

September 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.

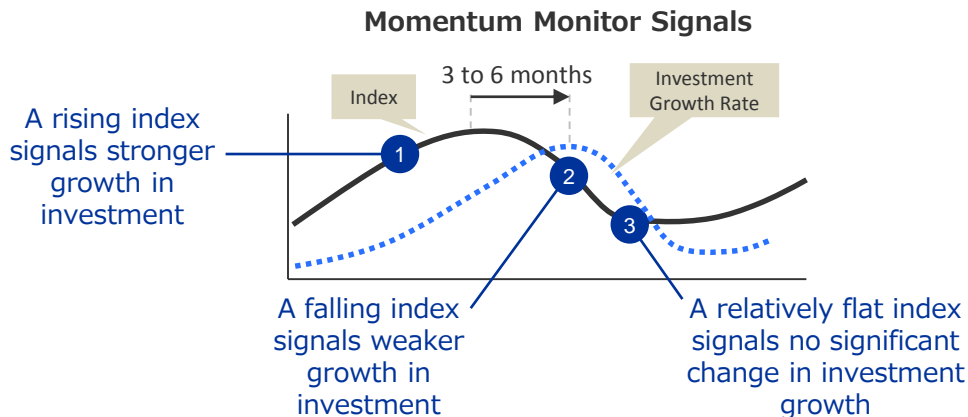
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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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:

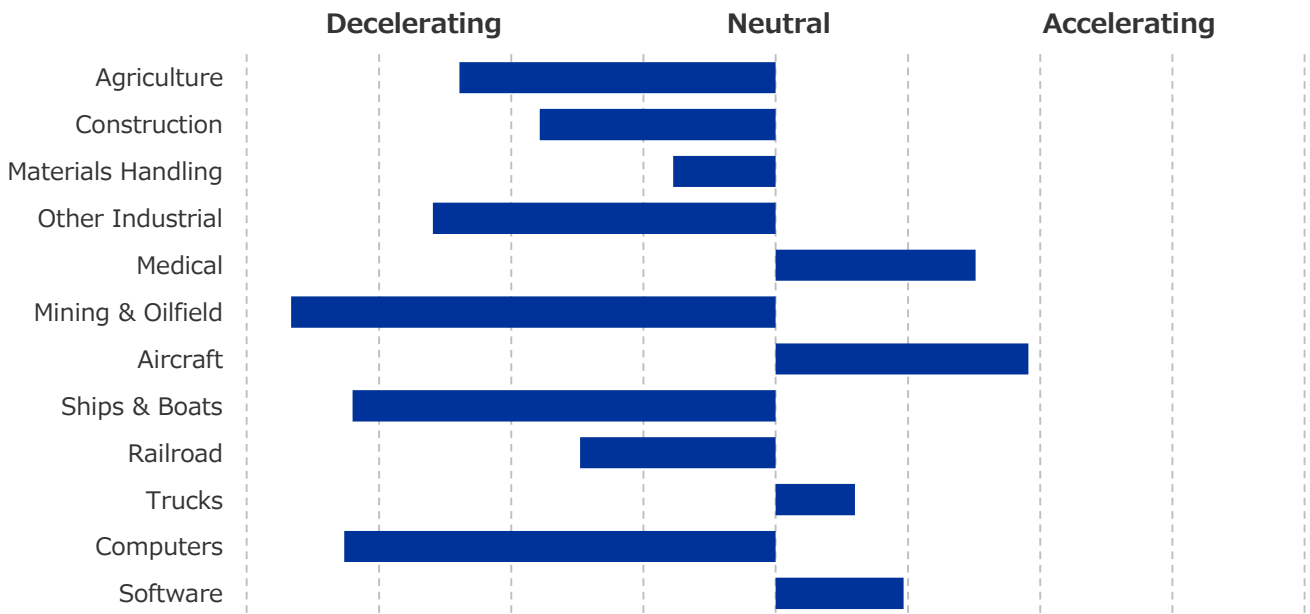
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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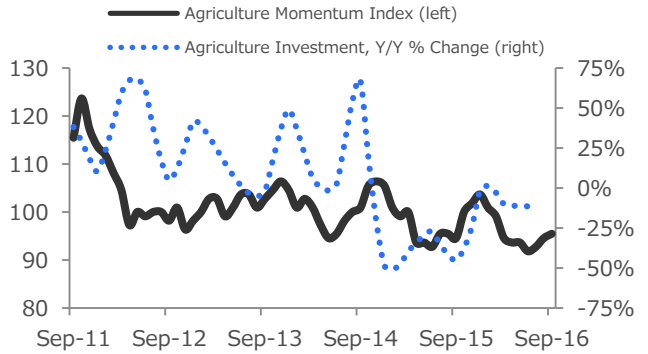
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

