

June 2015

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.

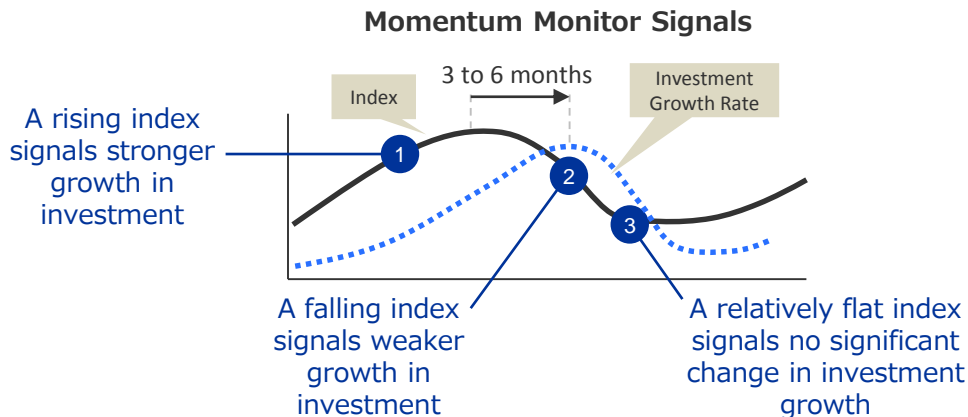
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

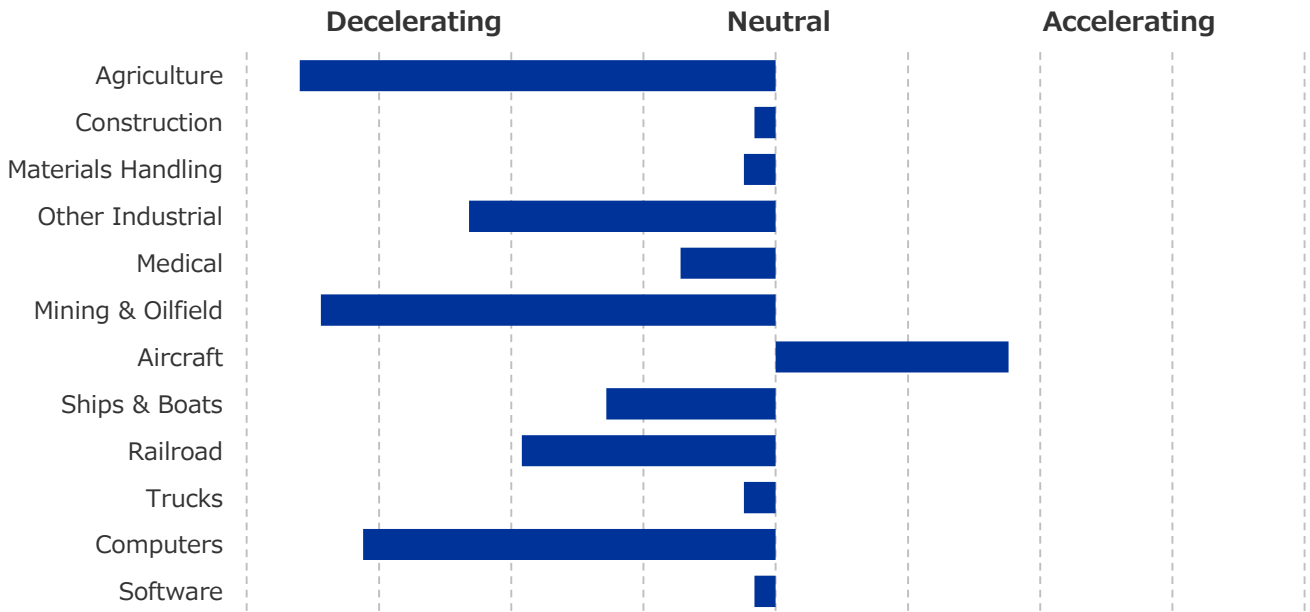
- 1) Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2) The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3) A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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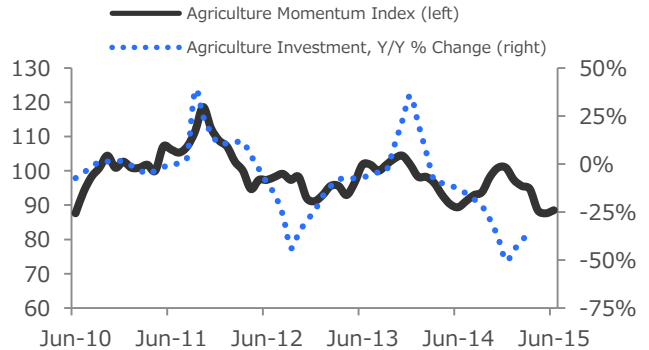
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

