Q4 update — October

2015 Equipment Leasing & Finance U.S. Economic Outlook

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

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SUMMARY

Equipment & Software Investment Outlook: Equipment and software investment increased 1.7% in the second quarter, down from 3.9% growth in Q1 2015. As in the previous two quarters, weak energy-sector spending (due to low oil prices), a strong U.S. dollar, and an unsteady global economy hurt investment growth in Q2. Although these headwinds are not likely to disappear in the near future, we expect equipment and software investment to pick up modestly from the second quarter's soft growth. Overall, we forecast growth to slow from 6.0% in 2014 to 4.1% in 2015. The outlook for individual equipment and software verticals are mixed:

- Agriculture Machinery investment growth will likely remain weak or negative over the next three to six months.
- Construction Machinery investment growth should remain solid over the next three to six months.
- Materials Handling Equipment investment growth should slow over the next three to six months.
- All Other Industrial Equipment investment growth is likely to moderate over the next three to six months.
- Medical Equipment investment growth is expected to stabilize or slow over the next three to six months.
- Mining & Oilfield Machinery investment will remain weak over the next three to six months.
- Aircraft investment growth may remain solid over the next three to six months.
- Ships & Boats investment growth may stabilize or slow somewhat in the next three to six months.
- Railroad Equipment investment growth is likely to remain weak over the next three to six months.
- Trucks investment growth could ease somewhat over the next three to six months.
- Computers investment growth rates should increase modestly over the next three to six months.
- Software investment growth will likely remain strong over the next three to six months.

U.S. Capital Investment & Credit Markets: Capital spending has generally disappointed this year, as several factors (e.g., an uncertain manufacturing outlook, signs of weakness abroad, expiring tax extenders, and the threat of political dysfunction) have hurt some businesses' confidence and willingness to invest. Conversely, the U.S. credit system is still exhibiting health and financial stress is subdued. Citing global economic fears, the Fed kept interest rates at zero in September, but an interest rate hike is expected in the coming months.

Businesses' hesitancy to invest may be cutting into the equipment finance industry; industry confidence fell in September, and new business volume growth slowed. However, at 6.0% year-on-year, new business volume growth points to continued steady expansion in the industry, and a rising propensity to finance suggests that demand for financing has remained solid in 2015 even as investment slowed. Moreover, the prospect of higher interest rates could encourage businesses to "pull forward" investment and provide a boost to the equipment finance industry.

Overview of the U.S. Economy: GDP growth accelerated from 0.6% in the first quarter to 3.9% in Q2, as the economy rebounded from a soft patch earlier this year. Key drivers of the second-quarter expansion included consumer spending and housing investment, while net exports, government spending, and business investment also positively contributed to growth. Nonfarm payrolls have averaged a solid 197,000 net jobs created per month in 2015, but disappointing data in both August and September suggest the labor market tailwind could be fading. At the same time, housing activity is showing more signs of life and should help to boost both employment and consumer spending in the coming months.

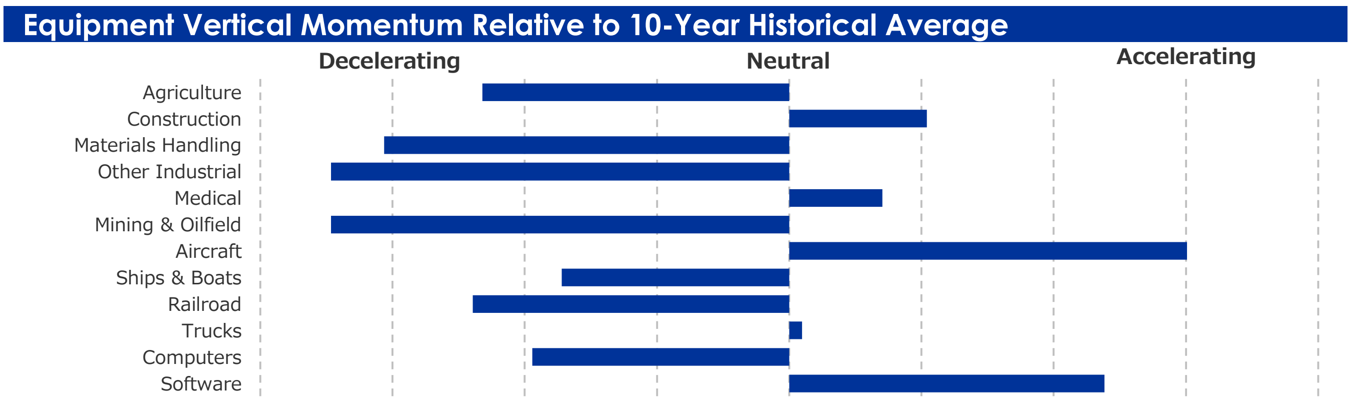
As the U.S. economy has strengthened, global growth has faltered. A slowing Chinese economy has spurred anxiety in financial markets and could lower demand for commodities and U.S. exports. Meanwhile, continued low oil prices present obstacles for the energy sector, and mixed data have muddled the outlook for U.S. manufacturing. Balancing signs of improvement at home against headwinds that primarily stem from abroad, we expect the economy to grow 2.6% in 2015.

EQUIPMENT & SOFTWARE INVESTMENT OUTLOOK

Growth in equipment and software investment slowed from 3.9% in the first quarter to 1.7% in the second, driven by sharp contractions in energy and railroad investment. Low oil prices and a strong dollar are still headwinds to stronger business investment, and a slowing Chinese economy could hurt U.S. exports and confidence. Overall, we expect a modest pick-up in investment in Q3 and Q4, yet a soft start to 2015 will limit annual investment growth to 4.1%.

