



EQUIPMENT LEASING & FINANCE

**FOUNDATION**

Your Eye on the Future

**2024**

Equipment Leasing & Finance  
**U.S. ECONOMIC  
OUTLOOK**

**Q3**

# EQUIPMENT LEASING & FINANCE ECONOMIC OUTLOOK

July 2024



	<b>Executive Summary</b> .....	<i>Page 2</i>
	<b>Equipment Investment Momentum Monitor</b> .....	<i>Page 3</i>
	<b>Credit Conditions</b> .....	<i>Page 4</i>
	<b>Fed Policy Corner</b> .....	<i>Page 5</i>
	<b>Small Business Spotlight</b> .....	<i>Page 6</i>
	<b>Equipment Finance Industry Conditions</b> .....	<i>Page 7</i>
	<b>U.S. Economic Overview</b> .....	<i>Page 9</i>
	<b>Special Focus Topics</b> .....	<i>Page 10</i>
	<b>Appendices</b> .....	<i>Page 12</i>

## Key Trends to Monitor

Consumer  
Spending



Inflation /  
Interest Rates



Political  
Environment



# EXECUTIVE SUMMARY

**Equipment and Software Investment:** Equipment investment expanded in Q1 after contracting for three quarters in 2023. Transportation equipment investment remains in negative territory, while information processing equipment and software investment lead growth, driven in part by AI-related investment. Industrial equipment also expanded at a healthy rate.

**Momentum Monitor:** Though elevated interest rates continue to weigh on investment growth in some industries, seven of 12 tracked verticals have momentum readings above their historical average, and seven verticals also exhibit recent acceleration. Overall, investment growth should remain positive in 2024, expanding at a moderate but not spectacular clip.

**Manufacturing:** The manufacturing sector is expected to remain soft over the next few months. After cresting briefly into expansionary territory in March, ISM's Manufacturing PMI (a key indicator of sector performance) has declined for three consecutive months. Industrial production held steady, but many manufacturers appear hesitant to invest in capital expenditures and inventories given the current business environment.

**Small Businesses:** Optimism on Main Street has improved marginally as inflation has eased. Small business owners are still feeling the pinch of high interest rates and inflation, however, as rents rise 12% Y/Y and consumer demand slows. In line with overall economic growth, Main Street economic activity is expected to expand modestly over the remainder of the year.

**Fed Policy:** Inflation cooled in Q2, a welcome development after multiple too-hot-for-comfort readings earlier in the year. While it's too soon to declare victory, inflation should remain subdued over the next few months given falling producer prices and the increased prevalence of price discounts. As a result, we expect the Fed to cut rates twice in 2024.

**U.S. Economy:** At the year's midway point, the U.S. economy is a mixed bag. On the positive side, the labor market remains healthy, wage growth is solid, and the Fed continues to make progress against inflation. At the same time, consumer demand is slowing for several reasons, including weaker disposable income growth, "inflation fatigue," and rising financial stress. Business activity also appears to be slowing, both in the manufacturing sector as well as service sector industries as consumers tighten their belts. Overall, a recession in 2024 remains unlikely, but a return to strong economic growth is also unlikely. A soft landing looks like the best bet.

