EQUIPMENT LEASING & FINANCE
FOUNDATION
Your Eye on the Future

2024

Q2

Equipment Leasing & Finance

U.S. ECONOMIC OUTLOOK

EQUIPMENT LEASING & FINANCE ECONOMIC OUTLOOK

April 2024

Key Trends to Monitor

Consumer Spending

Labor Market

Inflation

Equipment and Software Investment: Equipment investment was negative for the second consecutive quarter, but continued strength in software investment led to overall E&S growth of 3.2% (annualized) in Q4. Economic conditions are generally positive, however, and we expect a modest improvement in investment activity later this year.

Momentum Monitor: The near-term outlook for equipment and software investment activity is mixed. Investment growth in Medical Equipment and Construction Machinery is likely to strengthen, and both Computers and Agricultural Machinery show promise. Other verticals, including Other Industrial Machinery and Mining & Oilfield Equipment, are likely to struggle.

Manufacturing: While the auto industry has recovered from last fall's UAW strike, overall manufacturing activity remains soft. Industrial production and capacity utilization have worsened for most of the last 18 months, and manufacturing hours worked are weak. One potential bright spot is the ISM Purchasing Managers Index, which moved back into expansion territory in March.

Small Businesses: Despite a general consensus that the U.S. economy remains on track for a soft landing, small business owners have a somewhat pessimistic outlook. Concerns regarding inflation are heightened, and both hiring and investment plans have slowed.

Fed Policy: The Federal Reserve remains cautious and has not begun its long-awaited rate cut cycle, as progress toward its 2% target stalled in Q1. With job growth still robust, Fed officials are unlikely to begin cutting rates until late summer or fall. We now expect two rate cuts in 2024.

U.S. Economy: The U.S. economy continues to hum, driven by solid consumer spending and surprisingly robust job growth, even as equipment investment has been weak. The Fed's commitment to "finish the fight" against inflation means that borrowing costs remain elevated, however, presenting affordability challenges for prospective homebuyers and car owners. Meanwhile, a slowdown in global economic growth prospects may impair business investment and reduce demand for U.S. exports.

The biggest X-factor, however, may be the willingness of consumers to continue opening their wallets as debt levels rise and real disposable income slows. Our view is that both job growth and consumer spending will slow but remain healthy while inflation will inch toward the Fed's 2% target over the course of the year. A soft landing remains the most likely outcome.

2024 ELFF Projections

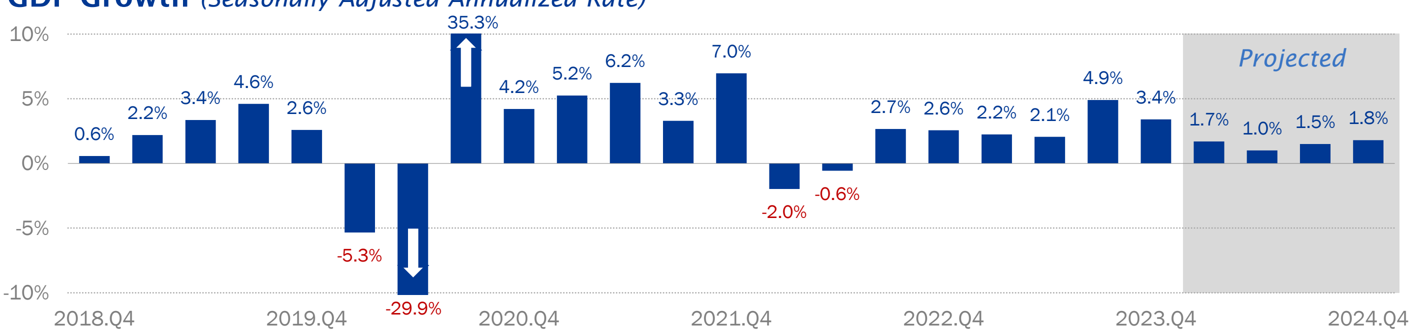
2.3%
*GDP Growth**
**see explanation on p. 14*

2.2%
Equip. & Software Investment Growth

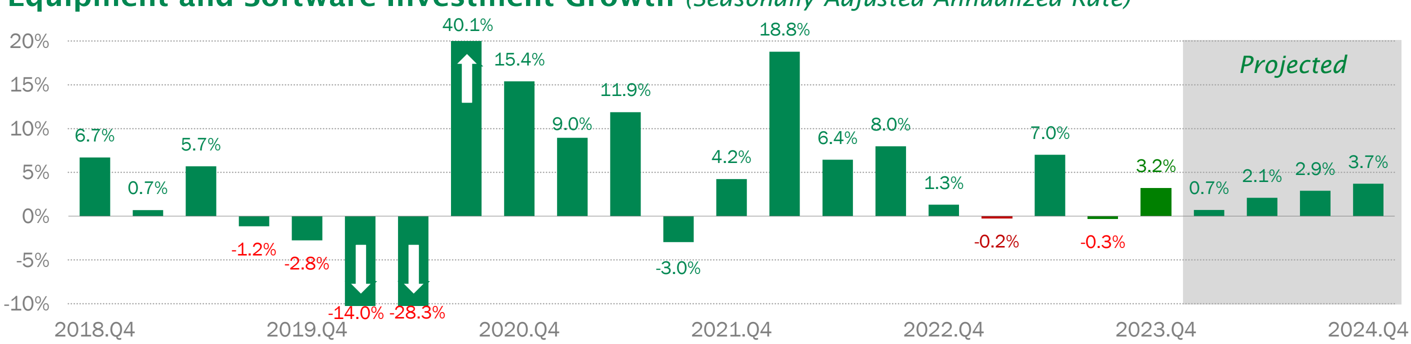
2.7%
*Headline CPI**
**end-of-year forecast*

-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

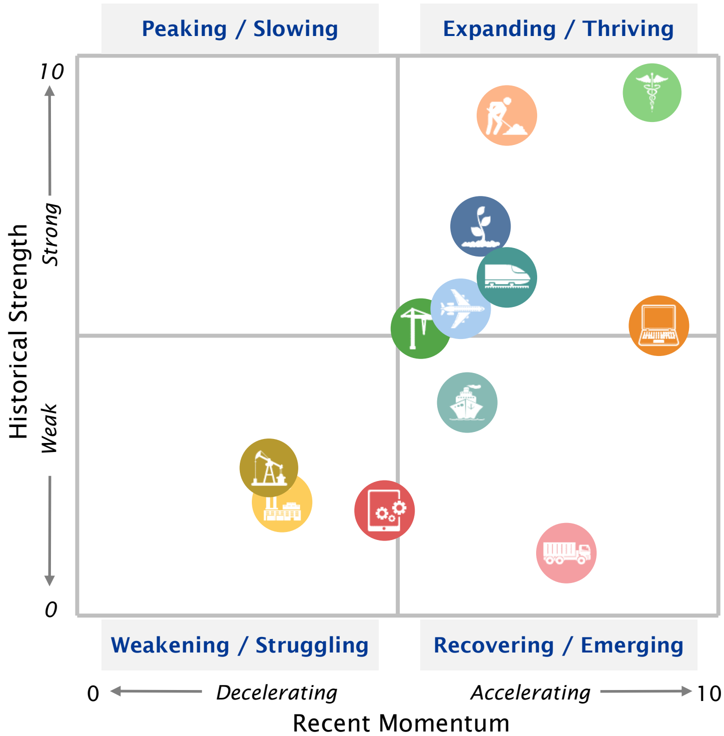
E&S investment expands modestly in Q4

Equipment and Software investment expanded 3.2% in Q4 (annualized) after a slight contraction (-0.3%) in Q3. Investment growth was negative in 6 of 12 equipment verticals, with agricultural machinery faring the worst (-34% Q/Q annualized). Mining & Oilfield Machinery experienced the fastest growth, expanding 57% Q/Q (annualized). The U.S. Department of Commerce will release estimates for Q1 investment growth in late April.

The Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor paints a mixed picture for the industry over the next two quarters. The near-term outlook is strong for verticals such as Medical Equipment and Construction Machinery, and both Computers and Agricultural Machinery have shown promising movement in recent months. However, other verticals, particularly Other Industrial Machinery and Mining & Oilfield Equipment, are likely to struggle.

Overall, 5 of tracked 12 verticals have momentum readings significantly above their historical average, while the rest are either significantly below their historical average (5) or at their historical average (2). At the same time, momentum has accelerated for 9 of 12 verticals in recent months, suggesting investment may improve over the second half of the year.

Momentum Monitor Sector Matrix



For more information on how to interpret the Momentum Monitor, please refer to the Appendix B (p. 14). A full breakdown of each industry vertical is available at https://www.leasefoundation.org/industry-resources/momentum-monitor/

Movements to Monitor

Equipment Vertical	Q4 Investment Growth		Next 6 Months	Short-Term Outlook
	Q/Q *(annualized)*	Y/Y		
Medical	+13%	+0.4%	▲	Investment growth in Medical Equipment has been flat or negative for the last two years but improved in Q4. With momentum readings climbing steadily for the last six months, investment activity should heat up as the year progresses.
Other Industrial	-6%	-2.4%	▼	Investment growth in Other Industrial Equipment has fallen in three consecutive quarters, reflecting manufacturing sector weakness. Momentum readings have worsened steadily since last summer and are now at their lowest point since November 2020.
Computers	+26%	-0.8%	▲	Investment in Computers has bounced around in recent quarters, but Q4 was strong. Contrary to investment activity, however, recent momentum monitor readings have been consistently positive.
Mining & Oilfield	+57%	+12%	▼	Investment growth for Mining & Oilfield has been highly volatile, with a weak Q3 followed by a strong Q4. Momentum readings have been flat for several months, but a large decline in April paints a negative outlook for growth over the next six months.

Credit Supply

Lending standards tighten in Q4

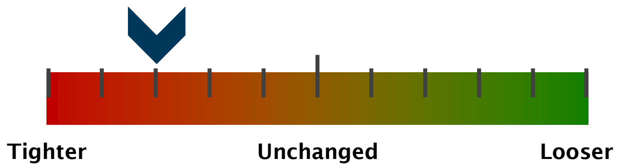
Business lending standards tightened in Q4 2023 as the Fed kept interest rates at elevated levels.

- Lending standards for Commercial and Industrial loans ("C&I") experienced moderate tightening in Q4. A net 15% of banks reported tightening standards for loans to large and middle-market firms, while a net 19% reported tighter standards for loans to smaller firms.
- Commercial real estate (CRE) lending conditions tightened significantly in Q4 2023. A net 40% of banks reported tightening standards for construction and land development loans, while a net 42% reported tightening 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 23% of banks tightened approval standards for credit cards in Q4 while a net 19% lowered credit limits.
- As auto defaults and delinquencies rise, a modest net 6% of banks are tightening auto loans for consumers.
- Mortgage standards also tightened, including a net 15% of banks tightening standards for jumbo mortgages.

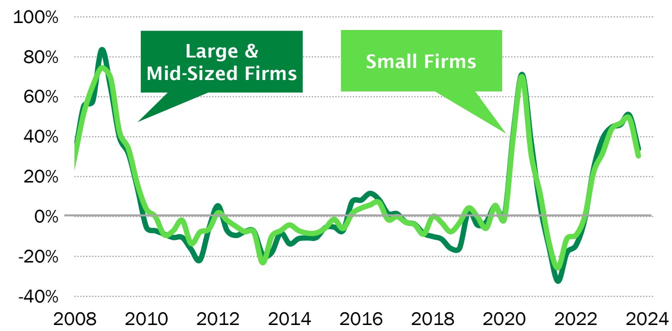
Bank lending standards tighten in Q4



Source: Federal Reserve Senior Loan Officer Survey

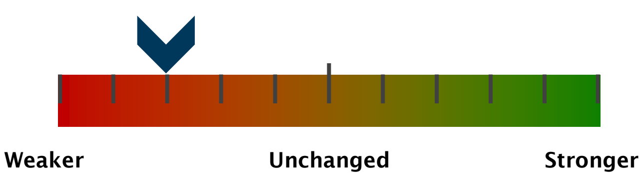
Lenders Continue to Tighten C&I Loan Standards

Percent of Respondents



Source: Federal Reserve Senior Loan Officer Survey

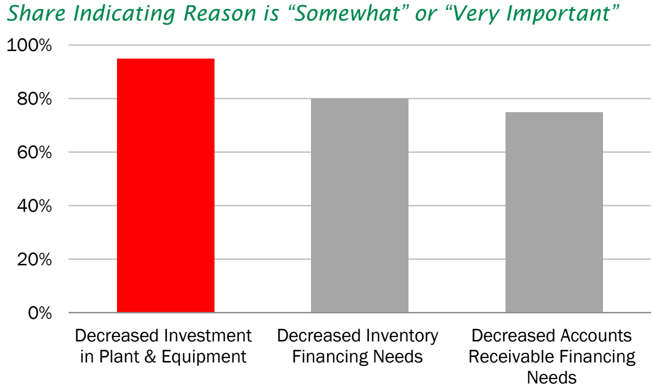
Demand for credit eases in Q4



Source: Federal Reserve Senior Loan Officer Survey

Top Reasons for Weaker C&I Loan Demand

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



Source: Federal Reserve Senior Loan Officer Survey

Credit Demand

Demand for credit weakens in Q4

Demand for business loans weakened in Q4.

- On net, 25% of banks reported weaker C&I loan demand among medium and large firms. Demand also weakened at smaller firms, with a net 22% of banks reporting lower demand. The most frequently cited reason for lower demand was decreased investment in plants and equipment (95%), along with decreased inventory financing (80%) and decreased accounts receivable financing (75%) (see chart).
- Demand for CRE loans weakened again in Q4. A net 47% of banks reported weaker demand for construction and land development loans, while a net 53% 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 47% decline) and conventional mortgages (net 54% decline).
- While the movements were more modest, demand also fell for auto loans (net 17% decline) and credit card loans (net 6% decline).

Fed Policy Corner

Fed stays patient, holds rates steady

In its March 20th meeting, the Federal Open Market Committee (FOMC) held rates steady, signaling the Fed's continued commitment to bringing inflation back to its target rate of two percent. After months of steady declines, progress toward the Fed's 2% inflation target has stalled in 2024, and as a result most Fed voting members now anticipating only one or two rate cuts this year. Referring to 2024 inflation, Chairman Powell commented in early April that "[r]ecent data do not…materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down towards 2 percent on a sometimes-bumpy path" — though this comment was made prior to the March CPI release.