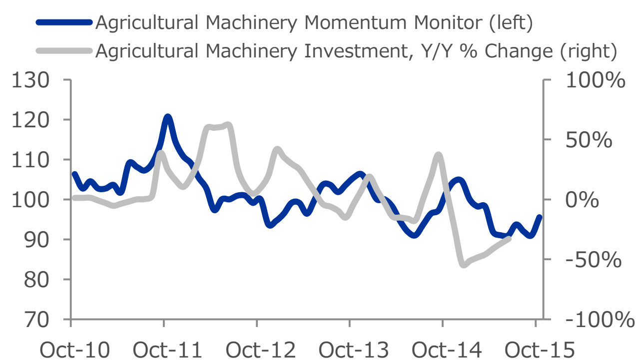
Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor

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

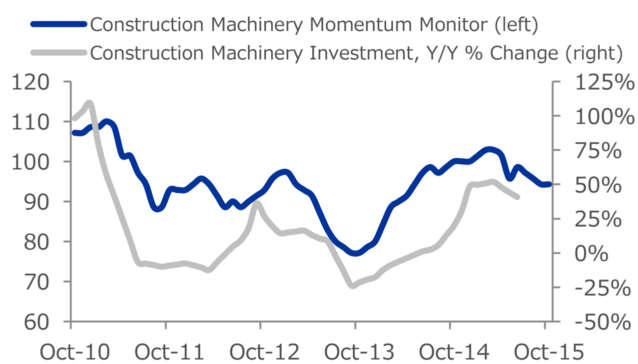


The chart above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices relative to the index values for each quarter over the last 10 years. Verticals for which momentum is below the 10-year median are "decelerating," verticals for which momentum is near the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

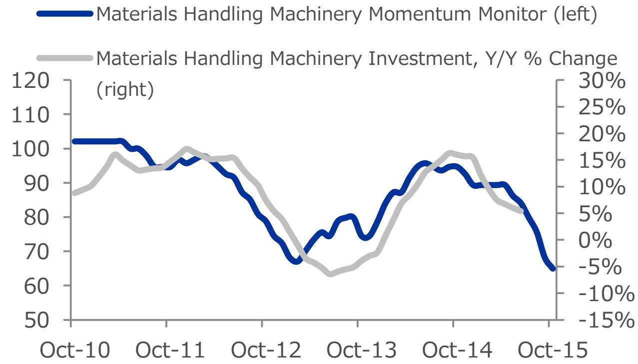
Agricultural Machinery: Investment in Agricultural Machinery increased at an annual rate of 8.6% in Q2 2015, yet is still down 33.0% from one year ago. The Agriculture Momentum Index increased from 91.0 (revised) in September to 95.5 in October, a seven-month high. Although Broiler Exports declined 11%, Cattle Exports and National Average Temperature both rebounded last month. Overall, the Index's position continues to indicate weak or negative investment growth over the next three to six months.



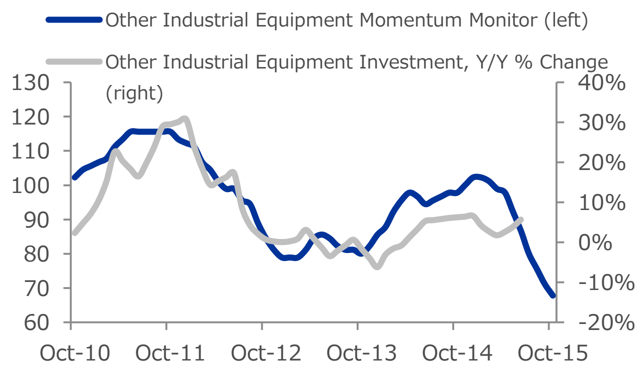
Construction Machinery: Investment in Construction Machinery declined at a 14.2% annual rate in Q2 2015 — the first decrease in six quarters — yet remains up 40.8% year-over-year. The Construction Momentum Index was unchanged at 94.3 (revised) from September to October, the lowest level since May 2014. Consumer Sentiment fell to a 12-month low in September, and Housing Starts declined 3.0% in August. However, Multi-family Permits increased following a drop last month. Overall, the Index's recent movement points to slower, yet still solid, growth over the next three to six months.



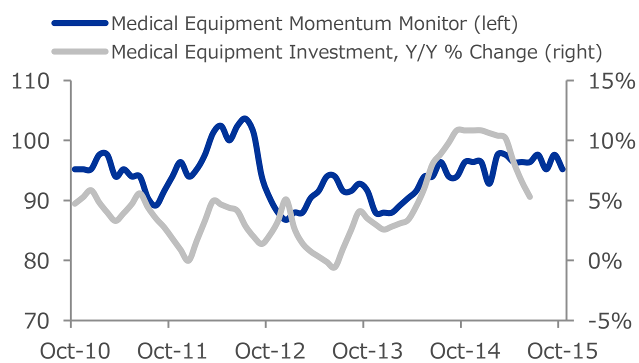
Materials Handling Equipment: Investment in Materials Handling Equipment rebounded at a 7.6% annual rate in Q2 2015 and is up 5.4% year-over-year. The Materials Handling Momentum Index fell from 68.1 (revised) in September to 64.9 in October, a post-recession low. Wholesale Machinery Sales climbed to a seven-month high, yet Economic Policy Uncertainty rose for the second straight month. The Index's recent trend continues to indicate that investment growth will likely slow over the next three to six months.



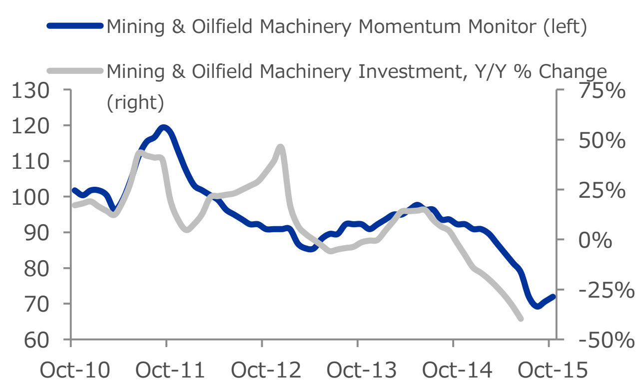
Other Industrial Equipment: Investment in All Other Industrial Equipment jumped at a 32.1% annual rate in Q2 2015, the fastest pace since Q3 2011, and is up 5.7% year-over-year. The Other Industrial Equipment Momentum Index dropped from 71.1 (revised) in September to 67.8 in October, its worst reading since December 2009. The MNI-Chicago Prices Production Index fell 15.4 points, and the ISM Manufacturing Index hit a two-year low in September. Overall, the Index continues to suggest that investment growth will slow over the next three to six months.



