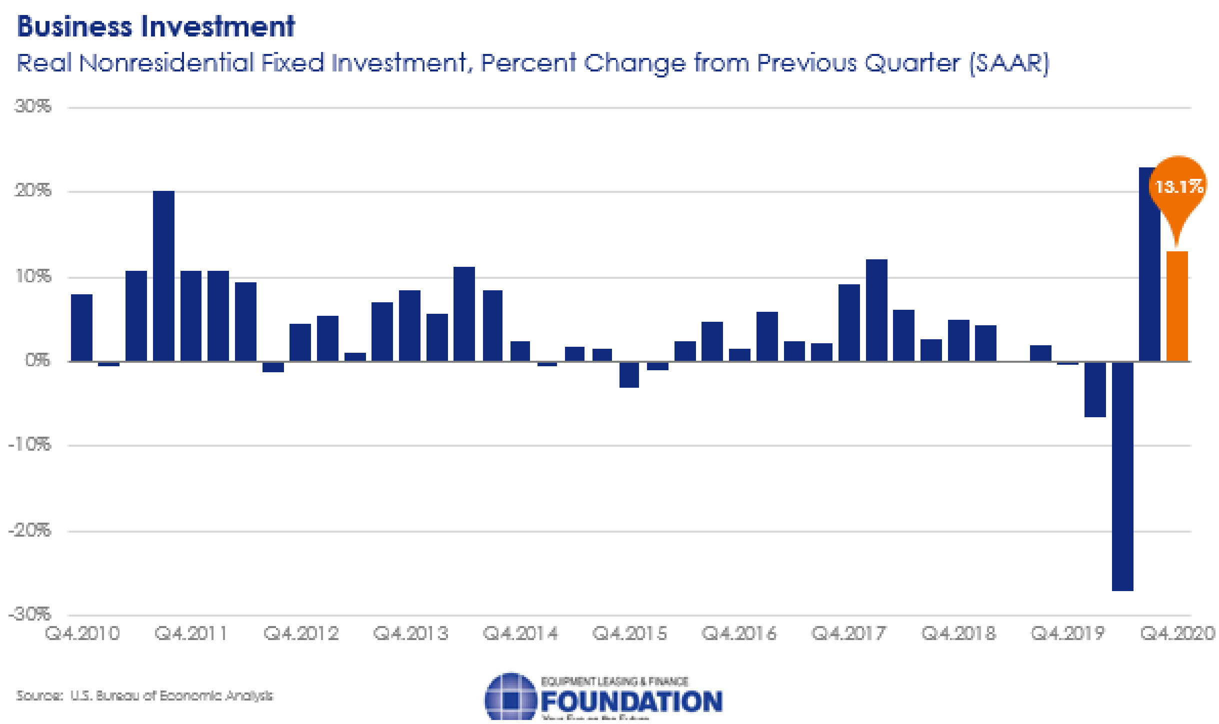
State of Equipment Finance 2021: Randy Haug, Co-Founder, LTi Technology Solutions

Randy Haug, Executive Vice President, Vice Chairman, and Co-Founder of LTi recently spoke about how the equipment finance industry has been dealing with the pandemic, the highs and lows of 2020, and the future of equipment finance for 2021.

Positive economic tailwinds showing through in the marketplace

Many people thought 2020 was going to be a catastrophic year for equipment finance. However, Haug notes that many industry sectors did exceptionally well last year. Part of it is because the economy is very resilient and much more resilient than people thought it was. As shown by the Equipment Leasing & Finance Foundation, Q3 and Q4 2020 were very good quarters for equipment finance companies.

