



EQUIPMENT LEASING & FINANCE

**FOUNDATION**

Your Eye on the Future

**2025**

EQUIPMENT LEASING & FINANCE

**U.S. ECONOMIC  
OUTLOOK**

**Q2**



EQUIPMENT LEASING & FINANCE

**FOUNDATION**

Your Eye on the Future

Established in 1989, the Equipment Leasing & Finance Foundation is a 501c3 non-profit organization dedicated to inspiring thoughtful innovation and contributing to the betterment of the equipment leasing and finance industry. The Foundation accomplishes its mission through development of future-focused studies and reports identifying critical issues that could impact the industry.

Foundation research is independent, predictive, and peer-reviewed by industry experts. It is funded solely through contributions. Contributions to the Foundation are tax-deductible. Support the Foundation by making a 100% tax-deductible gift today at [www.LeaseFoundation.org](http://www.LeaseFoundation.org)

**Equipment Leasing & Finance Foundation**

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Executive Summary

- At the end of last year, the U.S. economy was in a generally solid position: real GDP expanded 2.8% on the year, job growth was healthy, consumer spending was resilient, and businesses were feeling more optimistic about their prospects in 2025. Over the last three months, however, the economic outlook has worsened: consumer spending has slowed, consumer and business sentiment have fallen sharply, inflation expectations are rising rapidly, and policy uncertainty has skyrocketed.
- The main culprit for this sea change is tariffs. Simply put, concerns about broad-based tariffs have upended the business community. After placing significant new tariffs on imports from Canada, Mexico, and China, as well as imported automobiles, steel, and aluminum earlier this year, the U.S. government announced a new set of “reciprocal” tariffs on most U.S. trading partners, triggering turmoil in stock and bond markets. In response, President Trump reduced most reciprocal tariffs to 10% for 90 days, but the trade war with China has further intensified. Indeed, as of April 17th, the United States has imposed an average tariff of 124% on Chinese goods, and China has imposed an average tariff of 148% on U.S. goods.
- The tariffs are intended to encourage domestic manufacturing activity over time, and some industries are likely to benefit, including steel and aluminum manufacturers. At the same time, a vast body of evidence indicates that tariffs will harm far more U.S. companies than they help, including many U.S. manufacturers that rely on imports for inputs and raw materials. Meanwhile, tariffs and their related uncertainty effects are expected to weigh on the economy, with most economic forecasters predicting slower or negative GDP growth, higher inflation, and lower household disposable income this year.
- On a more positive note, retail sales surged in March after a slow start to the year. Though largely driven by pulled-forward purchases of automobiles and other big-ticket items that will become more expensive after tariffs take effect, the broader message contained in the report is that the collapse in consumer sentiment this year has not yet resulted in a major spending retreat. Still, there is growing evidence that consumers are becoming more cautious.
- The manufacturing sector has exhibited noticeable improvement in recent months. Several measures of industrial activity have strengthened, including industrial production, capacity utilization, and the ISM Purchasing Managers Index for Manufacturing. Moreover, shipments and new orders of core capital goods have been generally positive in recent months, driven by strong growth in primary metals, computers, and electronics. These readings may reflect tariff-related pull-forward activity, and it is noteworthy that new business volume is roughly flat year-to-date while industry confidence has plummeted. As of April, all seven tracked equipment verticals are demonstrating weak momentum relative to historical averages, with four exhibiting early signs of improvement and three indicating continued weakening.
- Overall, the Foundation revised its 2025 GDP forecast to 1.2% (down from 2.7%) and its equipment and software investment forecast to 2.8% (down from 4.7%). Despite the more pessimistic outlook, the Foundation believes a 2025 “growth pause” is more likely than a sustained downturn. Still, the probability of a near-term recession has clearly risen.