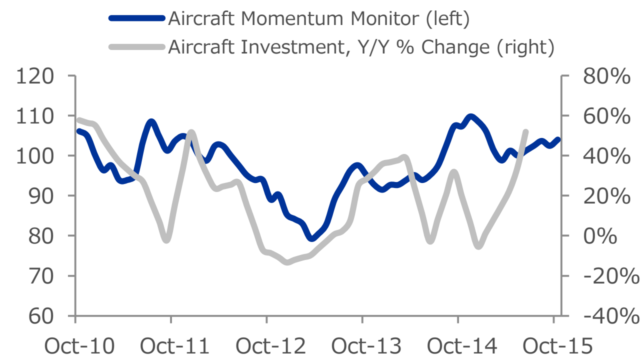
Medical Equipment: Investment in Medical Equipment contracted at a 3.5% annual rate in Q2 2015 — the first decline in two years — but remains up 5.3% year-over-year. The Medical Equipment Momentum Index decreased from 97.6 (revised) in September to 95.2 in October. Although Electro-medical Device Shipments rose 1.6%, the S&P Global Healthcare Index fell for the second straight month. Overall, the Index suggests that growth in medical equipment investment should stabilize over the next three to six months.



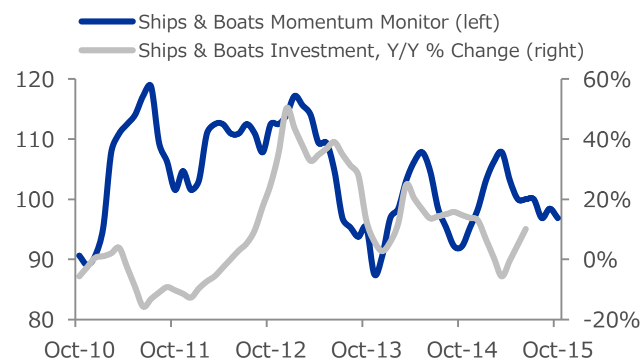
Mining & Oilfield Machinery: Investment in Mining & Oilfield Machinery plummeted at a 51.9% annual rate in Q2 2015, the second largest contraction since 2009, and is now down 39.7% year-over-year, the third consecutive decline. Following nine straight declines, the Mining & Oilfield Machinery Momentum Index ticked up from 70.6 (revised) in September to 71.9 in October. While the Oil Rig Count declined to a five-year low and the WTI Spot Price fell again, Natural Gas Industrial Production increased last month. The Index suggests continued weak investment over the next three to six months.



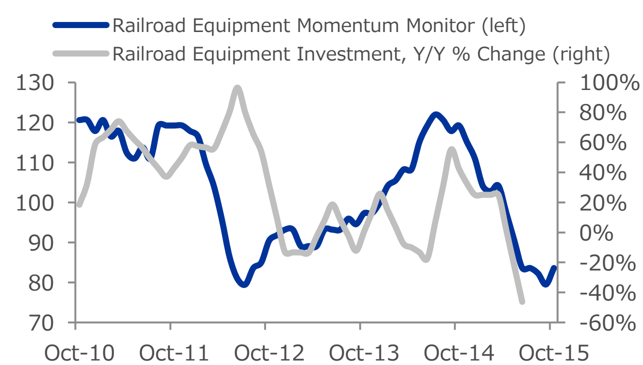
Aircraft: Investment in Aircraft expanded at a 5.8% annual rate in Q2 2015 and is up 52.0% on a year-over-year basis, an 18-quarter high. The Aircraft Momentum Index increased from 102.4 (revised) in September to 104.0 in October. A 5% gain in New Orders of Defense Aircraft offset drops in Computer Exports and U.S. Overseas Tourism. Overall, the Index's recent movement suggests solid aircraft investment growth over the next three to six months.



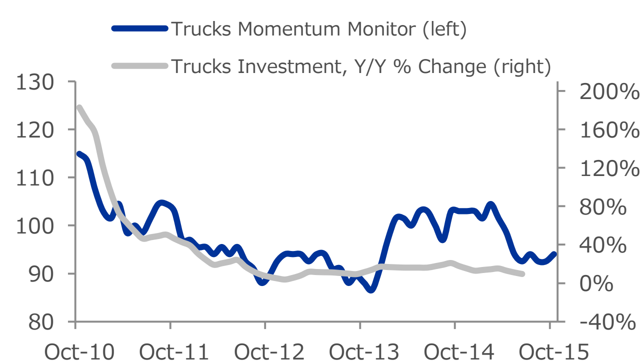
Ships & Boats: Investment in Ships & Boats increased at an annual rate of 19.2% in Q2 2015, and is up 10.1% year-over-year. The Ships & Boats Momentum Index slipped from 98.4 (revised) in September to 96.9 in October. Raw Steel Production fell more than 40%, while the ISM Manufacturing Employment Index decreased for the third straight month. Overall, the Index suggests steady or potentially slower investment growth over the next three to six months.



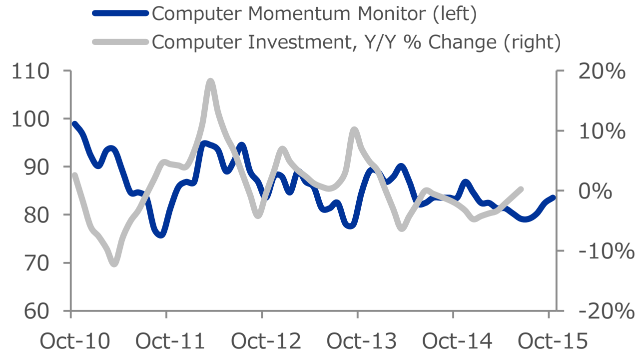
Railroad Equipment: Investment in Railroad Equipment dropped sharply at a 90.1% annual rate in Q2 2015, an all-time low, and is now down 46.3% year-over-year (also a new low). The Railroad Equipment Momentum Index increased from 79.5 (revised) in September to 83.6 in October, the first gain in seven months. Petroleum Carloads and Machine Tool Orders both declined, yet Mining Exports rebounded nearly 20%. Overall, the Index continues to indicate negative growth in railroad equipment investment over the next three to six months.



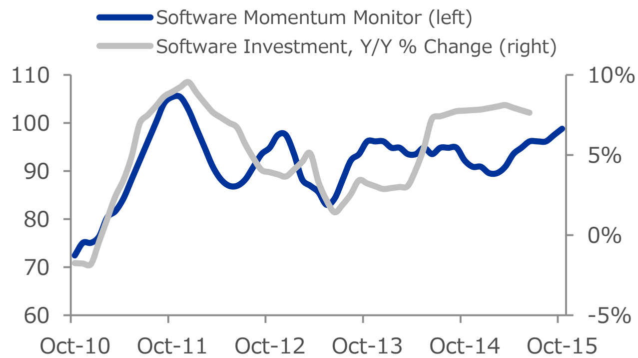
Trucks: Investment in Trucks increased at a 3.8% annual rate in Q2 2015 and is up 9.4% year-over-year, the slowest annual gain since Q4 2013. The Trucks Momentum Index ticked up from 92.5 (revised) in September to 94.0 in October. The Unemployment Rate held steady at a seven-year low in September, and Coal Production jumped 8%. However, Housing Starts fell 3.0% last month. Overall, the Index suggests that growth in truck investment should stabilize or potentially ease somewhat over the next three to six months.