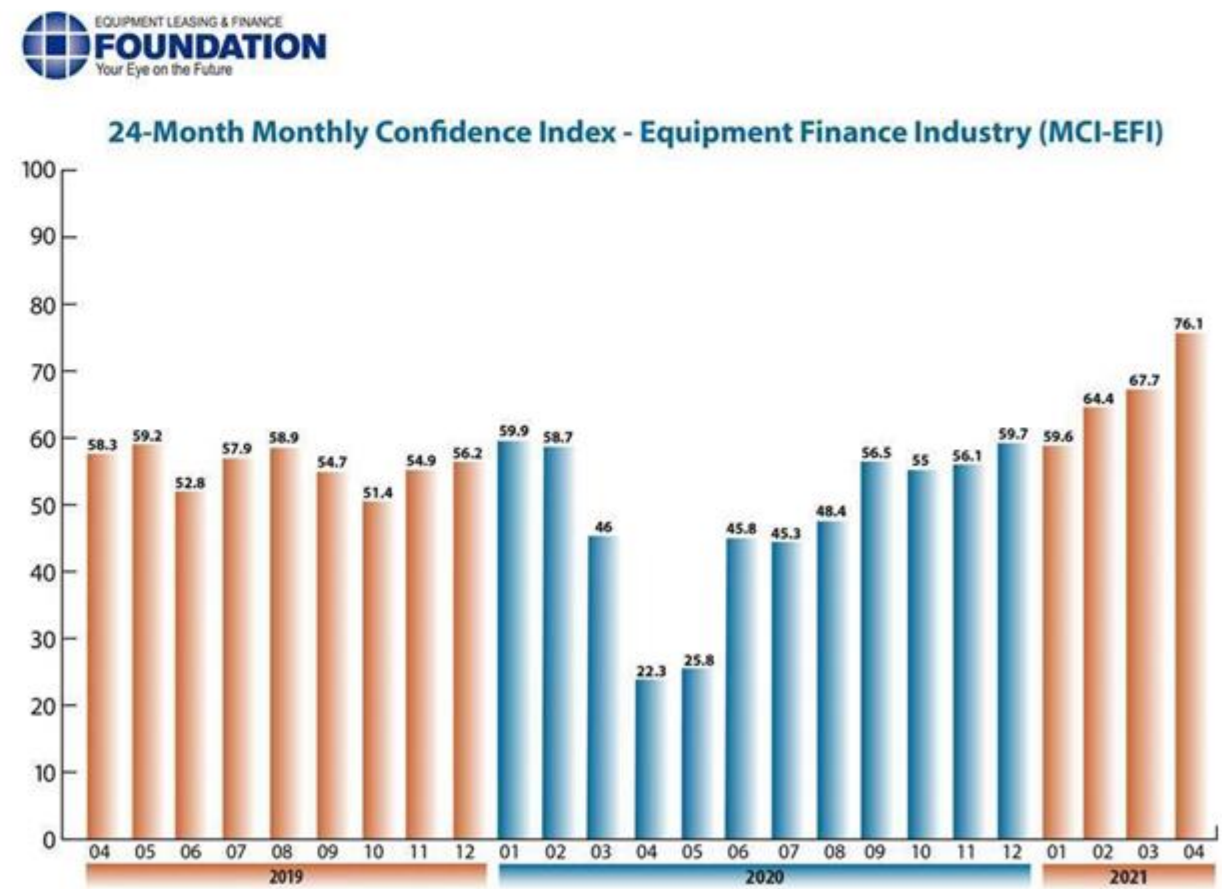
Business investment expanded in Q4, recovering for the second consecutive quarter after dropping during the pandemic. Business investment expanded 13.1% (annualized) in Q4 after rising 22.9% in the previous quarter.[1]



Haug suggests that business investment is expanding due to improving labor markets, continued low interest rates, and strong corporate earnings.

[1] https://www.leasefoundation.org/industry-resources/industry-snapshot/

One of the greatest indicators of where the industry is going is by looking at the Equipment Leasing & Finance Foundation Confidence Index.
The Equipment Leasing and Finance Foundation Reports "confidence in the equipment finance market as 76.1, an all-time high and an increase from the March index of 67.7."[2]



Haug points on that at the beginning of 2020, Confidence Index levels were steady with an average Index of 59.3. Then it begins to decline from March to May 2020. However, the economy proves to be resilient as it steadily rises by June 2020 with now all-time high confidence for April 2021. Haug says that the Confidence Index is being driven by five different factors:

1. People are starting to see the light at the end of the tunnel as far as COVID-19 is concerned. People are getting vaccinated in a quicker fashion, which creates more normalcy for the economy.
2. During 2020, companies were only buying equipment that they needed to replace, but not necessarily growing their business. Now that has changed. There is more pent-up demand and companies are going out and looking for new equipment. Companies are seeing how they can grow their business, get more capital equipment, and hire more people. That pent-up demand from last year is equating to more equipment finance opportunities for the industry.

