

December 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.

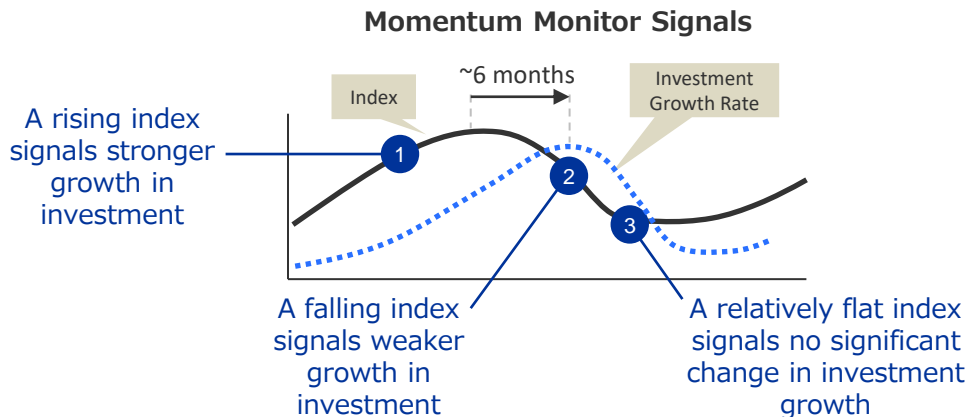
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- | | |
|-----------------------------------|-----------------------|
| 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:

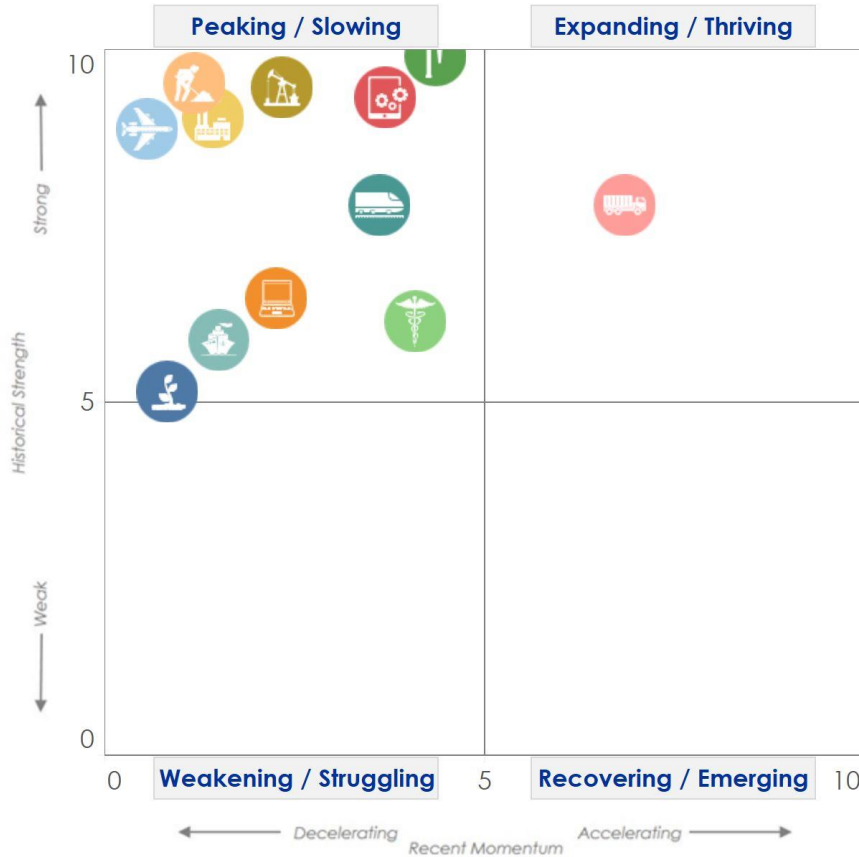
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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

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Momentum Monitor Sector Matrix



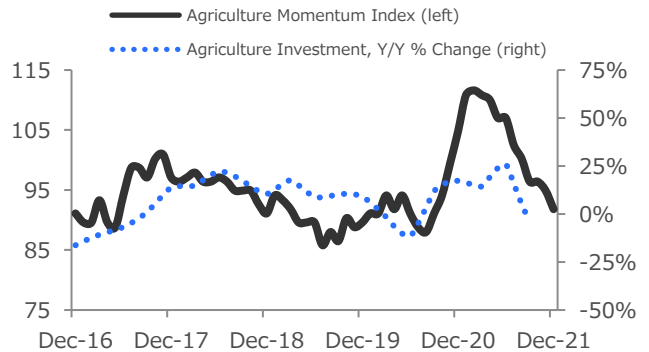
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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.