## 2024 ELFF Projections

2.3%

GDP Growth\*

\*see explanation on p. 12

3.7%

Equip. & Software  
Investment Growth

2.7%

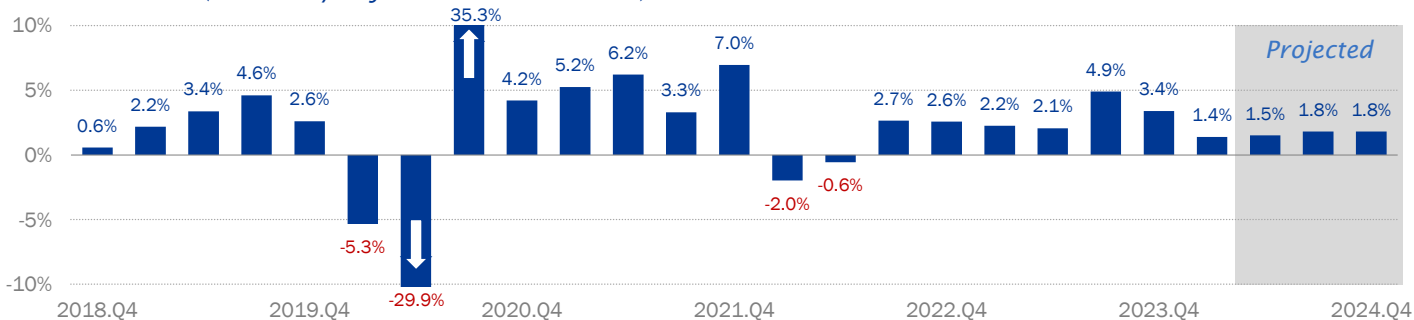
Headline CPI\*

\*end-of-year forecast

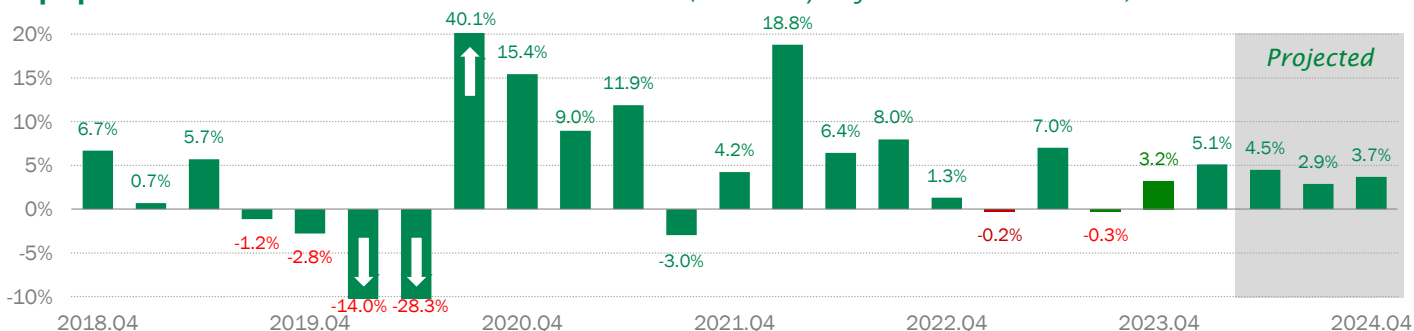
-50bp

Δ in Fed Funds  
Rate from  
Current Range

## GDP Growth (Seasonally Adjusted Annualized Rate)



## Equipment and Software Investment Growth (Seasonally Adjusted Annualized Rate)



Source: U.S. Bureau of Economic Analysis; Keybridge LLC

## Sectoral Performance

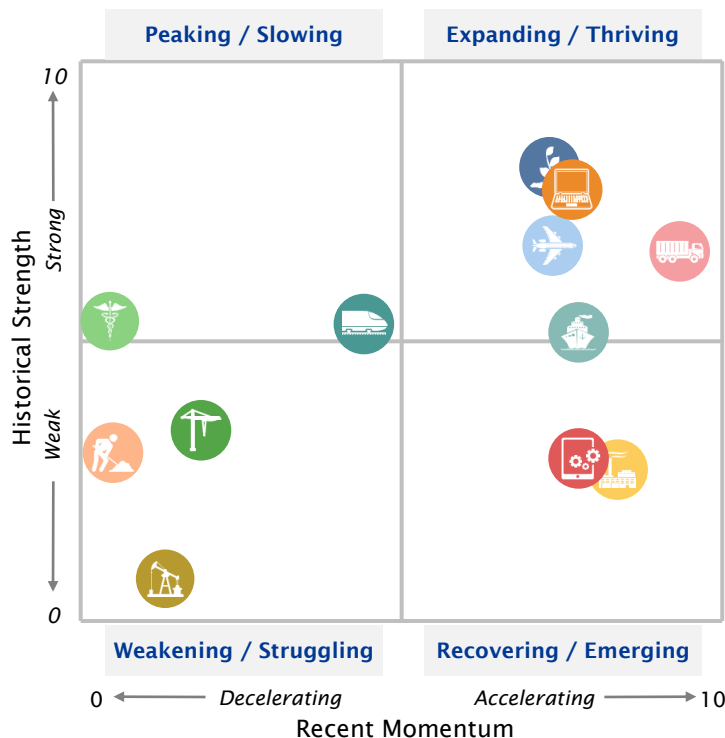
### E&S investment expands in Q1

Equipment and Software investment expanded by a solid 5.1% in Q1 (annualized) after rising 3.0% in Q4. Investment growth was positive in 8 of 12 equipment verticals, with Railroad Equipment experiencing the fastest growth (169% Q/Q annualized). Aircraft Machinery experienced the largest contraction, falling 76% Q/Q (annualized).

As summarized in the July Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor, the near-term outlook is bifurcated across investment verticals as interest rates and softening demand and slow investment activity in verticals such as medical equipment, materials handling equipment, and construction machinery. At the same time, other verticals show signs of improvement, including industrial equipment and trucks. Of the 12 tracked verticals, 7 have seen recent momentum accelerate, while 6 are currently above their historical average.

Overall, equipment and software investment growth is expected to remain positive in 2024, expanding at a moderate but not spectacular clip.

### Momentum Monitor Sector Matrix



For more information on how to interpret the Momentum Monitor, please refer to the Appendix B (p. 13). A full breakdown of each industry vertical is available at <https://www.leasefoundation.org/industry-resources/momentum-monitor/>

## Movements to Monitor

Equipment Vertical		Q1 Investment Growth		Next 6 Months	Short-Term Outlook
		Q/Q (annualized)	Y/Y		
Software		+11%	+8.8%		After slowing to a more moderate pace throughout much of 2023, Software investment growth has strengthened over the last six months. Recent momentum readings suggest that investment should remain strong over the remainder of the year.
Medical		-7.3%	+0.5%		Medical Equipment investment growth was negative at the start of the year for the fourth time in the last five quarters. Momentum readings were strong in early 2024 but have plummeted recently, casting doubt on the prospects of a near-term turnaround.
Trucks		+7.7%	+6.0%		After strong growth last year, Trucking investment growth has softened over the last six months. Momentum readings are up nearly 20% since December, however, providing reason for optimism.
Other Industrial		+17.4%	-0.8%		After three consecutive quarters of negative Q/Q growth, Q1 was the strongest quarter for Other Industrial Equipment since mid-2022. With momentum monitor readings improving in each of the last four months, continued gains are likely.



## Credit Supply

### Lending standards tighten in Q1

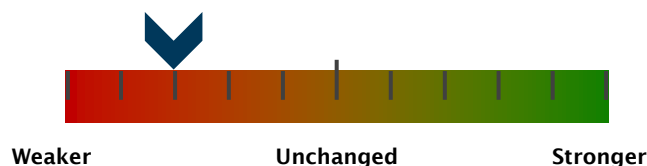
Business lending standards tightened in Q1 2024 as the Fed held interest rates at elevated levels.

- Lending standards for Commercial and Industrial (C&I) loans tightened moderately in Q1. A net 16% of banks reported tighter standards for C&I loans to large and middle-market firms, while a net 20% reported tighter standards for C&I loans to smaller firms.
- Commercial real estate (CRE) lending conditions tightened significantly in Q1. A net 25% of banks reported tighter standards for construction and land development loans, while a net 31% reported tighter standards for loans secured by nonfarm nonresidential properties.

Lending standards also tightened for consumer credit.

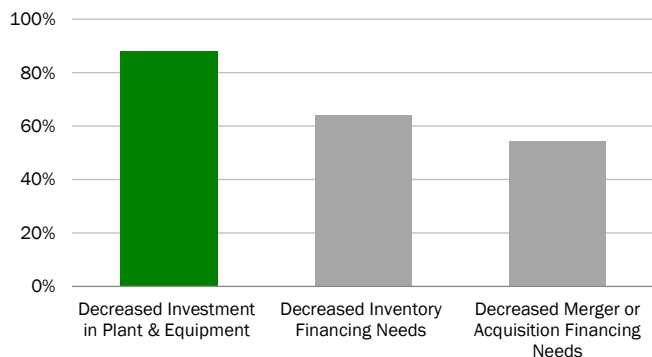
- As the amount of outstanding revolving credit continues to rise, credit card issuers are becoming more cautious about extending credit to subprime borrowers. A net 21% of banks tightened approval standards for credit cards in Q1 while a net 22% lowered credit limits.
- As auto defaults and delinquencies rise, a net 10% of banks tightened standards for consumer auto loans.
- Mortgage standards also tightened modestly, including a net 4% of banks that tightened standards for jumbo mortgages.

### Demand for credit eases in Q1

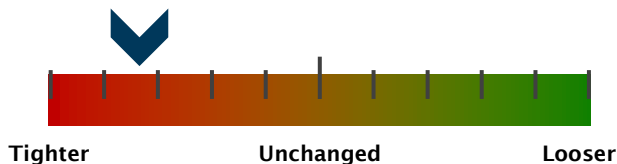


### Top Reasons for Weaker C&I Loan Demand

Share Indicating Reason is "Somewhat" or "Very Important"

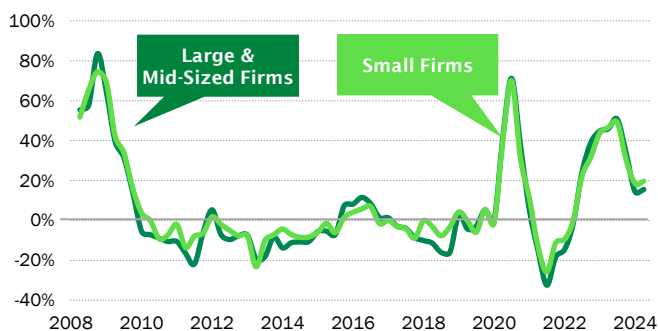


### Bank lending standards tighten in Q1



### Lenders Continue to Tighten C&I Loan Standards

Percent of Respondents



## Credit Demand

### Demand for credit weakens in Q1

Demand for business loans weakened in Q1.