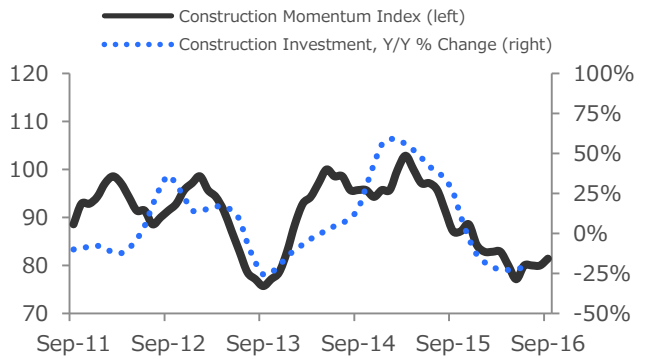
Agriculture Machinery:

Investment in Agricultural Machinery increased at an annual rate of 15.0% in Q2 2016, yet remains down 11.4% from one year ago. The Agriculture Momentum Index rose from 94.5 (revised) in August to 95.5 in September. Cattle Exports jumped 33.0% and Pesticides & Fertilizer Inventories ticked up 1.6%, while Red Meat & Poultry Production fell 8.1%. The Index's low position overall suggests continued slow growth in agricultural investment growth for the next three to six months, but a turnaround may be on the horizon.



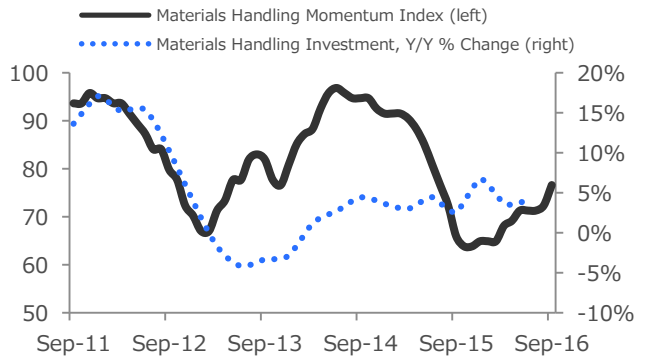
Construction Machinery:

Investment in Construction Machinery contracted at a 13.9% annual rate in Q2 2016 (the fifth straight decline), and is down 21.2% year-over-year. However, the Construction Momentum Index increased from 80.0 (revised) in August to 81.4 in September, a six-month high. In July, Multifamily Housing Permits jumped 4.3% and Non-Residential Construction expanded 1.7%, but Construction Machinery Shipments fell 7.3% to their lowest level since 2010. Overall, the Index points to subdued construction investment over the next three to six months.



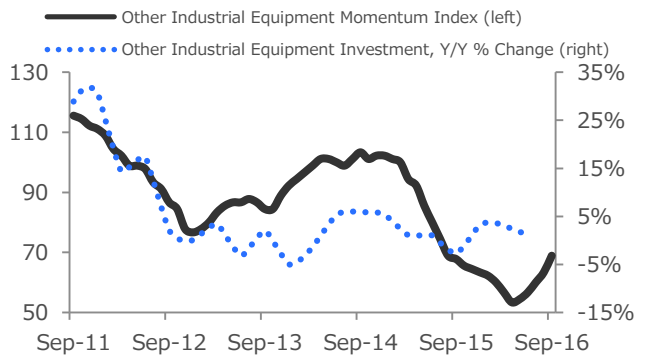
Materials Handling Equipment:

Investment in Materials Handling Equipment rose by a 10.0% annual rate in Q2 2016, and is up 4.2% year-over-year. The Materials Handling Momentum Index rose from 72.3 (revised) in August to 76.6 in September. Wholesale Machinery Sales increased 2.8% in June and the Economic Policy Uncertainty Index dropped by 35 points in August; however, the Dow Jones Industrials Balance fell 18.7%. Overall, the Index continues to point to stronger growth in materials handling investment over the next three to six months.



