

June 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.

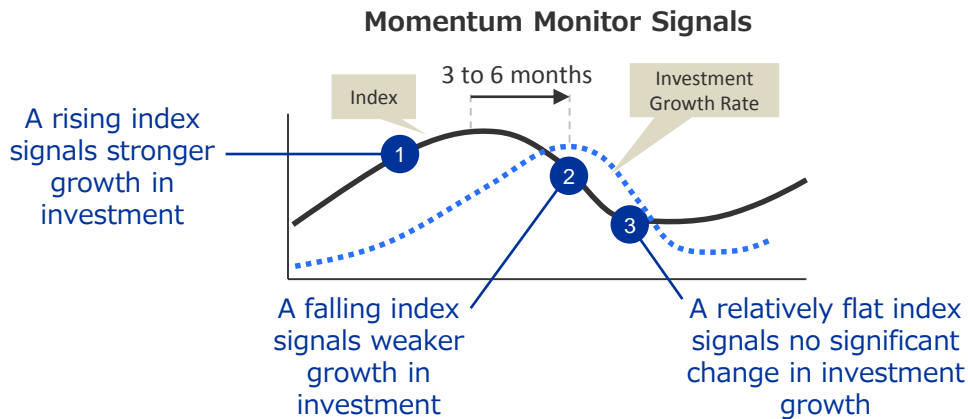
## U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

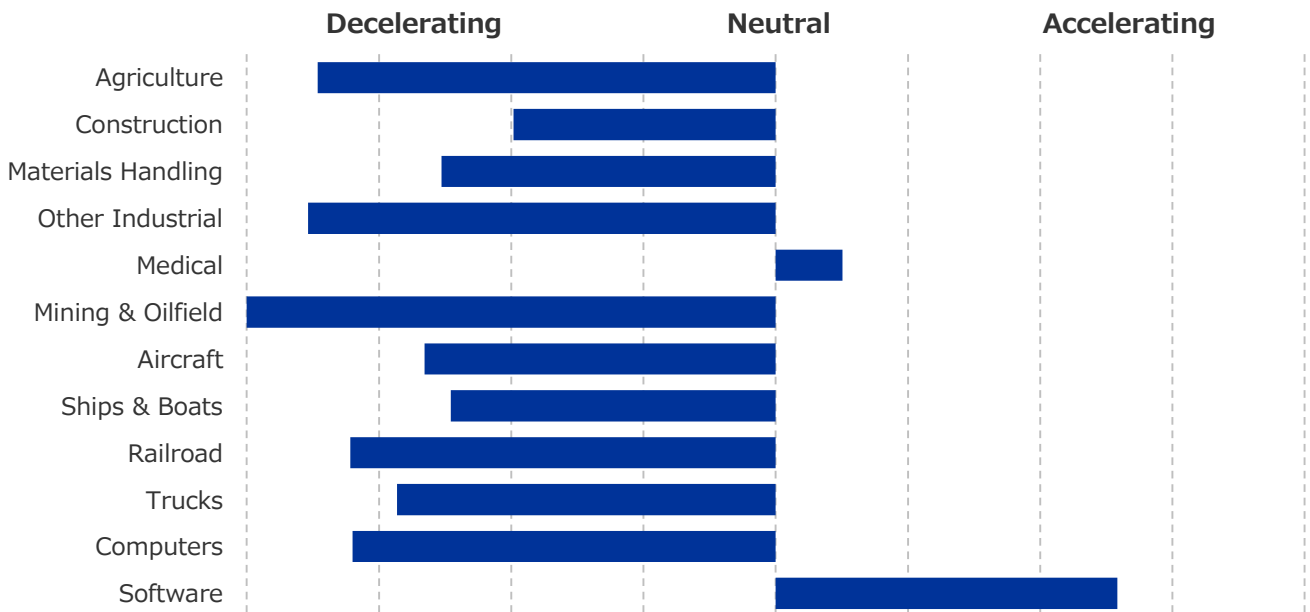
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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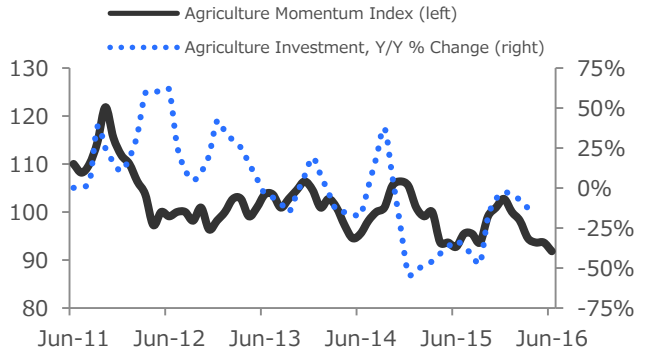
## Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

