

January 2015

U.S. Equipment & Software Investment Momentum Monitor



CONTACT INFORMATION:

Kelli Nienaber, Executive Director
Equipment Leasing & Finance Foundation
knienaber@leasefoundation.org
www.leasefoundation.org

Jeff Jensen, Director
Keybridge LLC
jjensen@keybridgedc.com
www.keybridgedc.com

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.

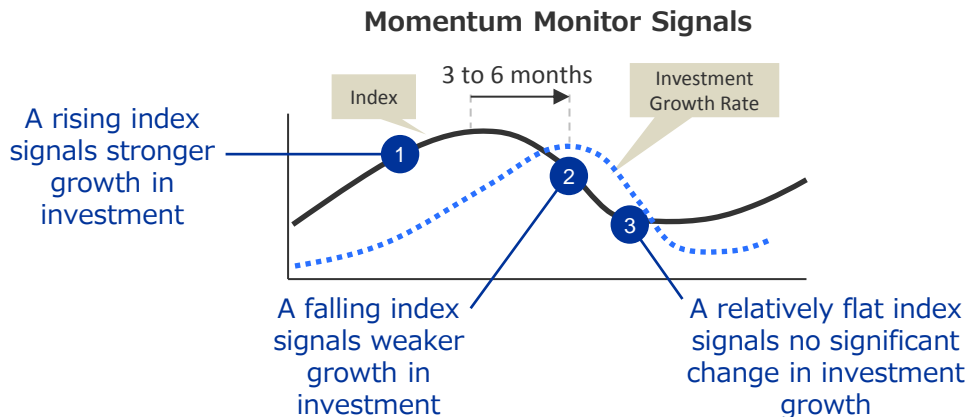
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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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:

Construction Machinery:

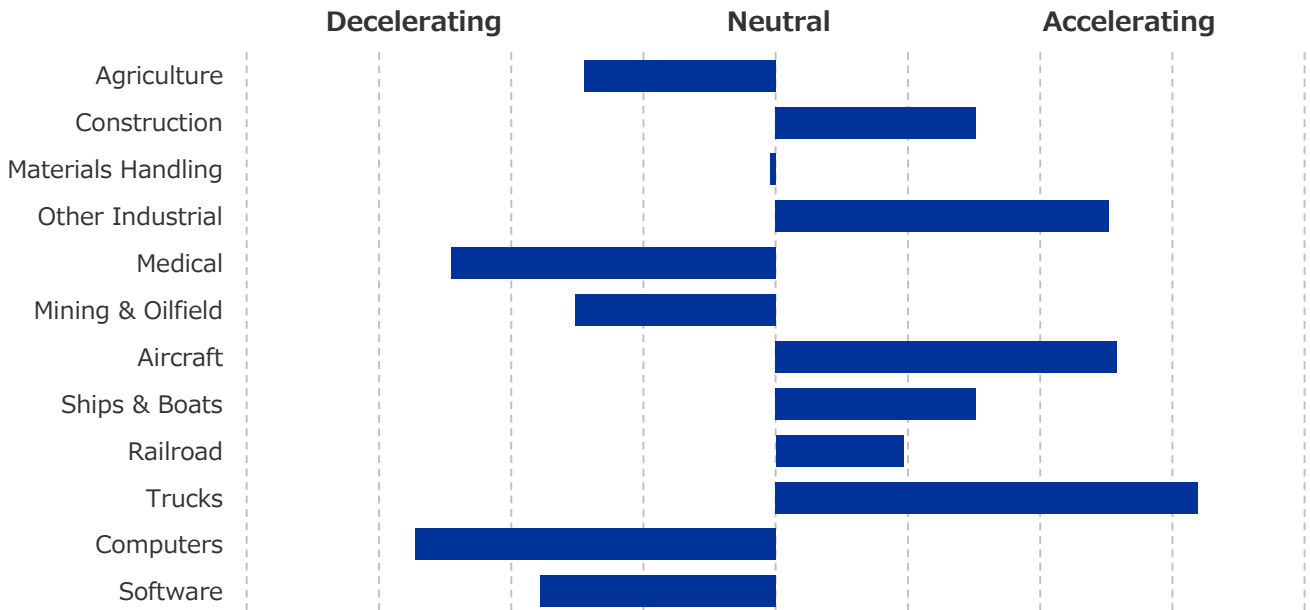
- 1 Investment in Construction Machinery declined 1.8% at an annualized rate in Q4 2013 and is now down 4.9% year-over-year, a second consecutive year-over-year contraction.
- 2 The Construction Momentum Index increased from 98.6 (revised) in January to 100.0 in February.
- 3 Construction Employment 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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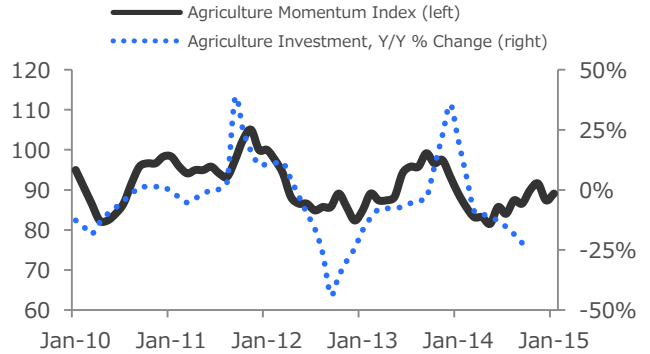
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