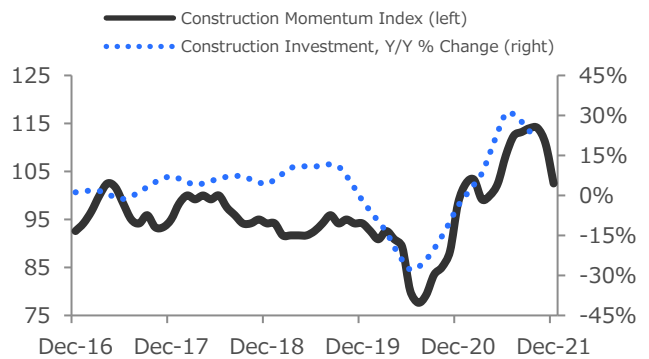
Agriculture Machinery:

Investment in Agricultural Machinery declined 12% (annualized) in Q3 2021 and is down 4.3% from one year ago. The Agriculture Momentum Index eased from 94.9 in November (revised) to 91.8 in December. Exports of Poultry Broilers fell 8.2% in September and Agricultural Machinery Industrial Production plunged 17.8% in October. Overall, the Index's position and recent movement suggest that agriculture machinery investment growth will continue to decelerate over the coming six months.



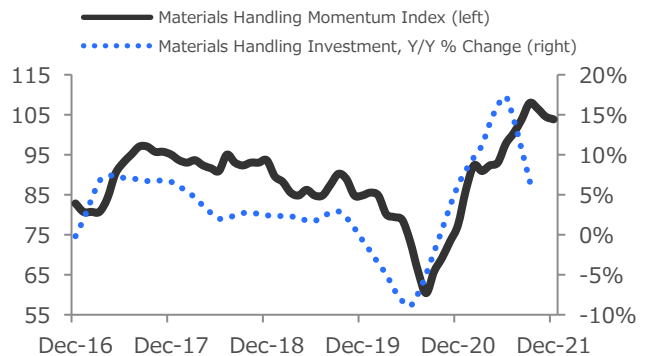
Construction Machinery:

Investment in Construction Machinery rose 20% (annualized) in Q3 2021 and is 24% above its year-ago level. The Construction Momentum Index dropped from 110.7 in November (revised) to 102.5 in December. Shipments of Construction Machinery fell 4.6% in October while Housing Permits rose 4.1% in October. Overall, the Index's position and recent movement point to decelerating construction machinery investment growth over the coming two quarters, though growth will likely remain in positive territory.



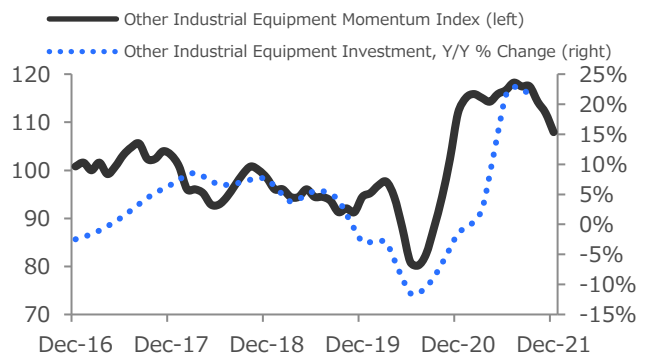
Materials Handling Equipment:

Investment in Materials Handling Equipment decreased 4.7% (annualized) in Q3 2021 but is up 6.6% from year-ago levels. The Materials Handling Momentum Index edged down from 104.5 in November (revised) to 103.8 in December. Inventories of Materials Handling Equipment increased by 2.5% in October while the S&P Composite 1500 Industrials Index fell by 3.0% in November. Overall, the Index's current position suggests that materials handling equipment investment growth has likely peaked, though growth should remain in positive territory over the next six months.



