

August 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.

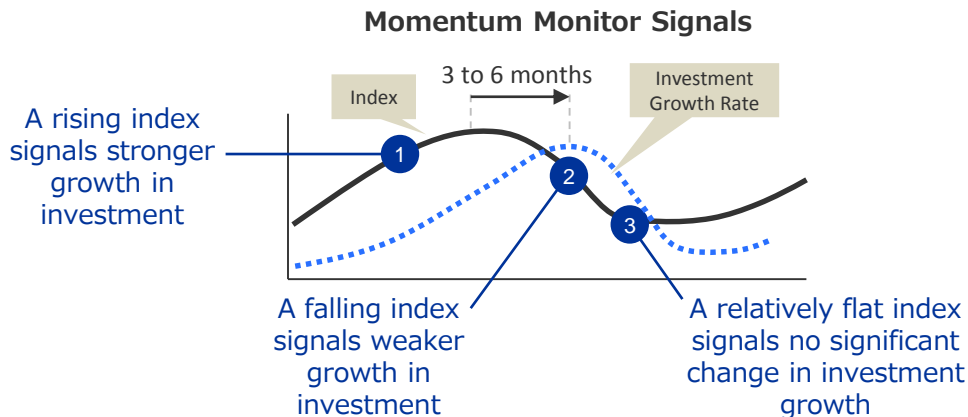
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

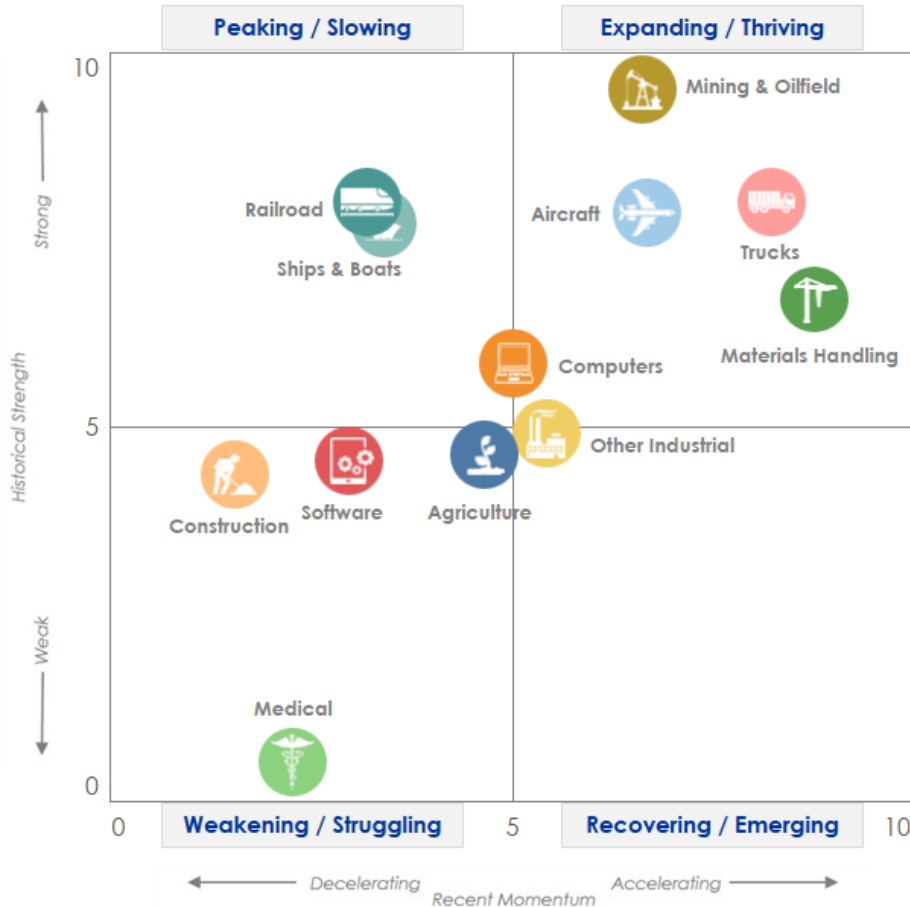
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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



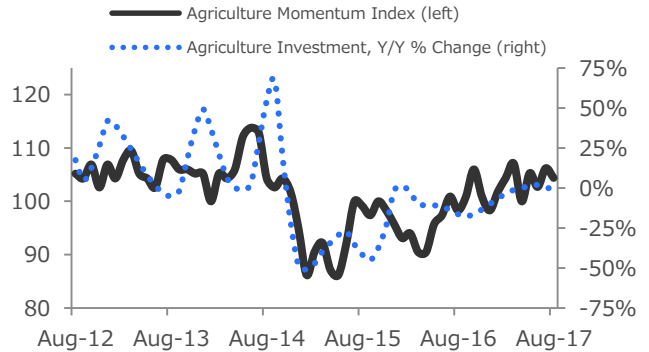
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

