2012 Equipment Leasing & Finance U.S. Economic Outlook

EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye On The Future

The Foundation is the only research organization dedicated solely to the equipment finance industry.

The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

The Foundation research is independent, predictive and peer-reviewed by industry experts. The Foundation is funded solely through contributions. Contributions to the Foundation are tax deductible.

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KEYBRIDGE RESEARCH

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TABLE OF CONTENTS

About This Study

The Equipment Leasing & Finance Foundation (the Foundation) recognized that with a wide variety and increasing complexity of economic data available to the public, the best way to utilize key equipment leasing data was to have it all in one place, where business leaders can access it easily and quickly, thus assisting them in making the best business decisions.

Partnering with Keybridge Research, LLC, the Foundation was able to produce this economic outlook report specific to our industry. This report includes a look ahead at 2012, and will be followed by a series of quarterly updates throughout the year.

Industry-specific data within the report include "Key Signposts," which are leading indicators for the direction of growth in equipment investment. The outlook report also includes an analysis of capital spending in the United States as well as an evaluation of the effects on capital spending by various related and exogenous factors in play in the current time frame and into the foreseeable future.

2012 Equipment Leasing & Finance U.S. Economic Outlook December 2011

SUMMARY

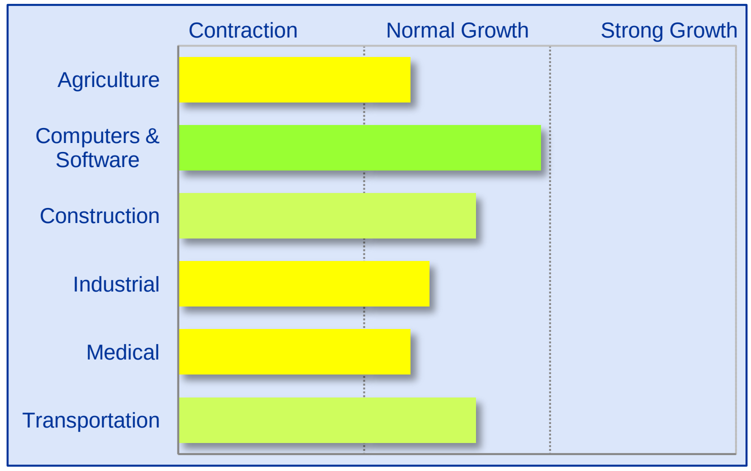
- Overall, investment continues to be a bright spot in the U.S. economy. In particular, investment in equipment & software has grown steadily for 8 straight quarters. Expectations for 2012 are for growth to moderate slightly, but remain positive overall.
- Summary of Trends in Equipment Investment:
  - *Agriculture equipment* investment is likely to decelerate slightly in the next 3-6 months.
  - *Computers & Software equipment* investment will remain healthy, but is likely to slow down somewhat.
  - *Construction equipment* investment is likely to slow in the immediate near term, but could be buoyed by the energy and housing sectors later in 2012.
  - *Industrial equipment* investment will likely be hampered by macro-trends, which may cause some deceleration in growth from what appears to be a recent peak in the growth rate.
  - *Medical equipment* is on watch for a leveling-off in investment spending. Investment growth rates, while positive, have softened for six straight quarters and could bottom out in late 2012. Still, we anticipate near-normal growth in the next 3-6 months.
  - *Transportation equipment* investment should remain solidly positive, but is unlikely to maintain the rapid growth rates of 2011.
- Credit market conditions are improving slowly as demand for financing grows and supply constraints gradually ease. However, the growth rate of investment in equipment and software is likely to remain moderate until demand puts more pressure on capacity. Based on our outlook for moderate economic growth in 2012, and the overhang of excess industrial capacity, we predict that investment in equipment & software will increase by 8% to 10% in 2012, compared to about 10.5% in 2011.
- Conditions remain favorable for financing versus leasing. Interest rates are near record lows and are likely to remain low through 2012. The Federal Reserve has begun to implement an “Operation Twist” to bring down long-term rates even further. Financial conditions remain volatile, driven by events in Europe, but overall conditions tend to favor purchasing over leasing.
- For the overall economy, recent revisions to U.S. GDP show that the 2008-09 recession was deeper and the recovery has been weaker than previously estimated. While investment has buoyed an otherwise weak economy, employment and consumer demand have been tepid. Significant headwinds in the form of persistently high oil prices, household deleveraging, weakened consumer confidence, and the Eurozone financial crisis have all combined to restrain growth prospects for 2012.
- Our macro outlook for 2012 is for a slow improvement, as we expect that impediments to growth will gradually dissipate and more positive cyclical trends will kick in later in the year. Compared to the consensus forecast of 2.0% growth for 2012, we predict slightly faster growth of 2.4%. This implies that the unemployment rate will remain at 8% or higher by the end of 2012.