The Fed's decision to hold rates steady reflects two trends:

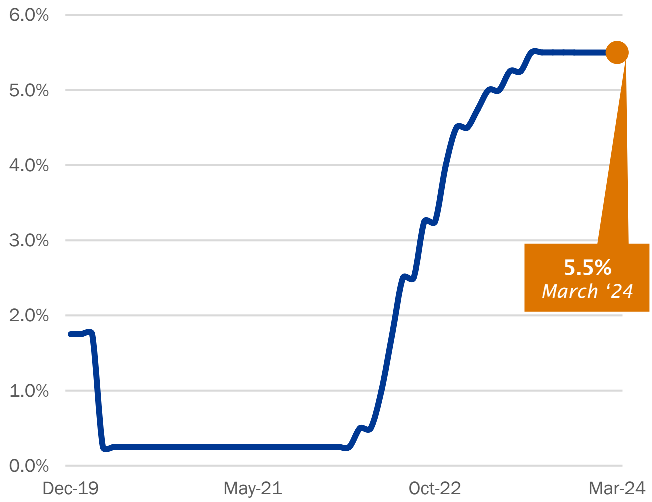
- **Labor Market Conditions Remain Relatively Tight:** Despite expectations of weaker job growth, the labor market continued to show resilience throughout the first quarter. The US economy added 829K jobs during the first quarter of 2024, and both aggregate hours worked and overtime hours both increased. Unemployment has risen slightly but remains below 4%. Labor force participation has risen (in part due to higher immigration levels), and while quit rates have slowed and nominal wage growth has fallen somewhat, these are generally positive signs given overall labor market conditions.
- **Stalled Progress Towards 2% Inflation:** Inflation has significantly decreased in the last year, yet still exceeds the Fed's goal of 2 percent. Core PCE (the Fed's preferred measure) was up 2.8% year-over-year in March. Although this reading is within range of the Fed's target, core PCE has risen at a 3.5% annualized rate over the last three months (see chart) and headline CPI (another important measure of inflation) has risen at a 4.6% annualized rate in Q1 2024. These data could fit with the "gradual, bumpy path downward" described by Chair Powell, but may also suggest that achieved the Fed's 2% target might be more difficult than hoped.

Moving forward, the Fed's approach will likely remain cautious and data-dependent. Despite some predictions of substantial rate reductions in 2024 — as recently as October 2023, the market-implied forecasts was for *six* rate cuts this year — we continue to believe the Fed has little reason to change course without significant improvement or deterioration in key underlying factors, including core PCE (particularly service-sector price growth) and labor market health (as measured by job creation, wage growth, and job turnover, among other factors).

After falling behind the curve two years ago, we believe the Fed will avoid cutting rates prematurely. It is also worth noting that the Fed is highly unlikely to reduce rates after its September meeting until after the election. At present, two rate cuts in 2024 is the most likely outcome.

Fed Funds Rate Unchanged in 2024

Percent



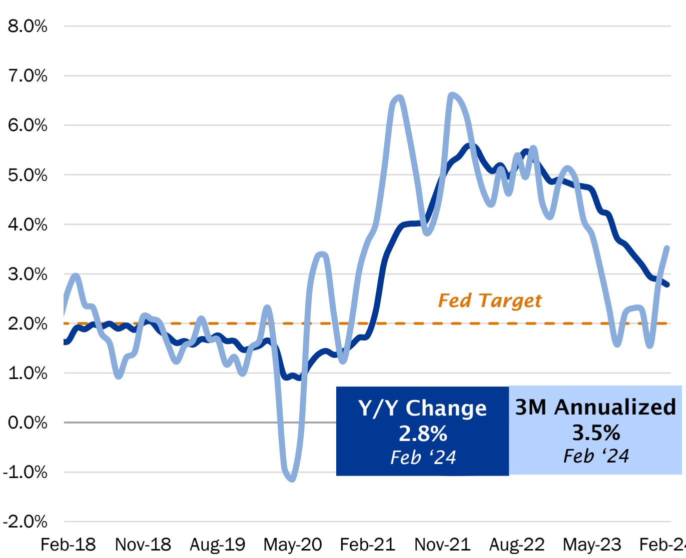
Source: Federal Reserve Bank of New York

"[I]n the absence of a major economic shock, delaying rate cuts by a few months should not have a substantial impact on the real economy in the near term…acting too soon could squander our progress in inflation and risk considerable harm to the economy.

— Christopher Waller, Federal Reserve Board of Governors, 2/22/2024

Core PCE Growth Proves Sticky in Early 2024

NSA



Source: U.S. Bureau of Economic Analysis

Main Street Outlook

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

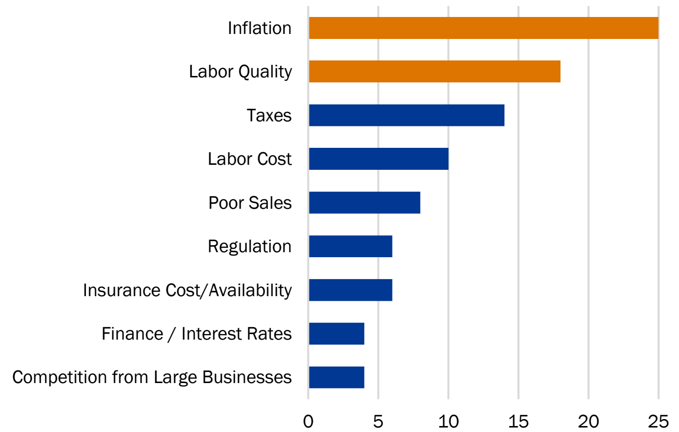
Despite a general consensus that the U.S. economy remains on track for a "soft landing" in which inflation returns to target without triggering a recession, the National Federation of Independent Business (NFIB) continues to report a pessimistic outlook, fueled by concerns of high prices and a shortage of qualified workers (see chart). On a more positive note, NFIB members have become substantially less pessimistic about labor quality this year, which aligns with a recent analysis from the Bank of America Institute that found small business employment has been rising faster than overall payroll growth over the last six months.

While Main Street continues to demonstrate resilience, two potentially worrying trends merit close attention in the months ahead.

- **Will Spending Slow?** In January, nominal retail sales fell 1.1% from December, well below market expectations and the largest monthly drop in nearly a year. Although harsh winter weather likely contributed to the sharp decline, real person consumption was also negative in January, raising concerns of a stalling economy. Fortunately, both retail sales and real personal consumption bounced back in February, with spending on e-commerce and bars and restaurants remaining strong even as other categories soften. Still, real disposable income has been weak for three consecutive months and was negative in February — which could portend a spending slowdown later this year.
- **Is Growth in Consumer Debt Sustainable?** The New York Fed reported a $212 billion increase in household debt in Q4 (+1.2%). Of particular concern is credit card debt, which rose 14.5% year-over-year. Over the last three years, credit card debt has risen by an average of 11% per year, more than three times faster than during 2011–2019. With delinquency rates also rising, consumers may pull back on spending later this year.