Computers: Investment in Computers rebounded at an annual rate of 27.6% in Q2 2015, a 10-quarter high, and is now up 0.2% on a year-over-year basis. The Computers Momentum Index rose from 82.4 (revised) in September to 83.5 in October, its highest level since last December. New Orders of Electro-medical Instruments jumped nearly 4%, yet Capacity Utilization for Computer Equipment slipped. Overall, the recent movement of the Index points to a slight pickup in computer investment growth over the next three to six months.



Software: Investment in Software increased at a 5.9% annual rate in Q2 2015 and is up 7.6% year-over-year. The Software Momentum Index inched up from 97.5 (revised) in September to 98.8 in October, the highest level since early 2012. The ZEW Current Conditions Index rose 19%, and the Misery Index remained subdued. Overall, the Index suggests steady or modestly stronger 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	3.0%	-33.0%	-6 – 0%
Construction Machinery	7.9%	40.8%	7–12%
Materials Handling Equipment	2.7%	5.4%	-2 – 4%
Other Industrial Equipment	2.7%	5.7%	-2 – 6%
Medical Equipment	4.6%	5.3%	4–8%
Mining & Oilfield Equipment	13.0%	-39.7%	-8 – 0%
Aircraft	7.7%	52.0%	6–12%
Ships & Boats	5.3%	10.1%	6–12%
Railroad Equipment	13.1%	-46.3%	0–6%
Trucks	18.2%	9.4%	9–16%
Computers	6.6%	0.2%	4–8%
Software	4.3%	7.6%	4–8%

Source: Macrobond Financial, Keybridge (forecasts)

U.S. Capital Investment and Credit Markets

Growth in equipment and software investment decelerated in the second quarter, and some measures of business confidence dipped. A struggling energy sector, a strong dollar, mixed signals from manufacturing, and a spike in global economic uncertainty all held back business investment and — along with renewed political dysfunction — present potential obstacles in the coming months. However, barring a sharp negative turn in the world economy, we expect equipment investment to pick up somewhat during the second half of 2015.

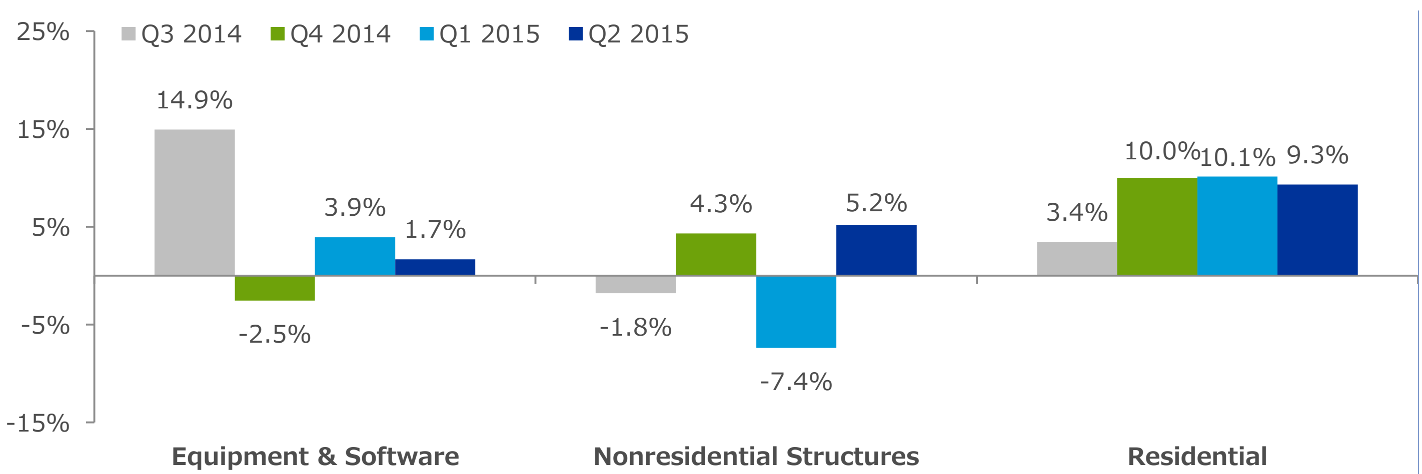
Gradual increases in credit supply and demand reflect a healthy U.S. credit system, and financial stress stayed low throughout the summer. Nervousness surrounding the global economy has emerged as an obstacle to confidence and borrowing, and this heightened uncertainty was a key factor influencing the Federal Reserve's decision to delay raising interest rates at its September meeting. The first interest rate hike is now expected in December 2015, but depending on global economic conditions, the Fed may postpone a rate increase until early 2016.

Recent Trends in U.S. Capital Investment

Equipment and Software Investment growth slowed from 3.9% in Q1 2015 to 1.7% in the second quarter, marking the third consecutive quarter of sub-5% growth. Residential Investment, however, maintained a robust pace, expanding 9.3% in Q2 after 10.1% growth in the first quarter. Investment in Nonresidential Structures grew 5.2% in Q2, following a 7.4% contraction the previous quarter.

Investment Growth Rates

Quarter-on-Quarter, Seasonally Adjusted Annualized Growth Rate



Source: Macrobond Financial

- **Equipment Leasing and Financing:** The equipment finance industry continued to expand this summer. The latest ELFA Monthly Leasing and Finance Index (MLFI-25) reported steady growth in new business volume; through August, new business volume is up 6.0% from 2014 levels, down slightly from last year's 8.1% pace. The charge-off rate remained near 0.2% for the 18th straight month, reflecting the industry's stellar portfolio performance. Meanwhile, the credit approval ratio rose to 79.3% in August, up from July's reading of 78.6%.