KEY SIGNPOSTS FOR EQUIPMENT INVESTMENT: 3- TO 6-MONTH OUTLOOK

Summary

Investment has been a driving force in the U.S. economy over the past two years, with several sectors experiencing rapid expansion. Although we expect continued growth in overall equipment investment, leading indicators suggest that the recent trends of higher-than-normal growth are fading. In addition, the industrial capacity overhang may preclude major investments in property and plants in the coming year which should result in equipment investment increasing at a more typical pace.

Key Signposts "Heat Map" Growth Chart



Agriculture Equipment: The lone leading indicator has grown at a pace of 3.2% during the last year, but recent data suggests that growth in agriculture equipment investment may slow in the coming months. Additionally, with the current Farm Bill set to expire at the end of September 2012, legislative action is likely to play a significant role in the coming year. Over the past 25 years, investment has tended to slow in the months leading up to passage of each Farm Bill, and has then typically increased in the months following passage. Further complicating matters, the House and Senate Agriculture Committees responsible for authorizing the Farm Bill reached a tentative bipartisan agreement to cut $23 billion from farm programs as part of the "super committee's" deliberations on controlling the deficit. However, in light of the committee's recent failure, it is possible that this tentative agreement will be revisited, and agricultural interests will likely seek to reduce the proposed cuts. Despite the investment growth seen in the third quarter, we expect the uncertainty of future federal support for agriculture will cause investment growth to slow in 2012.

Computers & Software: The leading indicators for computer & software investment are both expanding, although not at the rate seen in the last 2 years. As a result, the quarter-quarter annualized growth rate of investment, which has averaged 12% since 2009 Q4, is likely to remain firmly positive in the next two quarters.

Construction Equipment: Investment in construction equipment has more than doubled in the last 2 years and reached a record-high in 2011 Q3. However, the signposts for construction equipment investment suggest that this rapid rate of growth is unsustainable. Accordingly, near-term growth expectations should be tempered. By late 2012, we look for the energy sector and a cyclical upturn in housing to spur spending on construction equipment.

Industrial Equipment: Investment in industrial equipment has been expanding since mid-2009 and has recaptured roughly two thirds of the losses experienced during the recession. This upward trend was signaled by all three leading indicators moving in a positive direction over the last 12 months. Looking forward, however, the most recent data suggest that the growth rate of investment in industrial equipment may have recently reached a peak earlier this year and is likely to slow. Still, it should remain positive over the next 3-6 months.

Medical Equipment: This sector has seen growth averaging 5.5% year-on-year in 2011, but growth rates seem to have peaked in 2010 and turned negative in 2011 Q3 for the first time since 2009. While leading indicators are mixed, they generally point to a year-on-year growth rate of medical equipment investment in the low-single digits.

Transportation Equipment: During the recession, investment in transportation equipment plummeted 67% to levels not seen since the mid-1970s. Although the sector has not yet fully recovered, investment has more than doubled since 2009. Signposts are somewhat mixed, but overall the recent rapid expansion in investment is likely to fade to more typical growth levels. If history repeats itself, transportation equipment investment will take another 2-3 years to return to pre-recession levels, implying an average annual growth rate of around 10%.

Key Signposts for Equipment Investment

(Estimated growth rate ranges are on a quarter-quarter annualized basis)

