Q2 update — April

2015 Equipment Leasing & Finance U.S. Economic Outlook

EQUIPMENT LEASING & FINANCE
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The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

The Foundation research is independent, predictive and peer-reviewed by industry experts. The Foundation is funded solely through contributions. Contributions to the Foundation are tax deductible.

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SUMMARY

Equipment & Software Investment Outlook: Equipment and software investment growth decelerated to 1.6% in Q4 of 2014, following two quarters of strong growth. Overall growth in 2014 was 5.8%, and we expect slightly slower growth of 5.0% in 2015. Positive drivers of business investment include healthy credit markets, robust job growth, and improving business and consumer confidence, while investment headwinds include a strong dollar (which harms exports) and low oil prices (which decreases investment in the energy industry — although overall, the U.S. economy benefits from low oil prices). Growth prospects for individual equipment and software verticals are mixed:

- Agriculture Machinery investment growth will likely remain negative over the next three to six months.
- Construction Machinery investment could pick up over the next three to six months.
- Materials Handling Equipment investment growth should remain steady over the next three to six months.
- All Other Industrial Equipment investment will likely remain steady over the next three to six months.
- Medical Equipment investment growth is expected to remain strong over the next three to six months.
- Mining & Oilfield Machinery investment should continue to decline in the next three to six months.
- Aircraft investment growth may slow over the next three to six months.
- Ships & Boats investment growth may increase in the next three to six months.
- Railroad Equipment investment growth rates could decline over the next three to six months.
- Trucks investment growth should remain steady or potentially decline over the next three to six months.
- Computers investment growth rates could slip over the next three to six months.
- Software investment growth will likely remain stable over the next three to six months.

U.S. Capital Investment & Credit Markets: Capital spending slowed in 2014 Q4, yet steady economic growth should sustain investment and borrowing by businesses and households. Both supply and demand for credit continues to improve, and financial stress remains subdued. The Federal Reserve's first interest rate increase in more than six years is looking increasingly likely this summer or early autumn, which may create trigger some volatility in financial markets. However, it also could cause some businesses and households to "pull forward" some investments in order to lock in lower rates. Capacity utilization remains below 80%, but could trigger a new round of equipment investment if it rebounds in the coming months.

> The equipment finance industry started 2015 on solid footing, and industry confidence is at a multi-year high. Improved business confidence and a healing labor market are the principle bases for industry growth in 2015. Oil prices, capacity utilization, and Fed interest-rate policy are key developments to watch this year.

Overview of the U.S. Economy: Following the strongest 6-month period of economic growth in over a decade, GDP growth slowed to 2.2% in the fourth quarter. Consumer spending propelled growth, while business investment slowed, government spending declined, and the trade deficit widened. Notwithstanding March's soft data, the labor market has been a bright spot, with over three million jobs added in 2014 and nearly 200,000 jobs added per month in 2015. CPI inflation was 0% year-on-year in February, but this is temporarily depressed due to low oil prices. Expect inflation to rebound to 2% by year's end.

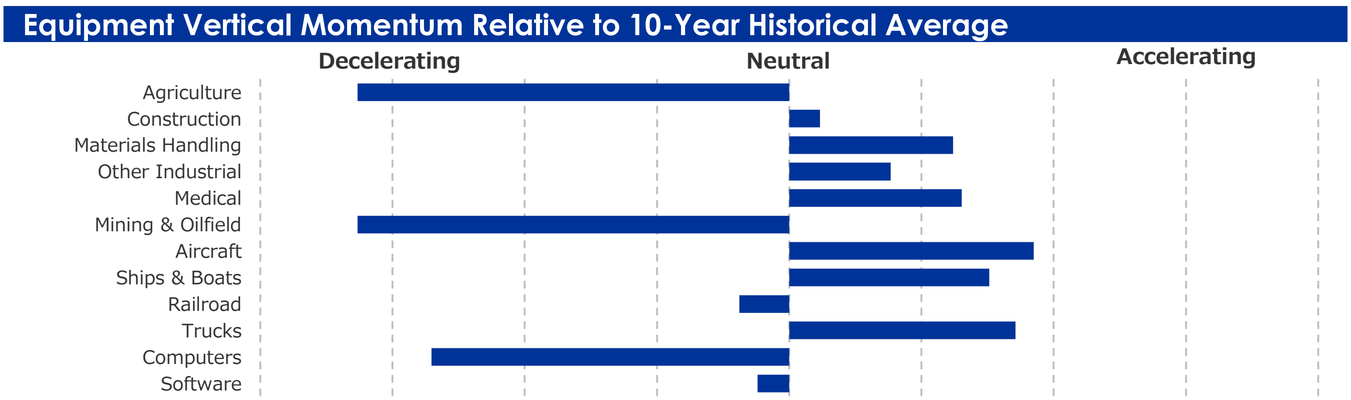
Several headwinds — notably the strong U.S. dollar and harsh winter storms — present challenges in 2015, yet we still expect growth to hit 3% for the first time since 2005. Growth drivers include a brighter jobs picture, greater access to credit, rebounding consumer confidence, and a housing market that should finally accelerate in 2015. Oil markets are a wild card, as sustained low prices could provide a significant boost to the economy despite hurting investment in certain equipment sectors. In addition, employment data in the coming months will shed light on whether March's soft jobs data was merely a blip or something more meaningful. Overall, we predict GDP to grow 3.1% in 2015, as confidence spreads.

EQUIPMENT & SOFTWARE INVESTMENT OUTLOOK

Equipment and software investment was subdued in the fourth quarter of 2014, slowing from 10.5% in Q3 to just 1.6%. Growth for all of 2014, however, was still a solid 5.8%, and we expect the overall expansion in the economy to encourage further increases in capital spending by both large and small businesses (although at a slightly slower pace than in 2014). Two trends to watch, however, are the strong dollar and low oil prices, which could dampen U.S. exports and business investment.

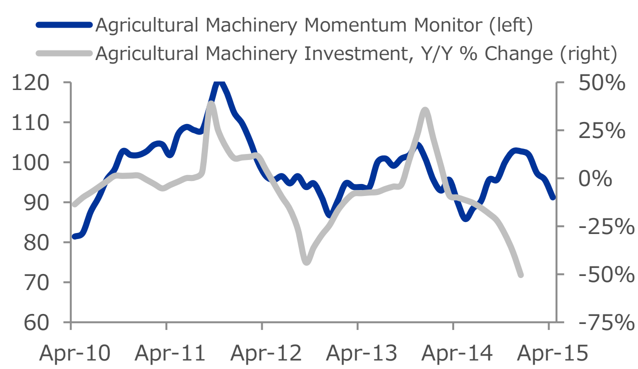
Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor

*For more information on how to interpret the Momentum Monitor, please refer to the Appendices on pages 15-16.

