

September 2023

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 an approximate 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 10–20 high-frequency indicators. These indicators undergo rigorous testing to determine the optimal thresholds at which their short-term fluctuations are economically meaningful. In simpler terms, the Momentum Monitor sifts out the “noise” in the data and identifies the dominant trends. As a result, each Momentum Monitor index is statistically optimized to signal turning points in the investment cycle without giving false readings of shifts in momentum.

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

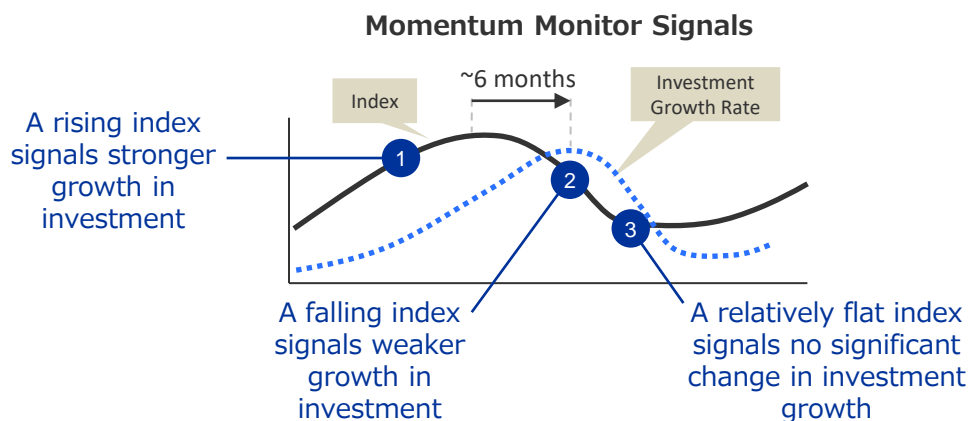
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

How to Read the Monitor

Each Momentum Monitor index provides a signal of the direction and magnitude of growth in equipment investment over the next six 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:

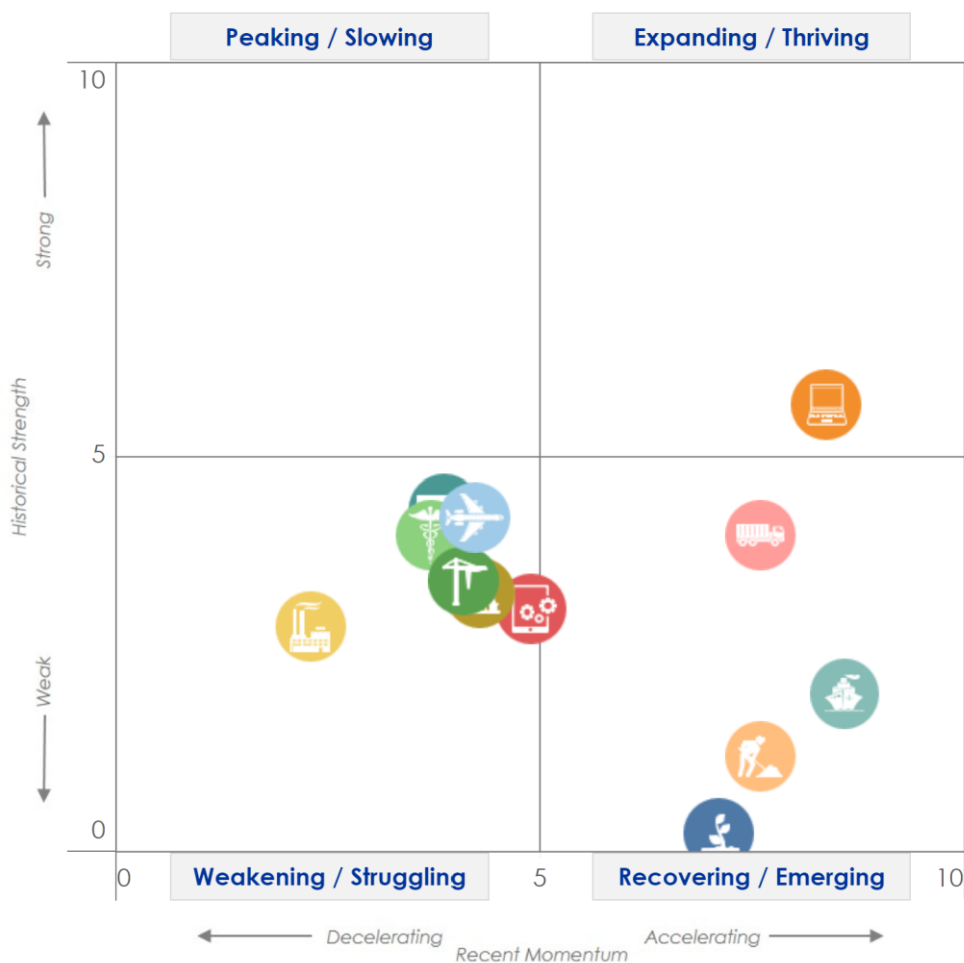
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in May to 92.5 in May.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy Uncertainty 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 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 six 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 six months based the index's recent movement and historical strength.