Leading Indicator	Most Recent Data Point	Recent Trend	3-6 Month Signal & Annualized Growth Rate Range
Agriculture Equipment			***Slowing Growth (4% to 6%)***
Texas Index of Leading Indicators (SA)	119.7 (Oct)	Down 1.9% over the last six months, but up 2.7% on the year	Slowing growth
Computers & Software			***Above Average Growth (10% to 14%)***
ISM Nonmanufacturing Composite Index (SA)	52.0 (Nov)	Down slightly over the past 6 months, but still in a growth phase	Normal growth
Business Roundtable CEO Economic Outlook Survey	77.6 (Q3)	Down 23% year-on-year, but levels suggest continued solid growth	Above average growth
Construction Equipment			***Normal Growth (7% to 11%)***
HMI: Sales of New Single-Family Detached Homes Index (SA), Next Six Months	25 (Nov)	Unchanged since last November and well below pre-recession levels, but up 32% last 6months	Normal growth
New Private Housing Building Permits (SAAR, Thousand Units)	644 (Oct)	Up 16% year-on-year, up 14% over the last six months	Normal growth
Industrial Equipment		****TURNING POINT ALERT****	***Slowing Growth (6% to 9%)***
Capacity Utilization (SA)	77.8% (Nov)	Up 2.6% from last year; Recent data indicate a peak growth rate in Q2	Investment growth rate may have peaked; Growth likely to slow to normal levels
Manufacturers' New Orders (SA, $Mil)	3,020 (Oct)	Down 20% year-on-year, but up 9% in the past 3 months	Investment growth rate may have peaked; Growth likely to slow to normal levels
Industrial Production Index (SA)	94.8 (Nov)	Up 3.7% year-on-year, but has recently slowed	Investment growth rate may have peaked; Growth likely to slow to normal levels
Medical Equipment			***Slow to Normal Growth (2% to 4%)***
Hospital In-patient Days (Thousands)	55,206 (Q3)	Up 0.3% year-on-year	Normal growth
PPI: Medical & Diagnostic Labs	109 (Nov)	Up 0.5 year-on-year; up 1.0% since January 2011	Slow growth
Nursing & Residential Care Facilities Total Revenue ($Mil)	49,378 (Q3)	Up 4.3% year-on-year	Normal growth
Transportation Equipment			***Normal Growth (8% to 12%)***
Philadelphia Fed Business Outlook Survey, Future Activity	44.1 (Dec)	Down 20% year-on-year, and highly volatile in recent months; Up 106% in the past 3 months	Above average growth
Real PCE: Motor Vehicles & Parts (SAAR, Bil.Chn.2005$)	343.7 (Q3)	Up 4.8% year-on-year, down 6.7% over the last 2 quarters	Slowing growth

How to Use the Key Signposts

Key Signposts are leading indicators for turning points in the equipment investment cycle, and also the direction of growth in equipment investment. "Turning Points" are defined as any point where the annualized growth rate is at a two-year high or low. The signposts are designed to analyze the 6 largest subsectors of equipment investment, as defined by the U.S. Department of Commerce's National Income & Product Accounts. These indicators have been chosen based on their ability to consistently and accurately identify future trends in equipment investment with a lead time of 3 to 6 months. For each investment subsector, the signposts should be interpreted together—providing either reinforcing or counter-balancing signals. There are three components of the signpost analysis that can be used to identify the direction of growth in major sectors of the equipment financing industry:

(1) The summary provides a narrative for each investment sector.
(2) The "heat map chart" shows which investment sectors are poised to contract, or grow at a normal or strong pace.
(3) The data table lists the most recent data, recent trends, and the investment growth signal provided by each indicator.

U.S. MACRO OUTLOOK

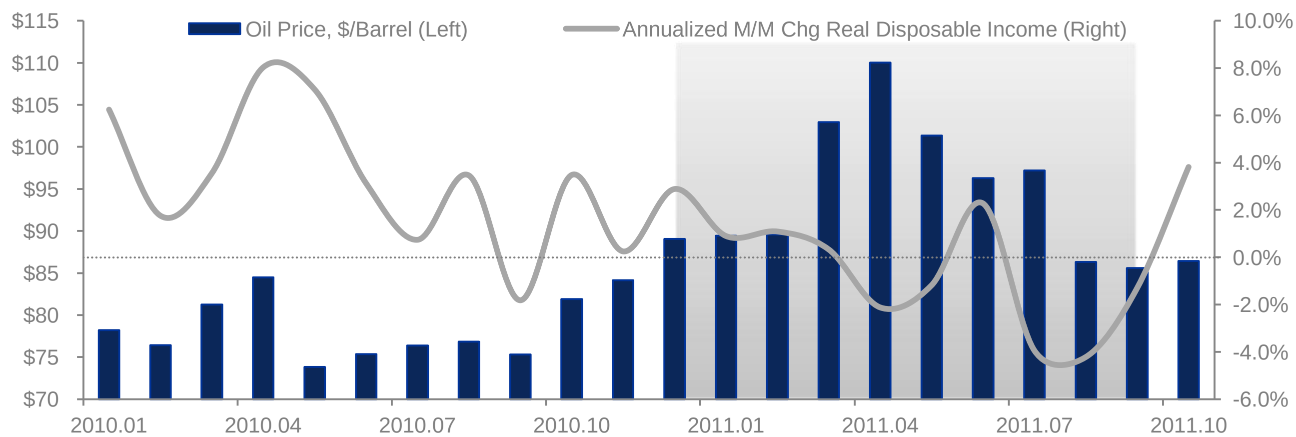
Review of Recent Economic Trends

The 2008-09 recession was deeper than originally thought. The recovery has been hampered by high oil prices, household deleveraging, lack of confidence in policymakers, and the European debt crisis. Conditions for equipment investment remain positive, though growth rates are likely to decline slightly in 2012.

