

May 2014

# 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.

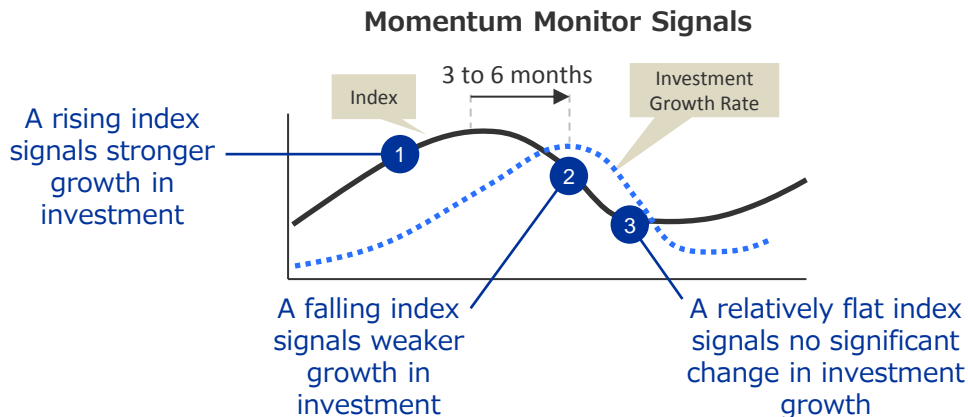
## U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

### Construction Machinery:

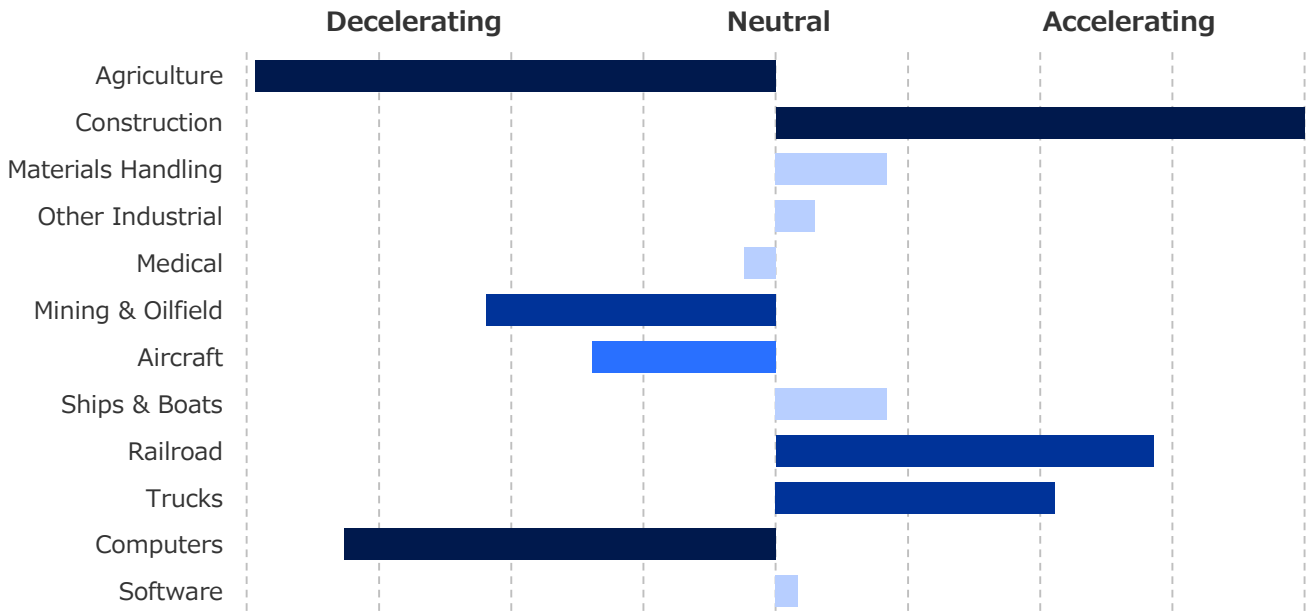
- 1 Investment in Construction Machinery declined 1.8% at an annualized rate in Q4 2013 and is now down 4.9% year-over-year, a second consecutive year-over-year contraction.
- 2 The Construction Momentum Index increased from 98.6 (revised) in January to 100.0 in February.
- 3 Construction Employment continues to post strong monthly gains, while Shipments of Mobile Homes continue to be at a record high.
- 4 Overall, the Index is now at its highest level since January 2013 and is signaling a turnaround in construction equipment investment 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.

