



EQUIPMENT LEASING & FINANCE

FOUNDATION

Your Eye on the Future

2024

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

Q4

EQUIPMENT LEASING & FINANCE ECONOMIC OUTLOOK

October 2024



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Key Trends to Monitor

Labor
Market



Inflation /
Interest Rates



Political
Environment



EXECUTIVE SUMMARY

Equipment and Software Investment: After three consecutive weak quarters, investment bounced back in Q2, expanding by a solid 7% annualized rate. Aircraft investment was primarily responsible for the improvement, along with information processing equipment. Industrial equipment contracted modestly.

Momentum Monitor: Growth in the second quarter was positive in six verticals, with Aircraft leading the way followed by Computers, Railroad Equipment, and Trucks. Contracting verticals include Ships & Boats and Agriculture. Overall, near-term investment growth is expected to be modest but should improve in 2025.

Manufacturing: The manufacturing sector continues to struggle. Shipments and new orders of core capital goods are sluggish, industrial production is soft, the ISM Purchasing Managers Index for Manufacturing has contracted for 22 out of the last 23 months, and manufacturing employment has fallen by 50,000 workers in 2024 (including 34,000 in the last two months).

Small Businesses: Business conditions are generally favorable, but recent shifts in the labor market, rising geopolitical tension, and the 2024 election have led to a rapid rise in uncertainty and prompted small business owners to adopt a more cautious posture. This may depress investment activity in the near term, but if inflation remains in check and the Fed gradually cuts rates as expected, activity should pick up again in early 2025.

Fed Policy: The Fed is characterizing its decision to cut rates by 50 bps rather than 25 bps as a “recalibration” rather than an emergency reaction to a weakening labor market. The Fed maintains that rate cuts are not intrinsically linked to a looming recession, but rather that a controlled easing of monetary policy, if properly timed and calibrated, can help keep the economy on track.

U.S. Economy: The U.S. economy continues to expand at a solid clip. Growth in the second quarter was stronger than expected, and investment in equipment and software was particularly strong. However, softer-than-anticipated job growth and rising unemployment over the summer raised questions about the long-term sustainability of the current economic expansion. Still: layoffs remain low by historical standards, real wage growth is healthy, inflation is modestly elevated but largely contained, and the prospect for additional rate cuts later this year and next year should provide a boost to both hiring and investment. Whoever prevails in the Presidential election will inherit an economy that is poised for growth in 2025.

2024 ELFF Projections

2.7%

GDP Growth*

*see explanation on p. 12

4.4%

Equip. & Software
Investment Growth

2.6%

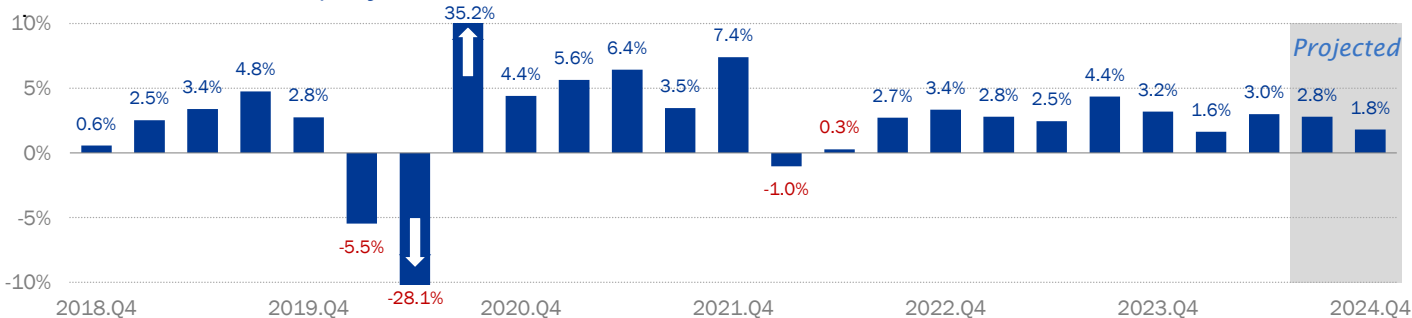
Headline CPI*

*end-of-year forecast

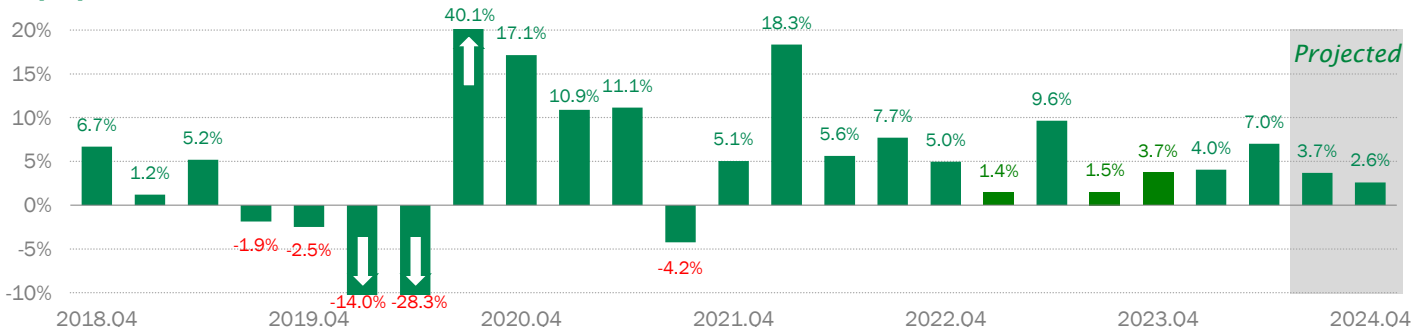
-25bp

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

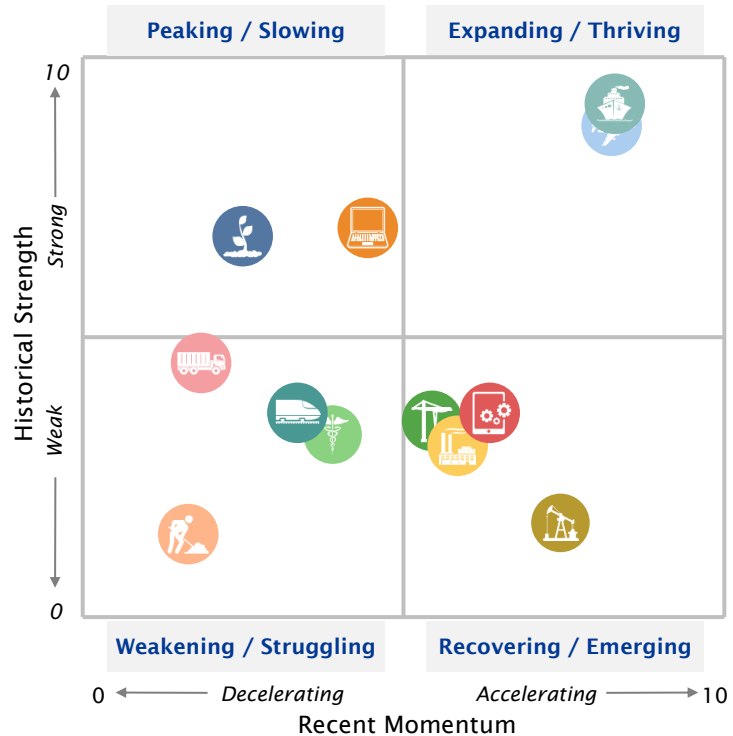
E&S investment posts strong growth in Q2

