EQUIPMENT LEASING & FINANCE ECONOMIC OUTLOOK

April 2021

Key Trends to Monitor

- Vaccine Deployment
- Infrastructure Bill
- Consumer Financial Stress

EXECUTIVE SUMMARY

Equipment and Software Investment: E&S investment growth sustained its rebound through the end of 2020 despite surging COVID cases and renewed shutdowns. With U.S. vaccination rates rising quickly and the end of the pandemic in sight, E&S investment growth is expected to be robust as businesses invest to adapt to a post-pandemic normal.

Momentum Monitor: Investment momentum readings are now above the long-term average in 11 of 12 verticals tracked by the Foundation's Momentum Monitors, reflecting the healthy position of many of the verticals and the positive outlook for 2021 for equipment investment.

Manufacturing Sector: The manufacturing sector continued to improve in early 2021 thanks to strong demand for both consumer and business goods. Though storms in February tempered new orders and shipments of capital goods, underlying demand remains strong. Supply chain backlogs should be monitored, however, and rising input prices could become an increasingly significant concern in the months ahead.

Small Businesses: Main Street managed to weather the winter months and the third wave of the pandemic, though not without significant difficulty. Further federal relief and stimulus efforts have played an outsized role in the survival and longer-term viability of many businesses. Warmer weather, rising vaccination rates, and the relaxation of pandemic-era operating restrictions offer hope that there are better days ahead.

Fed Policy: The Federal Reserve again confirmed its commitment to keeping interest rates at zero for several years. The Fed also ended a pandemic-era capital requirement relief measure that could cause turmoil in bond markets.

U.S. Economy: Finally, the light at the end of the tunnel is nearing. Though the virus will likely be with us for years to come, the accelerating pace of vaccinations offers hope that economic activity can soon return to normal. Moreover, in light of robust stimulus efforts, trillions of dollars in pent-up demand will likely lead to a wave of spending this summer and fall. Though the labor market recovery is still far from complete and the K-shaped recovery has left millions of consumers in a precarious position, the overall balance of risks has shifted to the upside.

2021 Annual Projections

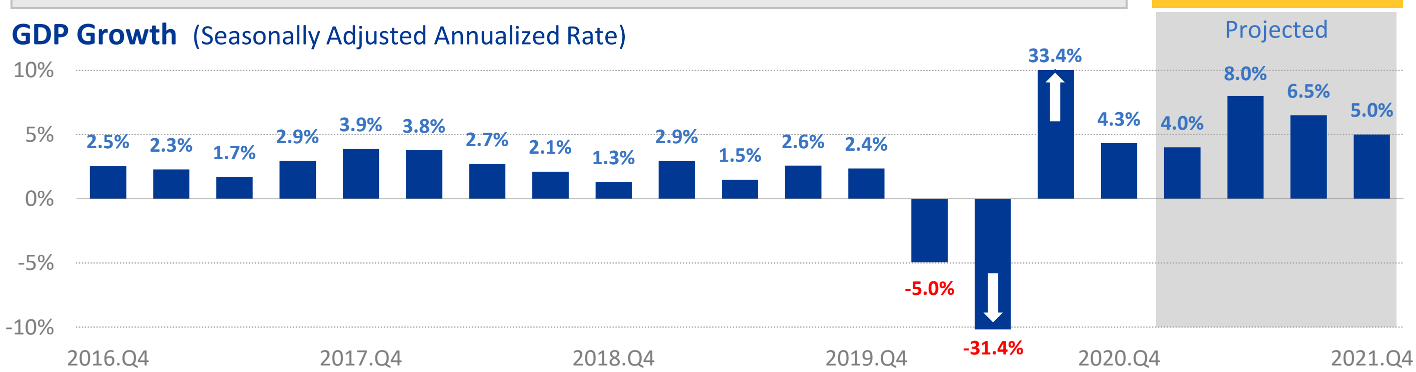
5.7%
GDP Growth

11.2%
E&S Investment Growth

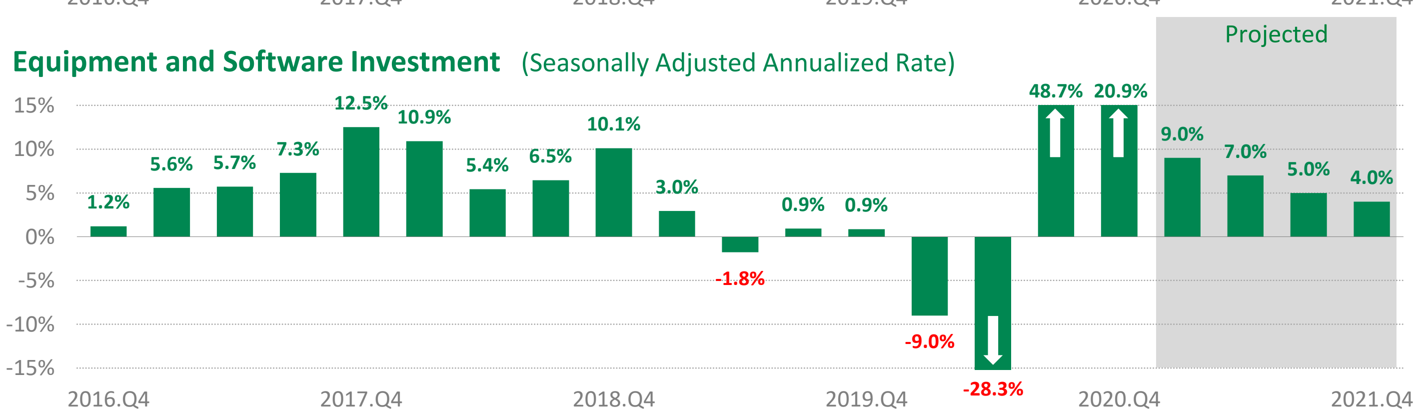
2.4%
Inflation

0 bp
Change in Fed Funds Rate from Current Range

GDP Growth (Seasonally Adjusted Annualized Rate)



Equipment and Software Investment (Seasonally Adjusted Annualized Rate)