Single Most Important Problem

% of Firms Identifying Single Most Important Issue, February



Source: National Federation of Independent Businesses

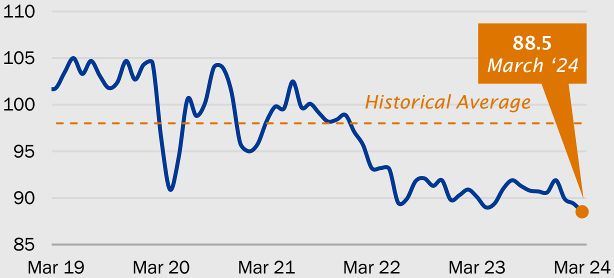
NFIB's confidence index reflects these concerns, dropping to 88.5 in March, the lowest reading since 2012. Inflation has resurfaced as a top concern for small business owners, surpassing labor quality issues (notably, near-term hiring intentions are now at their lowest level since May 2020, which could explain why concerns regarding labor quality have receded). Pessimism is also growing about near-term sales activity: the net share of owners expecting sales to fall over the next three months nearly doubled in March to -18%. This level is similar to readings from last spring, when many business owners believed a recession was imminent.

Perhaps more concerningly for the equipment finance industry, just 20% of owners are planning to make a capital expenditure over the next six months, among the weakest readings of the last five years. This could reflect borrowing costs: per a recent Goldman Sachs survey, only one-third of small business owners said they could afford to take out a loan in light of current interest rates.

Optimism Remains Subdued on Main Street

Small Business Optimism Index

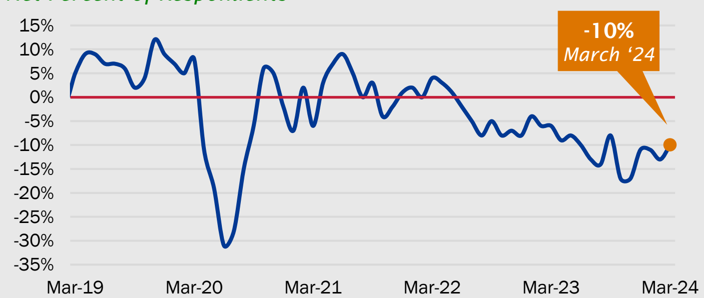
1986 = 100



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

MLFI-25

New business volume trending up

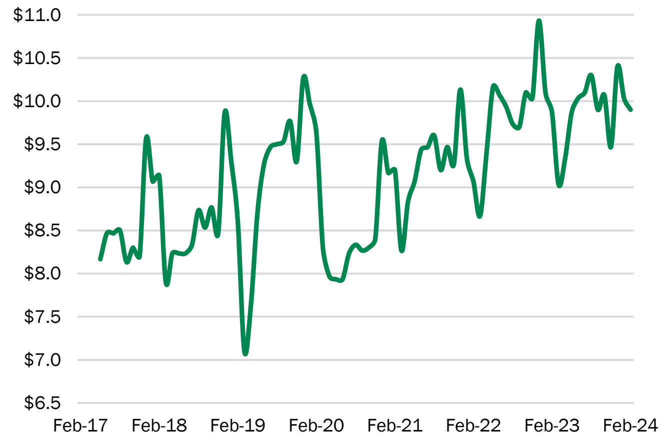
ELFA's Monthly Leasing and Finance Index (MLFI-25) reported new business totaled $7.9 billion in February, up 4% on a Y/Y basis and nearly 5% since the start of the year. The 3-month moving average fell 1.3% compared to January and is essentially unchanged from a year ago (+0.3%).

Equipment leasing and finance volumes took a hit in 2023, as high interest rates and concerns of an economic downturn led some firms to postpone capital expenditure plans. Looking ahead, while borrowing costs remain high, the odds of a recession have fallen considerably, and industry leaders are consequently less pessimistic in their near-term outlook for equipment finance activity.

Portfolio performance improved modestly in February, with 30+ day receivables falling from 2.3% to 2.2%. Although this level is slightly higher than the 1.5%–2.0% range that characterized the three years prior to the recession, both charge-off rates and credit approval rates are in line with historical norms, and credit quality remains solid overall.

MLFI-25 New Business Volume

Billions, 3-month moving average



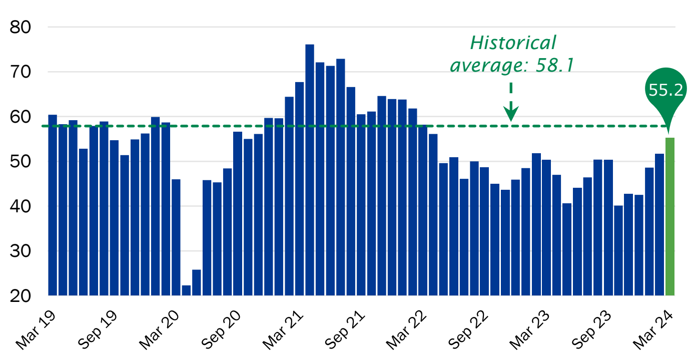
Source: ELFA

"Given continuing high interest rates and inflationary pressures, new business volume performed well in February. Tightening lending standards at banks are expanding opportunities for independents and captives. Credit quality showed improvement, with delinquencies slowly returning to normal levels and charge-offs moving in a positive direction." — **Leigh Lytle, President and CEO, ELFA**

MCI-EFI

Industry confidence improving as recession concerns ease

Monthly Confidence Index – Equipment Finance Industry



Source: ELFF

"Inventories are returning to pre-COVID levels and end users need to replace older equipment they were forced to keep in service. A stabilizing rate environment…could make 2024 a very good year."

— Jim DeFrank, EVP and COO, Isuzu Finance of America, Inc.

In March, the Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI) was 55.2, a solid improvement from February's reading of 51.7 and a considerable rise in sentiment compared to late last year, when the index hovered in the low 40s. The share of executives who expect near-term business conditions for their company to improve nearly doubled to 19%, compared to just 3% who expect conditions to worsen for their business. Other relevant survey findings include:

- 26% of respondents expect demand for leases and loans to fund capex to increase, up from 7% in February. Only 3% of respondents expect demand to weaken, compared to 14% last month.
- Near-term hiring plans fell slightly in March: 19% of executives expect to hire over the next four months (down from 21% in February) while 13% expect to hire fewer employees (up from 7% in February). The modest downshift in hiring plans is consistent with a strong-but-cooling labor market.
- While most respondents (94%) rate the economy as "fair," there is some disagreement about its near-term trajectory: 26% believe it will improve (up from 18%), while 19% believe it will worsen (up from 14%).

Industrial Focus

Growth in shipments and new orders slow

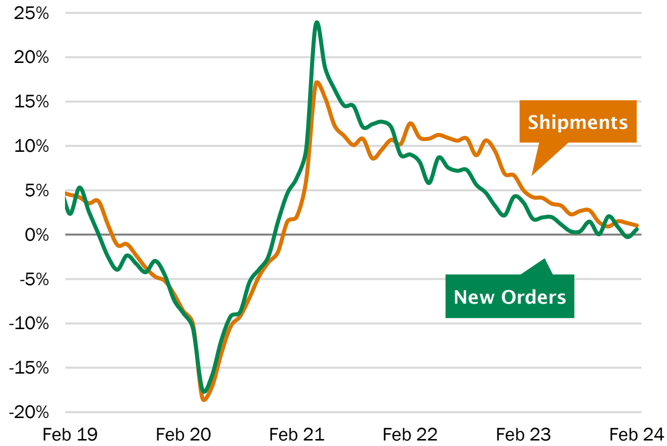
Growth rates for new orders and shipments of core capital goods continue to slow (see chart).

