

May 2015

U.S. Equipment & Software Investment Momentum Monitor



CONTACT INFORMATION:

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

Adam Karson, Senior Director
Keybridge LLC
akarson@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.

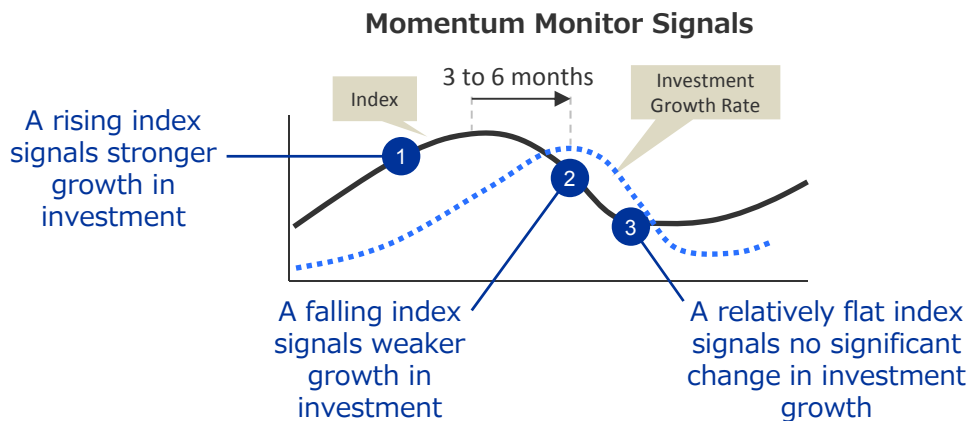
U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

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

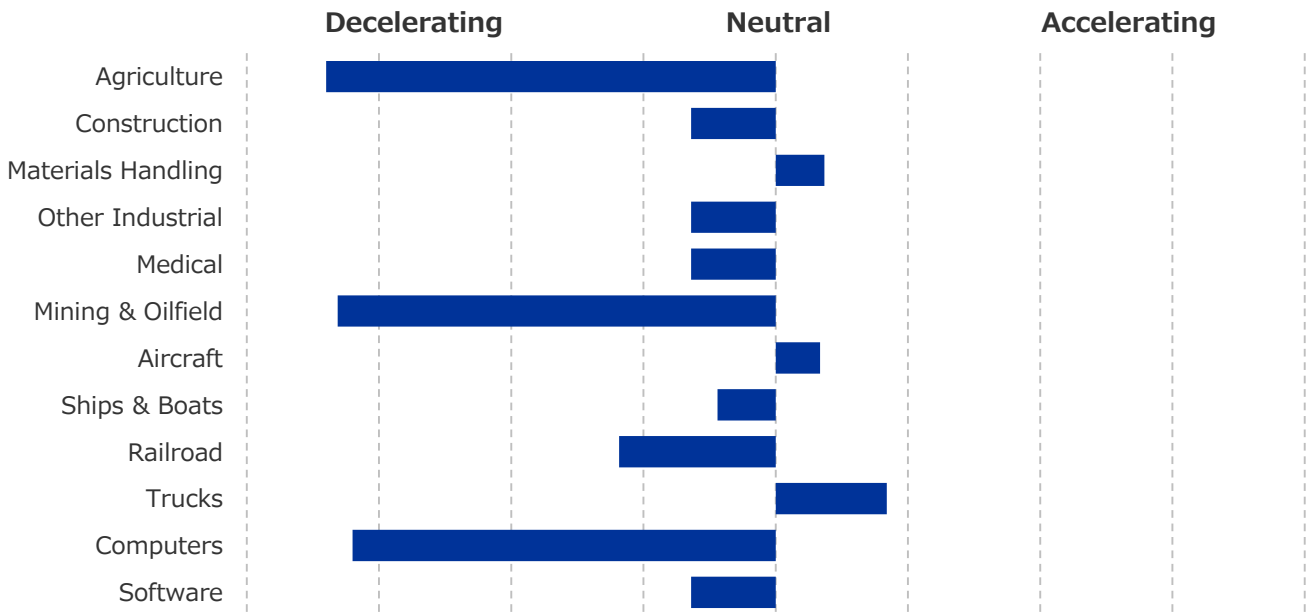
- 1) Investment in Materials Handling Machinery inched up at a 0.3% annualized rate in Q4 2014 and is up 7.3% year-over-year.
- 2) The Materials Handling Momentum Index slipped from 93.5 in February to 92.5 in March.
- 3) A 23% decline in the MNI-Chicago Business Barometer and a spike in Economic Policy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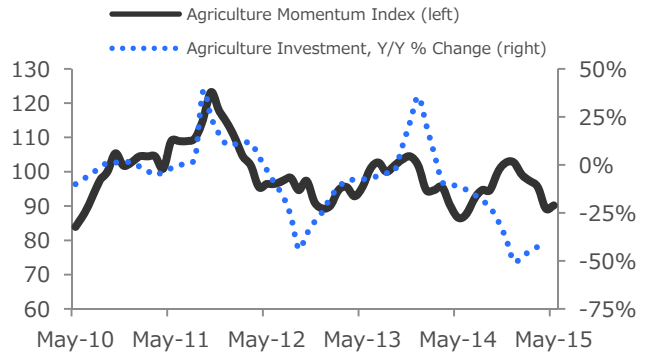
Equipment Vertical Momentum Relative to 10-Year Historical Average



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).