Normal summertime 3-year revisions to U.S. GDP data show that the recession of 2008-09 was deeper and the recovery has been weaker than previously estimated. Real GDP increased at an annual rate of just 0.4% in the first quarter of 2011, 1.3% in the second quarter, and 2.0% in the third quarter. This relatively weak showing was due in large part to a series of special external factors, including the impact of a sharp spike in oil prices, persistent Greek debt problems that have undermined economic growth in Europe, and the Japanese earthquake that disrupted global supply chains, especially in the auto sector. Additionally, consumer confidence plummeted during the painful debt ceiling debate this summer. The consensus view among economists is that real GDP growth will be only 1.7% in 2011 (down from about 2.8% growth expected before the data revisions). Several factors have been behind the recent economic slowing:

- **High Oil Prices**: In the wake of the Arab Spring and the loss of Libyan oil production last winter, oil prices spiked upward, as shown in Figure 1. As a nearly direct result, real disposable income growth essentially vanished. In fact, from December 2010 through May 2011—just as oil prices were surging—real disposable income was nearly stagnant.

Pressure from Oil Prices on Real Disposable Income



- **Continued Deleveraging**: While households have made significant improvements to their balance sheets, and monthly debt servicing obligations appear to be in a manageable range, the deleveraging cycle continues to hamper consumer spending.

- **U.S. Debt Ceiling Debate**: The poor handling of the U.S. debt ceiling debate and the subsequent downgrade of U.S. Treasury securities by S&P sent a shockwave through the financial markets and badly depressed consumer confidence. The two-month drop in the University of Michigan's Consumer Confidence Index following the downgrade was 16 points—greater than the drops in the two months after all major events in the past 30 years except for Hurricane Katrina.

The Crisis of Confidence in Government Becomes Self-Fulfilling

Drop in Consumer Confidence Index in the 2 Months Following Major Events

1980: Iran Hostage Crisis	1990: Iraq Invades Kuwait	2001: 9/11	2005: Hurricane Katrina	2008: Lehman Brothers Collapse	2011: Debt Ceiling Debate
-14.2	-15.4	-8.8	-19.6	-15.0	-16.1

- **The European Debt Crisis**: The European sovereign debt crisis reached new heights in late summer and autumn. The turmoil in the periphery countries, particularly Greece, has threatened to set off a domino effect in global financial markets. As a result, European interest rates and CDS spreads (the cost to insure against default) have risen significantly. While the European Central Bank, European Commission, International Monetary Fund, and political leaders are engaged in intense negotiations, this situation is partially to blame for depressed global markets.

Review of Key Economic Indicators

> *Key Points:*
> - *Consumer spending has slowed as oil prices have increased.*
> - *Investment spending has been the one bright spot in an otherwise weak recovery.*
> - *Government spending has turned into a headwind.*
> - *Exports are growing at a slower pace.*
> - *Employment is still weak but improving.*
> - *Inflation may be leveling off.*

- **Consumer spending** continues to improve, but at a slower pace than in late 2010. Adjusted for inflation, personal consumption expenditures increased at a 2.3% annual rate in the 3rd quarter of 2011, following increased of 0.7% and 2.1% in the 2nd and 1st quarters, respectively. However, the relatively slow growth rates during the first half of the year were not surprising in the context of rising oil prices.

- **Investment spending** continues to improve and has been a key engine of U.S. economic growth for the past few quarters. Investment spending for equipment and software, the main capital spending category, increased at a 15.6% annual pace in the 3rd quarter, following 6.3% in the 2nd quarter, and 8.7% in the 1st quarter. An important development has been the continuing turnaround in investment in nonresidential structures (including office buildings, plants, and retail space). Residential investment (i.e., new home building and additions) increased 1.6% in the 3rd quarter, following a 3.4% increased in the 2nd quarter, and a decrease of 2.5% in the 1st quarter of the year.

- **Government spending** has been a significant drag on economic growth throughout 2011. Real federal government expenditures increased at an annual rate of 1.9% in the 3rd and 2nd quarters, compared with a sharp decreased of 9.4% in the 1st quarter. In response to intense budget pressures, state and local government spending continues to decline—decreasing by 1.4% in the 3rd quarter, 2.8% in the 2nd quarter, and 3.3% in the 1st quarter.

