

January 2016

# 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 a 3 to 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.

The Momentum Monitor covers 12 equipment and software verticals as defined by the U.S. Department of Commerce Bureau of Economic Analysis.

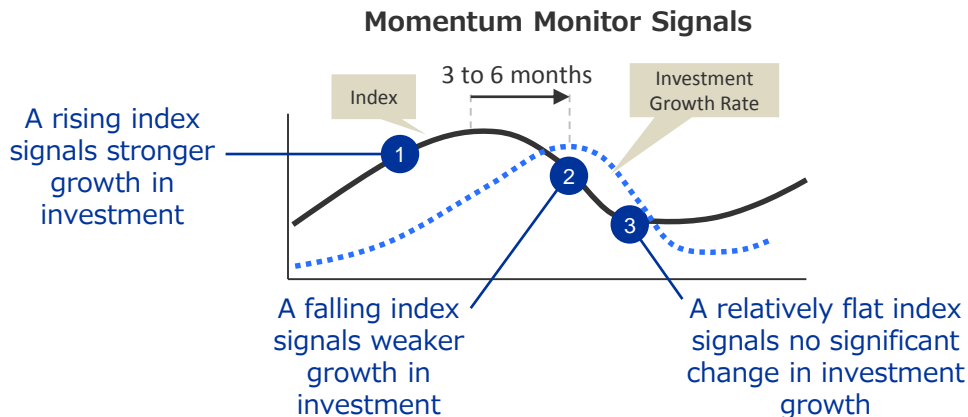
## U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- |                                   |                       |
|-----------------------------------|-----------------------|
| 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 3 to 6 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:

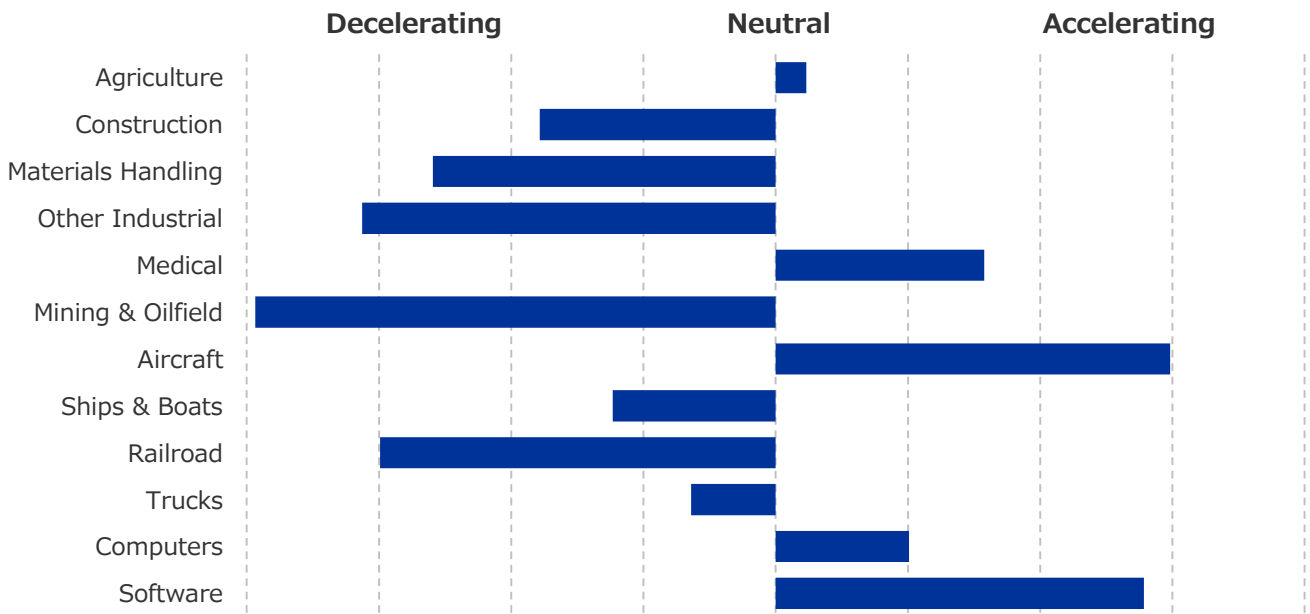
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy 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 three to 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 3 to 6 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 specific indicators driving the latest index value. This allows readers to understand the key drivers of the outlook.
- 4) Finally, the report ends with an interpretation of where investment growth is heading over the next 3 to 6 months.

