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2025

EQUIPMENT LEASING & FINANCE

U.S. ECONOMIC OUTLOOK

Q3

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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

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Equipment Leasing & Finance Foundation — 2025 Economic Outlook (Q3 Update)

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Executive Summary

- Real GDP contracted 0.5% in Q1 2025 due to weaker consumer spending and a tariff-fueled reduction in net exports. While recent developments have offered temporary relief, tariffs remain historically high and may rise further if reciprocal tariffs are ultimately imposed. If this occurs, it will significantly increase costs for U.S. importers and may have broad-based ripple effects on prices.
- Equipment and software investment started off the year with a bang, growing by nearly 22% (annualized). However, the robust expansion, which was heavily concentrated in the technology and medical sectors, was fueled by efforts to front-load purchases to avoid new tariffs. Investment growth likely slowed markedly in Q2, but if the Fed cuts rates in Q3 and Q4 as anticipated, it could provide a modest boost to investment later this year.
- For months, a divergence has persisted between hard data and soft data as tariffs and other policy changes filter through the economy. While topline employment, wage growth, and several other hard data indicators are still reasonably healthy, real consumer spending growth slowed to 0.5% in Q1 — the weakest reading since the pandemic — and contracted over the first two months of Q2. This could suggest that the pessimism seen in survey data is beginning to manifest in spending behavior.
- Executives at large firms expect slower growth in hiring, capex, and sales, but some small business owners are more optimistic. Both the NFIB Small Business Optimism Index and the Foundation's Monthly Confidence Index have rebounded from spring lows and returned to their historical averages. Additionally, ELFA's CapEx Finance Index improved in May after a slow start to the year, and new business volume is now back on its two-year growth trendline.
- 10-year and 30-year Treasury yields rose sharply earlier this spring before easing 25–30 basis points in recent weeks. At the same time, the U.S. dollar has steadily weakened and is down nearly 11% YTD. Typically, uncertainty leads to more demand for U.S. Treasuries and other safe-haven assets, but recent dynamics suggest a shift as investors worry about inflationary risks linked to trade and fiscal policy and seek higher returns in exchange for holding U.S. assets.
- The equipment finance industry should benefit from the recent passage of the One Big Beautiful Bill Act in multiple ways, including a permanent return to 100% expensing and EBITDA-based interest deduction, as well as a permanent 20% deduction for qualified business income for pass-through businesses. However, the accelerated phaseout for clean energy tax incentives will likely reduce investment in some verticals.
- Overall, the U.S. economy is on uneven footing. While business-friendly tax and regulatory policy are tailwinds, consumer spending has slowed and job growth has been driven almost exclusively by healthcare, leisure and hospitality, and state and local government. Meanwhile, the Fed has been hesitant to cut rates due to worries of tariff-induced inflation later this year. With uncertainty elevated and aggregate demand softening, we expect only modest economic growth in 2025.

Economic Forecasts

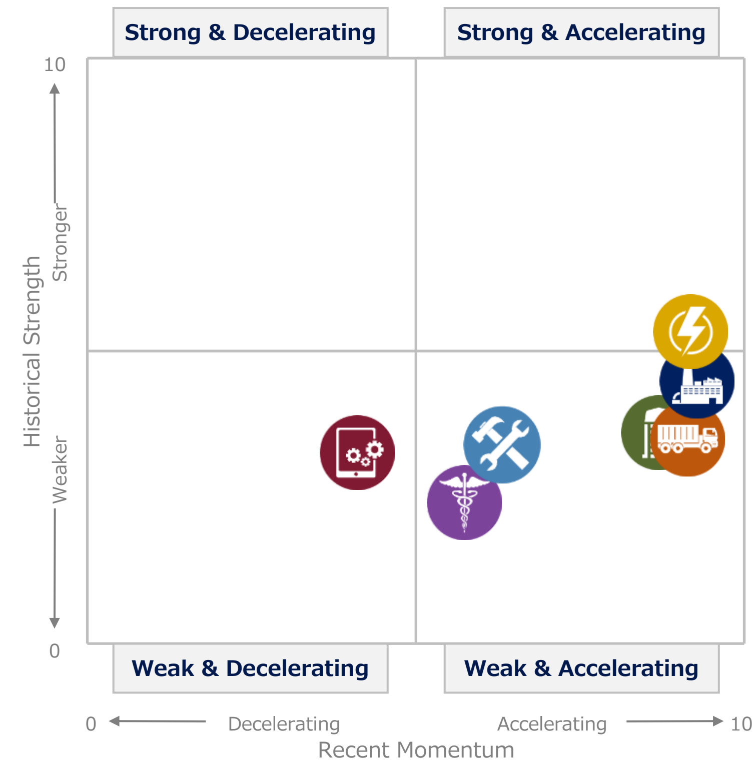
Indicator	2023	2024	2025 Quarterly Estimates				2025 (est.)
			Q1	Q2	Q3	Q4	
Real Gross Domestic Product *(SAAR)*	2.9%	2.8%	-0.5%	*1.7%*	*0.6%*	*0.5%*	**1.3%**
Real Investment in Equipment *(SAAR)*	4.8%	4.4%	21.5%	*1.8%*	*2.1%*	*3.2%*	**6.3%**
Federal Funds Target Rate *(upper bound, end of period)*	5.5%	4.5%	4.5%	4.5%	*4.25%*	*3.75%*	**3.75%** (end-of-year)
Inflation: Headline CPI *(Y/Y % change, end of period)*	3.2%	2.7%	2.7%	*2.4%*	*2.7%*	*3.1%*	**3.1%** (end-of-year)

