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:
# U.S. Equipment & Software Investment Momentum Monitor

## September 2014

### Equipment Vertical Heat Map

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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 contracted at an annualized rate of 47.0% in Q2 2014 and is down 12.9% from one year ago. The Agriculture Momentum Index decreased from 88.2 in August to 86.6 in September. Cattle Exports plunged 55% last month and Average Precipitation dropped 30.3%, offsetting gains seen in Agriculture Production and Red Meat and Poultry Production. Overall, the Index is “less negative” than levels seen in recent months, but still points to weak investment on a year-over-year basis.

Construction Machinery:
Investment in Construction Machinery decreased at a 6.1% annualized rate in Q2 2014, yet is up 3.4% year-over-year. The Construction Momentum Index increased modestly from 91.8 (revised) in August to 93.2 in September. Housing Starts and Multifamily Housing Permits both surged in July, up 15.7% and 25.7%, respectively. Additionally, Residential Construction Employment and Consumer Sentiment edged up. Overall, the Index’s recent movement suggests that growth should temporarily pick up and then moderate again over the next three to six months.

Materials Handling Equipment:
Investment in Materials Handling Machinery increased at an 11.4% annualized rate in Q2 2014 and is now up 8.2% year-over-year. The Materials Handling Momentum Index declined from 98.1 (revised) in August to 95.1 in September. Despite a 22% increase in the Chicago Business Barometer, a decline in Materials Handling Imports and weak growth in other indicators pulled down the Index. While the index has stalled since July, its relatively elevated position continues to signal stronger investment over the next three to six months.

Other Industrial Equipment:
Investment in all Other Industrial Equipment expanded at a 35.8% annualized rate in Q2 2014, the fastest rate in a year, and is now up 18.0% year-over-year. The Other Industrial Equipment Momentum Index increased from 92.5 in August to 94.6 in September, its highest level in over two years. The MNI-Chicago Production Index rebounded 45.3%, and the ISM Manufacturing Index and Durable Equipment Industrial Production both posted gains. Overall, the Index’s recent movement suggests a modest pick-up in growth over the next three to six months.
Medical Equipment:
Investment in Medical Equipment increased at a 14.3% annualized rate in Q2 2014 and is now up 7.5% year-over-year. The Medical Equipment Momentum Index slipped from 97.9 (revised) in August to 96.8 in September. A 33% decline in the CPI for Physicians’ Services offset increases in Federal Health Outlays and Medicaid Receipts. Additionally, the CPI for Eyeglasses & Eye Care also decreased from last month. Overall, the Index continues to suggest 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 21.0% annualized rate in Q2 2014 and is now up 14.8% year-over-year. The Mining & Oilfield Machinery Momentum Index was unchanged at 94.2 from August to September. Both Manufacturers’ Shipments and Inventories of Oil & Gas Field Machinery decreased from last month, while the ISM for Manufacturing and Coal Production increased. Overall, the Index continues to suggest that investment will moderate over the next three to six months.

Aircraft:
Investment in Aircraft contracted sharply at a 69.7% annualized rate in Q2 2014, yet is still up 2.5% on a year-over-year basis. The Aircraft Momentum Index held steady at 107.6 (revised) between August and September. While Industrial Production positively contributed to the Index, Manufacturers’ New Orders for Defense Aircraft contracted nearly 29% and Vehicle Miles of Travel slipped last month. Overall, the Index suggests that investment in Aircraft will accelerate over the next 3 to 6 months.

Ships & Boats:
Investment in Ships & Boats rebounded at an annualized rate of 31.5% in Q2 2014 and is now up 9.6% year-over-year. However, the Ships & Boats Momentum Index decreased from 88.7 in August to 84.5 in September, a nine-month low. Although the ISM Employment Index for Manufacturing increased, the Agricultural, Forestry, & Fishery Trade Balance experienced its first deficit in over a year. A decline in Grain & Oilseed Mining Shipments also weighed on the Index. Overall, the Index points to slower growth over the next three to six months.
**Railroad Equipment:**
Investment in Railroad Equipment declined at a 2.1% annualized rate in Q2 2014, but remains up 3.5% year-over-year. The Railroad Equipment Momentum Index was unchanged at 114.7 (revised) from August to September, the highest level since December 2010. The change in Nonfarm Employment declined in July, offsetting a 6.6% increase in U.S. Coal Production and a 5.4 point jump in the ISM Employment Index for Manufacturing. Overall, the Index continues to signal an acceleration in railroad equipment investment over the next three to six months.

**Trucks:**
Investment in Trucks increased at a 25.7% annualized rate in Q2 2014 and is now up 15.7% year-over-year. The Trucks Momentum Index increased from 93.9 in August to 95.5 in September. The ISM Manufacturing Index reached its highest level in over three years, and a 15.7% gain in Housing Starts also boosted the Index this month. However, Light Trucks Shipments decreased from last month, and the Unemployment Rate ticked up. Overall, the Index's recent movement continues to indicate sideways momentum in truck investment over the next three to six months.

**Computers:**
Investment in Computers rebounded at an annualized rate of 26.1% in Q2 2014 and is up 0.8% on a year-over-year basis. The Computers Momentum Index moderated from 83.5 (revised) in August to 82.3 in September. Electronic Computers Shipments increased 10.4% from last month, while Industrial Production of Computer and Electronic Components positively contributed to the Index. However, declining Appliance, Television, and Camera Retail Sales pulled down the Index. Overall, the movement of the Index suggests that investment will decelerate over the next three to six months.

**Software:**
Investment in Software increased at a 4.1% annualized rate in Q2 2014 and is also up 4.1% year-over-year. The Software Momentum Index jumped from 91.5 in August to 96.0 in September. The PPI for Software Publishers rebounded 1.6% this month, while the NASDAQ gained nearly 5.0% and the ISM Employment Index for Nonmanufacturing hit a six-month high. However, the Richmond Fed Equipment Spending Survey declined last month. Overall, the Index points towards little change in the growth rate of investment over the next three to six months.