

August 2020

# 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 an approximate 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 10–20 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.

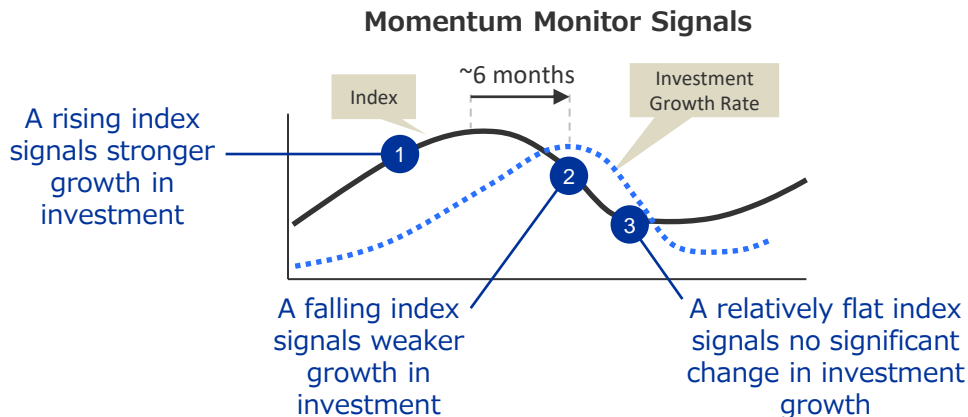
## U.S. Equipment & Software Investment Momentum Monitor – 12 Verticals

- |                                   |                       |
|-----------------------------------|-----------------------|
| 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 six 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 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 six 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 recent movements of one or more indicators to help to explain the index's latest reading.
- 4) Finally, the report ends with an interpretation of where investment growth is heading over the next six months based the index's recent movement and historical strength.

# U.S. Equipment & Software Investment Momentum Monitor

## August 2020

### Momentum Monitor Sector Matrix



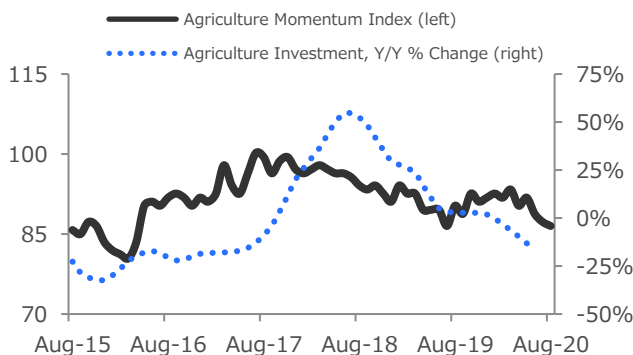
The matrix above summarizes the current values of each of the 12 Equipment & Software Investment Momentum Indices based on two factors: Recent Momentum (x-axis) and Historical Strength (y-axis):

- **"Recent Momentum"** represents the degree of an indicator's recent acceleration or deceleration in the past month relative to its average movement during the previous 3 months. Ratings closer to "0" represent an indicator that is rapidly decelerating, while ratings closer to "10" represent an indicator that is rapidly accelerating.
- **"Historical Strength"** represents the strength or weakness of an indicator in the past month relative to its typical level since 1999. Ratings closer to "0" represent an indicator that is weaker than average, while ratings closer to "10" represent an indicator that is stronger than average.

The matrix is comprised of four quadrants according to each vertical's recent momentum and historical strength readings. If a vertical is located in the top-left quadrant, its momentum reading is higher than average, but positive movement has slowed (and perhaps reversed) in recent months — suggesting that investment levels may fall over the next two quarters. Verticals located in the bottom-right quadrant, however, have momentum readings that are below average, but recent movement shows promise — suggesting that investment levels may rise over the next two quarters. This makes them potentially attractive targets for new short-term leasing and finance opportunities.