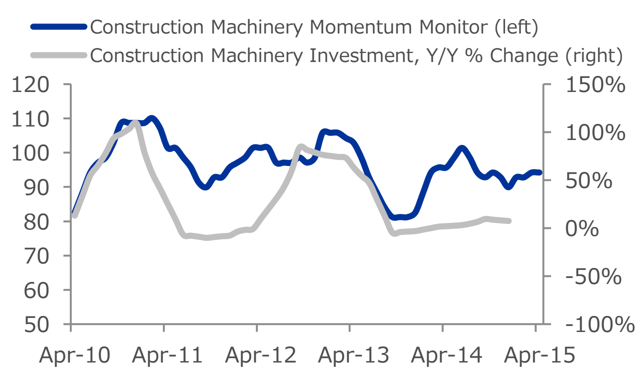


The chart above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices relative to the index values for each quarter over the last 10 years. Verticals for which momentum is below the 10-year median are "decelerating," verticals for which momentum is near the 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).

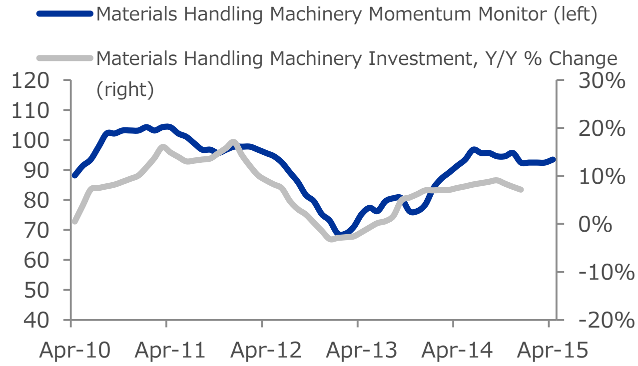
Agricultural Machinery: Investment in Agricultural Machinery contracted at an annual rate of 15.3% in Q4 2014 and is now down 50.4% from one year ago — its largest annual drop in nearly 15 years. The Agriculture Momentum Index decreased from 95.6 in March to 91.2 in April, a one-year low. Broiler Exports declined for the third straight month, and Milk Production was down nearly 9% in February. Further, Shipments of Farm Machinery fell 10%. Overall, the Index points to negative investment growth over the next three to six months.



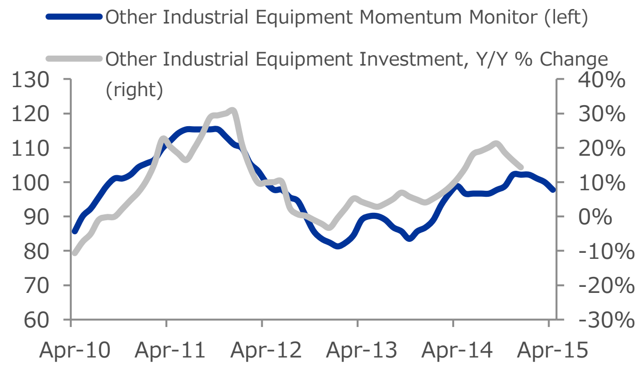
Construction Machinery: Investment in Construction Machinery slipped at a 0.6% annual rate in Q4 2014 but is up 7.5% year-over-year. The Construction Momentum Index was unchanged at 94.2 (revised) from March to April, a six-month high. Multi-family Housing Permits jumped 20% in February; however, Housing Starts dropped 17% in February, the largest monthly decline since 2011. Overall, the Index's recent movement suggests a small pick-up in investment growth over the next six months.



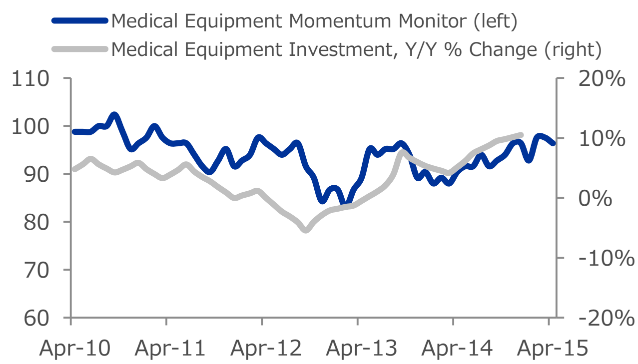
Materials Handling Equipment: Investment in Materials Handling Equipment inched down at a 0.3% annual rate in Q4 2014 and is up 7.1% year-over-year. The Materials Handling Momentum Index ticked up from 92.5 in March to 93.5 in April. Imports of Materials Handling Equipment increased 7%, while Industrial Production rebounded following two months of declines. The Index's recent trend indicates that growth will stay relatively constant over the next three to six months.



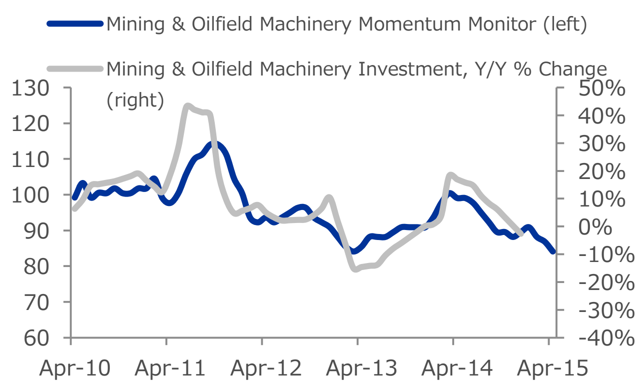
Other Industrial Equipment: Investment in All Other Industrial Equipment declined at a 22.0% annual rate in Q4 2014 (the largest drop in over two years), but is still up 14.3% year-over-year. The Other Industrial Equipment Momentum Index slipped from 100.0 (revised) in March to 97.8 in April. Although New Orders of Industrial Machinery increased nearly 7%, Shipments of Industrial Machinery fell 1.6% and Exports of Industrial Supplies declined. Overall, the Index's high level suggests steady investment growth over the next three to six months.



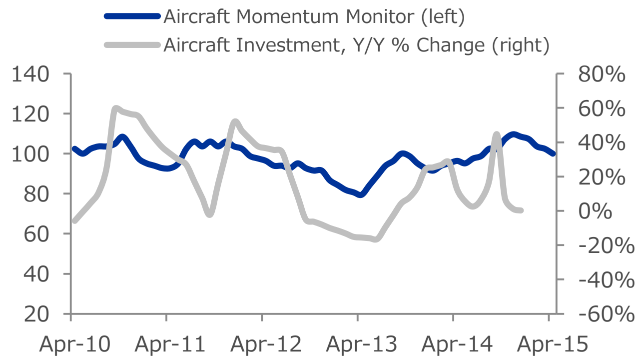
Medical Equipment: Investment in Medical Equipment increased at a 4.7% annual rate in Q4 2014 and is up 10.5% year-over-year, a six-year high. The Medical Equipment Momentum Index decreased slightly from 97.6 in March to 96.4 in April. The Health Care & Social Assistance Small Business Revenue Index has posted consistent gains, yet Federal Medicare Outlays declined 34%. Overall, the Index's elevated position suggests continued strong growth in medical equipment investment over the next three to six months.



