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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
2) Construction machinery
3) Materials handling equipment
4) All other industrial equipment
5) Medical equipment
6) Mining & oilfield machinery
7) Aircraft
8) Ships and boats
9) Railroad equipment
10) Trucks
11) Computers
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. The Construction Momentum Index increased from 98.6 (revised) in January to 100.0 in February. Construction Employment continues to post strong monthly gains, while Shipments of Mobile Homes continue to be at a record high.
2. 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.
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:
Investment in Agriculture Machinery decreased in Q1 2014 at a revised annualized rate of 67.9% and is now down 10.4% from one year ago. The Agriculture Momentum Index increased from 80.8 (revised) in May to 85.0 in June, the first increase in the Index in seven months. Over the past month, Leases of New and Used Agriculture Equipment bounced back 42%, while Red Meat & Poultry Production and Broiler Exports both notched solid increases. Overall, we believe that investment will remain subdued throughout 2014, as the Index remains at a below-average level.

Construction Machinery:
Investment in Construction Machinery increased at a revised 21.2% annualized rate in Q1 2014, yet is still down 6.1% year-over-year due to a base effect from elevated levels in Q1 2013. The Construction Momentum Index increased from 105.5 (revised) in May to 108.2 in June. Housing Starts climbed back over a 1 million annualized rate in April, while Construction Employment notched a solidly positive gain over the 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 revised 1.8% annualized rate in Q1 2014 and is now up 6.8% year-over-year. The Materials Handling Momentum Index increased from 89.3 (revised) in May to 92.2 in June, reaching a twenty-six month high. Policy Uncertainty subsided over the past month, while Machinery Sales increased 0.8%. Additionally, Expectations for the Dow Jones Industrial Average increased 6 pts from the previous month. 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 at a revised 20.5% annualized rate in Q1 2014 and is now up 5.3% year-over-year. The Other Industrial Equipment Momentum Index slipped from 90.3 (revised) in May to 89.2 in June. The MNI-Chicago Index for Prices Paid jumped 12 points over the past month, while Shipments for All Manufacturing Industries excluding Defense increased 0.2% on the month. Overall, the Index’s recent movement suggests moderate growth in investment over the next three to six months.
Medical Equipment:
Investment in Medical Equipment increased at a revised 5.0% annualized rate in Q1 2014 and is now up 3.8% year-over-year. The Medical Equipment Momentum Index held steady at 95.7 (revised) from May to June. Federal Outlays for Medicare jumped 89% on the month, while Shipments of Electromedical, Measuring, and Control Instruments increased 2.0%. The positive contributions, however, were offset by a decline in the Prices of Physicians’ Services. 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 at a revised 5.9% annualized rate in Q1 2014 and is now up 16.8% year-over-year, the fastest growth rate in ten quarters. The Mining & Oilfield Machinery Momentum Index declined from 94.2 (revised) in May to 92.9 in June. The ISM Manufacturing Index increased 0.5 points on the month, while Shipments of Mining, Oil Field & Gas Field Machinery increased 4.3%. On the downside, however, Industrial Production of Natural Gas Distribution declined. Overall, the Index suggests that investment will moderate over the next three to six months.

Aircraft:
Investment in Aircraft decreased at a revised 21.2% annualized rate in Q1 2014. On a year-over-year basis, investment in Aircraft is still up 30.2%. The Aircraft Momentum Index increased from 95.5 (revised) in May to 103.0 in June. New Orders for Defense Aircraft & Parts surged 13.1% on the month, while the ISM Nonmanufacturing remained solidly in expansionary territory. Overall, the Index’s recent movement suggests that there will be a moderation of investment over the next three to six months closer to the long-term average of about 5% to 6% year-over-year.

Ships & Boats:
Investment in Ships & Boats declined at a revised 5.9% annualized rate in Q1 2014. Investment is now up 2.1% from one year ago, the slowest annual growth in ten quarters. The Ships & Boats Momentum Index increased from 97.1 (revised) in May to 98.6 in June. New Orders of Ships & Boats surged 89% on the month and reached a twenty-month high. The Index was also boosted by a positive contribution from the ISM Manufacturing Employment Index. Overall, the Index, along with a strong reading of New Orders, suggests an upswing in investment over the next three to six months.
Railroad Equipment:
Investment in Railroad Equipment increased at a revised 33.3% annualized rate in Q1 2014, yet is still down 4.2% year-over-year. The Railroad Equipment Momentum Index increased from 110.3 (revised) in May to 114.7 in June. Six of the ten indicators made positive contributions to the Index, which provided the a strong boost. Most notably, Machine Tool Orders increased 39%, while the Unemployment Rate fell 0.4 percentage points. Overall, the Index is signaling a strong improvement in railroad equipment investment over the next three to six months.

Trucks:
Investment in Trucks increased at a revised 9.5% annualized rate in Q4 2013 and is now up 7.8% year-over-year. The Trucks Momentum Index held steady at 103.1 from May to June. Housing Starts, Industrial Production for Energy Materials, and the ISM Manufacturing Index made positive contributions to the Index, while all other indicators were neutral on the month. Overall, the Index remains above the 5-year average of 100.2, signaling sustained positive growth over the next three to six months.

Computers:
Investment in Computers decreased at a revised annualized rate of 39.6% in Q1 2014 and is down 8.8% on a yearly basis, the sharpest annual rate of decline in over three years. The Computers Momentum Index moderated from 83.5 in May to 82.3 in June. The Index was dragged down by a 17% decrease in Shipments of Defense Communication Equipment, in addition to a negative contribution from Retail Sales at Appliance Stores. 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 at a revised 1.7% annualized rate in Q1 2014 and is now up 1.7% year-over-year. The Software Momentum Index decreased from 97.4 (revised) in May to 95.9 in June. The ZEW Current Economic Sentiment Index declined 4.0 points from the previous month, while the Intuit Small Business Revenue Index for Professional, Scientific, and Technical Services was little changed from the previous month. Overall, the Index continues to point towards modest growth over the next three to six months.