Source: U.S. Bureau of Economic Analysis; Keybridge LLC

MOMENTUM MONITORS

Sectoral Performance

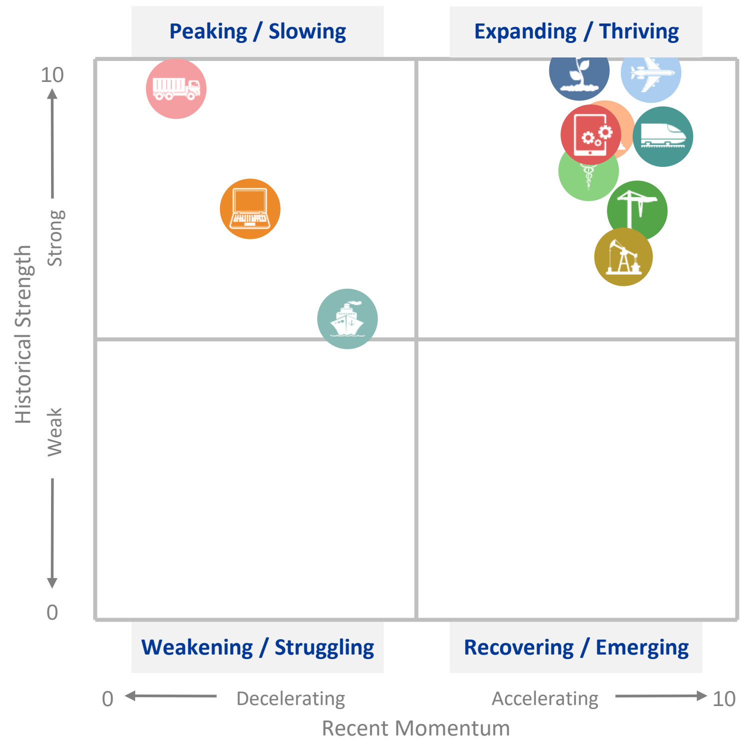
E&S investment growth surge continues in Q4

Equipment and Software investment surged 20.9% (annualized) in Q4 2020, another robust expansion after a steep decline in the second quarter.

Of the 12 investment verticals tracked by the Foundation, only Railroad Equipment investment fell in the fourth quarter. Investment in the other 11 verticals improved, and eight experienced double- or triple-digit growth, including Agricultural, Construction, Materials Handling, Other Industrial Equipment, Medical, Mining & Oilfield, Aircraft, Trucks, and Computers.

Looking ahead, nine verticals are showing signs of accelerating investment after the pandemic-fueled collapse, according to the Foundation's Equipment & Software Momentum Monitors. Three other verticals are showing signs of peaking, though investment growth should remain healthy in the near term. As vaccination rates improve and businesses transition to a post-pandemic operating environment, investment should see another boost as economic activity increases.

Momentum Monitor Sector Matrix



For more information on how to interpret the Momentum Monitor, please refer to the Appendix B (p. 17). A full breakdown of each industry vertical is available at https://www.leasefoundation.org/industry-resources/momentum-monitor/

Movements to Monitor

Equipment Vertical	Q2 Investment Growth		Next 6 Months	Short-Term Outlook
	Q/Q	Y/Y		
Agricultural	+28%	+14%	▲	Agricultural equipment continues to benefit from strong demand for US food exports and should remain healthy in 2021.
Construction Machinery	+19%	-8%	▲	Consistent with the housing market boom, construction machinery has posted consecutive quarters of growth and has the potential to be a bright spot for equipment investment in 2021.
Computers	+8%	+23%	▲	Computers should remain in healthy territory over the coming six months, though there are signs that growth may be slowing .
Ships & Boats	+6%	+0%	▶	Ships and boats decelerated quickly in late 2020 and early 2021. An investment growth pause is possible based on the latest reading.

Credit Supply

Tighter standards for business and consumer loans

Banks tightened lending standards on balance in the fourth quarter, though not as sharply as they did in Q3.

- On net, 5.5% of banks reported tightening lending standards on C&I loans to large- and middle-market firms, while 11.4% reported tightening standards for small firms. Though banks still tightened standards somewhat, the change was less pronounced.
- Similarly, fewer banks tightened standards on commercial real estate ("CRE") loans. A net 21–29% of banks reported tightening standards across several types of CRE loans in Q4, compared to a net 47–57% in Q3.

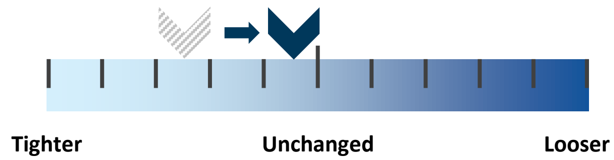
Consumer credit conditions were a mixed bag in Q4, reflecting a "wait and see" approach taken by many banks at the end of 2020.

- 95% of banks reported unchanged standards on auto loans, while a net 13% reported easing standards on credit card loans.
- Meanwhile, 85-97% of banks reported unchanged standards across residential real estate ("RRE") loan types, compared to a net 72-87% share in Q3.

Net Change in Credit Supply Conditions

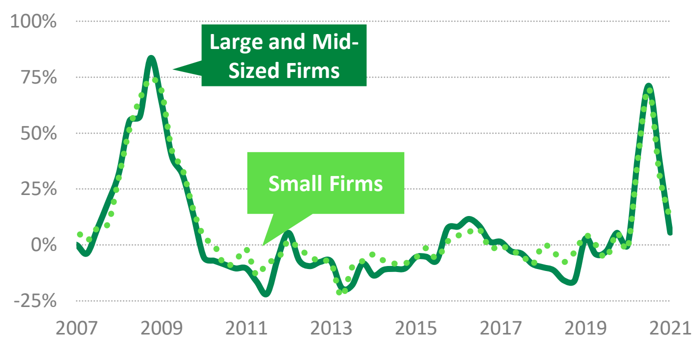
Fed Senior Loan Officer Survey

Fewer banks report tightening in Q4



Tightening Standards on C&I Loans

Percent of Respondents

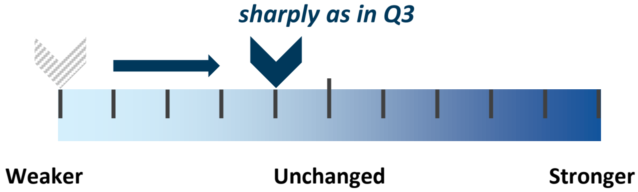


Source: Federal Reserve Senior Loan Officer Survey

Net Change in Credit Demand Conditions

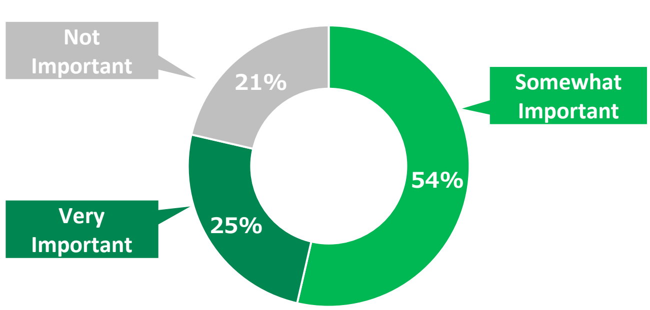
Fed Senior Loan Officer Survey

Demand softens, but not as sharply as in Q3



Falling Business Investment as Reason for Weaker Demand

Fed Senior Loan Officer Survey, Percent of Respondents



Source: Federal Reserve Senior Loan Officer Survey

Credit Demand

Demand plunge halts, but recovery not yet certain

Demand for business loans fell further in Q4, but fewer banks reported weaker demand than in Q3.