- **Exports** (after adjusting for inflation) increased at an annual rate of 4.3% in the 3rd quarter, compared to 3.6% in the 2nd quarter, and 7.9% in the 1st quarter.

- **Employment** has improved slowly in 2011. Revised payroll figures showed an increase of 120,000 in November, 100,000 in October, and 210,000 in September. Government payrolls decreased by 47,000 in the past three months, led by losses at the state and local levels. Private-sector payrolls increased by a net of 477,000 during the past three months. The unemployment rate remained relatively steady around 9% for most of 2011, but fell to 8.6% in November.

- **Inflation** remains fairly well contained so far in this business cycle, but momentum has been building in 2011. The Consumer Price Index (CPI) decreased by 0.1% in October, but is up about 3.6% in the past 12 months. "Core inflation" (i.e., excluding food and energy costs) is up from historical lows to 2.1% year-on-year growth.

2012 Economic Outlook

> Due to continued downward pressure from multiple headwinds, the economic data continue to be mixed—with a reasonably strong investment sector, tepid consumer spending, and weak labor markets. As a result, the consensus estimate for growth in 2012 is a mere 2.0%. However, we believe that impediments to growth will continue to slowly dissipate while cyclical forces will gain positive momentum during the course of 2012, resulting in the U.S. slightly beating expectations. Overall, for 2012 we expect:
> - Growth for 2012 is more likely to be closer to 2.4%, with a pick-up in the second half of the year.
> - Our growth forecast is consistent with unemployment of 8% or greater throughout the year.
> - Inflation will ease to around 2.3% as pressures from energy & commodities are subdued.

Key Factors That May Influence 2012 Economic Forecast

Looking forward, there are multiple factors that could significantly influence this economic forecast:

> *Key Factors for 2012:*
> - *Deleveraging isn't over.*
> - *No immediate end to political gridlock.*
> - *Fiscal contraction won't be as bad as many think.*
> - *Elections create uncertainty.*
> - *The Fed will remain accommodative.*
> - *Cyclical trends could pick up.*
> - *High oil prices and the eurozone crisis are the greatest sources of risk.*

- **Is the deleveraging cycle over?** In short, no. However, with interest rates likely to remain low through 2012, the effects of deleveraging will continue to gradually dissipate, adding strength to consumer demand.
- **How will oil prices affect consumer spending?** Our current forecast assumes that oil prices remain persistently high (above $85 per barrel) for at least the first half of 2012. This would reduce real disposable income and dampen consumer spending. Lower oil prices would be a welcomed development—a sustained $10 decline in oil would add about 0.3 percentage points to GDP growth.
- **How will political gridlock affect business activity?** With the nearly pre-destined failure of the Congressional "Super Committee" on deficit reduction, and entering what should be a highly competitive election year, it seems unlikely that Democrats and Republicans will be able to agree on much of anything in 2012. The White House and the House Republicans are at an impasse on two important issues: a significant further debt reduction package (beyond the $2.1 to $2.4 trillion debt ceiling deal), and a comprehensive stimulus package that might boost employment in 2012.
- **Will fiscal contraction hit GDP?** Not likely in 2012. The debt ceiling negotiations did bring some deficit reduction, but virtually all of the spending cuts (except for about $25 billion) will not take effect until 2013. While President Obama's "Jobs Bill" failed to get through Congress, it appears that the 2% payroll tax holiday will be extended. There is less certainty about Congress extending emergency unemployment benefits, which would reduce unemployment insurance from 99-weeks back to 26-weeks by mid-February 2012. Together, this suggests a modest fiscal contraction, likely subtracting just 0.2 to 0.3 percentage points from real GDP in 2012—not the 1.0 or 1.5 percentage points predicted by some investment banks.
- **Will the election keep cash on the sidelines?** The latest flow of funds data show that corporate cash levels reached a new record of $2.1 trillion in the second quarter, up from $1.9 trillion in the first quarter. This cash hoarding effect is mostly due to low demand, but also reflects businesses' uncertainty. Historical experience suggests that corporations tend to stockpile cash more than usual in competitive election years, which could be a retardant for capital spending in 2012.
- **How will the Fed react?** Every indication is that the Fed will keep the target Fed Funds Rate (the benchmark for all other interest rates) as low as necessary through 2013 to stimulate growth. The Fed is unlikely to raise interest rates until the economy is producing at least 250,000 jobs per month for 3 or more consecutive months while core inflation remains above 2%. In addition, the Fed will continue to implement an asset swap program, through which it will sell short-term securities that were purchased during QE2 and buy long-term Treasuries in an attempt to flatten the yield curve and make long-term borrowing, including mortgages, more attractive.
- **Are there any positive or negative cyclical trends?** The housing and auto sectors have been burning through excess capacity recently, and could be poised for a ramp-up in production in the second half of 2012. While home prices continue to decline, the pace of decent is leveling off, affordability remains at historically high levels, and October building permits hit their highest level since March 2010. The auto sector rebounded after the Japan-earthquake supply chain disruptions, and sales have steadily improved throughout the year
- **What will happen in the Eurozone and how will that affect the U.S.?** This might be the most unpredictable factor affecting U.S. growth. Although an agreement was reached on restructuring Greek's debt, and strict austerity measures were passed in several countries, there have been rising fears of bank insolvency and even a collapse of the Eurozone. Most recently, a group of central banks, including the U.S. Federal Reserve, agreed to measures to ease Europe's credit crunch. While this effort may buy some time, it is apparent that the EU requires a structural overhaul. Our view is that the process will be messy due to political realities, but

