

Index Softens For Fourth Consecutive Period - Expectations Wane For 2H Rebound

To get a better view of global air and ocean trade, we partnered with Transport Intelligence Ltd (a UK-based research firm specializing in global logistics) to develop and maintain the Stifel Nicolaus Logistics Confidence Index—a monthly survey of international shippers and forwarders that measures freight activity across several European-based trade lanes. This index is a timely and effective indicator of shipper expectations, in our view, and an important barometer for the health and trajectory of international freight movements. Results for July show continued sequential deterioration in both the present climate and the six-month outlook, although the decline is more pronounced in Air Freight than in Sea Freight. This month's results mark the third consecutive month of reduced forwarder confidence, but future expectations remain positive—above the index threshold value of 50.0. A more detailed analysis of survey results can be found on pages 3-6.

- Confidence among forwarders serving European inbound and outbound trade lanes dipped for a fourth consecutive month in August as sentiment regarding the present situation—already underperforming normal expectations for this time of year—fell even lower. In Sea Freight, current expectations declined 4.6% sequentially from an indexed reading of 45.4 to 43.3. Sentiment for the 6-month expected outlook fell too, from 56.8 to 55.5, although it remained above the 50.0 break-even threshold, indicating that expansion is still expected. But for the first time since the index's inception in March 2012, the logistics confidence metric, which averages the present and expected situation, fell below par. Airfreight saw similar results, with current, expected, and the average "Logistics Confidence" readings posting sequential declines of 3.4% across the board.
- While August results are disappointing, they are not unexpected given less-than-stellar results from the major U.S. and European forwarders that recently reported 2Q12 earnings. U.S. and European demand remain weak in airfreight as macro uncertainty lingers and with no immediate reconciliation in sight. And tempered survey results in the 6-month outlook are consistent with company management expectations for a weak/non-existent peak season this year.
- Breaking-out the results into the respective trade lanes, air freight declined across the board, with Europe-U.S. seeing the biggest drop-off in current results at (5.8%), while Europe-Asia expects the biggest decline at (4.6%). Hitherto resilient Sea Freight levels also faltered versus last month. Europe-U.S. transit was the strongest, and was the only lane among all trade routes and modes polled to show any increase in results in its expected situation, with a sequential increase of 2.2%. Still, real-time results there contracted by 0.6%. U.S. to Europe saw the heaviest contraction in its current condition, with an 8.3% sequential drop, although the 6-month outlook fell only slightly.
- **Investment conclusions:** The current European debt situation continues to weigh on European demand for imports. As the year wears on, expectations for a 2H rebound seem less likely, in our view, and expectations for a 2012 peak are slim. Optimistically, the expected situation calls for expansion by 1Q13. The most significant read-through from this month's survey results is for UTi Worldwide (UTIW; \$13.58; Buy), as they are the only forwarder in our space that is yet to report. Volumes remain tepid-to-weak, and carrier price increases are likely to have squeezed Freight Forwarding margins this quarter (in Ocean), but we believe most of the bad news has been priced-in - just no real upside near-term. The current market is, in our view, the perfect storm of negativity for forwarders, given weak volumes and the ocean margin squeeze, but the latter situation should begin to roll over shortly, in our view, as should the former, if confidence index expectations translate to growth in six months. We remain most positive on those forwarders, like UTIW and Swiss-based Panalpina (PWTN-SIX; CHF92.70; Buy) with cost and productivity improvements that can be made to improve the margin even in an uninspiring international freight market.

David G. Ross, CFA dross@stifel.com (443) 224-1316
J. Bruce Chan chanb@stifel.com (443) 224-1386
Stifel Nicolaus Equity Trading Desk US: (800) 424-8870 Canada: (866) 752-4446

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** To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/AuSe2012>*



