

March 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.

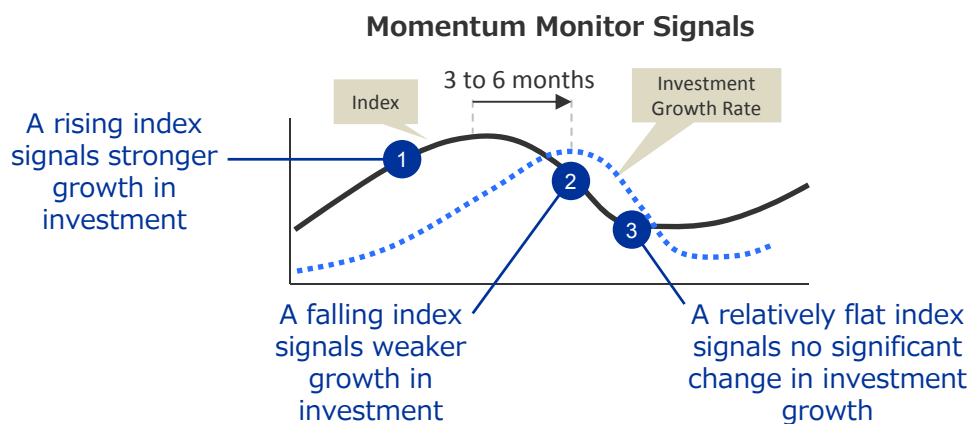
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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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:

Construction Machinery:

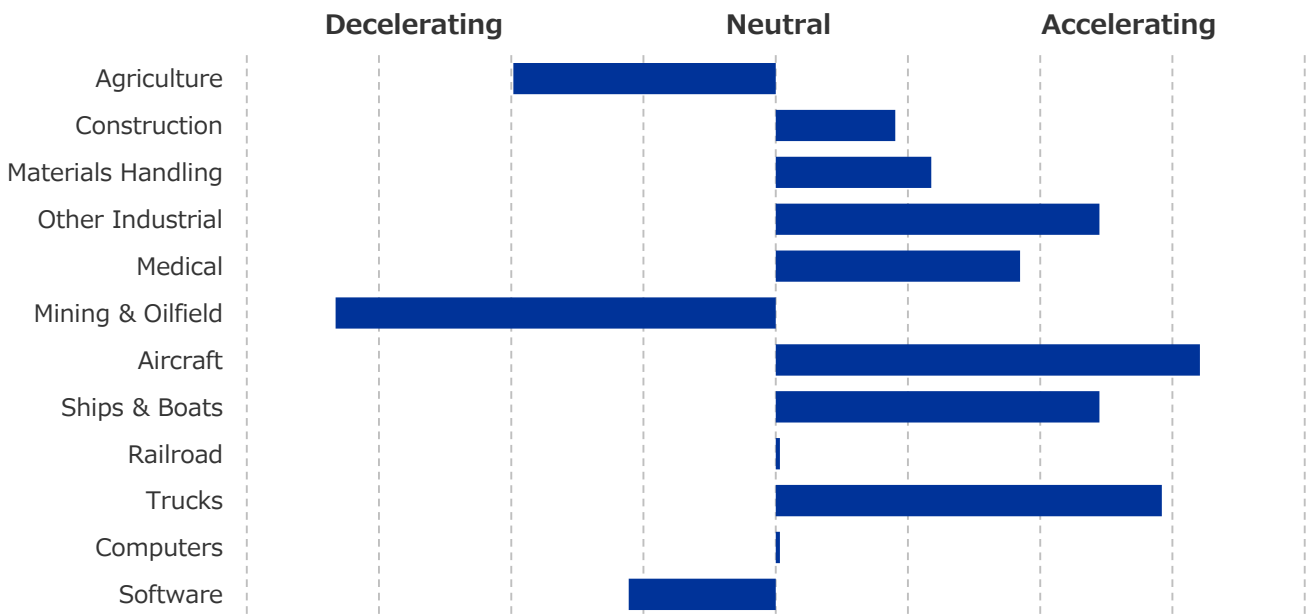
- 1) Investment in Construction Machinery declined 1.8% at an annualized rate in Q4 2013 and is now down 4.9% year-over-year, a second consecutive year-over-year contraction.
- 2) The Construction Momentum Index increased from 98.6 (revised) in January to 100.0 in February.
- 3) Construction Employment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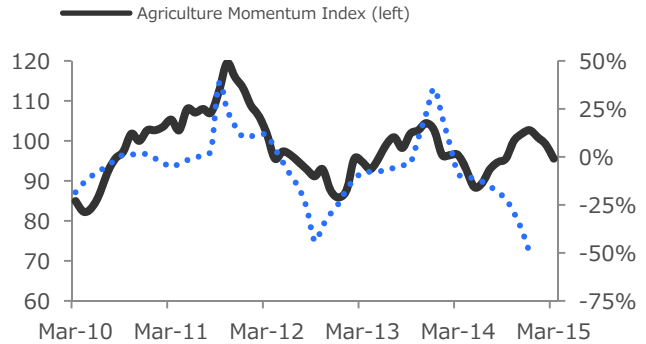
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