- On net, 11% of banks reported weaker C&I loan demand among medium & large firms in the fourth quarter, while 18% reported weaker demand among small firms. Of those reporting weaker demand, 79% reported reduced investment as a reason for the decline.
- Meanwhile, a significant net share of banks reported stronger demand for CRE loans, particularly loans secured by nonfarm nonresidential properties and multifamily residential properties.

Among households, demand for loans was also a mixed bag.

- Demand for GSE-eligible RRE loans edged up in Q4, with 6% of banks on net reporting stronger demand compared to Q3.
- Meanwhile, on net, 12% share of banks reported weaker auto loan demand, while just 2% reported stronger demand for credit card loans.

Consumer Finances

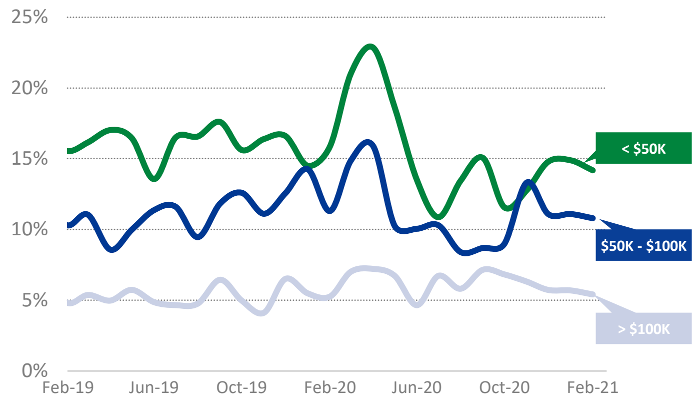
Stimulus relieves some financial stress

A new round of federal direct payments and relief measures have helped ease financial stress across income groups *(see chart).* However, income groups have been affected differently by the pandemic, and in some cases these efforts may be masking underlying consumer stress.

- Per Moody's Analytics, delinquent renters owed $53 billion in bank rent, utilities, and late fees as of January. While it is unclear how this figure will change once rent forbearance and eviction moratoria end, delinquency and bankruptcy metrics will be worth monitoring.
- Additionally, Black Knight estimates that 3.4 million mortgages were 90+ days delinquent by the end of 2020 – a 400% increase over 2019 levels. While these data have improved in recent months, current trends suggest 1.8 million mortgages could be seriously delinquent when foreclosure moratoria end.

Debt Delinquency Expectations, by Income Level

Mean probability of being unable to make min. debt payment



Source: NY Fed Survey of Consumer Expectations

Business Finances

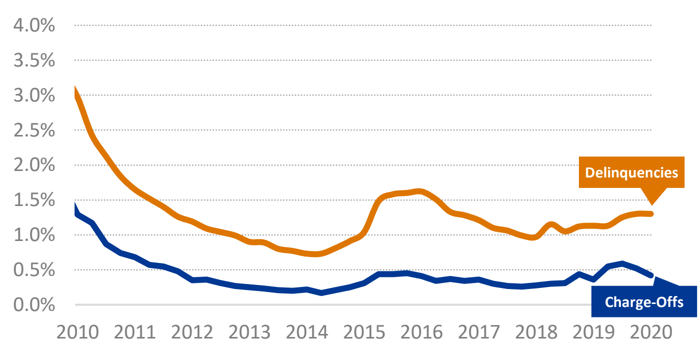
Financial stress is heightened in specific industries

Overall, financial stress among businesses has been muted thanks to relief measures such as the Paycheck Protection Program, debt forbearance, and targeted relief for certain industries. Some sectors continue to struggle, however.

- Although business financial stress is elevated thanks to the pandemic, this reality is not reflected in C&I loan delinquencies, which remain below even the levels seen in 2015-2016 thanks to debt forbearance programs and federal relief measures. C&I loan charge-offs likewise remain low and have shown little sign of increasing.
- However, certain industries are struggling. According to Trepp, the CMBS delinquency rate in February for the lodging sector was 23.0%, while the retail sector CMBS delinquency rate was 14.9%.

C&I Loan Delinquencies and Charge-Offs

% SA



Source: Federal Reserve

Fed Policy Corner

Fed shifts policy framework

- The Fed decided against extending its pandemic-era rule relaxing capital requirements, which had allowed banks to exclude certain ultrasafe assets (e.g., Treasury bonds and central bank deposits) from capital requirements.
- The expiration of this rule could temper banks' demand for government debt, which could put upward pressure on longer-term interest rates.
- Meanwhile, the Fed renewed its pledge to keep short-term interest rates low for the foreseeable future.

> *"We're committed to giving the economy the support that it needs to return as quickly as possible as possible to a state of maximum employment and price stability."*
>
> — Fed Chair Jermone H. Powell

Main Street Outlook

Small business revenue still down, but outlook brightens

While the pandemic has severely impacted revenues on Main Street, small businesses have taken advantage of PPP support, forbearance, and shrunk their costs to maintain stable delinquency and default rates.

- Per Womply, in the second week of March small business revenues were still about 30% below January 2020 levels.
- At the same time, the share of small businesses reporting that operations have normalized or will soon normalize has steadily increased since mid-February, while the share reporting that normalization is 6+ months away has steadily declined (*see chart).*

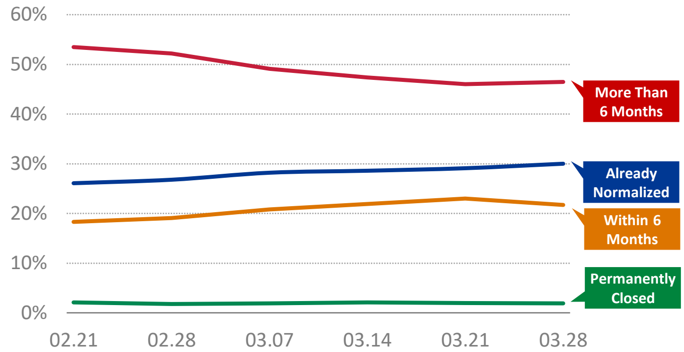
A refresh of relief measures — including a recapitalized PPP targeted at smaller businesses that have been more severely impacted — and rebounding consumer demand should help small businesses remain afloat in the near term.

- Although direct aid to small businesses in the latest package is lower than previous relief bills, the money is more targeted towards industries in need (e.g., $29 billion for restaurants).
- Consumer demand is rebounding thanks to looser capacity limits, stimulus payments, and rising vaccination rates. According to data from Earnest research, in recent weeks spending on "close proximity" activities like gyms and spas rose to the highest level since the pandemic began.

While federal relief will help small businesses deal with current expenses, many firms are still facing issues with unpaid rent and past-due bills that could threaten their long-term viability. Indeed, a recent survey from H&R Block found that 40% of small businesses fear they won't survive the pandemic, while the Census Bureau's Small Business Pulse Survey conducted in the mid-March shows that 20% of businesses will need financial assistance or more capital in the next six months.

