

September 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.

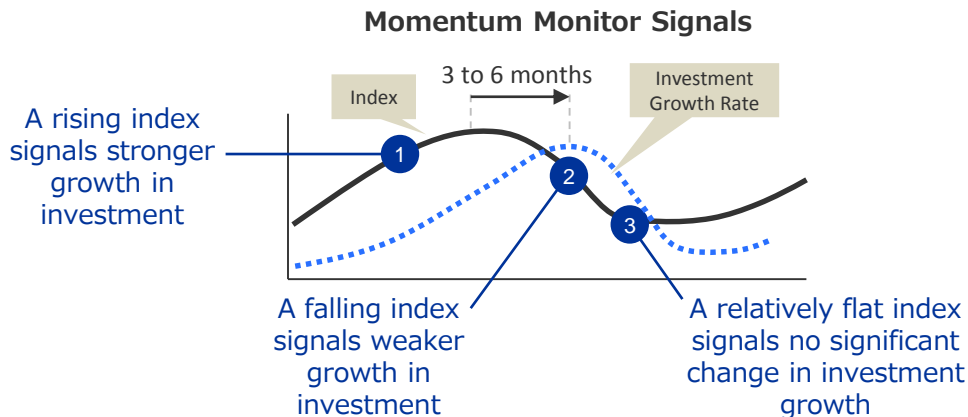
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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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:

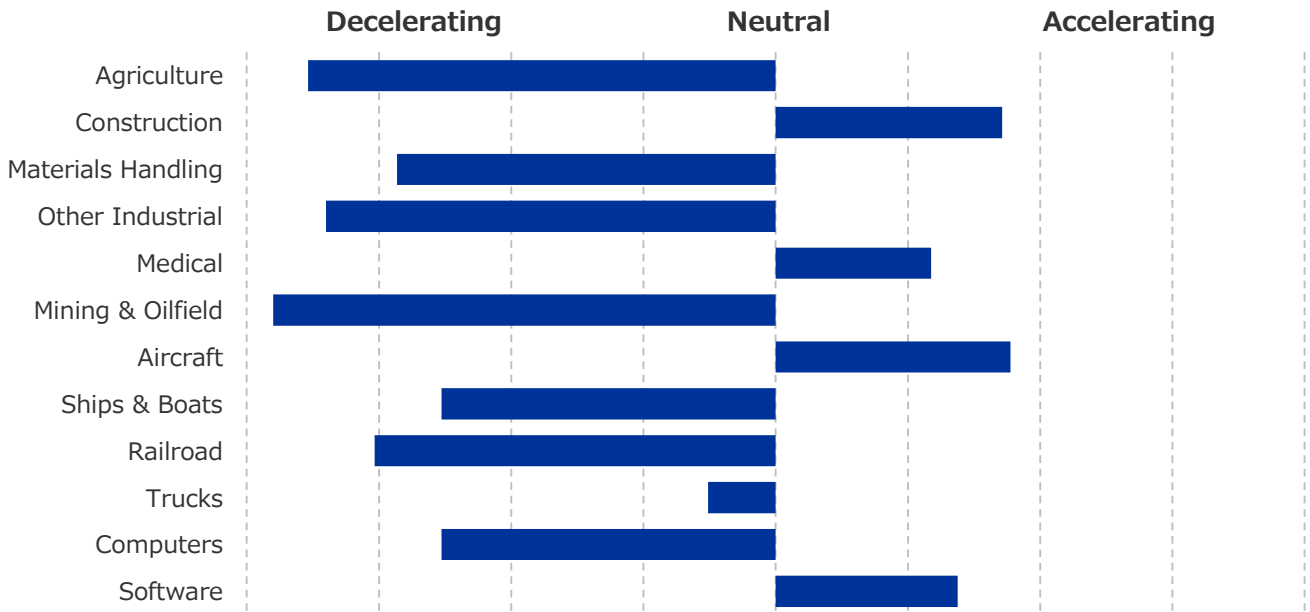
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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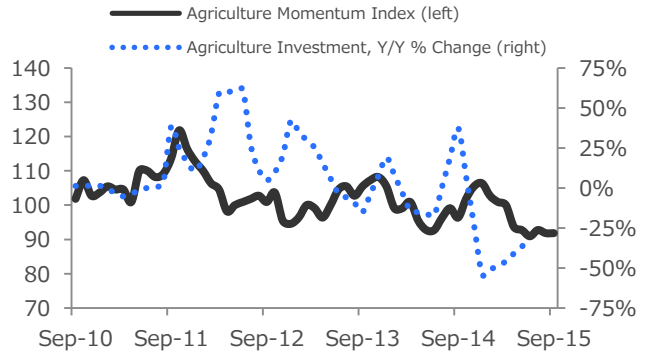
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