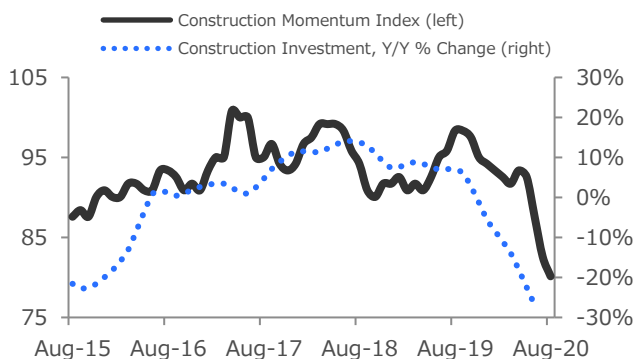
**Agriculture Machinery:**

Investment in Agricultural Machinery dropped 43% (annualized) in Q2 2020 and is down 17% from one year ago. The Agriculture Momentum Index eased from 87.3 (revised) in July to 86.5 in August. Food and Beverage Consumption Spending eased 0.5% in June, while Caterpillar’s Market Cap pulled back 30% in July. Overall, the Index points to negative growth in agricultural machinery investment over the next six months.



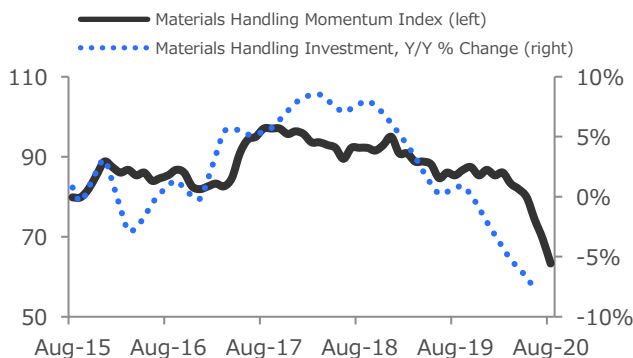
**Construction Machinery:**

Investment in Construction Machinery declined 45% (annualized) in Q2 2020 and pulled back 27% year-over-year. The Construction Momentum Index decreased from 82.6 (revised) in July to 80.2 in August, the lowest level in over a decade. Shipments of Construction Machinery fell 2.8% in May, and Housing Starts in the Western U.S. declined 7.5% in June. Overall, the Index points to continued contraction in construction machinery investment over the next two quarters.



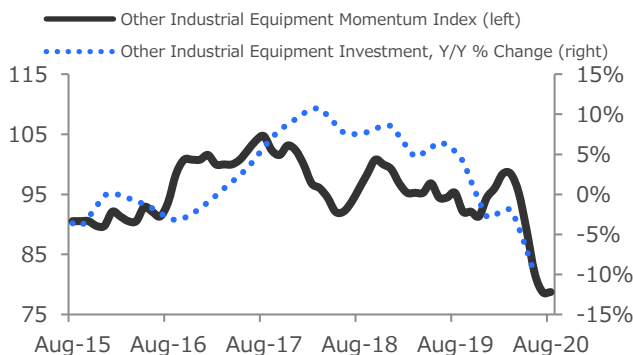
**Materials Handling Equipment:**

Investment in Materials Handling Equipment declined at a 15% annualized rate in Q2 2020 and is down 7.7% year-over-year. The Materials Handling Momentum Index fell sharply from 69.5 (revised) in July to 63.3 in August, the lowest reading since 2009. In May, Inventories of Materials Handling Equipment fell 2.3%, while Shipments of Materials Handling Equipment slipped 0.9%. Overall, the Index suggests continued negative growth in materials handling equipment investment over the next six months.



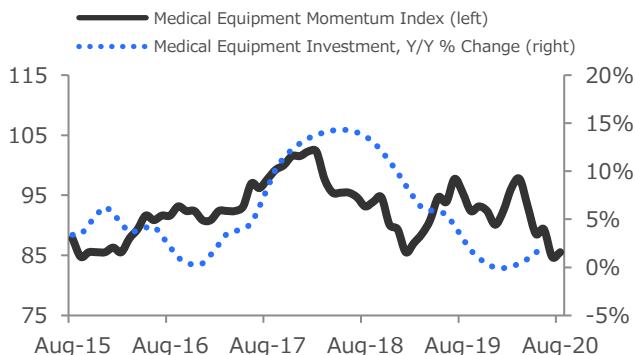
**Other Industrial Equipment:**

Investment in All Other Industrial Equipment contracted at a 26% annualized rate in Q2 2020 and dropped 10% from a year ago. The Other Industrial Equipment Momentum Index held steady at 78.7 from July (revised) to August. Average Weekly Earnings for Production & Non-Supervisory Employees decreased 1.5% in June, and Terex Market Cap pulled back 16% in July. Overall, the Index points to continued negative growth in industrial equipment investment over the next two quarters.