- On net, 27% of banks reported weaker C&I loan demand among medium and large firms in Q1. Demand also weakened at smaller firms, with a net 23% of banks reporting lower demand. The most frequently cited reason for lower demand was decreased investment in plants and equipment (88%), along with decreased inventory financing (64%) and decreased merger or acquisition financing (54%) (see chart).
- Demand for CRE loans weakened again in Q1. A net 17% of banks reported weaker demand for construction and land development loans, while a net 29% reported weaker demand for loans secured by nonfarm nonresidential properties.

Credit demand also weakened among households, particularly for vehicles and mortgages.

- Demand fell for both jumbo mortgages (net 17% decline) and subprime mortgages (net 33% decline).
- Demand also fell for auto loans (net 26% decline) and credit card loans (net 12% decline).

## Fed Policy Corner

### Fed stays patient, holds rates steady

In the Foundation's Annual Economic Outlook published last December, we forecasted three rate cuts over the course of 2024 but warned that the fight against inflation had not yet been won. At the time, inflation was still elevated but had been slowing consistently for nearly 18 months, even as the labor market averaged 276,000 jobs added per month. Unfortunately, progress on inflation stalled in Q1, and the probability of multiple rate cuts this year fell accordingly.

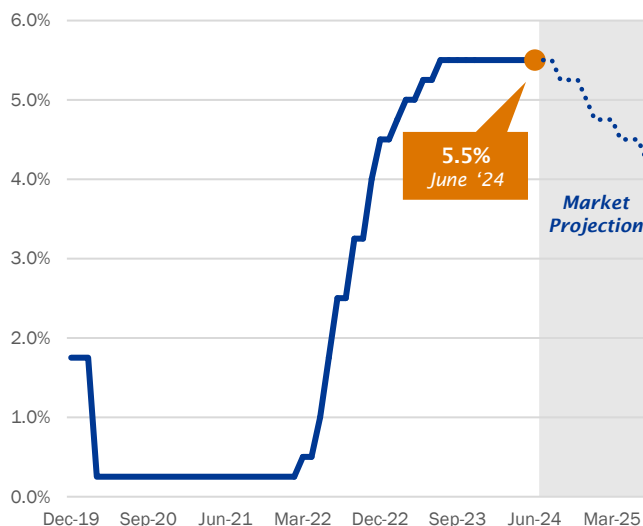
However, data in Q2 has been more promising. Both the Consumer Price Index (CPI) and the Personal Consumption Expenditures Price Index (PCE) cooled in May, with CPI falling M/M in June for the first time in two years. Commenting on recent CPI inflation, Chicago Fed President Austan Goolsbee stated "this is what the path to 2% looks like." While a September rate cut looks more likely than not, the Fed is likely to remain cautious, and any rate cut decision will be dependent on the next two months of data.

- Reason for optimism.** Beyond recent CPI and PCE reports, there are reasons to believe that inflation will continue to moderate in the months ahead. For example, Walmart, Target, Walgreens, Aldi, Wendy's, McDonald's, and other large companies have all announced price reductions or otherwise signaled an increased emphasis on customer value this summer, reflecting lower consumer tolerance for high prices. Federal Reserve economists have taken notice: in the most recent "Beige Book," the Fed reports that consumers are increasingly pushing back on higher prices and are more inclined to demand discounts to entice spending activity. Prices may also stabilize due to cooling producer price inflation. The PPI, which measures prices businesses pay to offer goods and services, has been declining steadily in Q2 (though the services PPI did tick up in June). Driven by lower energy costs, goods prices have continued to fall. Calmer input price increases should reduce cost pressures on businesses and, in combination with increased consumer price sensitivity, put downward pressure on inflation.
- A note of caution.** While price moderation is a welcome relief, it is likely being driven, at least in part, by declining consumer demand and rising financial stress. Retail sales were weak in both April and May, and auto and credit card delinquency rates were up 15% and 37% Y/Y in Q1. Meanwhile, although the personal savings rate rose to 3.9% in May, it is still roughly half its pre-pandemic average. Collectively, these trends suggest that consumer spending is unlikely to return to the strong growth rates seen over the last three years.

**The bottom line:** Although the Fed was arguably late in beginning its rate hike cycle, over the last 18 months it has done an admirable job reducing inflation while maintaining labor market stability. Recent data are consistent with two rate cuts by the end of the year.

### Fed Funds Rate Unchanged in 2024

Actual and CME Projected Most Probable Maximum Rate

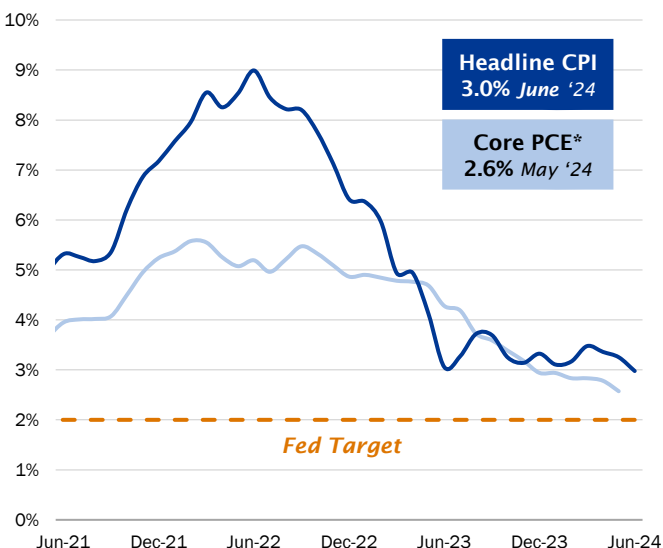


Source: Federal Reserve Bank of New York, CME FedWatch Tool

"As labor market tightness has eased and inflation has declined over the past year, the risks to achieving our employment and inflation goals have moved toward better balance. The economic outlook is uncertain, however, and we remain highly attentive to inflation risks." — Jerome Powell, Chair of the Federal Reserve Board of Governors, 6/12/2024

### Inflation Cools Modestly Across Various Metrics

Y/Y Percent Change



Source: U.S. Bureau of Economic Analysis

\*Note: Core PCE is the Fed's preferred measure of inflation.

