

March 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.

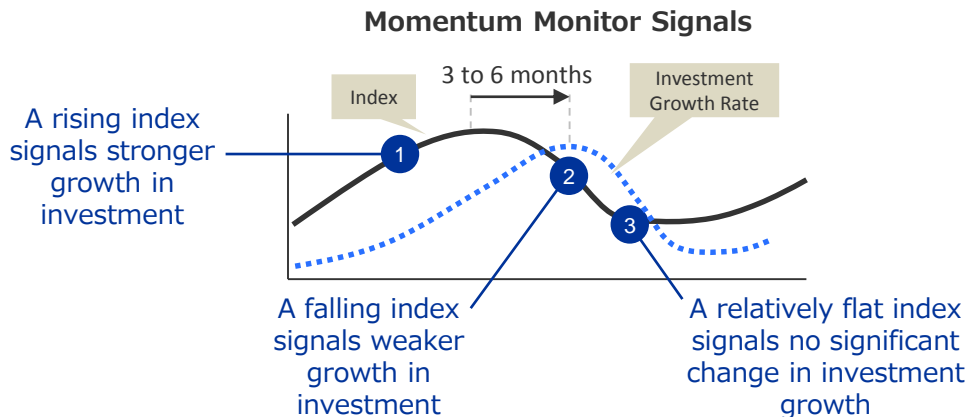
## U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

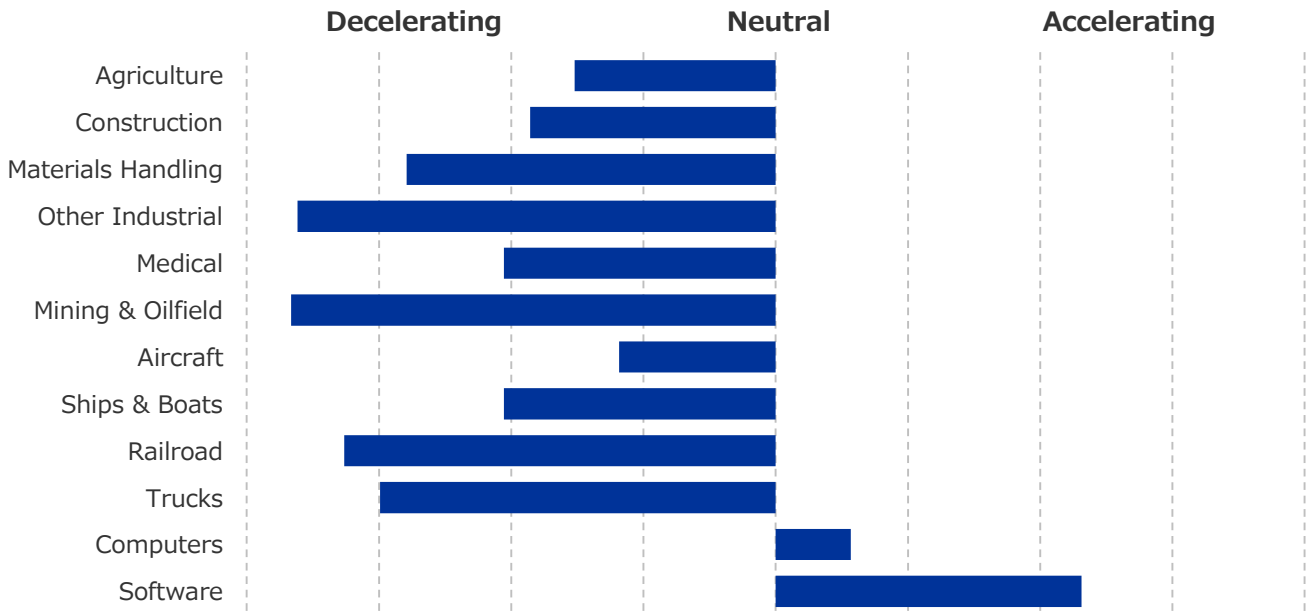
- 1 Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2 The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3 A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy 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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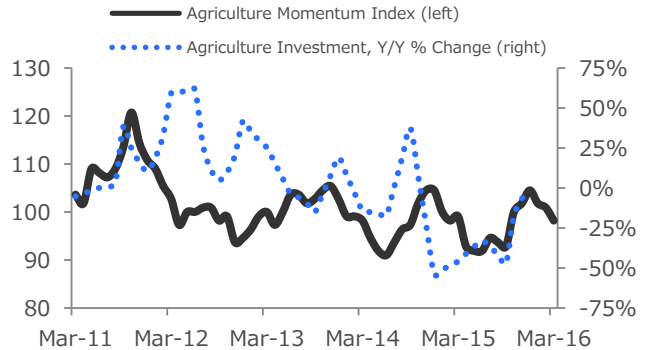
## Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