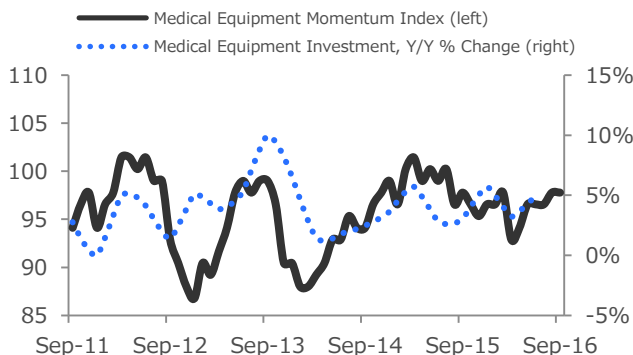
Other Industrial Equipment:

Investment in All Other Industrial Equipment expanded by an 8.6% annual rate in Q2 2016, and is up 1.5% from one year ago. The Other Industrial Equipment Momentum Index jumped from 63.3 in August to 68.9 in September, its highest level in over a year. Copper Warehouse Stocks rebounded 44.1%, while the Industrial Production Indices for Durable Equipment and Machinery rose 0.8% and 0.7%, respectively. Overall, the Index's recent movement points to an investment pick-up in other industrial equipment over the next three to six months.



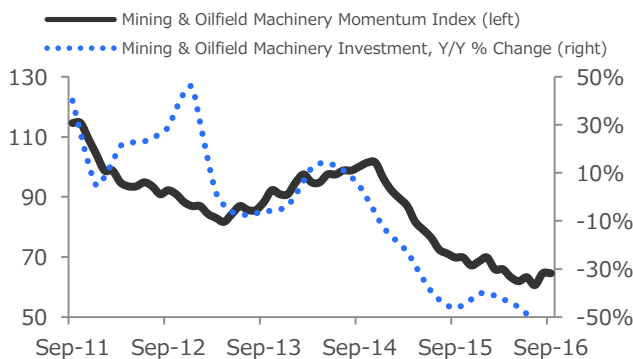
Medical Equipment:

Investment in Medical Equipment increased at a 5.0% annual rate in Q2 2016 and is up 4.9% year-over-year. The Medical Equipment Momentum Index held steady at 97.8 from August to September. In July, Medicaid Personal Transfer Receipts ticked up 1.1%, while the Physicians' Services CPI jumped 13.3%. However, New Orders of Non-Defense Capital Goods fell 11.1% in June. Overall, the Index suggests stable investment growth in medical equipment over the next three to six months.



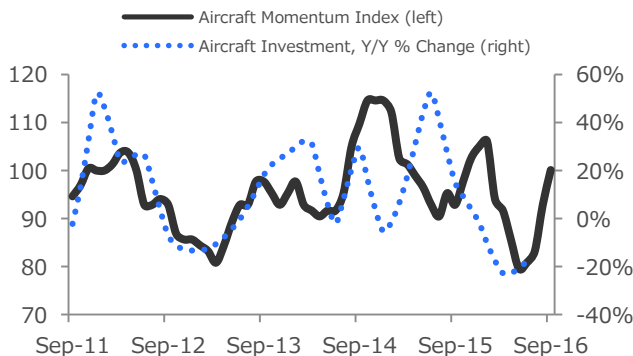
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery plummeted at a 71.0% annual rate in Q2 2016 (its largest decline since 2002) and is now down 48.8% year-over-year. The Mining & Oilfield Machinery Momentum Index held steady at 64.6 from August (revised) to September. In August, the Oil Rig Count rose 8.8%, its third consecutive increase. However, Oil & Gas Field Machinery Shipments fell 4.3% and Mining Support Employment dropped to its lowest level since March 2010. Overall, the Index suggests continued negative growth in mining & oilfield machinery investment over the next three to six months.



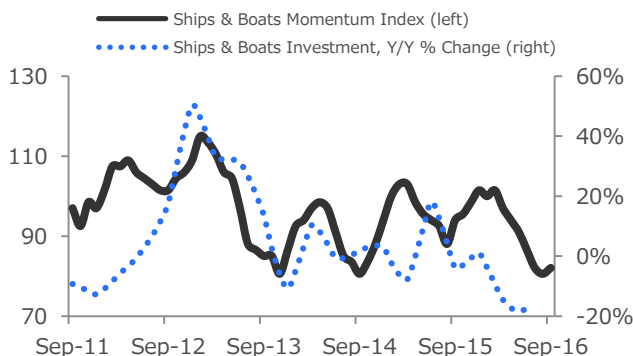
Aircraft:

Investment in Aircraft rose at a 64.5% annual rate in Q2 2016, yet remains down 17.7% on a year-over-year basis. The Aircraft Momentum Index jumped from 92.9 in August to 100.1 in September. New Orders of Defense Aircraft increased 20.9% in June and Exports of Civilian Aircraft rose 30.7% in July. Overall, the Index points to a rebound in aircraft investment growth over the next three to six months.