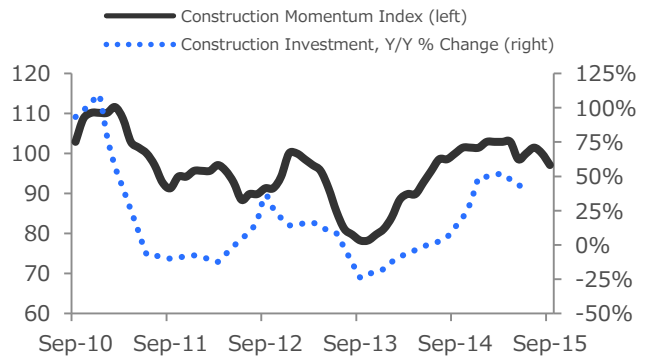
Agriculture Machinery:

Investment in Agricultural Machinery increased at an annual rate of 10.1% in Q2 2015 yet is still down 32.7% from one year ago. The Agriculture Momentum Index was unchanged at 91.8 from August to September. Shipments of Farm Machinery jumped nearly 9% and Milk Production per Cow rebounded, yet both the National Average Temperature and National Average Precipitation declined last month. Overall, the Index continues to indicate weak or negative investment growth over the next three to six months.



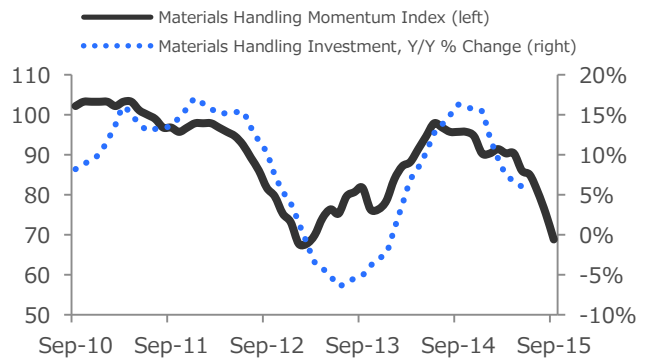
Construction Machinery:

Investment in Construction Machinery declined at a 15.1% annual rate in Q2 2015 — the first decrease in six quarters — yet remains up 40.4% year-over-year. The Construction Momentum Index fell from 100.0 in August to 97.1 in September, a 15-month low. Shipments of Construction Machinery decreased for the second straight month, but Nonresidential Construction Spending increased. Overall, the Index's recent movement points to slightly slower, yet still solid, growth over the next three to six months.



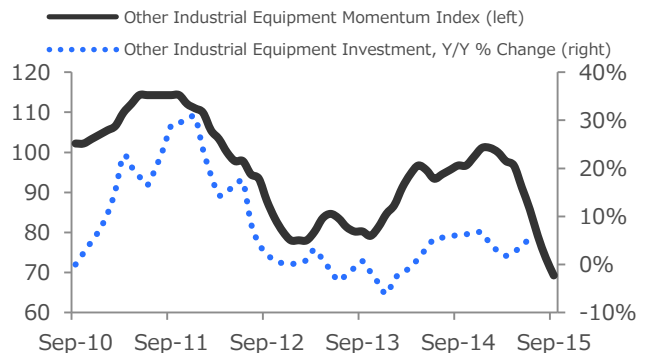
Materials Handling Equipment:

Investment in Materials Handling Equipment rebounded at a 7.4% annual rate in Q2 2015 and is up 5.4% year-over-year. The Materials Handling Momentum Index dropped from 75.3 (revised) in August to 68.8 in September, the lowest reading since early 2013. The S&P Composite Industrials Index fell 6% in August, while both the ZEW Survey Stock Market Report and Materials Handling Imports also declined. The Index's recent trend continues to indicate that investment growth may slow over the next three to six months.



