

July 2021

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.

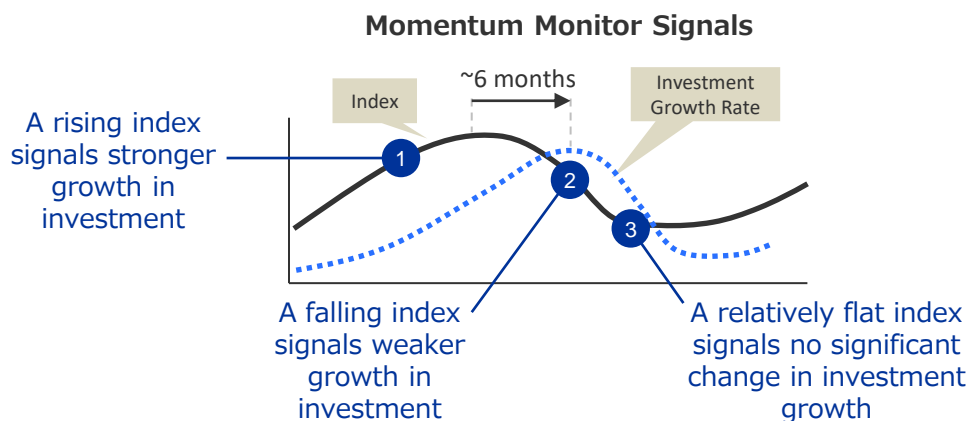
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- | | |
|-----------------------------------|-----------------------|
| 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 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 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 on the index's recent movement and historical strength.

U.S. Equipment & Software Investment Momentum Monitor July 2021

Momentum Monitor Sector Matrix



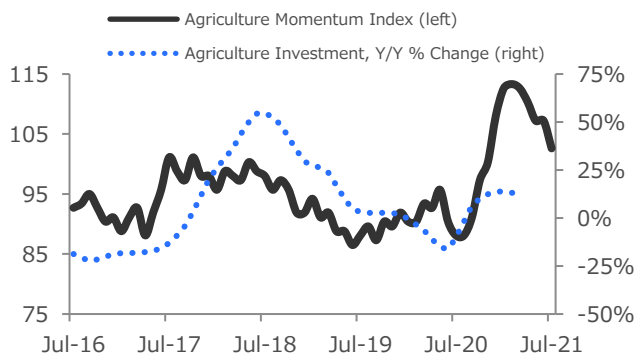
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

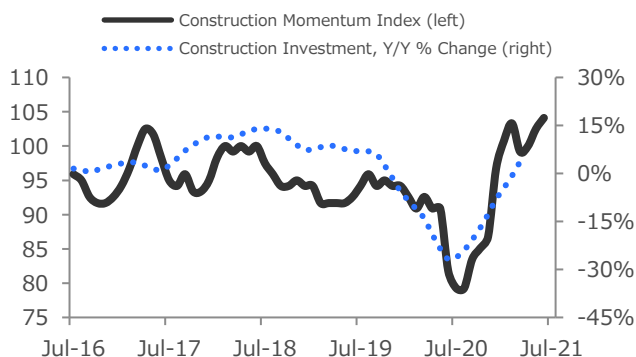
The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting 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:

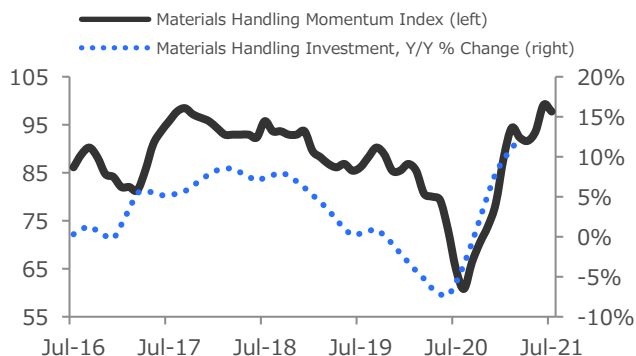
Investment in Agricultural Machinery decreased 23% (annualized) in Q1 2021 but is up 13% from one year ago. The Agriculture Momentum Index fell from 107.2 (revised) in June to 102.6 in July. In May, Agricultural Machinery Industrial Production increased by 0.8%, while Lamb & Mutton Production fell by 19.1%. Overall, the current position and recent movement of the Index suggests that agriculture machinery investment growth is likely to decelerate over the next six months.