Equipment and software investment expanded 7% in Q2 (annualized). Growth was positive in six of 12 verticals, with Aircraft leading the way (626% Q/Q annualized) after contracting in Q1. Other verticals experiencing notable Q/Q annualized growth include Computers (20%), Railroad Equipment (14%), and Trucks (5%). Verticals that experienced negative investment include Ships & Boats (-17%) and Agriculture (-14%).

As summarized in the October Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor, the near-term outlook has softened. Rising uncertainty around geopolitical conflict, recent labor market fluctuations, and the 2024 election appear likely to delay many businesses' investment plans until next year. Medical Equipment, Railroad Equipment, Trucks, and Construction Machinery all show signs of weakening in the near term. Meanwhile, Aircraft and Ships & Boats appear poised for growth. Of the 12 tracked verticals, six have seen recent momentum accelerate, while six have readings above their historical average.









Overall, equipment and software investment growth is expected to remain positive but subdued in late 2024 but should improve in 2025 as uncertainty eases and investment plans resume.

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		Q2 Investment Growth		Next 6 Months	Short-Term Outlook
		Q/Q (annualized)	Y/Y		
Ships & Boats		-17%	-18.5%		Annualized investment in Ships & Boats has contracted for five consecutive quarters, but momentum has been improving steadily since the spring. This suggests that investment growth may have bottomed out and should improve over the next two quarters.
Materials Handling		-4.1%	+2.1		Although the Materials Handling Momentum Index is still below its long-term average, it has improved in recent months. Investment was weak in Q1 and Q2 and will likely remain sluggish for the rest of the year, but there are encouraging signs for 2025.
Other Industrial		-4.1%	-0.3%		Momentum for Other Industrial Equipment declined steadily after peaking in late 2021 but appears to have bottomed out this spring. Investment activity may not pick up until early next year, however.
Construction Machinery		-3.9%	-0.1%		The Construction Momentum Index has fallen more than 10 points since February and is now in the bottom 15% of its historical range, suggesting that a near-term investment turnaround is unlikely.

Credit Supply

Lending standards tighten in Q3

Business lending standards tightened in Q3 2024.

- Lending standards for Commercial and Industrial (C&I) loans tightened modestly in Q3. A net 8% of banks reported tighter standards for C&I loans to both small, middle, and large-market firms.
- Commercial real estate (CRE) lending conditions tightened moderately in Q3. A net 24% of banks reported tighter standards for construction and land development loans, while a net 21% reported tighter standards for loans secured by nonfarm nonresidential properties.

Lending standards also tightened for consumer credit.

- As revolving credit outstanding continues to rise, credit card issuers are becoming more cautious about extending credit to subprime borrowers. A net 20% of banks tightened approval standards for credit cards in Q3 while a net 29% lowered credit limits.
- As consumers pull back on vehicle purchases, bank lending standards for consumer auto loans remained unchanged in Q3.
- Mortgage standards loosened modestly in Q3, including a net 4% of banks that loosened standards for jumbo mortgages.

Demand for credit mostly unchanged in Q3

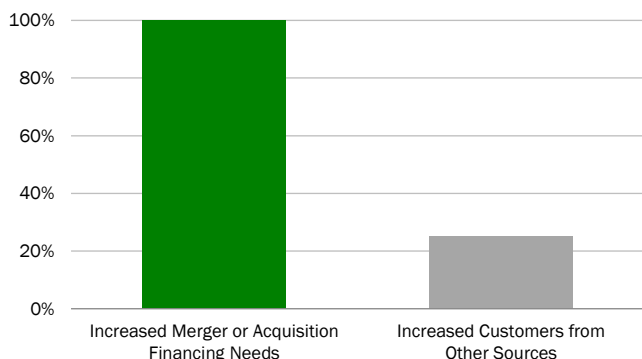


Weaker Unchanged Stronger

Source: Federal Reserve Senior Loan Officer Survey

Top Reasons for Stronger C&I Loan Demand

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



Source: Federal Reserve Senior Loan Officer Survey

Bank lending tightens marginally in Q3



Tighter Unchanged Looser

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

Credit Demand

Demand for credit holds steady in Q3

Demand for business loans was mostly unchanged in Q3.

- On net, banks reported unchanged C&I loan demand among all firms in Q3, regardless of size. Banks also reported unchanged inquiries from potential borrowers regarding new credit lines or increases to existing lines. Among banks that experienced stronger demand, increased merger or acquisition financing needs was the most frequently cited factor (*see chart*).
- Demand for CRE loans weakened again in Q3. A net 16% of banks reported weaker demand for construction and land development loans, while a net 19% reported weaker demand for loans secured by nonfarm nonresidential properties.

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

- Demand fell for both jumbo mortgages (net 7% decline) and subprime mortgages (net 15% decline).
- Demand fell for auto loans (net 10% decline) but rose slightly for credit card loans (net 2% increase).