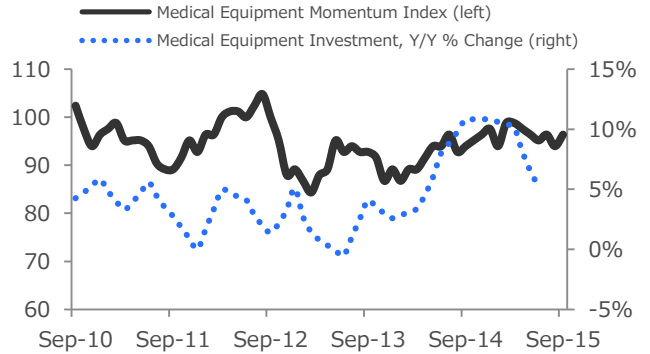
Other Industrial Equipment:

Investment in All Other Industrial Equipment jumped at a 31.4% annual rate in Q2 2015, the fastest rate since Q3 2011, and is up 5.6% year-over-year. The Other Industrial Equipment Momentum Index declined from 73.6 (revised) in August to a nearly six-year low of 69.2 in September. Although Copper Warehouse Stocks increased 6%, the ISM Manufacturing Index posted its second straight decline in August. Overall, the Index continues to suggest that investment growth will decline over the next three to six months.



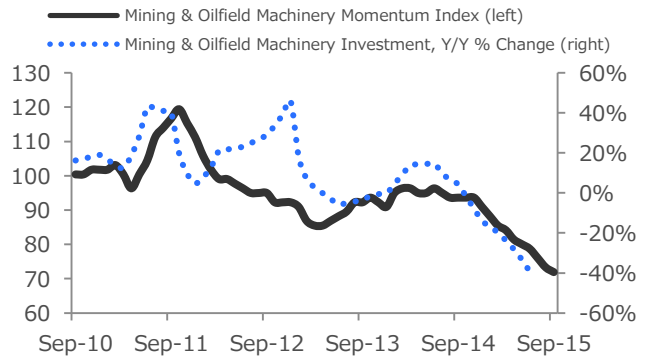
Medical Equipment:

Investment in Medical Equipment contracted at a 3.8% annual rate in Q2 2015 — the first decline in two years — but remains up 5.2% year-over-year. The Medical Equipment Momentum Index rebounded from 94.0 (revised) in August to 96.4 in September. New Orders of Electro-medical Devices decreased, yet Federal Health Outlays increased 11% and Non-defense Capital Good Orders recovered from last month's decline. Overall, the Index suggests that growth in medical equipment investment may stabilize or slow slightly over the next three to six months.



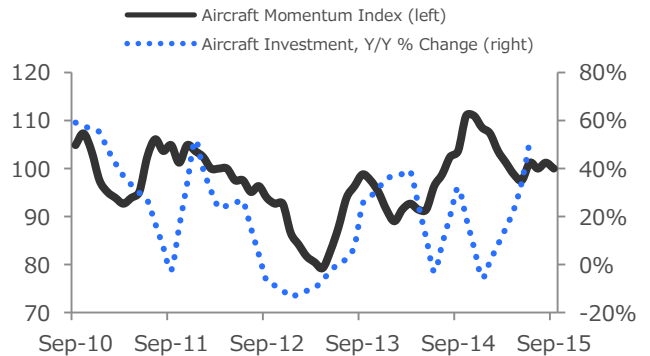
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery plummeted at a 51.2% annual rate in Q2 2015, the second largest contraction since 2009, and is now down 39.5% year-over-year, the third consecutive decline. The Mining & Oilfield Machinery Momentum Index fell from 73.3 (revised) in August to 71.9 in September. Mining Employment continued to decline, and Inventories and Unfilled Orders of Oil & Gas Field Machinery both decreased further. The Index suggests continued weak investment over the next three to six months.



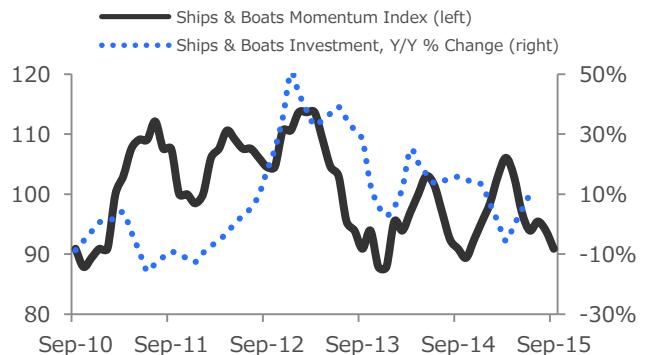
Aircraft:

Investment in Aircraft expanded at a 5.8% annual rate in Q2 2015 and is up 52.0% on a year-over-year basis, a 18-quarter high. The Aircraft Momentum Index slipped from 101.2 (revised) in August to 100.0 in September. Civilian Aircraft Exports increased 9% and Economic Policy Uncertainty was subdued last month. Overall, the Index's recent movement suggests solid aircraft investment growth over the next three to six months.