- New orders growth for nondefense capital goods excluding aircraft (a leading indicator of industry performance) grew slightly (+0.6%) in February year-over-year, after a modest contraction in January. A slow start to 2024 suggests that demand for manufactured goods is likely to be subdued during the first half of the year.
- Shipments of nondefense capital goods excluding aircraft (a concurrent indicator of industry performance) shrank slightly from January to February but remains slightly positive (+1.0%) compared to a year ago.

Mediocre readings for both orders and shipments align with subdued industry confidence and soft manufacturing data.

Shipments vs. New Orders of Core Capital Goods

Percent change (Y/Y)



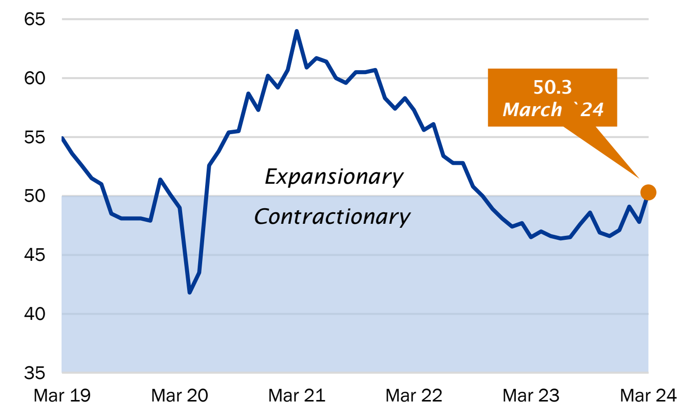
Source: Census Bureau

Motor vehicle IP improves after sharp decline

- The March reading of the ISM Purchasing Managers Index was 50.3, up from February's 47.8 and signaling expansion for the first time since the summer of 2022. The New Orders Index flipped back into expansion while the Production Index jumped 6.2 percentage points.
- Capacity utilization for the manufacturing industry, which has been on a steady downward decline for most of the last year, improved to 77% in February. Capacity utilization for all industries was a somewhat stronger 78.3% in February, though it has also been trending downward for the last 18 months.
- Industrial production for both manufacturing and motor vehicles & parts have normalized following October's auto industry strike. Manufacturing output is 0.6% lower year-over-year in February, while motor vehicle output is up 3.5% year-over-year.

Manufacturing Purchasing Manager's Index

Index, SA



Sources: Institute for Supply Management

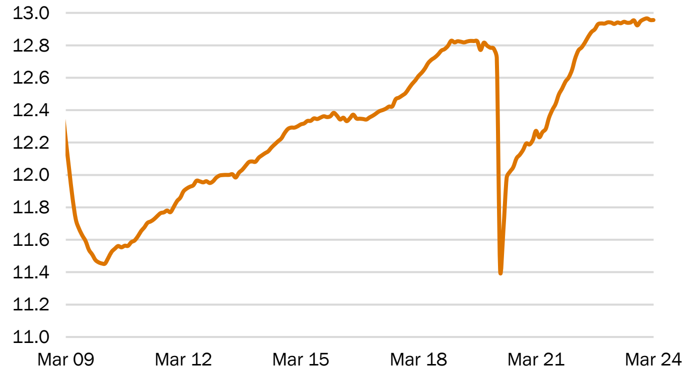
Manufacturing payrolls hold steady

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 March.

- Manufacturing employment fell by 4K during the first quarter, though the motor vehicles & parts subindustry gained 6,500 workers.
- Average weekly hours for manufacturing workers held steady at 40 hours in March. Though this reading represents a slight improvement compared to late 2023, it is near the lowest reading since 2010, excluding the peak pandemic months of 2020.
- The availability of skilled labor remains a top concern across the sector, with the U.S. Chamber of Commerce reporting a shortfall of more than 110,000 workers.

Manufacturing Payroll Employment

Millions, SA



Source: Bureau of Labor Statistics

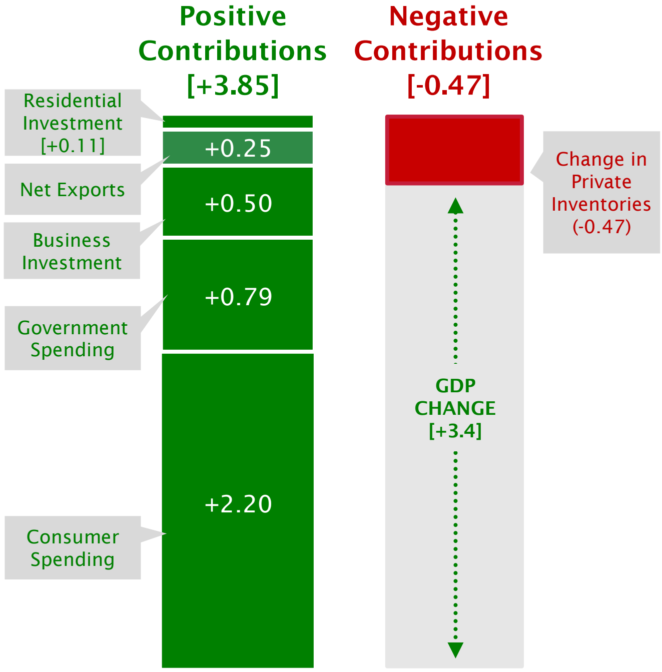
State of the U.S. Economy

U.S. Economy Finishes 2023 On a High Note

The U.S. economy expanded at a 3.4% annualized rate in the fourth quarter of 2023. Growth moderated from the blowout 4.9% annualized growth in Q3 but remains solid. The expansion was led by consumer spending, as well as strong gains in government expenditures and net exports. A reduction in private inventories was a drag on growth.

- **Consumer spending** expanded 3.3% (annualized) in Q4 after similar 3.1% growth in Q3. Growth was similar for durable goods (3.2% annualized) and nondurable goods (2.9% annualized), while services (3.4% annualized) had its best growth since mid-2021.
- **Government spending** grew solidly in Q4 (4.6% annualized). Spending was driven by a 6.0% annualized increase in state and local government spending and a 4.8% annualized increase in nondefense spending.
- **Exports** grew 5.1% annualized in Q4, led by goods. Imports expanded 2.2% annualized, driven by services.
- **Equipment investment** fell 1.1% annualized, the fourth contraction in the last five quarters (and second in a row). Transportation equipment was notably weak, while information processing equipment was positive for the first time since mid-2022. Software investment, by contract, expanded 4.3% annualized.

