

November 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.

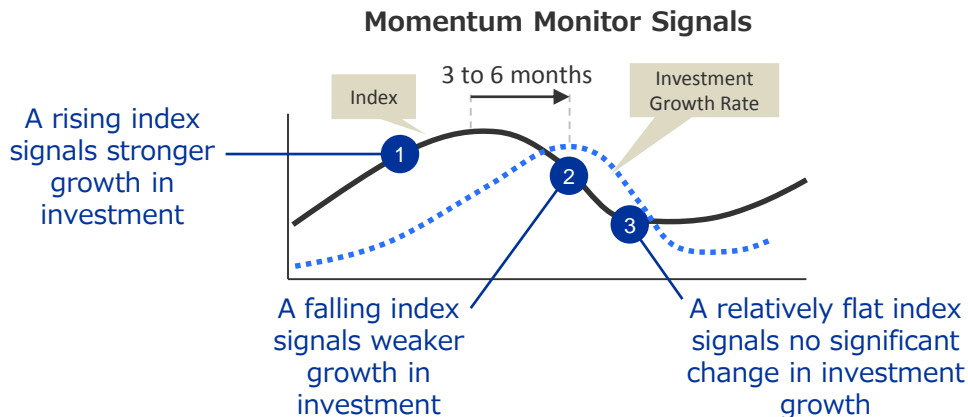
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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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:

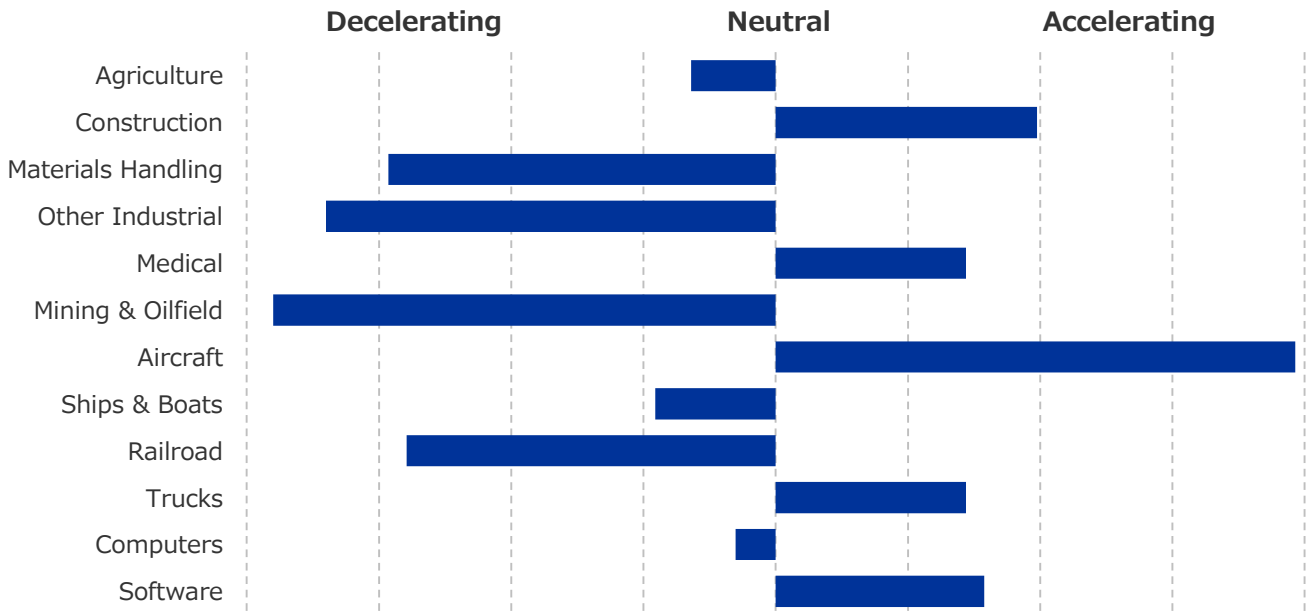
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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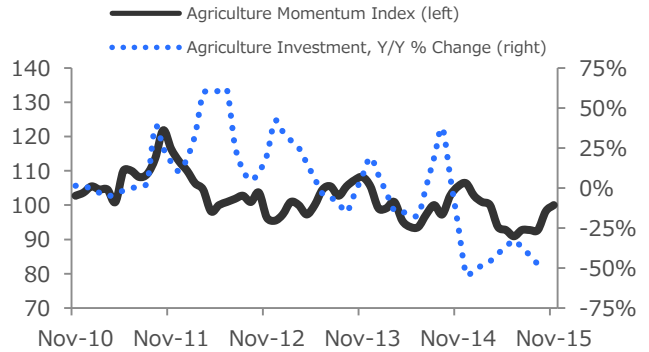
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

