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

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 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.
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 dropped 39% (annualized) in Q2 2020 and is down 16% from one year ago. The Agriculture Momentum Index improved from 90.3 (revised) in September to 93.3 in October. In August, the M1 Money Supply rose 1.2%, but Lamb & Mutton Production fell 11%, the sharpest monthly decline since late 2019. Overall, the Index suggests that agricultural machinery investment growth may have hit a turning point and should begin to improve over the next six months.

Construction Machinery:
Investment in Construction Machinery collapsed 44% (annualized) in Q2 2020 and is down 27% year-over-year. The Construction Momentum Index rose from 80.2 (revised) in September to 83.5 in October, though remains exceptionally weak. In August, Privately Owned Homes Under Construction rose 1.5%, and the Commercial Property Price Index was down 14 points from February levels. Overall, the Index points to continued weakness in construction machinery investment over the next 1-2 quarters, but recent movement is encouraging.

Materials Handling Equipment:
Investment in Materials Handling Equipment fell at a 13% annualized rate in Q2 2020 and is down 7.3% year-over-year. The Materials Handling Momentum Index increased from 70.2 (revised) in September to 73.0 in October. Industrial Sector Energy Consumption fell 1.9% in June, while Private Warehouse Construction Spending eased 0.8% in August. Overall, the Index indicates continued contraction in materials handling equipment investment over the next six months.

Other Industrial Equipment:
Investment in All Other Industrial Equipment contracted at a 28% annualized rate in Q2 2020 and dropped 11% from a year ago. The Other Industrial Equipment Momentum Index jumped from 84.9 (revised) in September to 91.3 in October, a marked recovery from July lows. In July, the Merchant Wholesale Industries Inventory-Sales Ratio fell 3.6% in July, but Domestic Manufacturing & Trade Sales improved 2.0%. Overall, the Index points to a rebound in other industrial equipment investment growth over the next 1-2 quarters.
Medical Equipment:
Investment in Medical Equipment jumped 15% (annualized) in Q2 2020 and improved 2.5% year-over-year. The Medical Equipment Momentum Index improved from 90.1 (revised) in September to 91.6 in October. In August, Medical Equipment and Supplies Industrial Production rose 1.9%, but Consumer Prices for Physician’s Services inched up 0.1%. Overall, the Index points to continued growth in medical equipment investment over the next six months.

Mining & Oilfield Machinery:
Investment in Mining & Oilfield Machinery pulled back at a 55% annualized rate in Q2 2020 and fell 13% compared to a year ago. The Mining & Oilfield Machinery Momentum Index improved from 68.8 (revised) in September to 73.4 in October. Motor Gasoline Production grew 3.6% in August, while the Brent Spot Price fell 11% in September. Overall, the Index points to a potential improvement in mining & oilfield investment growth over the next six months, though the global recession is likely to remain a significant headwind for energy demand.

Aircraft:
Investment in Aircraft plummeted 99% (annualized) in Q2 2020 and is 72% below year-ago levels. The Aircraft Momentum Index inched up from 96.5 (revised) in September to 97.3 in October. Civilian Aircraft Exports pulled back 32% in July, and the S&P 500 Volatility Index eased 0.2% in September. Overall, the Index points to continued negativity in aircraft investment growth over the next six months.

Ships & Boats:
Investment in Ships & Boats collapsed at an annualized rate of 64% in Q2 2020 and is down 21% year-over-year. The Ships & Boats Momentum Index improved from 94.6 (revised) in September to 98.2 in October. In August, the Emerging Market Economies Currency Index declined 1.0%, but Houston Shipping Container Traffic improved 5.9%. Overall, the Index points to continued contraction in ships & boats investment, though recent movement is encouraging.
Railroad Equipment:
Investment in Railroad Equipment declined 40% (annualized) in Q2 2020 but is up 3.4% year-over-year. The Railroad Equipment Momentum Index edged up from 73.5 in September (revised) to 75.1 in October. In September, Rail Carloads of Coal fell 42%, but the Unemployment Rate eased 0.5 point to 7.9%. Overall, the Index suggests a modest improvement in railroad equipment investment growth over the next two quarters.

Trucks:
Investment in Trucks nosedived at an 82% annualized rate in Q2 2020 and is down 41% from year-ago levels. The Trucks Momentum Index surged from 84.7 (revised) in September to 96.6 in October. Manufacturers' Inventories of Light Trucks & Utility Vehicles declined 1.3% in July, however, Earnings for Freight Trucking grew 1.4% in August. Overall, the Index points to a potential recovery in trucks investment growth over the next two quarters.

Computers:
Investment in Computers surged 85% (annualized) in Q2 2020 and is up 12% year-over-year. The Computers Momentum Index inched up from 105.3 (revised) in September to 108.4 in October. In August, Capacity Utilization for Computer & Electronic Product Manufacturing increased 0.6 point to 73.2%, but New Orders of Defense Search & Navigation Equipment eased 2.3%. Overall, the Index suggests that computers investment growth should remain solidly positive over the next six months.

Software:
Investment in Software declined 5.9% (annualized) in Q2 2020 but is up 4.9% from a year ago. The Software Momentum Index improved from 93.9 (revised) September to 95.5 in October. NFIB Interest Rate Paid on Short-Term Loans increased 0.7 point to 4.8% in August, but the S&P 500 Information Technology Index fell 5.6% in September. The Index suggests that software investment growth should continue to strengthen over the next two quarters.