

February 2018

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.

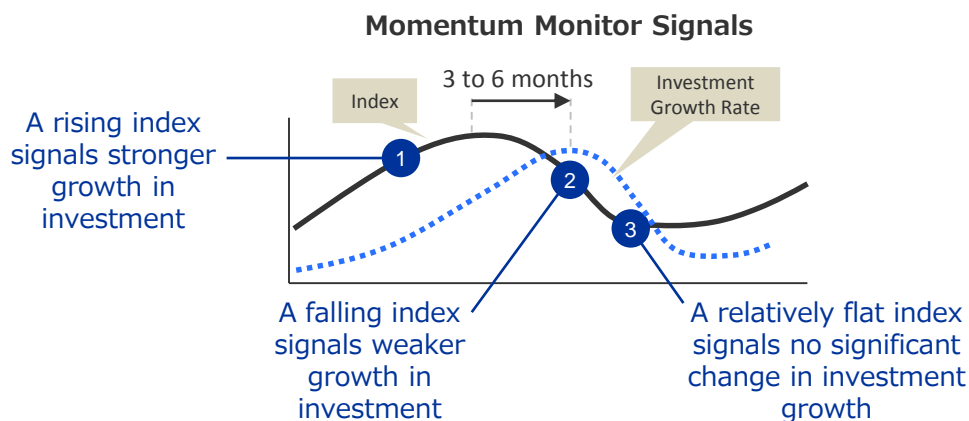
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

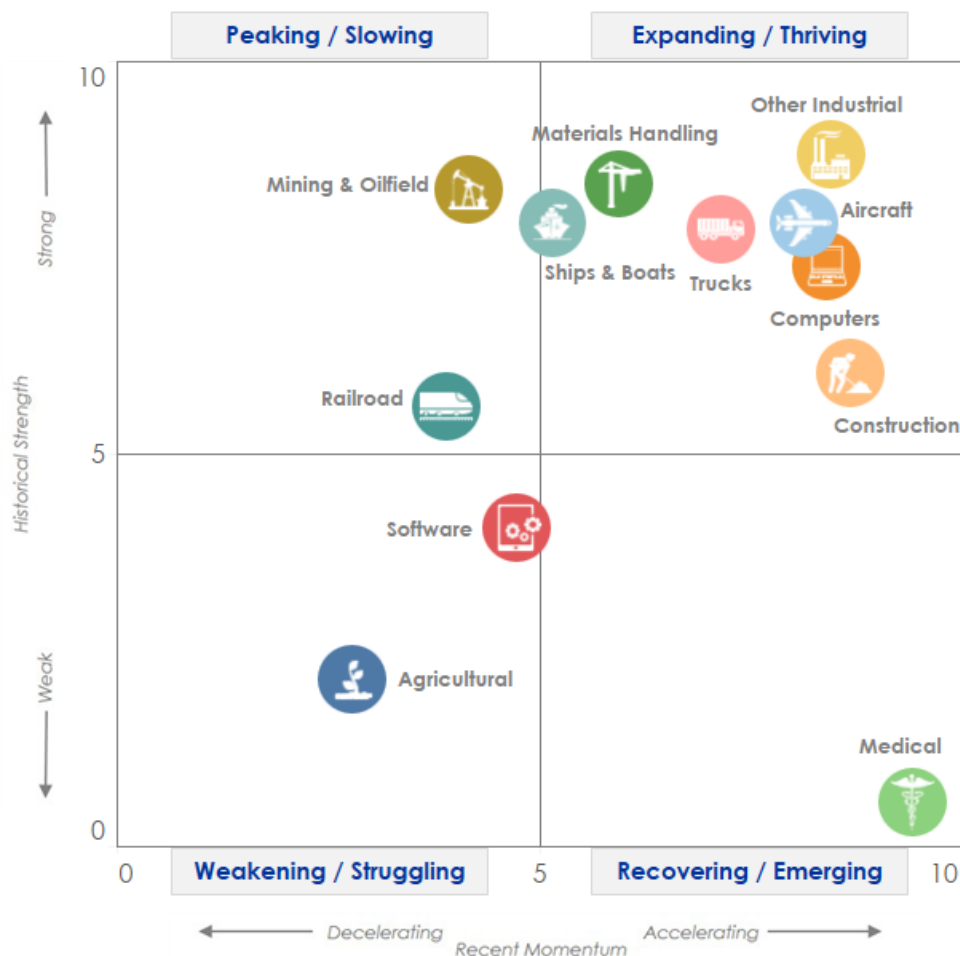
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy 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 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 3 to 6 months based the index's recent movement and historical strength.