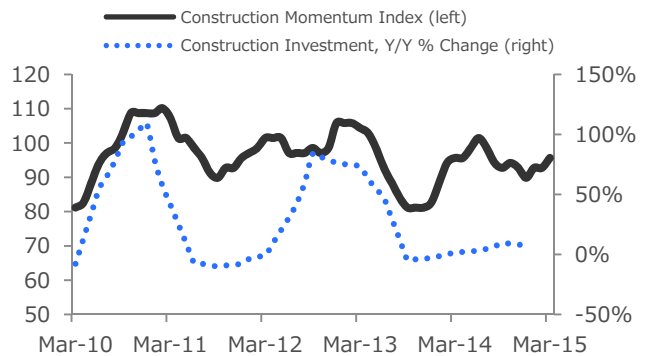
Agriculture Machinery:

Investment in Agricultural Machinery contracted at an annualized rate of 14.5% in Q4 2014 and is now down 50.3% from one year ago — the largest annual drop in nearly 15 years. The Agriculture Momentum Index decreased from 99.1 (revised) in February to 95.6 in March. National Average Precipitation declined 32% last month. Cattle Exports and Agriculture Equipment Sales, however, both posted solid gains after declining the previous month. Overall, the Index points to continued declines in investment over the next three to six months.



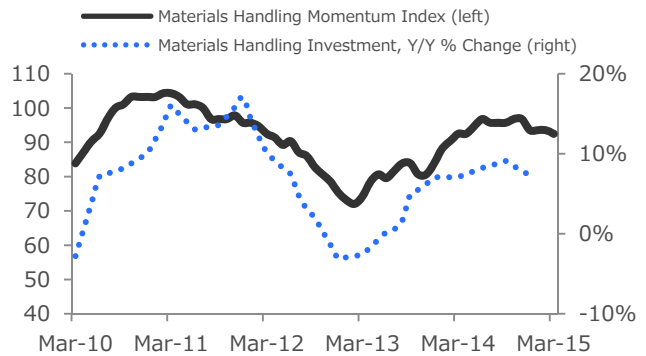
Construction Machinery:

Investment in Construction Machinery slipped at a 0.4% annualized rate in Q4 2014 but is up 7.5% year-over-year. The Construction Momentum Index increased from 92.8 (revised) in February to 95.7 in March, an eight-month high. Consumer Sentiment ticked down from a six-year high in February, yet Housing Permits rebounded 4% after last month's decline. Overall, the Index's recent movement suggests a small pick-up in investment growth over the next six months.



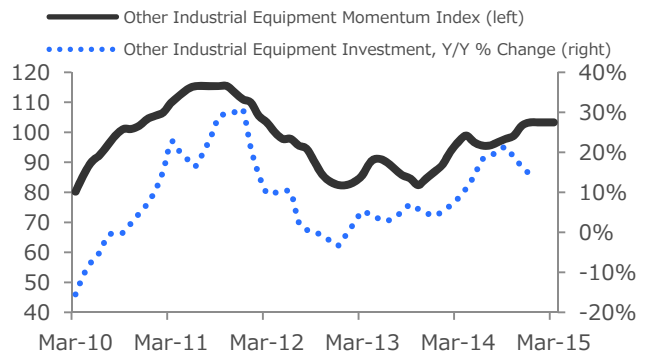
Materials Handling Equipment:

Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year. The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March. 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. The Index's recent trend continues to indicate that growth may moderate over the next three to six months.