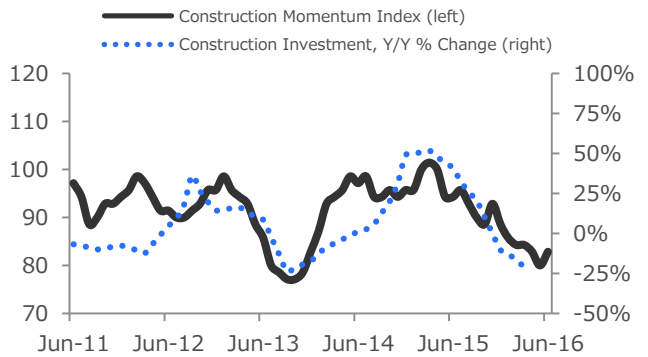
**Agriculture Machinery:**

Investment in Agricultural Machinery declined at an annual rate of 35.5% in Q1 2016, and is now down 12.7% from one year ago. The Agriculture Momentum Index slipped from 93.6 in May to 91.8 in June, a six-year low. Although Broiler Exports increased 1.3%, Inventories of Farm Machinery fell nearly 4% (the second straight drop) and Red Meat and Poultry Production decreased 6%. Overall, the Index's recent movement and current low level suggest continued weak investment growth in the next three to six months.



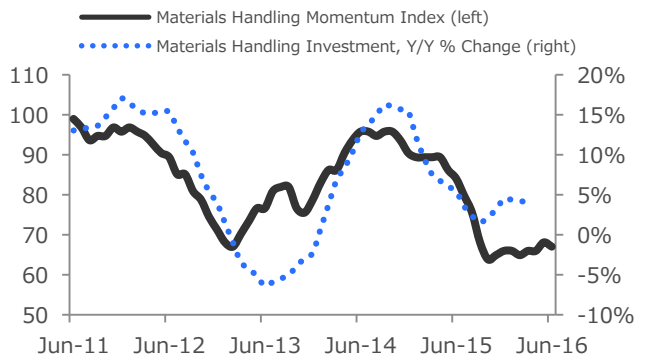
**Construction Machinery:**

Investment in Construction Machinery contracted at a 20.0% annual rate in Q1 2016 (the fourth straight decline), and is down 21.0% year-over-year, its sharpest drop since Q3 2013. The Construction Momentum Index increased from 80.0 (revised) in May to 82.9 in June. Housing Starts rebounded 6.6% in April and Consumer Sentiment rose 5.7 points. However, Residential Construction shed more than 1,000 jobs in May. Overall, the Index continues to indicate slow or negative investment growth over the next three to six months.



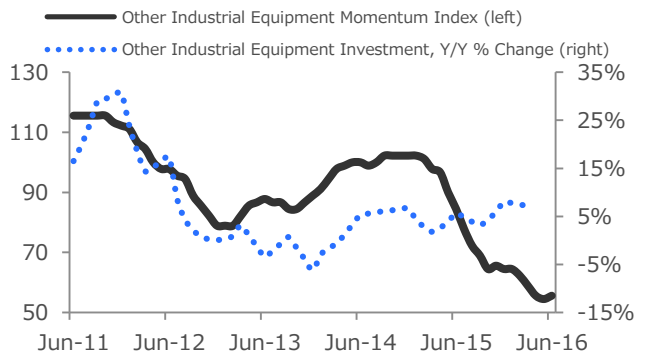
**Materials Handling Equipment:**

Investment in Materials Handling Equipment fell at a 7.3% annual rate in Q1 2016, yet remains up 4.1% year-over-year. The Materials Handling Momentum Index dipped from 68.1 in May to 67.0 in June. The MNI-Chicago Business Barometer decreased 2.2% — the second consecutive decline — yet Industrial Production increased 0.7%, its largest monthly gain since November 2014. Overall, the Index suggests that while investment may begin to rebound, it will nonetheless remain relatively weak over the next three to six months.



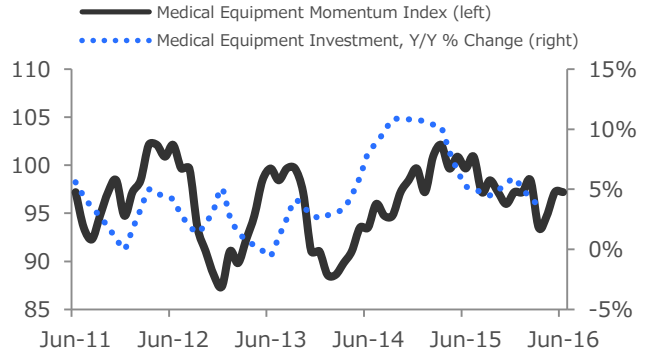
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment slipped at a 2.0% annual rate in Q1 2016, but remains up 7.2% year-over-year. The Other Industrial Equipment Momentum Index ticked up from 54.4 (revised) in May — a nearly seven-year low — to 55.6 in June. Industrial Supplies Exports jumped 4% in April following four straight declines, while New Orders of Industrial Machinery increased by 3%. Overall, the Index's low position continues to suggest that investment growth is likely to remain weak over the next three to six months.