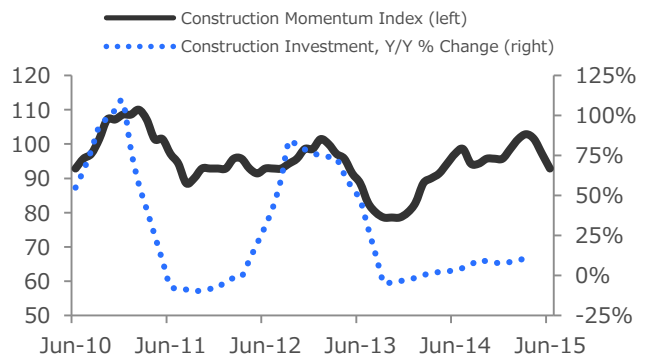
Agriculture Machinery:

Investment in Agricultural Machinery slipped at an annual rate of 2.9% in Q1 2015, the fifth consecutive contraction, and is down 35.4% from one year ago. The Agriculture Momentum Index increased from 87.6 (revised) in May to 88.5 in June, the first increase in six months. National Average Precipitation increased 31% in April, and Shipments of Farm Machinery are up nearly 10%. However, Cattle Exports fell 19%, the third decline in five months. Overall, the Index points to continued negative investment growth over the next three to six months.



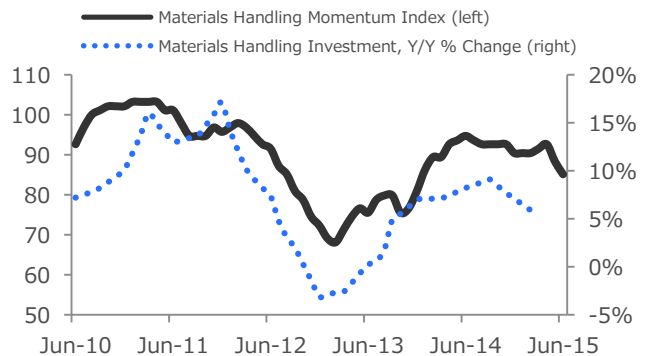
Construction Machinery:

Investment in Construction Machinery rebounded at a 42.0% annual rate in Q1 2015 and is up 10.7% year-over-year. The Construction Momentum Index declined from 97.1 (revised) in May to 92.9 in June, slightly below its 10-year average. Consumer Sentiment fell to a six-month low and Shipments of Construction Machinery declined 2.5%, yet Housing Starts surged 20% to a seven-year high. Overall, the Index's recent movement suggests stable or somewhat slower investment growth over the next three to six months.



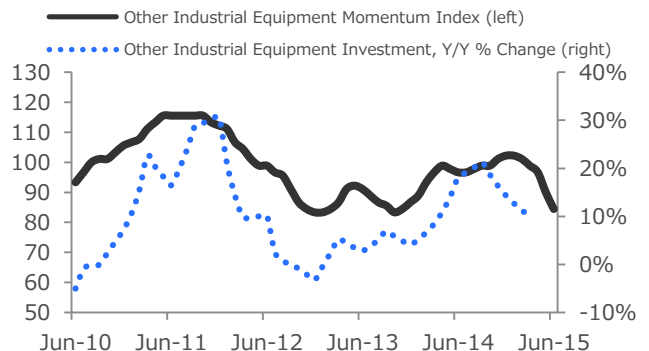
Materials Handling Equipment:

Investment in Materials Handling Equipment declined at a 5.4% annual rate in Q1 2015 — the largest decrease since 2009 — but remains up 5.4% year-over-year. The Materials Handling Momentum Index fell from 88.3 (revised) in May to 85.1 in June, an 18-month low. Industrial Production declined for the fifth consecutive month in April, while the ZEW Economic Sentiment Survey and Materials Handling Imports both posted gains. The Index's recent trend indicates that investment growth may moderate over the next three to six months.



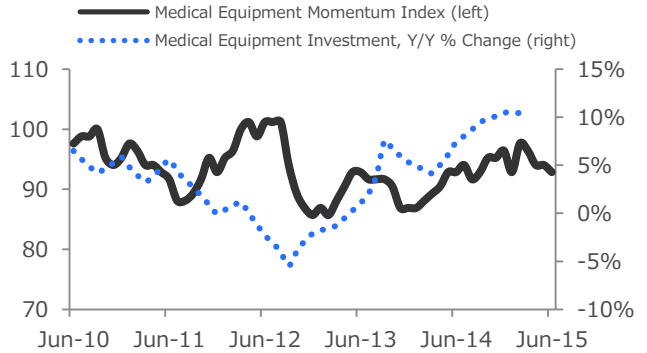
Other Industrial Equipment:

Investment in All Other Industrial Equipment increased at a 3.9% annual rate in Q1 2015 and is up 10.0% year-over-year. The Other Industrial Equipment Momentum Index dropped from 90.0 (revised) in May to 84.4 in June, the lowest level since November 2013. The MNI-Chicago Production Index decreased 13% and Copper Warehouse Stocks declined 5.5%. However, New Orders of Industrial Machinery jumped 29% to a six-month high. Overall, the Index suggests continued softening in investment growth over the next three to six months.