Economic Forecasts

Indicator	2023	2024	2025 Quarterly Estimates				2025 (est.)
			Q1	Q2	Q3	Q4	
<b>Real Gross Domestic Product</b> <i>(seasonally-adjusted annualized rate)</i>	2.9%	2.8%	-1.0%	1.3%	0.9%	0.5%	<b>1.2%</b>
<b>Real Investment in Equipment</b> <i>(seasonally-adjusted annualized rate)</i>	4.8%	4.4%	6.0%	2.8%	2.1%	1.3%	<b>2.8%</b>
<b>Federal Funds Target Rate</b> <i>(upper bound, end of period)</i>	5.5%	4.5%	4.5%	4.25%	4.0%	3.75%	<b>3.75</b> <i>(end-of-year)</i>
<b>Inflation</b> <i>(headline Consumer Price Index, Y/Y % change, end of period)</i>	3.2%	2.7%	2.4%	2.9%	3.5%	3.7%	<b>3.7%</b> <i>(end-of-year)</i>



Momentum Monitors

Equipment and software investment ends year with a whimper

- Equipment and software investment fell at an annualized rate of 4.8% in Q4 2024, its first quarterly contraction in more than three years. Of the seven verticals tracked by the Foundation, two posted positive annualized growth: Energy & Electrical Equipment (+5.0%) and Medical Equipment (+5.0%). All others experienced negative annualized growth, including Agricultural Machinery (-30.5%), Construction Machinery (-18.4%), Transportation Equipment (-17.2%), Industrial Machinery (-4.2%), and Technology Equipment & Software (-3.2%).
- As noted in the April Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor, the near-term investment outlook remains subdued. As shown in the sector matrix chart, momentum readings are weak across all seven verticals compared to typical readings (“Historical Strength”). However, on a more positive note, four of the seven verticals (Energy & Electrical, Technology & Software, Agriculture, and Medical) have experienced improved readings over the last three months (“Recent Momentum”).
- First-quarter investment in equipment and software is expected to bounce back after a poor Q4, in part due to a “pull-forward” effect as end-users attempt to front-run tariffs. However, uncertainty around trade policy and heightened concerns about the overall economic climate is expected to drag on investment growth over the next six months.



Spotlight Verticals

Equipment Vertical		Q4 Investment Growth		Next 6 Months	Short-Term Outlook
		Q/Q (SAAR)	Y/Y		
Technology & Software		-3.2%	+5.2%		The Technology Equipment & Software Momentum Index improved in April for the fifth consecutive month, and although recent signals are mixed, the Q4 investment decline appears to be a blip that should correct itself in early 2025.
Agriculture		-30.5%	-7.2%		The Agricultural Machinery Momentum Index appeared to be gaining steam in early 2025 before edging down two points to 95.0 in April. Unfortunately, the likelihood of retaliatory tariffs on U.S. agricultural exports is contributing to an already weak investment climate for agriculture machinery.
Construction		-18.2%	-13.8%		The Construction Machinery Momentum Index improved modestly in April but has been on a slow decline for most of the last year. Construction investment growth has fallen for the last four quarters and shows little sign of a near-term rebound.
Transportation		-17.2%	+5.7%		Although the Transportation Equipment Momentum Index inched up in April for the second straight month, its movement in late 2024 suggests that investment growth is likely to disappoint in Q1 and Q2.