the European Central Bank, the European Commission, and the International Monetary Fund will create sufficient firewalls that will keep any default scenario relatively contained, and also make room for longer-term structural reforms.

Projections for Key Economic Indicators

Indicator	2010	2011e	2012e	2012 Quarterly Estimates			
				Q1e	Q2e	Q3e	Q4e
Real GDP (SAAR %)	3.0%	1.8%	2.4%	2.2%	2.3%	2.6%	2.7%
Real Investment in Equipment & Software (SAAR %)	4.4%	10.5%	9.0%	7.2%	7.5%	8.7%	9.0%
Inflation (annualized rate)	1.7%	3.2%	2.3%	2.5%	2.0%	2.2%	2.4%
Federal funds (effective)	0.18%	0.11%	0.17%	0.13%	0.16%	0.18%	0.19%
10-year Treasury Rate (end of period)	3.2%	2.2%	3.1%	2.5%	2.7%	2.9%	3.1%
Total Payrolls (in thousands)	+940	+1,536	+1,855	+400	+465	+480	+510

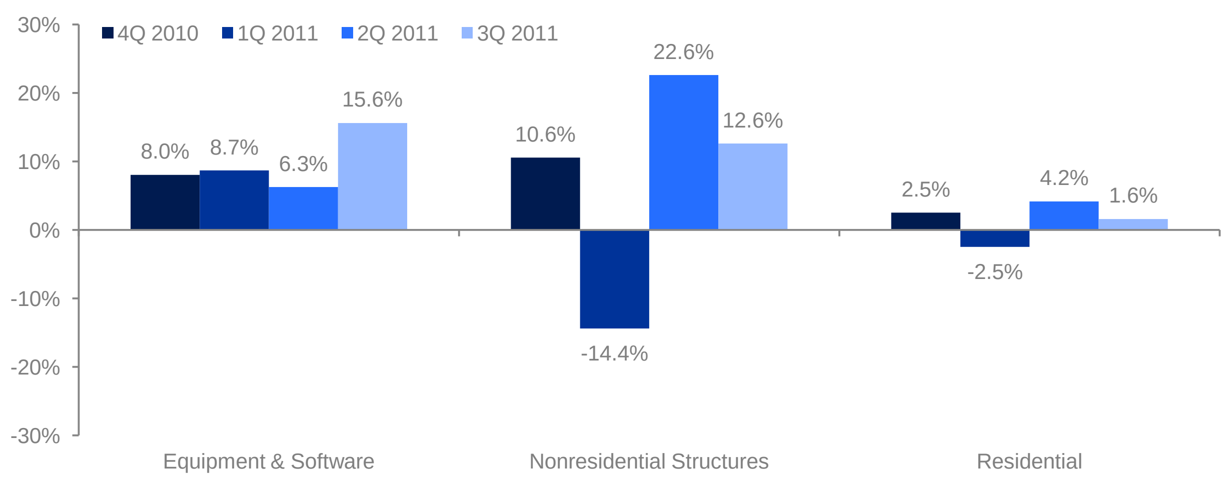
U.S. Capital Investment and Credit Markets

Review of Recent Trends

Investment activity has been the key sector moving the U.S. economy forward. Private fixed investment increased at an annualized rate of 12.3% in the 3rd quarter, up from 9.2% in the 2nd quarter. Equipment and software, which makes up about 60% of all investment continues to grow at a healthy pace, driven by a 32% annualized rate of growth in both industrial and transportation equipment, and 14% growth in computers. Investment in nonresidential structures (including office buildings, plants, and retail space) remained positive in the 3rd quarter, and residential investment (i.e., new home building and additions) slowed down but remains positive.