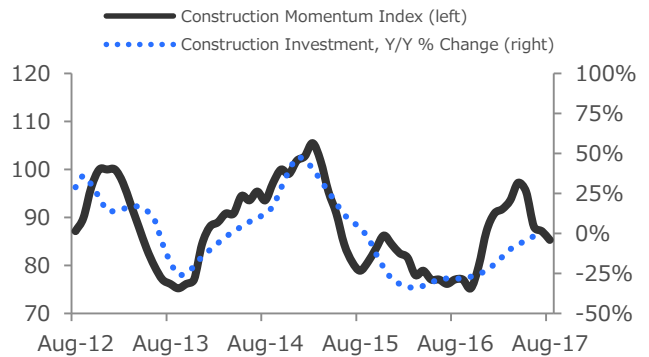
Agriculture Machinery:

Investment in Agricultural Machinery rose at an annual rate of 15% in Q2 2017 and is up 1.9% from a year ago. The Agriculture Momentum Index fell from 106.2 (revised) in July to 104.4 in August. Pork Production declined 2.0% in June while Meat, Poultry, & Seafood Inventories edged up 0.1%. Overall, the Index points to continued sluggishness in agricultural machinery investment in the next three to six months.



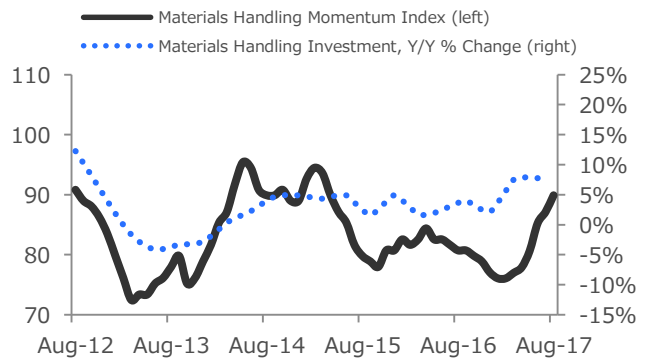
Construction Machinery:

Investment in Construction Machinery rose at a 17% annual rate in Q2 2017 but remains down 1.5% year-over-year. The Construction Momentum Index dipped from 87.2 (revised) in July to 85.3 in August. For-Sale Housing Stock jumped 12% in June, while Public Construction Spending fell 5.4%. Overall, the Index points to a deceleration in construction machinery investment over the next three to six months.



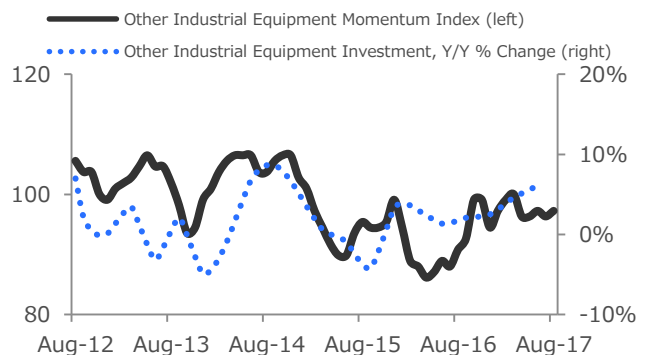
Materials Handling Equipment:

Investment in Materials Handling Equipment increased at a 10% annual rate in Q2 2017 and is up 7.8% year-over-year. The Materials Handling Momentum Index edged up from 87.2 in July to 89.9 in August. The Dow Jones Industrials Balance jumped 69% in July, while the ISM Chicago Business Barometer dipped 10.4% — its first decline since January. Overall, the Index's recent movement signals continued improvement in materials handling equipment investment growth over the next three to six months.