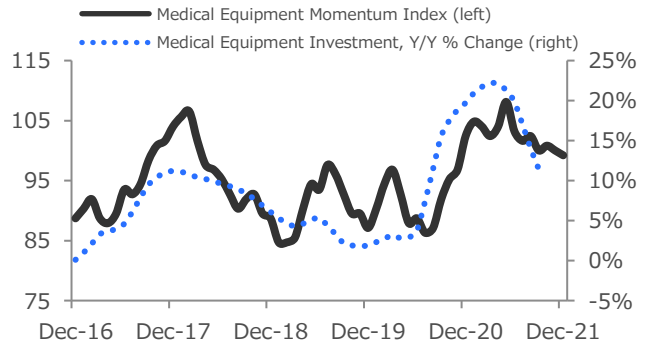
Other Industrial Equipment:

Investment in All Other Industrial Equipment expanded 13% (annualized) in Q3 2021 and rose by 22% Y/Y. The Other Industrial Equipment Momentum Index decreased from 111.9 in November (revised) to 107.9 in December. Export Prices of Industrial Supplies & Materials rose by 3.2% in October while Machinery Industrial Production fell 1.3% in October. Overall, the Index's recent movement and position point to slowing other industrial equipment investment growth over the coming two quarters.



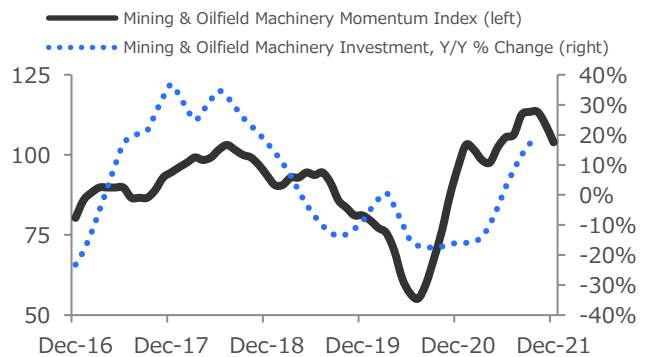
Medical Equipment:

Investment in Medical Equipment rose 9.9% (annualized) in Q3 2021 and is up 12% year-over-year. The Medical Equipment Momentum Index edged down from 100.0 in November (revised) to 99.2 in December. In October, the Consumer Price Index for Medical Care Services edged up by 0.5% while Medical Equipment and Supplies Industrial Production decreased by 1.1%. Overall, the Index's current position and recent movement suggest that medical equipment investment growth should remain in positive territory, though growth will likely decelerate over the coming six months.



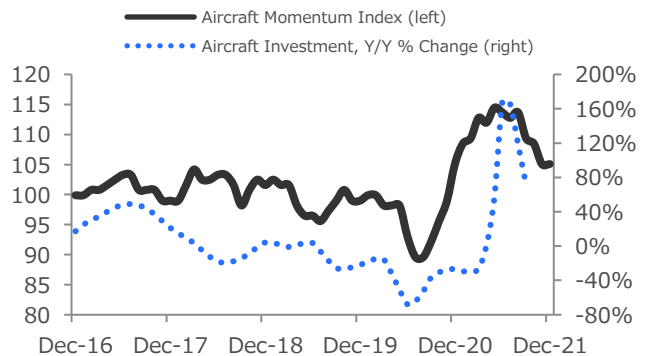
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery increased 21% (annualized) in Q3 2021 and is 17% above year-ago levels. The Mining & Oilfield Machinery Momentum Index fell from 109.4 in November (revised) to 103.9 in December. While Mining, Oil, and Gas Field Machinery Inventories increased by 0.8% in October, the Brent Spot Price fell by 11.7% in November. The current position of the Index suggests that mining & oilfield machinery investment growth should stay strong over the next six months.



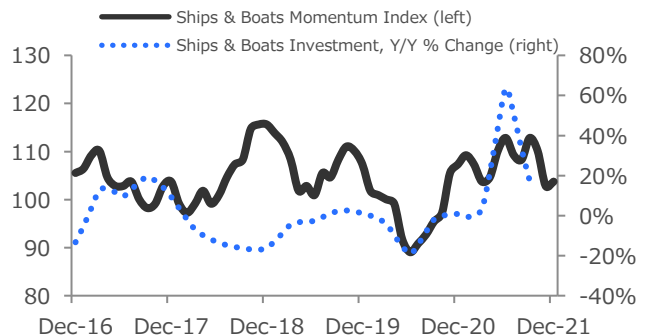
Aircraft:

Investment in Aircraft fell 3.6% (annualized) in Q3 2021 but is 72% above year-ago levels. The Aircraft Momentum Index held steady at 105.1 from November (revised) to December. Shipments of Non-Defense Aircraft & Parts fell by 3.7% in October while the S&P 500 Volatility Index increased 67.2% in November. Overall, the Index's recent movement and position indicate that aircraft investment growth will likely decelerate over the next six months, though growth is expected to remain in positive territory.