**Construction Machinery:**

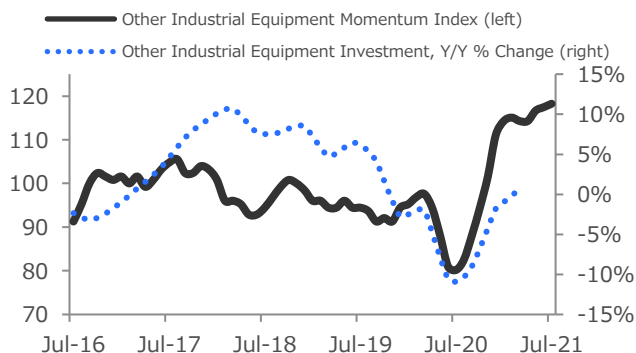
Investment in Construction Machinery expanded 31% (annualized) in Q1 2021 and is 3.6% above its year-ago level. The Construction Momentum Index grew from 104.1 (revised) in June to 106.6 in July. In May, Shipments of Construction Machinery rose by 1.3% and Housing Permits for Structures with 2 to 4 Units rose by 16%. Overall, the elevated position of the Index suggests construction machinery investment growth should continue to strengthen over the next two quarters.

**Materials Handling Equipment:**

Investment in Materials Handling Equipment grew at a 1.8% annualized rate in Q1 2021 and is up 12% year-above year-ago levels. The Materials Handling Momentum Index edged down from 99.1 (revised) in June to 97.7 in July. In May, Export Prices of Materials Handling Equipment ticked up by 1.1% and Materials Handling Equipment Exports rose by 20%. Overall, the current position of the Index indicates that materials handling equipment investment growth will remain robust over the next six months.

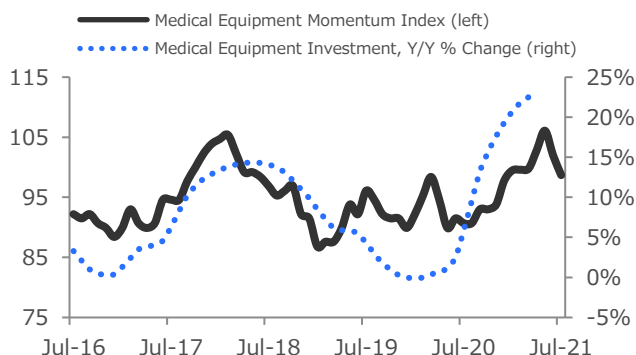
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment expanded 9.6% (annualized) in Q1 2021 and ticked up by 0.9% Y/Y. The Other Industrial Equipment Momentum Index inched up from 117.5 in June (revised) to 118.3 in July, the highest level in a decade. Exports Prices of Industrial Supplies & Materials rose by 4.1% in April and Nonfarm Payrolls increased by 0.6% in June. Overall, the Index's position suggests that other industrial equipment investment growth should continue to improve over the next six months.