## Main Street Outlook

### Small businesses remain concerned about inflation, labor quality, and overall economy

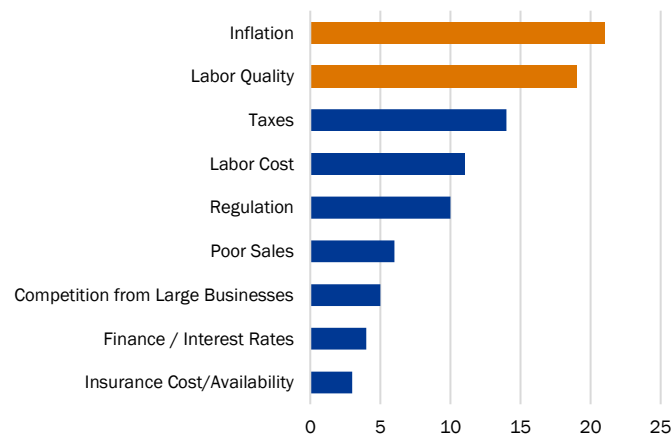
Main Street has grown slightly more optimistic in the second quarter, as the NFIB Small Business Optimism Index rose to 91.5 in June — the strongest reading in 2024, though still well below the long-term average of 98. The modest rise in sentiment is consistent with better inflation data, though inflation remains the top issue of concern among small business owners (*see chart*). Moreover, most small business owners (93%) expect moderate or significant growth over the next year per OnDeck and Orolus.

At the same time, the near-term outlook for Main Street businesses is somewhat murky given broader economic trends. Continued progress on bringing inflation back in line with the Fed's 2% target is a welcome development, but small firms are likely to continue feeling the pinch of rising cost pressures and slowing demand.

- **Cost pressures continue to build.** While recent inflation data is encouraging, many small business owners are still struggling to meet financial obligations. One issue affecting many is rent: according to Alignable, rent delinquency reached a three-year high in May, and more than half of owners report that they are unable to pay rent in full and on time. Per the Bank of America Institute, average small business rent was up 12% Y/Y in May. Another source of cost pressure is labor: wage growth continues to outpace inflation, which is a positive thing for the broader economy but requires businesses to grow their sales volumes to keep up — a more challenging prospect given slowing consumer demand.
- **Consumers are becoming more cautious.** Consumers are becoming increasingly sensitive to high prices, particularly in the automobile industry where the average monthly payment for a new car is more than \$750/month. Retail sales have been flat or negative over the last two months, while growth in real personal consumption expenditures has been soft in Q2.

### Single Most Important Problem

% of Firms Identifying Single Most Important Issue, June 2024



Source: National Federation of Independent Businesses

- **Further spending slowdowns may be in store.** While short-term deviations are not uncommon, real consumer spending typically moves in line with real disposable personal income (DPI). Over the last four months, the Y/Y growth rate in real DPI is roughly half growth rate in real consumer spending. This is a notably reversal from 2023, when real disposal income expanded significantly faster than real consumer spending. To support this level of spending, consumers have increasingly turned to credit cards and reduced their personal savings, but this has predictably led to a rise in delinquencies, particularly among younger and lower-income households. Given the recent slowdown in real DPI growth, real spending is likely to follow suit (though it should remain positive).

Overall, Main Street remains resilient. Breakout growth in the near term is unlikely, but the overall economic climate should keep most small businesses on sound footing.

## Main Street Optimism Ticks Up, but Expectations Remain Subdued

### Small Business Optimism Index

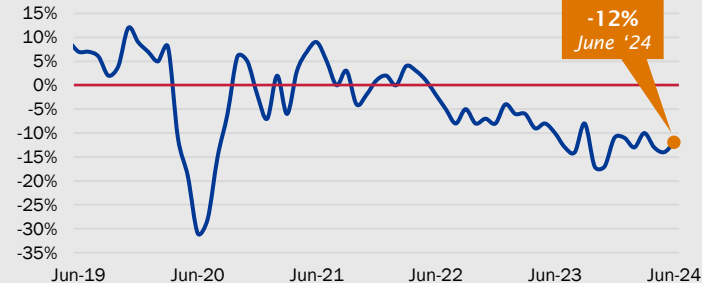
1986 = 100



Source: National Federation of Independent Businesses

### Sales in Last 3 Months Better Than Prior 3 Months

Net Percent of Respondents



Source: National Federation of Independent Businesses

# EQUIPMENT FINANCE INDUSTRY CONDITIONS

## MLFI-25

### New business volume trending up

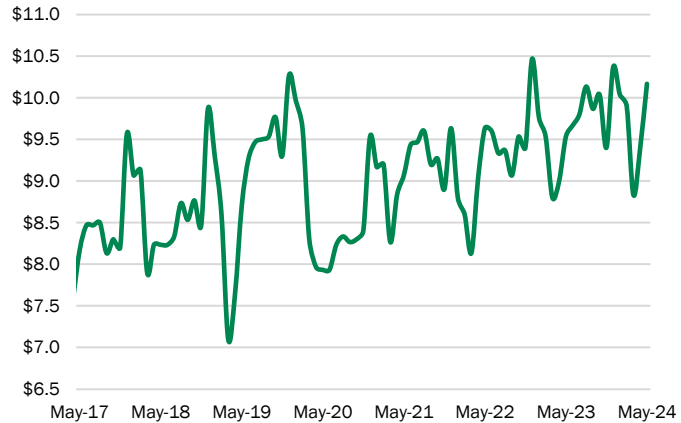
ELFA's [Monthly Leasing and Finance Index](#) (MLFI-25) reported new business totaled \$10.2 billion in May, up 11% on a Y/Y basis and up 6% year-to-date compared to 2023. The 3-month moving average increased 10.2% compared to April and is up nearly 11% from a year ago.

Portfolio performance has slipped in recent months and is slightly weaker than a year ago. In May, 30+ day receivables rose from 2.0% to 2.3%, though charge-offs remained steady at 0.4%. Meanwhile, credit approval rates have eased to 75% over the last two months, down from 77% earlier in the year.

Though elevated interest rates continue to put pressure on the lending market, most segments of the equipment finance industry are weathering the storm and new business volume growth has been solid thus far in 2024. If interest rates begin to fall later this year as expected, it could trigger additional investment among equipment end-users.