Logistics Confidence Index

Overview – August 2012

Logistics Confidence Deteriorates Further in August

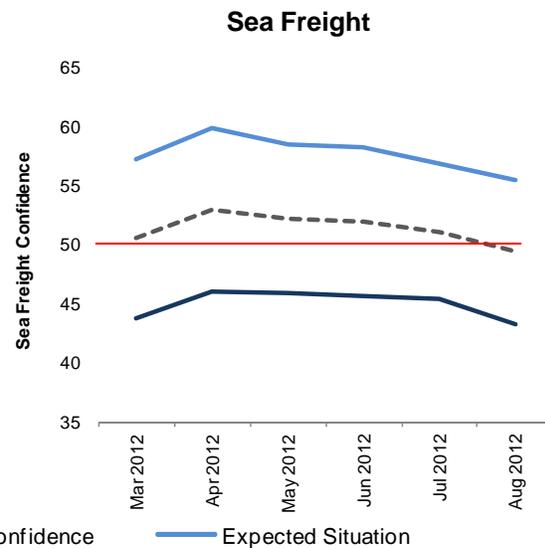
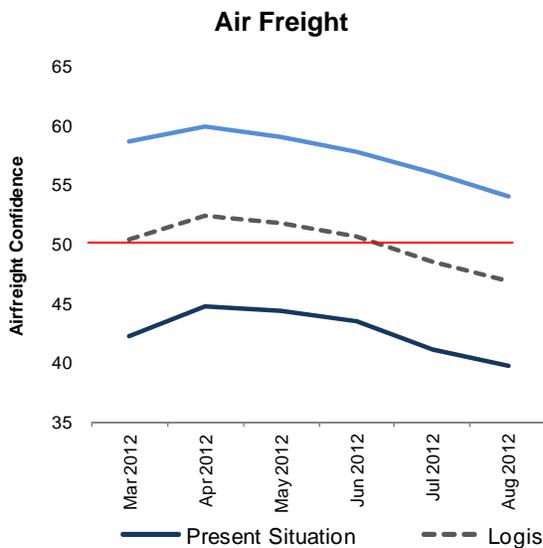
In August, overall confidence in freight volumes continued to fall further, both in terms of the current situation and expectations for the next six months. The index for logistics confidence, which gauges overall confidence in the market, remained below the significant 50 mark for the second consecutive month.

The index for the current logistics situation- for both air and sea freight combined- dropped to 41.5 from 43.3 in July, marking the fourth consecutive month of decline. The sea freight index, which had remained relatively stable since April, was down 2.1 index points to 43.3; meanwhile the index for air fell 1.4 points to 39.7.

In terms of the outlook for the next six months, volumes are still expected to increase, although at a slower rate than expressed last month. The total index for logistics expectations for both air and sea registered 54.8 in August compared with 56.4 in July.



The logistics situation index illustrates current condition faced by forwarders, while the logistics expectations index shows how the situation is expected to develop over the next six months. The logistics confidence index, an average of both the present situation and expected situation indices, expresses overall confidence in the market.



	Present Situation	Expected Situation	Confidence
Mode	Aug 2012	Feb 2013	Average
Air Freight	39.7	54.1	46.9
Sea Freight	43.3	55.5	49.4
Total Freight	41.5	54.8	48.2

