Q2 update – April

2013 Equipment Leasing & Finance U.S. Economic Outlook

EQUIPMENT LEASING & FINANCE FOUNDATION

Your Eye On The Future

The Foundation is the only research organization dedicated solely to the equipment finance industry.

The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

The Foundation research is independent, predictive and peer-reviewed by industry experts. The Foundation is funded solely through contributions. Contributions to the Foundation are tax deductible.

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ABOUT THIS STUDY

The Equipment Leasing & Finance Foundation (the Foundation) recognizes that with the wide variety and increasing complexity of economic data available to the public, the best way to utilize key equipment investment data is to have it all in one place, where business leaders can access it easily and quickly, thus assisting them in making the best business decisions. This report highlights key trends in equipment investment and places them in the context of the broader economic climate in the United States (U.S.).

Industry-specific data within the report include quarterly “Key Signposts” and monthly “Equipment and Software Investment Momentum Monitors,” which are leading indicators for the direction of growth in equipment investment. The outlook report also includes an analysis of capital spending in the U.S. as well as an evaluation of how capital spending is affected by various related and exogenous factors, both currently and in the foreseeable future.

The Foundation partnered with Keybridge Research LLC to produce this economic outlook report specific to the equipment finance industry. This Q2 report is the first update to the 2013 Annual Outlook, and will be followed by additional quarterly updates throughout the year.

Q2 2013 Equipment Leasing & Finance U.S. Economic Outlook   Apr 2013

EXECUTIVE SUMMARY

The U.S. economy continues to be buffeted by cross-currents that are expected to persist well into 2013. On the positive side, the housing market is exhibiting clear signs of recovery, auto sales have nearly rebounded back to pre-recession levels, and job creation has been showing encouraging signs of improvement. And importantly, the resurgence of the U.S. manufacturing sector should continue to support economic growth in the United States, particularly through growth in non-traditional sources of energy and other capital-intensive manufacturing sectors.

Headwinds to growth, however, include both higher tax rates and fiscal consolidation that are expected to adversely impact consumer and government spending. There is also considerable weakness in Europe and Japan, which has depressed U.S. exports. Additionally, high global energy prices remain a drag on growth. Any mid-year disruption in oil supplies or refining could stall economic growth by raising consumer prices and slowing real consumption spending. Lastly, continued political wrangling over the budget and the debt ceiling in Washington could hurt confidence and slow business investment.

On balance, we expect that the positives will outweigh the negatives, and that the U.S. economy will generate positive but modest growth of 2.2% in 2013.

Equipment and software investment accelerated in Q4 2012 after contracting in Q3, which may have been partly due to a “pulling forward” effect as businesses anticipated changes to tax policy in 2013. Looking ahead, we anticipate growth of 5.6% in 2013, which is above average over the past 10 years, and higher than the 2.9% growth forecast in our 2013 Annual Report.

- Agriculture equipment investment is expected to remain negative on a year-over-year basis over the next 3 to 6 months, with the potential for positive growth late in 2013.
- Computers & software investment is expected to transition from slow growth in the near future to more normal growth in the second half of the year.
- Construction equipment investment should continue to achieve above average growth over the next 3 to 6 months, though the rate of growth should continue to decline from recent highs.
- Industrial equipment investment is expected to grow at a moderate pace over the next 6 months as positive and negative drivers more or less balance each other out.
- Medical equipment investment should continue to experience little to no growth in the first half of 2013.
- Transportation equipment investment slowed slightly in the second half of 2012 but should remain near an average rate of growth in the first half of 2013.

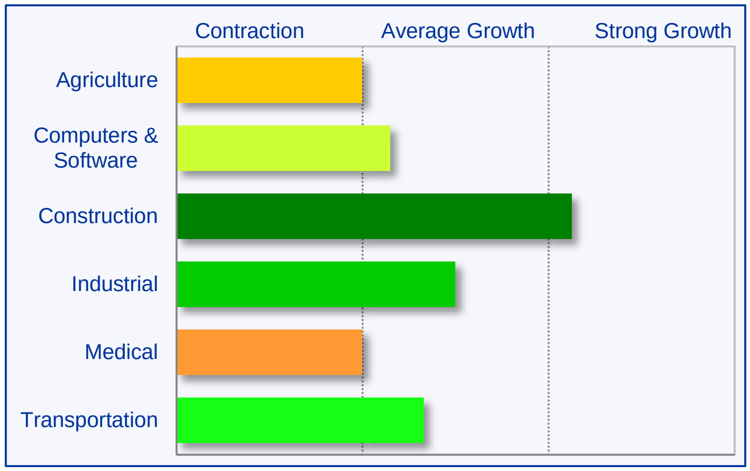
Credit market conditions continue to improve, and many indicators have returned to levels not seen since the onset of the recession. The Federal Reserve’s accommodative monetary policy has kept interest rates near historical lows, which has helped bolster the flow of credit to businesses and households. Demand for capital, however, continues to be affected by policy uncertainty and shaky business confidence. Financial stress remains subdued and indicates that the long process of deleveraging for both businesses and households has helped to clean up balance sheets.

Our outlook for credit markets continues to hinge on newfound “risk-on” attitudes from investors – whose confidence is improving – and continued accommodative monetary policy from the Federal Reserve. Businesses and households are in strong financial positions to make investments, so long as policy uncertainty and other global headwinds do not hamper confidence.