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Momentum Monitor Sector Matrix



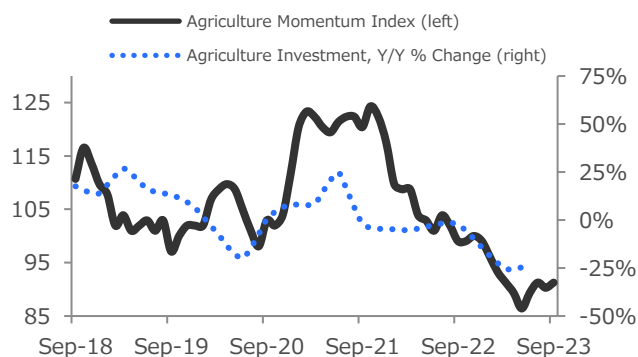
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

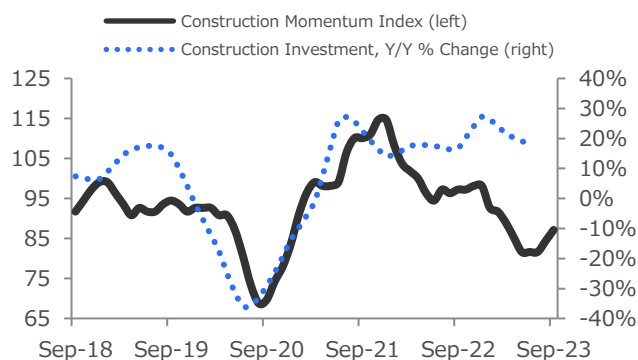
The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting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

Agriculture Machinery:

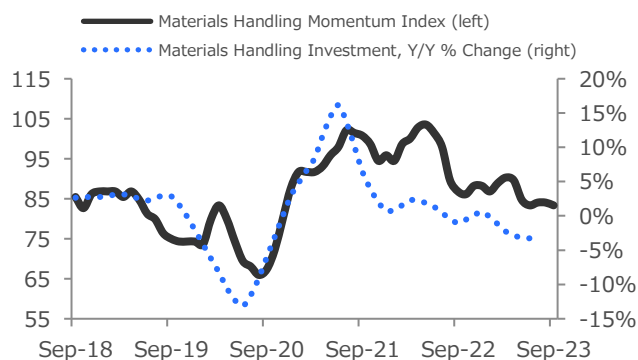
Investment in Agricultural Machinery improved 28% (annualized, revised) in Q2 2023 but was still down 23% (revised) compared to a year ago. The Agriculture Momentum Index increased from 90.3 (revised) in August to 91.3 in September, staying near a series low. In July, Agricultural Machinery Industrial Production worsened 1.4% M/M while the Farm Products Producer Price Index worsened 3.0% M/M. Overall, while the Index's recent movement is encouraging, agriculture machinery investment growth is likely to remain weak or negative over the coming six months.

