its largest decline since 2002) and is now down 51.7% year-over-year. The Mining & Oilfield Machinery Momentum Index rose from 62.8 (revised) in July to 64.2 in August, its first increase in 9 months. Natural Gas Industrial Production fell 6.9% in June and Shipments of Oil & Gas Machinery dropped 4.0% to an 11-year low. The Index continues to signal negative growth in mining & oilfield machinery investment over the next two quarters.



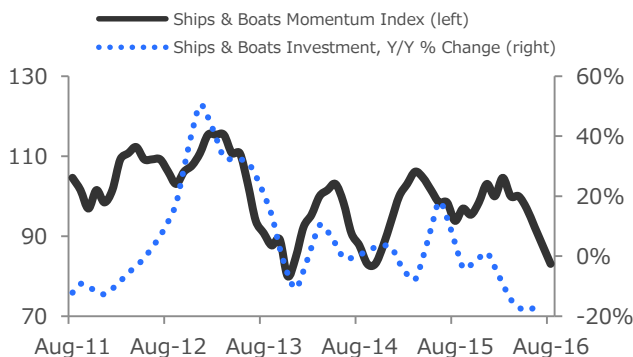
Aircraft:

Investment in Aircraft rose at a 59.0% annual rate in Q2 2016, yet remains down 18.4% on a year-over-year basis. The Aircraft Momentum Index increased sharply from 82.0 (revised) in July to 92.9 in August. While Exports of Civilian Aircraft decreased 3.0%, Air Transportation added 800 jobs in June, continuing a rising trend. Overall, the Index points to an aircraft investment revival, though investment growth in this equipment vertical tends to be volatile.



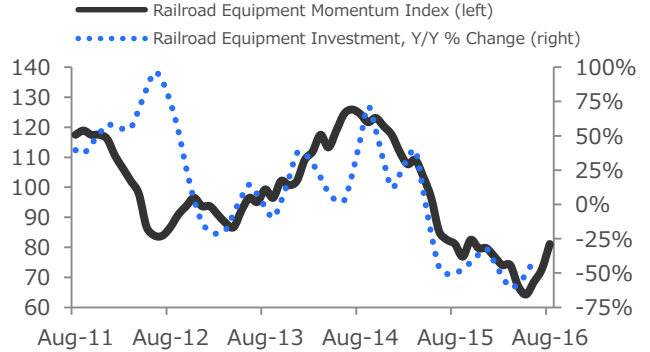
Ships & Boats:

Investment in Ships & Boats increased at an annual rate of 16.9% in Q2 2016, yet remains down 17.0% year-over-year. The Ships & Boats Momentum Index fell from 87.7 (revised) in July to 83.1 in August, its weakest reading in nearly two years. New Orders of Ships & Boats increased 5.7%, while Raw Steel Production declined 2.6%. Overall, the Index points to a continued slowdown in ships & boats investment growth over the next three to six months.



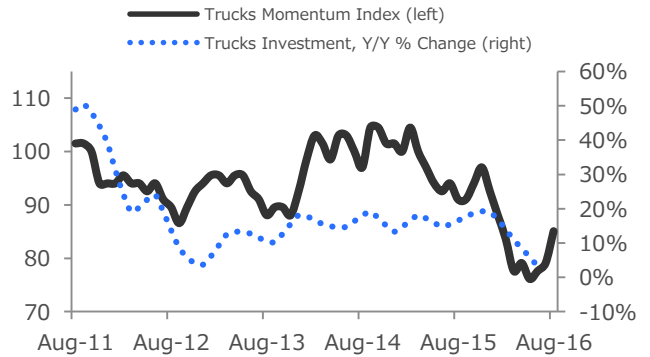
Railroad Equipment:

Investment in Railroad Equipment plunged at a 65.4% annual rate in Q2 2016, and is now down 39.9% year-over-year, a six-year low. However, the Railroad Equipment Momentum Index jumped from 72.7 (revised) in July to 81.1 in August. Coal Production increased 12.7%, while Petroleum Carloads dropped 4.5% in July. Overall, the Index points to a pick-up in railroad equipment investment growth over the next two quarters, but its low position suggests investment will remain modest.



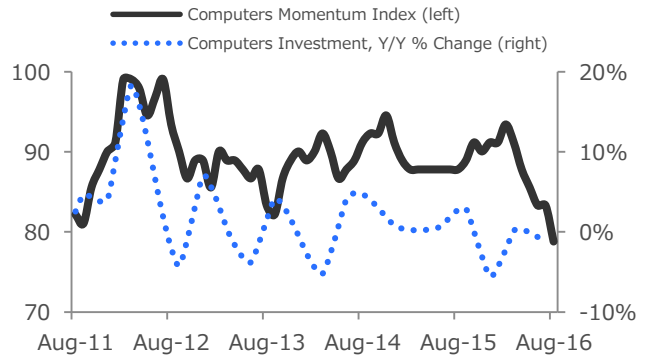
Trucks:

Investment in Trucks fell at a 15.0% annual rate in Q2 2016 but is up 3.1% year-over-year. The Trucks Momentum Index rose from 79.1 (revised) in July to 85.1 in August. Light Truck Shipments increased 1.6% in June following a decline the previous month, and Industrial Production for Non-Durable Energy Materials expanded 1.8%. Overall, the Index's recent movement points to improved investment growth in trucking equipment over the next three to six months.



Computers:

Investment in Computers grew at an annual rate of 11.5% in Q2 2016, yet remains down 0.7% year-over-year. The Computers Momentum Index dropped from 83.3 in July to 78.8 in August, its lowest reading since 2009. Computer & Electronics Shipments fell 6.9% to an all-time low, while Computer & Electronic Capacity Utilization also fell to a two-year low. Overall, the Index points to a slowdown in computer equipment investment growth over the next two quarters.



Software:

Investment in Software rose by a 4.4% annual rate in Q2 2016, and is up 3.6% year-over-year. The Software Momentum Index fell from 100.0 (revised) in July to 97.4 in August. The ZEW Economic Sentiment Survey rose 30.0%, after falling to a two-year low in May, while the S&P 500 Software & Services Index posted an encouraging 53-point jump. Overall, the Index's elevated position continue to suggest solid growth in software investment over the next three to six months.