Key Signposts for Equipment Investment: Three- to Six-Month Outlook

Summary

Equipment and software investment grew at an unexpectedly rapid rate of 11.8% (annualized) in Q4 – a welcomed increase after Q3's 2.6% decline. Growth was driven by strength in Computers & Software and Transportation Equipment. Over the next 3 to 6 months, total equipment and software investment should grow at a fairly normal annualized rate of about 5% to 6%. We expect strong growth for Construction and Transportation Equipment, normal growth for Industrial Equipment and Computers & Software, little to no change for Medical Equipment, and below average growth for Agriculture Equipment.



Agriculture Equipment: The sector improved from Q3 to Q4, but remains in a deep contraction on a year-over-year basis. External factors continue to weigh on the sector – the country continues to suffer from one of the worst droughts on record and any reauthorization of the Farm Bill would likely include a reduction in federal spending. A key leading indicator, the Texas Index of Leading Indicators, has shown moderate improvement over the past year. Taken together with fiscal pressures and adverse weather conditions, growth in agriculture equipment investment is likely to see only small quarterly gains, and consequently remain in negative territory on a year-over-year basis.

Computers & Software: Compared with one year ago, investment increased 1.8% in Q3 and 4.3% in Q4 as businesses continued to replace old equipment but remained relatively cautious. The two signposts – the ISM Nonmanufacturing Index and the BRT CEO Economic Outlook Survey – are providing modestly positive signals, suggesting relatively slow near-term growth (2% to 4%), and a possible transition to more normal growth (5% to 7%) later in the year.

Construction Equipment: Investment grew by 46.4% year-over-year in Q4, a slight slowdown from 51.6% growth in Q3. This rapid growth has been driven by improving housing market conditions – Sales of New Single Family Homes and Housing Building Permits are up 46% and 33% year-over-year, respectively, although their acceleration has slowed recently. In particular, the Northeastern market continues to benefit from rebuilding efforts tied to Hurricane Sandy. Overall, positive trends are expected to continue and to translate into sustained strong growth (above 15%) over the next 3 to 6 months.

Industrial Equipment: Year-over-year growth slowed from 4.5% in Q3 to 1.9% in Q4, which was foreshadowed by slight weakness in Industrial Production, Capacity Utilization, and Manufacturing New Orders in the months prior to Q4. Since then, indicators have been firming up, and the "reshoring" of U.S. manufacturing should boost demand for equipment. However, continued policy uncertainty and looming budget cuts remain significant obstacles and could postpone investment decisions. Overall, the key signposts suggest above average growth (3% to 5%) during the next 3 to 6 months.

Medical Equipment: Investment recovered from a -3.3% year-over-year contraction in Q3 to nearly negligible growth of 0.1% in Q4. The short-term outlook remains weak as the key signposts are subdued. Hospital In-Patient days and Medical & Diagnostic Lab Prices are down year-over-year, and Revenue of Nursing & Residential Care Facilities is growing slowly. Additionally, the ultimate effects of sequester cuts to Medicare are unknown but present downside risk to the sector. Overall, the signposts suggest little to no growth over the next 3 to 6 months.

Transportation Equipment: Investment growth slowed from 11.2% year-over-year in Q3 to 5.8% in Q4. Recent data remain relatively positive, with the Philadelphia Fed Business Outlook Survey's Future Activity Index up 14% in the last year and Personal Consumption Expenditures on Motor Vehicles & Parts at a 5-year high. Overall, the key signposts suggest a slowdown from recent rapid growth to about average growth (5% to 8%) over the next 3 to 6 months.

Key Signposts for Equipment Investment

*(Estimated growth rate ranges are on a **year-over-year** basis)*

Leading Indicator	Most Recent Data Point	Recent Trend	3-6 Month Signal and Year-Over-Year Growth Rate Range
Agriculture Equipment			***Below Average Growth (Below 0%)***
Texas Index of Leading Indicators (SA)	124.4 Jan-13	Up 0.9% over the past 3 months, and 2.5% year-over-year	Below average growth
Computers & Software			***Slow to Average Growth (3% to 6%)***
ISM Nonmanufacturing Composite Index (SA)	56.0 Feb-13	Up 3.1% over the past 6 months; still above 50, signaling an overall expansion	Average growth
Business Roundtable CEO Economic Outlook Survey	81.0 Q4-12	Just above the Index's long-term average	Slow to average growth
Construction Equipment			***Above Average Growth (15% or higher)***
HMI: Sales of New Single-Family Detached Homes Index (SA), Next Six Months	51 Mar-13	Up 46% in the past year, but up only 2% in the past three months	Average growth
New Private Housing Building Permits (SAAR, Thousand Units)	939 Feb-13	Up 33% year-over-year, at a four-year high	Above average growth
Industrial Equipment			***Above Average growth (3% to 5%)***
Capacity Utilization (SA)	78.3% Feb-13	Up 0.6% from last month, and up 0.5% year-year	Average growth
Industrial Machinery New Orders (SA, $Mil)	3,448 Jan-13	Up 3.8% in three months and 27% year-over-year	Above average growth
Industrial Production Index (SA)	99.0 Feb-13	Up 0.7% this month and up 2.4% year-over-year	Average growth
Medical Equipment			***Little to No Growth (-2% to 2%)***
Hospital In-patient Days (Thousands)	56,313 Q4-12	Down 0.9% on the quarter and 1.6% year-over-year	Contraction
PPI: Medical & Diagnostic Labs	107.5 Feb-13	Down 0.7% in February, and at a four-year low	No growth
Nursing & Residential Care Facilities Total Revenue ($Mil)	51,857 Q4-12	Up 1.8% in two quarters and up 3.3% from last year	Slow growth
Transportation Equipment			***Average Growth (5% to 8%)***
Philadelphia Fed Business Outlook Survey, Future Activity	32.5 Mar-13	Up just 1.2% this month but up 13.6% year-over-year	Average growth
Real PCE: Motor Vehicles & Parts (SAAR, Bil.Chn.2005$)	389.8 Q4-12	Up 8.2% year-over-year, and back to pre-recession levels	Average growth