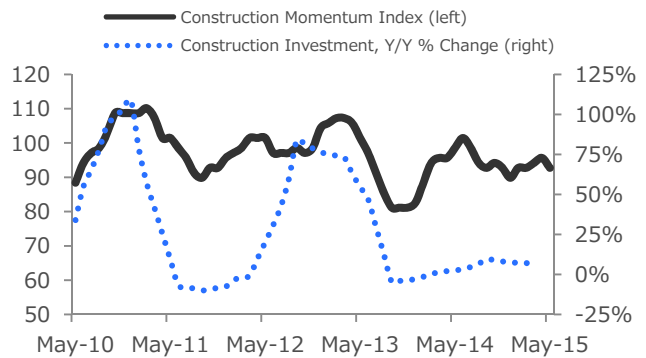
Agriculture Machinery:

Investment in Agricultural Machinery contracted at an annual rate of 39.4% in Q1 2015, the fifth consecutive contraction, and is down 42.6% from one year ago. The Agriculture Momentum Index ticked up from 89.3 (revised) in April to 90.2 in May, the first increase in five months. Agricultural Equipment Sales and Cattle Exports both rebounded from last month's decreases, yet Inventories of Farm Machinery fell for the eighth straight month. Overall, the Index points to continued negative investment growth over the next three to six months.



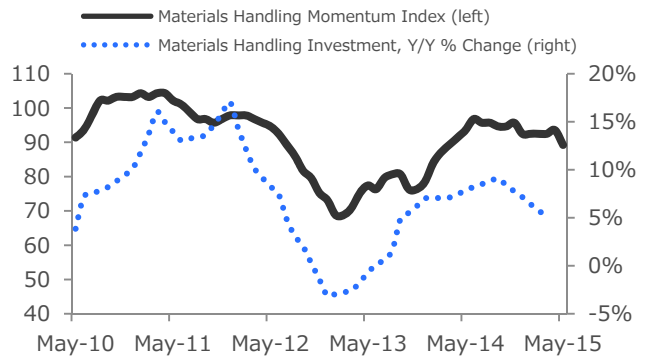
Construction Machinery:

Investment in Construction Machinery rebounded at a 23.6% annual rate in Q1 2015 and is up 6.9% year-over-year. The Construction Momentum Index declined from April's 10-month high of 95.7 (revised) to 92.8 in May. Despite increases in Construction Employment and Nonresidential Construction Investment, Housing Starts in the West fell 19% in March, the third consecutive decline. Overall, the Index's recent movement suggests relatively steady investment growth over the next six months.



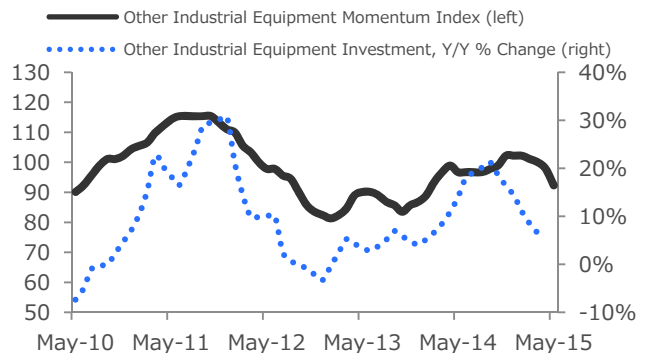
Materials Handling Equipment:

Investment in Materials Handling Equipment declined at a 6.3% annual rate in Q1 2015 — the largest decrease since 2009 — but remains up 5.1% year-over-year. The Materials Handling Momentum Index decreased from 93.5 in April to 89.2 in May, the lowest level since last March. Economic Policy Uncertainty increased 7% and Wholesale Machinery Sales fell 3%, offsetting a 13% increase in the MNI-Chicago Business Barometer Index. The Index's recent trend indicates that growth may moderate slightly over the next three to six months.