Small Business Operating Levels

When Will This Business Return to Normal Year-Ago Levels of Operation?



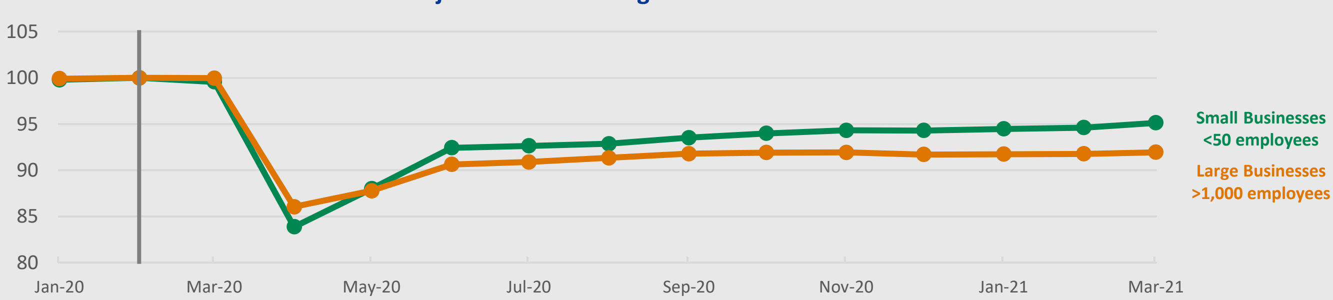
Source: U.S. Census Bureau, Small Business Pulse Survey

For now, however, cautious optimism on Main Street is justified. Although some businesses are still struggling, the smallest firms have seen employment rebound more quickly than large firms, potentially reflecting more agility and a greater ability to adapt to pandemic-era operating conditions. According to ADP payroll data, employment at firms with fewer than 50 employees is now 4.9% below February 2020 levels, while employment at firms with 1000+ employees is down 8.0% over the same period (*see bottom chart*).

While the economy is by no means out of the woods, the elevated uncertainty of the past year is easing. As vaccinations rates continue to climb, the weather warms, and consumer demand recovers, Main Street should see further improvements in hiring, investment, and sales. The months ahead will not be free of hiccups, but the worst of the pandemic appears to be over, and a consumer spending surge during the summer and fall months — fueled by reduced business restrictions and increased disposable income — is a real possibility.

The Small Business Recovery: A Story of Relative Gains

Small businesses have recovered more jobs relative to larger firms



Source: ADP National Employment Report, Indexed to Feb 2020 = 100, Seasonally Adjusted

MLFI-25

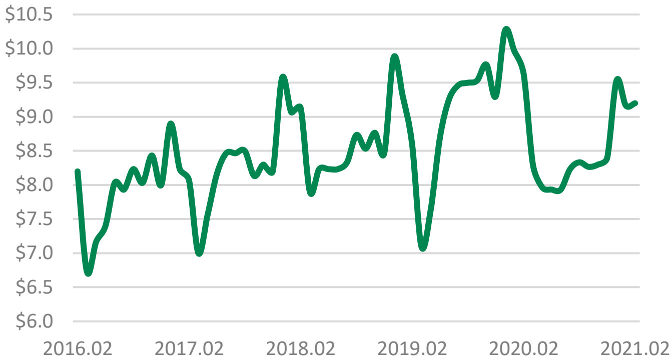
NBV recovery uneven, but brighter days expected

ELFA's Monthly Leasing and Finance Index (MLFI-25) fell 9% in February but was up 9% from year-ago levels *(see chart at right)*. The industry continues to rebound from a difficult 2020, and there are reasons for optimism for the remainder of 2021.

- New business volume (NBV) fell to $7.4 billion in February, the second straight monthly decline. Year-to-date, new business volume is down 4% compared to last year, largely due to unusually strong growth in January 2020.
- Receivables over 30 days were 2.1%, an improvement from 2.2% in January. However, charge-offs jumped to 0.55% in February, up from 0.47% in January.
- Total credit approvals edged down to 75.8% in February. Meanwhile, the total headcount of equipment finance companies was 4.2% below year-ago levels, reflecting a significantly weaker U.S. labor market.

MLFI-25 New Business Volume

Billions, 3-month moving average



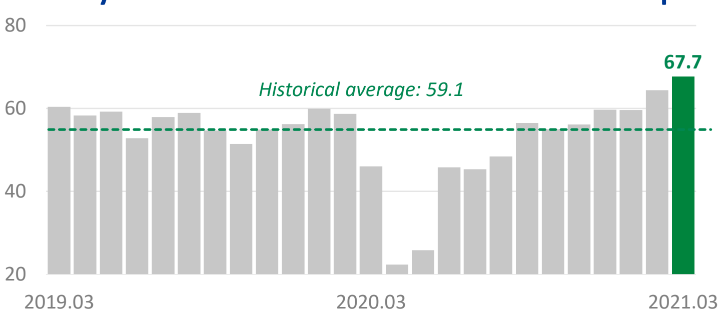
Source: ELFA

"As vaccine distribution picks up across the country, labor markets improve and interest rates remain low, the U.S. economy will only improve as we move into Q2. Business confidence is at an historic high as measured by our Foundation's Monthly Confidence Index (MCI). All this bodes well for business growth and expansion and the accompanying accelerating demand for productive equipment."

— Ralph Petta, President and CEO, ELFA

MCI-EFI

Industry confidence accelerates as executives see path to post-Covid recovery



Source: ELFF

In March, the Monthly Confidence Index for the Equipment Finance Industry ("MCI-EFI") improved 3.3 points to 67.7, the highest level in nearly three years.

- In good news, 43% expect to hire more employees over the next four months, up from 39% in February. Notably, no firms expect to hire fewer employees.
- Similarly, 50% now believe that business conditions will improve over the next four months, up from 46% in February.
- Further, 61% of executives expect that U.S. economic conditions will get better over the next six months, a sharp increase from the 50% that said the same in February.

"We are relatively positive on domestic and global economic activity for this year, and likely next. Despite lingering disruptions, with the tailwinds of government stimulus, central bank liquidity, excess capacity, and pent-up demand, global economic growth may positively surprise in 2021. The big question that could change our mind would be a return of inflation, which would change the dovish nature of most global central banks. Higher inflation would lead to higher interest rates and less of an incentive for businesses to borrow and invest."