How to Use the Key Signposts

Key Signposts are leading indicators for turning points in the equipment investment cycle, and also the direction of growth in equipment investment. "Turning Points" are defined as any point where the annualized growth rate is at a two-year high or low. The signposts are designed to analyze the 6 largest subsectors of equipment investment, as defined by the U.S. Department of Commerce's National Income & Product Accounts. These indicators have been chosen based on their ability to consistently and accurately identify future trends in equipment investment with a lead-time of 3 to 6 months. For each investment subsector, the signposts should be interpreted together – providing either reinforcing or counter-balancing signals. There are three components of the signpost analysis that can be used to identify the direction of growth in major sectors of the equipment financing industry:

(1) The summary provides a narrative for each investment sector.
(2) The "heat map chart" shows which investment sectors are poised to contract, or grow at a normal or strong pace.
(3) The data table lists the most recent sign post data, recent trends, and the investment growth signal provided by each indicator.

OVERVIEW OF MACROECONOMY IN 2013

We expect the U.S. economy to experience moderate growth in 2013, albeit with a slow beginning as the country works to overcome numerous domestic and international headwinds. Positive drivers include a clearly solidifying housing market, an improving auto sector, a "reshoring" of industrial activity, and gradually improving labor markets. The major growth inhibitors include the effects of fiscal tightening, high oil prices, and a weak global economy.

The Economist magazine's consensus forecast for 2013 GDP calls for 2.0% growth, while the Federal Reserve's most recent "central tendency" forecast is for growth in the range of 2.3% to 2.8%. Both forecasts assume some "fiscal drag" from the fiscal cliff negotiation and budget sequestration. Keybridge's macro outlook is more or less aligned with the consensus forecast – we expect growth of 2.2% in 2013. One of our key assumptions is that some of the spending cuts from "sequestration" will be undone, which will reduce fiscal drag in 2013. With wage growth still fairly weak, inflation should remain under control and average about 2.4% for the year. If oil prices remain near current levels, headline inflation will jump to 2.5%-3.0% in June-July, but this would likely be a temporary surge. The Federal Reserve would have to publicly respond to such a spike in price pressures, but we do not anticipate a shift in monetary policy. Therefore, long-term interest rates should remain historically low throughout the year, with some upward drift. Job growth should accelerate in the second half of 2013, and the unemployment rate could fall to the low 7s or even the high 6s.

Indicator	Recent Activity
Consumption	Real consumer spending picked up slightly in the 4th Quarter, but increased taxes and high gasoline prices could take their toll in Q1 2013.
Equipment & Software Investment	The acceleration in Q4 investment activity may have been pumped up by businesses' fears of changing tax policy in 2013.
Residential Investment	The housing rebound appears to be for real as investment continues to grow and prices are rebounding.
Government Expenditures	Government spending continues to be a wild card. The steep contraction in Q4 2012 will likely be followed by subsequent contractions in Q1 and Q2 of 2013 as the Fiscal Cliff deal and sequestration take effect.
Net Exports	Exports have struggled thanks to a weak global economy. On the bright side, the U.S. is set to produce more oil than it imports in 2013.
Inflation	Price pressures remain subdued, although high oil prices could push inflation temporarily above 2.5% this summer.

Three main factors that affect our forecast are:

Rebounding Housing Market: Housing prices are rising, mortgage rates are low, and housing starts and sales are rebounding notably. Continued strength in housing could add a full percentage point to GDP growth and 30,000 jobs a month in 2013 and 2014. Historically, private residential investment has averaged about 4.7% of GDP. In Q4 2012, it was just 2.6% – a sign that the housing sector has serious room for growth.

Fiscal Consolidation: The January 1st deal to "avert" the fiscal cliff will cut about a full percentage point off of GDP growth in 2013. If the full effects of the sequestration are realized, this could shave another half or three quarters of a percentage point off of GDP growth as well. Lawmakers face multiple deadlines including another debt ceiling debate. Continued impasses could cause policy uncertainty to rise, further damaging business and consumer confidence.

Rising Oil Prices: Both WTI and Brent crude oil prices have posted positive monthly gains in January and February. In February, WTI averaged $93 per barrel, while Brent averaged $106 per barrel. Higher energy prices have already made their way into the U.S. economy in the form of higher gasoline prices, which in February jumped the most since June 2009 and led to an increase in inflation. Sustained high oil prices also erode real consumer spending, which makes up 70% of GDP.