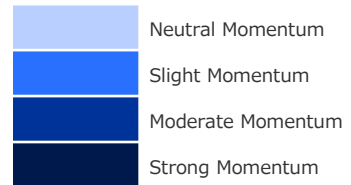
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## Equipment Vertical Heat Map

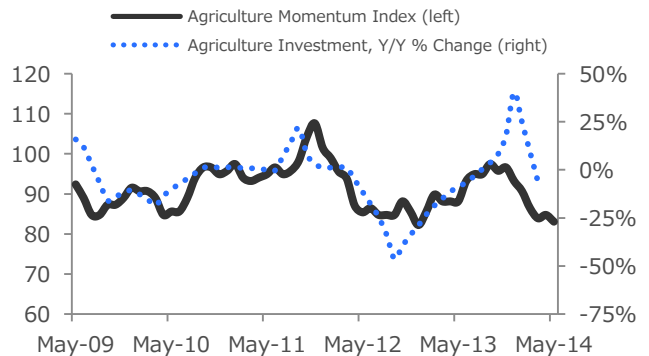


The Equipment Vertical Heat Map summarizes the latest movements in each of the 12 Equipment & Software Investment Momentum Monitors. Verticals exhibiting strong recent momentum are shaded darker, while verticals exhibiting weak recent momentum are shaded lighter. The heat map provides a snapshot of the expected trends in equipment & software investment over the next 3 to 6 months. Note that trends in equipment financing activity may differ from overall investment volumes. The legend to the right provides an interpretation of the heat map color-coding.



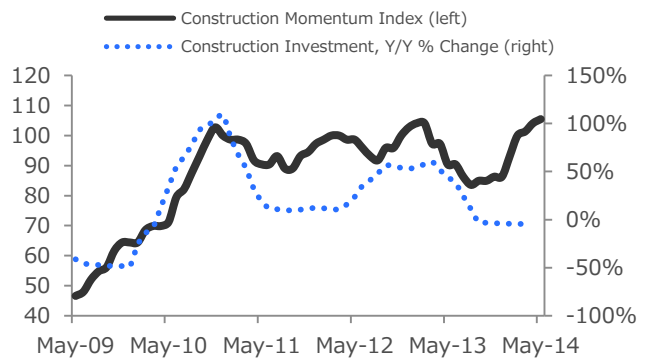
**Agriculture Machinery:**

As we have been predicting since March, there was a correction in investment in Agriculture Machinery in Q1 2014, as it decreased at an annualized rate of 61.3% and is now down 6.2% from one year ago. The Agriculture Momentum Index eased from 84.7 (revised) in April to 83.1 in May, a seventeen-month low. Over the past month, Cattle Exports declined 12.6%, and equipment leases declined 42.6%. Overall, we believe that investment will remain subdued throughout 2014, as both crop yields and agricultural prices remain weak.



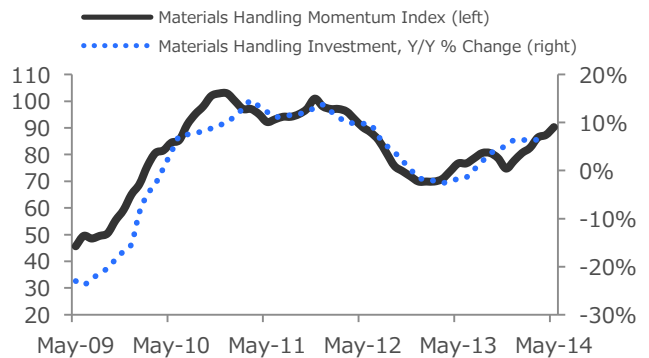
**Construction Machinery:**

Investment in Construction Machinery increased 29.4% at an annualized rate in Q1 2014, yet is still down 4.6% year-over-year due to a base effect from elevated levels in Q1 2013. The Construction Momentum Index increased from 104.1 (revised) in April to 105.5 in May. Housing Starts are beginning to rebound after declining sharply over the winter months, and Consumer Sentiment reached a nine-month high this past month. Overall, the Index continues to increase steadily and is signaling stronger construction equipment investment over the next three to six months.