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Momentum Monitor Sector Matrix



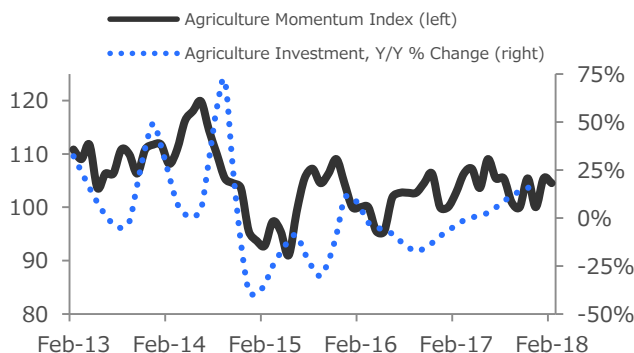
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"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 1-2 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 1-2 quarters. This makes them potentially attractive targets for new short-term leasing and finance opportunities.

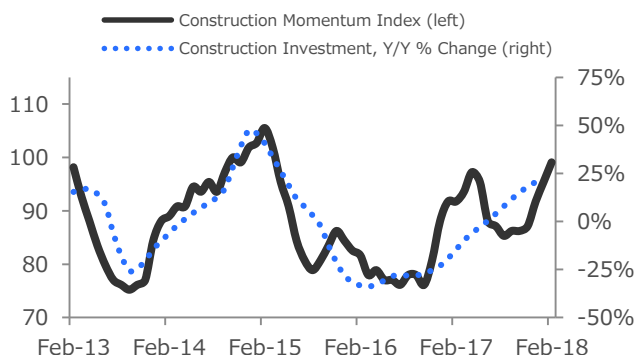
Agriculture Machinery:

Investment in Agricultural Machinery expanded at an average rate of 34% in Q4 2017 and is up 18% from one year ago. The Agriculture Momentum Index declined from 105.4 (revised) in January to 104.5 in February. In December, National Average Precipitation fell 4.3% after a 38% decline in November. However, Lamb & Mutton Production rose 4.6% in November. Overall, the Index's recent movement signals steady investment growth in agricultural equipment over the next three to six months.



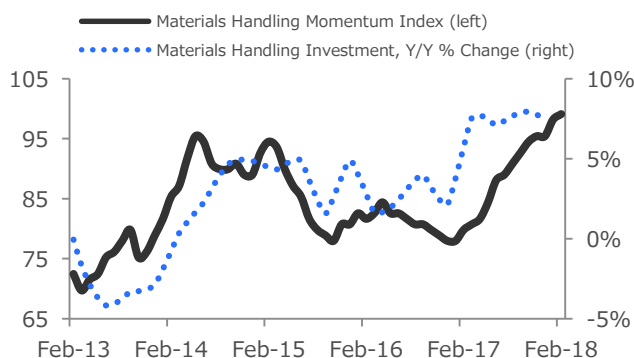
Construction Machinery:

Investment in Construction Machinery rose at a 34% annual rate in Q4 2017 and is up 21% year-over-year. The Construction Momentum Index increased from 95.4 (revised) in January to 99.1 in February. While Mobile Home Shipments rose 11% in December, their largest increase since December 2016, For-Sale Housing stock increased 15%. Overall, the Index points to continued strong growth in construction machinery investment over the next three to six months.



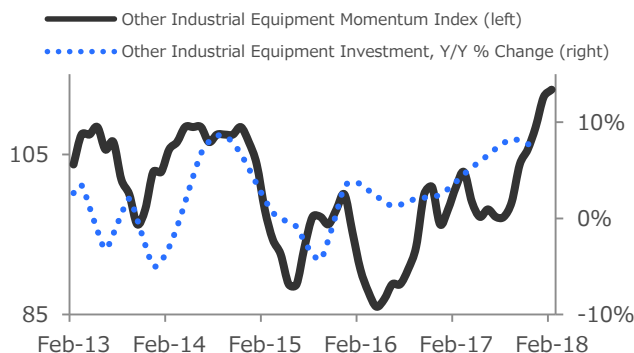
Materials Handling Equipment:

Investment in Materials Handling Equipment increased at a 2.6% annual rate in Q4 2017 and is up 7.4% year-over-year. The Materials Handling Momentum Index increased from 98.2 (revised) in January to 99.1 in February. Machinery Wholesale Sales rose 3.2% in November, while the Dow Jones Industrials Balance jumped 34% in January. Overall, the Index points to stronger growth in materials handling equipment investment over the next two quarters.