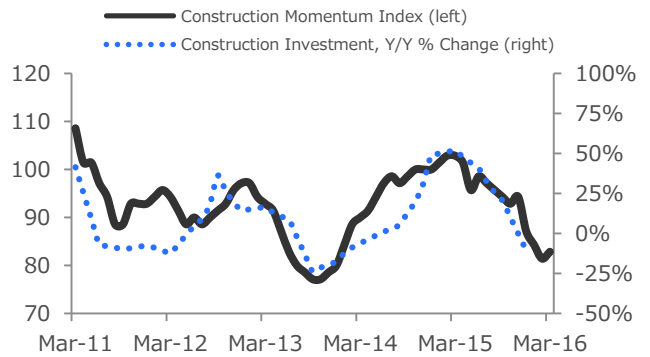
**Agriculture Machinery:**

Investment in Agricultural Machinery dropped at an annual rate of 25.2% in Q4 2015, and is down 2.5% from one year ago. The Agriculture Momentum Index declined from 100.9 in February to 98.2 in March. Broiler Exports, Red Meat & Poultry Production, and Shipments of Farm Machinery all decreased, offsetting a 0.8% jump in Industrial Production of Food, Beverages, & Tobacco. Overall, the Index indicates that agricultural machinery investment growth will likely remain weak relative to historical norms in the next three to six months.



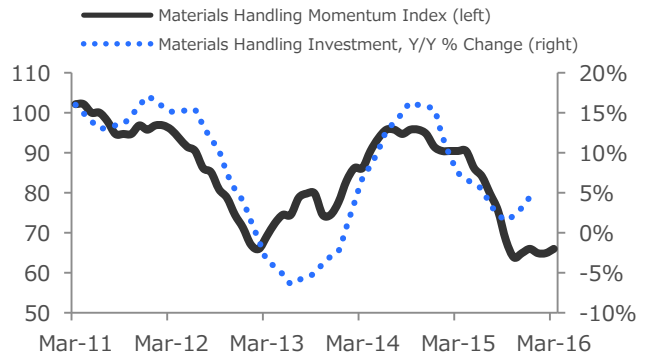
**Construction Machinery:**

Investment in Construction Machinery declined at a 26.0% annual rate in Q4 2015, the third straight contraction, and is now down 10.5% year-over-year (a two-year low). The Construction Momentum Index rose from 81.4 (revised) in February to 82.9 in March, its first increase in four months. While Housing Starts dropped 3.8% in January, Private Non-Residential Construction Spending rebounded 1.0% and Real Personal Consumption Expenditures rose 0.4%. Overall, the Index continues to suggest slower (and potentially negative) investment growth over the next three to six months.



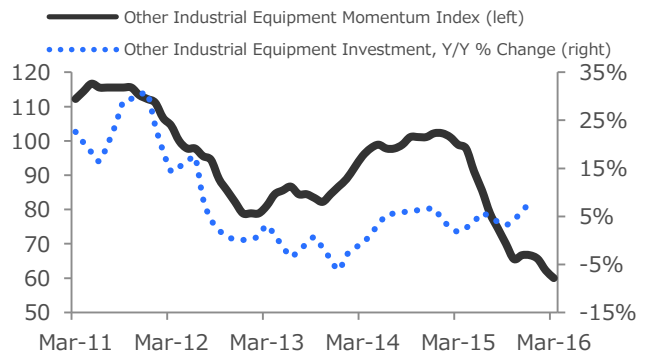
**Materials Handling Equipment:**

Investment in Materials Handling Equipment jumped at a 17.5% annual rate in Q4 2015, its strongest pace since Q1 2014, and is now up 4.5% year-over-year. The Materials Handling Momentum Index ticked up from 64.9 (revised) in February to 66.0 in March. Industrial Production surged 0.9% in January — its fastest growth since May 2010. However, Economic Policy Uncertainty rose nearly 20% to a five-month high. Overall, the Index indicates that investment growth will remain relatively weak over the next three to six months.



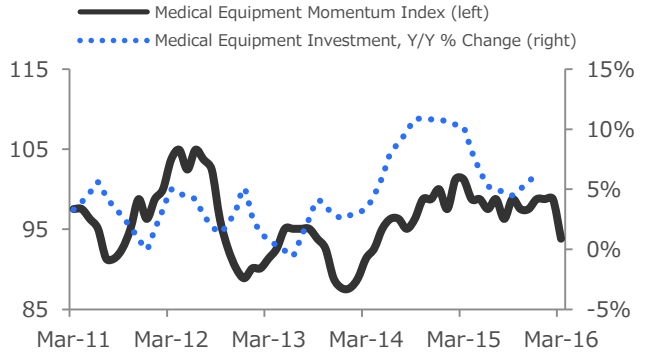
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment rebounded at an 8.0% annual rate in Q4 2015 and is up 8.1% year-over-year, its fastest pace since mid-2012. The Other Industrial Equipment Momentum Index slipped from 62.2 (revised) in February to 60.0 in March, a six-year low. Copper Stocks dropped 19% in February and the MNI-Chicago Prices Paid Index fell 6% to its lowest level since 2009. Overall, the Index's recent movement and low position continue to suggest weak and potentially negative investment growth over the next three to six months.