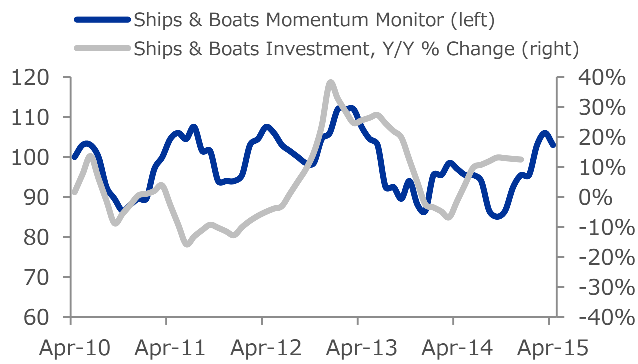
Mining & Oilfield Machinery: Investment in Mining & Oilfield Machinery decreased at a 34.4% annual rate in Q4 2014 and is now down 2.6% year-over-year. The Mining & Oilfield Machinery Momentum Index further declined from 86.8 (revised) in March to 84.1 in April, a two-year low. While Industrial Production of Natural Gas jumped 10%, the Oil Rig Count fell further in February and Shipments of Oil & Gas Field Machinery dropped 3.3%. The Index suggests continued declines in investment over the next three to six months.



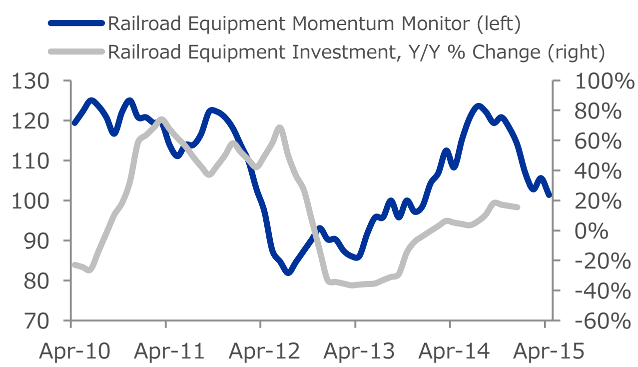
Aircraft: Following Q3's surge, investment in Aircraft grew at a 16.5% annual rate in Q4 2014 and is up 0.2% on a year-over-year basis. The Aircraft Momentum Index declined from 102.4 (revised) in March to 100.0 in April. Industrial Production increased for the first time in three months; however, the ISM Non-manufacturing New Orders Index fell to its lowest level in a year, and Exports of Computer & Electronic Products declined 9%. Overall, the Index suggests a potential slowdown in Aircraft investment growth over the next three to six months.



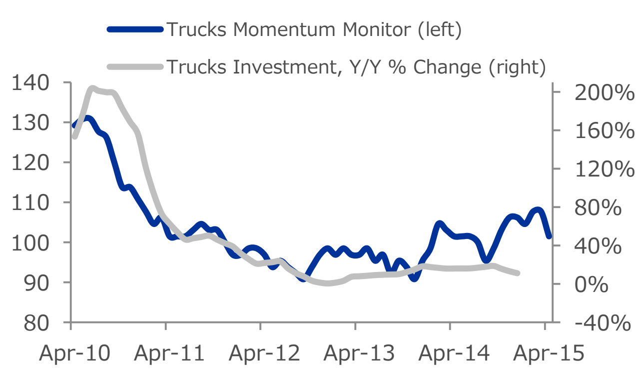
Ships & Boats: Investment in Ships & Boats contracted at an annual rate of 8.0% in Q4 2014, but is up 12.5% year-over-year. The Ships & Boats Momentum Index decreased from 106.0 in March to 103.0 in April. Both Shipments and New Orders of Ships & Boats decreased last month. Conversely, Nonfarm Employment Growth accelerated in February, and Industrial Production for Energy Products jumped 7.6%. Overall, the Index continues to suggest an uptick in investment growth over the next three to six months.



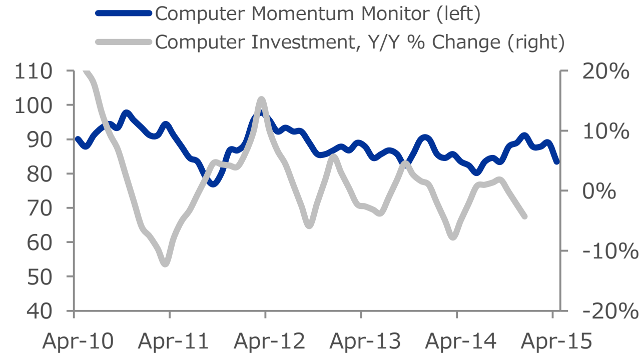
Railroad Equipment: Investment in Railroad Equipment decreased at a 14.2% annual rate in Q4 2014 but is still up 15.5% year-over-year. The Railroad Equipment Momentum Index declined from 105.6 (revised) in March to 101.4 in April. The ISM Manufacturing Employment Index dropped to a 22-month low, offsetting a gain Nonfarm Employment Growth. Overall, the Index continues to suggest that growth rates in railroad equipment investment may decline over the next three to six months.



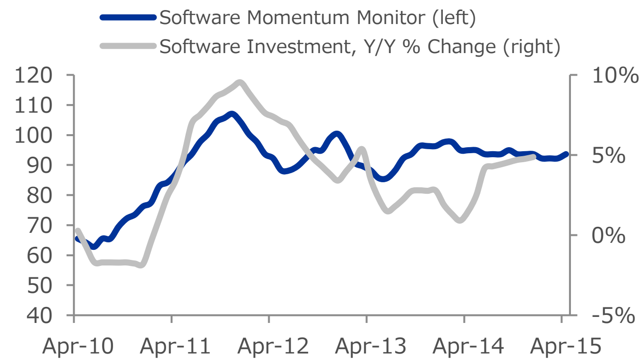
Trucks: Investment in Trucks declined at an 11.3% annual rate in Q4 2014, a two-year low, and is up 11.3% year-over-year. The Trucks Momentum Index decreased sharply from a multi-year high of 107.7 (revised) in March to 101.5 in April. The Unemployment Rate declined to its lowest level since May 2008, yet Housing Starts fell 17% in February and Raw Steel Production decreased more than 5%. Overall, the Index's recent movement indicates stable or potentially negative growth in truck investment over the next three to six months.



Computers: Investment in Computers slipped at an annual rate of 1.8% in Q4 2014 and is now down 4.3% on a year-over-year basis. The Computers Momentum Index decreased sharply from 89.0 (revised) in March to 83.5 in April. Retail Sales of Appliances & Televisions fell 38% to a nine-month low, yet the Morgan Stanley High-Tech 35 Index increased 2% in March and the San Francisco Fed Tech Pulse ticked up. Overall, the movement of the Index suggests that computer investment growth could slow over the next three to six months.