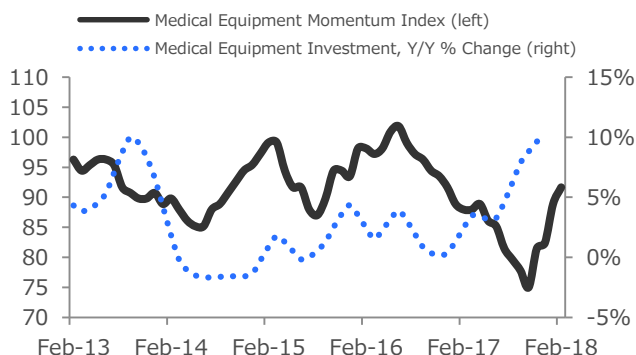
Other Industrial Equipment:

Investment in All Other Industrial Equipment rose by a 2.6% annual rate in Q4 2017 and is up 7.3% from a year ago. The Other Industrial Equipment Momentum Index increased from 112.1 (revised) in January to 113.1 in February. Real Manufacturing & Trade Sales rose 0.5% in November, while Manufacturing Employment increased in January for the 16th straight month. Overall, the Index signals further acceleration in other industrial equipment investment growth over the next three to six months.



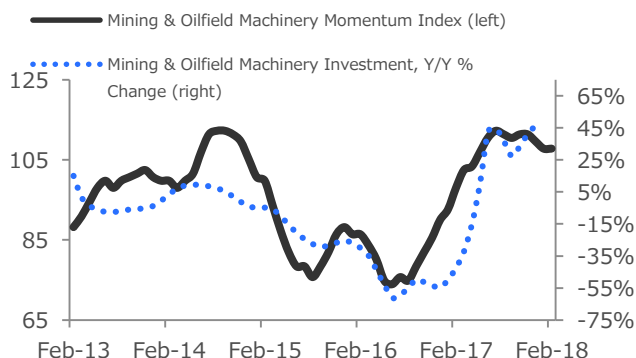
Medical Equipment:

Investment in Medical Equipment expanded at a 19% annual rate in Q4 2017 and is up 10% year-over-year. The Medical Equipment Momentum Index rose from 88.9 (revised) in January to 91.7 in February. CPI Medical: Physicians' Services was down 1.8% on the year in December, though Industrial Production for Medical Equipment also declined 0.4%. Overall, the Index points to a solid outlook for medical equipment investment growth over the next two quarters.



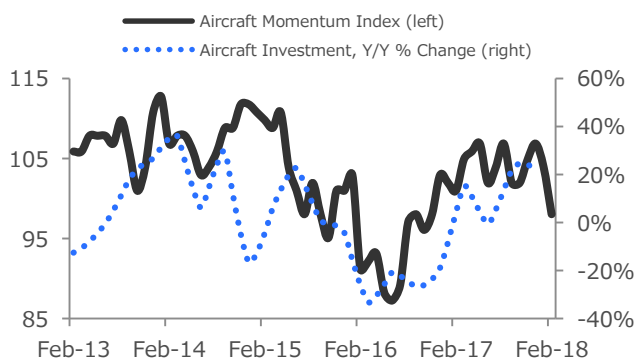
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery declined at a 5.0% annual rate in Q4 2017, but remains up 47% year-over-year. The Mining & Oilfield Machinery Momentum Index held steady at 107.8 from January (revised) to February. IP: Oil & Gas Extraction rose 1.4% in December, and Mining & Logging Employment increased 0.8% in January. Overall, the Index indicates a solid outlook for mining & oilfield machinery investment over the next three to six months.



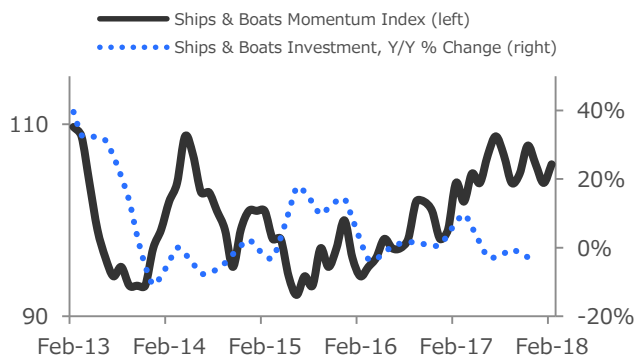
Aircraft:

Investment in Aircraft fell 37% (annualized) in Q4 2017, but is up 20% on a year-over-year basis. The Aircraft Momentum Index declined sharply from 103.9 (revised) in January to 98.0 in February. Shipments of Non-Defense Aircraft fell 6.2% in December, and the VIX surged 23% in January. Overall, the Index's recent movement points to slower growth in aircraft investment over the next two quarters.