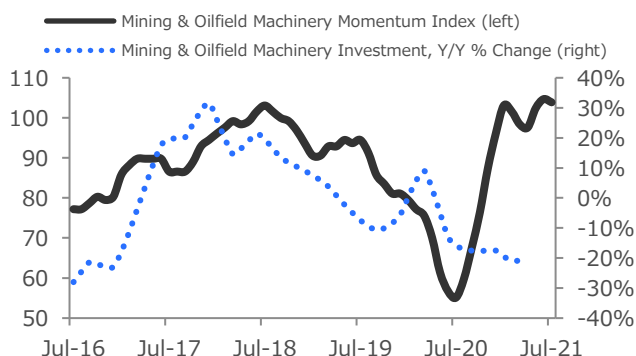


Medical Equipment:

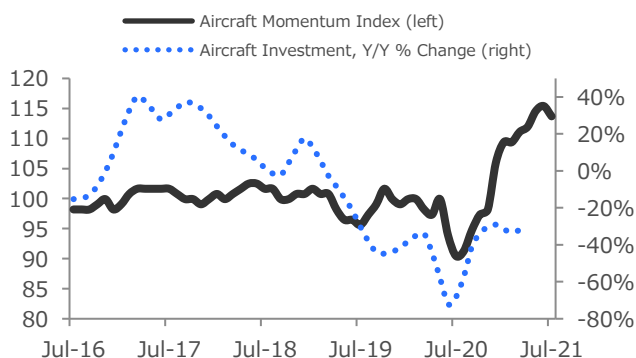
Investment in Medical Equipment increased 12% (annualized) in Q1 2021 and is up 23% over-year. The Medical Equipment Momentum Index decreased from 102.0 (revised) in June to 98.7 in July. In May, Consumer Prices for Physician's Services was unchanged while Industrial Production for Electrical Equipment ticked down by 0.6%. Overall, the position and recent movement of the Index suggests that medical equipment investment growth may have peaked but should remain strong over the next two quarters.

**Mining & Oilfield Machinery:**

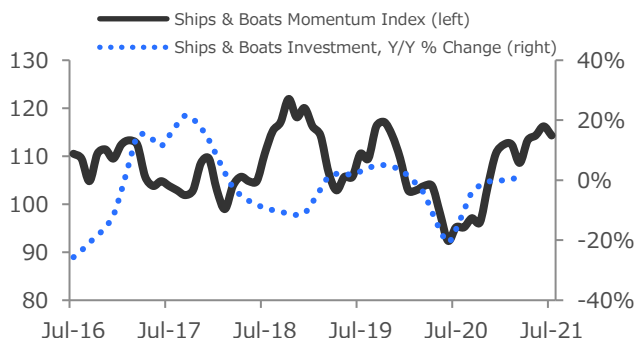
Investment in Mining & Oilfield Machinery climbed 20% (annualized) in Q1 2021 but is 21% below year-ago levels. The Mining & Oilfield Machinery Momentum Index ticked down from 103.1 (revised) in June to 102.3 in July. Mining, Oil, and Gas Field Machinery Inventories increased by 3.1% in May and the Brent Spot Price jumped 10.9% in June. Overall, the Index's position suggests that mining & oilfield equipment investment growth should accelerate over the next six months, though Y/Y growth rates may stay in negative territory.

**Aircraft:**

Investment in Aircraft declined 12% (annualized) in Q1 2021 and is 32% below year-ago levels. The Aircraft Momentum Index eased from 115.4 (revised) in June to 113.7 in July. Aerospace Exports to Canada jumped 18.7% in May and Capacity Utilization rose 0.8%. The current position of the Index suggests that aircraft investment growth will continue to improve over the next six months, though Y/Y growth rates may remain negative.