Software: Investment in Software increased at a 5.0% annual rate in Q4 2014 and is now up 4.9% year-over-year. The Software Momentum Index inched up from 92.2 in March to 93.6 in April. The Dollar strengthened against the Yen, while the ISM Non-manufacturing Employment Index rebounded from last month's decline. Overall, the Index continues to point to stable investment growth over the next three to six months.



Equipment & Software Investment Annual Growth Forecast

Year-on-Year % Growth Rates

Sector	10-Year Average	Last 4 Quarters	Next 4 Quarters
Agricultural Machinery	-0.1%	-50.4%	-8 – -2%
Construction Machinery	13.2%	7.5%	8–12%
Materials Handling Equipment	2.4%	7.1%	4–8%
Other Industrial Equipment	4.2%	14.3%	10–16%
Medical Equipment	4.5%	10.5%	6–10%
Mining & Oilfield Equipment	13.1%	-2.6%	-6 – 0%
Aircraft	6.1%	0.2%	10–18%
Ships & Boats	3.7%	12.5%	10–15%
Railroad Equipment	9.2%	15.5%	5–10%
Trucks	18.6%	11.3%	10–18%
Computers	6.7%	-4.3%	0–4%
Software	4.0%	4.9%	3–6%

Source: Macrobond Financial, Keybridge (forecasts)

U.S. Capital Investment and Credit Markets

Equipment and software investment slowed in Q4, while structures and residential investment growth rates picked up slightly. Low oil prices will likely cause further painful reductions in energy-sector business investment; however, the outlook for overall equipment and software investment remains positive. The U.S. economy continues to regain its footing, and while the strong dollar presents a potential headwind, steady economic growth should encourage greater borrowing from businesses and households in 2015.

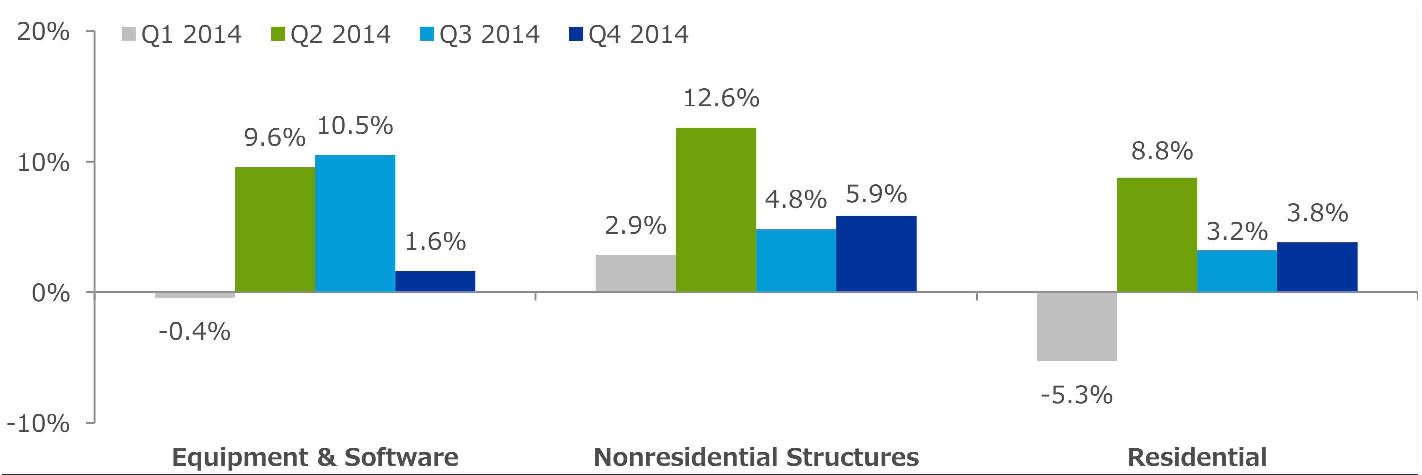
Both supply and demand for credit are increasing and the financial sector is quite strong. The Fed appears poised to raise its interest rate for the first time in six years in either the summer or fall, but will likely pursue an incremental approach that will keep rates low over the medium-term. While the rate increase could lead to market volatility, it may also encourage investment as businesses pull forward planned investments to lock in current rates before they rise.

Recent Trends in U.S. Capital Investment

Equipment and Software Investment decelerated sharply in the fourth quarter of 2014, expanding at a 1.6% annual rate after a robust 9.6% in Q2 and an even stronger 10.5% in Q3. Residential Investment increased 3.8%, up slightly from the third quarter. Investment growth for Nonresidential Structures ticked up from 4.8% in Q3 to 5.9% in Q4.

Investment Growth Rates

Quarter-on-Quarter, Seasonally Adjusted Annualized Growth Rate



Source: Macrobond Financial

- **Equipment Leasing and Financing:** Despite the slowdown in Q4, equipment & software investment grew a solid 5.8% in 2014 (in line with our 5.9% projection in the Foundation's 2015 Annual Outlook). The equipment leasing & finance industry also experienced solid growth in 2014 (e.g., new business volume increased 8.1% from 2013), and preliminary data suggest that the industry will build on this momentum in 2015. For example, according to the latest ELFA Monthly Leasing and Finance Index (MLFI-25), January and February new business volume was up 12% from to 2014 levels. Additionally, portfolio performance has been generally consistent: in February, charge-offs as a percent of net receivables held steady at 0.2% for the 12th consecutive month, and the credit approval ratio was little changed. Given these trends, it is not surprising that industry confidence reached a four-year high in March, as the Foundation

Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI) jumped from 66.3 to 72.1. Half of industry executives now believe that business conditions will improve over the next four months — while none believe that conditions will worsen.

- **Equipment Verticals:** Aircraft investment grew at an annual rate of 16.5% in the fourth quarter, which for the second straight quarter was the fastest growth achieved by the 12 equipment and software verticals the Foundation tracks. On the other side of the ledger is Mining & Oilfield Machinery investment, which declined at an annual rate of 34.4% as oil prices plummeted. Other key movements included a nearly three-year low in Other Industrial Equipment investment growth (-22.0%) and the first contraction in Trucks investment in two years (-11.3%).

- **Other Factors:** Capacity utilization, which typically signals expansion-fueled investment when it reaches 80%, remains a key indicator to watch. However, capacity utilization ticked down for the third consecutive month in January to 78.9%, driven by a 2.6 percentage point drop in mining capacity utilization. Low oil prices are clearly hurting investment in the energy sector, leading to a 50% decline in oil rigs since October. In addition, the strong U.S. dollar is reducing the competiveness of U.S. manufacturers, which is likely causing businesses to hold back spending. However, while these factors are taking a toll on manufacturing in the short-term, the second half of 2015 should see an acceleration in both capacity utilization and business investment as the U.S. economy builds momentum.