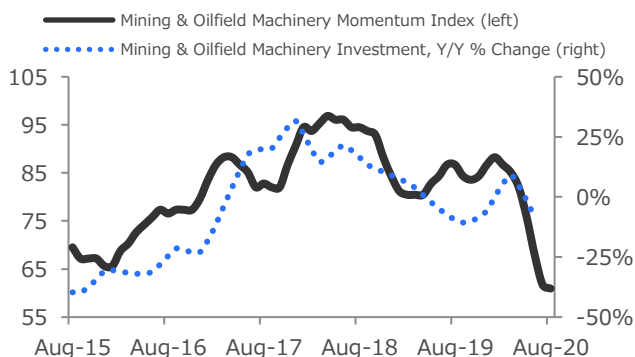
**Medical Equipment:**

Investment in Medical Equipment grew 14% (annualized) in Q2 2020 and improved 2.4% year-over-year. The Medical Equipment Momentum Index edged up from 84.7 (revised) in July to 85.5 in August. In June, Consumer Prices for Physician's Services inched up 0.5%, and Capacity Utilization for Electrical Equipment Manufacturing was 7.9 points below February levels. Overall, the Index points to weak growth in medical equipment investment over the next six months.



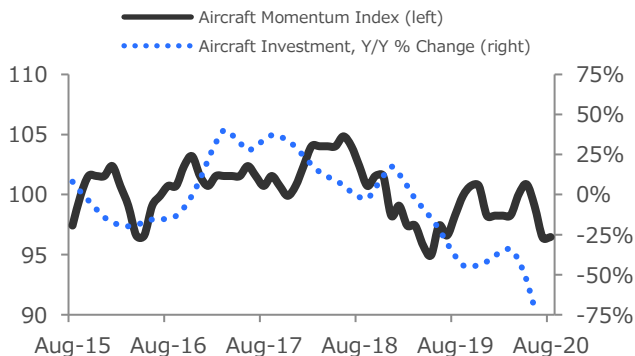
**Mining & Oilfield Machinery:**

Investment in Mining & Oilfield Machinery pulled back at a 45% annualized rate in Q2 2020 and fell 8.6% compared to a year ago. The Mining & Oilfield Machinery Momentum Index slipped from 61.7 (revised) in July to 60.9 in August, a historic low. In June, Mining & Logging Employment decreased 1.6%, while Crude Oil Production waned 1.8%. Overall, the Index suggests negative growth in mining & oilfield investment activity over the next six months.



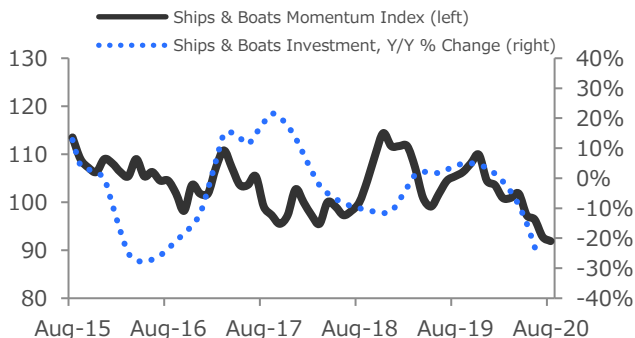
**Aircraft:**

Investment in Aircraft plummeted 99% (annualized) in Q2 2020 and is 72% below year-ago levels. The Aircraft Momentum Index ticked up from 96.4 (revised) in July to 96.5 in August. In July, the S&P 500 Volatility Index collapsed 20%, and the Market Cap of Southwest Airlines pulled back 9.6%. Overall, the Index points to continued weakness in aircraft investment over the next three to six months.