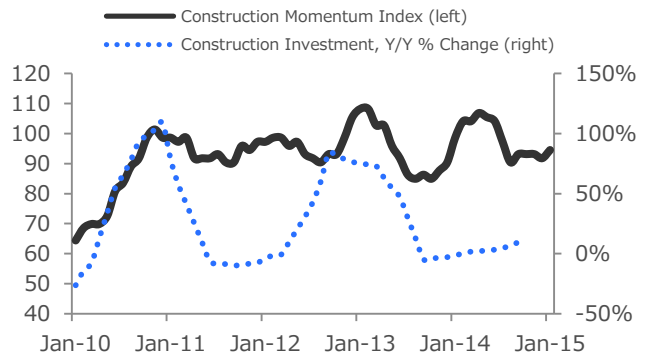
Agriculture Machinery:

Investment in Agricultural Machinery contracted at an annualized rate of 60.2% in Q3 2014 and is down 22.1% from one year ago. The Agriculture Momentum Index increased from 87.4 (revised) in December to 89.1 in January. National Average Precipitation declined nearly 15%, yet Broiler Exports increased 7% and Cattle Exports rebounded sharply after last month's decline. Overall, the Index suggests little change in investment over the next three to six months.



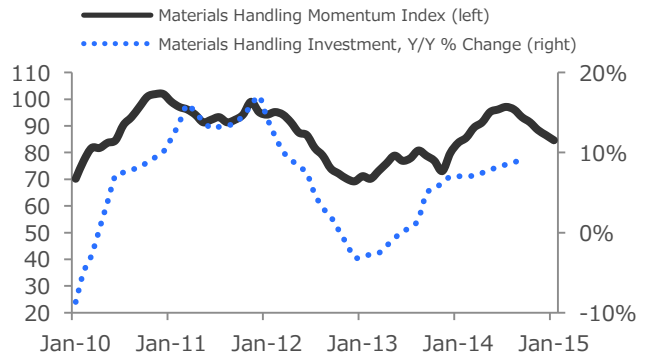
Construction Machinery:

Investment in Construction Machinery rebounded at a 14.0% annualized rate in Q3 2014 and is up 9.6% year-over-year. The Construction Momentum Index increased from 91.8 (revised) in December to 94.5 in January. Consumer Sentiment hit a post-recession high in December, while Housing Starts in the West increased 28% to their highest level in nearly a year. However, National Housing Starts and Nonresidential Construction both declined. Overall, the Index's recent movement suggests relative stability in investment growth over the next six months.



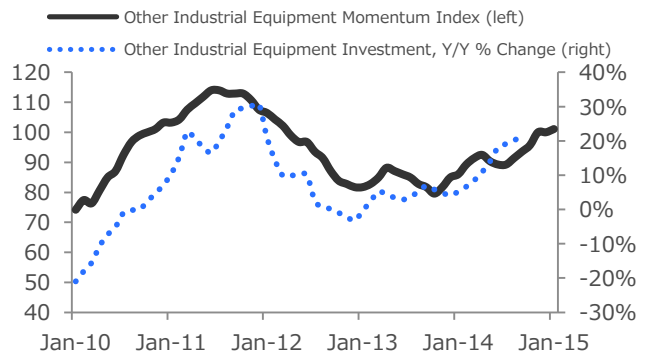
Materials Handling Equipment:

Investment in Materials Handling Machinery increased at a 17.4% annualized rate in Q3 2014 — the fastest pace in three years — and is now up 9.1% year-over-year. The Materials Handling Momentum Index declined from 86.5 (revised) in December to 84.6 in January. Although the ZEW Stock Market Survey jumped 18%, the Chicago Business Barometer fell for the second straight month. The Index's recent trend indicates that growth may moderate over the next three to six months.