The investment sector has been the key factor contributing to U.S. economic growth. While credit conditions are slowly improving, and demand has picked up slightly, investment is likely to grow at a more moderate pace in 2012. In particular, the pace of retooling of equipment may be fading slightly, and an overhang of excess industrial capacity will likely preclude major investments in property & plants in the short-term.

Investment Growth Rates (SAAR %)



Conditions in the equipment leasing & financing industry have steadily improved throughout 2011. As of October, the Monthly Leasing and Financing Index (MLFI-25) shows that the 3-month rolling average of new business volume is up nearly 26% from the same time last year. Meanwhile, average losses as a percent of net receivables has fallen to 0.7%, near pre-recession levels, and the credit approval ratio is at 76.3%, levels consistent with 2006-07. All three signals point to increasing demand, improving credit quality of borrowers, and easing credit standards.

Overall, credit markets have improved in 2011 due to a moderate loosening of supply constraints, modest growth in lending demand, and significant reduction in financial stress indicators:

- **Credit Supply & Pricing**: Credit markets continued to ease on an absolute and relative basis throughout 2011. Interest rates recently hit record lows, with the 10-year Treasury falling below 2% for the first time since records were started in 1962. The latest Fed survey of banks' senior lending officers indicate that standards on C&I loans continue to loosen for the sixth straight quarter.

Summary of Credit Market Conditions

Factor	Condition
Supply	Slight Improvement
Demand	Slight Improvement
Financial Stress	Moderate Improvement

- **Credit Demand**: C&I loans have increased 9.5% year to year, including a 0.5% jump in November and 2.0% growth in the past three months. However, lending levels are still 19% below the peak in 2008. In the third quarter of 2011, banks of all sizes reported a net increase in the demand for C&I Loans for the third straight quarter. In October, 30% of small businesses reported borrowing at least once per quarter—on par with recent months, and 3-4 percentage points above recession levels. There also seems to be a dichotomy between intentions and actual behavior—for example, about 20% of small businesses reported an intention to make capital expenditures in the second half of 2011, but more than half actually did invest in new capital.
- **Financial Stress**: Financial stress throughout the corporate sector has eased considerably over the past 12 to 18 months. Loan delinquencies peaked in early 2010, and have since dropped below 6% (1.8% for C&I loans, and 1.0% for leases). Deleveraging in the nonfinancial corporate sector has eased, with debt outstanding as a percent of GDP hovering around 76%, compared with more than 80% during the recession. Spreads on corporate bonds have stayed relatively constant over the past year, but have widened slightly in recent months, reflecting weakness and uncertainty in the overall economy. The Fed has indicated it will keep interest rates low through mid-2013, making it easier for households and businesses to meet their debt obligations.

2012 Investment Outlook

A significant amount of excess industrial capacity suggests that major investments in new plants are unlikely in the near-term. Similarly, the growth rate of investment in equipment is likely to moderate until demand catches up to capacity. However, an unbalanced recovery could generate positive momentum in particular sectors—for example, energy and transportation. Based on our outlook for relatively modest economic growth in 2012, and the overhang of excess industrial capacity, we predict that investment in equipment & software will grow by 9.0% in 2012. All equipment investment sectors, in particular industrial and medical equipment, are showing some signs of deceleration that could lead to average to below-average growth in the coming year. Credit market conditions will remain favorable for financing versus leasing:

- Interest rates are near record lows, and are likely to remain low through 2012.
- The Federal Reserve is taking additional measures to bring down long-term rates.
- Financial stress has diminished, raising the relative attractiveness for purchasing versus leasing.

QUARTERLY DATA

Indicator	2009		2010				2011		
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Real Gross Domestic Product (SAAR %)									
GDP	1.7%	3.8%	3.9%	3.8%	2.5%	2.3%	0.4%	1.3%	2.0%
Consumer Spending	2.3%	0.4%	2.7%	2.9%	2.6%	3.6%	2.1%	0.7%	2.3%
Gross Private Fixed Investment	2.9%	36.8%	31.6%	26.4%	9.2%	-7.1%	3.8%	6.4%	-0.9%
Inv: Equipment & Software	6.5%	11.7%	21.7%	23.2%	14.2%	8.0%	8.7%	6.3%	15.6%
Inv: Industrial Equipment	-5.7%	0.0%	1.8%	41.3%	7.8%	9.9%	12.0%	-1.0%	31.6%
Inv: Transportation Equipment	4.7%	39.3%	210.3%	78.1%	45.2%	-0.6%	37.6%	15.1%	31.7%
Credit Conditions									
Nonfinancial Sector Debt (% of SAAR GDP)	80.8%	78.5%	77.6%	76.3%	75.9%	75.6%	75.8%	75.9%	75.8%
Loan Delinquency Rate	7.0%	7.3%	7.4%	7.2%	6.9%	6.3%	6.2%	6.0%	5.7%
Lease Delinquency Rate	2.5%	2.2%	2.2%	2.0%	1.8%	1.5%	1.2%	1.1%	1.0%
Net Tightening of C&I Loan Standards	31.5%	14.0%	-5.5%	-7.1%	-8.8%	-10.5%	-10.5%	-16.4%	-21.8%