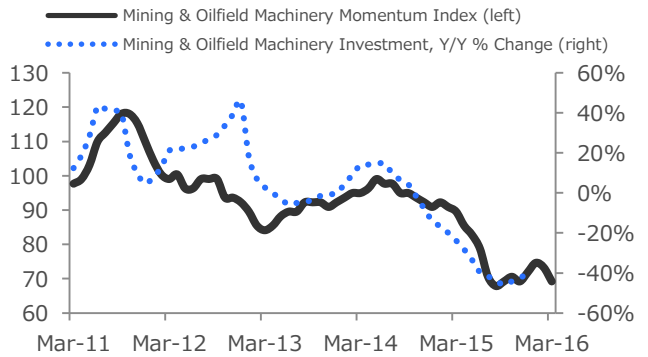
**Medical Equipment:**

Investment in Medical Equipment rose at an 11.2% annual rate in Q4 2015 and is up 6.3% year-over-year. The Medical Equipment Momentum Index dropped from 98.8 (revised) in February to 93.8 in March, its lowest level since April 2014. The S&P Global Healthcare Index declined for the third consecutive month in February, while New Orders of Non-Defense Capital Goods fell 15% in December. Overall, the Index suggests slower growth in medical equipment investment over the next three to six months.



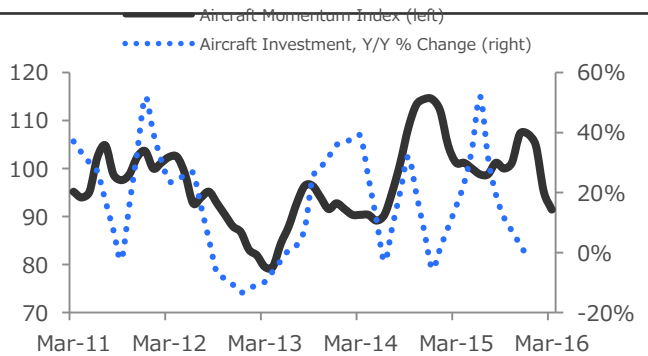
**Mining & Oilfield Machinery:**

Investment in Mining & Oilfield Machinery contracted at a 32.3% annual rate in Q4 2015 (the sixth straight decline) and remains down 40.6% year-over-year. The Mining & Oilfield Machinery Momentum Index fell from 73.3 (revised) in February to 69.2 in March. Mining Employment dipped 1.5% in January (the 16<sup>th</sup> straight monthly decline), and Shipments of Oil & Gas Field Machinery fell nearly 6%. Meanwhile, Natural Gas Industrial Production rebounded more than 16%. Overall, the Index points to continued weakness in mining & oilfield machinery investment over the next three to six months.



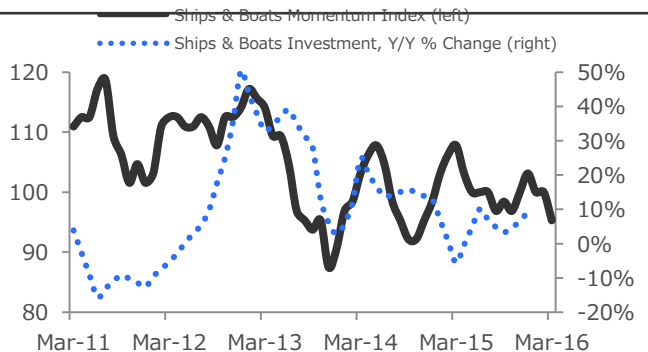
**Aircraft:**

Investment in Aircraft fell sharply at a 48.1% annual rate in Q4 2015 and is down 1.8% on a year-over-year basis, the first decline in a year. The Aircraft Momentum Index decreased from 95.2 (revised) in February to 91.5 in March, a nearly two-year low. The ISM Non-Manufacturing New Orders Index slipped to its lowest level since March 2014, and Civilian Aircraft Exports declined 7.5%. Overall, the Index's recent movement continues to suggest that aircraft investment growth may slow over the next three to six months.