### MLFI-25 New Business Volume

Billions, 3-month moving average



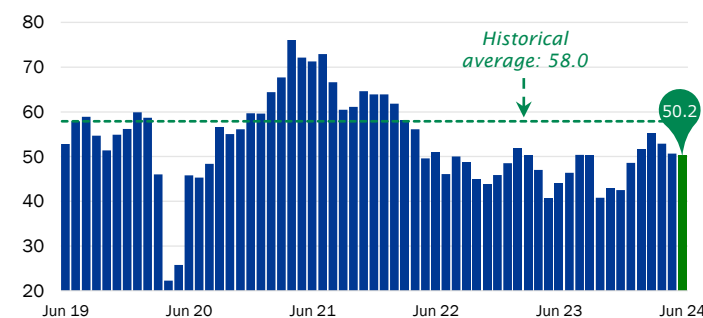
“Overall, May MLFI results show solid performance with continued double-digit year-over-year growth in originations and positive year-to-date growth. Credit quality is mixed, but within historical norms. The drop in volume from April could be an indication that some businesses are holding off on acquiring equipment until interest rates come down. We’ll be monitoring whether the effect of higher rates over the summer and into the fall will further delay equipment investments, which would be a headwind to economic activity through the second half of the year.”

— Leigh Lytle, President and CEO, ELFA

## MCI-EFI

### Industry confidence dips slightly, remains below historical average as economy softens

#### Monthly Confidence Index – Equipment Finance Industry



“Our industry is well positioned to help continue the success of these businesses, as well as help those struggling through a rough time in the economy. I am optimistic that in a couple of years we will look back and recognize the positive impact we were able to have on the economy and the small business community.”

— David Normandin, President and CEO, Wintrust Specialty Finance

In June, the [Monthly Confidence Index for the Equipment Finance Industry](#) (MCI-EFI) was 50.2, a slight decline from the May reading of 50.7 and well below the survey’s historical average of 58. Relevant survey findings include:

- Most executives (77%) expect near-term business conditions to remain the same, while 12% believe business conditions will improve.
- Fewer respondents expect demand for leases and loans to fund capex to increase (7.4%, down from 11%), though most (78%) expect demand to remain the same.
- Consistent with a healthy-but-cooling labor market, there was a slight draw-down in hiring plans. Roughly one-fourth of the executives expect to hire more employees over the next four months, a slight increase from last month. 7.4% expect to hire fewer employees, up from 3.7% in May.
- Roughly three-fourths of respondents rate the economy as “fair,” down from 85% last month. 19% evaluate the economy as “poor” (up from 15%), 3.9% evaluate the economy as “excellent” (up from 0%).



## Industrial Focus

### Slight dip in shipments and new orders

Growth in new orders and shipments of core capital goods have flattened to near-zero in recent months (*see chart*).

- New orders growth for nondefense capital goods excluding aircraft (a leading indicator of industry performance) was down slightly in May year-over-year (-0.2%), after moderate growth earlier in the year (+0.6% - 1.10%). Weaker numbers indicate demand for manufactured goods is likely to be subdued moving into the second half of the year.
- Shipments of nondefense capital goods excluding aircraft (a concurrent indicator of industry performance) was virtually unchanged from April to May, up 0.06% compared to a year ago.

Flat readings for both new orders and shipments of capital goods align with subdued industry confidence and soft manufacturing data.

### Manufacturing activity cools in Q2

- The June reading of the ISM Purchasing Managers Index for Manufacturing was 48.5, down slightly from May's 48.7. After inching above 50 for the first time since summer 2022 in March, the index has now fallen back into contractionary territory for three consecutive months.
- Capacity utilization for the manufacturing industry hit 77.1% in May and has been essentially flat over the course of 2024. Capacity utilization for all industries was somewhat stronger at 78.7% in May.
- Industrial production for both manufacturing and motor vehicles & parts showed modest growth in May. Manufacturing output was +0.9% year-over-year while motor vehicle output was up 0.6% from last year. Industries directly benefitting from the CHIPS and IRA laws continue to post stronger growth than others.

### Manufacturing payrolls hold steady

Following a recovery period of nearly two years, employment in the manufacturing sector reached and exceeded pre-pandemic levels in 2023. The sector has roughly held steady since, hovering just below 13 million workers through May.

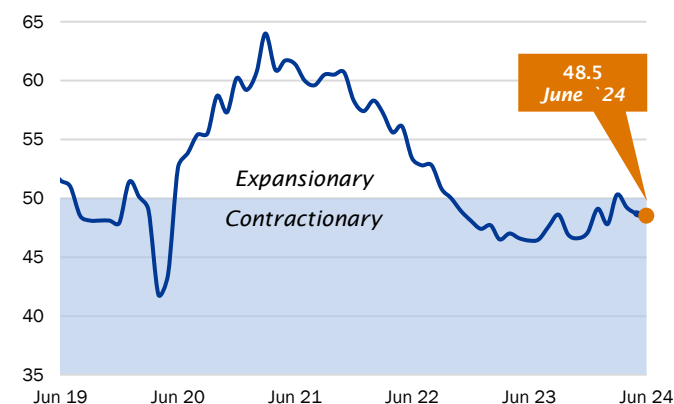
- Manufacturing employment declined by 8,000 workers in June after holding steady in May. The modest decline essentially offset the 7,000 gain in April.
- Average hourly earnings for manufacturing workers increased to \$34/hour in June. Manufacturing wages have expanded at around 5% Y/Y pace for the past year.
- Labor shortages continue to be a significant concern for manufacturing firms. The U.S. Chamber of Commerce reports that, as of April, 20% of jobs in durable goods manufacturing remain unfilled.

### Shipments vs. New Orders of Core Capital Goods Percent change (Y/Y), SA



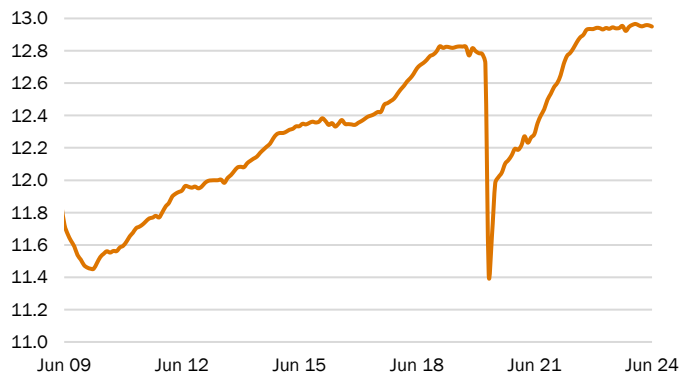
Source: Census Bureau

### ISM Purchasing Managers Index: Manufacturing Index, SA



Sources: Institute for Supply Management

### Manufacturing Payroll Employment Millions, SA



Source: Bureau of Labor Statistics

# U.S. ECONOMIC OVERVIEW

## State of the U.S. Economy

### U.S. economy softens in Q1

The U.S. economy expanded at a 1.4% annualized rate in the first quarter of 2024, a substantial slowdown from 3.4% growth in Q4 2023. Consumer spending, business and residential investment, and government spending drove the expansion, while inventories and trade were net drags.