Contributions to GDP Growth
Q4 2023



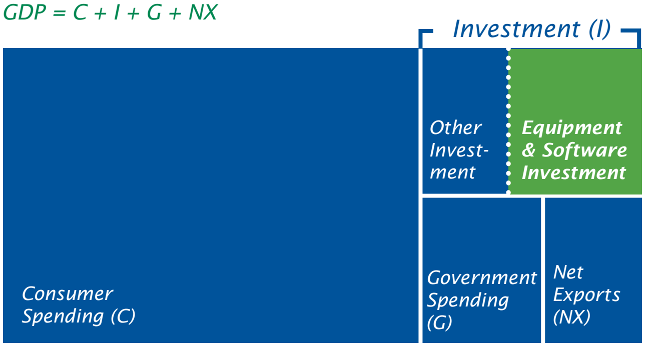
Source: Bureau of Economic Analysis

Fueled by Strong Consumer Demand, a Soft Landing Remains Likeliest Outcome

The U.S. economy continues to hum, with growth driven by consumer and government spending that has more than offset subdued investment activity. Job growth continues to outperform expectations, with more than 3 million new jobs created last year and another 829K created during the first quarter of 2024. Until recently, strong economic growth has been paired with a steady decline in inflation: the headline CPI fell from 6.4% to 3.3% in 2023, while the Core PCE Price Index fell from 4.9% to 2.9% over the same period. Although the equipment finance industry faced recession-like conditions in 2023 (as evidenced by negative equipment investment growth throughout most of the year), the broader economy has proven to be remarkably resilient to prevailing headwinds, and consumer demand, buoyed by a strong labor market, has remained robust.

Looking ahead, the recent uptick in inflation and slowdown in real disposable income growth may translate into weaker real consumer spending later this year, particularly given rising debt levels. Moreover, elevated borrowing costs will continue to present affordability challenges for prospective homebuyers and car owners, and a slowdown in global economic growth prospects may impair business investment and reduce demand for U.S. exports. Still, despite these challenges, we expect the labor market to remain healthy and believe the Fed's resolve to keep inflation in check — even if it means delaying planned rate cuts until later in the year — should produce the desired "soft landing" outcome.

Composition of Gross Domestic Product (GDP)
GDP = C + I + G + NX



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

2024 Growth Forecasts*

*Note: The Bureau of Economic Analysis reports annual GDP growth as the percent change in the average level of quarterly GDP from one year to the next.

Emerging Weakness in New Vehicle Sales?

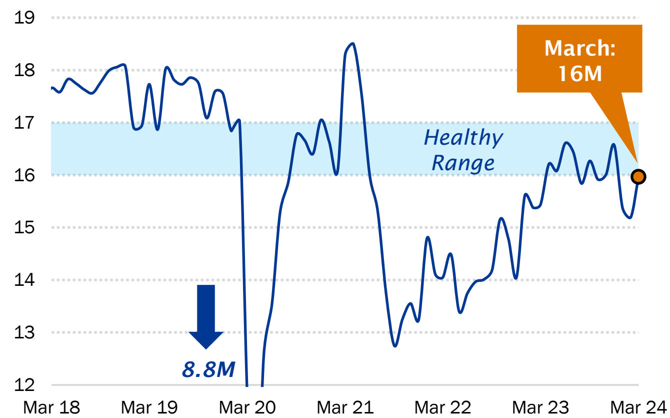
High auto prices appear to be taking their toll on vehicle demand

The auto industry has been subject to unusual turbulence over the last four years. Demand fell sharply in 2020 but recovered quickly until microchip shortages and other supply chain constraints led to supply shortages and production backlogs. Once these challenges were resolved, substantial pent-up demand hit the market, stretching supply and triggering rapid price increases. As of January, the average price for a new vehicle was $47,401, down slightly from late 2022 levels but still 25% above pre-pandemic levels.

Until recently, a hot labor market, rising real wages, and strong demand have kept sales relatively strong in spite of high prices (see chart). Indeed, during the pandemic, dealerships could barely keep up: supply inventories fell below 30 days on lot in 2021, less than half the historical norm.

Consumers are proving to be more cautious thus far this year, however. Vehicle inventories eclipsed 80 days in February 2024, significantly above the industry's sweet spot. While higher production levels are partially responsible for the backlog, reduced demand is also part of the story. With the average monthly payment for a new vehicle approaching $800 and auto insurance premiums 21% above year-ago levels, many consumers are likely delaying a new vehicle purchase until prices and interest rates are more affordable.

Total Vehicle Sales
Millions of vehicles, monthly, SAAR



Source: U.S. Bureau of Economic Analysis

One positive aspect of reduced automobile demand is that it should lead to lower prices. This, in turn, should put downward pressure on inflation, as automobile prices were a significant contributor to the inflation spike in 2021 and 2022. Still, falling demand for new vehicles is another sign that consumer spending appears likely to slow this year.

A Sluggish Global Economy Expected to Drag on U.S. Exports

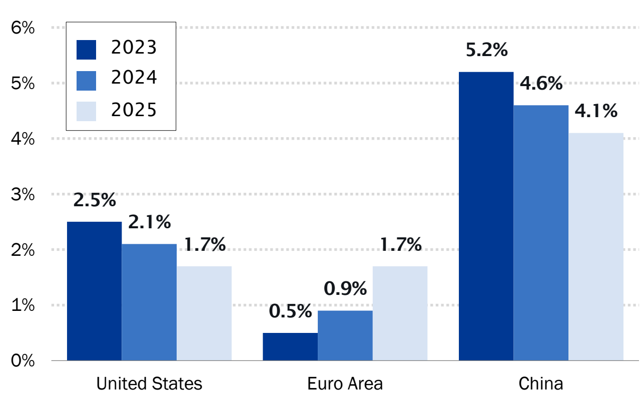
U.S. exports and commodities prices at risk from persistent inflation and sluggish growth

While the U.S. economy has been expanding at a faster-than-expected rate for more than a year, many other economies have struggled. The IMF's global growth forecast for 2024 is 3.1%, which is slightly slower than 2023 and well below the historical average. Challenges are particularly acute in the Eurozone and China:

- Eurozone growth was negative in Q3 and flat in Q4. The region's largest economy (Germany) contracted -0.3% last year and is expected to expand just 0.2% this year, making it the world's worst performing major economy. While other European economies, including Italy, Spain, and Portugal, have fared better, labor productivity has fallen consistently across the region even as wages rise, complicating efforts to tame inflation.
- In China, growth was officially clocked at 5.2% in 2023 (though some independent estimates question this figure), and economists predict a further slowing to 4.6% in 2024 due to the ongoing property crisis and weakening consumption as the population ages. After decades of overbuilding, China's real estate sector crisis is contributing to weaker consumer confidence, manufacturing activity, and domestic demand.

Further complicating matters, the risk of geopolitical conflict is a key X-factor: the Russia-Ukraine and Israel-Palestine wars continue, and the prospect of a broader regional conflict in the Middle East or an escalation of tensions between China and surrounding areas could have significant implications for energy markets and global supply chains.