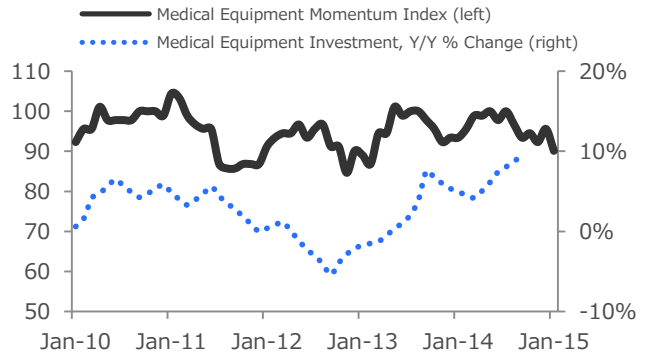
Other Industrial Equipment:

Investment in All Other Industrial Equipment expanded at a 32.6% annualized rate in Q3 2014 and is now up 21.3% year-over-year, an eleven-quarter high. The Other Industrial Equipment Momentum Index ticked up from 100.0 (revised) in December to 101.1 in January, a nearly three-year high. The ISM Manufacturing Index slipped 2 points, missing expectations, yet Copper Stocks and Industrial Supplies Exports increased 7% and 2%, respectively. Overall, the Index's recent movement suggests that growth will remain strong over the next three to six months.



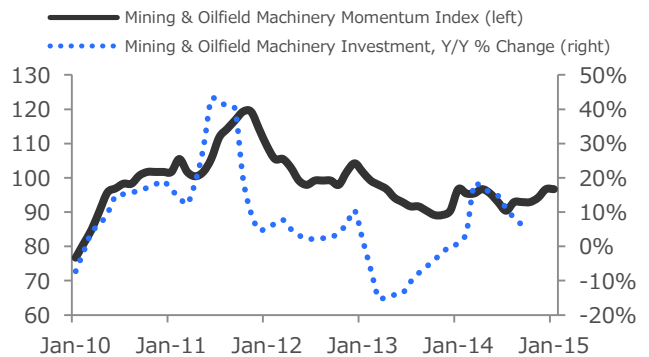
Medical Equipment:

Investment in Medical Equipment increased at an 18.3% annualized rate in Q3 2014 and is now up 9.5% year-over-year, the largest annual increase in six years. The Medical Equipment Momentum Index dropped from 95.6 (revised) in December to 90.1 in January. Although the CPI for Eye Care increased, declines in Federal Health Outlays and Social Security Benefits pulled down the Index. Overall, the Index suggests that growth in medical equipment investment may slow modestly over the next three to six months.



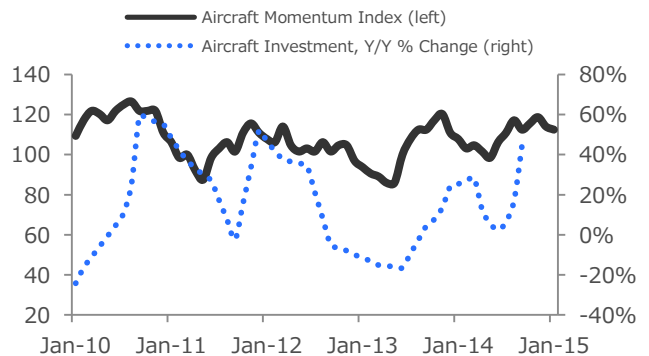
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery expanded at a 4.9% annualized rate in Q3 2014 and is now up 6.3% year-over-year. The Mining & Oilfield Machinery Momentum Index held steady at 96.7 from December to January. Coal Production dropped 8%, while Consumer Sentiment and Oil & Gas Field Machinery Inventories both increased. Combined with low and still-declining oil prices, the Index continues to suggest slow or potentially negative growth in investment over the next three to six months.



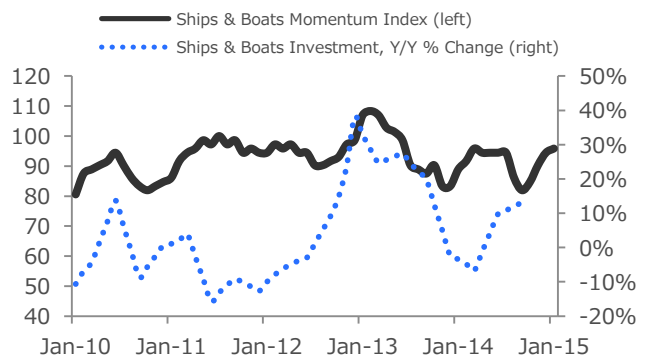
Aircraft:

Investment in Aircraft surged at a 334.8% annualized rate in Q3 2014 and is now up 44.7% on a year-over-year basis — the largest increase in over two years. The Aircraft Momentum Index decreased from 114.1 in December to 112.5 in January. Industrial Production saw its largest increase in over three years, yet U.S. Overseas Air Traffic declined for the third consecutive month. Overall, the Index suggests little change in Aircraft investment growth over the next three to six months.