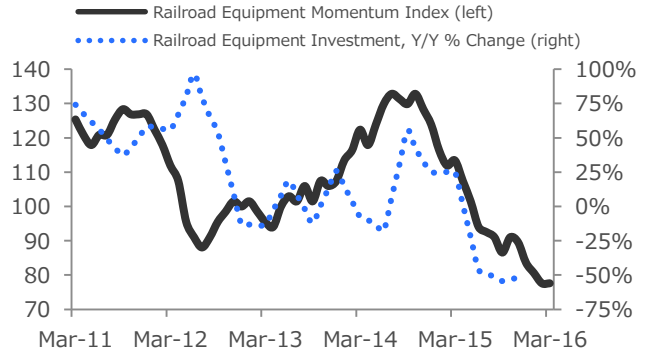
**Ships & Boats:**

Investment in Ships & Boats expanded at an annual rate of 6.0% in Q4 2015, and is now up 9.3% year-over-year. The Ships & Boats Momentum Index dropped from 100.0 (revised) in February to 95.3 in March. New Orders of Ships & Boats fell nearly 17% in January to a one-year low (the third straight decline). However, Industrial Production of Consumer Energy Products rebounded 5.0%. Overall, the Index suggests that ships & boats investment growth could moderate somewhat over the next three to six months.



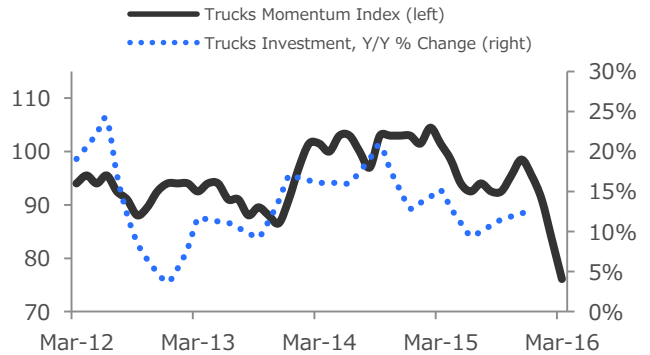
**Railroad Equipment:**

Investment in Railroad Equipment fell at a 10.9% annual rate in Q4 2015, and remains down 50.8% year-over-year, the third consecutive decline. The Railroad Equipment Momentum Index held steady at 77.6 (revised) from February to March, maintaining a six-year low. The ISM Manufacturing Employment Index increased 2.6 points in February, yet Nonfarm Employment Growth slowed to 151,000 in January. Overall, the Index's recent movement and low position suggests continued weakness in railroad equipment investment over the next three to six months.



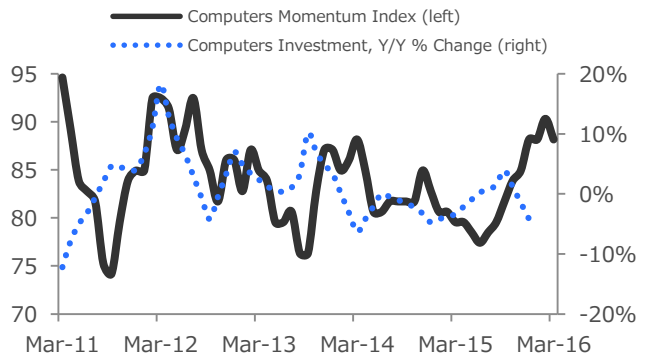
**Trucks:**

Investment in Trucks slipped at a 1.2% annual rate in Q4 2015, yet remains up 12.7% year-over-year. The Trucks Momentum Index fell sharply from 83.6 (revised) in February to 76.1 in March — its lowest reading since 2009. While the Unemployment Rate dipped to 4.9% in January (an eight-year low), Coal Product fell more than 7% and Housing Starts declined nearly 4%. Overall, the Index's recent movement continues to suggest a slowdown in truck investment growth over the next three to six months.



**Computers:**

Investment in Computers declined at an annual rate of 30.4% in Q4 2015 — the sharpest drop since Q4 2008 — and is down 4.2% on a year-over-year basis. The Computers Momentum Index slipped from February's three-year high of 90.3 (revised) to 88.2 in March. Shipments of Defense Communication Equipment plummeted 30% in January, and Capacity Utilization for Computers ticked down. However, Appliance & TV Retail Sales jumped more than 20%. Overall, the Index's elevated position continues to point to stronger investment growth over the next three to six months.



**Software:**

Investment in Software expanded at a 1.6% annual rate in Q4 2015, and is up 3.9% year-over-year. The Software Momentum Index eased from 100.1 (revised) in February to 98.8 in March, but remains elevated relative to historical norms. The ISM Non-Manufacturing Employment Index fell to a two-year low in February, while Exports of Travel Services dipped 0.6% (its third straight decline). Overall, the Index points to solid growth in software investment over the next three to six months.