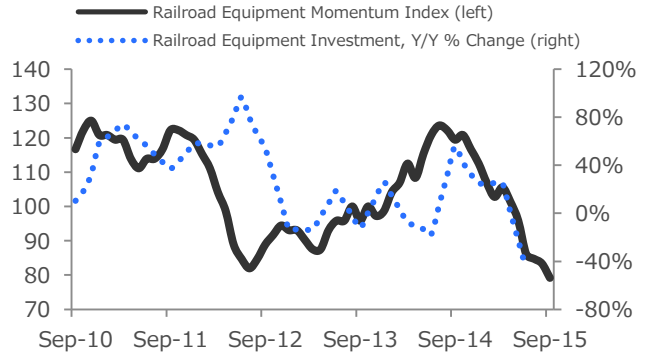
Ships & Boats:

Investment in Ships & Boats increased at an annual rate of 19.1% in Q2 2015, and is up 10.0% year-over-year. The Ships & Boats Momentum Index decreased from 93.9 in August to 90.9 in September, the lowest level in a year. Industrial Production for Consumer Energy Products slipped and Shipments of Mobile Homes fell 7%, offsetting an increase in New Orders of Ships & Boats. Overall, the Index continues to suggest that investment growth should slow over the next three to six months.



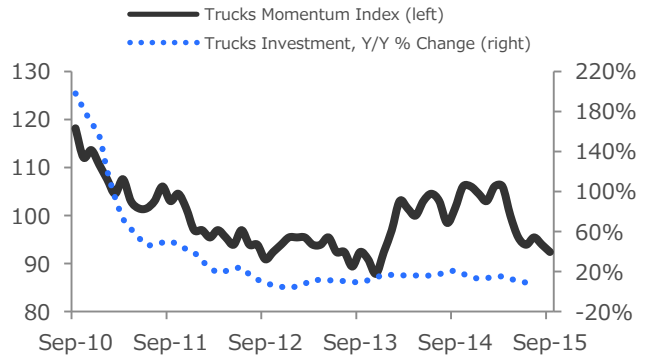
Railroad Equipment:

Investment in Railroad Equipment sharply dropped at a 90.0% annual rate in Q2 2015, an all-time low, and is now down 46.1% year-over-year (also a new low). The Railroad Equipment Momentum Index fell from 83.3 (revised) in August to 79.2 in September. While Machine Tool Orders increased nearly 6%, the ISM Manufacturing Employment Index fell to 51.2 and Mining Exports declined 15% to a five-month low. Overall, the Index continues to indicate negative growth in railroad equipment investment over the next three to six months.



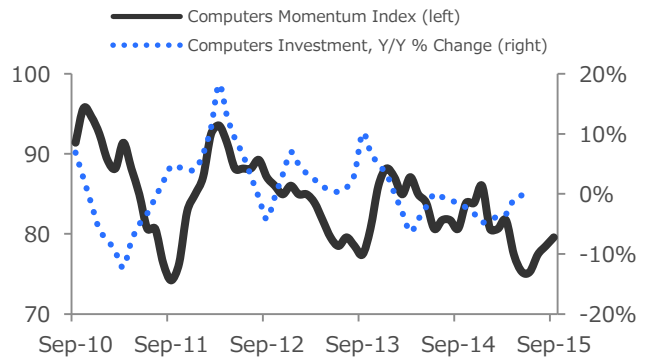
Trucks:

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 inched down from 93.9 (revised) in August to 92.4 in September. Housing Starts climbed to an eight-year high in July, yet the ISM Manufacturing Index fell to its lowest level since May 2013 and Primary Metal Shipments continued to decrease. Overall, the Index suggests that growth in truck investment should ease somewhat over the next three to six months.



Computers:

Investment in Computers rebounded at an annual rate of 26.0% in Q2 2015, a 10-quarter high, yet is still down 0.1% on a year-over-year basis. The Computers Momentum Index increased from 78.5 (revised) in August to 79.6 in September, a six-month high. Gains in Service Sector Wages and Appliance & Television Retail Sales offset a decline in Consumer Expectations, which fell to a nine-month low. Overall, the movement of the Index suggests that computer investment growth should increase modestly over the next three to six months.



Software:

Investment in Software increased at a 8.1% annual rate in Q2 2015 and remains up 8.2% year-over-year, the fastest pace since Q4 2011. The Software Momentum Index rose from 94.9 in August to 96.2, its highest level since December 2013. The NASDAQ Composite Index fell 7% in August, while the ISM Services Employment Index jumped to a 10-year high in July. Overall, the Index suggests steady or modestly stronger investment growth over the next three to six months.