Recent Trends in Credit Markets

The U.S. credit system has basically healed — businesses and households are ready to borrow again, while lending standards are gradually easing. A stronger economy is the driving force behind this change, boosting consumer and business confidence and encouraging greater borrowing. Uncertainty stemming from Fed policy, geopolitical tensions, and the global economy is still a potential obstacle to further credit market expansion, but overall, headwinds to growth in 2015 do not appear as strong as they have been in recent years.

Summary of Credit Conditions

Factor	Conditions Compared With Last Quarter
Supply	Little Change
Demand	Moderate Improvement
Financial Stress	Moderate Improvement

- **Credit Supply & Pricing:** The supply of credit continues to gradually improve. The latest Fed Loan Officer Survey showed little change in lending standards for both commercial and industrial ("C&I") loans and consumer loans, as banks reported a slight net easing of C&I loan standards.

- **Credit Demand:** Lending to businesses has steadily increased, and businesses appear poised to increase their credit demand. In February, C&I loans were up 12.1% year-on-year, and the latest Fed Loan Officer Survey reported stronger demand from large firms. The small business sector — a key contributor to the economy that has been largely missing from business investment growth in recent years — is also gaining confidence and may be looking to boost investment spending. Both the NFIB Small Business Optimism Index and Thomson Reuters/PayNet Small Business Lending Index are hovering near multi-year highs, and years of stagnant investment may lead to increased activity as the economy continues to improve. Indeed, for both large and small businesses, steady economic growth and reduced uncertainty may translate to increased confidence about the future — and, as a result, increased demand for credit.

- **Financial Stress:** Reduced financial stress is a result of a stronger economy, encouraging both consumers and businesses to take on more debt. Financial Stress Indices from the Kansas City and St. Louis Feds have ticked down this month, delinquency rates on both C&I loans and leases have fallen to all-time lows, and corporate bond yields declined in January and remain at historically low levels. As further evidence of low financial stress, nonfinancial sector debt as a percentage of GDP increased in Q4 2014, which suggests that businesses are becoming more willing to take on debt in order to expand operations.

- **Other Factors:** Yields on the 10-Year Treasury have risen somewhat since falling below 1.7% in early February, yet they still hover around 2.0%. U.S. government bonds remain attractive compared to their European and Japanese counterparts, keeping U.S. Treasury yields low. We still expect Treasury yields to slowly rise in 2015, reflecting the steadily strengthening economy.

Update on Fed Policy

As expected, the Federal Open Market Committee ("FOMC"), the Fed's policymaking committee, removed the word "patient" from its March policy statement, thereby signaling that it could raise short-term interest rates as early as June. The Fed's decision on when to raise rates depends on several conflicting factors. With the unemployment rate down to 5.5%, the economy is now within the Fed's "full employment" range, despite March's soft data. However, the Fed is also closely monitoring inflation (headline inflation has hovered around zero in recent months) as well as the strong U.S. dollar — both of which provide support for keeping rates where they are. While most observers expect interest rates to rise in either June, July, or September, the Fed will likely pursue an incremental approach regardless of when rates begin to rise to reduce market volatility, which means rates will remain at or near historical lows for the foreseeable future. Future Fed policy decisions will be data-dependent and could shift based on a variety of economic factors.

Consequences of a Fed interest rate hike include increased market volatility, potential declines in the stock market, and further appreciation of the dollar — all of which could cause economic pain in the short term. However, a rate increase could potentially *increase* investment and housing activity in the coming months if households and businesses pull forward borrowing decisions they have long postponed due to the expectation that rates would remain low. Indeed, the threat of a rate increase could be the shot in the arm needed to finally "pull the trigger" on major investment decisions in order to lock in the current rate before the Fed raises rates.

OVERVIEW OF THE U.S. ECONOMY

Following two strong quarters of 4%+ growth, GDP slowed to a 2.2% annual rate in the fourth quarter of 2014. Drivers of growth included consumer spending, business investment, and housing, while net exports and government spending were drags on growth. After 12 consecutive months of 200,000 and over job growth, March's employment report was disappointing, with just 126,000 jobs added to the economy and downward revisions to January and February data. The unemployment rate held steady at 5.5%, however — its lowest level since May 2008. Rapid declines in oil prices pushed CPI inflation down to -0.1% year-on-year in January, and inflation remained subdued at 0.0% in February.

Recent headwinds to growth include a strong dollar and a second consecutive year of severe winter weather on the East Coast. However, the combination of solid labor market gains over the last 15 months (notwithstanding March data), a healed credit system, and a revival in consumer confidence should sustain growth through the year.

Overall, we expect growth to be 3.1% in 2015 — in line with (or slightly above) consensus estimates.

Recent Trends in the U.S. Economy

Recent economic data paint a generally positive economic picture, led by strong employment growth, increased consumer confidence, and low oil prices that increase disposable income and keep inflation in check. However, the combined effects of weak global demand, a strong dollar, and a second consecutive harsh Northeast winter have likely had a significant negative impact on growth over the last 3-6 months.

Indicator	Recent Activity
Consumption	Consumer spending grew 4.4%, its fastest rate in nearly a decade
Equipment & Software Investment	Equipment & Software Investment expanded 1.6%, down from 10.5% in Q3
Residential Investment	Residential Investment grew at a 3.8% rate, up modestly from the third quarter
Government Expenditures	Government expenditures declined 1.9% in Q4, after Q3's five-year high
Net Exports	Export growth was unchanged at 4.5%, while Imports jumped 10.4%

- **Q4 GDP:** The U.S. economy grew 2.2% in Q4, mostly on the backs of consumers. Consumer spending increased 4.4% — the fastest pace since 2006 — and contributed 3.0 percentage points to GDP, suggesting that the robust job gains that occurred throughout 2014 are improving confidence about both the economy and household finances. However, growth in business investment decelerated from 8.9% in Q3 to 4.7% in Q4. Meanwhile, residential investment contributed just 0.12 percentage point to growth — underscoring the reality that the housing sector is still a crucial missing piece from the recovery. Net exports were another drag on growth in Q4, slicing 1.0 percentage points from GDP primarily due to surging imports. Finally, government spending contracted 1.9%, largely due to a 12.2% drop in federal defense spending.

- **Oil Prices:** The sharp decline in oil prices that has occurred since last summer is an important development with major economic implications. The WTI Crude Oil Spot Price has plummeted nearly 60% from its June peak, while Brent Crude is down more than 50%. Low oil prices are producing tangible benefits for consumers; in effect, fuel savings are a "raise" which boosts households' disposable income. Consumer confidence has already increased, and spending should follow suit as the year progresses as long as prices remain low. One negative effect of plummeting oil prices is that energy companies are likely to sharply cut investment spending, but the overall effect of cheap oil on the U.S. economy is positive.