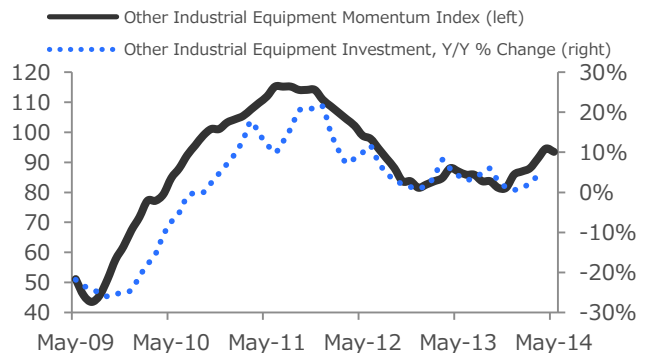
**Materials Handling Machinery:**

Investment in Materials Handling Machinery increased at a modest 0.4% annualized rate in Q1 2014 and is now up 6.4% year-over-year. The Materials Handling Momentum Index increased from 87.4 (revised) in April to 90.3 in May, and is now at its highest point in two years. Among the key indicators, the MNI-Chicago Business Barometer Index jumped 7.1 points over the past month, while Real Manufacturing & Trade Sales for All Industries increased 0.3%. Overall, the Index continues to increase at a steady pace, signaling stronger investment over the next three to six months.



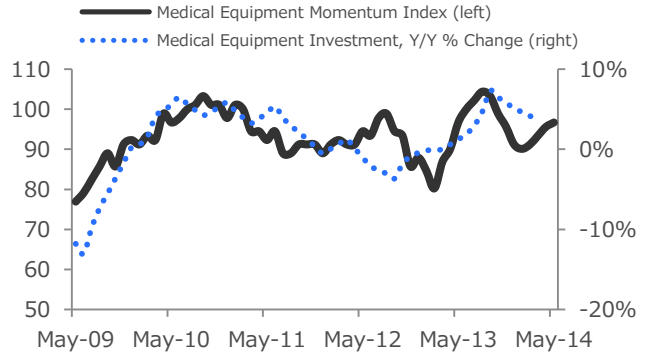
**Other Industrial Equipment:**

Investment in all Other Industrial Equipment rebounded 16.3% at an annualized rate in Q1 2014 and is now up 4.3% year-over-year. The Other Industrial Equipment Momentum Index eased slightly from 94.6 (revised) in April to 93.5 in May. The MNI-Chicago Index for Production jumped 8.8 points over the past month, while Shipments for All Manufacturing Industries excluding Defense increased 1.0% on the month. Overall, the Index suggests moderate growth in investment over the next three to six months.



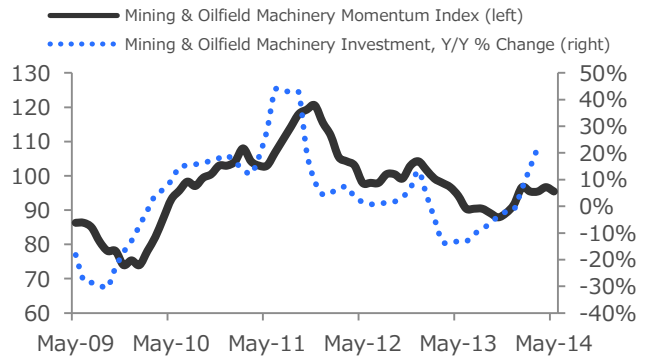
**Medical Equipment:**

Investment in Medical Equipment increased 4.8% at an annualized rate in Q1 2014 and is now up 3.7% year-over-year. The Medical Equipment Momentum Index increased from 95.6 (revised) in April to 96.7 in May. The Total Number of Households continues to decline on a monthly basis, while Federal Outlays for Medicare also declined. However, this negative momentum was offset by an increase in Shipments of Electromedical Instruments. Overall, the Index suggests that growth in medical equipment investment will level off over the next three to six months.