Equipment Leasing & Finance Foundation — 2025 Economic Outlook (Q3 Update)

Momentum Monitors

Equipment & Software Investment Soars in Q1

- Following a contraction in late 2024, equipment and software investment rebounded a robust 21.5% (annualized) in Q1, the strongest reading since mid-2020. The growth was uneven, however, with four of seven verticals experiencing positive change: Technology Equipment & Software (+43.4%), Medical Equipment (+21.8%), Transportation Equipment (+6.8%), and Industrial Machinery (+5.2%). The three remaining verticals saw investment decline: Agricultural Machinery (-24.6%), Construction Machinery (-0.7%), and Energy & Electrical Equipment (-0.6%).
- The Foundation-Keybridge U.S. Equipment & Software Investment Momentum Monitor for July paints a mixed picture for the industry. All but one vertical (Energy & Electrical Equipment) have momentum readings that are below their historical average, and although recent Index movement has been encouraging for Industrial Equipment, Transportation Equipment, and Agriculture Machinery, momentum for Medical Equipment and Construction Machinery is closer to neutral while momentum for Technology Equipment & Software is weakening.
- While headline first-quarter investment was remarkably strong, much of the surge appears to reflect front-loading purchases to avoid new tariffs. With many tariffs now in place, additional tariffs likely in the months ahead, and evidence of weaker consumer demand and subdued business sentiment, investment growth likely slowed markedly in Q2 and is expected to remain weak in the months ahead. However, if the Fed cuts rates in Q3 and Q4 as anticipated, it could provide a small boost to investment demand later this year.



Spotlight Verticals

Equipment Vertical	Q1 Investment Growth		Next 6 Months	Short-Term Outlook
	Q/Q (SAAR)	Y/Y		
Energy & Electrical	-0.6%	+0.2%	▲	The Energy & Electrical Equipment Momentum Index rose in July for the fourth consecutive month. While recent signals are somewhat mixed, the Index continues to suggest stronger Y/Y investment growth over the next six months.
Transportation	+6.8%	+11.2%	▲	After slowing throughout 2024, Y/Y investment growth in Transportation Equipment bounced back in Q1. With the Momentum Index improving for the fifth consecutive month in July, Y/Y investment growth is on track to strengthen further.
Construction	-0.7%	-13.6%	▼	Construction Machinery investment has contracted for five consecutive quarters. The Momentum Index has been essentially flat for the last year and remains below its historical average, providing little hope of a near-term improvement.
Technology & Software	+43.4%	+12.5%	▼	Investment growth in Technology Equipment & Software has improved steadily for the last two years. However, the Momentum Index has been flat for several months and declined modestly in July, suggesting that growth may moderate.

