

August 2018

U.S. Equipment & Software Investment Momentum Monitor



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About the U.S. Equipment & Software Investment Momentum Monitor

Business leaders require actionable forward-looking intelligence to make strategic decisions. Accordingly, the Equipment Leasing & Finance Foundation commissioned Keybridge LLC to develop a series of custom leading indicators for the equipment sector. Published monthly, the “U.S. Equipment & Software Investment Momentum Monitor” consists of indices for the 12 equipment and software investment verticals listed below. These indices are designed to identify turning points in their respective investment cycles with a 3 to 6 month lead time.

The Momentum Monitor is based on Keybridge’s extensive research which shows that not all movements in economic data are reliable signals of future economic trends. Keybridge has operationalized its research by constructing indices, each comprised of between 10 to 20 high-frequency indicators. These indicators undergo rigorous testing to determine the optimal thresholds at which their short-term fluctuations are economically meaningful. In simpler terms, the Momentum Monitor sifts out the “noise” in the data and identifies the dominant trends. As a result, each Momentum Monitor index is statistically optimized to signal turning points in the investment cycle without giving false readings of shifts in momentum.

The Momentum Monitor covers 12 equipment and software verticals as defined by the U.S. Department of Commerce Bureau of Economic Analysis.

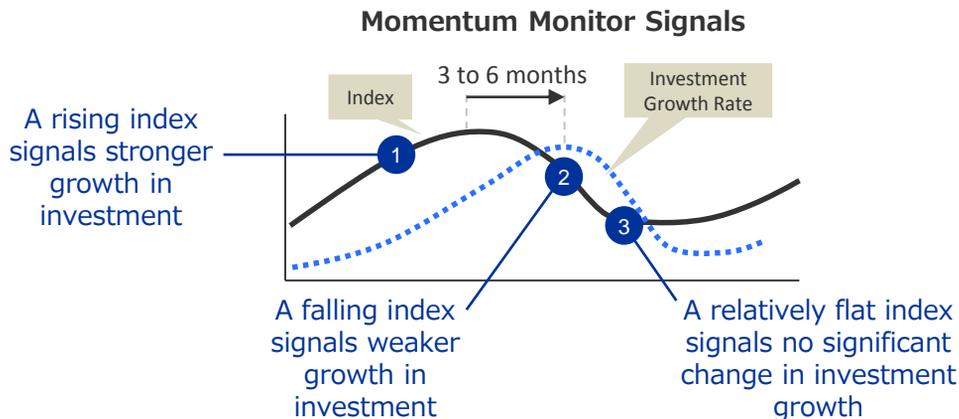
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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|-----------------------------------|-----------------------|
| 1) Agriculture Machinery | 7) Aircraft |
| 2) Construction Machinery | 8) Ships and Boats |
| 3) Materials Handling Equipment | 9) Railroad Equipment |
| 4) All Other industrial Equipment | 10) Trucks |
| 5) Medical Equipment | 11) Computers |
| 6) Mining & Oilfield Machinery | 12) Software |

How to Read the Monitor

Each Momentum Monitor index provides a signal of the direction and magnitude of growth in equipment investment over the next 3 to 6 months. It is important to note that index values do not correspond to particular growth rates. Instead, the Momentum Monitor indices should be interpreted within the context of prior index readings and investment growth rates. For example, there are several simple rules to follow when examining the latest index values:

- 1) A rising index signals that growth in investment will accelerate from the current rate;
- 2) A falling index signals that growth in investment will decelerate from the current rate; and
- 3) No change in the index signals no meaningful change from the current growth rate.



To help the reader interpret the latest Momentum Monitor signals, a summary report for each equipment vertical follows a specific outline:

Materials Handling Equipment:

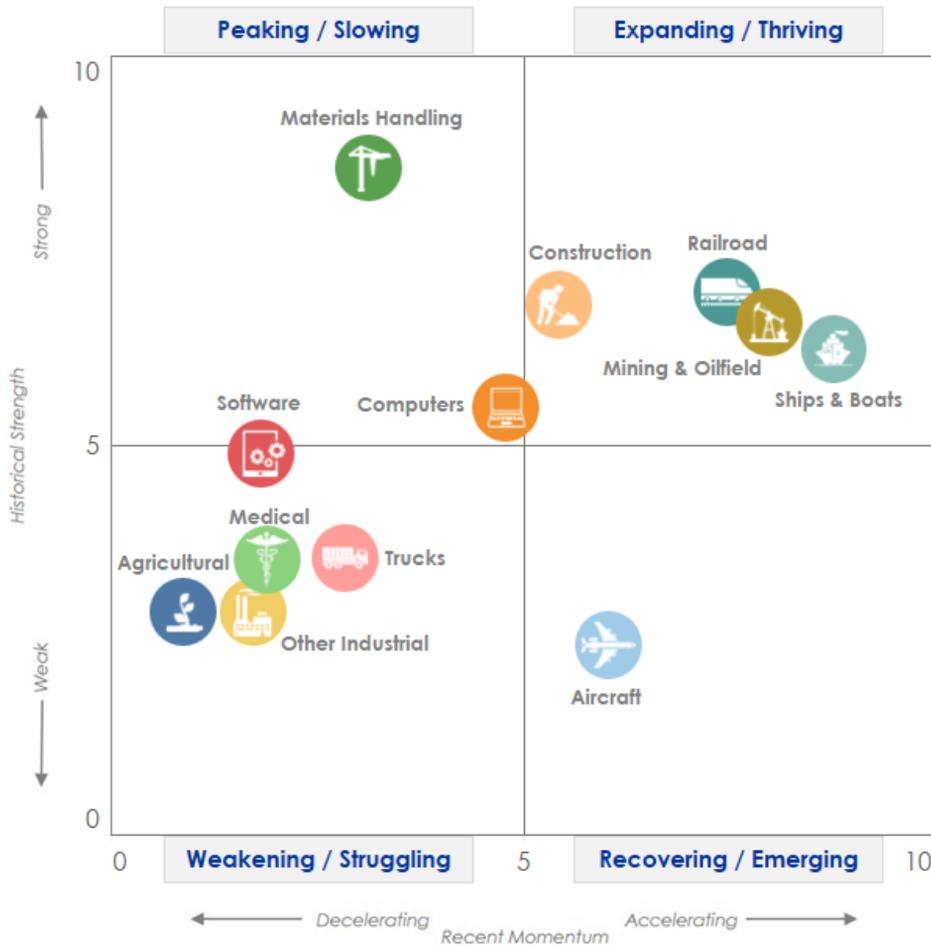
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy Uncertainty offset gains in Machinery Sales, Manufacturing Sales, and the ISM Manufacturing Suppliers Deliveries Index.
- 4 The Index's recent trend continues to indicate that growth may moderate over the next three to six months.

- 1) The first sentence reports the latest growth rate for investment in a given vertical. This provides a context for interpreting the order of magnitude of growth over the next 3 to 6 months.
- 2) The second sentence explains the latest movement in the index, indicating whether momentum is accelerating or decelerating.
- 3) The report then describes the recent movements of one or more indicators to help to explain the index's latest reading.
- 4) Finally, the report ends with an interpretation of where investment growth is heading over the next 3 to 6 months based the index's recent movement and historical strength.

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Momentum Monitor Sector Matrix



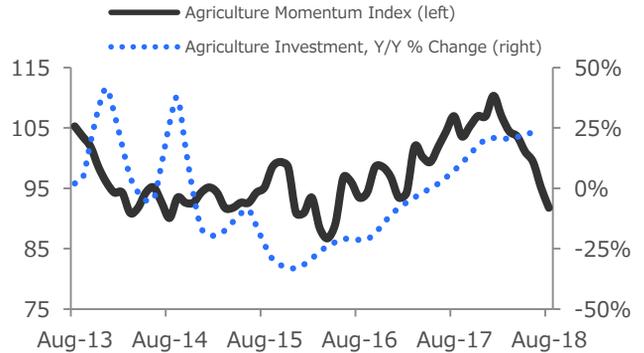
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"Recent Momentum"** represents the degree of an indicator's recent acceleration or deceleration in the past month relative to its average movement during the previous 3 months. Ratings closer to "0" represent an indicator that is rapidly decelerating, while ratings closer to "10" represent an indicator that is rapidly accelerating.
- **"Historical Strength"** represents the strength or weakness of an indicator in the past month relative to its typical level since 1999. Ratings closer to "0" represent an indicator that is weaker than average, while ratings closer to "10" represent an indicator that is stronger than average.