- **Inflation:** Declining oil prices and a strengthening dollar have caused inflation to fall; since hitting 2.1% year-on-year last June, headline CPI declined to -0.1% in January. In February, however, headline CPI ticked up for the first time since October and was unchanged year-on-year. Meanwhile, core CPI (which excludes food and energy) increased slightly to 1.7% year-on-year in February, but is expected to remain subdued due to the spillover effects of low energy prices on other sectors (e.g., shipping costs and airfare).

  While the inflation rate is expected to remain tame in the near-term, we believe this will be a temporary trend and expect inflation to return to its 2% target by late autumn or early winter. Wage inflation has also been modest, as average hourly earnings were up just 2.1% year-on-year in March — about half of what is typical in a robust economy. However, the rapidly tightening labor market is likely to cause a pick-up in wage growth later this year as businesses compete for a smaller supply of available workers. Moreover, the current growth rate in wages is strengthened when viewed through the lens of 0% inflation (i.e., from a purchasing power perspective, a 2% growth in wages and zero inflation is roughly equivalent 4% wage growth and 2% inflation).

- **Growth Forecasts:** The Economist Poll of Forecasters for March calls for 3.2% GDP growth in 2015, down slightly from the 3.3% average forecast in February. The Federal Reserve's March "central tendency" forecast for growth is in the range of 2.3% to 2.7%, a shift down from its December 2.6 – 3.0% projection.

Economic Tailwinds

The central themes in 2015 are solid employment gains, a healthy financial system, and improved optimism among consumers. These factors are the basis for stronger growth in 2015.

- **Labor Market:** The steadily healing labor market is a major tailwind for the U.S. economy. 2014 saw the fastest annual job growth in 15 years, with more than 3 million jobs added to the economy. Although the pace of job gains decelerated in March, it is premature to interpret this signal as the first sign of a slowdown (although employment data in the coming months will be closely watched). Indeed, in another sign of a stronger labor market, the number of job openings rose to a 14-year high in January. Overall, the data suggest that businesses are confident enough to hire again, and this should lead to a virtuous cycle in which increased job openings lead to rising wages that, in turn, improve consumer confidence and increase consumer spending.

- **Healed Credit System:** Financial systems have recovered from the recession and are poised to support expansion. Up 12.1% year-on-year, C&I loans are well above their pre-recession peak. Charge-off rates for bank loans and leases have dropped sharply since peaking in late 2009, and, at 0.42%, are near an all-time low. On the household side, consumer credit is posting consistent gains and consumers are beginning to take on more credit card debt. These revived credit flows should support a rebound in consumer and business spending in 2015.

- **Consumer Confidence:** Recent months have witnessed a breakout in consumer confidence; in December, the University of Michigan's Consumer Sentiment Index hit its highest level since 2004, reflecting the healing labor market, rising wages, and low oil prices. Similarly, the Conference Board's Consumer Confidence Index hit a seven-year high in January and remains at pre-recession levels. Improved confidence should translate to greater spending and drive growth through the rest of 2015.

Economic Headwinds

Despite our positive outlook, two negative trends have contributed to a recent "cooling" in some economic data. These trends are fueling uncertainty in forecasting economic growth, especially for the first quarter. In particular:

- **Winter Weather:** Mirroring last year's "winter from hell," the first quarter of 2015 has witnessed several severe winter storms in major metropolitan areas in the eastern United States, which has depressed spending and economic activity in this region. Retail sales fell 0.6% in February (the third straight decline), but this is likely a temporary weather-related phenomenon, as the biggest drop came from auto sales. Snow storms also tend to negatively affect housing activity and construction investment, which may explain why housing starts plummeted 17% in February (including a massive 56% drop in the Northeast). As seen in 2014, harsh winter weather may again cut into Q1 growth which will negatively affect overall growth estimates for 2015, but we expect spending and growth to rebound throughout the rest of the year.

- **Strong Dollar:** The U.S. dollar has soared nearly 20% against other major currencies since last fall. While a strong dollar is a sign of global confidence in the U.S. economy and generally helps consumers by reducing the relative price of imported goods, it also makes domestic manufacturers less competitive in global markets and increases the trade deficit, which hurts growth. Indeed, the U.S. trade gap widened 8.3% in January, as U.S. exports — now more expensive to foreign consumers — declined 2.9% (the trade gap narrowed to a five-year low in February; however, this shift was largely caused by reduced imports due to a labor dispute at West Coast ports). Additionally, the ISM Manufacturing Index fell 1.4 points to 51.5 in March, the fifth straight monthly decline and a sign that U.S. manufacturers are finding it more difficult to compete with global competitors. Other data also reflect this worry: new orders of manufactured goods, for example, declined for six consecutive months before ticking up 0.2% in February. Ultimately, the strong dollar could shave 0.4 – 0.5 percentage point off of GDP growth this year.

Additional Factors to Watch

In addition to the major themes impacting the economy in 2015, there are several other trends to watch. These "wild cards" have the potential to sway growth this year:

- **Housing:** Hit hard by the recession, housing still is only halfway back to normal. Housing starts, which plummeted nearly 80% between 2006 and 2009, are slowly improving, but are still well below normal levels. More recently, harsh winter storms may have dampened housing activity in the Midwest and Northeast. However, solid job gains in 2014 and signs of wage growth could generate a pick-up in housing activity in the coming months — which would give a much-needed boost to construction spending and hiring. In fact, new home sales jumped 7.8% in February and, according to the latest Zillow Housing Confidence Index, the number of current renters who expect to purchase a house this year is up 24% from a year ago. These data could represent the beginnings of a housing rebound.

- **Oil Prices:** Oil prices have hovered around $50/barrel or below for most of 2015, and prices are likely to remain subdued for much of 2015 due to a combination of excess supply and lagging global demand. Looking ahead, a key data point to monitor will be the level of available oil storage. According to the Energy Information Administration, U.S. storage of crude oil is at an 80-year high; if U.S. oil storage reaches maximum capacity, producers may be forced to sell excess oil rather than store it temporarily — which would bring additional downward pressure on prices.

- **Small Business Optimism:** Small businesses are gaining confidence and seem finally ready to boost their capital spending. The NFIB Small Business Optimism Index reached an eight-year high in December 2014 and remains elevated. The December NFIB Survey also showed that 29% of small businesses planned to make capital expenditures in the next six months — a seven-year high.

Projections for Key Economic Indicators

Indicator	2013	2014	2015 Quarterly Estimates				2015e
			Q1e	Q2e	Q3e	Q4e	
Real GDP (SAAR %)	2.2%	2.4%	1.8%	4.2%	3.2%	2.8%	3.1%
Real Investment in Equipment & Software (SAAR %)	4.2%	5.8%	2.0%	6.5%	6.2%	5.0%	5.0%
Inflation (year-on-year %)	1.5%	1.6%	0.1%	0.8%	1.4%	1.9%	1.1%
Federal funds (effective, end of period)	0.15%	0.15%	0.15%	0.15%	0.40%	0.90%	0.90%
10-year Treasury Rate (end of period)	2.9%	2.2%	1.9%	2.3%	2.8%	3.0%	3.0%
Total Payrolls (in thousands)	+2,331	+3,116	+591	+690	+675	+665	+2,621

Note: SAAR% refers to the annualized rate of change in seasonally adjusted data from one quarter to the next, which is the Bureau of Economic Analysis' standard method for reporting growth in the national accounts data.