ELFA Capex Finance Index

Equipment demand normalizes as conditions hold steady

- ELFA's CapEx Finance Index (CFI) improved in May as new business volume (NBV) rose 3% from April to $10.3 billion. The increase suggests a modest rebound after a slow start to the year. NBV is now broadly in line with its long-term trend, though year-to-date volume remains 1.2% below its 2024 level.
- NBV increased by 14% at captives and 5% at independents compared to April, while declining 3% at banks. This marks a reversal from the 2025 trend, which had seen banks' market share rising sharply at the expense of captives.
- Financial conditions were broadly healthy in May: charge-offs ticked up to 0.44% but remain muted, while credit approval rates edged down slightly to 77% but remain near their highest level in two years. Notably, 30+ day receivables jumped from 1.8% to 2.9%, but the increase was mostly fueled by an outlier; when removed, the short-term delinquency rate rose modestly to 1.9%
- Employment levels were 1.2% lower in May than a year earlier, an improvement from April's 2% decline. The annual decline was driven by captives, as banks and independents posted year-over-year gains.

ELFA CFI: New Business Volume Growth

Billions of US dollars, seasonally adjusted

Source: Equipment Leasing & Finance Association

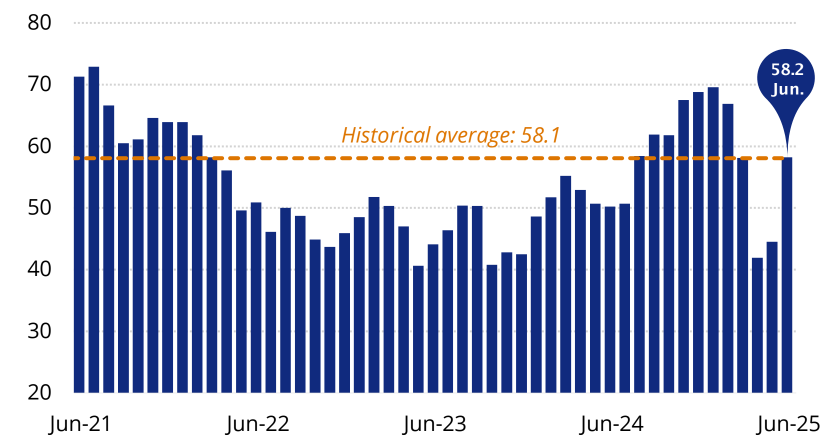
ELFF Monthly Confidence Index

Industry confidence returns to pre- "Liberation Day" levels

- The Foundation's Monthly Confidence Index for the Equipment Finance Industry (MCI-EFI) rose to 58.2 in June, a sharp increase from the May reading of 44.5. With the index's return to historically typical levels, industry leaders are signaling renewed optimism (or, at a minimum, far less pessimism) about their business prospects over the remainder of the year.
- 30% of respondents expect near-term business conditions to improve (up from 4% in May), while 11% expect them to worsen (down from 44%). These readings, which align closely with March data, suggest that the industry's concerns about the impact of tariffs and related uncertainty on business conditions have diminished.
- Similarly, 30% of respondents expect demand for leases and loans to fund capex will improve (up from 8%), while 15% expect demand to fall (down from 48%)
- Most respondents (82%) expect access to capital to hold steady over the next four months, though the share expecting more access rose to 19% (up from 4%).
- Most respondents consider the current U.S. economy as "fair" (96%, up from 84%).

ELFF Monthly Confidence Index (MCI)

Billions of US dollars, seasonally adjusted



Source: Equipment Leasing & Finance Foundation

Tariffs Continue to Cloud the Economic Outlook

Business Sentiment and Investor Confidence Slide Under Heightened Uncertainty

Tariff policy has defined the first half of 2025. While recent developments have been largely positive — including trade agreements with the United Kingdom and Vietnam, a temporary easing of tariffs between the U.S. and China, and ongoing negotiations with the E.U., Canada, and other key trading partners — policy outcomes remain unpredictable. Tariff announcements have been frequent and inconsistent, marked by abrupt escalations, reversals, and delays. While it remains unclear what the final tariff levels will be, a recent JPMorganChase Institute analysis found that midsize firms will incur $2,080 - $4,740 in additional costs per employee (or 3–7% of payroll) depending on the severity of the tariffs, with wholesale and retail sectors having the highest exposure.