The Foundation's Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI) also pointed to generally positive conditions, yet hinted that uncertainty surrounding global growth is a significant concern. The confidence index jumped to 67.4 in August before easing to 61.1 in September — the lowest reading in nearly a year. Moreover, industry executives are less optimistic about the future; just 30% of respondents believe that demand for loans and leases will increase over the next four months, down from more than 40% in July. However, as noted in the Foundation's 2015 Q3 Economic Outlook, soft business investment has not significantly dampened industry confidence — suggesting that demand for financing has largely held steady even as the pace of overall capital expenditures has slowed. A rising propensity to finance is a key factor driving continued growth in the equipment finance industry; even as business investment faltered in early 2015, businesses' appetite for financing continued to expand.

- **Equipment Verticals:** Out of the 12 equipment software verticals tracked by the Foundation, Other Industrial Equipment investment posted the fastest growth in the second quarter. Investment in Other Industrial Equipment accelerated at a 32.1% annualized rate, its strongest pace in nearly four years. Railroad investment, on the other hand, plummeted at a 90.1% annualized rate and was the worst-performing vertical for the second straight quarter. Other key movements included a 27.6% jump in Computers investment (its fastest growth since 2012), the first contraction in Construction Machinery investment in six quarters, and the fourth consecutive contraction in Mining & Oilfield Machinery investment.
- **Other Factors:** After a weak start to 2015, the U.S. industrial sector has improved somewhat but remains on shaky ground. Following a string of declines, industrial production jumped 0.9% in July only to fall 0.4% in August. Similarly, capacity utilization increased 0.6 percentage points to 78.0% in July, only to fall back to 77.6% in August. Several headwinds — including low oil prices, a strong dollar, and economic struggles abroad — have been persistent barriers to business investment growth in 2015 and may continue to plague the industrial sector over the remainder of the year.

Recent Trends in Credit Markets

While uncertainty surrounding the global economy may be lessening businesses' appetite for investment and credit, U.S. credit markets continue to improve. Credit demand has steadily grown across households and businesses, with smaller firms driving business investment growth. Meanwhile, financial stress measures remain below-average, and loan and lease delinquency rates are hovering near multi-year lows. Looking forward, despite the possibility of continued turmoil in the global economy and brewing political battles (particularly about raising the debt ceiling), we expect the improving U.S. economy to drive gradual increases in credit supply and demand.

Summary of Credit Conditions

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

- **Credit Supply & Pricing:** The availability of credit has changed little since last quarter. The most recent Fed Loan Officer Survey reported a slight easing in lending standards for both commercial and industrial ("C&I") loans and consumer loans. Lending standards were generally unchanged for commercial real estate loans and eased somewhat for residential mortgages.
- **Credit Demand:** Demand for credit continues to increase across households and businesses. In the July Fed Loan Officer Survey, banks reported modestly stronger demand for C&I loans, along with greater demand for auto and credit card loans from consumers. In addition, C&I loans exhibited stable growth over the summer and, as of August, were up 11.0% year-on-year. Small businesses continue to drive investment growth.

The Thomson Reuters/PayNet Small Business Lending Index ("SBLI") climbed to an all-time high in June before slipping slightly in July, while the National Federation of Independent Business ("NFIB") Small Business Optimism Index is back at pre-recession levels. Large businesses, on the other hand, are more pessimistic. For example, the Business Roundtable CEO Economic Outlook Index has fallen from 90.8 in Q1 to 74.1 in Q3, and roughly one in five member companies plan to reduce capital spending in the next six months (nearly twice as many as the prior quarter).

- **Financial Stress:** Despite uncertainty stemming from global financial markets, financial stress remains muted. The Kansas City Fed Financial Stress Index has ticked up this summer, but continues to run below its long-term average. Similarly, the St. Louis Fed Financial Stress Index also suggests below-average stress. At the same time, delinquency rates among C&I loans and leases have hovered near 0.8% for over a year, well below the historical averages of 2.8% (loans) and 1.5% (leases). Businesses are also confident enough to take on more debt; as a share of GDP, corporate sector liabilities climbed to 69.7% in the second quarter.

- **Other Factors:** Economic tumult abroad has kept 10-year Treasury yields lower than expected this summer and into fall. Yields dipped to 2.0% in late August before recovering somewhat to 2.1% at the end of September. Given the ongoing uncertainty surrounding China's economy, 10-year Treasury yields are likely to remain low as capital leaves emerging markets and investors "flock to safety." Domestic events — including further delays in a Fed interest rate hike, soft economic data, and/or continued low inflation — could also restrain Treasury yields in coming weeks. At the same time, a healthier labor market and revived housing activity both signal strength in the U.S. economy, and this should prevent significant yield declines and could potentially lead to increases.

Update on Fed Policy

The Federal Open Market Committee ("FOMC"), the Fed's policymaking committee, maintained its zero interest rate policy in September, citing concerns about the global economy and world financial markets. Coming after months of debate, the Fed's decision to delay raising interest rates highlights the current level of uncertainty about growth prospects in China and elsewhere and suggests that Fed officials are waiting to see if recent economic events are temporary or the early signs of a broader slowdown. However, a dissent from Richmond Fed President Jeffrey Lacker — the first in six policy meetings — signals growing divisions within the FOMC over the path of interest rates. The FOMC has two more opportunities to raise short-term interest rates in 2015 during its October and December meetings, and 13 out of 17 Fed officials expect rates to increase by the year's end. While the timing of the Fed's first rate increase remains uncertain, we continue to expect a rate hike this year, as improvements in the domestic economy (particularly housing and consumer spending) outweigh headwinds from abroad.

Potential consequences of a Fed interest rate hike include increased market volatility, stock market declines, and further appreciation of the dollar — all of which could cause economic pain in the short term. However, a rate increase could also increase business 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 first rate increase could cause some firms to finally "pull the trigger" on major investment decisions before the Fed raises rates further.

OVERVIEW OF THE U.S. ECONOMY

The U.S. economy accelerated to 3.9% in the second quarter, marking robust expansion after a soft 0.6% growth rate in the first quarter. Strong consumer spending and solid housing activity fueled the Q2 turnaround, while net exports and government spending both rebounded after a weak first quarter. Several of the negative trends that hampered Q1 growth subsided in the second quarter, but a strong dollar and struggling energy sector remain headwinds. These two factors also continue to suppress inflation, as consumer prices are up only 0.2% year-on-year. At the same time, nonfarm payrolls have averaged a solid 197,000 net jobs created per month in 2015, but disappointing data in both August and September suggest the pace of job growth could be slowing.

Heightened uncertainty in the world economy and subsequent nervousness in financial markets have recently emerged as the central threats to faster growth in the U.S. However, emerging strength in housing activity, robust consumer spending, and a still-health labor market are driving continued improvement in the U.S. economy.