QUARTERLY DATA

Indicator	2012	2013				2014			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real Gross Domestic Product (SAAR %)									
GDP	0.1%	2.7%	1.8%	4.5%	3.5%	-2.1%	4.6%	5.0%	2.2%
Consumer Spending	1.9%	3.6%	1.8%	2.0%	3.7%	1.2%	2.5%	3.2%	4.4%
Gross Private Fixed Investment	-5.3%	7.6%	6.9%	16.8%	3.8%	-6.9%	19.1%	7.2%	3.7%
Inv: Equipment & Software	7.0%	5.9%	-0.9%	5.3%	11.5%	-0.4%	9.6%	10.5%	1.6%
Inv: Agricultural Machinery	32.8%	65.3%	-36.3%	-37.8%	415.4%	-66.2%	-46.9%	-60.3%	-15.3%
Inv: Construction Machinery	-0.2%	4.8%	-12.3%	-10.1%	7.4%	26.1%	-6.6%	14.0%	-0.6%
Inv: Materials Handling Equipment	-1.1%	0.6%	6.9%	13.7%	7.1%	1.0%	11.4%	17.4%	-0.3%
Inv: All Other Industrial Equipment	10.0%	2.9%	-3.2%	19.3%	-1.2%	21.3%	36.1%	32.6%	-22.0%
Inv: Medical Equipment	9.5%	10.1%	1.0%	9.6%	1.0%	5.4%	14.2%	18.3%	4.7%
Inv: Mining & Oilfield Machinery	-27.8%	-44.1%	35.8%	42.8%	-7.1%	8.2%	20.9%	4.9%	-34.4%
Inv: Aircraft	153.5%	-42.6%	-25.6%	9.4%	406.2%	-34.4%	-69.7%	334.8%	16.5%
Inv: Ships & Boats	113.9%	10.7%	-31.0%	26.1%	-5.8%	-7.5%	32.4%	42.3%	-8.0%
Inv: Railroad Equipment	-72.1%	-12.2%	9.3%	-5.5%	-5.8%	31.6%	-2.0%	60.7%	-14.2%
Inv: Trucks	-13.0%	28.2%	27.5%	4.3%	15.6%	18.4%	28.2%	13.8%	-11.3%
Inv: Computers	44.7%	-12.3%	-11.7%	6.7%	25.7%	-39.0%	26.1%	11.2%	-1.8%
Inv: Software	3.5%	9.2%	-8.1%	7.2%	3.7%	1.5%	4.3%	8.9%	5.0%
Credit Conditions									
Nonfinancial Sector Debt (% of SAAR GDP)	66.1%	65.8%	66.3%	66.3%	66.2%	67.3%	67.0%	66.9%	67.6%
Loan Delinquency Rate	1.2%	1.1%	1.0%	1.0%	0.9%	0.9%	0.8%	0.8%	0.7%
Lease Delinquency Rate	0.8%	0.8%	0.9%	0.9%	0.9%	0.8%	0.7%	0.8%	0.7%
Net Tightening of C&I Loan Standards	-7.6%	-7.4%	-19.1%	-18.1%	-8.3%	-13.7%	-11.1%	-10.7%	-10.5%

Note: SAAR% refers to the annualized rate of change in seasonally adjusted data from one quarter to the next, which is the Bureau of Economic Analysis' standard method for reporting growth in the national accounts data.

MONTHLY DATA

Indicator	2014										2015		
	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar
Employment													
Change in Total Payrolls (thousands)	225	330	236	286	249	213	250	221	423	329	201	264	126
Change in Private Payrolls (thousands)	223	313	238	272	243	209	235	218	414	319	202	264	129
Unemployment Rate	6.6%	6.2%	6.3%	6.1%	6.2%	6.1%	5.9%	5.7%	5.8%	5.6%	5.7%	5.5%	5.5%
Business Activity													
Industrial Production	103.1	103.2	103.7	104.1	104.5	104.5	105.2	105.1	106.3	106.1	105.7	105.8	-
Capacity Utilization	79.1%	79.0%	79.1%	79.2%	79.3%	79.1%	79.4%	79.1%	79.8%	79.4%	79.1%	78.9%	-
PMI Composite Index	54.4	55.3	55.6	55.7	56.4	58.1	56.1	57.9	57.6	55.1	53.5	52.9	51.5
NFIB Small Business Optimism Index	93.4	95.2	96.6	95.0	95.7	96.1	95.3	96.1	98.1	100.4	97.9	98.0	-
Consumer Activity													
Consumer Confidence	83.9	81.7	82.2	86.4	90.3	93.4	89.0	94.1	91.0	93.1	103.8	98.8	101.3
Personal Consumption (M/M % Chg)	0.6%	-0.1%	0.1%	0.3%	0.1%	0.7%	0.2%	0.4%	0.5%	0.1%	0.2%	-0.1%	-
Retail Sales (M/M % Chg)	1.0%	0.6%	0.4%	0.4%	0.3%	0.6%	-0.1%	0.3%	0.4%	-0.9%	-0.8%	-0.6%	-
Lending Activity													
C&I Loans (M/M % Chg)	1.1%	1.1%	0.8%	0.8%	1.2%	1.0%	0.6%	0.4%	1.1%	1.0%	0.8%	1.0%	-
MLFI-25 New Business Volume (Bil.$)	7.1	8.1	7.0	9.1	7.9	7.2	9.4	8.3	6.8	12.9	6.7	6.1	-
MLFI-25 Avg Losses as a % of Net Rec.	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	-
MLFI-25 Credit Approval Ratio	78.3%	78.2%	76.9%	80.9%	80.3%	79.5%	79.7%	78.3%	79.1%	78.6%	78.6%	78.1%	-
Interest Rates (% avg of period)													
Fed Funds Target Rate (Lower Bound)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1-Year Treasury Rate	0.13	0.11	0.10	0.10	0.11	0.11	0.11	0.10	0.13	0.21	0.20	0.22	0.25
3-Year Treasury Rate	0.82	0.88	0.83	0.90	0.97	0.93	1.05	0.88	0.96	1.06	0.90	0.99	1.02
10-Year Treasury Rate	2.72	2.71	2.56	2.60	2.54	2.42	2.53	2.30	2.33	2.21	1.88	1.98	2.04
30-Year Treasury Rate	3.62	3.52	3.39	3.42	3.33	3.20	3.26	3.04	3.04	2.83	2.46	2.57	2.63
AAA Corporate Bond Yield	4.38	4.24	4.16	4.25	4.16	4.08	4.11	3.92	3.92	3.79	3.46	3.61	3.64
BAA Corporate Bond Yield	5.06	4.90	4.76	4.80	4.73	4.69	4.80	4.69	4.79	4.74	4.45	4.51	4.54
Prices													
Headline Inflation (Y/Y % Chg)	1.5%	2.0%	2.1%	2.1%	2.0%	1.7%	1.7%	1.7%	1.3%	0.8%	-0.1%	0.0%	-
Core Inflation (Y/Y % Chg)	1.7%	1.8%	2.0%	1.9%	1.9%	1.7%	1.7%	1.8%	1.7%	1.6%	1.6%	1.7%	-
Oil Price (West Texas Int., $/barrel)	101.57	100.07	103.40	106.07	98.23	97.86	91.17	80.53	65.94	53.45	47.79	49.84	47.72