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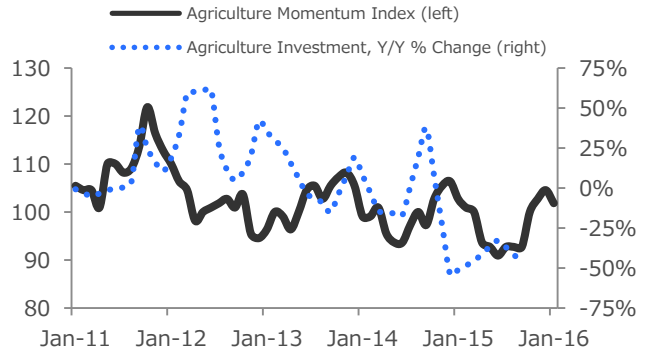
## Equipment Vertical Momentum Relative to 10-Year Historical Average



The chart above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices relative to the index values for each quarter over the last 10 years. Verticals for which momentum is below the 10-year median are “decelerating,” verticals for which momentum is near the 10-year median are “neutral,” and verticals for which momentum is near the 10-year maximum are “accelerating.” Note that the current momentum trend for each vertical may differ from the current investment volume. For example, a vertical for which the level of investment activity is low — but which is exhibiting signs of a comeback in the near future based on the momentum suggested by its leading indicators — will be labeled “accelerating” (and vice-versa).

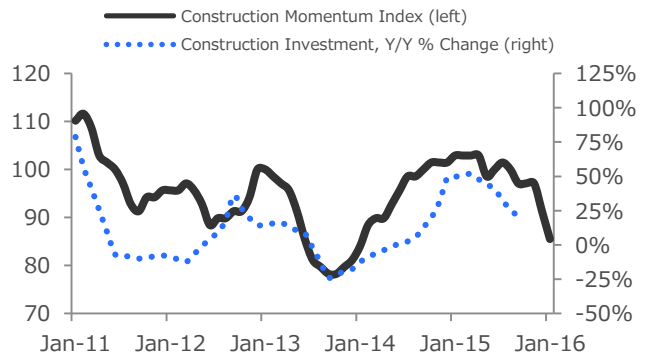
**Agriculture Machinery:**

Investment in Agricultural Machinery expanded at an annual rate of 11.7% in Q3 2015, yet is still down 47.0% from one year ago. The Agriculture Momentum Index declined from 104.5 (revised) in December — a one-year high — to 101.8 in January. Agricultural Equipment Sales fell for the fifth consecutive month, while Red Meat and Poultry Production dropped 8%. However, Broiler Exports rebounded following four straight declines. Overall, the Index indicates that investment growth is likely to rebound in the next three to six months, but remain weak relative to historical norms.