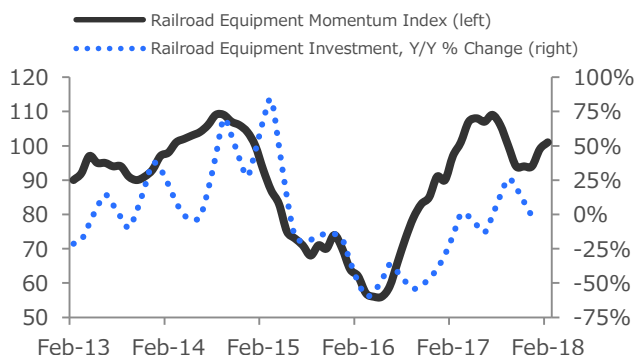
Ships & Boats:

Investment in Ships & Boats rose at an annual rate of 13% in Q4 2017, but is down 3.6% year-over-year. The Ships & Boats Momentum Index rose from 103.9 (revised) in January to 105.8 in February. Shipments of Ships & Boats rose 1.4%, while Grain Exports surged nearly 200%, their largest increase since July 2015. Overall, the Index points to a pick-up in ships and boats investment growth over the next three to six months.



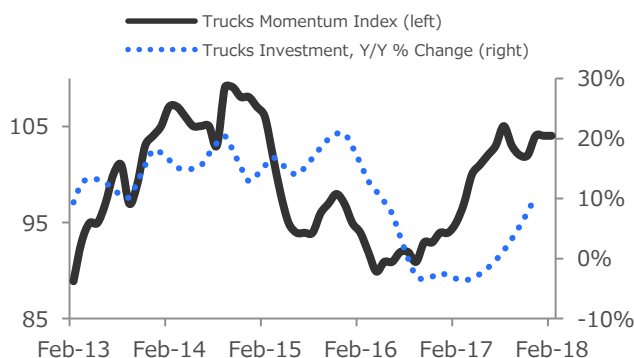
Railroad Equipment:

Investment in Railroad Equipment dropped at a 37% annual rate in Q4 2017 and is down 1.6% year-over-year. CU: Oil & Gas Extraction rose 1.2% in December, while IP: Railroad Rolling Stock surged 4.0% in December, its largest gain in a year. Overall, the Index signals modest investment growth in railroad equipment over the next two quarters.



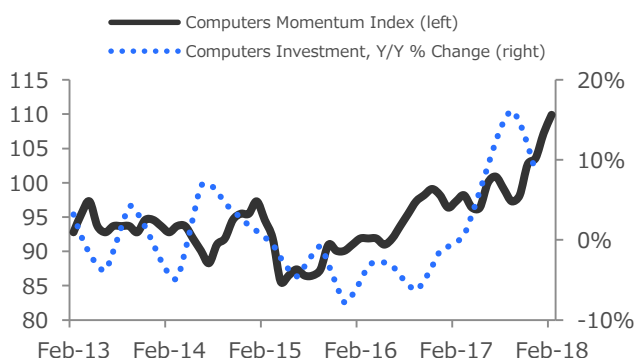
Trucks:

Investment in Trucks surged at a 40% annual rate in Q4 2017 and is up 11% from year-ago levels. The Trucks Momentum Index held steady at 104.0 from January (revised) to February. While the ISM Manufacturing Index slipped in January, at 59.1 it remains well above the expansionary threshold. Meanwhile, Gas & Diesel Production rose 8.7% in November. Overall, the Index points to a potential slowdown in trucks investment growth over the next three to six months.



Computers:

Investment in Computers fell at an annual rate of 27% in Q4 2017 but remains up 8.3% year-over-year. The Computers Momentum Index rose from 107.2 (revised) in January to 109.9 in February, its highest since May 2011. Appliance & Electronics Retail Sales surged 34% in November, and IP: Computer & Peripheral Equipment rose 3.5% in December. Overall, the Index points to solid investment growth in computers over the next two quarters.



Software:

Investment in Software rose by a 7.6% annual rate in Q4 2017, and is up 6.8% year-over-year. The Software Momentum Index increased from 95.7 (revised) in January to 98.3 in February. Consumer Revolving Credit rose 1.1%, as Real Personal Consumption Expenditures likewise rose 0.3%. Overall, the Index points to stable growth in software investment over the next three to six months.