Other factors – both positive and negative – that are affecting our forecast are:

- **Auto Sales:** Low interest rates have helped consumers to purchase automobiles. Total vehicle sales were 15.4 million at an annualized rate in February, which is basically a return to pre-recession levels.
- **Energy Renaissance:** The production of non-traditional sources of oil and gas has spurred growth not only in the energy sector but also for end-users of fossil fuels such as the petrochemical industry. For example, U.S. manufacturers recently announced more than $90 billion worth of investments to take advantage of cheap

natural gas. Additionally, America's dependence on foreign energy is shrinking. Oil imports as a share of consumption are at 47%, which is the lowest level since 1996.

- **"Reshoring" of Manufacturing:** There has been significant reshoring of manufacturing back to the United States – particularly in the auto and chemical sectors. This trend will continue to support employment growth and raise wages. A Boston Consulting Group survey in April 2012 of American manufacturing companies found that 37% of those with annual sales above $1 billion said they were planning or actively considering shifting production facilities from China to America. Of those with sales above $10 billion, 48% said they might be "reshorers." If these trends continue through the upcoming year, it will provide a noticeable lift to growth and job creation.

- **A Weak Global Economy:** The European Union is officially in recession as GDP has contracted for three consecutive quarters. Japan is also in recession, China's growth rate remains below pre-recession levels with fears of a potential real estate bubble, and other Asian economies continue to see subpar growth. World GDP increases by 4% to 5% in good years, but global growth this year will likely be only about 3.5%. Unless the world economy turns around, net exports will likely remain a neutral factor for U.S. GDP.

Projections for Key Economic Indicators

Indicator	2011	2012	2013e	2013 Quarterly Estimates			
				Q1e	Q2e	Q3e	Q4e
Real GDP (SAAR %)	1.8%	2.2%	**2.2%**	2.7%	2.4%	3.0%	3.2%
Real Investment in Equipment & Software (SAAR %)	11.0%	6.9%	**5.6%**	4.5%	5.7%	7.0%	8.0%
Inflation (annualized rate)	3.2%	2.1%	**2.4%**	2.1%	2.5%	2.5%	2.5%
Federal funds (effective, end of period)	0.07%	0.15%	**0.15%**	0.15%	0.15%	0.15%	0.15%
10-year Treasury Rate (end of period)	1.98%	1.72%	**2.30%**	2.00%	2.00%	2.10%	2.30%
Total Payrolls (in thousands)	+2,103	+2,193	**+2,400**	+550	+500	+600	+750

Note: SAAR% refers to the annualized rate of change in seasonally adjusted data from one quarter to the next, which is the Bureau of Economic Analysis' standard method for reporting growth in the national accounts data.

U.S. Capital Investment and Credit Markets

Review of Recent Trends

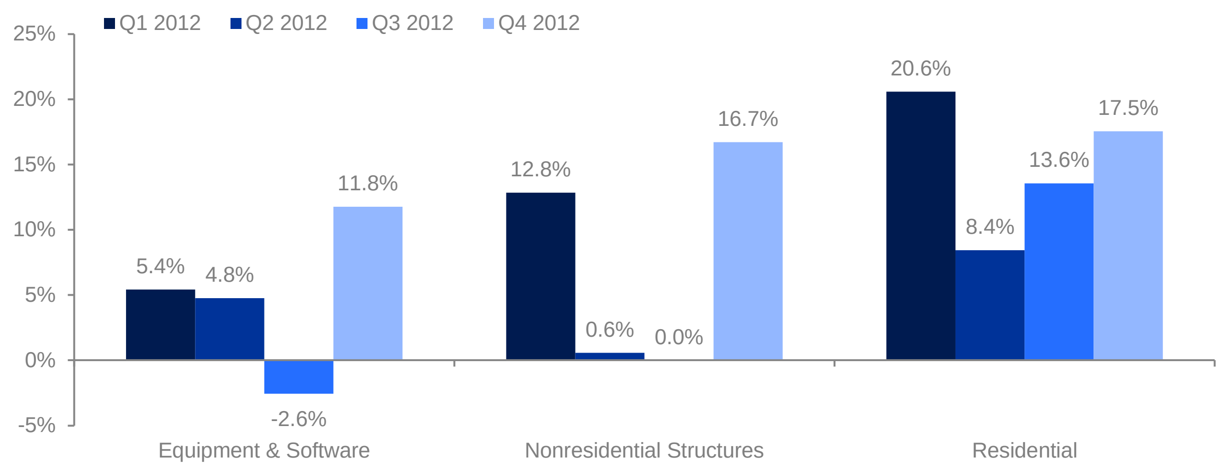
Equipment and Software Investment accelerated unexpectedly by 11.8% (quarter-to-quarter annualized rate) in the 4th quarter after contracting 2.6% in the 3rd quarter. Additionally, residential investment jumped by 17.5%, an increase from 13.6% in the previous quarter.

Within the major equipment and software sub-sectors, investment in Computers & Software increased at an annualized rate of 20.5%, Industrial Equipment increased by 9.6%, Transportation Equipment increased by 7.3%, Medical Equipment increased by 10.2%, Construction Equipment increased by 5.7%, and Agriculture Equipment increased by 59.9%.