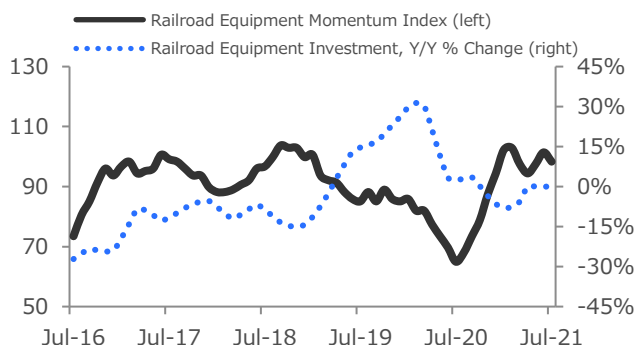
**Ships & Boats:**

Investment in Ships & Boats fell at an annualized rate of 4.8% in Q1 2021 and is 2.0% above its year-ago level. The Ships & Boats Momentum Index fell from 116.2 (revised) in June to 114.3 in July. In May, Ships & Boats Shipments grew by 1.5%, while Inventories of Ships and Boats fell by 1.8%. Overall, the Index suggests that ships & boats investment growth should improve over the next six months.

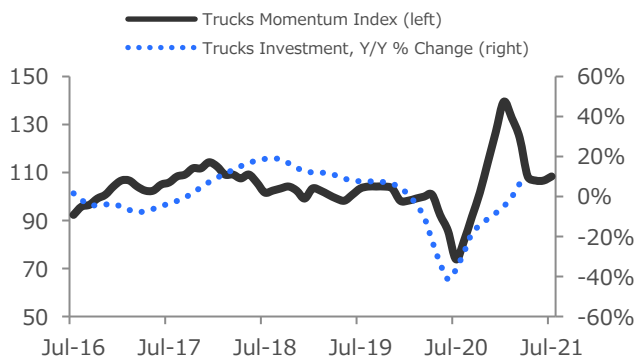


Railroad Equipment:

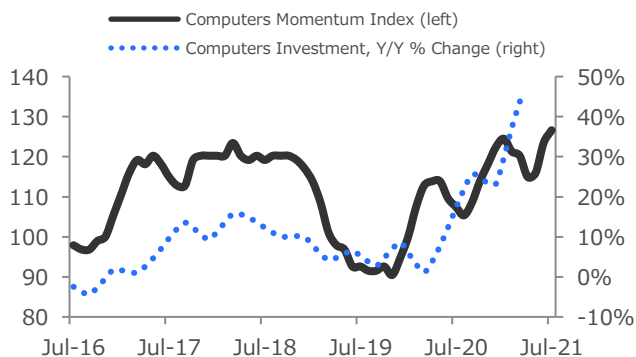
Investment in Railroad Equipment surged 55% (annualized) in Q1 2021 but is down 5.6% year-over-year. The Railroad Equipment Momentum Index decreased from 101.4 (revised) in June to 98.3 in July. Industrial Production of Mining increased 1.2% in May and Oil and Gas Rig Counts rose 4.7% in June. Overall, position of the Index and recent movement suggest investment in railroad equipment may improve over the next six months.

**Trucks:**

Investment in Trucks grew 11% (annualized) in Q1 2021 and is up 6.8% from year-ago levels. The Trucks Momentum Index rose from 106.7 (revised) in June to 108.4 in July. In May, Earnings for Freight Trucking rose by 2.6% and Manufacturers' Inventories of Light Trucks & Utility Vehicles grew by 2.8%. Overall, the Index's recent movement indicates that investment growth could strengthen over the next two quarters.

**Computers:**

Investment in Computers surged 52% (annualized) in Q1 2021 and is up 44% year-over-year. The Computers Momentum grew from 123.4 (revised) in June to 126.6 in July. In May, Capacity Utilization for Computer & Electronic Product Manufacturing increased by 1.2% and Industrial Production of Computers & Computer Peripheral Equipment rose by 5.5%. Overall, the Index suggests that computers investment growth should remain strong in the near term.

**Software:**

Investment in Software increased 25% (annualized) in Q1 2021 and is up 9.2% from a year prior. The Software Momentum Index rose from 104.9 (revised) in June to 108.3 in July. In May, NFIB Small Business Survey Capital Expenditure Sub-Index was unchanged at its highest level this year, while Prices for Computer Software & Accessories increased by 1.0%. Overall, the Index suggests that software investment growth should remain robust and may even accelerate over the next six months.