- **Consumer spending** expanded 1.5% (annualized) in Q1. Spending on goods and services has bifurcated, with services growing at a solid 3.3% annualized pace and durable and nondurable goods contracting 4.5% and 1.1% annualized, respectively.
- **Government spending** softened in Q1 (1.8% annualized). Lower spending was driven by a contraction in national defense spending and a slowdown in nondefense and state and local spending.
- **Equipment investment** increased 1.6% annualized, an uptick after contracting for three of four quarters in 2023. Information processing and industrial equipment lead growth (12.8% and 6.8% annualized) while transportation equipment continues to contract (-18.1% annualized). Software investment, by contract, expanded 11% annualized.

Notably, final sales to private domestic purchasers — viewed by some economists as a better signal of underlying economic strength — expanded 2.6% in Q1.

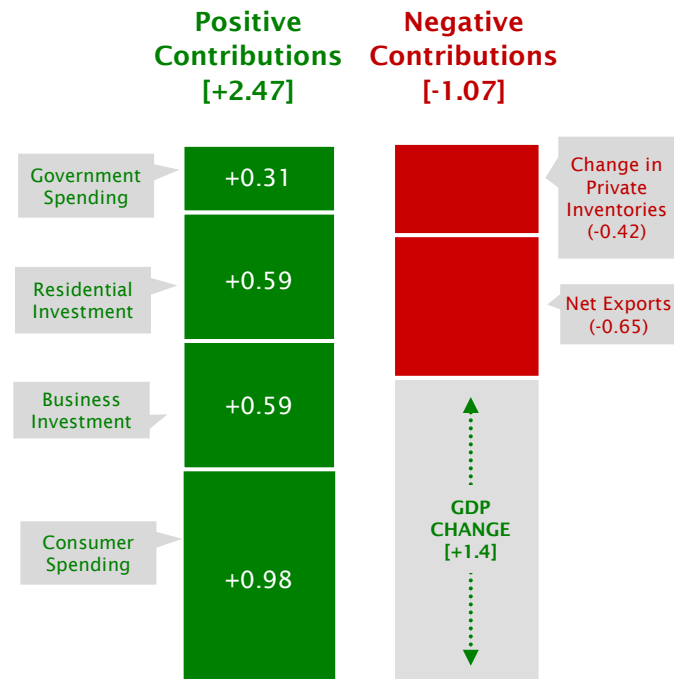
### As the economy slows and inflation wanes, a soft landing is taking shape

At the year's midway point, the U.S. economy is a mixed bag. On the positive side, the labor market remains healthy: on average, more than 220,000 jobs per month have been created this year, representing only a modest slowdown from the 250,000 / month growth rate in 2023. Meanwhile, the problem of inflation has been mostly resolved: core PCE (the Fed's preferred measure) is now 2.6% Y/Y, and recent data suggest that further declines over the next few months are more likely than not. The Fed is getting closer to pulling the trigger on its first rate cut of the cycle — likely in late summer — which should give a boost to the housing market and, potentially, encourage equipment end-users to invest in new equipment and software.

However, there are several reasons for concern. Consumer demand is slowing for multiple reasons, including weaker disposable income growth, "inflation fatigue," and rising financial stress, especially among younger and lower income households. Business activity also appears to be slowing, most notably in the industrial and manufacturing sectors but also in service industries as consumers tighten their belts. Confidence among businesses and consumers alike is middling, and given the heightened degree of political uncertainty and unrest surrounding the upcoming election, it is unlikely to improve anytime soon.

Overall, a recession in 2024 remains unlikely, but a return to strong economic growth is also unlikely. A soft landing looks like the best bet, but is it a *fait accompli*?

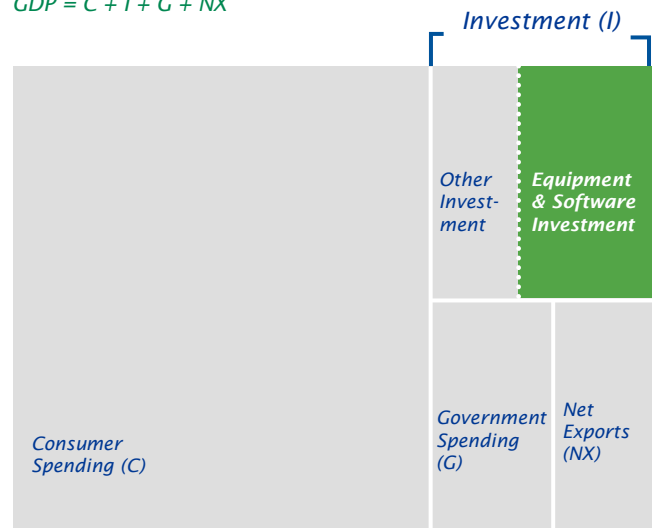
### Contributions to GDP Growth Q1 2024



Source: Bureau of Economic Analysis

### Composition of Gross Domestic Product (GDP)

$$GDP = C + I + G + NX$$



Source: Keybridge LLC. Rectangles drawn to scale, based on BEA data.

Macroeconomic Consequences of the 2024 Election

The outcome of the 2024 U.S. election season will have wide-ranging effects on both the domestic and global economy. Following a contentious start to the election season and a shaky first debate performance from President Biden, Nate Silver’s election forecast places former President Trump as a moderate favorite to win as of July 12<sup>th</sup> (see right table).

Should Trump prevail, forecasters expect Republicans to hold onto the House and take control of the Senate, where several incumbent Democrats face difficult races. Should Democrats retain the presidency, however, currently polls suggest they may need to contend with a divided Congress. Regardless of who wins, the victor will pursue most of their policy agendas through administrative actions, though some issues require working closely with Congress, including tax policy and funding the federal government.

Detailed below are the two candidates’ economic proposals and potential impacts for the equipment finance industry.

Taxes

- Trump seeks to extend the provisions of the 2017 Tax Cuts and Jobs Act (TCJA), one of the largest tax cut packages in US history set to expire in 2025. Trump has also hinted at favoring further reductions to the corporate tax rate, which is currently set at 21%.
- Biden favors extending the TCJA tax cuts for individuals earning less than \$400,000 per year but wants to restore the previous tax rates for higher-income individuals. Biden also proposes expanding child tax credit and the Earned Income Tax Credit, which are intended to support low- and middle-income families. On the corporate side, Biden has proposed increasing the corporate tax rate to 28% and raising the minimum corporate tax rate from 15% to 21% for corporations that earn more than \$1 billion in profit.
- Neither plan appears to address the structural imbalance that defines the U.S. long-term fiscal outlook. Trump’s proposal could add up to \$2 trillion to the national deficit by 2028 according to Brookings, while Biden’s tax plan would reduce deficits but still exacerbate the national debt, per the Peterson Foundation. Regardless of the election outcome, rising debt will continue to strain the federal budget, particularly at current interest rates.