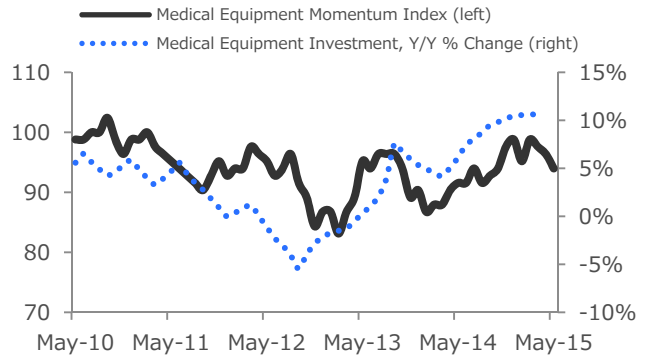
Other Industrial Equipment:

Investment in All Other Industrial Equipment decreased at an 8.7% annual rate in Q1 2015 and is up 6.5% year-over-year. The Other Industrial Equipment Momentum Index fell from 97.8 in April to 92.3 in May, a 16-month low. The ISM Manufacturing Index remained at a two-year low in April, and the MNI-Chicago Prices Paid Index declined nearly 6% to its lowest level since 2009. Overall, the Index suggests continued softening in investment growth over the next three to six months.



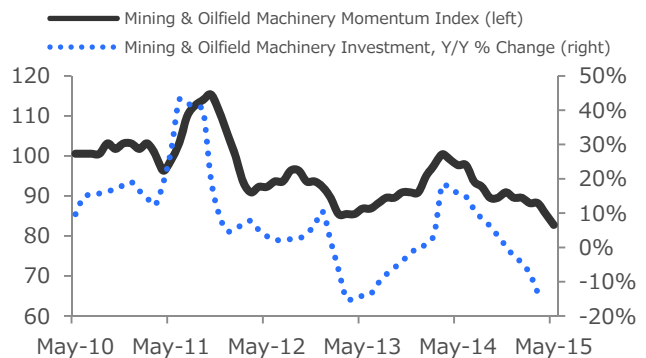
Medical Equipment:

Investment in Medical Equipment increased at a 6.0% annual rate in Q1 2015 and is up 10.6% year-over-year, the largest annual increase since Q1 2008. The Medical Equipment Momentum Index slipped from 96.4 in April to 94.0 in May. New Orders of Electro-medical Instruments decreased slightly, yet Social Security Disability Benefits and Federal Health Outlays both rebounded from previous declines. Overall, the Index suggests that growth in medical equipment investment could moderate slightly yet will remain strong over the next three to six months.



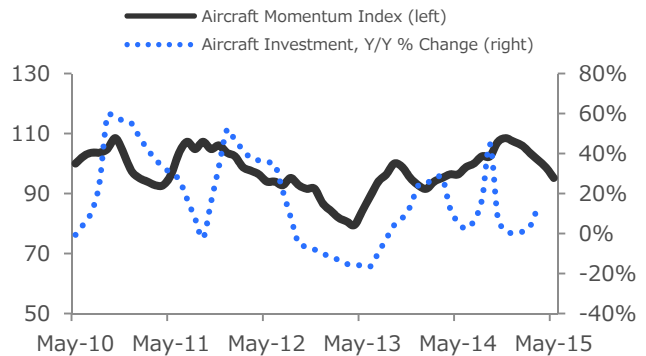
Mining & Oilfield Machinery:

Investment in Mining & Oilfield Machinery decreased at a 31.9% annual rate in Q1 2015 and is now down 13.3% year-over-year, a seven-quarter low. The Mining & Oilfield Machinery Momentum Index decreased from 85.5 (revised) in April to 82.8 in May. The WTI Spot Price increased to a five-month high, yet Mining Employment fell 2.3% in March and the Oil Rig Count continued to decline. The Index suggests continued weak investment over the next three to six months.



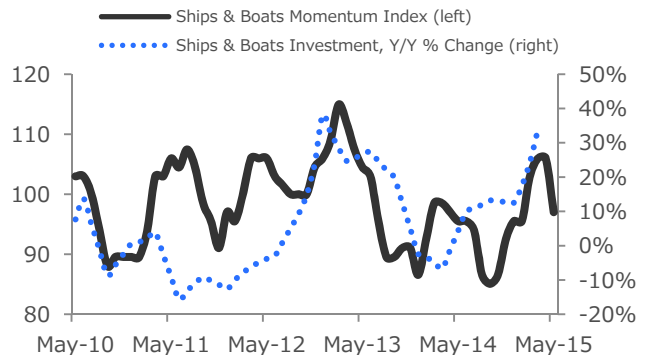
Aircraft:

Investment in Aircraft expanded at a 7.7% annual rate in Q1 2015 and is up 13.4% on a year-over-year basis. The Aircraft Momentum Index declined from 98.8 (revised) in April to 95.2 in May, the lowest level since last spring. Capacity Utilization posted its fourth consecutive decrease in March, and the Transportation Services Freight Index slipped nearly 2%. However, New Orders of Defense Aircraft surged in March. Overall, the Index continues to suggest a potential slowdown in Aircraft investment growth over the next three to six months.