Fed Policy Corner

Fed cuts, enters new phase of recalibration

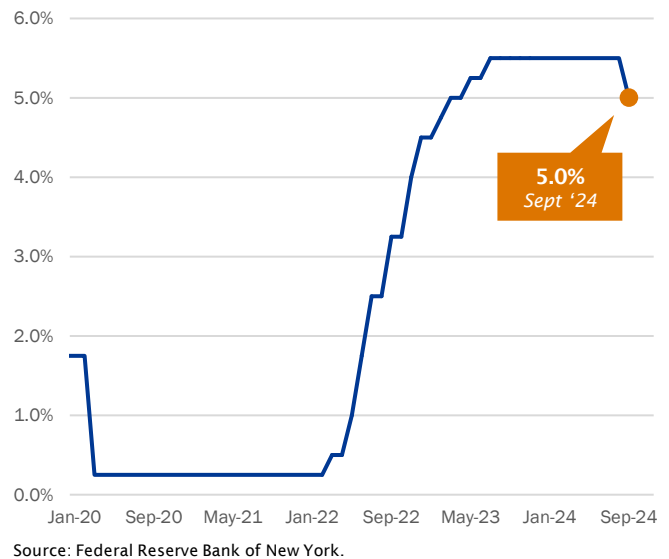
In September, the Fed cut interest rates by 50 basis points, the first rate cut since 2020. In his public comments, Chair Powell repeatedly referred to the Fed's decision to cut rates as a "recalibration" and emphasized that its decision to cut by a more aggressive 50 bps rather than 25 bps should not be viewed as an emergency reaction. Powell's choice of language was no doubt intentional, as the word "recalibrate" is meant to suggest that rate cuts aren't intrinsically linked to a looming recession, but rather that a controlled easing of monetary policy, if properly timed and calibrated, can help keep the economy on track.

- Why the Fed cut:** After opting to hold rates steady during its previous meeting in late July, the Federal Open Market Committee received two consecutive months of sluggish job growth while core inflation continued to fall. As such, the balance of risk shifted from "keep inflation in check" to "prevent the labor market from turning south," and a rate cut in September became a foregone conclusion. The key question was not whether the Fed would cut, but how large the cut would be.

Its decision to be more aggressive underscores its concerns about the potential for further labor market slippage. It could be also viewed as a way of unwinding its July decision to keep rates steady (which it likely would not have done had the meeting occurred a week later, when July employment data was available). With job growth picking up significantly in September, the Fed may take a more cautious position moving forward. We expect one more rate cut of 25 basis points this year.

- What effect will the cut have:** Monetary policy typically affects the economy at a significant lag, and as such the September rate cut, as well as any additional rate cuts that occur later this year, are unlikely to make a major difference to the economy until 2025. Still, the Federal Funds Rate serves as the starting point for other interest rates in the economy, including credit cards, auto loans, and mortgages. Consumers will benefit from lower borrowing costs and may respond by being more willing to spend during the upcoming holiday season. Mortgage refinancing surged following the news, as homeowners who missed out on the opportunity to lock in a sub-3.5% mortgage in 2020 and 2021 jumped at the chance to reduce their housing costs, and future rate cuts are likely to trigger more refinancing activity (which, in turn, should boost consumer spending). Business borrowers will also benefit from lower rates, though many businesses appear to be in "wait and see" mode amid heightened political and economic uncertainty and thus may not pursue additional capital expenditures until after the election outcome is known. For the equipment finance industry, lower rates should lead to increased demand for equipment and stronger investment growth.

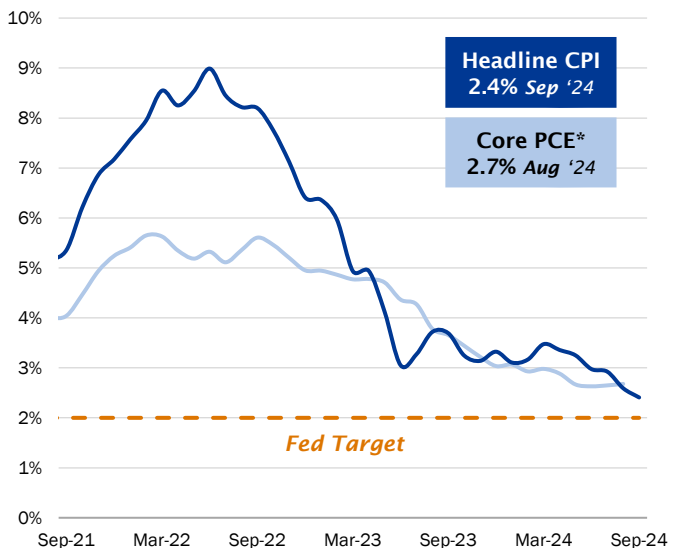
"Jumbo" Cut to Fed Funds Rate in September Federal Funds Rate, Upper Range Value



"We are committed to maintaining our economy's strength. This decision reflects our growing confidence that with an appropriate recalibration of our policy stance, strength in the labor market can be maintained."

— Jerome Powell, Chair of the Federal Reserve Board of Governors, 9/18/2024

Inflation Moderates Closer to Fed Goal of 2% Y/Y Percent Change



*Note: Core PCE is the Fed's preferred inflation measure and the basis of its 2% target.

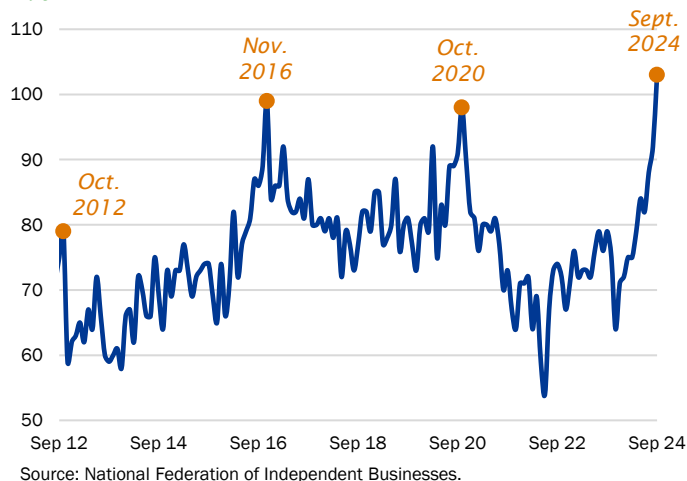
Main Street Outlook

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

Business conditions are generally favorable, but recent shifts in the labor market, rising geopolitical tension, and the 2024 election have led to a rapid rise in uncertainty and prompted small business owners to adopt a more cautious posture. This may depress investment activity in the near term, but if inflation remains in check and the Fed gradually cuts rates as expected, activity should pick up again in early 2025. Small business owners agree, with 84% reporting that 2025 will be better for businesses according to Entrepreneur's Small Business Owner Survey.