The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting that investment levels may fall over the next 1-2 quarters. Verticals located in the bottom-right quadrant, however, have momentum readings that are below average, but recent movement shows promise — suggesting that investment levels may rise over the next 1-2 quarters. This makes them potentially attractive targets for new short-term leasing and finance opportunities.

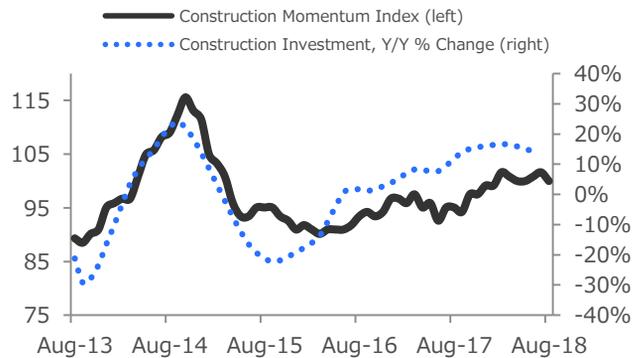
Agriculture Machinery:

Investment in Agricultural Machinery jumped 36% (annualized) in Q2 2018 and is up 23% from one year ago. The Agriculture Momentum Index fell from 95.2 (revised) in July to 91.8 in August, its seventh consecutive decrease. Broiler Exports fell 6.0% in May, while Lamb & Mutton Production declined 8.2% in June. Overall, the Index suggests that agricultural machinery investment growth will likely soften over the next three to six months.



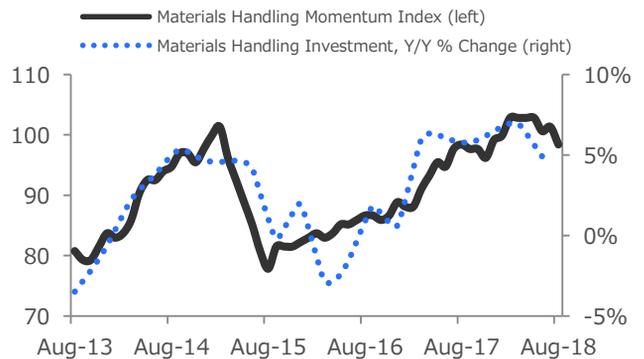
Construction Machinery:

Investment in Construction Machinery expanded at an 8.0% annual rate in Q2 2018 and is up 14% year-over-year. The Construction Momentum Index fell slightly from 101.6 (revised) in July to 100.0 in August. In June, Real Consumer Spending rose 0.3%, its fourth straight increase, while Existing Homes For Sale expanded 4.3%. Overall, the Index points to steady growth in construction machinery investment over the next three to six months.



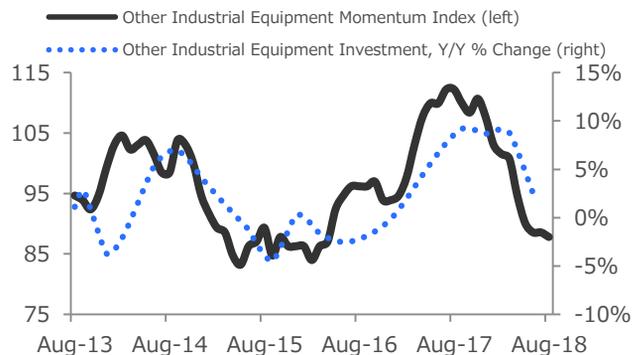
Materials Handling Equipment:

Investment in Materials Handling Equipment edged up at a 0.4% annual rate in Q2 2018 and is up 4.9% year-over-year. The Materials Handling Momentum Index declined from 101.3 (revised) in July to 98.4 in August. Primary Energy Consumption fell 9.0% in April, and Imports of Materials Handling Equipment declined 7.1% in May. Overall, the Index suggests that materials handling equipment investment should remain positive over the next two quarters, though the growth rate may have peaked earlier this year.