— David Drury, SVP and Head of Equipment Finance, Fifth Third Bank

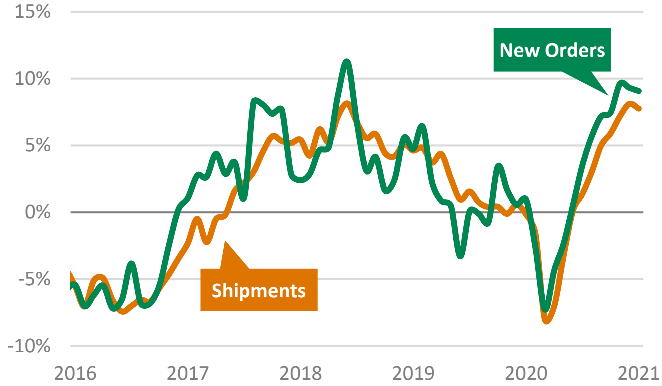
Manufacturing Focus

New orders and shipments take a pause

In February, key metrics of manufacturing sector activity remained in healthy territory. Both shipments and new orders of core capital goods eased, in part due to severe weather that affected much of the country, especially Texas.

- New orders for nondefense, non-aircraft capital goods (a leading indicator of industry performance) edged down 0.8% in February but were up 9.1% compared to last year.
- Shipments of nondefense capital goods excluding aircraft (a concurrent indicator of industry performance) fell 1.0% in February but are up 7.7% Y/Y.
- Despite the hiccup in February, business investment should remain strong in 2021, especially as vaccination rates accelerate and the weather improves.

Shipments vs. New Orders of Core Capital Goods
Year-on-year percent change



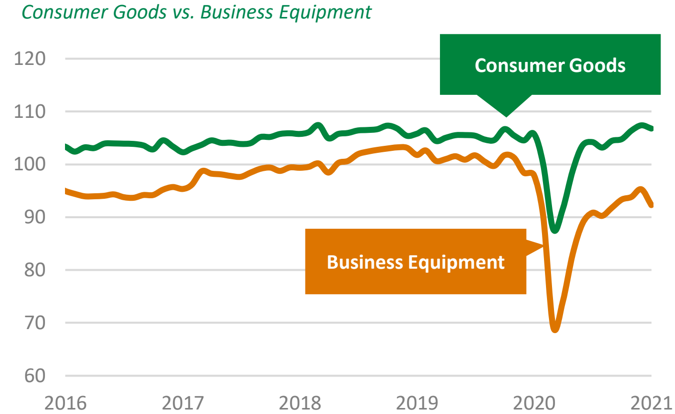
Source: Census Bureau

Industrial production dinged by weather

After rising for nine months, Industrial Production fell to 104.7 in February.

- Industrial production for mining fell 5.4 percentage points in February and is 15.3% below year-ago levels, as winter weather in Texas forced the temporary closure of hundreds of oil and natural gas wells.
- Meanwhile, manufacturing output fell 3.1 percentage points, led by substantial declines in consumer automotive products and appliances.
- Industrial production for business equipment fell sharply in February, led by declines in transit equipment and industrial equipment.

Industrial Production
Consumer Goods vs. Business Equipment



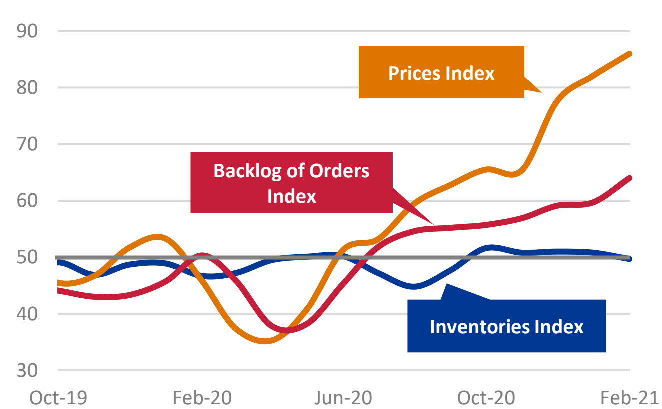
Source: Federal Reserve Board of Governors, G17 report

Factories struggle to meet demand

In February, the ISM Manufacturing PMI Backlog of Orders Index surged to 64, the second highest level on record. Meanwhile, the ISM Inventories Index decreased to 49.7 and the ISM Prices Index rose to 86, reflecting the intense pressure that many manufacturers are under as they attempt to ramp up production in a post-COVID era.

- Homebound Americans have been placing exceptionally high demand on certain goods (e.g., housewares and electronics), which has strained supply chains and driven up prices. As people begin returning to pre-pandemic routines and the economy continues to recover, backlogs should ease over time.
- As such, many companies are considering alternate supply chain tactics (e.g., regionalization and reshoring) in anticipation of the post-pandemic economy.

Manufacturing PMI Indices
Above 50 = expansion



Source: Institute for Supply Management

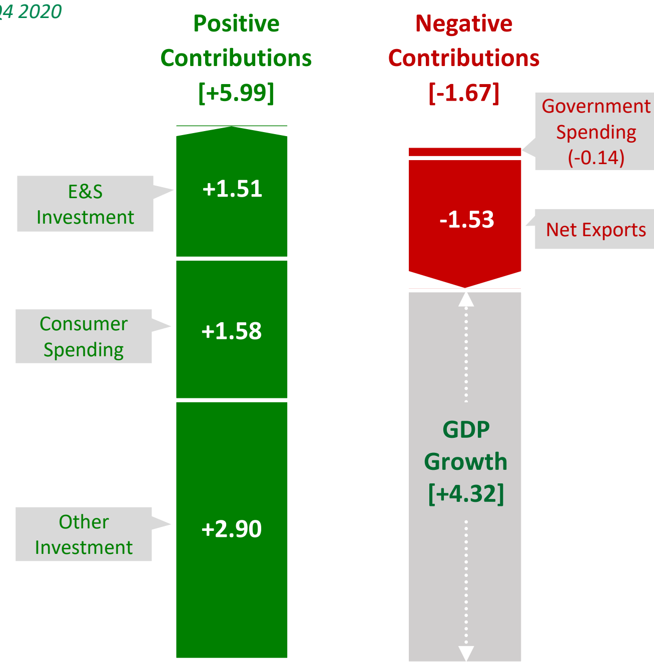
Solid Expansion in Q4, But Uneven Recovery Continues

Economy expands at 4.3% rate in Q4

The U.S. economy expanded at a 4.3% (revised) annualized pace in Q4 as the nation struggled with surging COVID-19 cases and deaths. As measured by GDP, the economy is still 2.4% below its level at the end of 2019.

- **Consumer spending**, the economy's largest component, rose 2.3% (annualized) in Q4. Spending growth was entirely due to expenditures on services, which rose 4.3%. Growth in spending on durable goods (-1.1%) and nondurable goods (-1.6%) declined.
- **Equipment and software (E&S) investment**, a subset of overall business investment and the lifeblood of the equipment finance industry, surged 21%, providing a strong jump-off point for 2021.
- **Net exports** made a significant, negative contribution to GDP again in Q4, reflecting the fact that domestic demand has rebounded more quickly than demand for US exports.
- **Government spending** fell at a -0.8% rate in Q4, though this will likely have rebounded in Q1 due to new stimulus bills that were passed in late December and early March.
- **Other investment** rose in Q4 due to another significant increase in residential investment (+37%). Nonresidential structures fell 6.2%.