ABOUT THE OUTLOOK

The Equipment Leasing & Finance Foundation (the Foundation) recognizes that with the wide variety and increasing complexity of economic data available to the public, the best way to utilize key equipment investment data is to have it all in one place, where business leaders can access it easily and quickly, thus assisting them in making the best business decisions.

The Foundation partnered with Keybridge LLC to produce this economic outlook, highlighting key trends in equipment investment and placing them in the context of the broader U.S. economic climate. The outlook report also includes an analysis of domestic capital spending as well as an evaluation of how capital spending is affected by various related and exogenous factors, both currently and in the foreseeable future. Additionally, the outlook includes custom leading indicators for 12 equipment and software verticals. The Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor ("Momentum Monitor"), described below, is published on a monthly basis.

This Q2 report is the first update to the 2015 Annual Outlook, and will be followed by two more quarterly updates in July and October of 2015. This research was guided by a steering committee of dedicated industry volunteers who gave their time and expertise by providing comments and suggestions throughout the development of the report.

ABOUT THE MOMENTUM MONITOR

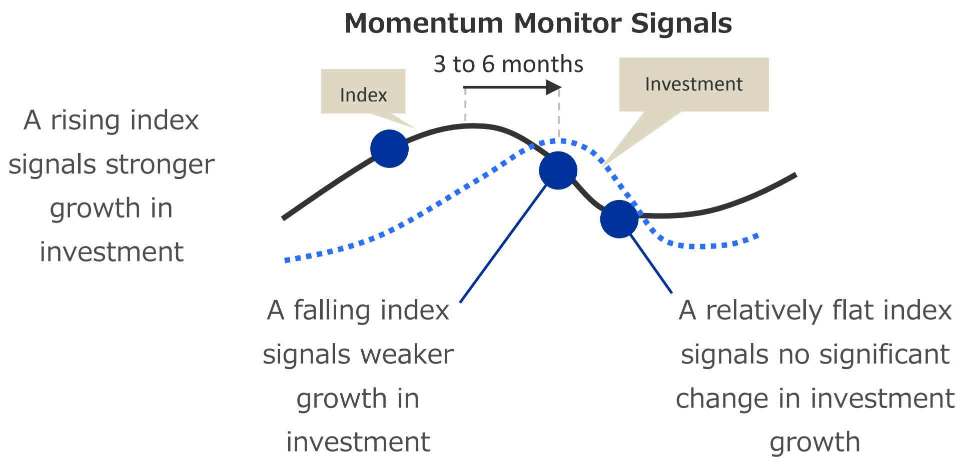
Business leaders require actionable forward-looking intelligence to make strategic decisions. Accordingly, the Foundation commissioned Keybridge LLC to develop a series of custom leading indicators for the equipment sector. The Foundation-Keybridge Equipment & Software Investment Momentum Monitor consists of indices for 12 equipment and software investment verticals. These indices are designed to identify turning points in their respective investment cycles with a three-to-six 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.

HOW TO READ THE MOMENTUM 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.

ABOUT KEYBRIDGE

Keybridge is a public policy economics consulting firm. Keybridge provides analytical support and strategic advice to a select clientele that includes Fortune 500 companies, global financial firms, G-7 governments, premier industry associations, and non-profit organizations. Keybridge's experience and expertise make it uniquely suited to assist organizations that frequently operate at the interface of business, economics, and public policy.

Founded in 2001, Keybridge's mission is to provide balanced, credible, and timely technical analysis and strategic insights that inform business decisions and drive public policy debates. Our dedication to the principles of sound analysis, clear communication, and unmatched client service guide our work and serve as the foundation of our success.

Keybridge's senior staff is comprised of experts with distinguished academic credentials and extensive experience in the areas of economics and public policy. On a day-to-day basis, Keybridge principals work closely with clients to develop strategy and conduct timely analysis. For longer-term projects and highly specialized topics, the firm leverages its network of advisers — including Nobel Prize-winning economists and world-class experts in the fields of econometrics, energy, and finance — to build project teams tailored to clients' unique needs.

Keybridge provides clients with access to a full suite of analytical services, including macroeconomic risk assessments, econometric modeling studies, policy impact studies, qualitative policy evaluations, and survey design and analysis. For clients requiring regular consultations, Keybridge offers on-going strategic advisory services in the areas of macroeconomic trends and risks, international trade and finance, and energy and environmental economics. Keybridge also assembles and manages inter-disciplinary teams of experts to conduct thought leadership projects to assist clients with building competitive advantages or reforming policy debates through the development, sharing, and application of innovative ideas. Keybridge's principals are regularly asked to present research and share insights with economic, financial, and policy audiences around the world, including corporate strategic planning committees, congressional committees, and international conferences.

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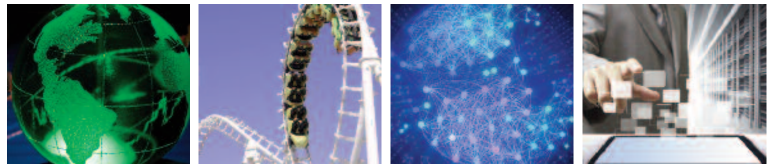

Independent, Future-Focused Industry Research

The Equipment Leasing & Finance Foundation
Established in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to providing future-oriented, in-depth, independent research for and about the $903 billion equipment finance industry.

Future-Focused Research
The Foundation provides comprehensive, forward-looking research for business leaders, academics and others interested in the industry. Resources include the State of the Equipment Finance Industry report, Industry Future Council report and strategic market studies available at no cost to donors in the Foundation's online library. **www.store.leasefoundation.org**

Equipment Leasing & Finance U.S. Economic Outlook
This comprehensive report analyzes global and domestic trends impacting capital spending and economic growth in the coming year. It identifies key signposts specific to the equipment finance industry and features Momentum Monitors that identify turning points for 12 verticals in their respective investment cycles. The outlooks are updated quarterly.
www.leasefoundation.org/research/eo

Monthly Confidence Index
Through a monthly survey of the industry's executive leadership, we've established a confidence index related to the equipment finance sector and the U.S. economy. The results provide greater understanding of prevailing business conditions and expectations for the future.
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