The pace of equipment and software investment jumped sharply in the fourth quarter, while residential investment continued to show strong positive momentum. Equipment investment growth is expected to remain moderate over the next 6 months across most sectors due to a stubborn industrial capacity overhang and fiscal policy uncertainty. Credit supply has improved, but demand has waned. Financial stress remains under control for both households and the corporate sector.

Investment Growth Rates

Quarter-Quarter, Seasonally Adjusted Annualized Growth Rate



Conditions in the equipment leasing and finance industry are generally improving, though growth in investment has been inconsistent. As of February, the Equipment Leasing and Finance Association's Monthly Leasing and Financing Index (MLFI-25) reported new business volume of $4.7 billion – down 6 percent from volume of $5 billion in February 2012. Average losses as a percent of net receivables ticked up slightly to 0.4%. The credit approval ratio dipped from 78.3% in January to 77.4% in February, now at a level below the long-term average of 75.2%. The Equipment Leasing and Finance Foundation's Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI) showed a slight decrease in optimism, as the Index declined from 58.7 in February to 58.0 in March. Despite the drop in the Index, a slightly larger percentage of responding executives believe the economy will improve, compared with the month before.

As the economy continues to improve, domestic financial stress indicators have begun to reach pre-recession lows, and in some cases, are even lower. Both households and businesses have cleaner balance sheets and have decreased their debt obligations. For households, interest rates continue to remain at historic lows, which has spurred strong growth in the housing and auto sectors. For businesses, continued low U.S. interest rates and loose lending standards have helped the outlook for corporate activity. Credit conditions are favorable for large corporations, yet there continues to be a mix of headwinds that are affecting small businesses, particularly with respect to how small businesses view their employment outlook. The Q1 2013 Wells Fargo/Gallup Small Business Index rose overall, yet showed that 71% of business owners surveyed expect employment to remain the same over the next 12 months.

Our credit outlook hinges on three primary factors that will result in only mild upward pressure on long-term interest rates in Q3 and Q4 of 2013. (1) "Risk-on" attitudes will prevail in the second half of 2013 as Europe likely emerges from recession and the U.S. economy picks up momentum. (2) Lenders will continue to loosen supply constraints. (3) The Federal Reserve will remain highly aggressive until it is clear that economic growth has gained solid traction. Related to the latter point, the outlook for the Federal Reserve's quantitative easing program has changed slightly over the past few months. Recent minutes from FOMC meetings reflect a division among policy members and friction about the continuation of asset purchases. Some members believe that the economic and social costs of unemployment should be the Fed's top concern, while others are concerned that the risks associated with continuous asset purchases are exceeding the economic benefits and point to evidence of "financial market imbalances." The Fed has aligned its zero interest-rate policy to targets of 6.5% unemployment and 2.5% inflation. The unemployment rate is not expected to reach this target soon; however, if continued high oil prices begin to place upward pressure on consumer prices, year-on-year inflation could reach the Fed's inflation target, which would require a response from the Fed about their continued monetary policy efforts.

Our outlook on the propensity to finance equipment investment is largely unchanged from last quarter. Given the current macroeconomic backdrop, companies may be more likely – on the margins – to use a combination of cash and long-term financing rather than leasing. The factors determining this outlook are a combination of healthy balance sheets, record levels of cash on hand, and continued low interest rates. However, these conditions are tempered by continued policy uncertainty and weaker demand growth that favor shorter-term leasing arrangements.

Summary of Credit Market Conditions

Factor	Conditions Compared With Last Quarter
Supply	Moderate Improvement
Demand	Slight Improvement
Financial Stress	Strong Improvement

- **Credit Supply & Pricing:** Credit supply continues to rebound throughout the U.S. economy. The latest Federal Reserve survey of banks' senior lending officers continued to show a loosening of standards on commercial & industrial ("C&I") loans from the previous quarter. Interest rates remain historically low due to the Fed's loose monetary policy and the continued international demand for U.S. treasuries. Capital is likely to remain inexpensive for the foreseeable future.

- **Credit Demand:** C&I loans have continued to increase and are up nearly 12% year-over-year. However, optimism across small and large businesses remains mixed. Despite cheap credit, small businesses are still cautious about pulling the trigger on investment decisions. The Thomson Reuters/PayNet Small Business Lending Index fell to 113.1 in January, from 115.8 in December; and the latest Wells Fargo Small Business Index shows that only 22% of small business owners expect to increase their capital spending in the next 12 months, about the same as in Q4 2012. Big businesses, however, appear more optimistic about investing. The Q1 2013 Business Roundtable CEO Economic Survey indicates that nearly half of large companies expect to increase capital spending in the near term.

- **Financial Stress:** The combination of an improving economy and commitment to accommodative monetary policy from both domestic and international central banks has allowed for financial stress – across sectors – to continue to ease. The low interest-rate environment has helped businesses and households to meet their debt service obligations and to continue to deleverage their balance sheets. As of Q4 2012, financial stress indicators reflect manageable debt levels. On the household side, the financial obligations ratio is at its lowest level since Q3 1981. For businesses, the loan delinquency rate on C&I loans fell to 1.2%, which is the lowest level since Q4 2006. Nonfinancial sector debt as a percentage of GDP and corporate bond spreads have held relatively steady as of late.