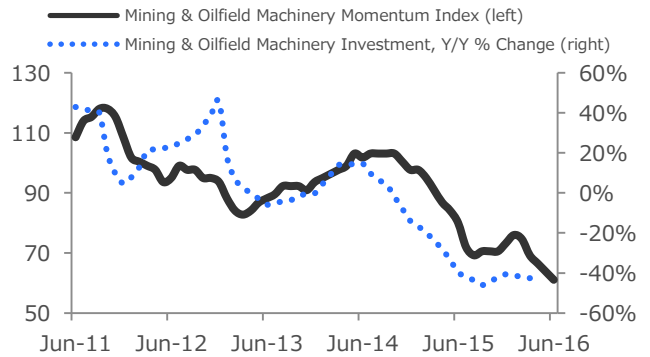
**Medical Equipment:**

Investment in Medical Equipment decreased at a 3.8% annual rate in Q1 2016 and is up 3.6% year-over-year — its slowest annual pace in two years. The Medical Equipment Momentum Index held steady at 97.2 (revised) from May to June. While Federal Health Outlays dropped nearly 17%, Social Security Disability Benefits increased 24% and New Orders of Electro-medical Devices rose 1.5%. Overall, the Index suggests no significant change medical equipment investment over the next three to six months.



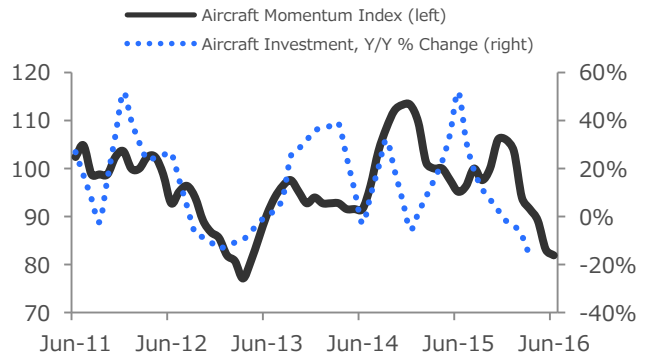
**Mining & Oilfield Machinery:**

Investment in Mining & Oilfield Machinery dropped at a 42.2% annual rate in Q1 2016 (the seventh straight decline) and is now down 42.6% year-over-year. The Mining & Oilfield Machinery Momentum Index declined from 63.8 (revised) in May to a new all-time low of 61.1 in June. Mining Support Employment dropped 2.1% in May and Shipments of Oil & Gas Field Machinery fell 22%, more than offsetting an increase in the WTI Spot Price. Overall, the Index points to continued weakness in mining & oilfield machinery investment over the next three to six months.



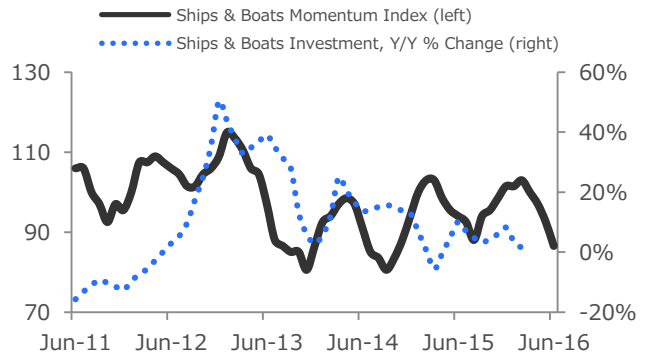
**Aircraft:**

Investment in Aircraft contracted at a 30.9% annual rate in Q1 2016 and is down 16.9% on a year-over-year basis, the largest annual decline since 2009. The Aircraft Momentum Index eased from 83.1 (revised) in May to 81.9 in June — its lowest level since April 2013. Economic Policy Uncertainty increased more than 20%, and the ISM Non-Manufacturing Index for New Orders fell 5.7 points in May. Overall, the Index continues to suggest weakness in aircraft investment growth over the next three to six months.