- Economic uncertainty rises.** The NFIB's Small Business Uncertainty Index reached an all-time high in September, rising above previous election cycle peaks in 2016 and 2020 (see top-right chart). While the Fed's progress on inflation has eased concerns over prices at least to some extent, inflation remains the top concern among small business owners. Meanwhile, labor market worries and election anxiety have put small business owners in a particularly cautious mood. Small business uncertainty always rises in an election year, but this year's ascent has been particularly sharp, and earlier than usual. PNC's September survey of small and middle-market business owners agrees: 68% of business owners are concerned about the risk U.S. political uncertainty poses to their businesses, up from 45% six months ago.
- With uncertainty at all-time highs, the near-term investment outlook is murky.** In September, the NFIB reported that just 51% of small business owners had made a capital expenditures during the previous six months while just 19% are planning a capital expenditure during the next 3-6 months — both tied for the readings since 2020 (see bottom-right chart). However, in a survey conducted a month earlier, PNC reported that 29% of small and mid-sized business owners intend to seek a new loan or line of credit in the next six months, representing a significant improvement from the spring. More than three-quarters were highly optimistic about the prospects of their own business.

NFIB Uncertainty Index Reaches All-Time High

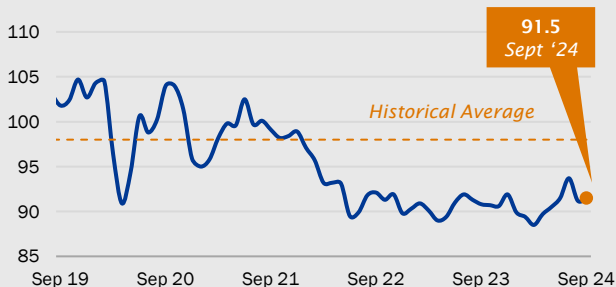


- Consumer spending fears ease.** In the last week of September, the Bureau of Economic Analysis (BEA) released its annual GDP revision, which can affect national data going back several years. The latest revision included a sharp increase in the personal savings rate, which was believed to be around 3% (near an all-time low) but is now known to be nearly 5% (roughly equivalent to the 20-year average). As such, the relatively strong consumer spending data from Q2 and Q3 are more in line with disposable income growth than previously thought. A modest or moderate slowdown in consumer spending still appears to be likely over the next six months, but the data revisions support the view that, although financial stress continues to build for some consumers, the majority of U.S. households remain in relatively good shape financially.

Main Street Optimism Ticks Up, but Expectations Remain Subdued

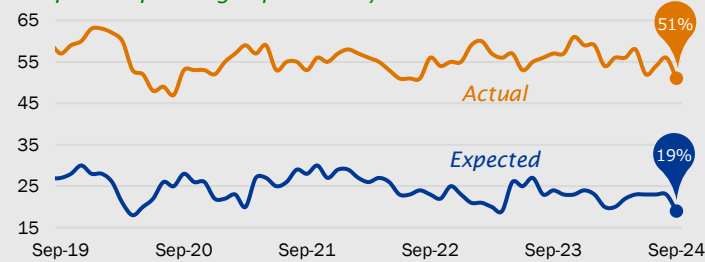
Small Business Optimism Index

1986 = 100



Actual and Expected Capital Outlays Fall in September

Percent of small businesses with actual capex in last 6 months, and percent planning capital outlays in next 6 months



MLFI-25

New business up 3.5% year-to-date

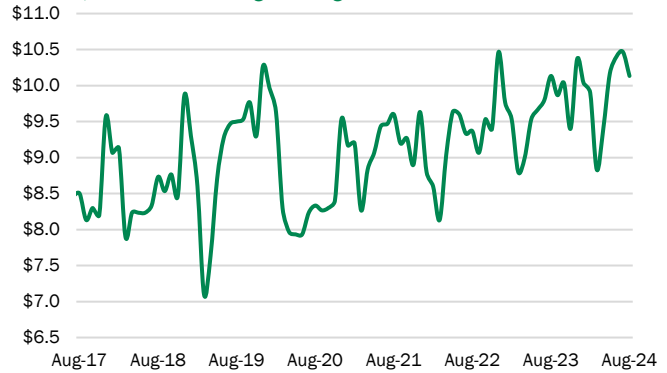
ELFA's [Monthly Leasing and Finance Index](#) (MLFI-25) reported new business volume (NBV) totaled \$9.2 billion in August, down 10% on a Y/Y basis. The 3-month moving average was flat compared to a year ago and down 3.2% month-over-month. Year-to-date, NBV was up 3.5% compared to 2023.

Portfolio performance improved slightly but remains slightly weaker compared to a year ago. Receivables over 30 days eased from 2.5% to 2.2% in August, and charge-offs remained ease from 0.5% to 0.4%. Credit approvals held steady at 76%.

Elevated interest rates continue to put pressure on the lending market and constrain equipment finance activity. However, lower interest rates could stimulate investment among equipment end-users and provide a boost to new business volume in 2025.

MLFI-25 New Business Volume

Billions, 3-month moving average



Source: ELFA

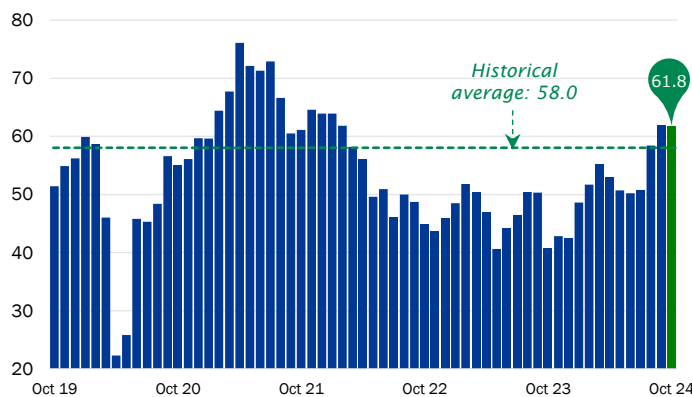
"The Fed's decision to begin lowering interest rates will support demand for equipment, even if some businesses wait for rates to fall further before investing. That wait-and-see approach showed up in our August MLFI as new business volumes declined...[and] this sentiment was also reflected in our Foundation's recent Monthly Confidence Index, which showed that equipment finance executives are very optimistic about their organizations' prospects over the next four months. Credit conditions remain healthy, which will allow lessors and financiers to service new demand when it shows up later this year."

— Leigh Lytle, President and CEO, ELFA

MCI-EFI

Industry confidence hits highest point in two years

Monthly Confidence Index – Equipment Finance Industry



Source: ELFF

"Lower interest rates will ignite capex for smaller companies that have been on the sidelines for a few years and need to add or replace equipment for growth. Getting past the election should provide some clarity on the economic direction of the U.S. [so that] more capex investments can be made."