Trade Policy / Tariffs

- Biden has advocated for using targeted tariffs, such as the 100% tariff on Chinese EVs and solar panels currently in place. By contract, Trump has proposed a 10% tariff on nearly all imported goods and intends to use the revenue to partially offset the cost of his tax plan.
- The party that bears the cost of a tariff is situationally dependent, but it is typically the exporter, supplier, or consumer. For this reason, most economists are skeptical of tariffs: they raise prices for Americans and put upward pressure on inflation. Still, some U.S. companies would benefit from protectionist trade policies, particularly those who manufacture products targeted by tariffs.

U.S. Presidential Election Forecast  
*FiveThirtyEight/Silver Bulletin Model*

	Biden	Trump	Kennedy
Prob. of Winning Electoral College	28.0%	71.5%	0.0%
Prob. of Winning Popular Vote	43.2%	56.8%	0.0%
Predicted Electoral Votes	241.1	296.4	0.5
Predicted Popular Vote Share	46.5%	47.3%	4.7%

Source: Nate Silver, “Silver Bulletin” Forecast, Updated July 12, 2024.

Industrial Policy

- In 2021-22, Congress passed the Infrastructure Investment and Jobs Act, the CHIPS Act, and the Inflation Reduction Act, which authorized more than \$1 trillion in funding and tax incentives to boost investment in infrastructure, energy, climate resilience, and industrial policy. While expensive, these laws have had a positive effect on the industrial economy to date and are expected to continue driving construction and manufacturing.
- The fate of these programs may or may not hinge on the election. Biden would clearly favor maintaining them and views them as a key accomplishment in his first term. Trump may support some of them but has criticized others, including tax incentives for electric vehicles and renewable energy.

Labor Market

- Both the Biden and Trump administrations would curb immigration significantly, though Biden’s agenda is expected to be less restrictive. Economists generally agree that immigration has bolstered the labor market and eased wage pressures over the last few years. Lower levels of immigration would likely result in a tighter labor market and higher wages, particularly within immigrant-dominant workforce sectors.
- It is worth noting that immigration is playing an increasingly important role in the U.S. economy as Baby Boomers retire. Indeed, the Congressional Budget Office estimates that by 2040, the U.S. population will begin to decline without immigrants.

Regulation

- Repealing Obama-era regulations was a major focus during Trump’s first term, and a second term would bring a similar focus to Biden-era regulations, including but not limited to the energy and environment space. While Biden would likely continue to push for more stringent rules, both administrations may have less regulatory leeway given recent Supreme Court decisions.

## Is a Soft-Landing a *Fait Accompli*?

### The U.S. Economy Appears on Track to Tame Inflation without Triggering a Recession

Since March of 2022, the Fed has undertaken a delicate balancing act with global ramifications: using monetary policy to tame inflation without triggering a recession. To do so, the Fed's primary tool has been to raise interest rates, thereby making borrowing more expensive for businesses (e.g., for new capital investments) and consumers (e.g., for big-ticket purchases such as homes and automobiles). Higher rates also put downward pressure on the demand for labor, which slows job growth and wage growth. In theory, the combined effect cools the pace of economic activity and eases inflationary pressures.

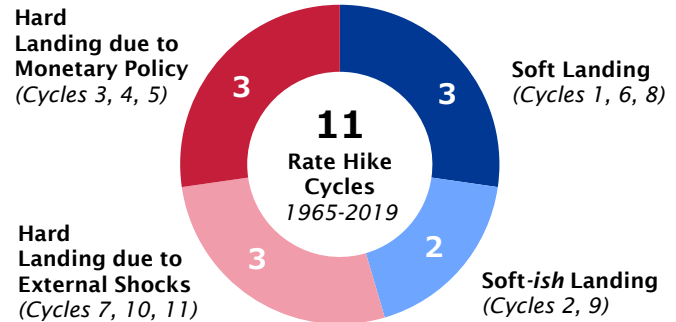
When the Fed gets the timing and magnitude of rate cuts just right, economic activity slows enough to bring inflation to heel but does not stall out or contract — in other words, a soft landing. However, this is easier said than done: monetary policy can also under-correct or overcorrect an overheating economy, leading to an inflation resurgence (i.e., no landing) or a recession (i.e., hard landing).

With this in mind, how often does the Fed get it right, and what does its track record portend for the current rate cycle? Recent research by esteemed economist Alan Blinder sheds light on these questions. Examining 11 periods of monetary tightening over the last six decades, Blinder concludes that the Fed has a decent track record but is far from perfect (see top right chart). The most well-known soft landing occurred in 1993, when the Alan Greenspan-led FOMC preemptively raised rates in anticipation of higher inflation, resulting in both lower inflation and unemployment over the next few years. On the flip side, the monetary policy tightening cycle peaking in 1981 tamed inflation, but unemployment rose to nearly 11% by 1982.

Time will tell whether the Fed will add another tally in its win column, but the current cycle appears quite different from previous hard landings. The "Volcker Shocks" of the late '70s and early '80s were much larger in magnitude: inflation rose

#### Fed Intervention "Landing" Outcomes

*Economic outcomes of Fed interest rate hikes, 1965-2019*



Source: Blinder, A. "Landings, Soft and Hard: The Federal Reserve, 1965-2022," Journal of Economic Perspectives, Winter 2023.

above 14% and the federal funds rate peaked at nearly 20% by 1981 — nearly four times the current rate. In addition, both inflation and the unemployment rate were higher at the beginning of that cycle than they were leading up to the current cycle, and cost pressures were driven largely by a major oil price spike, as opposed to supply chain constraints and excess federal stimulus (which are no longer significant economic concerns).

While traditionally reliable recession indicators signaled a downturn after the Fed rapidly raised rates in 2022-23, in retrospect the unique nature of the pandemic and its second-order economic effects may have caused some of these indicators to produce false signals. Currently, economists place the odds of a soft landing at 60-70%, and while the "experts" are by no means infallible given the complexity of the U.S. economy and the potential for unforeseen events, the economy's resiliency over the last 18 months suggests that the Fed may have threaded the needle after all. Time will tell, but the Foundation does not anticipate a downturn in 2024.