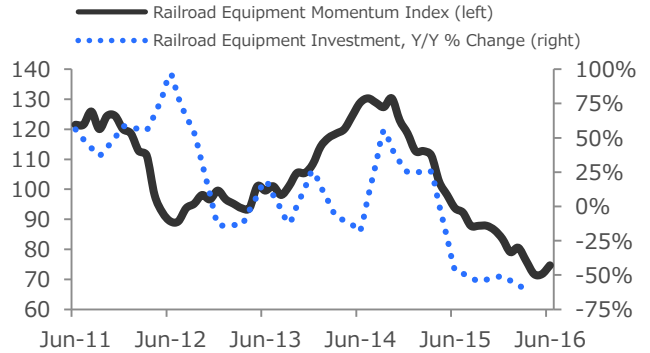
**Ships & Boats:**

Investment in Ships & Boats declined at an annual rate of 17.5% in Q1 2016, yet remains up 0.6% year-over-year. The Ships & Boats Momentum Index fell from 92.5 in May to 86.6. in June, its weakest reading since October 2014. At just 38,000 new jobs, Nonfarm Employment Growth slowed sharply in May, yet Raw Steel Production increased nearly 4%. Overall, the Index suggests a continued slowdown in ships & boats investment growth over the next three to six months.



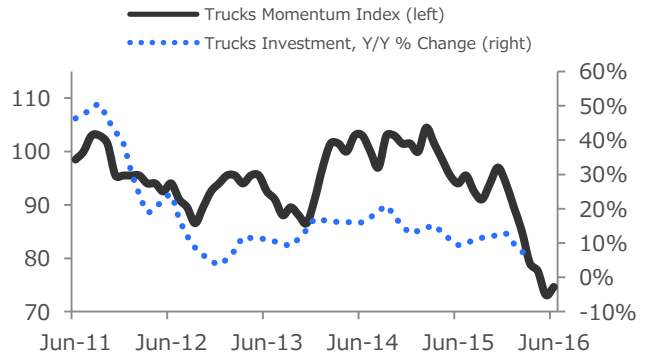
**Railroad Equipment:**

Investment in Railroad Equipment plummeted at an 81.8% annual rate in Q1 2016, and is now down 60.7% year-over-year, an all-time low. The Railroad Equipment Momentum Index increased from 71.7 (revised) in May to 74.7 in June. Following two declines, Machine Tool Orders surged 37% last month, and the ISM Manufacturing Index for Supplier Deliveries rose by 5.0 points in May. Overall, the Index's extremely low position suggests continued negative growth in railroad equipment investment over the next three to six months.



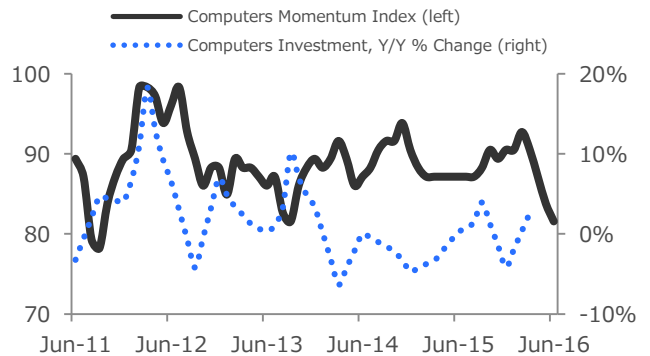
**Trucks:**

Investment in Trucks inched up at an 0.3% annual rate in Q1 2016 and is up 5.8% year-over-year — its slowest pace since Q4 2012. The Trucks Momentum Index rebounded slightly from 73.1 (revised) in May to 74.6 in June. The Unemployment Rate dipped to 4.7% in May (its lowest level since late 2007), and Housing Starts increased by nearly 7% in April. Overall, the Index's recent movement and low position suggest that truck investment growth will remain slow relative to historical norms over the next three to six months.



**Computers:**

Following a drop in Q4 2015, investment in Computers rebounded at an annual rate of 4.5% in Q1 2016 and is up 2.6% year-over-year. The Computers Momentum Index fell from 83.8 (revised) in May to 81.6 in June, its lowest level since September 2013. Although Consumer Expectations rose to a one-year high in May, Shipments of Communication Equipment declined nearly 3%. Overall, the Index points to a potential slowdown in computer investment growth over the next six months.



**Software:**

Investment in Software grew at a 2.3% annual rate in Q1 2016, and is up 2.1% year-over-year. The Software Momentum Index inched up from 98.2 (revised) in May to 99.5 in June. The Richmond Fed Equipment Spending Survey plummeted 36%, and Exports of Travel Services dipped 2% — its first decline since October 2015. Overall, the Index's elevated position and recent gains continue to suggest solid growth in software investment over the next three to six months.