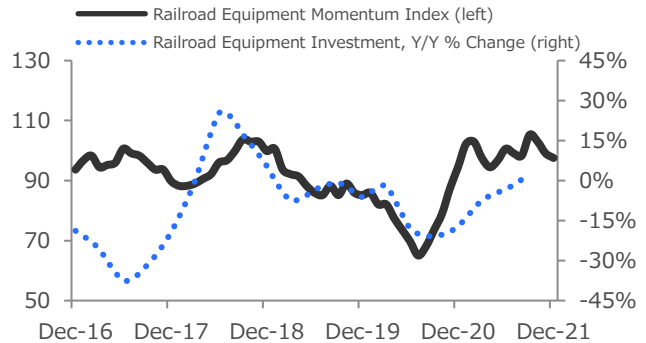
Ships & Boats:

Investment in Ships & Boats decreased at an annualized rate of 21% in Q3 2021 but is 17% above its year-ago level. The Ships & Boats Momentum Index increased from 102.8 in November (revised) to 103.7 in December. Inventories of Ships and Boats increased by 3.3% in October while the University of Michigan Consumer Sentiment Index fell 6.0% in November. Overall, the Index's position suggests that ships & boats investment has likely peaked, though investment is expected to remain in healthy territory over the coming two quarters.



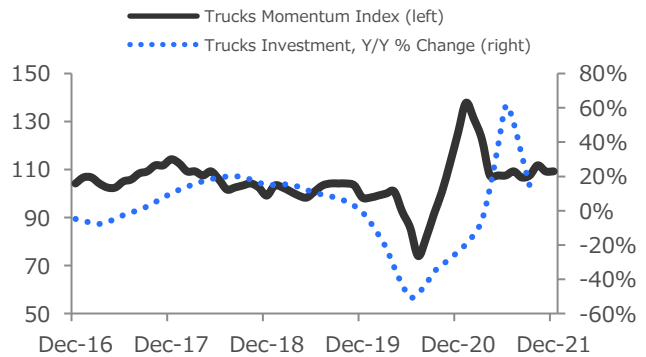
Railroad Equipment:

Investment in Railroad Equipment grew 21% (annualized) in Q3 2021 and is up 2.9% year-over-year. The Railroad Equipment Momentum Index eased from 99.1 in November (revised) to 97.5 in December. In November, the Oil and Gas Rig Count increased 5.2% while Rail Carloads of Metallic Ores & Metals fell by 11.5%. Overall, the current position of the Index suggests that railroad equipment investment growth should continue to accelerate over the next six months.



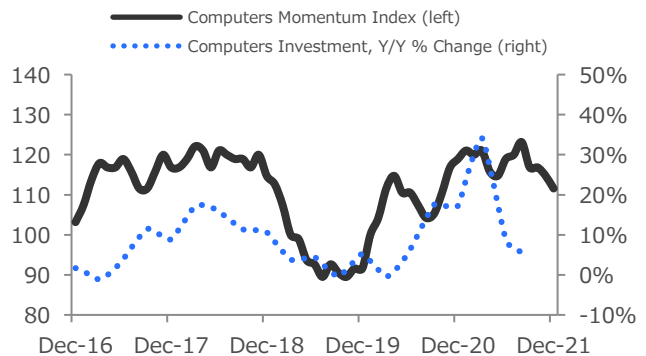
Trucks:

Investment in Trucks fell 28% (annualized) in Q3 2021 but is up 14% from year-ago levels. The Trucks Momentum Index held steady at 109.2 (revised) in December. In October, Manufacturers' Inventories of Light Trucks & Utility Vehicles fell by 3.8% while Motor Vehicles and Parts Industrial Production surged 11%. Overall, the position and recent movement of the Index indicate that trucks investment growth should remain healthy over the coming two quarters.



Computers:

Investment in Computers increased 14% (annualized) in Q3 2021 and is up 5.8% year-over-year. The Computers Momentum Index fell from 114.7 in November (revised) to 111.6 in December. Computers & Electronic Products Exports decreased by 2.4% in September while Manufacturers' Inventories in Information Technology Industries rose by 0.4% in October. Overall, the Index suggests that computers investment growth is unlikely to accelerate over the next six months.



Software:

Investment in Software increased 11% (annualized) in Q3 2021 and is up 15% from a year prior. The Software Momentum Index edged up from 104.7 in November (revised) to 105.9 in December. Prices for Computer Software & Accessories increased by 3.3% in October and the ISM Nonmanufacturing Business Activity Index grew by 6.9% in November. Overall, the position of the Index suggests that software investment growth may have peaked, though growth should remain robust in the coming six months.