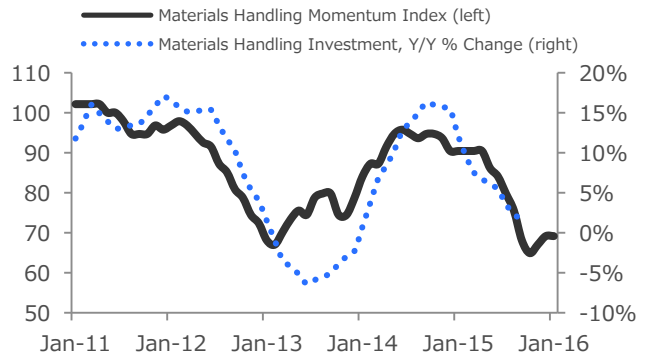
**Construction Machinery:**

Investment in Construction Machinery contracted at a 24.2% annual rate in Q3 2015, the largest decline in over two years, yet remains up 20.5% year-over-year. The Construction Momentum Index fell from 91.3 (revised) in December to 85.5 in January, a two-year low. Although Multi-family Housing Permits jumped nearly 25%, Mobile Home Shipments fell more than 10% and Construction Machinery Shipments declined for the third consecutive month. Overall, the Index points to moderately slower investment growth over the next three to six months.



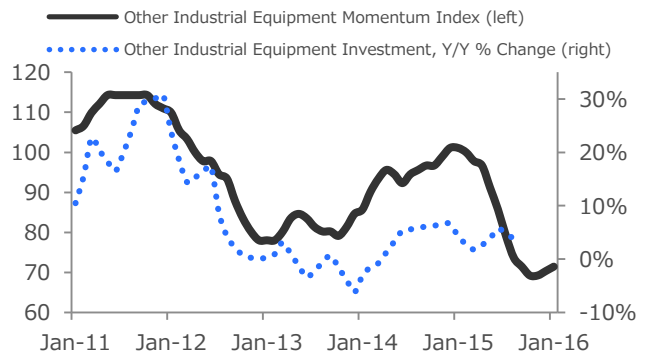
**Materials Handling Equipment:**

Investment in Materials Handling Equipment inched up at a 0.1% annual rate in Q3 2015 and is up 1.5% year-over-year, a seven-quarter low. The Materials Handling Momentum Index was unchanged at 69.1 from December to January. The MNI-Chicago Business Barometer Index dropped to its lowest level since 2009, yet Imports of Materials Handling Equipment increased 2%. Overall, the Index's low level indicates that investment growth will remain weak over the next three to six months.



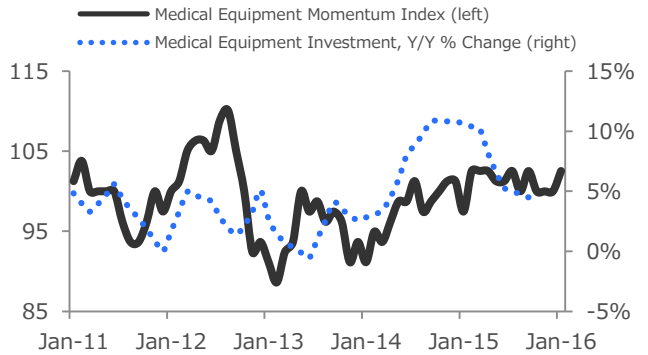
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment decreased at a 5.4% annual rate in Q3 2015 but is still up 3.2% year-over-year. The Other Industrial Equipment Momentum Index ticked up from 70.3 (revised) in December to 71.4 in January. Copper Warehouse Stocks declined to a one-year low, while New Orders of Industrial Machinery increased 1.4%. Overall, the Index's recent movement and low position continue to suggest that investment growth will slow over the next three to six months.



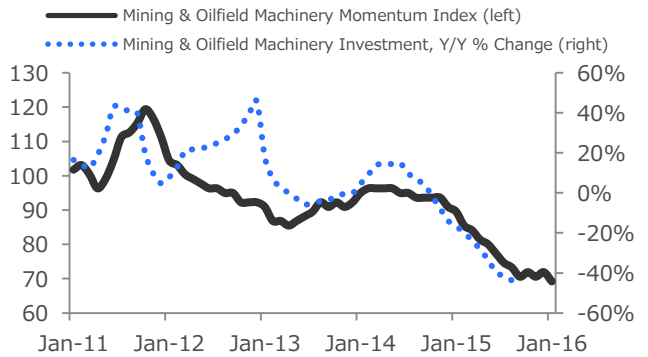
**Medical Equipment:**

Investment in Medical Equipment rebounded at a 13.2% annual rate in Q3 2015 and is up 4.5% year-over-year. The Medical Equipment Momentum Index rose from 100.0 (revised) in December to 102.5 in January. Both New Orders and Shipments of Electro-medical Devices continued to climb, and the Number of Social Security Disability Beneficiaries rose 8% in December. Overall, the Index continues to suggest stable and solid growth in medical equipment investment over the next three to six months.