Source for all data and graphs: Stifel Nicolaus Logistics Confidence Index

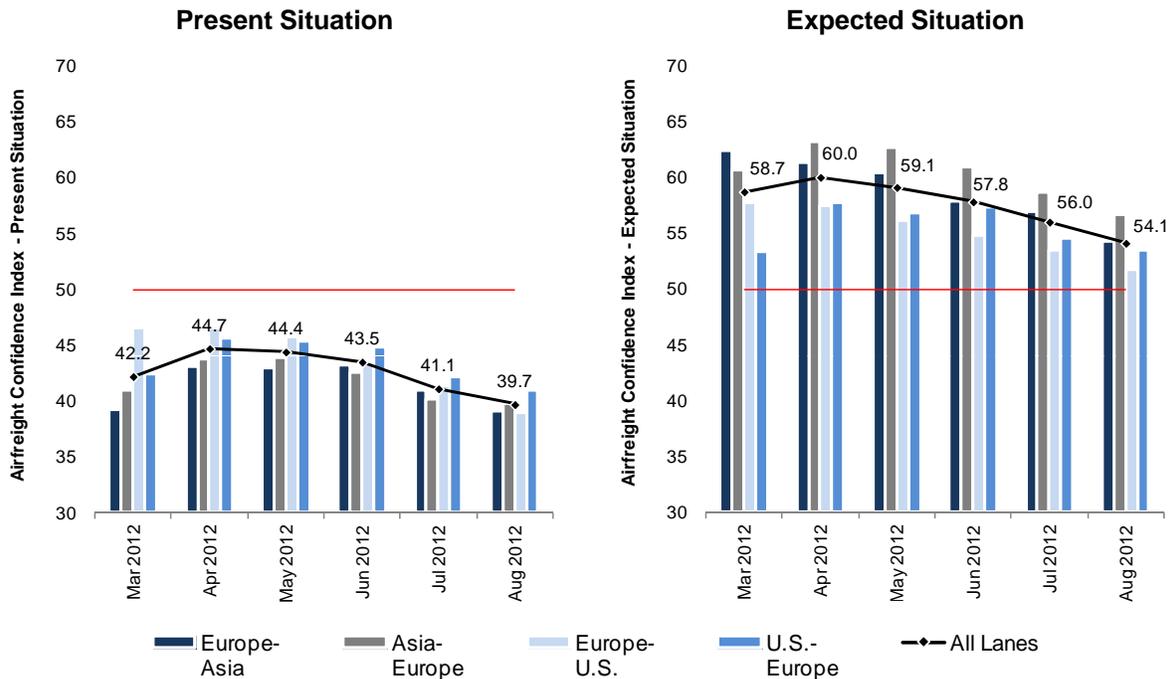


Logistics Confidence Index

Air Freight Confidence Index

Weaker volumes on all trade lanes led to a further decline in the index for the present situation. After peaking in April, the index has fallen for the last four consecutive months. Forwarders operating on the Europe to US route experienced the weakest volumes relative to the time of year, with the index falling to 39.0 in August from 41.4 in the previous month. The US to Europe trade lane continued to record the highest index value; although at just 41.0 it still indicates significantly lower volumes relative to the time of year.

In terms of expectations for the next six months, forwarder confidence continued to decline as the index fell to 54.1 from 56.0 in July. However, the index remained above the significant 50.0 mark; indicating volumes are still expected to pick up. Forwarders on all trade lanes were slightly less optimistic than in July, with performance forecast to be weakest on the Europe to US trade lane relative to the time of year. By contrast, the Asia to Europe lane is expected to see the greatest improvement in volumes.



Trade Lane	Air Freight		
	Aug 2012	Feb 2013	Confidence
Europe-Asia	39.1	54.3	46.7
Asia-Europe	39.8	56.6	48.2
Europe-U.S.	39.0	51.8	45.4
U.S.-Europe	41.0	53.5	47.3
Total Index	39.7	54.1	46.9