#### Current Monetary Policy Designed to Soften and Slow Economy, not Shock

*Effective Federal Funds Rate and Y/Y Change in the Consumer Price Index, SA*

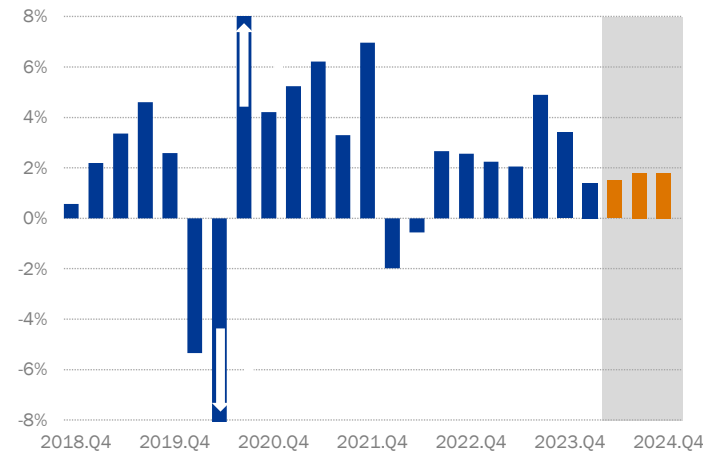


Source: US Bureau of Labor Statistics.



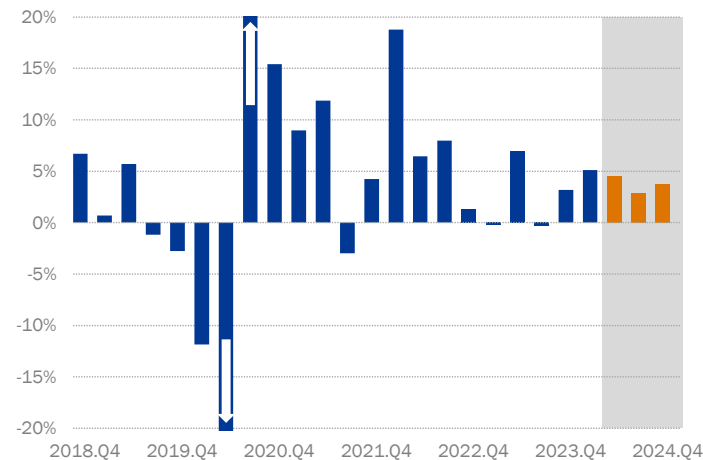
# APPENDIX A | KEYBRIDGE FORECASTS

**Real GDP Growth (% SAAR)**



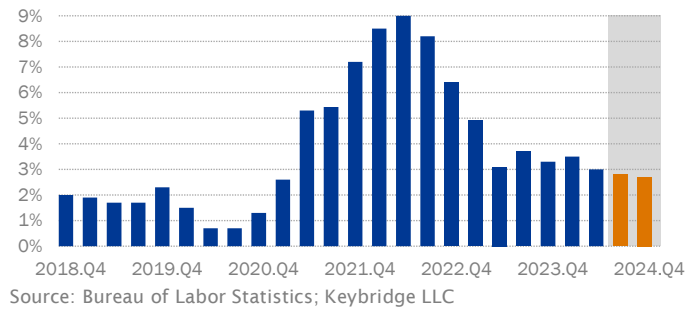
Source: Bureau of Economic Analysis; Keybridge LLC

**Real E&S Investment Growth (% SAAR)**



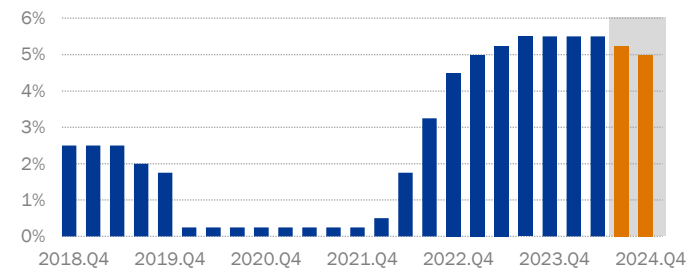
Source: Bureau of Economic Analysis; Keybridge LLC

**CPI Inflation (year-on-year %, end of period)**



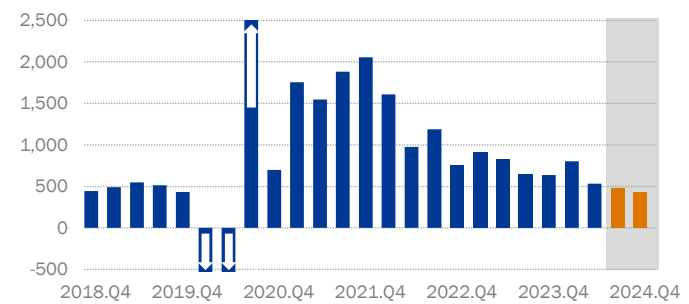
Source: Bureau of Labor Statistics; Keybridge LLC

**Fed Funds Target (upper bound, end of period)**



Source: Federal Reserve Board of Governors; Keybridge LLC

**Total Payroll Growth (thousands)**



Source: Bureau of Labor Statistics; Keybridge LLC

INDICATOR	2022	2023	2024 QUARTERLY ESTIMATES				2024e
			Q1	Q2e	Q3e	Q4e	
Real GDP* (SAAR)	1.9%	2.5%	1.4%	1.5%	1.8%	1.8%	2.3%
Real Investment in Equipment & Software (SAAR)	7.9%	3.0%	5.1%	4.5%	2.9%	3.7%	3.7%
Inflation (Headline CPI, Y/Y %, end of period)	6.4%	3.3%	3.2%	3.0%	2.8%	2.7%	2.7% (end-of-year)
Federal Funds Target Rate (upper bound, end of period)	4.50%	5.50%	5.50%	5.50%	5.25%	5.00%	5.00% (end-of-year)
Non-Farm Payroll Growth (thousands)	4,793	3,013	802	532	475	425	2,234

\*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' ("BEA") standard method for reporting growth in the national accounts data. The BEA defines annual GDP growth as the % change in the average level of quarterly GDP from one year to the next. Some organizations (including the Federal Reserve) report GDP growth on a Q4/Q4 basis, which can result in differing reported growth rates.

### About the Momentum Monitor

Business leaders require actionable forward-looking intelligence to make strategic decisions. Accordingly, the Foundation commissioned Keybridge LLC to develop a series of custom leading indicators for the equipment sector. The [Foundation-Keybridge Equipment & Software Investment Momentum Monitor](#) consists of indices for 12 equipment and software investment verticals. These indices are designed to identify turning points in their respective investment cycles with a ~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 15 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.

### How to Read the Momentum Monitor

The Momentum Monitor Matrix 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" indicates a vertical's recent acceleration or deceleration in the past month relative to its average movement during the previous 3 months. Ratings closer to "0" indicate rapid deceleration, while ratings near "10" represent rapid acceleration.
- "Historical Strength" reflects a vertical's strength 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 consists of four quadrants based on readings for each vertical's recent momentum and historical strength. If a vertical falls 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 Y/Y investment growth may slow over the next two quarters. Verticals in the bottom-right quadrant, however, have momentum readings that are below average, but recent movement shows promise — suggesting that Y/Y investment growth may increase over the next two quarters.