Overall, we expect the U.S. economy to grow 2.6% in 2015 — slightly above consensus estimates.

Recent Trends in the U.S. Economy

A weak start to 2015 virtually assures that annual growth will be below the long-term historical average of 3.0%. However, the economy is now regaining its footing and several key sectors have taken a positive turn. Inflation remains modest due to low oil prices and a strong dollar, and the global economy may be the chief obstacle to faster growth later this year.

- **Q2 GDP:** The U.S. economy expanded at a solid 3.9% annual rate in the second quarter of 2015, marking a turnaround from Q1's sluggish 0.6% growth. Consumer spending led growth in Q2, accelerating from 1.8% to 3.6%, while housing activity maintained strong growth. After contracting in the first quarter, net exports and government spending both rebounded. Specifically, state & local government spending jumped 4.3% (a nearly 15-year high), and net exports were a small but positive contributor to GDP (0.18 percentage point) after shaving nearly two full percentage points off growth in the first quarter.

Indicator	Recent Activity
Consumption	Consumer spending growth picked up from 1.8% in Q1 to 3.6% in Q2
Equipment & Software Investment	Equipment & Software Investment increased 1.7%, down from 3.9% in the first quarter
Residential Investment	Residential Investment expanded 9.3%, the third straight quarter of solid growth
Government Expenditures	Government expenditures increased 2.6% following two contractions
Net Exports	Exports rebounded 5.1%, while Import growth slowed from 7.1% to 3.0%

- **Inflation:** Inflation remains muted, largely due to depressed oil prices. The Consumer Price Index ("CPI") rose for six consecutive months before slipping 0.1% in August as gasoline prices dropped 8.1%. On a year-over-year basis, CPI inflation was up 0.2% in August — matching July's rate. Meanwhile, core CPI — which excludes the volatile food and energy components — was up 1.8% year-on-year in August and indicates modest underlying inflation pressures.

  Going forward, three factors will continue to guide inflation: (1) the trajectory of oil prices; (2) the strength of the dollar, which exerts downward pressure on import prices; and (3) wage growth. With respect to oil, prices have risen somewhat after falling below $40 in late August, but an excess global oil supply is likely to keep prices low in the coming months. Similarly, the U.S. dollar is unlikely to weaken in the near future in light of global growth concerns and the resulting trend of investors fleeing emerging markets in favor of U.S. Treasuries. Finally, wages continue to stagnate, as growth registered just 2.2% year-over-year in September.

- **Growth Forecasts:** The September *Economist* Poll of Forecasters calls for 2.4% GDP growth in 2015, unchanged from August's average. The Federal Reserve's September "central tendency" forecast for growth is in the range of 2.0% – 2.3%, up from its 1.8 – 2.0% projection in June.

Economic Tailwinds

The following trends led the pick-up in second quarter growth and will continue to drive economic momentum in coming months:

- **Consumer Optimism:** Despite uncertainty in the world economy, consumer confidence and spending improved over the summer. The Conference Board's Consumer Confidence Index rose 1.7 points in September to 103.0, an eight-month high. Meanwhile, several household spending indicators have recently increased: retail sales rose 0.7% in July and 0.2% in August, personal consumption expenditures increased 0.3% in July and 0.4% in August, and auto sales have maintained a booming, 17+ million annual pace since May and climbed above 18 million in September. Lastly, improved confidence is leading to consumers taking on more debt, as consumer credit increased at a 6.7% annual rate in July. Labor market gains and low fuel prices should keep confidence elevated and encourage spending this fall. However, concerns over the global economy and political infighting over the debt ceiling and other issues in the weeks and months ahead are key risks to watch and could negatively affect consumers' economic outlook and confidence.

- **Housing Revival:** The U.S. housing market is finally gaining its footing and transitioning into a significant growth driver. Recent data has been positive across several indicators. Housing starts climbed to an eight-year high in July (before slipping in August), construction spending rose 0.7% in August to a post-recession high, and the National Association of Home Builders ("NAHB") Housing Market Index (a measure of home builder optimism) recently reached its highest level in nearly a decade. At the same time, steady gains in employment and confidence have spurred an acceleration in household formation. Relative to the previous seven-year average, year-on-year household growth has tripled since the end of 2014. As household formation expands, demand for new homes, construction employment, and construction equipment should similarly increase.

- **Labor Market (*Fading Tailwind?*):** Steady growth in the labor market has continued to fuel an improving economy throughout the year, and 2015 is on track to be another solid year of hiring. The unemployment rate remained at 5.1% in September (a seven-year low), job openings climbed to a new high of 5.75 million in July, and initial claims for unemployment insurance continue to hover well below 300,000. At the same time, two consecutive months of disappointing job growth suggest that the labor market's momentum could be fading. After averaging 215,000 jobs per month through July, the economy added just 136,000 and 142,000 jobs in August and September. Going forward, employment data from October – December should clarify whether recent data are merely anomalies or indicative of a broader hiring slowdown.

Economic Headwinds

While the economy is now on more solid ground, several headwinds could limit growth. Specifically:

- **Global Growth Pains:** Led by China's worsening slowdown, the world economy has faltered this summer and could hold back U.S. export growth and confidence. The latest manufacturing PMI indicated contraction in China's industrial sector, while Chinese exports fell 5.5% (year-on-year) in August following an 8.3% drop in July. Moreover, the Chinese stock market plummeted this summer and sent ripples through global financial markets. Due to subdued oil prices and lower demand from China, major commodity producers — such as Brazil, Australia, and Canada — are also faltering. However, the direct consequences of a Chinese slowdown are limited for the United States, as only 7% of U.S. exports go to China.
- **Nervous Financial Markets:** The swirl of global economic pessimism is hitting stock markets in the U.S. and elsewhere. Spurred largely by negative Chinese data, this cycle of bad psychology and declining confidence has caused the Dow Jones Industrial Average to fall roughly 2,000 points since mid-July — equivalent to around $2 trillion in market cap. A negative "wealth effect" could potentially exacerbate this loss, as a sustained stock market drops could take a bite out of consumer spending in coming months. Indeed, the potential for reduced domestic spending caused by lost consumer confidence poses a greater threat to U.S. growth than does the direct effect of reduced exports to China. However, the impact of recent stock market declines is largely uncertain, and the jury is still out on whether financial markets will bounce back. The next few weeks should provide insight on the magnitude of recent anxiety in financial markets and the corresponding effect this anxiety will have on U.S. economic growth.
- **(Still) Struggling Energy Sector:** A global oversupply of oil pushed prices further down this summer, preventing a turnaround in the energy sector and putting oil-producing states like Oklahoma and Texas on the brink of recession. The West Texas Intermediate ("WTI") crude oil price dropped below $40 in late August (its lowest level since 2009) and is now down 50% below last October's levels. Reflecting continued low prices, the oil rig count is more than 60% below last October's high and, after a brief reprieve, has begun to decline again in recent weeks. While the outlook for oil prices is uncertain, several factors could keep the global oil supply high — and prices low — in coming months. For example, the Iran deal's implementation could result in nearly a million barrels per day of additional oil onto the global market. Meanwhile, China, Argentina, and other countries are beginning to produce shale oil through hydraulic fracturing, and unconventional oil producers in the U.S. are finding ways to extract oil more efficiently (thus lowering their "break-even" point and allowing them to continue producing even in a low-price environment).