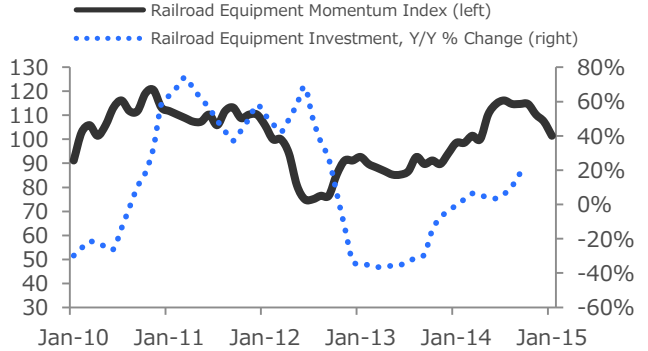
Ships & Boats:

Investment in Ships & Boats expanded at an annualized rate of 42.3% in Q3 2014 and is now up 13.2% year-over-year. The Ships & Boats Momentum Index increased slightly from 94.4 (revised) in December to 95.8 in January. Industrial Production of Energy Products jumped nearly 6% and the ISM Manufacturing Employment Index rebounded in December. However, Raw Steel Production slipped. Overall, the Index suggests an uptick in investment growth the next three to six months.



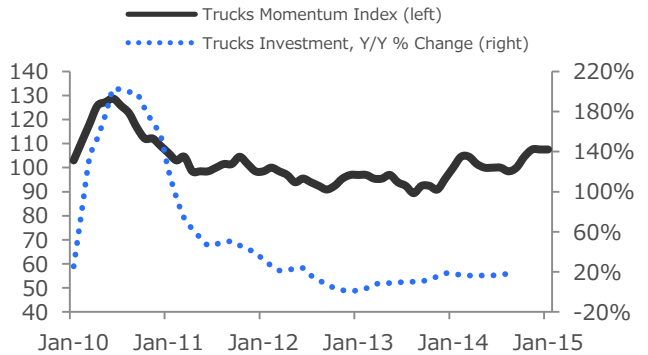
Railroad Equipment:

Investment in Railroad Equipment rebounded at a 60.7% annualized rate in Q3 2014, the largest increase in nearly three years, and is up 18.2% year-over-year. The Railroad Equipment Momentum Index dropped from 107.4 (revised) in December to 101.5 in January, a nine-month low. Coal Production declined 8%, while the ISM Manufacturing Supplier Deliveries Index increased 4% in December. Overall, the Index suggests that growth in railroad equipment investment may moderate over the next three to six months.



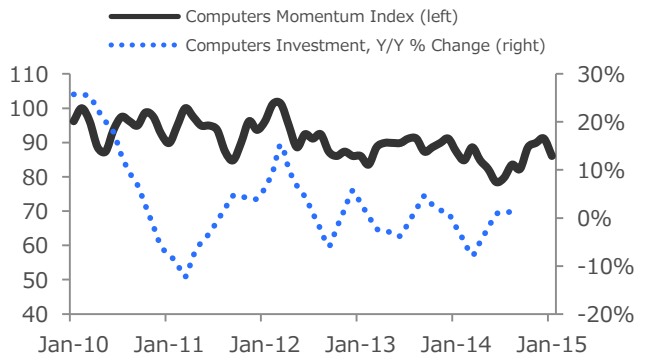
Trucks:

Investment in Trucks increased at a 13.8% annualized rate in Q3 2014 and is now up 18.9% year-over-year. The Trucks Momentum Index held steady at 107.6 (revised) from December to January — the highest level since 2010. Declines in Housing Starts and the ISM Manufacturing Index were offset by increases in New Orders of Motor Vehicles and Industrial Production of Energy Materials. Overall, the Index's recent movement indicates little change in truck investment over the next three to six months.



Computers:

Investment in Computers increased at an annualized rate of 11.2% in Q3 2014 and is up 1.8% on a year-over-year basis. The Computers Momentum Index declined from 91.1 (revised) in December to 86.1 in January. Shipments of Electronic Computers fell for the fourth straight month, and Appliance Retail Sales slipped 2%. Wages in Service Industries, however, ticked up 0.8%. Overall, the movement of the Index suggests slightly slower growth in computer investment over the next three to six months.



Software:

Investment in Software increased at an 8.9% annualized rate in Q3 2014 and is up 4.6% year-over-year. The Software Momentum Index was unchanged at 91.5 (revised) from December to January. The ZEW Survey jumped 21%, yet the ISM Services Employment Index fell 3 points. Overall, the Index points to little change in investment growth over the next three to six months.