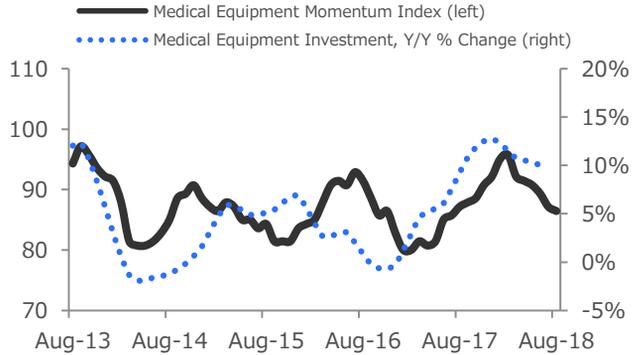
Other Industrial Equipment:

Investment in All Other Industrial Equipment declined at an 8.3% annual rate in Q2 2018 and is up just 2.4% from a year ago. The Other Industrial Equipment Momentum Index edged down from 88.5 (revised) in July to 87.8 in August. Inventories of Machinery fell 0.3% in June, while the Manufacturing PMI decreased 3.5% in July, its sharpest decline since August 2016. Overall, the Index indicates that growth in other industrial equipment investment is likely to weaken further over the next three to six months.



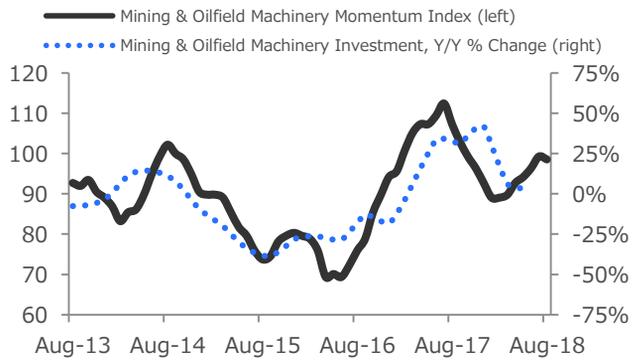
Medical Equipment:

Investment in Medical Equipment expanded at a 5.2% annual rate in Q2 2018 and is up 10% year-over-year. The Medical Equipment Momentum Index edged down from 87.1 (revised) in July to 86.4 in August. Personal Spending on Medical Products rose 1.7% in June, but Medtronic's Market Cap declined 1.0%. Overall, the Index points to a moderation in medical equipment investment growth over the next two quarters.



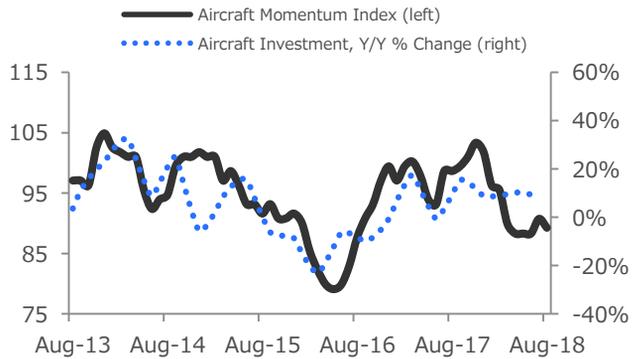
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery increased at a 29% annual rate in Q2 2018 and is up 4.2% year-over-year. The Mining & Oilfield Machinery Momentum Index ticked down from 99.3 (revised) in July to 98.5 in August. New Orders of Mining, Oil, & Gas Field Machinery declined 9.9% in June, but Cooling Degree Days rose 42% in July. Overall, the Index signals an improvement in mining & oilfield machinery investment over the next three to six months.



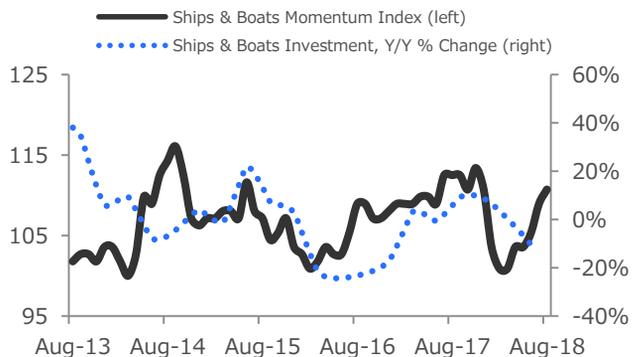
Aircraft:

Investment in Aircraft fell 9.0% (annualized) in Q2 2018 but is up 9.3% on a year-over-year basis. The Aircraft Momentum Index declined from 90.7 (revised) in July to 89.3 in August. Industrial Production for Aircraft & Parts rose 1.2% in June, but Unfilled Orders for Defense Aircraft & Parts jumped 3.2%, its strongest growth since November 2016. Overall, the Index suggests stable growth in aircraft investment over the next two quarters.