The heightened uncertainty has affected business confidence as well as bond markets:

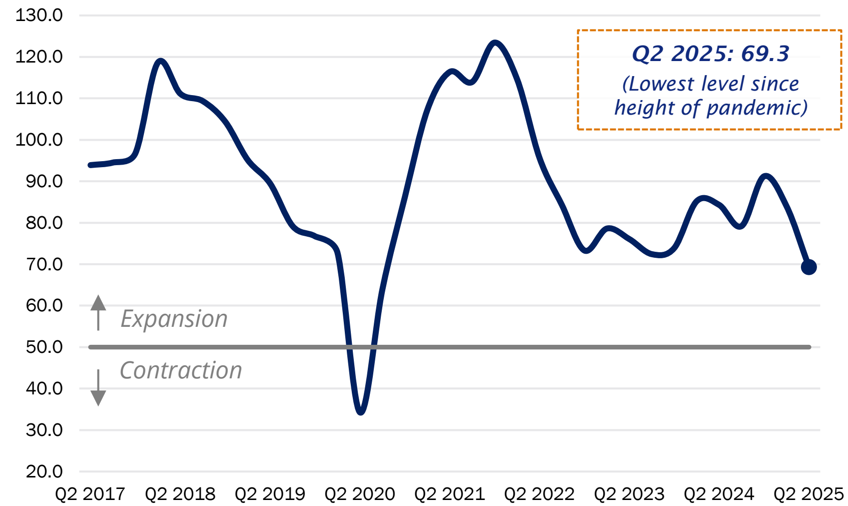
- **Business Confidence:** As businesses digest and adapt to the new policy environment, economic optimism remains subdued. The Business Roundtable's Q2 CEO Economic Outlook Index fell 14.7 points from Q1, the steepest Q/Q decline since early 2022 (see top chart). While the reading is not recessionary, CEOs indicated that they were proceeding with caution, reporting decreased hiring plans, capital investment plans, and expectations for sales. Similarly, a survey of CFOs conducted by Duke University found that 40% of respondents postponed or canceled capital spending in response to trade-related concerns. Notably, however, smaller businesses appear to be less pessimistic; both the NFIB Small Business Optimism Index and the Foundation's Monthly Confidence Index have rebounded from spring lows and have returned to their historical averages.
- **Bond Markets**: Treasury yields surged this spring, with 10-year and 30-year rates rising to 4.6% and 5.1% in mid-May before easing 25–30 basis points in recent weeks. At the same time, the U.S. dollar has steadily weakened: as of mid-July, the U.S. Dollar Index has fallen nearly 11% this year. Typically, uncertainty drives investors to safe-haven assets, driving down yields on U.S. treasuries and strengthening the dollar. Recent dynamics suggest a shift: investors appear increasingly wary of inflationary risks linked to trade and fiscal policy, more skeptical about the U.S. dollar, and looking for higher returns for holding U.S. assets.

Equipment Finance Industry Impact

Given that higher Treasury yields make financing equipment more expensive, some equipment end-users may choose to delay equipment investment decisions (particularly given the likelihood of multiple rate cuts later this year) or seek shorter terms and more flexible structures. At the same time, elevated costs from tariffs have made outright purchases more expensive, likely reducing overall demand but also, potentially, leading to greater use of financing for investment. Overall, while our rest-of-year forecast calls for modest growth, we expect businesses will continue to face a murky outlook.

CEO Economic Outlook

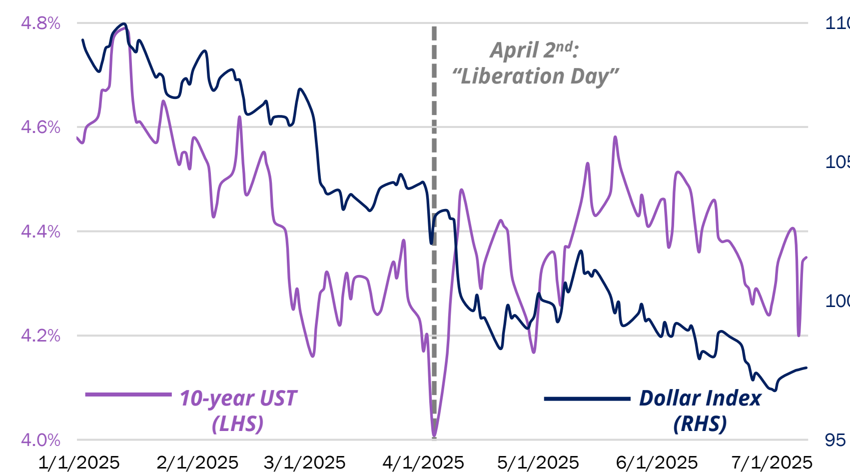
Index, readings >50 indicate economic expansion, readings <50 indicate contraction



Source: Business Roundtable.