— Jeffry Elliott, CLFP, President, Huntington Equipment Finance

In October, the [Monthly Confidence Index for the Equipment Finance Industry](#) (MCI-EFI) held steady at 61.8, the third month of readings above the historical average and the second highest reading since early 2022. Relevant survey findings include:

- Almost all respondents (93%) rate the economy as "fair," down from 96% last month.
- 38% of executives expect near-term business conditions to improve (down from 40%), while 52% believe business conditions will remain the same.
- More respondents expect demand for leases and loans to fund capex to increase (45%, up from 44%), while 41% half expect demand to remain the same, down from 52%.
- 38% of respondents believe that U.S. economic conditions will improve over the next six months, down from 40%. A little over half of respondents (52%, unchanged from September) believe the economic will "stay the same", while 14% believe economic conditions will worsen, up from 8%.

Industrial Focus

Slight dip in shipments and new orders

Growth in new orders and shipments of core capital goods have dipped below zero in recent months (*see chart*).

- New orders growth for nondefense capital goods excluding aircraft (a leading indicator of industry performance) was roughly flat in August, down 0.1% year-over-year, after moderate growth in July (+0.6%). Weaker readings indicate demand for manufactured goods is likely to be subdued in Q4.
- Shipments of nondefense capital goods excluding aircraft (a concurrent indicator of industry performance) was down for the fourth consecutive month in August, decreasing 0.8% year-over-year.

Weak readings for both new orders and shipments of capital goods align with broad weakness in the manufacturing sector and suggest that a near-term improvement in activity is unlikely.

Manufacturing IP down in September

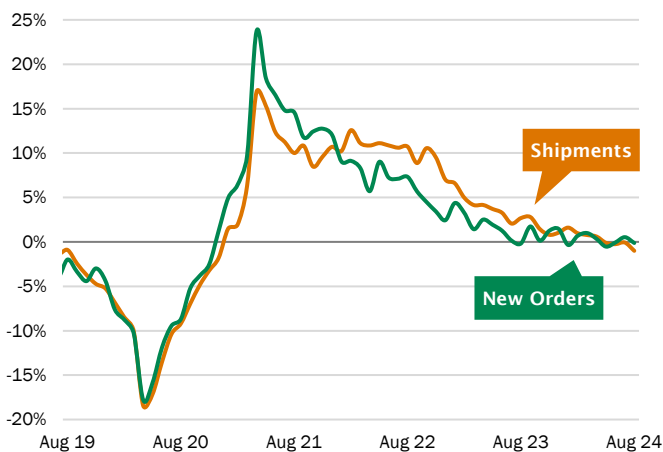
- Disruptions from strikes and the effects of hurricanes weighed down the manufacturing sector in September. Industrial production for manufacturing ticked down 0.4%. Manufacturing output also decreased 0.4% in September and was down 0.5% year-over-year.
- The September reading of the ISM Purchasing Managers Index for Manufacturing was 47.2, unchanged from August. This was the fifth consecutive month of ISM readings in contractionary territory (i.e., below 50) and the 22nd month of contraction in the last 23 months.
- Capacity utilization in the manufacturing industry fell by 0.4 percentage point to 76.7 in September and is now 1.6 percentage points below the long run average. Capacity utilization for all industries was 77.5 in September.

Manufacturing payrolls continue to slide

Manufacturing employment remains well above pre-pandemic levels, but the sector has lost momentum in recent months. Since the beginning of the year, nearly 50,000 manufacturing jobs have been lost.

- In September, manufacturing payrolls fell by 7,000, following an even sharper 27,000 job decline in August.
- Average hourly earnings for manufacturing workers increased to \$34.49/hour in September. Manufacturing wages expanded at around 5% Y/Y, suggesting that while manufacturing jobs are no longer expanding, pay raises remain healthy.
- Overtime hours in the manufacturing sector, which can be an indicator of payroll slowdowns, have remained flat on an annual basis.

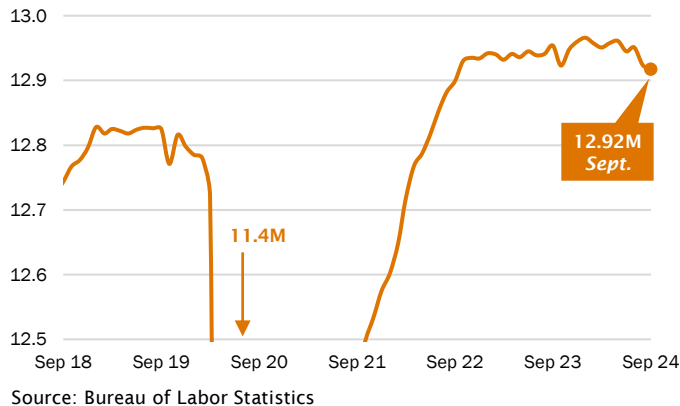
Shipments vs. New Orders of Core Capital Goods Percent change (Y/Y), SA



Total Manufacturing Industrial Production Index, SA



Manufacturing Payroll Employment Millions, SA



State of the U.S. Economy

U.S. economy surprises on the upside in Q2

The U.S. economy expanded at a 3.0% annualized rate in the second quarter of 2024, a significant uptick from the 1.6% growth of Q1. Growth was broad-based, with consumer spending, inventories, business investment, and government spending driving the expansion. Residential investment and trade were net drags.

- **Consumer spending** expanded 2.8% (annualized) in Q2. Spending on services cooled slightly to 2.7% in Q2, down from 3.4% in Q1. The gap was more than offset by a 3.0% annualized increase in goods spending, up from -1.2% in Q1. Durable goods drove the improvement.
- **Government spending** picked back up in Q2 (3.1% annualized), largely due to strong growth in defense spending. State and local spending slowed to 2.3% annualized, the lowest reading in two years.
- **Equipment investment** rose a strong 9.8% (annualized) after three consecutive quarters of sluggishness. Investment in aircraft was primarily responsible for the improvement, along with information processing equipment. Industrial equipment contracted modestly.

Looking ahead to Q3, most forecasters are expecting another strong reading, with point estimates ranging from 2.5% - 3.2%. The advance estimate will be released on October 30th.