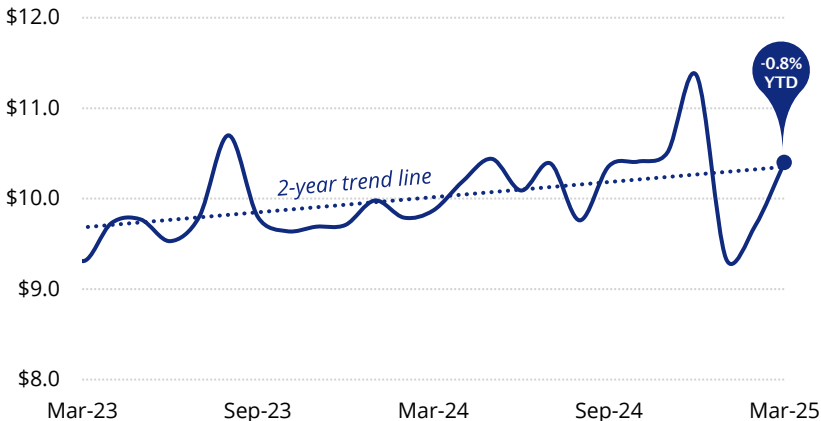
ELFA Capex Finance Index

Equipment demand slows amid heightened economic uncertainty

- ELFA's CapEx Finance Index (CFI) improved in March following a slow start to the year. New business volume (NBV) increased \$10.4 billion in March, up 7.0% compared to February. Through the first quarter, year-to-date growth is now essentially flat compared to last year in nominal terms (-0.8%).
- At the same time, financial conditions weakened somewhat in March.
  - Charge-offs increased for the second consecutive month to 0.6%, the highest reading since September 2020 and above the typical pre-pandemic range of 0.30% – 0.45%.
  - Meanwhile, 30+ day receivables increased to 2.3%, driven by banks and independents. Receivables have fluctuated between 2.0 – 2.5% over the last 18 months, so this month's reading is consistent with recent trends.
- Credit approval rates rose to 76.0%, an increase of 0.7 percentage points. Approvals have risen two percentage points over the last four months, suggesting that lenders have not pulled back in response to a more uncertain near-term economic outlook.

ELFA CFI: New Business Volume Growth

Billions of US dollars, seasonally adjusted



Source: ELFA

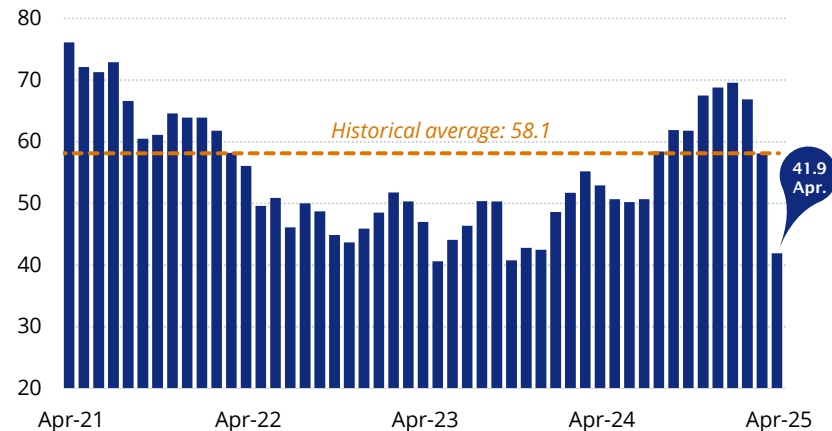
ELFF Monthly Confidence Index

Industry confidence falls sharply, reflecting concern about tariffs

- The Foundation's Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI) dropped to 41.9 in April, the weakest reading since October 2023. The survey reflects substantial industry concern about the impact of tariffs on the economy.
- 15% of respondents expect near-term business conditions to improve (down from 29% last month), while 58% expect them to worsen (up from 18%).
- 12% of respondents expect demand for leases and loans to fund capex will increase over the next four months (down from 32%), while 62% expect demand to decline (up from 25%).
- 8% of respondents expect greater access to capital over the next four months (down from 21%). Most respondents (89%) expect no change in access to capital.
- 8% of respondents expect the U.S. economy to improve over the next six months, down sharply from 32% in March. Conversely, 58% of respondents believe the U.S. economy will worsen over the next six months, up sharply from 29%.

ELFF Monthly Confidence Index (MCI)

Billions of US dollars, seasonally adjusted



Source: ELFF

Manufacturing & Industrial Output

Manufacturing activity showing signs of life as tariffs loom

The manufacturing sector has exhibited noticeable improvement in recent months, with several measures of industrial activity posting higher readings:

- Industrial production for manufacturing rose 0.3% in March, following a 0.7% increase in February. Auto assemblies saw significant gains, while steel production and railroad traffic continued their upward trends in recent months.
- Capacity utilization for manufacturing rose 0.2 percentage points in March to 77.3%, the strongest since May 2024 though still below the 2022 peak of 80.1 percent.
- The ISM Purchasing Managers' Index (PMI) for Manufacturing climbed above 50 for the first time in more than two years in January and remains near its highest reading in three years (see top chart).