Additional Factors to Watch

In addition to the major themes impacting the economy in 2015, there are several other trends to watch. In particular, two factors — one global, one domestic — are major risks to stronger growth this year, and the outlook for U.S. manufacturing is uncertain:

- **Global Economic Turbulence:** While the Greece debt crisis has faded (for now), the Chinese slowdown is the dominant international economic story and threatens to cause a downward spiral of the global economy. A "hard landing" for China would primarily harm commodity producers like Brazil and Chile, as well as its Asian neighbors who depend heavily on China for trade. However, a severe deceleration in Chinese growth would also further dampen U.S. exports, particularly in the oil and manufacturing industries. In addition, a China "contagion" effect, additional tumult in global financial markets, and heightened uncertainty all could damage business confidence and discourage investment and expansion.

- **Mixed Manufacturing Outlook:** U.S. manufacturing was a chief cause of weak economic growth in early 2015, as key indicators posted persistent declines due to a combination of low oil prices, a strong dollar, and slower international growth. A manufacturing turnaround, however, appeared imminent earlier this summer after industrial production jumped 0.9% in July. More recent data releases have presented a more mixed outlook for manufacturing. For example, industrial production fell 0.4% in August, while durable goods orders fell 2.0% in August, offsetting a similar gain in July. Going forward, a Chinese hard landing (and its knock-on effects around the world) could lead to continued weakness for the industrial sector. Conversely, an upswing in the U.S. economy and more stability in the global economy could put manufacturing back on track to gradual recovery.

- **Political Dysfunction / Government Shutdown Scares:** Policy battles over Planned Parenthood funding, the Iran nuclear deal, EPA regulations, and the debt ceiling (to name just a few) threaten a resurgence in political dysfunction and domestic policy uncertainty. The ramping up of the 2016 election may discourage compromise between Republicans and Democrats, and this could carry significant economic consequences — particularly if Congress is unable to come to an agreement on funding the government for 2016 or raising the debt limit. Overall, a lack of confidence in the federal government and uncertainty surrounding key legislation could lower capital expenditures by businesses. Indeed, Speaker Boehner's recent decision to retire at the end of October suggests that bruising political battles lie ahead.

Projections for Key Economic Indicators

Indicator	2013	2014	2015 Quarterly Estimates				2015e
			Q1	Q2	Q3e	Q4e	
Real GDP (SAAR %)	1.5%	2.4%	0.6%	3.9%	2.7%	2.8%	2.6%
Real Investment in Equipment & Software (SAAR %)	3.2%	6.0%	3.9%	1.7%	5.8%	5.6%	4.1%
Inflation (year-on-year %)	1.5%	1.6%	-0.1%	0.0%	0.3%	1.2%	0.4%
Federal Funds Target Rate (lower bound, end of period)	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.25%
10-year Treasury Rate (end of period)	2.9%	2.2%	1.9%	2.4%	2.1%	2.6%	2.6%
Total Payroll Growth (in thousands)	+2,331	+3,116	+586	+692	+501	+610	+2,389

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	2013			2014				2015	
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Real Gross Domestic Product (SAAR %)									
GDP	1.1%	3.0%	3.8%	-0.9%	4.6%	4.3%	2.1%	0.6%	3.9%
Consumer Spending	1.4%	1.7%	3.5%	1.3%	3.8%	3.5%	4.3%	1.8%	3.6%
Gross Private Fixed Investment	5.2%	13.7%	4.2%	-2.5%	12.6%	7.4%	2.1%	8.6%	5.0%
Inv: Equipment & Software	-2.6%	-1.1%	12.4%	4.6%	6.8%	14.9%	-2.5%	3.9%	1.7%
Inv: Agricultural Machinery	-47.2%	-62.1%	425.2%	-48.5%	-53.9%	185.6%	-93.5%	-0.4%	8.6%
Inv: Construction Machinery	-14.2%	-8.8%	-19.5%	22.7%	16.1%	41.2%	143.2%	33.2%	-14.2%
Inv: Materials Handling Equipment	-6.0%	2.7%	7.9%	25.1%	16.9%	16.3%	4.7%	-5.8%	7.6%
Inv: All Other Industrial Equipment	-10.5%	1.1%	-12.0%	21.8%	13.5%	4.2%	-10.4%	1.2%	32.1%
Inv: Medical Equipment	-2.9%	5.3%	3.9%	7.5%	15.7%	16.8%	3.9%	5.0%	-3.5%
Inv: Mining & Oilfield Machinery	19.1%	31.9%	-0.2%	7.4%	22.6%	-9.9%	-53.8%	-33.8%	-51.9%
Inv: Aircraft	46.8%	26.6%	228.2%	-39.2%	-64.9%	332.6%	-13.5%	34.8%	5.8%
Inv: Ships & Boats	-6.2%	22.5%	-6.8%	126.8%	-35.5%	31.8%	-15.5%	10.4%	19.6%
Inv: Railroad Equipment	359.1%	-76.8%	-54.3%	-55.5%	191.4%	190.7%	-34.9%	-55.7%	-90.1%
Inv: Trucks	27.3%	-4.1%	24.4%	19.6%	27.2%	12.6%	-5.2%	29.5%	3.8%
Inv: Computers	-15.3%	10.3%	9.8%	-25.0%	10.1%	3.6%	-3.7%	-20.6%	27.6%
Inv: Software	-8.1%	8.1%	5.1%	8.1%	7.8%	10.0%	5.5%	9.2%	5.9%
Credit Conditions									
Nonfinancial Sector Debt (% of SAAR GDP)	66.7%	66.9%	66.7%	67.5%	67.2%	67.3%	68.2%	69.2%	69.7%
Loan Delinquency Rate	1.0%	1.0%	0.9%	0.9%	0.8%	0.8%	0.7%	0.8%	0.8%
Lease Delinquency Rate	0.9%	0.9%	0.9%	0.8%	0.7%	0.8%	0.7%	0.7%	0.8%
Net Tightening of C&I Loan Standards	-19.1%	-18.1%	-8.3%	-13.7%	-11.1%	-10.7%	-10.5%	-5.5%	-5.3%