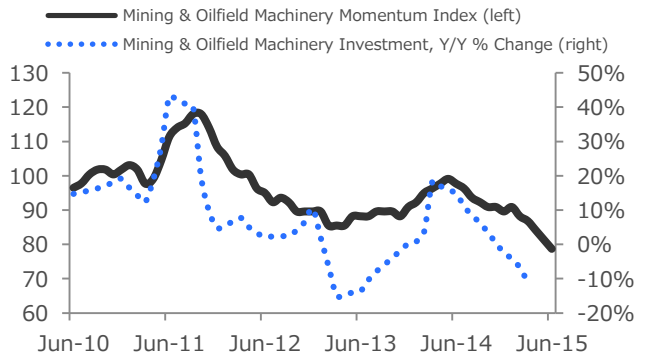
Medical Equipment:

Investment in Medical Equipment increased at a 5.2% annual rate in Q1 2015 and is up 10.4% year-over-year, the second largest annual increase since 2008. The Medical Equipment Momentum Index ticked down from 94.0 in May to 92.9 in June. Personal Medicaid Receipts and Total Households decreased, while New Orders of Nondefense Capital Goods increased 5.5%. Overall, the Index suggests that growth in medical equipment investment could moderate slightly, but is likely to remain strong over the next three to six months.



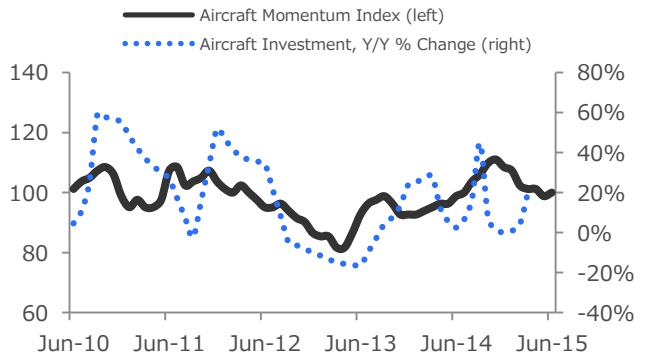
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery decreased at a 25.4% annual rate in Q1 2015 and is now down 11.2% year-over-year, a seven-quarter low. The Mining & Oilfield Machinery Momentum Index declined from 81.4 (revised) in May to 78.7 in June. While WTI Futures jumped 18%, the Oil Rig Count fell for the eighth consecutive month, Unfilled Orders of Oil & Gas Machinery slipped 1%, and Industrial Production of Natural Gas declined nearly 3%. The Index suggests continued weak investment over the next three to six months.



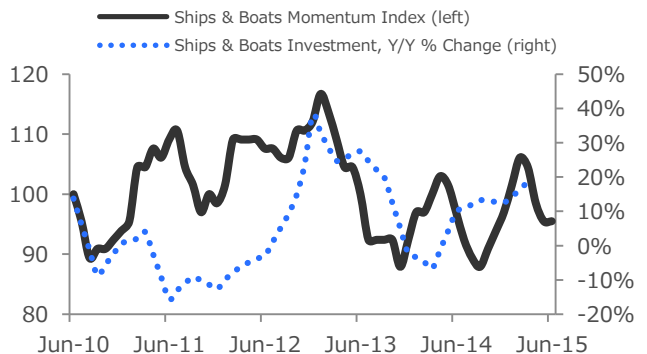
Aircraft:

Investment in Aircraft expanded at a 35.3% annual rate in Q1 2015 and is up 20.1% on a year-over-year basis. The Aircraft Momentum Index inched up from May's 12-month low of 98.8 (revised) to 100.0 in June. U.S. Tourism increased 31% following two months of decline, and Vehicle Miles Traveled jumped 18% to the highest level since last October. Meanwhile, Civilian Aircraft Exports increased 27% in March. Overall, the Index's recent movement suggests no significant shift in Aircraft investment growth over the next three to six months.