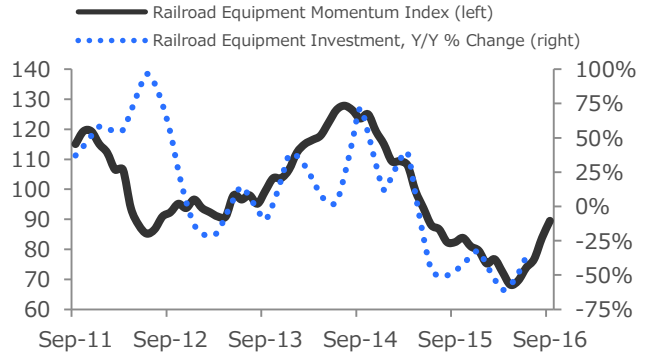
Ships & Boats:

Investment in Ships & Boats increased at an annual rate of 14.6% in Q2 2016, yet remains down 17.4% year-over-year. The Ships & Boats Momentum Index increased from 80.6 (revised) in August to 82.1 in September. Industrial Production for Consumer Energy Products rose 2.2%, but was offset by a 7.9% decline in Mobile Home Shipments, the largest single month drop since December 2011. Despite this month's uptick, the Index points to slow or negative growth in ships & boats investment over the next three to six months.



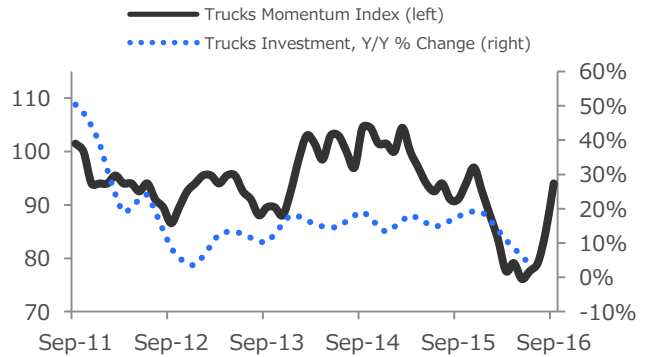
Railroad Equipment:

Investment in Railroad Equipment plunged at a 57.1% annual rate in Q2 2016, its third straight decline, and is now down 36.6% year-over-year. The Railroad Equipment Momentum Index climbed from 83.8 (revised) in August to 89.5 in September. In July, Coal Production increased 14.1%, its third straight month of robust growth, but the ISM Manufacturing Employment Index fell 1.1 points to 48.3. Overall, the Index points to a revival in railroad equipment investment over the next two quarters.



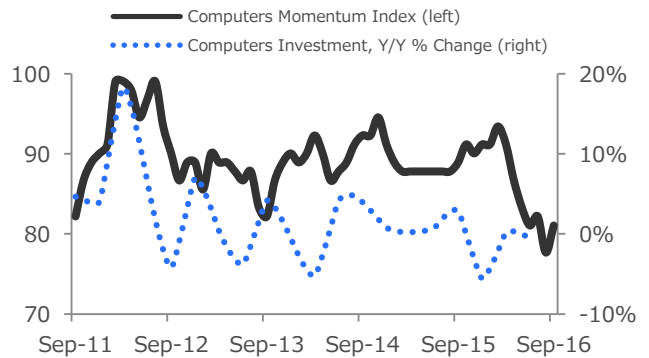
Trucks:

Investment in Trucks fell at a 13.0% annual rate in Q2 2016 but is up 3.7% year-over-year. The Trucks Momentum Index surged from 85.1 in August to 94.0 in September, its strongest reading since November 2015. Industrial Production for Non-Durable Energy Materials expanded 1.7% in July, but the ISM Manufacturing Index fell 3.2 points, its largest decline since January 2014. Overall, the Index suggests that investment in trucks will bounce back over the next three to six months.



Computers:

Investment in Computers grew at an annual rate of 11.9% in Q2 2016, yet remains down 0.6% year-over-year. The Computers Momentum Index rose from 77.7 (revised) in August to 81.1 in September. While the Morgan Stanley High Tech 35 Index jumped 113 points, Shipments of Communication Equipment fell 4.9%. Despite this month's uptick, the Index continues to suggest that investment growth in computers may slow over the next two quarters.



Software:

Investment in Software rose by a 4.3% annual rate in Q2 2016, and is up 3.5% year-over-year. The Software Momentum Index dropped from 100.3 (revised) in August to 96.3 in September. The Survey on Equipment & Software Spending plummeted 57.1%, but the Yen/Dollar Exchange Rate declined 2.7% in July, marking the eighth consecutive month of Dollar depreciation against the Yen. Overall, the Index's elevated position signals continued growth in software investment, but its recent movement is worth monitoring in the months ahead.