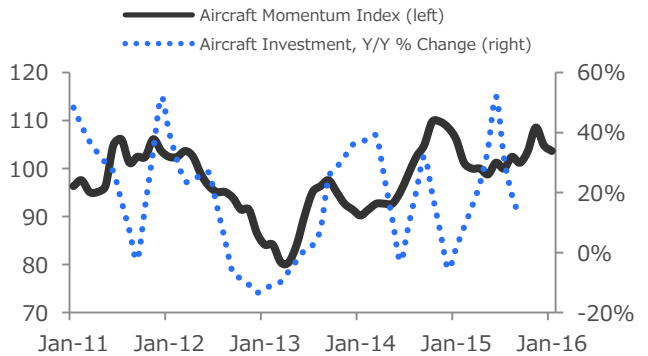
**Mining & Oilfield Machinery:**

Investment in Mining & Oilfield Machinery fell at a 42.1% annual rate in Q3 2015 and is now down 46.0% year-over-year, a 13-year low. The Mining & Oilfield Machinery Momentum Index slipped from 71.9 (revised) in December to 69.2 in January, its lowest level in five years. The WTI Spot Price fell below \$40 in December, while the ISM Manufacturing Index declined to a six-year low. The Index points to continued weakness in mining & oilfield machinery investment over the next three to six months.



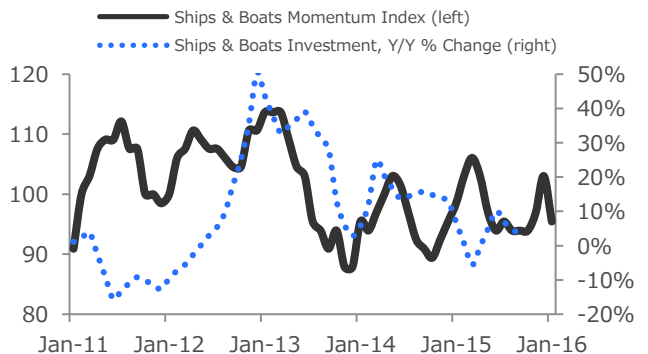
**Aircraft:**

Investment in Aircraft increased at a 25.9% annual rate in Q3 2015 and is up 11.6% on a year-over-year basis. The Aircraft Momentum Index dipped from 104.9 (revised) in December to 103.7 in January. Industrial Production decreased 0.6% in November, its third straight decline. Meanwhile, New Orders of Nondefense Aircraft and Shipments of Defense Aircraft both rebounded from drops last month. Overall, the Index's elevated level continues to suggest relatively strong aircraft investment growth over the next three to six months.



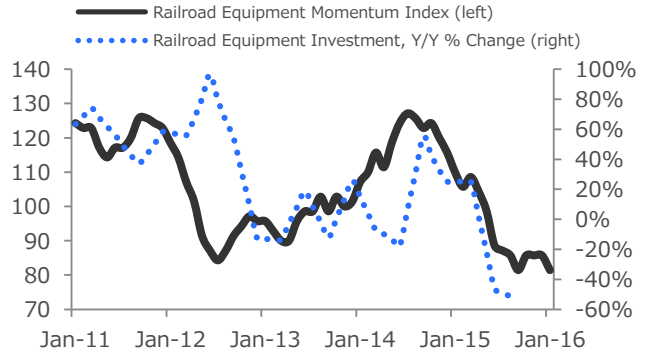
**Ships & Boats:**

Investment in Ships & Boats expanded at an annual rate of 2.1% in Q3 2015, and is up 3.3% year-over-year. The Ships & Boats Momentum Index dropped sharply from 103.0 (revised) in December to 95.5 in January. The ISM Manufacturing Employment Index fell 3.2 points in December, while Industrial Production of Consumer Energy Products decreased nearly 5%. Overall, the Index suggests that investment growth may slow over the next three to six months.