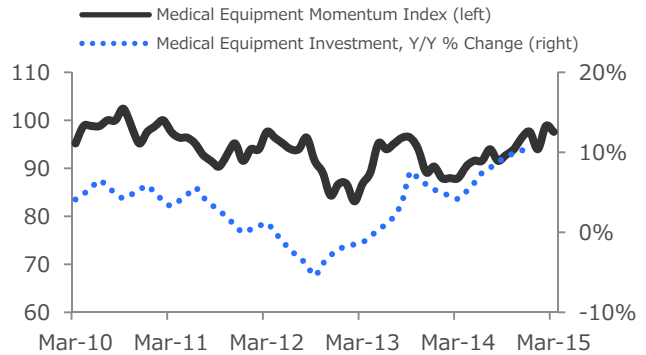
Other Industrial Equipment:

Investment in All Other Industrial Equipment declined at a 21.6% annualized rate in Q4 2014 (the largest drop in over two years), but is still up 14.5% year-over-year. The Other Industrial Equipment Momentum Index held steady at 103.3 (revised) from February to March. Machinery Industrial Production and the MNI-Chicago Prices Paid Index both increased this month, while Exports of Industrial Supplies declined. Overall, the Index suggests that growth will remain robust over the next three to six months.



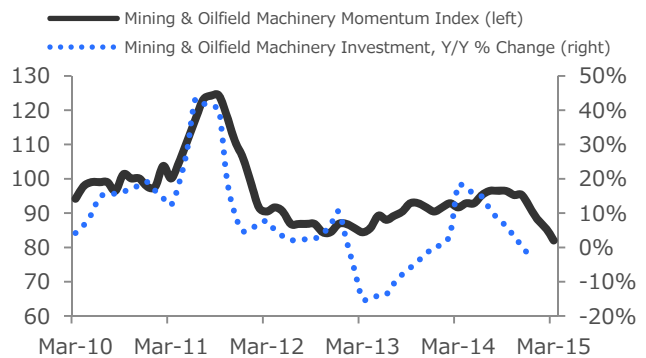
Medical Equipment:

Investment in Medical Equipment increased at a 5.2% annualized rate in Q4 2014 and is up 10.6% year-over-year, a six-year high. The Medical Equipment Momentum Index decreased slightly from 98.8 (revised) in February to 97.6 in March. Federal Health Outlays fell 11% and Disability Benefits Awarded decreased nearly 5%; however, the CPI for Physicians Services ticked up this month. Overall, the Index's elevated position suggests continued strong growth in medical equipment investment over the next three to six months.



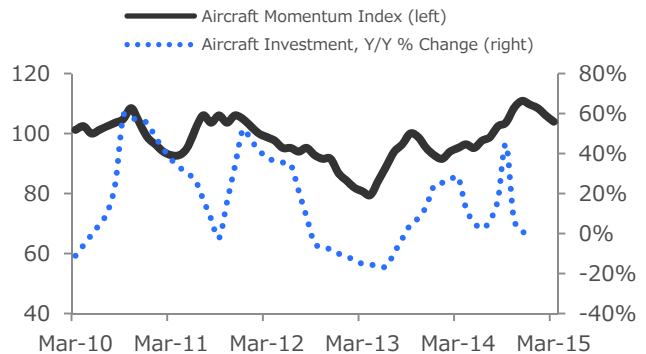
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery decreased at a 34.4% annualized rate in Q4 2014 and is now down 2.6% year-over-year. The Mining & Oilfield Machinery Momentum Index declined from 85.6 (revised) in February to 82.0 in March, a five-year low. The Oil Rig Count plunged nearly 20%, Shipments of Oil & Gas Field Machinery dropped 6%, and WTI Futures decreased for the sixth consecutive month. The Index suggests continued declines in investment over the next three to six months.



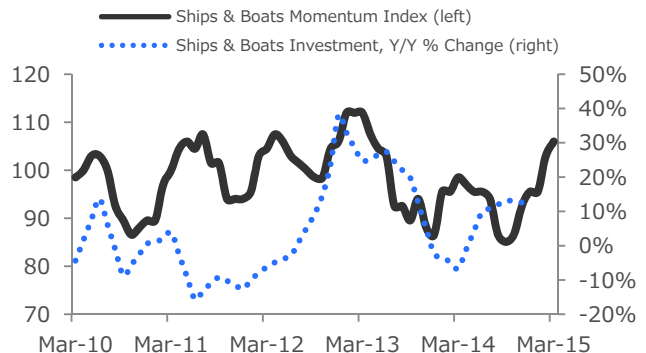
Aircraft:

Following Q3's surge, investment in Aircraft grew at a 16.4% annualized rate in Q4 2014 and is now up 0.2% on a year-over-year basis. The Aircraft Momentum Index declined from 106.0 (revised) in February to 103.9 in March. Following last month's decline, Economic Policy Uncertainty spiked 40% in February, and Exports of Civilian Aircraft decreased 18%. Conversely, Industrial Production inched up, and U.S. Overseas Tourism rebounded. Overall, the Index suggests flat or potentially slower growth in Aircraft investment over the next three to six months.