2013 Investment Outlook

As projected in our 2013 Annual Outlook, business investment in 2013 should be a tale of two halves. Growth in the first half of the year will be limited by relatively weak demand and fiscal policy uncertainty. By the second half of 2013, however, we expect investment activity to regain momentum thanks to an improving housing sector and relief from policy uncertainty that should have an unlocking effect on business investment. Overall, we expect 5.6% growth in Equipment and Software Investment in 2013, up from our 2.9% forecast in the Annual Outlook. The key drivers of faster growth are largely related to the overall macro story – i.e., the housing sector rebound, a strengthening manufacturing sector, and spillovers from cheap domestic energy.

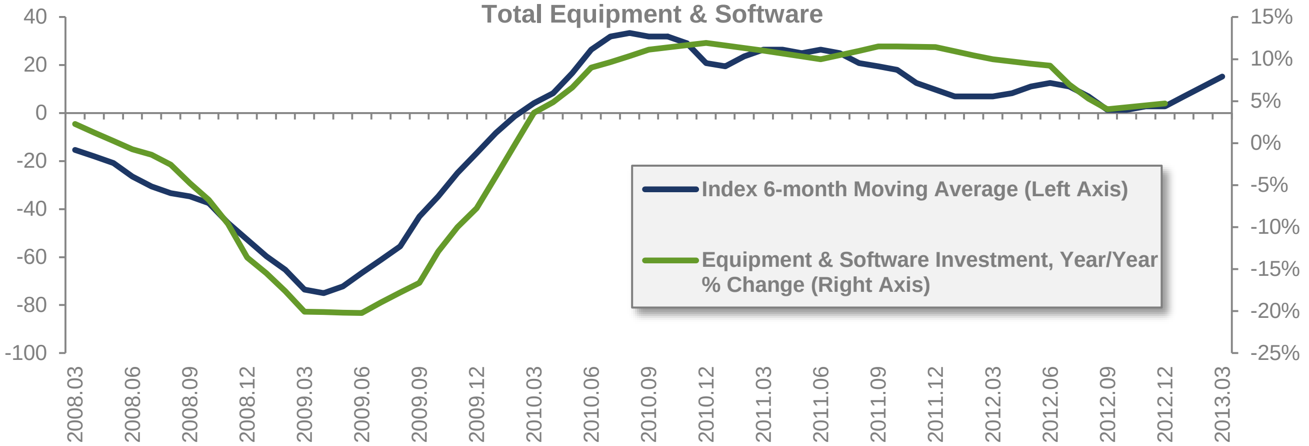
The *Keybridge Momentum Monitor for Equipment & Software Investment* – monthly leading Indices for equipment and software investment over the next 3 to 6 months – continues to predict an upturn in year-over-year investment growth.

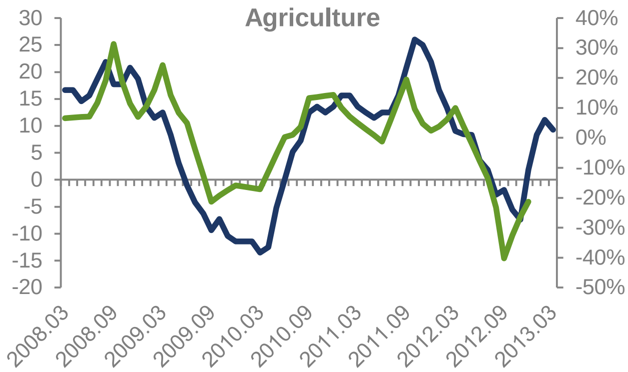
Complementing the quarterly key signposts presented on pages 3 and 4, Keybridge's *Momentum Monitor* Indices provide a monthly view of trends within the major subsectors of business investment. The monthly Momentum Indices for March are consistent with the quarterly signposts:

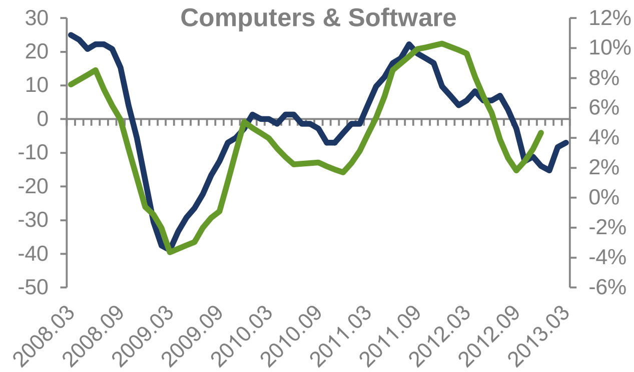
- **Agriculture:** The Momentum Index's 6-month moving average has been steadily strengthening, suggesting that investment will be "less bad" and eventually recover to a normal rate of growth. Among the leading indicators, the biggest improvement was seen in Average National Precipitation, which is up over 60% since November.
- **Computers & Software:** The Momentum Index has been slowly improving but remains below a neutral level, indicating continued slow growth over the next two quarters. Since the 2013 Annual Outlook, indicators have been mixed, including an improvement in Shipments of Electronic Computers and a drop in Shipments of Defense Communications Equipment.
- **Construction:** The Momentum Index remains strong, and continues to suggest positive momentum in investment. The Index has been led by an increase in Housing Starts in the Western U.S. and Multifamily Housing Units Authorized over the past three months.
- **Industrial:** The Momentum Index has been wavering around a neutral position, suggesting slow to moderate growth in investment over the next two quarters. Over the past three months, strength in Wholesale Sales of Machinery has been offset by a slowdown in the ISM Manufacturing New Orders Index.
- **Medical:** The Momentum Index has been weak the past few months and suggests little to no growth in investment. The Index's weakness has been led by a marked drop in Federal Outlays to Medicare.
- **Transportation:** The Momentum Index has held steady over the past few months, indicating that the slowdown in investment during the second half of 2012 will level off near the historical average growth rate (about 7% year-over-year). Improvements have been most noticeable through an increase in the production of trucks and motor vehicle assemblies.