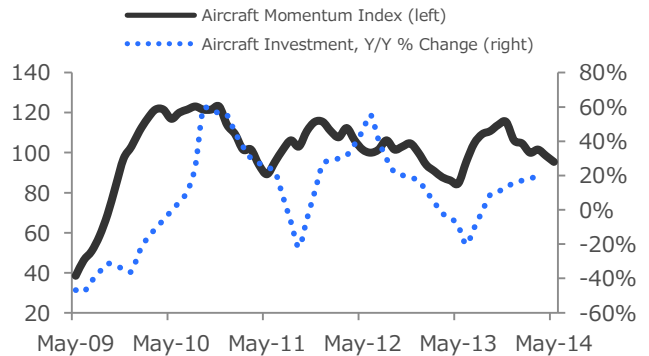
**Mining & Oilfield Machinery:**

Investment in Mining & Oilfield Machinery increased 27.0% at an annualized rate in Q1 2014 and is now up 22.6% year-over-year, the fastest growth rate in ten quarters. The Mining & Oilfield Machinery Momentum Index declined from 96.7 in April to 95.4 in May. New Orders for Oil Field & Gas Field Machinery eased over the past month, while Imports of Energy-Related Petroleum Products declined 15.1%. On the upside, however, Coal Production increased 9.8% on the month. Overall, the Index suggests that the recent jump in investment will moderate over the next three to six months.



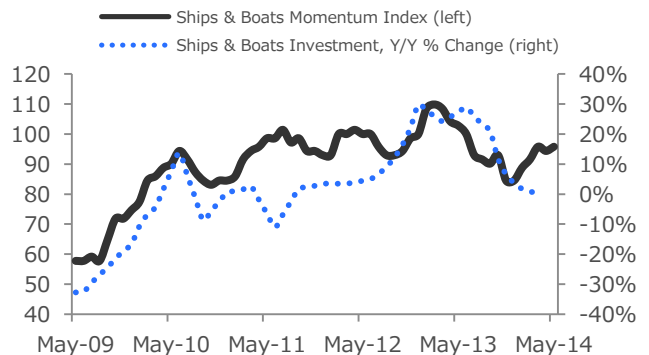
**Aircraft:**

Investment in Aircraft decreased 43.9% at an annualized rate in Q1 2014. On a year-over-year basis, however, investment in Aircraft is still up 19.6%. The Aircraft Momentum Index declined from 98.5 (revised) in April to 95.4 in May. US Citizen Air Traffic declined 19.6% as of the latest data, while New Orders for Defense Aircraft & Parts declined 5.8% on the month. However, the Index was supported by a positive contribution from Industrial Production. Overall, the Index's recent movement suggests that there will be a slight easing of investment over the next three to six months.



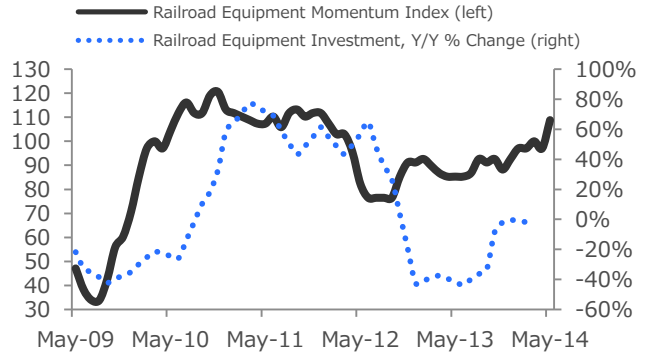
**Ships & Boats:**

Investment in Ships & Boats declined 12.2% at an annualized rate in Q1 2014. Investment up only 0.4% from one year ago, the slowest annual growth in eleven quarters. The Ships & Boats Momentum Index increased from 94.4 (revised) in April to 95.8 in May. Shipments of Ships & Boats declined 2.9% on the month but were offset by stronger momentum in Industrial Production for Consumer Energy Products. Overall, the Index has increased been trending upwards, signaling an upswing in investment over the next three to six months.