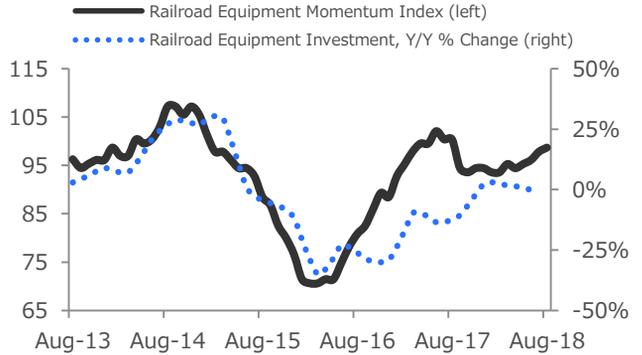
Ships & Boats:

Investment in Ships & Boats declined at an annual rate of 38% in Q2 2018 and is down 11% year-over-year. The Ships & Boats Momentum Index increased from 108.9 (revised) in July to 110.7 in August. Inventories of Ships & Boats rose 1.2% in June, while the ISM Employment Index climbed to 56.5 in July, remaining well above the expansionary threshold. Overall, the Index indicates that investment growth in ships and boats is likely to rebound in the next three to six months.



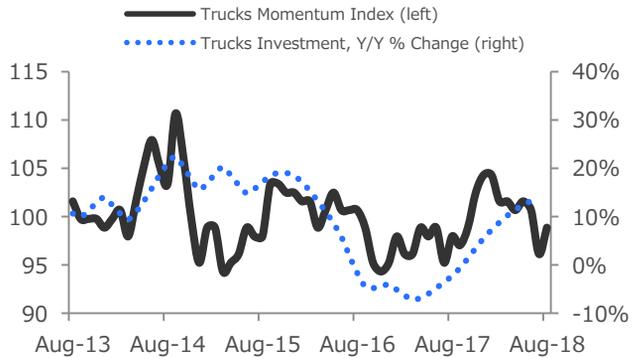
Railroad Equipment:

Investment in Railroad Equipment declined at a 24% annual rate in Q2 2018 and is down 0.3% year-over-year. The Railroad Equipment Momentum Index edged up from 97.8 in July to 98.7 in August. Mining Exports rose 3.5% in June, the fifth straight increase, while Industrial Production for Mining rose 1.2%. Overall, the Index suggests that momentum may be building in railroad equipment investment, and a modest improvement in investment growth is possible over the next two quarters.



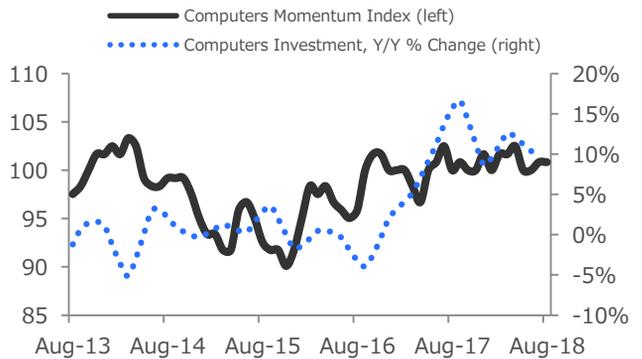
Trucks:

Investment in Trucks rose at a 10% annual rate in Q2 2018 and is up 13% from year-ago levels. The Trucks Momentum Index increased from 96.1 (revised) in July to 98.9 in August. Gas & Diesel Oil Production rose 2.2% in May, but Average Hourly Earnings for Freight Trucking rose 0.7% in June, its strongest gain in 10 months. Overall, movement in the Index in recent months points to a potential softening in trucks investment over the next three to six months.



Computers:

Investment in Computers increased at an annual rate of 19% in Q2 2018 and is up 10% year-over-year. The Computers Momentum Index held steady at 100.8 from July to August. Defense Communication Equipment Shipments expanded 10% in June, while Shipments of Communication Equipment rose 3.0%. Overall, the Index points to stable growth in computers investment over the next two quarters.



Software:

Investment in Software rose at a 6.6% annual rate in Q2 2018 and is up 8.2% year-over-year. The Software Momentum Index fell from 94.2 in July to 91.7 in August. In June, Small Business Optimism fell 0.6%, while Shipments of Computers and Related Products fell 3.9%. Overall, the Index points to decreasing software investment growth over the next three to six months.