**Construction Machinery:**

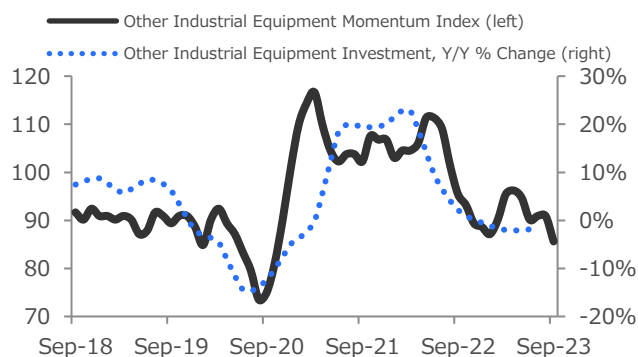
Investment in Construction Machinery rose 5.7% (annualized, revised) in Q2 2023 and was 18% above its year-ago level. The Construction Momentum Index increased from 84.4 (revised) in August to 87.2 in September. The Months Inventory of Existing Homes improved 12% in July, though the University of Michigan Consumer Sentiment Index worsened slightly in August. Overall, the Index's position continues to suggest that construction machinery investment growth is likely to decelerate but should remain positive over the coming two quarters.

**Materials Handling Equipment:**

Investment in Materials Handling Equipment ticked down 2.1% (annualized, revised) in Q2 2023 and was 3.3% (revised) below year-ago levels. The Materials Handling Momentum Index slipped from 84.0 (revised) in August to 83.3 in September. In July, Durable Manufacturing Industrial Production improved on a monthly basis, while the NFIB Small Business Survey Planned Capital Expenditure Sub-Index worsened 3.8% M/M. Overall, the Index's recent movement and position suggest that materials handling equipment investment growth will likely remain subdued over the next six months.

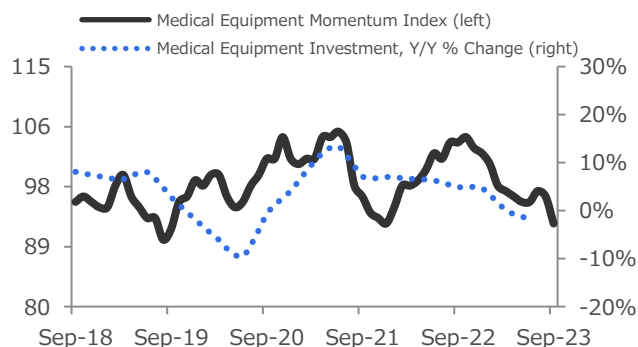
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment decreased at a 9.0% (annualized, revised) rate in Q2 2023 and was down 1.9% Y/Y (revised). The Other Industrial Equipment Momentum Index fell sharply, from 90.9 in August (revised) to 85.6 in September. In July, Machinery Industrial Production worsened 1.3% while the Nominal Emerging Marketing Economies Index improved. Overall, the Index's position and recent movement suggest that other industrial equipment investment growth will remain weak or negative over the next six months.

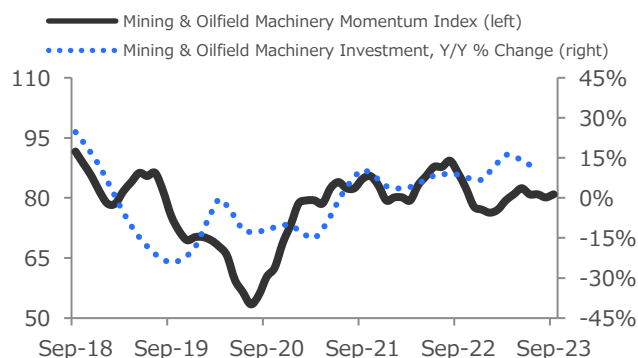


Medical Equipment:

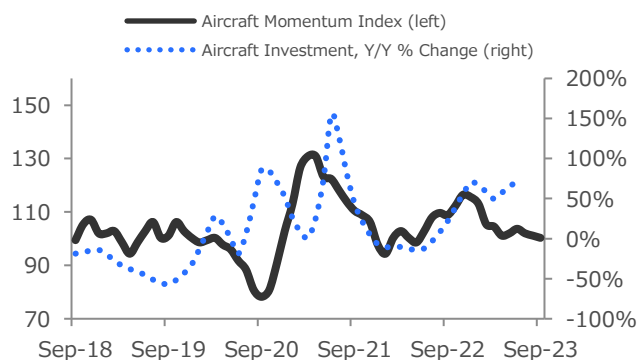
Investment in Medical Equipment fell 1.5% (annualized) in Q2 2023 and was down 1.6% year-over-year. The Medical Equipment Momentum Index decreased from 96.1 (revised) in August to 92.1 in September. Urban Consumers Dental Services worsened 0.5% in July, while Industrial Production for Miscellaneous Medical Equipment & Supplies improved 1.6% M/M. Overall, the Index's position and recent movement suggest that medical equipment investment growth will remain flat or slightly negative over the next two quarters.

**Mining & Oilfield Machinery:**

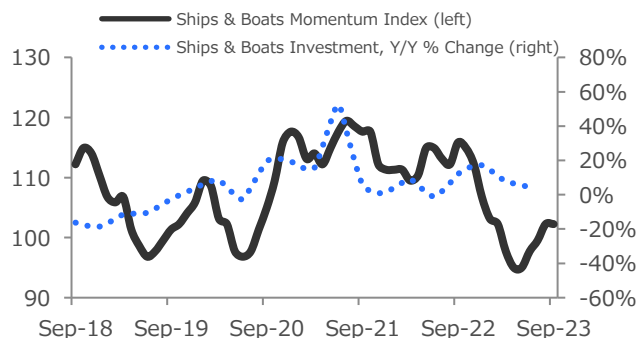
Investment in Mining & Oilfield Machinery increased 7.2% (annualized, revised) in Q2 2023 and was 12% (revised) above year-ago levels. The Mining & Oilfield Machinery Momentum Index ticked up from 80.2 (revised) in August to 80.9 in September. Natural Gas Distribution Capacity Utilization worsened 0.1% M/M in July, while the Brent Spot Price improved 2.4%. The current position and recent movement of the Index suggest that mining & oilfield machinery investment growth may weaken but should remain positive over the next six months.

**Aircraft:**

Investment in Aircraft jumped at a 104% (annualized, revised) rate in Q2 2023 and was 71% (revised) above year-ago levels. The Aircraft Momentum Index decreased from 101.2 (revised) in August to 100.3 in September. The S&P 500 Volatility Index worsened slightly (-0.4% M/M) in August, while the Aircraft Departures to Mexico improved 21% in June. Overall, the Index's position and recent movement suggest that aircraft investment growth may moderate somewhat but should remain solidly positive over the coming two quarters.

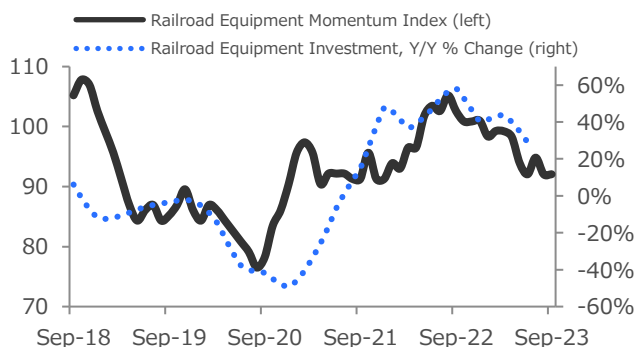
**Ships & Boats:**

Investment in Ships & Boats fell at an annualized rate of 17% in Q2 2023 but was 4.1% above its year-ago level. The Ships & Boats Momentum Index held steady at 102.2 in September (revised for August). In June, the Ship & Boat Building PPI worsened slightly on a monthly basis, while Industrial Production improved 1.0% M/M. Overall, the index's movement in recent months suggests that, despite the below-average reading, ships & boats investment growth is likely to remain positive and may improve over the next six months.