IMF Growth Projections
Estimated and forecasted GDP growth



Source: IMF World Economic Outlook (January 2024)

Energy Prices Put Downward Pressure on Inflation

Increased U.S. energy production has benefitted U.S. consumers as well as the Fed

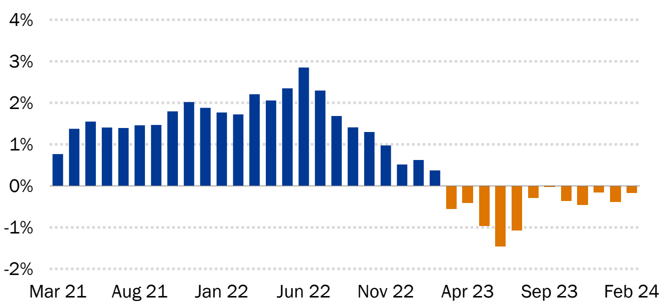
In 2021 and 2022, high energy prices were a significant driver of inflation, and geopolitical factors such as the war in Ukraine and, more recently, the war in Palestine raised concerns that energy prices would soar once again. However, over the last year, energy prices have actually put *downward* pressure on inflation (see chart) due to a combination of record-high U.S. production levels for both oil and natural gas and global anxiety over a potential China economic slowdown.

For example, the Henry Hub spot price for natural gas averaged just $1.42 / MMBtu in February, a record low after adjusting for inflation. As a result, consumers' utility bills were down 9% Y/Y in February and 3.2% Y/Y in March. Crude oil prices dipped below $70 per barrel in late 2023, giving consumers a significant reprieve, and while they have since rebounded to around $90 per barrel in early April, prices may soon fall given softening global demand projections. Lower oil prices allow U.S. consumers to redirect spending to other areas of the economy, helping to drive growth.

Looking ahead, the U.S. Energy Information Administration expects oil and natural gas prices to rise modestly through Q2 before gradually declining through year-end. Additionally, as the world's largest oil importer, the likely continued softening of China's economy could rein in prices even more than currently forecasted.

Impact of Energy Prices on Headline CPI

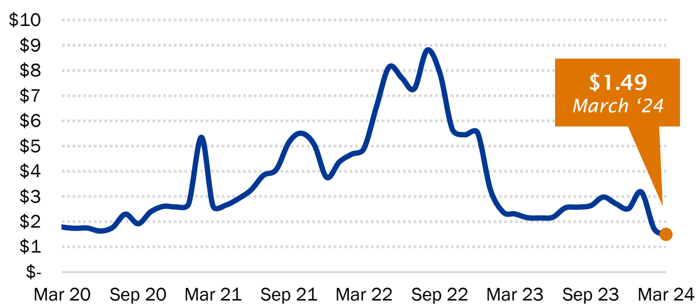
Energy price index impact on CPI growth (SA)



Source: US Bureau of Labor Statistics, Keybridge analysis

Natural Gas Spot Price

Dollars per million BTU, monthly (NSA)



Source: U.S. Energy Information Administration

Robust Job Growth Continues to Fuel U.S. Consumers

The labor market remains strong, but early signs of cooling are also positive.

The labor market remains the U.S. economy's strongest tailwind, with robust job growth continuing in Q1 and wage growth continuing to outpace inflation. Over the last three months, job growth has been particularly strong in health services (+197K), local government (+122K), and leisure and hospitality (+89K), but the construction industry also experienced unusually strong growth (+91K). Strong demand for labor is also keeping wage growth well above inflation: over the last year, nominal wages have risen 4.1% overall.

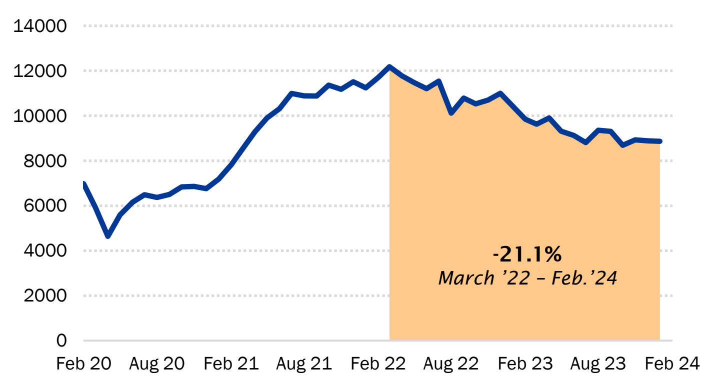
At the same time, the labor market appears to be at lower risk of overheating, which is a positive sign for containing inflation. For example, in addition to slower wage growth:

- **Job openings**, while still elevated, have come down significantly since peaking in early 2022 (see chart).
- The **quit rate** fell to its lowest reading since 2020, indicating that employees are less inclined to seek greener pastures (and higher wages).
- The **leisure and hospitality** sector has normalized after a period of rapid growth.

Looking ahead, we expect the labor market to cool gradually but remain healthy over the course of the year. On balance, slower job growth would be preferable for the economy than the 275K/month average experienced thus far in 2024 to reduce the risk of a resurgence of inflation.

Total Nonfarm Job Openings

Thousands, monthly, seasonally adjusted



Source: Bureau of Labor Statistics

Are Consumers On the Verge of a Spending Slowdown?

Personal consumption remains strong but is outpacing real disposable income growth

Despite a variety of headwinds over the last four years, including tangled supply chains, decades-high inflation, and rapidly rising interest rates, consumer demand has powered U.S. the economic recovery forward. Spurred by strong and resilient labor demand — employers have added nearly 250,000 jobs per month over the last six months, while the unemployment rate remained below 4% for more than two years — consumers have continued to spend robustly on goods and services even as pandemic-era excess savings have dissipated.

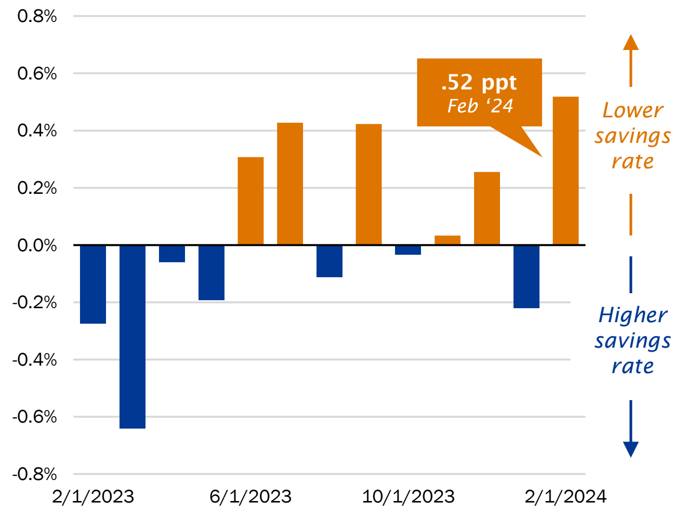
However, with consumer debt levels (particularly credit card and auto loan debt) above pre-recession levels and rising quickly, a key question facing the economy is whether consumers can maintain current spending levels. There are several factors influencing the answering to this question:

- **Spending Growth vs. Income Growth:** Real personal consumption expenditures have outpaced real disposable income growth for six out of the last nine months (see top chart). While real disposable income is still greater than expenditures, the gap between the two is shrinking, resulting in the personal savings rate falling to 3.6% as of February, roughly half the long-term average of 7%.
- **Revolving Debt:** Credit card balances rose $50 billion in Q4 2023 and ended the year at $1.13 trillion. Unlike mortgage debt (much of which is locked in at record low interest rates), credit card balances are subject to variable rates, which have climbed from an average of 15.1% in 2019 to 21.6% as of February. While higher interest rates make credit card borrowing more expensive, this hasn't slowed down consumers: outstanding revolving credit expanded 8.8% in 2023 and has risen at a similar rate thus far in 2024.
- **Student Loans**: Although the pause on student loan repayments is now over, borrowers can still miss monthly payments until September 2024 without penalty (though missed payments may incur additional interest). Roughly 40% of borrowers missed their first payment last fall, and while this figure is likely lower today, it suggests that the repayment "on-ramp" may be delaying the full impact of repayment on other forms of spending.
- **Financial Stress:** Delinquency rates continue to rise for both credit card and auto loans, and both rates are now above pre-pandemic levels. At the same time, the share of U.S. households reporting difficulty paying usual expenses has fallen from 41% in October to 36% in February, the lowest reading in nearly two years.