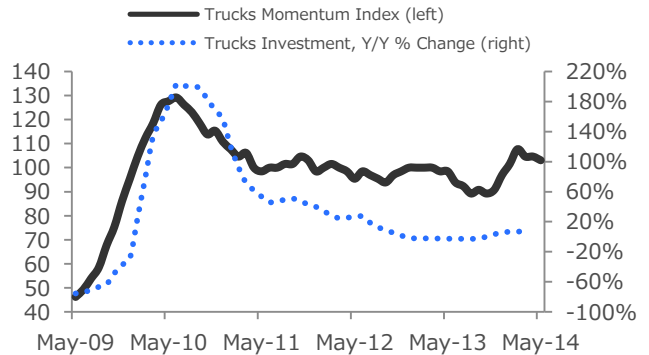
**Railroad Equipment:**

Investment in Railroad Equipment increased 35.7% at an annualized rate in Q1 2014, yet is still down 3.8% year-over-year. The Railroad Equipment Momentum Index jumped from 97.1 (revised) in April to 108.8 in May. The strong increase in the Index was driven by positive contributions from Coal Production, both ISM indices, Average Weekly Hours, Mining Exports and Payroll Gains. On the downside, Machine Tool Orders were a slight drag on the Index. Overall, the Index is signaling an improvement in investment over the next three to six months.



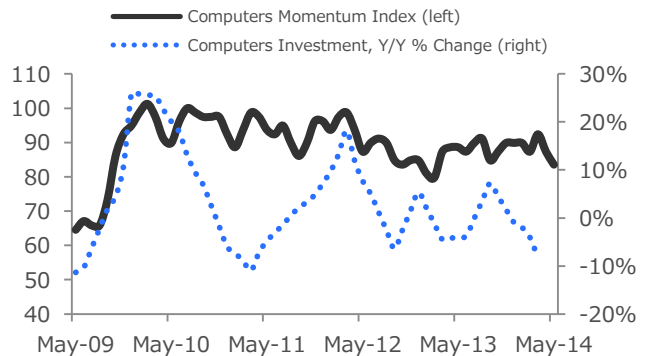
**Trucks:**

Investment in Trucks increased 7.1% at an annualized rate in Q4 2013 and is now up 7.2% year-over-year, the fastest annual rate of growth in six quarters. The Trucks Momentum Index ticked down from 104.6 in April to 103.1 in May. Industrial Production for Energy Materials is up 6.8% year-over-year now, and Coal Production increased 9.8%. The Index, however, was weighed down by almost all other indicators reading neutral for the month. Despite the slip in the Index, it remains above the 5-year average of 99.6, signaling sustained positive growth over the next three to six months.



**Computers:**

Investment in Computers decreased 38.3% at an annualized rate in Q1 2014 and is down 8.3% on a yearly basis, the sharpest annual rate of decline in three years. The Computers Momentum Index declined from 87.3 (revised) in April to 83.5 in May. Monthly increases in the Tech Pulse Index and Retail Sales at Appliance Stores were offset by declines in Shipments of Electronic Computers and the Morgan Stanley High-Tech 35 Index. Overall, the movement of the Index continues to suggest weak investment in Computers over the next three to six months.



**Software:**

Investment in Software increased 2.3% at an annualized rate in Q1 2014 and is now up 1.8% year-over-year. This marks a slight deceleration from faster annual growth in the previous quarter. The Software Momentum Index held steady at 94.4 (revised) from April to May. Positive contributions from the ISM Nonmanufacturing Employment Index and the PPI for Software Publishers were tempered by neutral readings from all other indicators. Overall, the Index is pointing towards modest growth over the next three to six months.