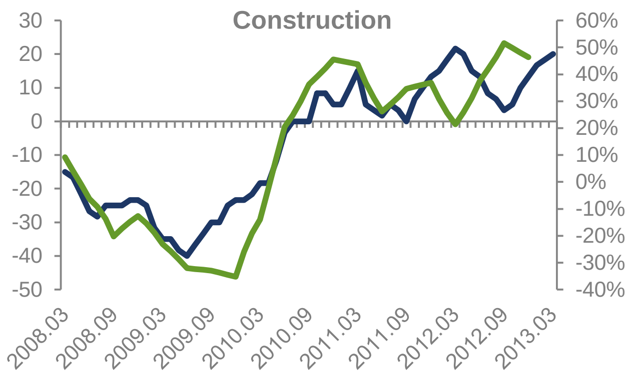
Keybridge Equipment & Software Investment Momentum Indices

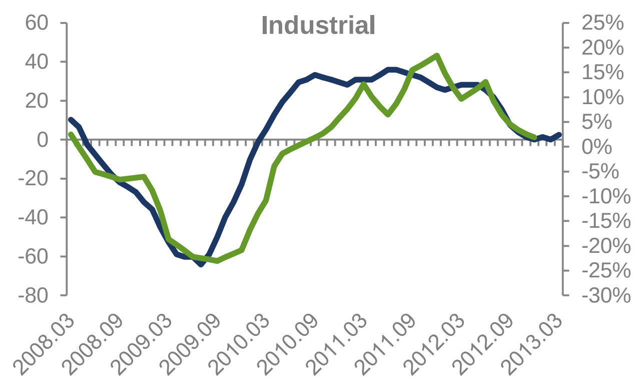
Source: www.keybridgeresearch.com

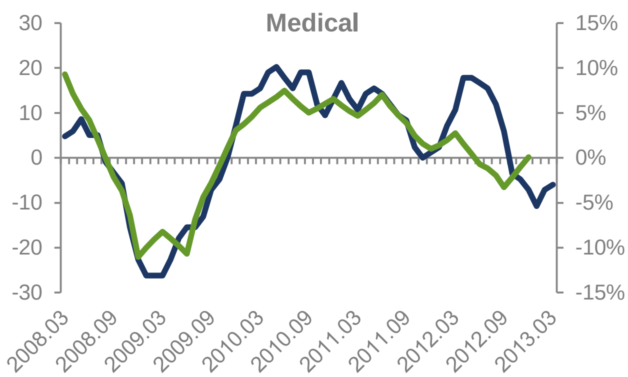


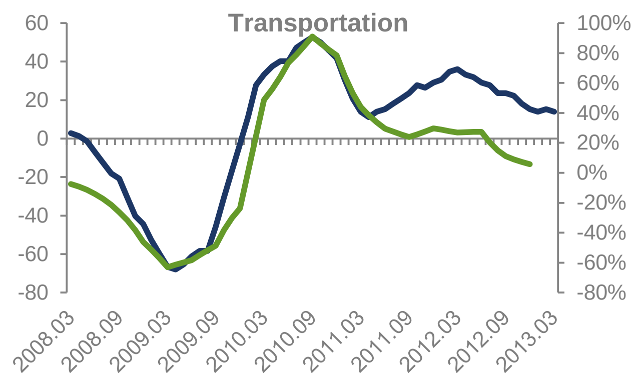












QUARTERLY DATA

Indicator	2010	2011				2012			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real Gross Domestic Product (SAAR %)									
GDP	2.4%	0.1%	2.5%	1.3%	4.1%	2.0%	1.3%	3.1%	0.4%
Consumer Spending	4.1%	3.1%	1.0%	1.7%	2.0%	2.4%	1.5%	1.6%	1.8%
Gross Private Fixed Investment	-5.9%	-5.3%	12.5%	5.9%	33.9%	6.1%	0.7%	6.6%	1.3%
Inv: Equipment & Software	9.2%	11.1%	7.8%	18.3%	8.8%	5.4%	4.8%	-2.6%	11.8%
Inv: Computers & Software	7.8%	7.2%	16.0%	9.0%	9.3%	4.6%	0.0%	-6.0%	20.5%
Inv: Industrial Equipment	10.1%	17.1%	0.6%	37.2%	21.5%	-13.6%	13.5%	0.2%	9.6%
Inv: Transportation Equipment	8.8%	30.8%	14.1%	45.0%	30.9%	20.0%	15.8%	-16.1%	7.3%
Inv: Medical Equipment/Instruments	7.6%	4.0%	6.4%	-2.1%	-3.9%	11.3%	-7.2%	-11.8%	10.2%
Inv: Construction Machinery	13.9%	62.7%	8.9%	62.9%	21.7%	0.7%	78.8%	141.3%	5.7%
Inv: Agricultural Machinery	-0.9%	-14.3%	6.6%	125.5%	-46.7%	14.2%	-47.3%	-60.1%	59.9%
Credit Conditions									
Nonfinancial Sector Debt (% of SAAR GDP)	77.5%	77.8%	77.8%	77.9%	78.1%	78.1%	78.5%	78.6%	80.0%
Loan Delinquency Rate	3.0%	2.5%	2.1%	1.8%	1.6%	1.5%	1.4%	1.2%	1.2%
Lease Delinquency Rate	1.5%	1.2%	1.1%	1.0%	0.9%	0.8%	0.8%	0.7%	0.8%
Net Tightening of C&I Loan Standards	-10.5%	-10.5%	-16.4%	-21.8%	-5.9%	5.4%	-6.9%	-9.5%	-7.6%