However, the extent to which these metrics will hold up as tariffs are implemented is unclear. For example, as shown in the top chart, ISM surveys were steadily improving through January before falling back in February and March, potentially reflecting “pull-forward” activity to get ahead of tariffs before they take effect (particularly in the New Orders Index). While tariffs may help some manufacturers, those who rely on imported inputs will likely see costs rise in the months ahead.

Demand for core capital goods has improved modestly.

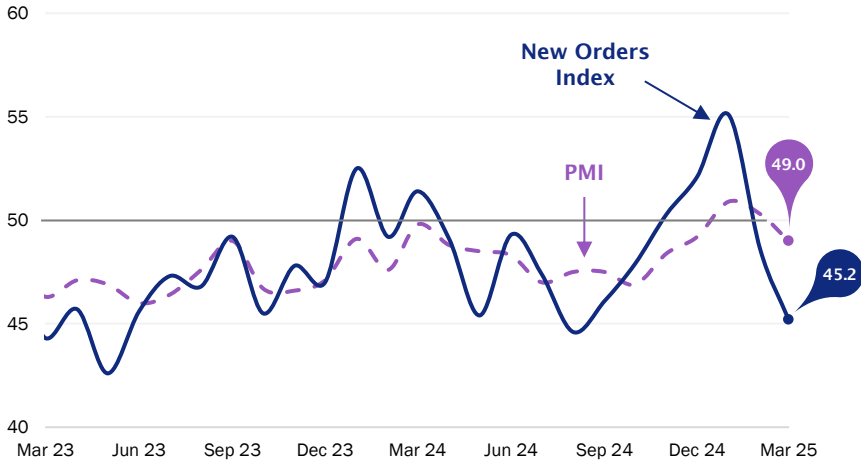
For equipment finance firms that depend on business investment, two of the most important metrics to monitor are shipments and new orders of “core” capital goods (i.e., excluding defense and aircraft). As shown in the bottom chart, both metrics have been generally positive in recent months:

- Shipments of core capital goods (a concurrent indicator of industry performance) rose 0.8% M/M in February, its fourth increase in five months after contracting throughout last summer. Since January, shipments growth has been particularly strong in computers and electronic products, as well as primary metals. Compared to last year, core shipments growth is back in positive territory (+0.3% Y/Y).
- New orders core capital goods (a leading indicator of industry performance) fell 0.2% in February compared to January but has been generally positive since last fall, including robust 1.0% M/M growth in January. Since January, new orders growth has been particularly strong in primary metals and computers. Compared to last year, growth in core orders is up 1.6% Y/Y.

Importantly, these readings may reflect tariff-related pull-forward activity. As shown on the previous page, industry confidence has fallen sharply over the last two months, suggesting that industry leaders are wary about the near-term outlook.

ISM Manufacturing PMI vs. New Orders Index

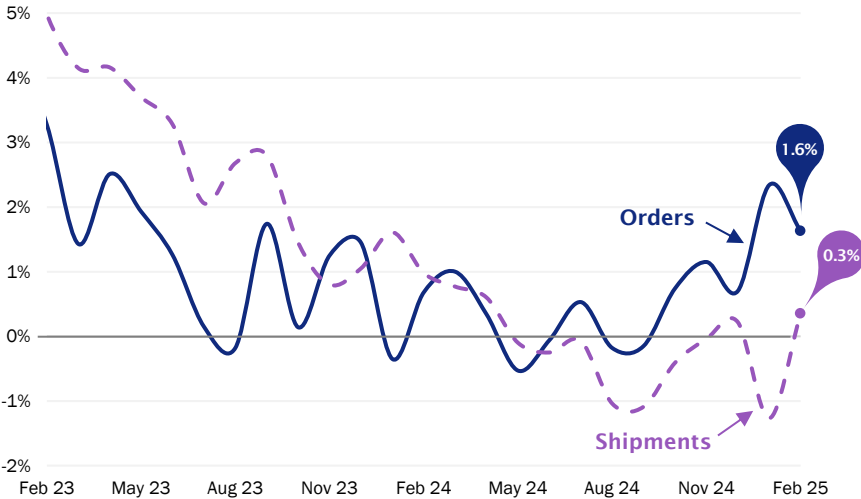
Diffusion Index (readings above 50 signal expansion)