Looking ahead, an eventual slowdown in spending appears inevitable given historical trends. At the same time, strong job and wage growth in Q1 may well result in a gradual decline over several quarters rather than a sharp drop-off — particularly if inflation drifts downward.

Spending Growth Exceeds Income Growth

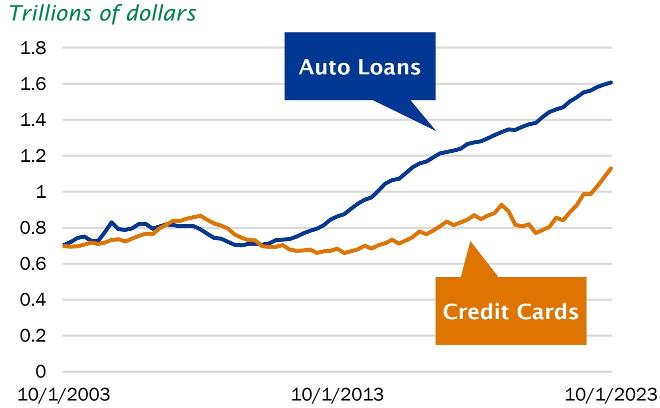
Percentage point difference in M/M growth



Source: BEA, Income and Personal Outlays

Total Debt Balance Rising Faster Post-Pandemic

Trillions of dollars



Source: New York Fed Consumer Credit Panel/Equifax

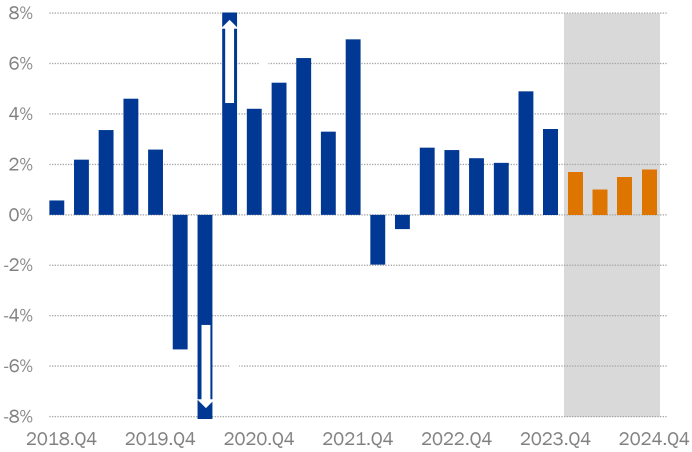
Difficulty Paying Usual Household Expenses

Percent of households, generated twice monthly

Source: U.S. Census — Household Pulse Survey

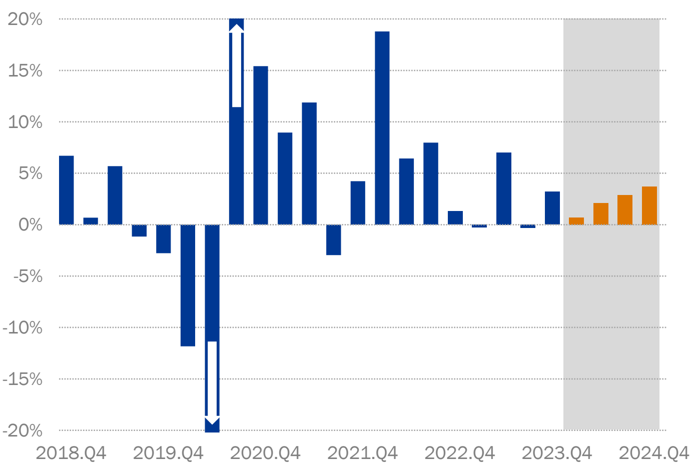
APPENDIX A | KEYBRIDGE FORECASTS

Real GDP Growth (% SAAR)



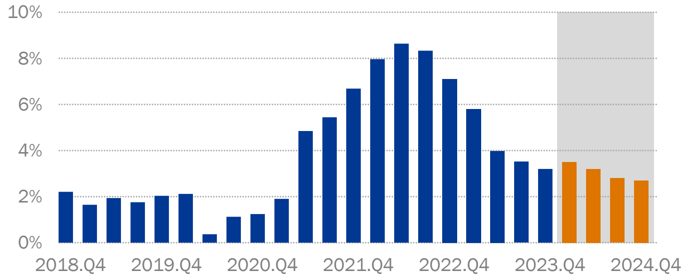
Source: Bureau of Economic Analysis; Keybridge LLC

Real E&S Investment Growth (% SAAR)



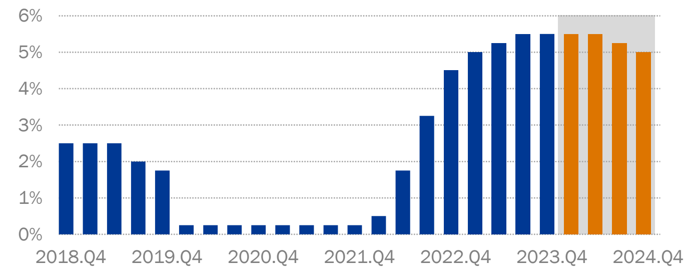
Source: Bureau of Economic Analysis; Keybridge LLC

CPI Inflation (year-on-year %)



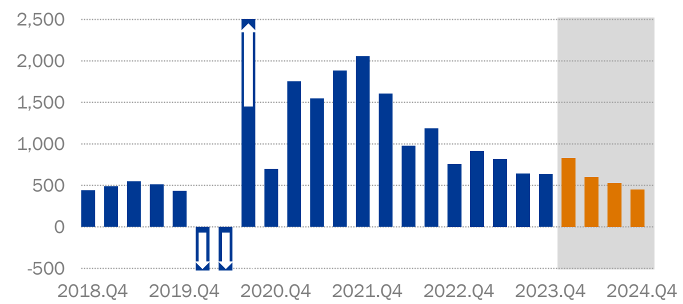
Source: Bureau of Labor Statistics; Keybridge LLC

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
			Q1e	Q2e	Q3e	Q4e	
Real GDP* *(SAAR)*	*1.9%*	**2.5%**	1.7%	1.0%	1.5%	1.8%	**2.3%**
Real Investment in Equipment & Software *(SAAR)*	*7.9%*	**3.0%**	0.7%	2.1%	2.9%	3.7%	**2.2%**
Inflation *(Headline CPI, Y/Y %, end of period)*	*8.0%*	**4.1%**	3.5%	3.2%	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**	829	600	525	450	**2,404**

*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.