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								
	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept
Employment													
Change in Total Payrolls (thousands)	250	221	423	329	201	266	119	187	260	245	223	136	142
Change in Private Payrolls (thousands)	235	218	414	319	202	261	117	189	252	218	195	100	118
Unemployment Rate	5.9%	5.7%	5.8%	5.6%	5.7%	5.5%	5.5%	5.4%	5.5%	5.3%	5.3%	5.1%	5.1%
Business Activity													
Industrial Production	106.7	106.8	107.8	107.9	107.6	107.4	107.2	107.0	106.6	106.6	107.5	107.1	-
Capacity Utilization	78.5%	78.5%	79.0%	79.0%	78.7%	78.4%	78.2%	77.9%	77.5%	77.4%	78.0%	77.6%	-
PMI Composite Index	56.1	57.9	57.6	55.1	53.5	52.9	51.5	51.5	52.8	53.5	52.7	51.1	50.2
NFIB Small Business Optimism Index	95.3	96.1	98.1	100.4	97.9	98.0	95.2	96.9	98.3	94.1	95.4	95.9	-
Consumer Activity													
Consumer Confidence	89.0	94.1	91.0	93.1	103.8	98.8	101.4	94.3	94.6	99.8	91.0	101.5	103.0
Personal Consumption (M/M % Chg)	0.1%	0.4%	0.4%	0.2%	0.1%	0.0%	0.3%	0.3%	0.6%	0.1%	0.3%	0.4%	-
Retail Sales (M/M % Chg)	-0.2%	0.4%	0.5%	-0.9%	-0.8%	-0.5%	1.5%	0.0%	1.2%	0.0%	0.7%	0.2%	-
Lending Activity													
C&I Loans (M/M % Chg)	0.7%	0.4%	1.1%	1.1%	0.9%	1.1%	1.6%	0.7%	0.7%	1.1%	0.6%	0.7%	-
MLFI-25 New Business Volume (Bil.$)	9.6	8.4	6.9	13.1	6.8	6.2	9.1	8.3	7.3	9.7	8.4	6.9	-
MLFI-25 Avg Losses as a % of Net Rec.	0.21%	0.15%	0.17%	0.23%	0.16%	0.22%	0.20%	0.19%	0.23%	0.22%	0.19%	0.22%	-
MLFI-25 Credit Approval Ratio	79.4%	77.9%	78.7%	78.9%	77.6%	77.8%	78.3%	78.3%	78.9%	79.0%	78.6%	79.3%	-
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	-
1-Year Treasury Rate	0.11	0.10	0.13	0.21	0.20	0.22	0.25	0.23	0.24	0.28	0.30	0.38	0.37
3-Year Treasury Rate	1.05	0.88	0.96	1.06	0.90	0.99	1.02	0.87	0.98	1.07	1.03	1.03	1.01
10-Year Treasury Rate	2.53	2.30	2.33	2.21	1.88	1.98	2.04	1.94	2.20	2.36	2.32	2.17	2.17
30-Year Treasury Rate	3.26	3.04	3.04	2.83	2.46	2.57	2.63	2.59	2.96	3.11	3.07	2.86	2.95
AAA Corporate Bond Yield	4.11	3.92	3.92	3.79	3.46	3.61	3.64	3.52	3.98	4.19	4.15	4.04	4.07
BAA Corporate Bond Yield	4.80	4.69	4.79	4.74	4.45	4.51	4.54	4.48	4.89	5.13	5.20	5.19	5.34
Prices													
Headline Inflation (Y/Y % Chg)	1.7%	1.7%	1.3%	0.8%	-0.1%	0.0%	-0.1%	-0.2%	0.0%	0.1%	0.2%	0.2%	-
Core Inflation (Y/Y % Chg)	1.7%	1.8%	1.7%	1.6%	1.6%	1.7%	1.8%	1.8%	1.7%	1.8%	1.8%	1.8%	-
Oil Price (West Texas Int., $/barrel)	91.17	80.53	65.94	53.45	47.79	49.84	47.72	59.62	60.25	59.48	47.11	49.20	45.06

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 Q4 report is the third update to the 2015 Annual Outlook, and will be followed by the 2016 Annual Outlook in December. 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.

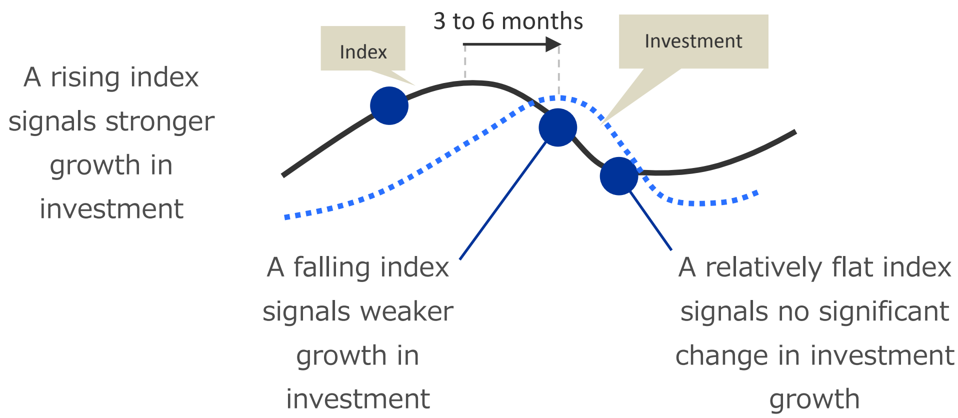
The Momentum Monitor is based on Keybridge's extensive research which shows that not all movements in economic data are reliable signals of future economic trends. Keybridge has operationalized its research by constructing indices, each comprised of between 10 to 20 high-frequency indicators. These indicators 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.

Momentum Monitor Signals



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. The Materials Handl 2 Momentum Index slipped from 93.5 in February to 92.5 in March. 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.

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 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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