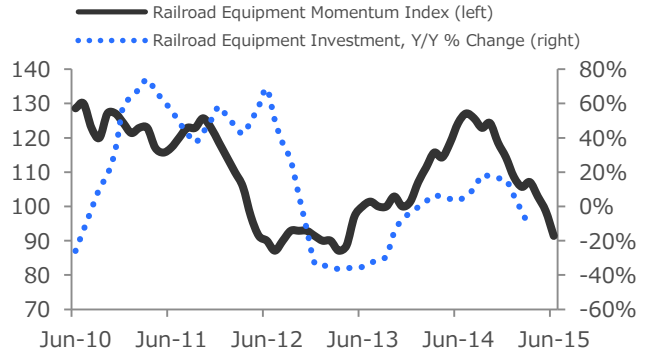
Ships & Boats:

Investment in Ships & Boats increased at an annual rate of 14.4% in Q1 2015, and is up 18.7% year-over-year, a six-quarter high. The Ships & Boats Momentum Index was unchanged at 95.5 (revised) from May to June. Nonfarm Employment Growth picked up in April, and Raw Steel Production rose nearly 2%. The Agricultural Trade Balance, however, declined 75% in April. Overall, the Index continues to suggest that investment growth may slow over the next three to six months.



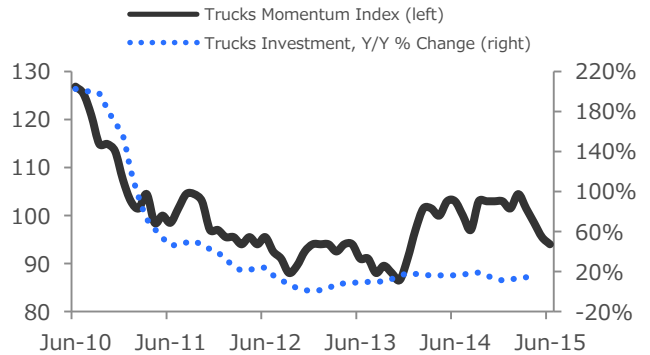
Railroad Equipment:

Investment in Railroad Equipment plummeted at a 56.7% annual rate in Q1 2015, and is now down 12.6% year-over-year. The Railroad Equipment Momentum Index fell sharply from 98.6 (revised) in May to 91.4 in June, a two-year low. Although the ISM Manufacturing Employment Index rose 3.4 points in May, Petroleum Carloads declined 13% and Coal Production was down nearly 7%. Overall, the Index continues to suggest that negative growth in railroad equipment investment over the next three to six months.



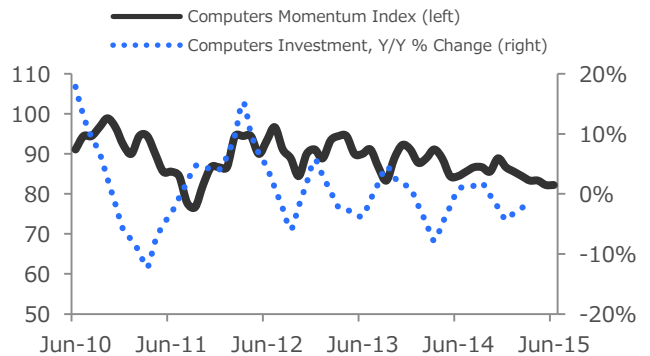
Trucks:

Investment in Trucks rebounded at a 31.8% annual rate in Q1 2015 and is up 14.3% year-over-year. The Trucks Momentum Index decreased from 95.5 (revised) in May to 94.0 in June, the lowest level since late 2013. Housing Starts surged 20% in April, while Shipments of Light Trucks fell 4%, Industrial Production of Energy Materials declined for the third straight month, and Shipments of Primary Metals slipped 2%. Overall, the Index continues to suggest that growth in truck investment may moderate over the next three to six months.



Computers:

Investment in Computers contracted at an annual rate of 32.1% in Q1 2015 and is down 1.7% on a year-over-year basis. The Computers Momentum Index held steady at 82.2 (revised) from May to June. Shipments of Electronic Computers and Defense Communication Equipment fell 5% and 9%, respectively, yet Appliance & Television Retail Sales rebounded 3%. Overall, the movement of the Index suggests continued weak or potentially negative computer investment growth over the next three to six months.



Software:

Investment in Software increased at a 7.6% annual rate in Q1 2015 and is now up 6.4% year-over-year, the largest yearly increase since 2012. The Software Momentum Index was unchanged at 94.9 (revised) from May to June. The Producer Price Index for Software Publishers declined 2% and the Richmond Fed Equipment Spending Survey fell to a 7-month low, while the NASDAQ Composite Index increased 2.6% in May. Overall, the Index points to stable or somewhat stronger investment growth over the next three to six months.