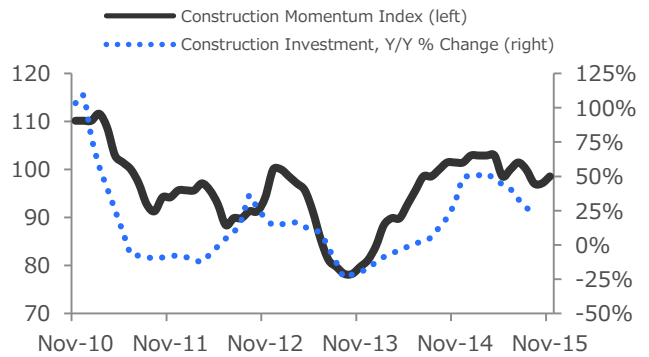
Agriculture Machinery:

Investment in Agricultural Machinery expanded at an annual rate of 4.4% in Q3 2015, yet is down 47.9% from one year ago. The Agriculture Momentum Index climbed from 98.2 (revised) in October to 100.0 in November, its highest reading since March. Gains in Red Meat & Poultry Production and Farm Machinery Shipments outweighed a 13% drop in National Average Precipitation and a nearly 5% decline in Milk Production Per Cow. Overall, the Index indicates that investment growth could accelerate somewhat but will likely remain weak over the next three to six months.



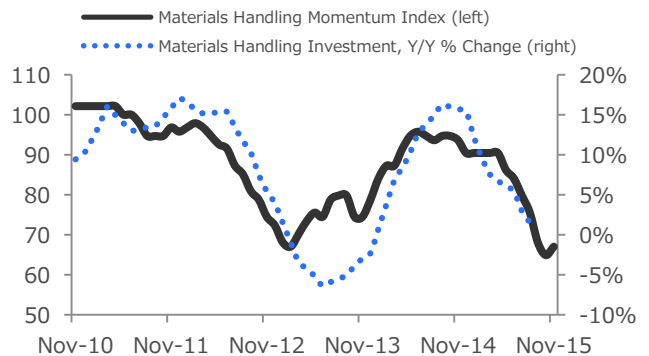
Construction Machinery:

Investment in Construction Machinery contracted at a 19.4% annual rate in Q3 2015, the largest decline in nearly two years, yet remains up 22.4% year-over-year. The Construction Momentum Index increased from 97.1 (revised) in October to 98.6 in November. Although Private Nonresidential Construction slipped 0.7% in September, Housing Starts in the West surged more than 25%. Overall, the Index's recent movement and elevated level points to solid growth over the next three to six months.



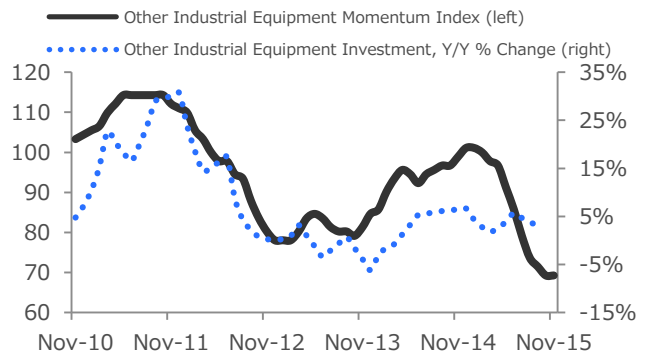
Materials Handling Equipment:

Investment in Materials Handling Equipment slipped at a 2.6% annual rate in Q3 2015 and is up only 0.9% year-over-year, a seven-quarter low. The Materials Handling Momentum Index rose from October's multi-year low of 64.9 to 67.0 in November. Materials Handling Imports rebounded after two straight declines, and the MNI-Chicago Business Barometer jumped 15% to a nine-month high. The Index's recent trend continues to indicate that investment growth will slow over the next three to six months, but November's increase could be the first indication that the index has finally bottomed out.