MONTHLY DATA

Indicator	2010		2011										
	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov
Employment													
Change in Total Payrolls (thousands)	93	152	68	235	194	217	53	20	127	104	210	100	120
Change in Private Payrolls (thousands)	128	167	94	261	219	241	99	75	173	72	220	117	140
Unemployment Rate	9.8%	9.4%	9.0%	8.9%	8.8%	9.0%	9.1%	9.2%	9.1%	9.1%	9.1%	9.0%	8.6%
Business Activity													
Industrial Production	91.4	92.6	92.8	92.5	93.1	92.7	93.0	93.1	94.2	94.4	94.4	95.0	94.8
Capacity Utilization	75.8%	76.8%	76.9%	76.5%	77.0%	76.6%	76.7%	76.7%	77.5%	77.7%	77.6%	78.0%	77.8%
PMI Composite Index	58.2	58.5	60.8	61.4	61.2	60.4	53.5	55.3	50.9	50.6	51.6	50.8	52.7
NFIB Small Business Optimism Index	93.2	92.6	94.1	94.5	91.9	91.2	90.9	90.8	89.9	88.1	88.9	90.2	92.0
Consumer Activity													
Consumer Confidence	57.8	63.4	64.8	72.0	63.8	66.0	61.7	57.6	59.2	45.2	46.4	39.8	56.0
Retail Sales (M/M % Chg)	0.9%	0.6%	0.8%	1.3%	0.8%	0.2%	0.0%	0.2%	0.4%	0.3%	1.3%	0.6%	0.2%
Lending Activity													
C&I Loans (M/M % Chg)	-0.2%	0.5%	1.0%	0.3%	1.1%	0.6%	1.0%	0.3%	0.7%	1.7%	0.2%	1.2%	0.5%
MLFI-25 New Business Volume (Bil. $)	4.5	9.0	4.2	4.1	6.2	5.1	5.6	7.3	5.7	5.7	7.1	6.0	--
MLFI-25 Avg Losses as a % of Net Rec.	1.32%	1.34%	0.92%	0.95%	1.31%	0.78%	0.79%	1.15%	0.73%	0.60%	0.90%	0.70%	--
MLFI-24 Credit Approval Ratio	72.6%	76.1%	75.3%	75.9%	75.4%	75.6%	76.4%	78.7%	76.3%	77.6%	76.5%	76.3%	--
Interest Rates (% end of period)													
Fed Funds Target Rate	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125	0.125
1-Year Treasury Rate	0.27	0.29	0.26	0.25	0.30	0.22	0.18	0.19	0.20	0.10	0.13	0.12	0.12
3-Year Treasury Rate	0.72	1.02	0.98	1.18	1.29	1.01	0.79	0.81	0.55	0.33	0.42	0.41	0.41
10-Year Treasury Rate	2.81	3.30	3.42	3.42	3.47	3.32	3.05	3.18	2.82	2.23	1.92	2.17	2.08
30-Year Treasury Rate	4.12	4.34	4.58	4.49	4.51	4.40	4.22	4.38	4.12	3.60	2.90	3.16	3.06
AAA Corporate Bond Yield	4.79	4.88	5.12	5.09	5.15	5.09	4.94	5.14	4.67	4.41	3.96	3.88	4.07
BAA Corporate Bond Yield	5.84	5.98	6.10	5.99	6.05	5.90	5.70	5.90	5.59	5.48	5.22	5.19	5.32
Prices													
Headline Inflation (Y/Y % Chg)	1.1%	1.5%	1.6%	2.1%	2.7%	3.2%	3.6%	3.6%	3.6%	3.8%	3.9%	3.6%	--
Core Inflation (Y/Y % Chg)	0.8%	0.8%	1.0%	1.1%	1.2%	1.3%	1.5%	1.6%	1.8%	2.0%	2.0%	2.1%	--
Oil Price (West Texas Intermediate, $/barrel)	84.14	89.04	89.42	89.58	102.94	110.04	101.33	96.29	97.19	86.33	85.61	86.41	97.21

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