Note: SAAR% refers to the annualized rate of change in seasonally adjusted data from one quarter to the next, which is the Bureau of Economic Analysis' standard method for reporting growth in the national accounts data.

MONTHLY DATA

Indicator	2012											2013	
	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Employment													
Change in Total Payrolls (thousands)	271	205	112	125	87	153	165	138	160	247	219	119	236
Change in Private Payrolls (thousands)	265	208	120	152	78	177	131	118	217	256	224	140	246
Unemployment Rate	8.3%	8.2%	8.1%	8.2%	8.2%	8.2%	8.1%	7.8%	7.9%	7.8%	7.8%	7.9%	7.7%
Business Activity													
Industrial Production	96.7	96.1	96.9	97.1	97.1	97.6	96.8	97.0	96.8	98.0	98.2	98.3	99.0
Capacity Utilization	77.9%	77.3%	77.7%	77.8%	77.7%	77.9%	77.2%	77.2%	77.0%	77.8%	77.8%	77.8%	78.3%
PMI Composite Index	52	53	54	53	50	51	51	52	52	50	50	53	54
NFIB Small Business Optimism Index	94.3	92.5	94.5	94.4	91.4	91.2	92.9	92.8	93.1	87.5	88.0	88.9	90.8
Consumer Activity													
Consumer Confidence	72	70	69	64	63	65	61	68	73	72	67	58	68
Real Personal Consumption (MM % Chg)	0.4%	0.0%	0.2%	0.0%	-0.1%	0.3%	0.0%	0.5%	-0.2%	0.5%	0.1%	0.3%	0.3%
Retail Sales (M/M % Chg)	0.7%	0.8%	-0.5%	-0.1%	-0.7%	0.7%	1.0%	1.2%	-0.2%	0.5%	0.5%	0.2%	1.1%
Lending Activity													
C&I Loans (M/M % Chg)	1.7%	0.8%	1.4%	0.6%	1.5%	1.3%	0.8%	0.2%	1.0%	0.3%	1.4%	1.0%	0.5%
MLFI-25 New Business Volume (Bil. $)	5.0	6.8	6.1	6.2	8.0	6.6	6.9	8.2	7.6	6.4	11.5	5.9	4.7
MLFI-25 Avg Losses as a % of Net Rec.	0.5	0.7	0.6	0.5	0.6	0.4	0.4	0.5	0.4	0.5	0.6	0.3	0.4
MLFI-25 Credit Approval Ratio	78.8	78.4	76.4	78.3	78.7	77.5	77.0	79.6	79.5	77.0	78.5	78.3	77.4
Interest Rates (% end of period)													
Fed Funds Target Rate	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250	0.1250
1-Year Treasury Rate	0.18	0.19	0.20	0.18	0.21	0.16	0.16	0.17	0.18	0.18	0.16	0.15	0.17
3-Year Treasury Rate	0.43	0.51	0.38	0.35	0.41	0.30	0.30	0.31	0.38	0.34	0.36	0.42	0.36
10-Year Treasury Rate	1.98	2.23	1.95	1.59	1.67	1.51	1.57	1.65	1.72	1.62	1.78	2.02	1.89
30-Year Treasury Rate	3.08	3.35	3.12	2.67	2.76	2.56	2.68	2.82	2.85	2.81	2.95	3.17	3.10
AAA Corporate Bond Yield	3.80	4.04	3.95	3.63	3.66	3.29	3.36	3.42	3.40	3.58	3.67	3.90	3.84
BAA Corporate Bond Yield	5.08	5.30	5.15	4.99	5.06	4.78	4.78	4.72	4.45	4.57	4.63	4.84	4.78
Prices													
Headline Inflation (Y/Y % Chg)	2.9%	2.6%	2.3%	1.7%	1.7%	1.4%	1.7%	2.0%	2.2%	1.8%	1.8%	1.6%	2.0%
Core Inflation (Y/Y % Chg)	2.2%	2.3%	2.3%	2.3%	2.2%	2.1%	1.9%	2.0%	2.0%	1.9%	1.9%	1.9%	2.0%
Oil Price (West Texas Intermediate, $/barrel)	102.25	106.19	103.33	94.70	82.41	87.93	94.16	94.72	89.57	86.66	88.25	94.69	95.32

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