Contributions to GDP Growth
Q4 2020



Source: Bureau of Economic Analysis (BEA)

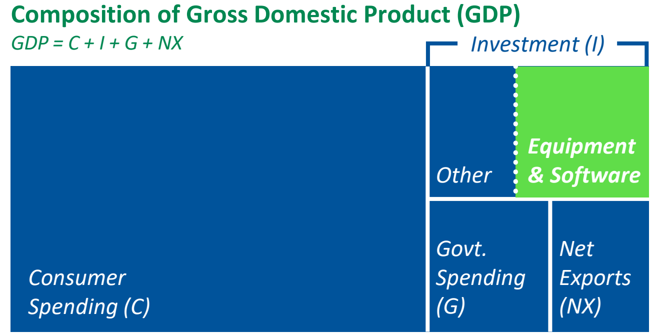
Light at the End of the Tunnel

Balance of headwinds and tailwinds shifts to upside

At the time of this report's publication in April, the U.S. is emerging from one of the darkest winters in recent memory. In addition to the obvious human health toll, the pandemic has wreaked havoc on the economy, and the negative effects of widespread shutdowns are still being felt across the country. At the same time, there is a growing feeling of optimism among consumers and businesses, rooted in expectations of better days ahead. The U.S. has administered more vaccine doses than any other country in the world (and the pace is accelerating) while enacting the largest economic relief package of any developed economy. The pandemic is not over, but the end appears to be in sight.

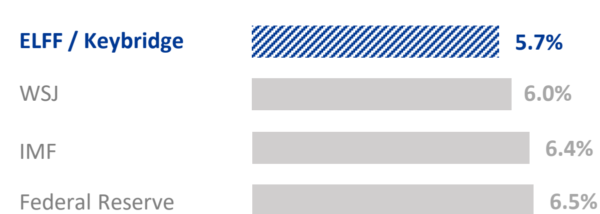
While we believe the economic optimism is well-founded thanks to substantial pent-up demand and a booming housing market, there are several factors to keep an eye on. These include the potential for higher inflation, the ongoing labor market recovery, and the emergence of new virus strains that could reduce the effectiveness of existing vaccines. Regardless, 2021 should be a banner year for equipment and software investment, and we expect the equipment finance industry will benefit from that robust economic activity.

Composition of Gross Domestic Product (GDP)
GDP = C + I + G + NX



Source: Keybridge LLC, based on BEA data

2021 Growth Forecasts



Historic Stimulus and Pent-Up Demand

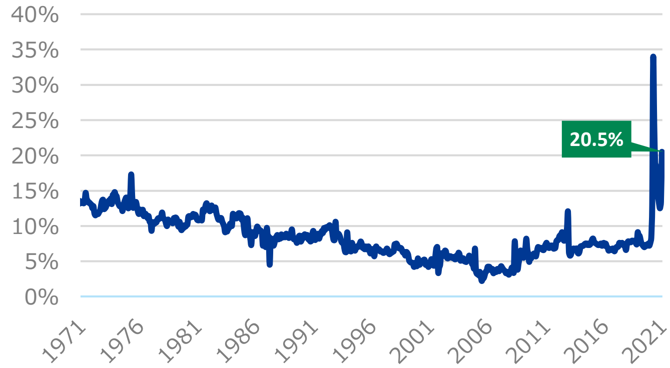
Trillions in stimulus and elevated saving

The federal government has enacted three major pieces of relief legislation over the last year, including the $1.9 trillion American Rescue Plan in March. These bills have sent direct payments to most households, increased unemployment benefits and established new unemployment programs, provided loans to small businesses, and funded vaccine deployment, provided financial support to struggling industries, and much more. All told, relief efforts in 2020 and 2021 total more than 20% of pre-pandemic U.S. GDP.

As a share of GDP, the historic fiscal relief and stimulus enacted by the Trump and Biden administrations has dwarfed the efforts of nearly every other major economy in the world. Indeed, the fiscal response left U.S. consumers with more than $1.7 trillion in "dry powder" — a combination of above-trend income (thanks to stimulus efforts) and below-trend spending (and thus savings, *see chart at right*) — and that was *before* the passage of the American Rescue Plan. This flood of cash has triggered a large degree of pent-up demand in the economy, which should result in a sizable boost to consumer spending later this year as vaccination rates increase and business operating restrictions are lifted.

U.S. Savings Rate

% SAAR



Source: Bureau of Labor Statistics

> *"The K-shaped recovery has left many consumers with significant savings. As vaccination rates rise and business restrictions are lifted, we should expect a burst of spending activity this summer and fall, driving growth."*
>
> **Dr. Robert Wescott, President, Keybridge**

Housing Sector

Housing boom continues as remote work persists

Perhaps the most surprising development of the coronavirus pandemic and ensuing recession was the historic housing boom that began last summer. Despite the fact that the U.S. economy suffered its worst quarterly contraction in recorded history in the second quarter, home sales (and home prices) skyrocketed as millions of Americans suddenly found themselves working remotely and in search of more space:

- Existing home sales eclipsed their pre-pandemic levels by July and eventually reached their highest level since 2006. The feverish pace drove housing inventories to the lowest level ever.
- Robust demand also spurred building activity, as housing starts also jumped to their highest level since 2006.
- All the sales and building activity drove homebuilder confidence to record levels in late 2020 *(see chart at right)*, even as the economy struggled to recover from millions of job losses.

As of early 2021, these metrics of industry activity have retreated somewhat from the decade-plus highs of 2020 thanks to the combination of historically bad winter weather in key states and surging prices for homebuilding materials.

However, the drivers of the newfound demand during the pandemic — higher rates of remote work, low mortgage rates, and increased interest in home ownership among Millennials, who are now entering their prime earning years — are likely here to stay. As such, the housing sector should remain a key tailwind for the U.S. economy in 2021 and bolster demand for construction equipment.

NAHB-Wells Fargo Housing Market Index

Index SA

Source: NAHB

Uneven Global Recovery

Other nations lagging on vaccine front

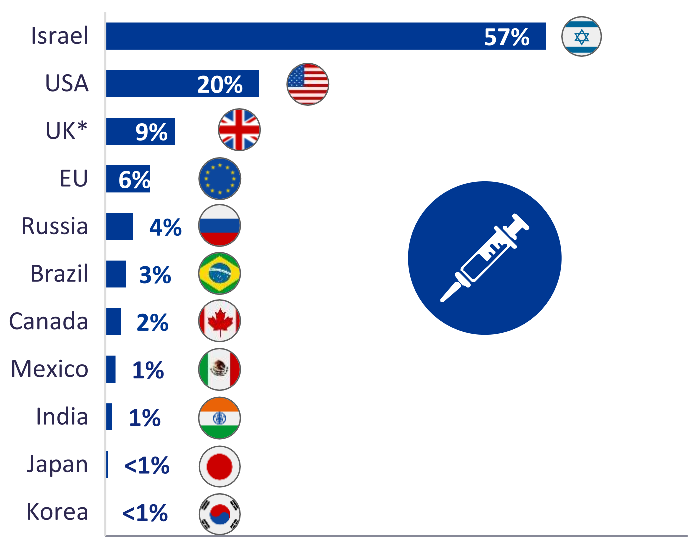
The U.S. has been exemplary in its vaccination efforts thus far: Nearly 20% of Americans are fully vaccinated as of April 8th, and one-third of Americans have received at least one dose. Only Israel and the United Kingdom have had a more successful vaccination program than the United States, a remarkable feat given the relative lack of success the U.S. had in containing the virus' spread.