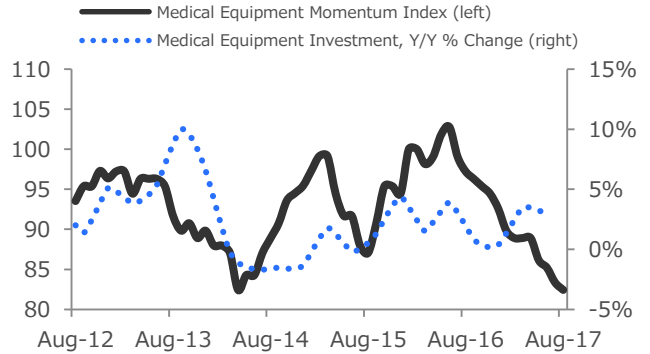
Other Industrial Equipment:

Investment in All Other Industrial Equipment rose at a 12% annual rate in Q2 2017 and is up 6.1% from a year ago. The Other Industrial Equipment Momentum Index ticked up from 96.3 (revised) in July to 97.2 in August. In July, the Dow Jones Industrials Balance jumped 69% and the Fed Funds Rate rose 0.9%. Overall, the Index suggests little change in other industrial equipment investment growth over the next two quarters.



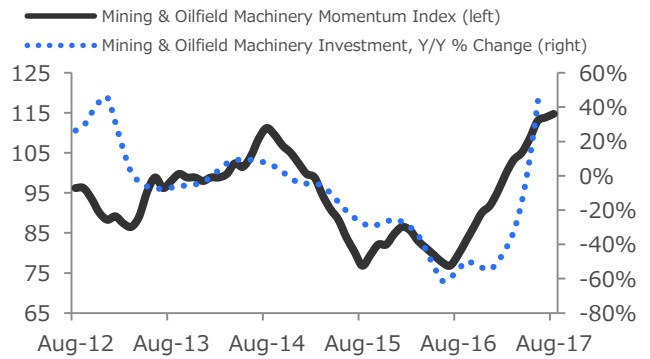
Medical Equipment:

Investment in Medical Equipment expanded at a 2.0% annual rate in Q2 2017 and is up 3.0% year-over-year. The Medical Equipment Momentum Index slipped from 83.3 (revised) in July to 82.4 in August. The Monthly Household Estimate dipped 0.7% in June, while the CPI for Eye Care fell 1.2% compared to a year ago. Overall, the Index points to weaker medical equipment investment growth over the next two quarters.



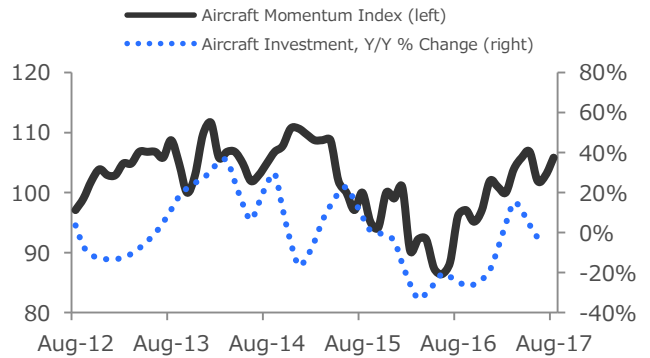
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery jumped at a 55% annual rate in Q2 2017, and is up nearly 44% year-over-year. The Mining & Oilfield Machinery Momentum Index ticked up from 113.9 (revised) in July to 114.7 in August, its strongest reading since 2010. The Gas Rig Count rose 1.1% in June, Mining and Logging Employment for Production and Nonsupervisory Employees increased 1.8%, and Industrial Production for Oil and Gas Extraction rose 1.0%. Overall, the Index points to continued improvement in mining & oilfield machinery investment over the next three to six months.



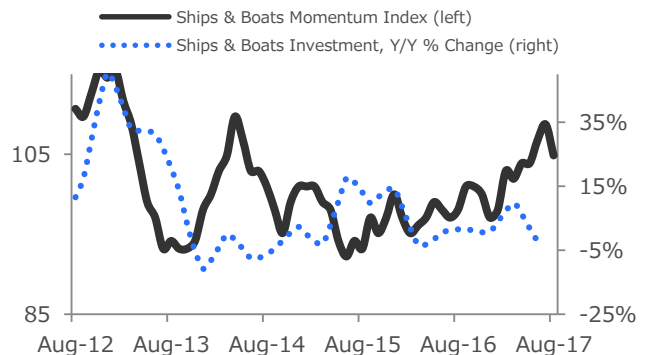
Aircraft:

Investment in Aircraft contracted at a 3.0% annual rate in Q2 2017 after rebounding in Q1, and is down 2.9% year-over-year. The Aircraft Momentum Index increased from 102.9 in July to 105.8 in August. Total Miles Driven rose 3.5% in May, while Shipments of Non-Defense Aircraft edged up 0.9% in June. Overall, the Index's recent movement indicates stronger aircraft investment over the next two quarters.