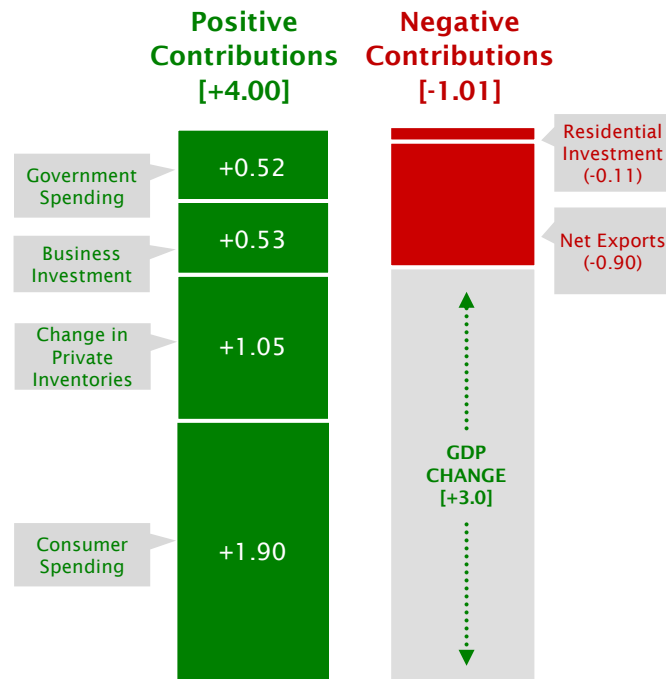
Economic growth better-than-expected, but labor market weakness sparks anxiety

The U.S. economy continues to expand at a solid clip. Growth in the second quarter was stronger than expected, and investment in equipment and software was particularly strong. Inflation is still modestly higher than the Fed's long-term target, but the Fed's preferred inflation measure has hovered between 2.6% - 2.7% for the last four months — enough progress for the Fed to cut interest rates by 50 bps in September. Consumer spending remains resilient, and recent BEA data revisions suggest that both personal income and the personal savings rate are higher than originally estimated, easing fears of a consumer retrenchment later this year or next year.

On the negative side, softer-than-anticipated job growth and rising unemployment over the summer raised questions about the long-term sustainability of the current economic expansion. Many employers are paring back near-term hiring plans, and uncertainty surrounding geopolitical developments and the direction of U.S. economic policy have led many businesses to adopt a "wait and see" approach.

Still: layoffs remain low by historical standards and real wage growth is healthy, inflation is modestly elevated but largely contained, and the prospect for additional rate cuts later this year and next year should provide a boost to hiring and investment. Whoever prevails in the Presidential election will inherit an economy that is poised for growth in 2025.

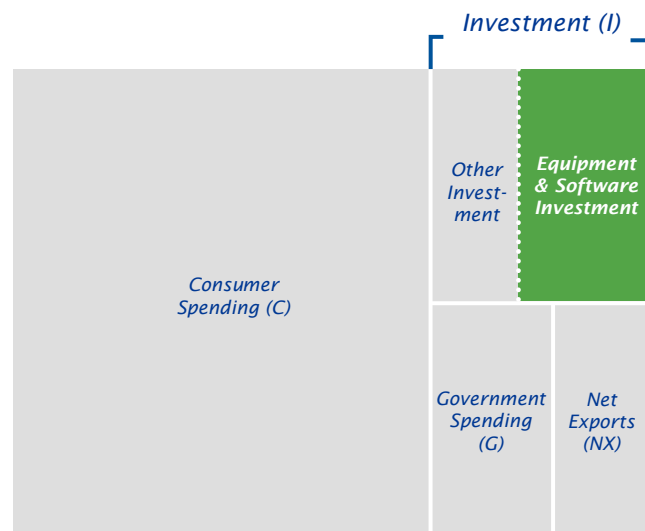
Contributions to GDP Growth Q2 2024



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.

The Economic Impact of Tariffs

While tariffs have their place in U.S. trade policy, broad application would damage growth

The use of tariffs (i.e., taxes on imported goods) and other protectionist policies fell out of favor after the United States joined the General Agreement on Tariffs and Trade at the end of World War II. The GATT was one prong of the three-pronged *Bretton Woods* system that ignited an era of globalization (and prosperity). Among GATT member states, tariffs averaged 22% in 1947; by the turn of the century, they were just 5%.

Despite near-universal agreement among economists that protectionist policies cause more harm than good for the U.S. economy, they have long been touted by presidential hopefuls from both parties. Presidents Nixon, Carter, Reagan, Bush (43), and Obama all introduced tariffs early in their first terms, but they were typically targeted at specific goods and limited in scope, thus allowing the overall tariff rate to stay low. That changed in 2018 when the Trump Administration introduced higher tariffs across a broader set of products, triggering a trade war with China. U.S. tariffs on Chinese exports are now 19.3% (up from less than 5% prior to 2018), and retaliatory Chinese tariffs on U.S. exports are now 21.1%. The Biden administration has kept most Trump-era tariffs in place and introduced new tariffs on steel, aluminum, medical equipment, EVs, batteries, and solar cells in 2024.

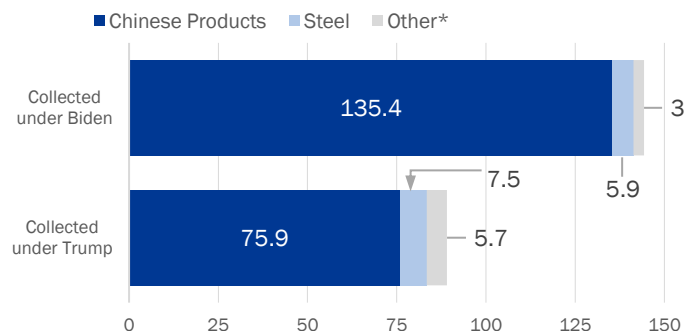
Motivations for imposing tariffs on imported goods are numerous. In theory, tariffs can help protect vital domestic industries, raise revenue, and influence foreign policy. The tariffs imposed by President Trump and maintained by President Biden, for example, were primarily aimed at addressing anti-competitive practices from China and largely spared other countries: under Trump, Chinese goods accounted for 85% of total tariff revenue received in the United States, while under Biden this share rose to 94%.

The ultimate effect of a tariff on foreign producers, U.S. producers and consumers, and the U.S. Treasury, is difficult to predict. In some cases, exporters may be able to raise their price to fully offset the cost of the tariff, in which case tax revenues increase and U.S. consumers face higher prices. In other cases, tariffs may cause a foreign exporter to no longer be able to compete, in which U.S. consumers still pay higher prices, but domestic producers benefit and little additional tax revenue is generated. Often, an export is not sold directly to consumers, but rather is an intermediate good for a domestic producer — in such cases, producers may have to pay more for the input, or foreign exporters may be willing to accept a lower profit margin (or both). Again: U.S. consumers ultimately end up paying more.

Ultimately, while foreign exporters may bear part of the tariff burden if they are compelled to lower prices to compete, U.S. consumers bear most of the costs. Per the Tax Foundation, tariffs imposed in 2018–19 resulted in nearly \$80 billion in new taxes on U.S. households. After accounting for behavioral changes, U.S. households pay \$200–300 in additional taxes per year as a result.