As our 2021 Annual Economic Outlook highlighted, a successful vaccination program, both here and abroad, is the key to unlocking strong economic growth in 2021 and beyond. Though the United States has succeeded thus far in rolling out several different vaccines, progress among key trading partners, including Canada, Mexico, and the European Union, has been slower *(see chart)*.

As long as major economies around the world struggle with vaccination efforts, demand for a wide range of U.S. exports is likely to remain weaker than normal. This could act as a drag on demand in several key equipment end-use markets, including oil & gas and industrial equipment — though demand for equipment is still likely to be stronger in 2021 than it was during the height of the pandemic.

Vaccination Progress

Share of population fully vaccinated (as of April 8)



Source: Our World in Data. April 8th used for comparison purposes.

*Note: The United Kingdom has achieved a 47% vaccination rate when measured by share of population that has received at least one dose.

Weak Labor Market

Deep scarring for the labor market

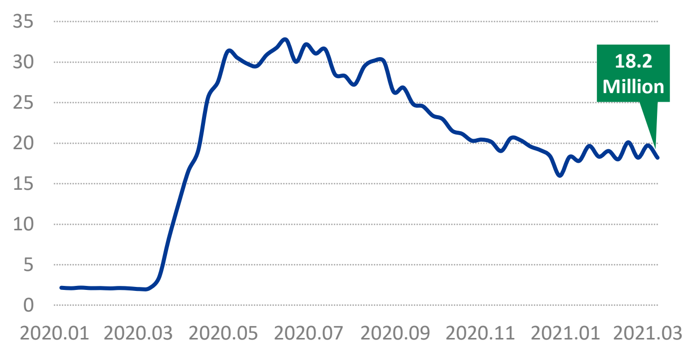
Though the U.S. labor market has regained more than half of the jobs lost in the early days of the pandemic and there is mounting optimism about the prospects for 2021, several hurdles remain before the U.S. economy can return to its full potential. For example:

- Permanent job losses, which have almost tripled to 3.5 million as of March, have shown few signs of easing.
- Continuing claims for unemployment insurance remain stubbornly high at more than 18 million as of the second week of March *(see chart)*.
- The labor force participation rates for men (67.3%) and women (56.1%) are still well below pre-pandemic levels, reflecting both a lack of optimism about finding a new job and the need to stay at home to care for family members. School reopenings should lead to improvements in this metric, however.

These labor market issues reflect deep scarring that has occurred during the pandemic and are unlikely to be fully resolved in the near-term. Robust job growth (+916,000) in March was an encouraging sign, but it will take many more months of similar growth to even approach full employment.

Continuing Claims for Unemployment Insurance

Millions



Source: Department of Labor

> *"March's strong job growth was an encouraging sign following weakness over the winter. However, we still have a long way to go to reach a full labor market recovery, and jobless claims remain historically elevated."*
>
> **Jeff Jensen, Vice President, Keybridge**

Vaccine Rollout and New Strains

Can inoculation efforts outrun new infections?

The U.S. has administered more vaccine doses than any other country in the world, but despite our demonstrated ability to mass-produce, procure, and distribute vaccines, the U.S. has seen new COVID-19 cases remain stubbornly above last year's summer peak. Troublingly, in recent weeks cases have started to rise again: after reaching a 7-day average of roughly 54,000 cases/day, new case growth has climbed back above 70,000/day and continues to rise.

Vaccine adoption should be driving COVID-19 case counts down, but unfortunately the emergence of several new strains of the virus — including especially contagious strains from the UK and Brazil — is hampering our efforts. The Brazilian strain is particularly concerning, as it appears to be capable of reinfecting people who have already caught and recovered from COVID-19. While existing vaccines appear to be effective against these new strains, it is possible that a new strain will emerge that is more resistant. Given that public health concerns remain the most important factor in determining consumers' relative comfort with a return to pre-pandemic activities, it is critical that vaccination efforts move forward quickly to reduce the likelihood of a new strain hamstringing efforts to fully reopen the U.S. economy.

Inflationary Pressures

Will stimulus and pent-up demand lead to inflation?

One of the most important economic factors to watch in the months ahead is inflation. The fiscal response to the pandemic and ensuing economic collapse has far exceeded the response to the 2008-09 recession: more than $5.3 trillion in federal spending has flooded the economy via new lending programs, unemployment benefits, and direct payments. Though consumers used much of this largesse to pay down debt and other bills, a substantial amount was saved, leading to an all-time high in the personal savings rate *(see chart/discussion on page 10)* — leaving many consumers flush with cash and ready to spend.

As a result, concerns about rising inflation are building. The 10-year breakeven inflation rate climbed to its highest level since early 2013 and is up more than 100bp since last year, and household inflation expectations, while still subdued, have also started to creep higher *(see charts)*. It remains unclear whether a sustained run-up in inflation will materialize, but even a temporary burst could impact the equipment finance industry. (Note: some of the likely industry effects of rising inflation are described in a 2018 report available at the Foundation's website.)

Infrastructure and Further Stimulus

Is there appetite for even more federal spending?

After passing the latest stimulus and relief bill, the Biden administration has set its legislative sights on a massive new infrastructure bill. The bill, which would lead to roughly $2 trillion in additional spending over the next decade, would be wide-reaching; it is expected to include provisions for modernizing surface transportation infrastructure, affordable housing, electric vehicle charging stations, and much more. The bill would undoubtedly boost demand for many types of equipment, including (but not limited to) construction equipment, trucks, and automobiles.

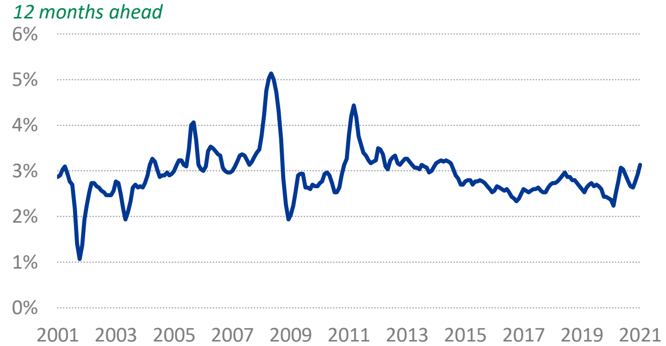
Though "improving U.S. infrastructure" typically enjoys bipartisan support, several political considerations jeopardize the bill's passage. Democrats are facing criticisms from their progressive wing that the bill doesn't do enough to address climate change and should be several times larger that what the Biden administration have proposed. Meanwhile, most (and perhaps all) Republicans are likely to oppose the bill due to its broad scope and inclusion of tax rate increases for corporations and high-income consumers. It is possible that the bill will pass via the reconciliation process with only Democratic support, but margins in both the Senate and House are razor thin, and several moderate Democrats have already expressed concerns about various provisions.