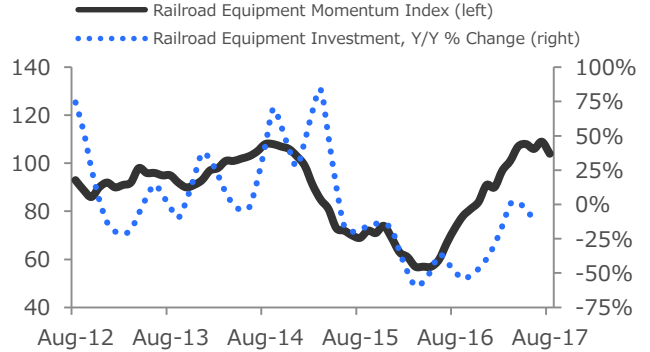
Ships & Boats:

Investment in Ships & Boats fell at a 14% annual pace in Q2 2017 and is down 2.4% year-over-year. The Ships & Boats Momentum Index fell from 108.7 (revised) in July to 104.9 in August. Shipments of Ships & Boats declined 4.0% in June and Inventories of Ships & Boats drew back 1.7%. Despite this month's decline, the Index's recent movement suggests growth in ships & boats investment may pick up in months ahead.



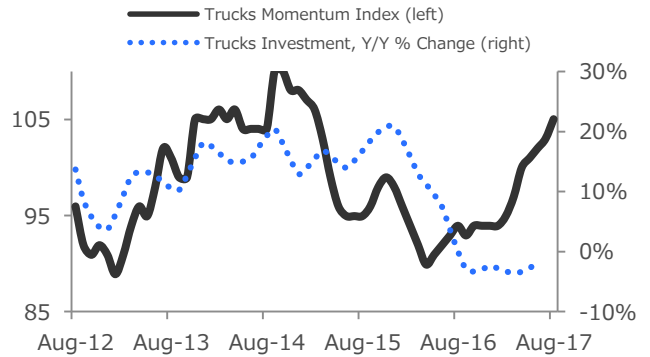
Railroad Equipment:

Investment in Railroad Equipment plunged at a 45% annual rate in Q2 2017 and is down 11% year-over-year. The Railroad Equipment Momentum Index declined from 109.0 (revised) in July to 104.0 in August. Petroleum Carloads fell 4.8% and Industrial Production: Railroad Rolling Stock declined 3.2%. Despite this month's decline, the Index suggests that railroad equipment investment should improve over the next two quarters.



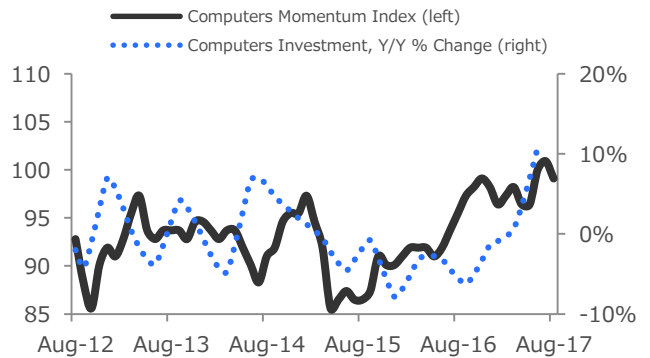
Trucks:

Investment in Trucks rose at a 5.5% annual rate in Q2 2017 but is down 1.8% from year-ago levels. The Trucks Momentum Index rose from 103.0 (revised) in July to 105.1 in August. The ISM Manufacturing Index fell 1.5 points to 56.3 in July (but remains above the expansionary threshold for the eleventh consecutive month), while Gas & Diesel Production rose 4.7%. Overall, the Index shows that trucks investment growth should accelerate in the second half of the year



Computers:

Investment in Computers surged at a 52% annual clip in Q2 2017 and is up 11% year-over-year. The Computers Momentum Index slipped from 100.9 (revised) in July to 99.1 in August. Industrial Production of Computer & Peripheral Equipment rose 3.2% in June, but Computer & Electronic Shipments fell 5.1%, the fourth consecutive decline. Overall, the Index points to stable investment growth in computers over the next two quarters.



Software:

Investment in Software rose at a 2.0% annual rate in Q2 2017 and is up 3.8% year-over-year. The Software Momentum Index eased from 93.3 (revised) in July to 91.6 in August. The ISM Chicago Business Barometer and NFIB Small Business Optimism Index both moderated, while Travel Services Exports rose 1.8%. Overall, the Index's recent movement points to slow but stable growth in software investment.