Source: Institute for Supply Management

Manufacturers' Non-Defense Capital Goods ex: Aircraft

Y/Y Percent Change, SA



Source: U.S. Census Bureau

Tariffs and Trade Policy

Trump administration announces aggressive tariff regime

Recent tariff announcements have upended the business community. On April 2<sup>nd</sup>, the Trump administration announced new tariffs on all non-USMCA trading partner imports. These tariffs were in addition to previously announced tariffs on all Chinese imports, most Mexican and Canadian imports, and all imported automobiles, steel, and aluminum. Amid significant stock market sell-offs, the administration enacted a 90-day pause that temporarily reduces most reciprocal tariffs to a 10% baseline. However, China is a clear exception to this pause: the ongoing trade war between the U.S. and China resulted in average tariffs of 124% on Chinese goods by the U.S. and 148% on U.S. goods by China as of April 17<sup>th</sup>. It remains uncertain whether tariffs will resume once the pause ends, and the extent of any further retaliatory tariffs is also unclear.

The tariffs are intended to encourage domestic manufacturing activity, and although a significant resurgence is unlikely to materialize in the near term, some industries stand to benefit, including steel and aluminum manufacturing. At the same time, there is strong evidence that tariffs will harm far more U.S. companies than they help, including many U.S. manufacturers that rely on imports for inputs and raw materials

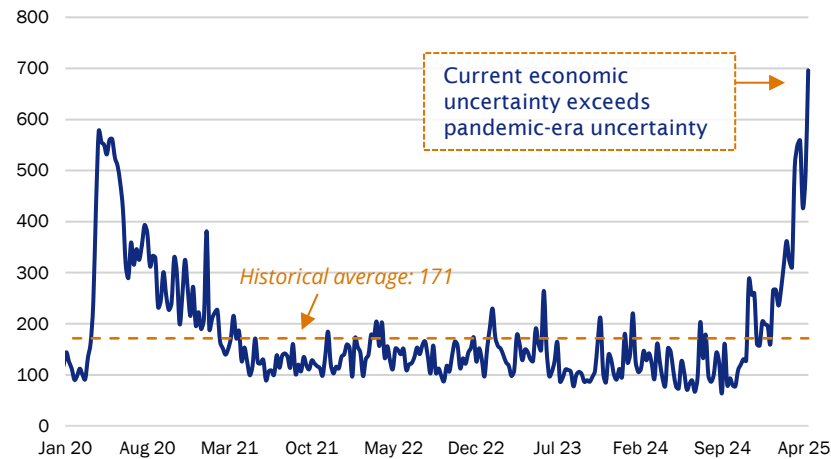
In the Foundation’s 2025 Annual Outlook, we described three tariff scenarios (“Posturing/Negotiation,” “Moderate Implementation,” and “Heavy Implementation”) and their economic implications. Presently, we are somewhere between the “moderate” and “heavy” implementation scenarios, resulting in significant downward pressure on GDP and higher inflation this year. Per the Yale Budget Lab, real GDP growth is projected to fall a full percentage point compared to a pre-tariff baseline, while inflation is expected to rise to 4–5% Y/Y. Notably, these projections exclude the impact of retaliatory tariffs and assume that reciprocal tariffs resume after the three-month pause.