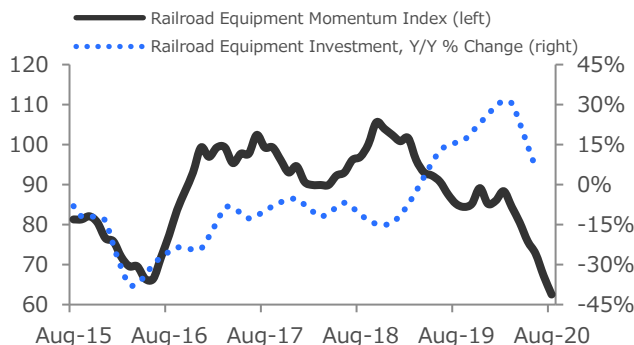
**Ships & Boats:**

Investment in Ships & Boats nosedived at an annualized rate of 68% in Q2 2020 and is down 23% year-over-year. The Ships & Boats Momentum Index fell from 92.8 (revised) in July to 91.9 in August, its fourth consecutive monthly decline and lowest reading in nearly a decade. Houston Shipping Container Traffic declined 5.1% in June, while the University of Michigan Consumer Sentiment Index dropped 5.6 points in July. Overall, investment in ships & boats is likely to continue to contract in the coming two quarters.



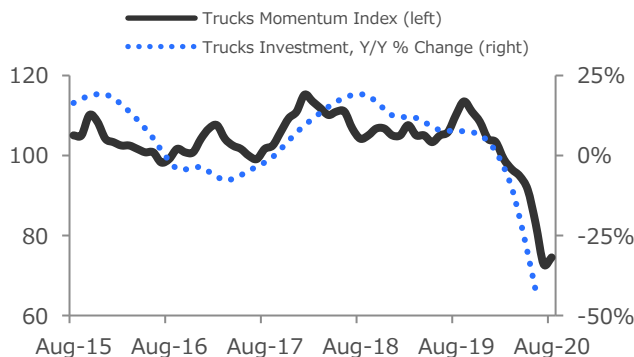
**Railroad Equipment:**

Investment in Railroad Equipment dropped 33% (annualized) in Q2 2020 but is up 6.0% year-over-year. The Railroad Equipment Momentum Index decreased from 67.2 (revised) in July to 62.5 in August, the lowest level on record. In June, Crude Oil and Petroleum Products Imports surged 20%, while Rail Transportation Employment declined 1.7% for the 17<sup>th</sup> consecutive quarter. Overall, the Index continues to suggest that growth in railroad equipment investment will weaken significantly over the next two quarters.



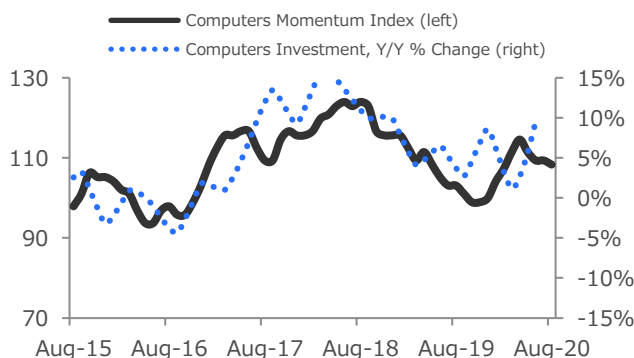
**Trucks:**

Investment in Trucks collapsed at an 83% annualized rate in Q2 2020 and is down 43% from year-ago levels. The Trucks Momentum Index inched up from 72.9 (revised) in July to 74.6 in August. In May, Shipments of Heavy-Duty Trucks and Manufacturers' Inventories of Light Trucks & Utility Vehicles were down 34% and 14% from February levels, respectively. Overall, the Index suggests deep negativity in trucks investment growth over the next six months.



**Computers:**

Investment in Computers surged 68% (annualized) in Q2 2020 and are up 9.7% year-over-year. The Computers Momentum Index slipped from 109.4 (revised) in July to 108.3 in August. Sales of Computers & Computer Peripheral Equipment & Software fell 2.8% in May, but the ISM Manufacturing PMI improved 1.6 points 54.2. Overall, the Index suggests that computers investment growth will remain positive over the next six months.



**Software:**

Investment in Software eased 1.4% (annualized) in Q2 2020 but is up 6.1% year-over-year. The Software Momentum Index held steady at 88.8 from July (revised) to August. Revolving Consumer Credit Outstanding fell 2.4% in May, while the NFIB Interest Rate Paid on Short-Term Loans Index eased 0.1 point in June to the lowest level on record. The Index points to softer but positive growth in software investment over the next two quarters.