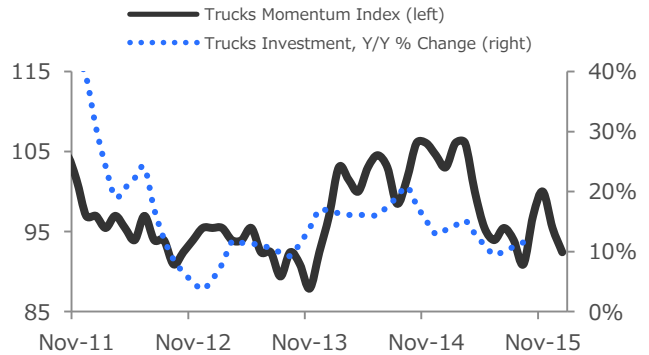
**Railroad Equipment:**

Investment in Railroad Equipment rebounded at a 49.3% annual rate in Q3 2015, yet remains down 54.5% year-over-year, an all-time low. The Railroad Equipment Momentum Index decreased from 85.7 (revised) in December to 81.4 in January. Declines in both Coal Production and Mining Exports offset a 19% rebound in Petroleum Carloads. Overall, the Index's low position suggests continued weakness in railroad equipment investment over the next three to six months.



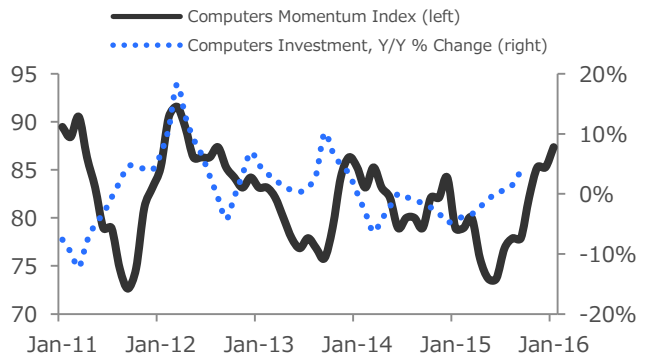
**Trucks:**

Investment in Trucks increased at a 21.5% annual rate in Q3 2015 and is up 11.5% year-over-year. The Trucks Momentum Index fell from 95.5 in December to 92.4 in January. Although Housing Starts jumped more than 10% in November, Raw Steel Production dropped 24%, New Orders of Motor Vehicles declined 2% and Shipments of Primary Metals slipped 1.4%. Overall, the Index's recent movement suggests potential for slower growth in truck investment over the next three to six months.



**Computers:**

Investment in Computers grew at an annual rate of 19.6% in Q3 2015, and is now up 3.9% on a year-over-year basis (a two-year high). The Computers Momentum Index increased from 85.3 (revised) in December to 87.4 in January, its highest level since August 2012. Capacity Utilization of Computer Products ticked up following two declines, and Shipments of Defense Communication Equipment rose 10%. Overall, the Index's recent movement continues to point to stronger computer investment growth over the next three to six months.



**Software:**

Investment in Software declined at a 1.0% annual rate in Q3 2015 (the first drop since 2013), yet is still up 4.9% year-over-year. The Software Momentum Index climbed from 98.8 (revised) in December to a four-year high of 100.1 in January. The NASDAQ Composite Index fell in December, while the ZEW Current Economic Situation Survey increased nearly 10%. Overall, the Index suggests that software investment growth should pick up over the next three to six months.