Tariffs are likely to harm equipment finance industry, on balance

For the equipment finance industry, tariffs will significantly increase costs (see *bottom chart*), and even domestically produced goods may experience price increases. Higher equipment prices could lead more end-users to explore financing options, and other policies pursued by the administration (e.g., lighter touch regulation) may offset some of the negative impacts. On balance, however, the impact is likely to be negative, as the tariff issue has coincided with a sharp increase in economic uncertainty (see *top chart*), which often results in firms delaying major investment decisions until the outlook becomes clearer. Early indications suggest that business investment was relatively strong in Q1 following a dismal Q4, but looking ahead the new tariff regime is likely to result in slower economic growth and a weaker environment for equipment and software investment for the remainder of the year.

U.S. Economic Policy Uncertainty Index

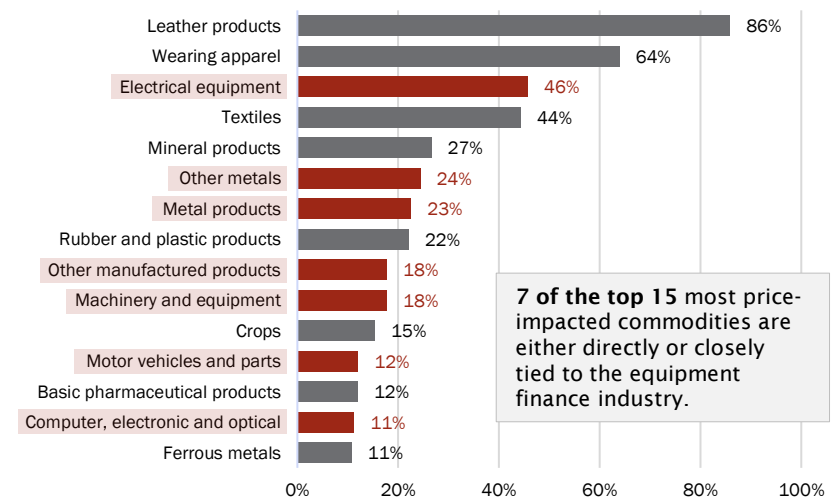
Index based on news activity, tax code provisions, disagreement among economic forecasts



Source: Economic Policy Uncertainty.

Projected Commodity Price Effects from 2025 Tariffs

Top 15 most affected commodities, percent change to U.S. price level in the short-run



Source: Yale Budget Lab. Projections assume reciprocal tariffs resume after 90-day pause.



Consumer Spending

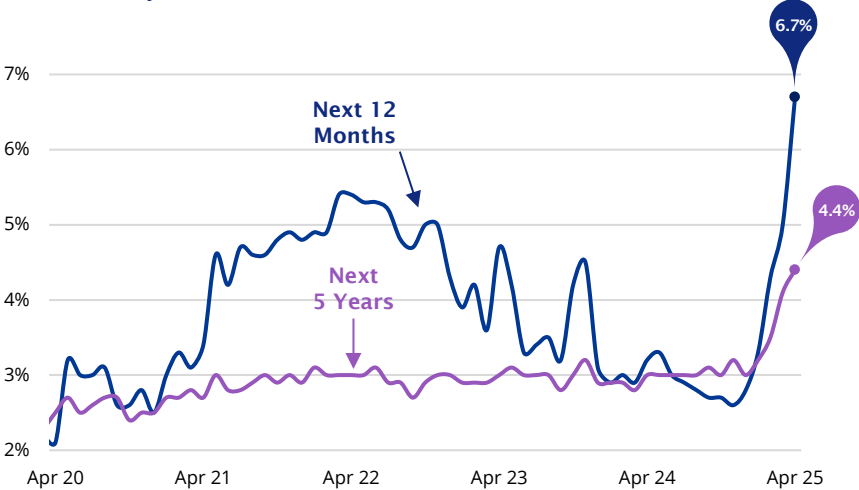
The strength and resilience of the U.S. consumer has been one of the few constants in the economy over the last four years, and consumers looked to be in good shape heading into 2025. However, cracks may be forming: consumer sentiment fell sharply again in April and is down more than 30% since December, while consumer expectations for future economic conditions fell to its lowest level in more than a decade. While spending patterns do not always align perfectly with sentiment, there is growing evidence that consumers are becoming more cautious. For example:

- **Consumers are again expressing concerns over inflation.** The core PCE price index ticked up to 2.8% Y/Y in February, and over the last three months it has risen at a more worrying annualized rate of 3.6%. Consumers appear to have taken notice: inflation expectations for the next 12 months jumped to 6.7% in April, while long-term inflation expectations climbed a full percentage point to 4.4% — far above pandemic-era levels (see top chart). Notably, these effects occurred before the Trump administration’s 90-day pause on reciprocal tariffs took effect.
- **Consumer spending has been volatile.** After retail sales fell 1.2% M/M in January (the worst reading in more than three years), sales improved only modestly in February (+0.2% M/M) before surging 1.4% M/M in March. The March rebound was partially driven by big-ticket purchases (e.g., automobiles) and likely reflects pull-forward spending to some extent, but the report reveals that consumers are still able and willing to spend. According to the Bank of America Institute, larger tax refunds and durables purchasing ahead of tariffs have contributed to recent consumer spending growth. However, they also report that “nice-to-have” discretionary services spending (a key driver of spending growth) eased in March as non-discretionary spending on items like insurance and utilities continues to rise. Once implemented, tariffs will be an added headwind for consumers and will put additional upward pressure on prices for many discretionary goods.
- **A bear market could further dampen spending among higher income households.** The decline in consumer expectations has been broad-based, but higher-income consumers — whose gains in stock and real estate wealth have fueled spending growth in recent years — have exhibited the sharpest decline. The top 10% of earners account for roughly half of consumer spending (see bottom chart), so if this group becomes more cautious in response to a declining stock market (i.e., a weakening “wealth effect”), consumer spending could further soften.

More positively, job growth beat expectations in March (+228,000 jobs) and averaged a solid +152,000 per month in the first quarter. Moreover, household income remains healthy: real disposable income expanded 0.3% M/M in January and 0.5% M/M in February, and the personal saving rate rose to 4.6%. This data suggests that consumer finances are holding steady for now, even as spending slows and confidence sours.

Short and Long-Term Consumer Inflation Expectations

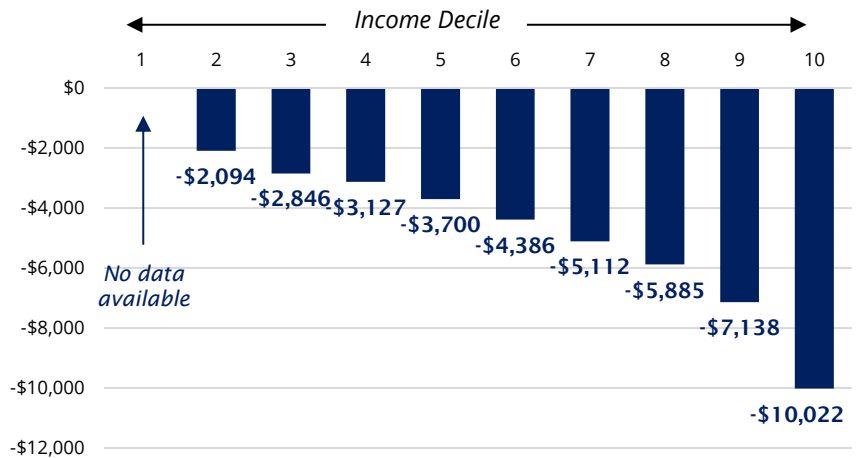
Percent, Monthly, NSA



Source: University of Michigan.

Tariff Effect on U.S. Annual Household Disposable Income

Projected impact of tariffs on U.S. households in the short-run, by income decile



Source: Yale Budget Lab. Projections assume reciprocal tariffs resume after 90-day pause.

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