Tariff Revenue: Biden vs. Trump Administrations

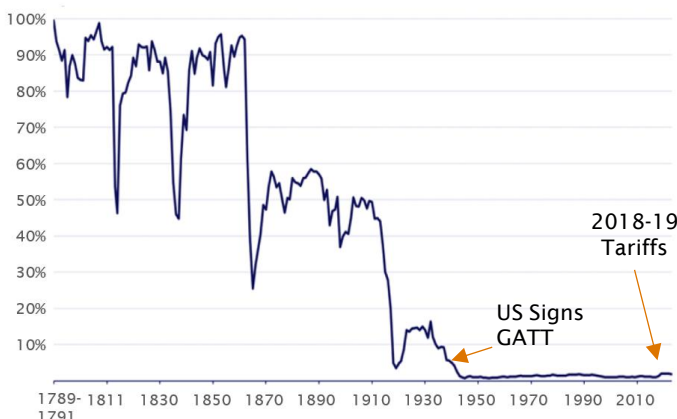
Total Duties Assessed under Section 201, Section 232, and Section 301 Trade War Tariffs, Billions



Source: Tax Foundation General Equilibrium Model, June 2024; Tax Foundation calculations based on US Customs and Border Protection, "Trade Statistics."

*Includes aluminum, washing machines, solar panels, and select EU exports

Tariff Revenue as a Share of Total Federal Receipts



Source: White House, Census, Council of Economic Advisors.

Perhaps the most interesting thing about the resurgence of tariffs as an economic policy and revenue generator, is how ineffective they are at achieving their central purpose. Per the Tax Foundation, the 2018–19 tariffs characterized as "one of the largest tax increases in decades," was almost imperceptible as a share of total U.S. tax income. Meanwhile, the trade deficit has widened significantly since the tariffs were imposed, and a net 142,000 jobs were lost.

Another concern to monitor regarding tariffs is the likelihood of international retaliation. If the United States were to impose a 20% tariff on all foreign goods, other countries would likely impose retaliatory tariffs on U.S. exports. Such tit-for-tat exchanges would reduce global trade significantly, and a full-blown trade war could trigger a global recession. Tariffs may have populist appeal, and when applied selectively they can be beneficial. But they are not a panacea, nor a substitute for sound economic policy.

A Softening U.S. Labor Market Sparks Economic Anxiety

A period of normalization or a period of slowing?

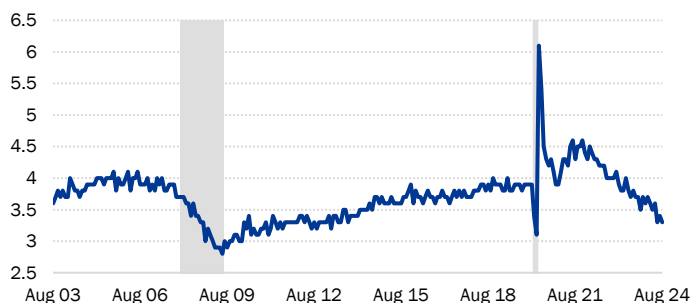
After several months of soft labor market data, the September employment report was surprisingly strong: 254,000 new jobs were added, nominal wages expanded at 4.0%, and the unemployment rate fell to 4.1%. Moreover, after several months of downward revisions to previously published employment data, the September report included an *upward* adjustment of +72,000 workers for July and August.

Still, notwithstanding the September data, there is little question that the labor market is no longer the engine of growth it was in earlier in the post-2020 expansion. After averaging more than 250,000 jobs per month from January 2023 through March 2024, job growth slowed to less than 150,000 from April – August, with unemployment rising 0.4 percentage points during this period. Other labor market indicators also point to a slowdown:

- The rate of new hires has fallen consistently since 2021 and now sits at 3.3%, well below its pre-pandemic level (see top chart). The hiring rate is closely associated with unemployment: when the rate falls, unemployment typically rises.
- The number of temporary workers has declined sharply over the last two years (see middle chart). A similar pattern emerged prior to the previous three recessions, but the decline is at least partially due to a sharp increase in demand for temporary help that was fueled by the post-pandemic recovery which has since subsided.
- The “Sahm Rule” (see bottom chart), a well-regarded and historically accurate recession signal developed by former Federal Reserve economist Claudia Sahm, exceeded its recessionary threshold in July. While the rule has occasionally delivered a false signal — and Sahm herself believes it is likely overstating labor market weakness due to lingering pandemic-era effects and increased immigration — it provides support for the Fed’s decision to cut rates aggressively.

New Hire Rate

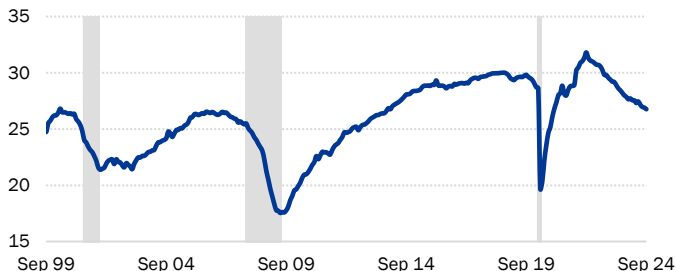
Hires per month as a share of total employment, SA



Source: U.S. Bureau of Economic Analysis

Temporary Workers

Millions of jobs, SA

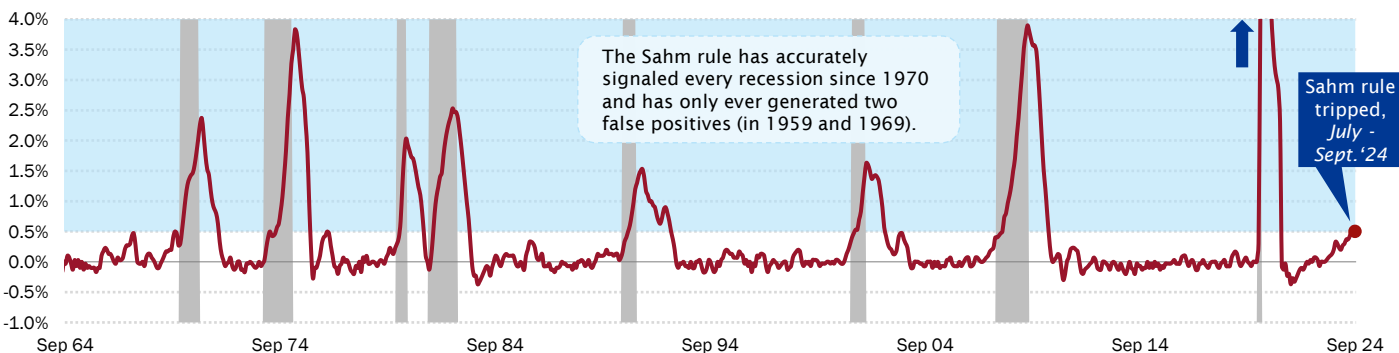


Source: U.S. Bureau of Labor Statistics

Looking to 2025, additional rate cuts should help to stimulate growth, though it is worth noting that economists at the Kansas City Fed estimate the effect of rate changes on employment could take up to two years to manifest. Policy uncertainty should fall once the results of the election are known, which may also trigger renewed hiring. Overall, while there are reasons to be guarded about the prospects for near-term job growth, we believe the labor market remains on track and will continue to expand sustainably next year.