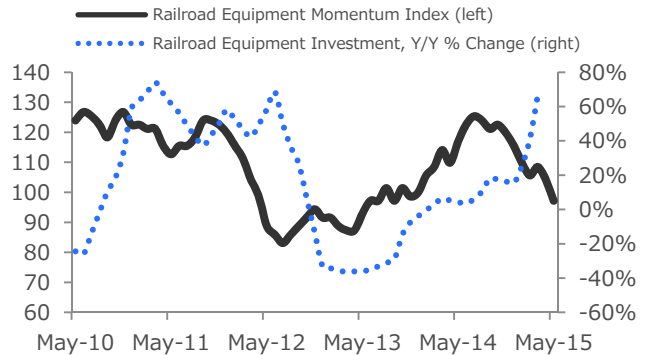
Ships & Boats:

Investment in Ships & Boats surged at an annual rate of 84.7% in Q1 2015 (a two-year high), and is up 33.8% year-over-year. The Ships & Boats Momentum Index dropped sharply from 106.0 (revised) in April to 97.0 in May. In February, the ISM Manufacturing Employment Index dropped below the 50-mark for the first time in nearly two years, yet Shipments of Ships & Boats jumped 26%. Overall, the Index suggests that investment growth may slow over the next three to six months.



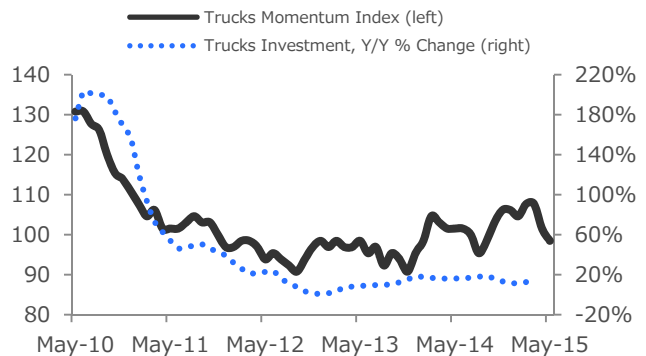
Railroad Equipment:

Investment in Railroad Equipment accelerated at a 471.7% annual rate in Q1 2015 — a new high — and is now up 66.7% year-over-year. The Railroad Equipment Momentum Index decreased from 104.2 (revised) in April to a 20-month low of 97.2 in May. Machine Tool Orders dropped 11% in February, Industrial Production for Energy Materials declined, and Mining Exports fell for the fourth straight month. Overall, the Index continues to suggest that growth rates in railroad equipment investment should decline over the next three to six months.



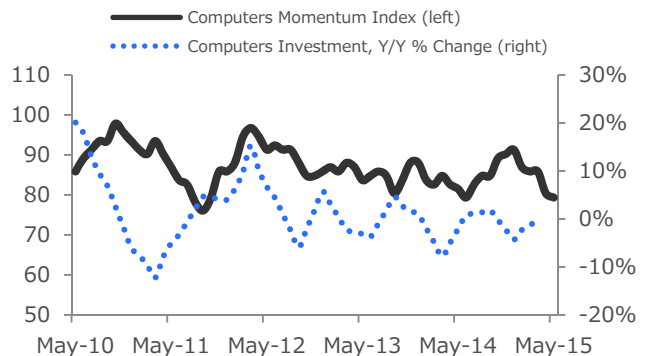
Trucks:

Investment in Trucks rebounded at an 28.0% annual rate in Q1 2015 and is up 13.5% year-over-year. The Trucks Momentum Index slipped from 101.5 in April to 98.5 in May, the second straight decline. Decreases in Shipments of Primary Metals and New Orders of Motor Vehicles offset a 13% increase in Coal Production. Overall, the Index's recent movement indicates moderately slower growth in truck investment over the next three to six months.



Computers:

Investment in Computers contracted at an annual rate of 29.2% in Q1 2015 and is down 0.6% on a year-over-year basis. The Computers Momentum Index ticked down from 80.4 (revised) in April to 79.3 in May. Capacity Utilization for Computer & Electronic Manufacturing decreased to a 10-year low in March, while the University of Michigan Consumer Expectations Index increased 2.7 points in April. Overall, the movement of the Index suggests continued weak or negative computer investment growth over the next three to six months.



Software:

Investment in Software increased at a 5.7% annual rate in Q1 2015 and is now up 6.0% year-over-year, the largest yearly increase since 2012. The Software Momentum Index held steady at 96.4 (revised) from April to May. Exports of Travel Services continued to increase; however, the ZEW Current Economic Situation Survey fell 6.5% in April. Overall, the Index continues to point to stable investment growth over the next three to six months.