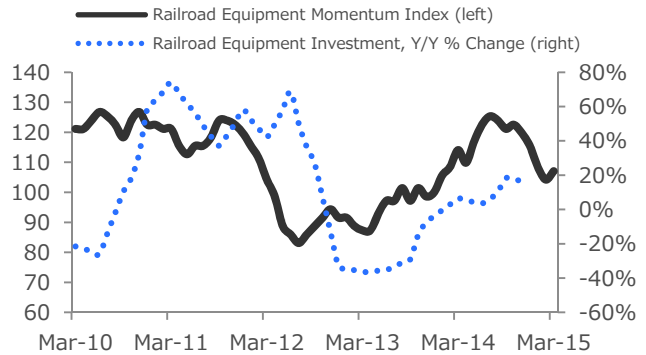
Ships & Boats:

Investment in Ships & Boats contracted at an annualized rate of 8.8% in Q4 2014, but is up 12.3% year-over-year. The Ships & Boats Momentum Index increased from 103.0 (revised) in February to 106.0 in March. While the ISM Manufacturing Employment Index dropped to a 20-month low in February, the Chemicals Trade Balance and Industrial Production for Energy Products both increased. Overall, the Index continues to suggest an uptick in investment growth over the next three to six months.



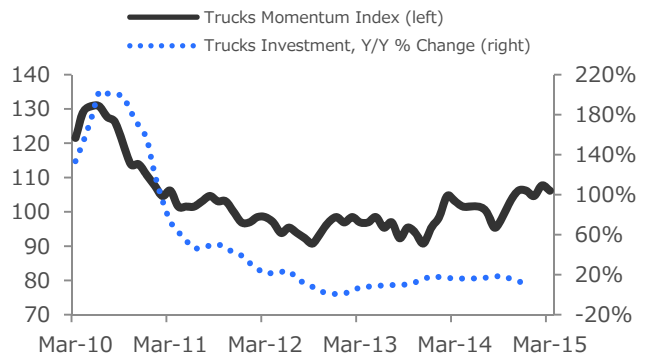
Railroad Equipment:

Investment in Railroad Equipment decreased at a 12.7% annualized rate in Q4 2014 but is still up 16.0% year-over-year. The Railroad Equipment Momentum Index increased from 104.2 (revised) in February to 107.0 in March. Nonfarm Employment Growth decelerated in January and the Unemployment Rate ticked up, yet Machine Tool Orders and Coal Production posted gains. Overall, the Index suggests that growth rates in railroad equipment investment may remain flat or decline over the next three to six months.



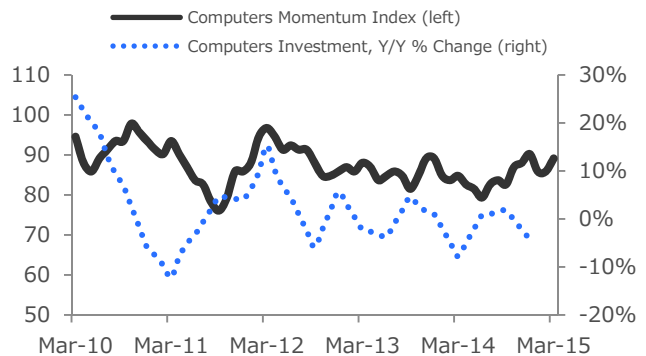
Trucks:

Investment in Trucks declined at a 11.4% annualized rate in Q4 2014, a two-year low, and is up 11.2% year-over-year. The Trucks Momentum Index slipped from February's four-year high of 107.7 (revised) to 106.2 in March. Housing Starts decreased 2%, and Shipments of Primary Metals declined for the third consecutive month; however, New Orders of Motor Vehicles continued to increase. Overall, the Index's recent movement continues to indicate modestly stronger growth in truck investment over the next three to six months.



Computers:

Investment in Computers slipped at an annualized rate of 1.7% in Q4 2014 and is now down 4.3% on a year-over-year basis. The Computers Momentum Index increased from 85.9 (revised) in February to 89.1 in March. Service Industry Wages & Salaries increased further, while Capacity Utilization of Computer Products ticked up to 71.6%. Consumer Expectations, however, fell three points — the first decline in six months. Overall, the movement of the Index suggests little change in computer investment growth over the next three to six months.



Software:

Investment in Software increased at a 10.0% annualized rate in Q4 2014 — the largest increase in over three years — and is now up 6.1% year-over-year. The Software Momentum Index was unchanged at 92.2 (revised) from February to March. The Misery Index fell to its lowest level in several decades, offsetting a 21% decline in the Richmond Fed Equipment Spending Survey. Overall, the Index points to stable investment growth over the next three to six months.