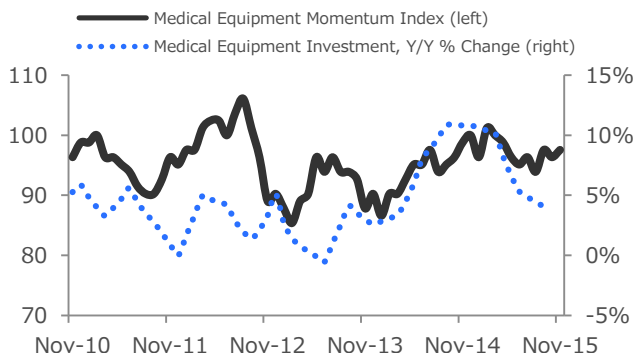
Other Industrial Equipment:

Investment in All Other Industrial Equipment decreased at a 5.8% annual rate in Q3 2015 but is still up 3.1% year-over-year. The Other Industrial Equipment Momentum Index was unchanged at 69.2 (revised) from October to November, a six-year low. Copper Warehouse Stocks fell more than 16%, while the MNI-Chicago Production Index rose nearly 50% in October. Overall, the Index continues to suggest that investment growth will slow over the next three to six months.



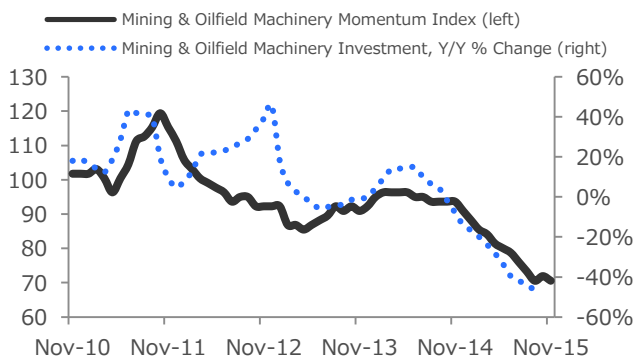
Medical Equipment:

Investment in Medical Equipment rebounded at an 11.4% annual rate in Q3 2015 and is up 4.1% year-over-year. The Medical Equipment Momentum Index ticked up from 96.3 (revised) in October to 97.6 in November. Social Security Disability Awards fell to their lowest level since February, but Federal Medicare Outlays climbed more than 85% in September. Overall, the Index suggests that growth in medical equipment investment should stabilize over the next three to six months.



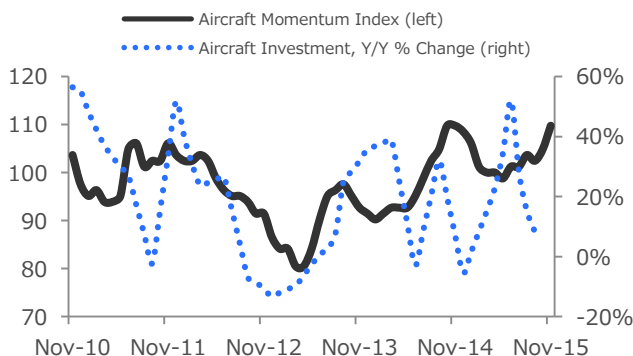
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery fell at a 44.3% annual rate in Q3 2015 and is now down 46.5% year-over-year, a 13-year low. The Mining & Oilfield Machinery Momentum Index slipped from 71.9 in October to 70.6 in November, matching September's six-year low. Natural Gas Industrial Production, Mining Employment, and Shipments of Oil & Gas Field Machinery all decreased, outweighing a reduction in Economic Policy Uncertainty. The Index points to continued investment weakness in mining & oilfield machinery over the next three to six months.



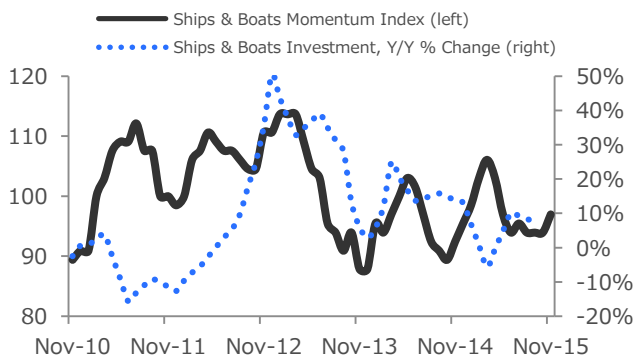
Aircraft:

Investment in Aircraft increased at an 11.1% annual rate in Q3 2015 and is up 8.2% on a year-over-year basis. The Aircraft Momentum Index jumped from 104.9 (revised) in October to 109.8 in November. New Orders of Defense Aircraft increased for the second consecutive month, and Civilian Aircraft Exports rose 43%. However, Shipments of Nondefense Aircraft fell nearly 6%. Overall, the Index's recent movement suggests stronger aircraft investment growth over the next three to six months.