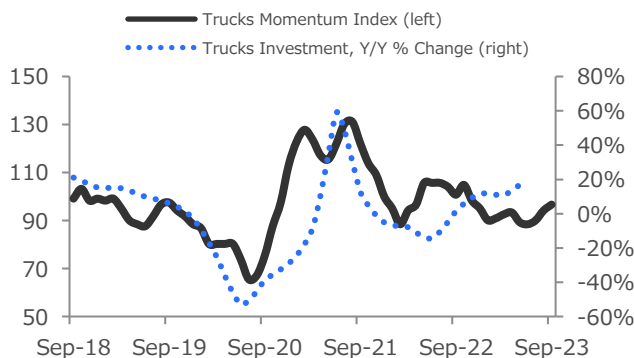


Railroad Equipment:

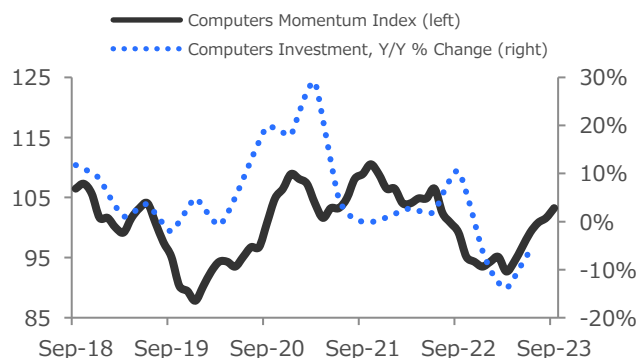
Investment in Railroad Equipment increased 18% (annualized, revised) in Q2 2023 and was up 29% (revised) year-over-year. The Railroad Equipment Momentum Index held steady in September at 92.1 (revised for August). In July, Crude Oil and Petroleum Exports worsened by 11%, while Rail Carloads of Petroleum Products improved 25% M/M in July. Overall, the Index suggests that railroad equipment investment growth may decelerate over the coming six months but should remain positive on a Y/Y basis.

**Trucks:**

Investment in Trucks increased 50% (annualized, revised) in Q2 2023 and was 20% above year-ago levels. The Trucks Momentum Index improved from 94.3 in August (revised) to 96.7 in September. In July, Motor Vehicle and Parts Industrial Production improved 5.2% M/M, while Shipments of Heavy-Duty Trucks increased 0.8%. Overall, the position and recent movement of the Index indicate that Y/Y investment growth in trucks should remain solid over the coming two quarters.

**Computers:**

Investment in Computers expanded 10% (annualized, revised) in Q2 2023 but was down 6.1% (revised) year-over-year. The Computers Momentum Index increased from 101.6 in August (revised) to 103.3 in September. Although Shipments of Computer & Electronic Products worsened 3.4% in June, the ISM Manufacturing PMI improved 2.6% in August. Overall, the Index's recent movement suggest that computers investment growth should improve over the next six months.

**Software:**

Investment in Software rose 5.3% (annualized, revised) in Q2 2023 and was up 8.2% (revised) from a year prior. The Software Momentum Index ticked up from 91.5 in August (revised) to 92.4 in September. The Chicago Business Barometer Index improved 13.9% in August, while International Business Machine Orders also improved (+1.8% M/M). Overall, the Index's position and recent movement suggest that, though growth may decelerate, software investment growth is likely to remain in positive territory over the coming two quarters.