Source for all data and graphs: Stifel Nicolaus Logistics Confidence Index



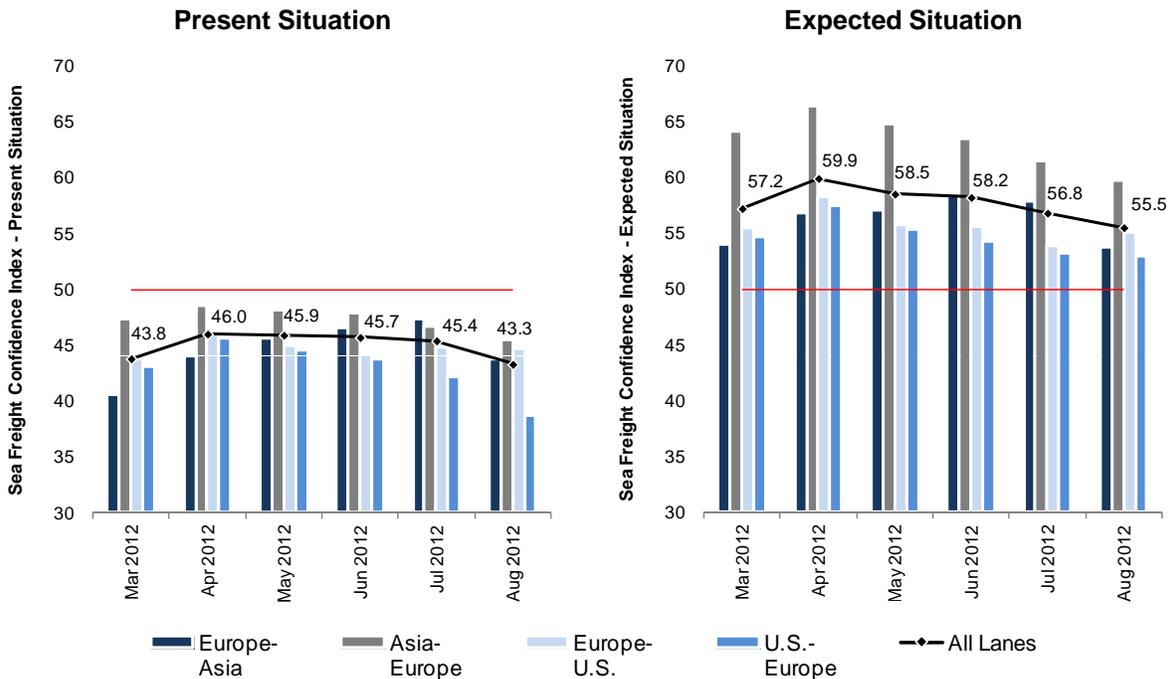
Logistics Confidence Index

Sea Freight Confidence Index

The index for the current situation- which had remained relatively stable for the last four months- fell to its lowest level so far at 43.3 in August.

Sea forwarders on the US to Europe lane expressed the weakest conditions relative to the time of year- the index fell 3.5 index points to 38.7 in August. The Europe to Asia lane also recorded a moderate deterioration with the index down 3.7 points to 43.7 for the month. Volumes on the Europe to US and Asia to Europe routes only saw minor month-on-month declines.

The overall index for logistics expectations also declined, although at a slightly slower rate than the index for the current situation. In terms of outlook, there was also more variation among individual trade lanes. Forwarders on the Europe to US route expressed the greatest optimism about future volumes as the index was up 1.2 index points to 55.1 in August, from 53.9 in the previous month. By contrast, six-month expectations for the Europe to Asia route fell 4.1 index points to 53.7 from 57.8 in July.



Trade Lane	Sea Freight		
	Aug 2012	Feb 2013	Confidence
Europe-Asia	43.7	53.7	48.7
Asia-Europe	45.5	59.7	52.6
Europe-U.S.	44.7	55.1	49.9
U.S.-Europe	38.7	52.9	45.8
Total Index	43.3	55.5	49.4

Source for all data and graphs: Stifel Nicolaus Logistics Confidence Index



Logistics Confidence Index

Methodology

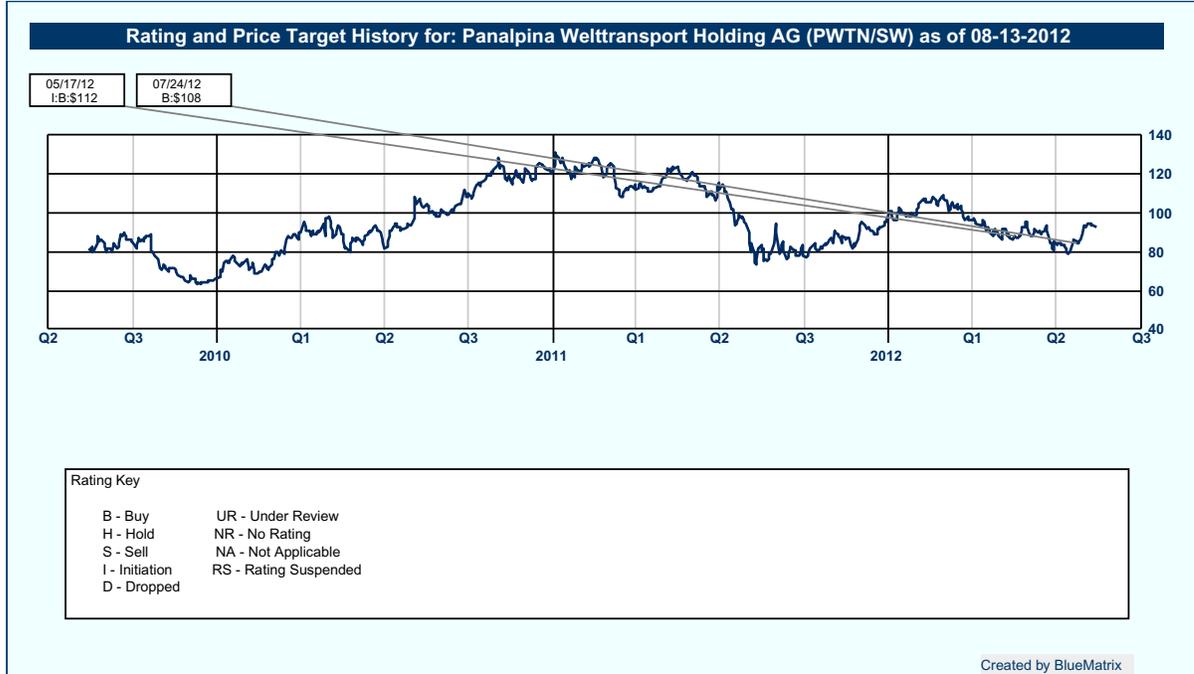
The Stifel Nicolaus Logistics Confidence Index is calculated based on responses from a monthly survey, completed by a number of logistics professionals. The survey questions participants as to volumes that they are currently experiencing, relative to the time of year, as well as how they expect volumes to develop over the next six months. The total index covers four European based trade lanes, including:

- Europe to Asia
- Asia to Europe
- Europe to US
- US to Europe.

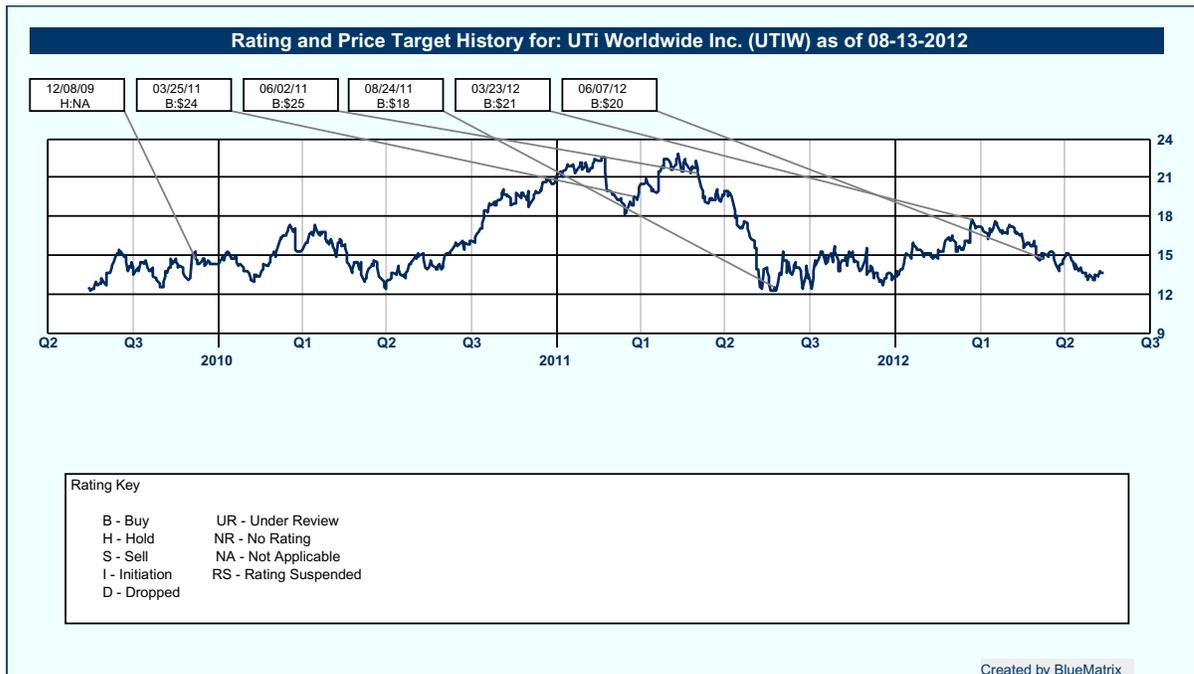
These trade lanes form four sub-indices, from which an overall index for both the air freight industry and sea freight industry is calculated. An index value of 50 indicates no change in the volumes of partaking logistics companies; above 50 indicates higher volumes, while below 50 indicates lower volumes.

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For a price chart with our ratings and target price changes for UTIW go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=UTIW>

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