Market Yield: U.S. Treasury & Dollar Index

10-year UST: market yield, daily; U.S Dollar Index (DXY): 1973 = 100, daily



Source: U.S. Department of Treasury, Yahoo Finance, Federal Reserve Board of Governors.

New Tax Law Should Provide a Boost to the Industry

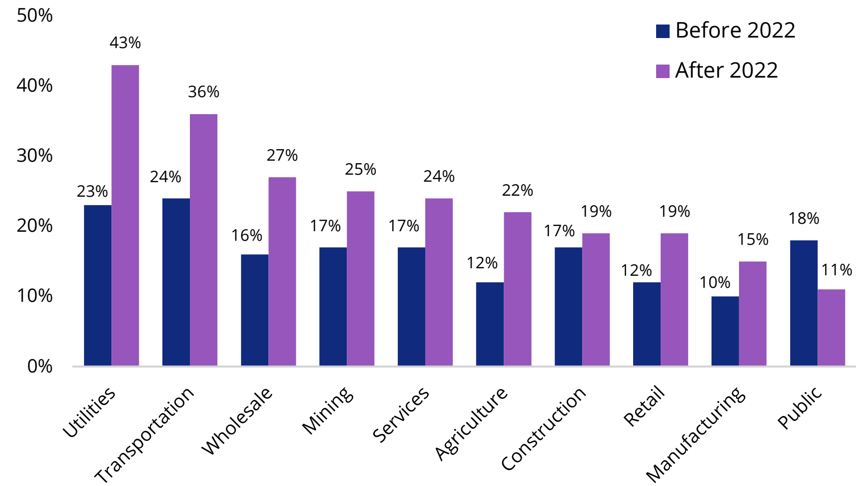
With many of the provisions under the 2017 Tax Cuts and Jobs Act (TCJA) expiring at year-end, tax policy has been a much-discussed topic in the business community. The "One Big Beautiful Bill" Act, which was signed into law in early July, provides clarity on tax policy and promotes long-term economic growth. The equipment finance industry should benefit in multiple ways, including:

- The return to 100% expensing should drive capital expenditure growth. The change, which is permanent, should benefit firms in the capital formation industry, particularly those that enable the financing or outright purchase of equipment.
- The return to an EBITDA-based interest deduction (also permanent) will reduce cost pressures across the industry. Per Foundation research, the 2022 EBIT-based limits increased borrowing costs for lessees in capital-intensive industries (see right chart) and raised average lease costs by up to 8.4%.
- Pass-through businesses should benefit from the now-permanent 20% deduction for qualified business income.

Although not all aspects of the law are positive for the industry — for example, the accelerated phaseout for clean energy tax incentives will reduce investment in some verticals — overall it should provide a boost to capital investment.

Share of Interest Expense Not Deductible

Pre- and Post-EBIT limit imposed in 2022 by industry



Source: Equipment Leasing & Finance Foundation.

Main Street: Cautious Optimism, Despite Macro Headwinds

- Accounting for half of all private employment, small businesses are a vital engine of the U.S. economy. However, over the past few years, they've faced myriad headwinds: persistent inflation, tighter credit conditions, and a tight labor market. Now, tariffs and related uncertainty are adding to the strain.
- Per the U.S. Chamber of Commerce, of the nearly 250,000 U.S. firms that import goods, 97% are small firms, accounting for roughly one-third of imported goods. Smaller firms are more vulnerable to trade policy shifts because they are less able to absorb higher costs. Indeed, 44% of owners expect to raise prices in the next three months, according to the June WSJ/Vistage Small Business CEO Survey.
- Still, some firm owners remain cautiously optimistic. Per WSJ / Vistage, while 26% of owners expect to decrease capital spending, 56% report their plans are unchanged while 14% expected to increase capex. Similarly, NFIB reports that near-term capital expenditure plans improved in May. June saw a slight decline, but the metric remains higher than the January – April average.
- Overall, while many small business owners are understandably wary of the possibility of a consumer spending slowdown and the likelihood of higher costs, the overall mood is more positive than it was this spring.

Capex Plans: Next 3-6 Months

Percent planning a capital expenditure, seasonally adjusted

Source: National Federation of Independent Businesses.

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