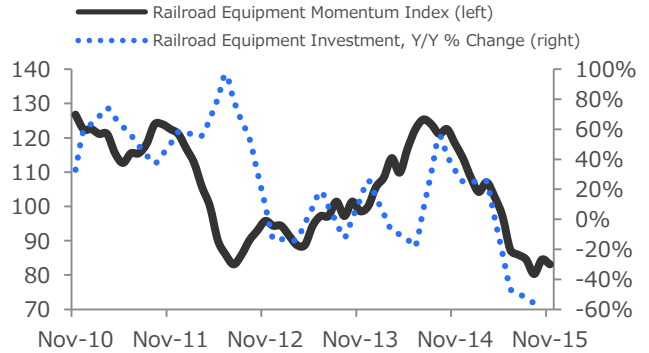
Ships & Boats:

Investment in Ships & Boats expanded at an annual rate of 20.0% in Q3 2015, and is up 7.6% year-over-year. The Ships & Boats Momentum Index gained from 93.9 (revised) in October to 97.0 in November. The Trade Balance for Agricultural Products increased 33%, yet the ISM Manufacturing Employment Index fell to a post-recession low and indicated contraction. Overall, the Index suggests steady investment growth over the next three to six months.



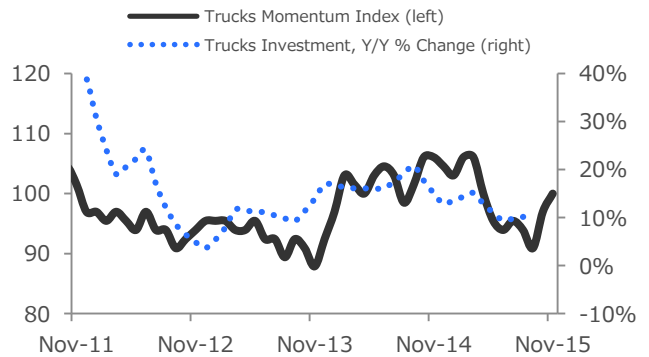
Railroad Equipment:

Investment in Railroad Equipment rebounded at a 32.1% annual rate in Q3 2015 yet remains down 55.9% year-over-year, an all-time low. The Railroad Equipment Momentum Index dipped from 84.5 (revised) in October to 83.1 in November. Nonfarm Employment Growth missed expectations in September, Coal Production declined nearly 6%, and Mining Exports were down 9% from the prior month. Overall, the Index's low position continues to indicate negative growth in railroad equipment investment over the next three to six months.



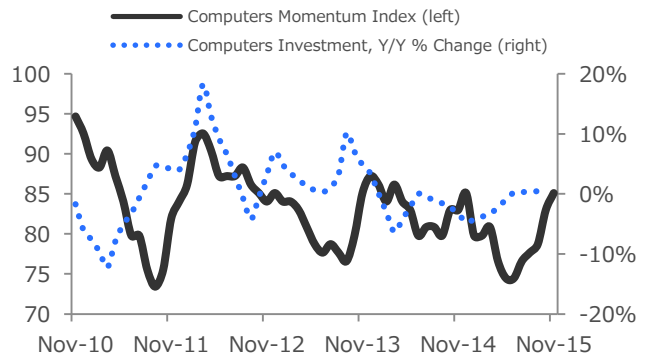
Trucks:

Investment in Trucks increased at a 17.2% annual rate in Q3 2015 and is up 10.5% year-over-year. The Trucks Momentum Index increased from 97.0 (revised) in October to 100.0 in November, the highest level since April. Housing Starts increased 6.5% last month, yet the ISM Manufacturing Index slipped to its lowest level since May 2013 and suggests little momentum in the manufacturing sector. Overall, the Index's recent movement suggests that growth in truck investment could strengthen over the next three to six months.



Computers:

Investment in Computers grew at an annual rate of 4.4% in Q3 2015, following Q2's 10-quarter high, and is now up 0.5% on a year-over-year basis. The Computers Momentum Index increased from 83.0 (revised) in October to 85.1 in November (a one-year high). Consumer Expectations rose 5% following three consecutive declines, and Shipments of Communication Equipment rebounded from the prior month's drop. Overall, the Index's recent movement points to faster computer investment growth over the next three to six months.



Software:

Investment in Software ticked up at a 1.7% annual rate in Q3 2015 and is up 5.5% year-over-year. The Software Momentum Index held steady at 97.5 (revised) from October to November. Travel Services Exports inched up and the ISM Non-manufacturing Employment Index increased 2.3 points; however, the ZEW Current Economic Situation Survey fell more than 10%. Overall, the Index suggests steady or potentially faster investment growth over the next three to six months.