The Sahm Rule was Tripped in July. Does This Mean a Recession Is Imminent?

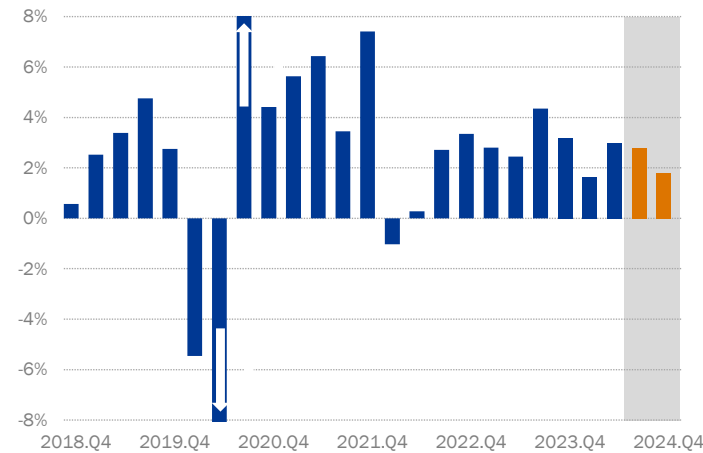
Year-over-year change in the 3MMA unemployment rate



Source: Real-time Sahm Rule Recession Indicator, retrieved from FRED, Federal Reserve Bank of St. Louis.

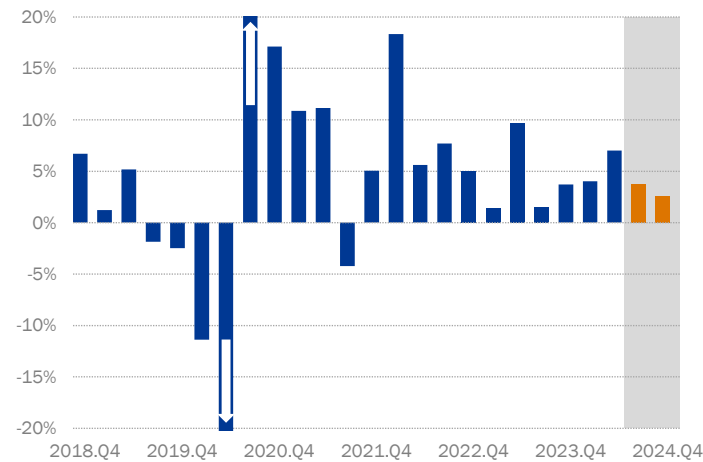
APPENDIX A | KEYBRIDGE FORECASTS

Real GDP Growth (% SAAR)



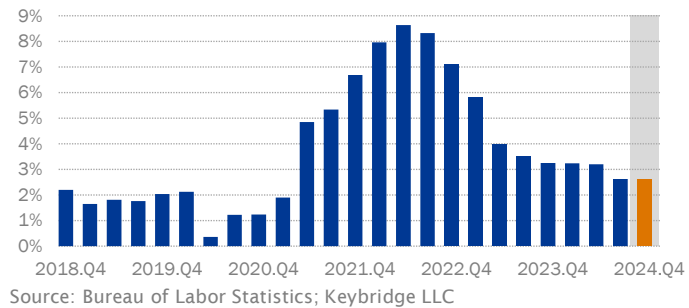
Source: Bureau of Economic Analysis; Keybridge LLC

Real E&S Investment Growth (% SAAR)



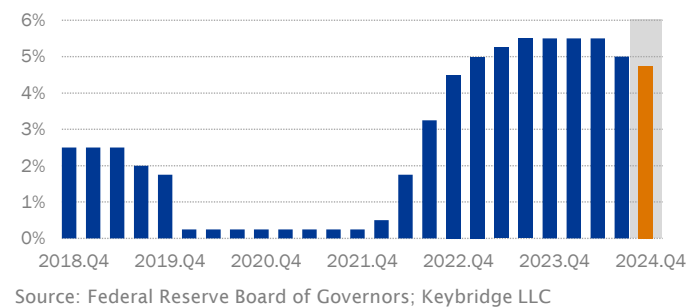
Source: Bureau of Economic Analysis; Keybridge LLC

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



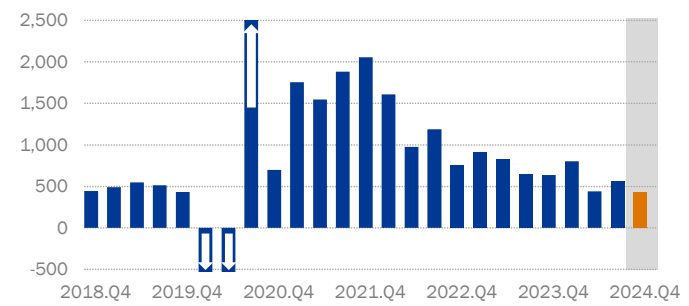
Source: Bureau of Labor Statistics; Keybridge LLC

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	Q2	Q3e	Q4e	
Real GDP* (SAAR)	2.5%	2.9%	1.6%	3.0%	2.8%	1.8%	2.7%
Real Investment in Equipment & Software (SAAR)	7.8%	4.8%	4.0%	7.0%	3.7%	2.6%	4.4%
Inflation (Headline CPI, Y/Y %, end of period)	8.0%	4.1%	3.2%	3.2%	2.6%	2.6%	2.6% (end-of-year)
Federal Funds Target Rate (upper bound, end of period)	4.50%	5.50%	5.50%	5.50%	5.00%	4.75%	4.75% (end-of-year)
Non-Farm Payroll Growth (thousands)	4,528	3,013	802	442	557	425	2,226

*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.