10-Year Breakeven Inflation Rate

Source: Federal Reserve

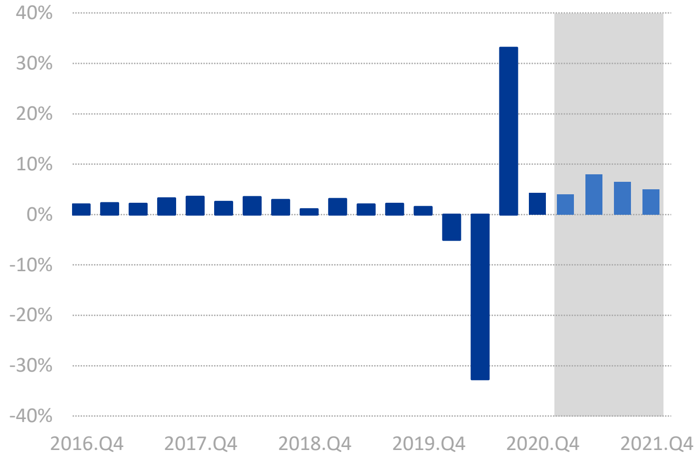
Inflation Expectations

12 months ahead



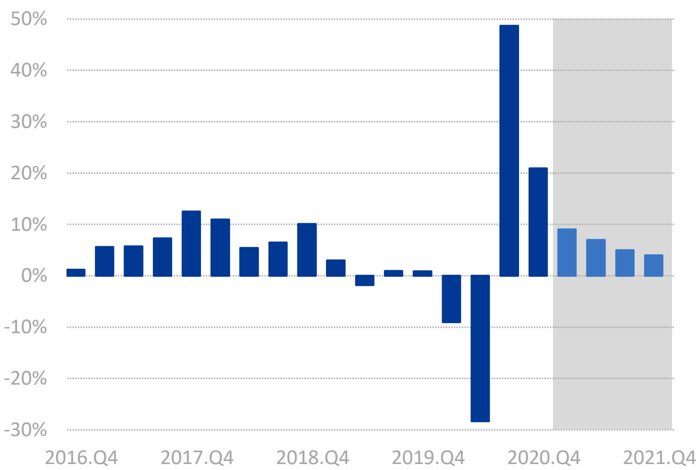
Source: University of Michigan Survey of Consumer Sentiment

Real GDP Growth (% SAAR)



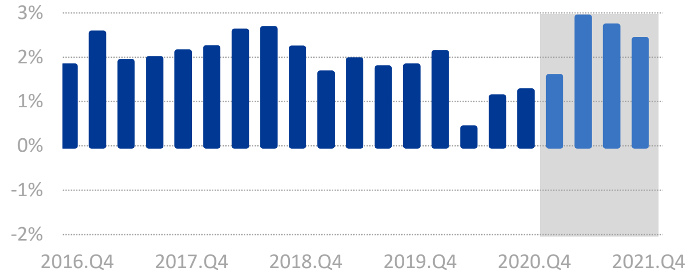
Source: Bureau of Economic Analysis; Keybridge LLC

Real E&S Investment Growth (% SAAR)



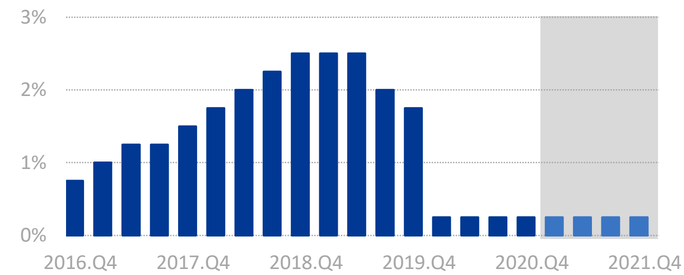
Source: Bureau of Economic Analysis; Keybridge LLC

CPI Inflation (year-on-year %)



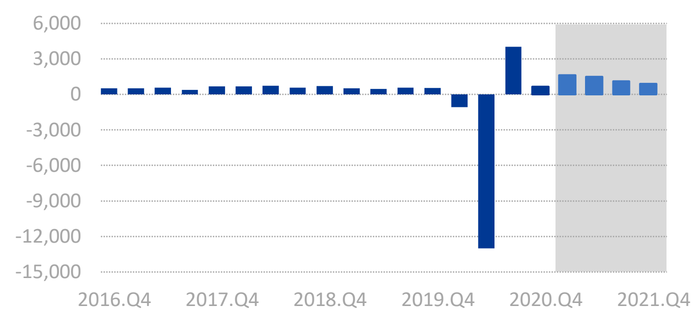
Source: Bureau of Labor Statistics; Keybridge LLC

Fed Funds Target (upper bound, end of period)



Source: Federal Reserve Board of Governors; Keybridge LLC

Total Payroll Growth (thousands)



Source: Bureau of Labor Statistics; Keybridge LLC

INDICATOR,	2019	2020	2021 QUARTERLY ESTIMATES				2021e
			Q1e	Q2e	Q3e	Q4e	
Real GDP (SAAR %)	*2.2%*	*-3.5%*	4.0%	8.0%	6.5%	5.0%	**5.7%**
Real Investment in Equipment & Software (SAAR %)	*3.5%*	*-2.1%*	9.0%	7.0%	5.0%	4.0%	**11.2%**
Inflation (year-on-year %)	*1.8%*	*1.2%*	1.6%	2.9%	2.7%	2.4%	**2.4%**
Federal Funds Target Rate (upper bound, end of period)	*1.75%*	*0.25%*	0.25%	0.25%	0.25%	0.25%	**0.25%**
Total Payroll Growth (thousands)	*2,011*	*-9,416*	1,617	1,500	1,100	900	**5,117**

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.

APPENDIX B | ABOUT THE MOMENTUM MONITOR

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 3–6-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.

How to Read the Momentum Monitor

The Momentum Monitor Matrix 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" indicates a vertical's recent acceleration or deceleration in the past month relative to its average movement during the previous 3 months. Ratings closer to "0" indicate rapid deceleration, while ratings near "10" represent rapid acceleration.
- "Historical Strength" reflects a vertical's strength 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 consists of four quadrants based on readings for each vertical's recent momentum and historical strength. If a vertical falls 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 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.