[2] https://www.leasefoundation.org/industry-resources/monthly-confidence-index/

3. We have learned the hard lessons that came with the digital and technological transformation from the pandemic. People have become much more optimistic. People being more optimistic leads to an optimistic economy, which creates equipment finance demands.
4. Companies see the pent-up demand and want to expand their capital budgets. When the economy shut down last March, no one knew what would happen and didn't want to buy anything. Haug mentions that the government did an exceptional job last year in putting money into helping businesses stay open. The government also helped individuals and families through the crisis and getting money into consumers' pockets.
5. Interest rates are very low making it a favorable time to buy equipment. With businesses back into growth mode instead of hunkering down, people are feeling positive in wanting to spend money to accelerate the economy.

There is huge growth going on in different market segments

Haug believes we have learned a lot from the COVID-19 environment, especially with businesses being forced to go digital. Companies soon realized what their business needed to survive was good technology infrastructure and good networking – two things that are essential for businesses to create more investments.

Haug indicates that there have been some great highlights for several different industries. For instance, for the agriculture industry, crop prices are at an all-time high.[3]

Corn Prices - Historical Annual Data

Year	Average Closing Price	Year Open	Year High	Year Low	Year Close	Annual % Change
2021	$5.6510	$4.8375	$7.3225	$4.8375	$7.3225	51.29%
2020	$3.6393	$3.9150	$4.8400	$3.0645	$4.8400	24.82%
2019	$3.8544	$3.7575	$4.5475	$3.4675	$3.8775	3.40%
2018	$3.7043	$3.5325	$4.0850	$3.4000	$3.7500	6.91%
2017	$3.6162	$3.5575	$4.0200	$3.3650	$3.5075	-0.36%
2016	$3.5964	$3.5150	$4.3775	$3.1105	$3.5200	-1.88%
2015	$3.7829	$3.9575	$4.4075	$3.4825	$3.5875	-9.63%
2014	$4.1626	$4.2050	$5.1920	$3.2075	$3.9700	-5.92%
2013	$5.6872	$6.9075	$7.4050	$4.1200	$4.2200	-39.56%
2012	$6.9160	$6.5850	$8.3125	$5.5150	$6.9825	8.00%

[3] https://www.macrotrends.net/2532/corn-prices-historical-chart-data

From farmers, big Ag companies, to the food services business, the past year has been an absolute success for the agriculture industry. It has created more competition and a very active and fluid financial marketplace. In addition, Haug points out that when farmers are making money, they are spending money on new equipment as well.

When COVID-19 came, equipment finance companies needed to examine more closely how they performed risk rating

Haug feels encouraged after seeing how the COVID-19 environment affected risk rating in the industry. He mentions that there was a point in 2019 where there was a lot of competition and compression on prices that people were charging to finance equipment. Now due to the pandemic, companies are being very careful about who they finance. Haug also looks back historically to 2007–2009, which were some bad economic years. During economic downturns, businesses get more careful about what they finance and the margins they finance in. Deals done in the down years perform better than deals done in the good years because you have more competition and rate compression during the good years. In the good years, businesses get less margin and become less vigilant with credit.

Haug predicts that in the next three to four years, we'll see transactions perform extremely well and leasing companies gaining large profits from it.

The U.S. economy is growing, but it's not frictionless

The U.S. economy has always moved in a stop-and-start type of environment. It's always growing but it's not entirely frictionless. The one thing the U.S. economy has shown through the pandemic is that it is stronger than most countries. By the end of 2021, we're going to see people getting back to a much more normal cycle and what normal looks like moving forward will be directly affected by COVID.

Americans are very resilient. We're much more caring now making sure we're taking care of each other and keeping our families safe while still being able to conduct business either at home or in the office. The flexibility, compassion, and resiliency that have come from the pandemic will be what propels the U.S. economy forward.