

Air and Sea Freight Volumes Up vs. 2013, But Growth Rate Expected to Decline

The Stifel Logistics Confidence Index (LCI) dipped slightly to 55.7 in August from last month's 56.1 (but remains above the 52.4 recorded in August 2013). The general trend in both airfreight and ocean freight is positive sequential growth in current volumes, though not enough to offset larger declines in expectations for the six-month outlook. Prepared in conjunction with U.K.-based Transport Intelligence, the overall index is a survey-based measure of activity in major European import and export trade lanes, blending present conditions and six-month expectations for both airfreight and ocean freight volumes. Of all the lanes, Asia-Europe still engenders the most confidence among respondents on an absolute basis, signifying that they still expect that lane to generate the most freight volume come February (adjusted for timing of Chinese New Year). In our view, convergence of present perceptions and the future outlook suggest that Europe-based international trade is recovering slowly, but that growth may slow as we move into 2015.

- **The Current LCI index moves higher, reflecting sequential and year-over-year growth in major European international trade lanes, but future expectations for growth moderated.** In our view, the latter is indicative of continued slow recovery, with expansion tapering into 1H15. It is also indicative of an environment that, while improved, is by no means robust, in our view. We believe forwarding market growth will be in the low-to-mid single digits, and that gains beyond that range will have to come from market share wins.
- **As a general rule, the airfreight sector tends to be more volatile than the ocean freight sector** (due to smaller market and occasional demand spikes that shock global supply chains), but a slower than normal recovery has led to limited airfreight gains. The current airfreight volume index was sequentially flat, and expectations came down 3.3 points overall vs. last month. The decline in the latter could have to do with the timing of Chinese New Year, which falls in the middle of February 2015, whereas it fell at the end of January earlier this year; however, a declining expected situation index more likely simply suggests slowing growth.
- **The current sea freight index rose 2.2 points, with neutral or positive sequential growth across all lanes. Expectations slipped 0.7 points from July, which mirrored the results in airfreight, but to a lesser degree.** We note that Chinese New Year should not have as big of an effect on February numbers, given the latency inherent in ocean cargo. Ocean freight has and should continue to see stronger growth than airfreight, but we believe that like airfreight, the rate of change will continue to decelerate.
- **This month, we asked respondents if they have converted any airfreight to sea freight or vice-versa.** 48% noted they had converted some air to ocean in the last 12 months, whereas 39% suggested that they had converted some sea freight to airfreight. Many respondents also indicated that they were taking an increasingly multimodal approach, with hybridized air-sea solutions, air-truck solutions, etc. In our view, forwarders with greater scale and better relationships and the technology necessary to offer more flexible solutions will be the ones that take share, as customers reassess their supply chains and respond to cost pressures and service needs.
- **Investment Conclusions:** the LCI index dip this month is consistent with the conservatism in freight forwarder management forecasts and our low-to-mid-single-digit market volume growth expectations. Overcapacity continues to be an issue in both modes, as does unit-level profitability. Without a marked improvement in global transcontinental trade, and/or higher carrier rates, we believe that global forwarder valuations remain fair. We maintain our Hold ratings on those most exposed to European forwarding markets, DPW-XE (Deutsche Post DHL, EUR 24.36, Hold), KNIN-SIX (Kuehne + Nagel, CHF 123.30, Hold), and PWTN-SIX (Panalpina, CHF 130.80, Hold), due mainly to valuation.

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Prices as of U.S. market close, 8/19/2014.

*** To participate in next month's survey and receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/TWW7HBP>**

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Logistics Confidence Index

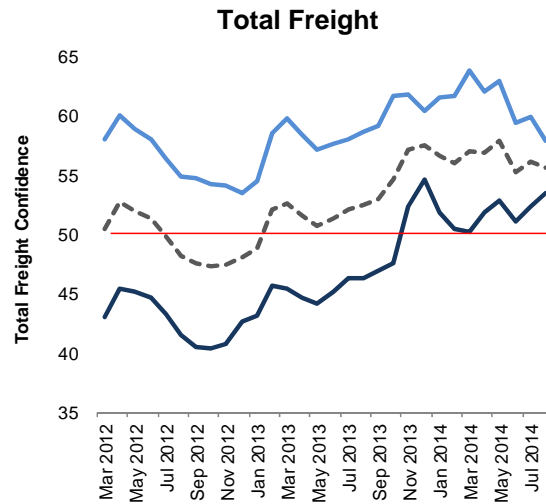
Overview – August 2014

The overall present situation edged higher as both air and sea made positive gains. However, expectations were mixed as the outlook for airfreight dimmed. As a result, the overall Logistics Confidence Index slipped for August 2014.

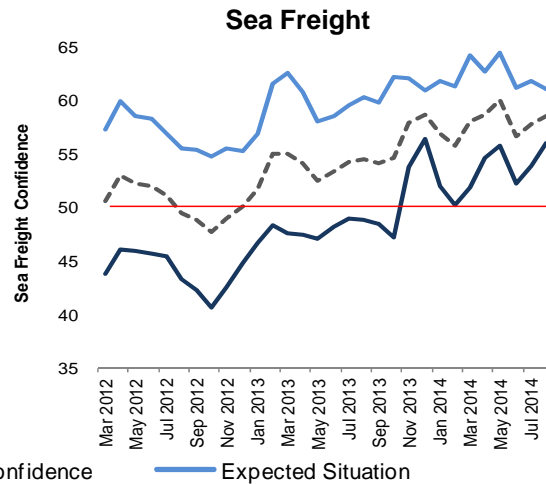
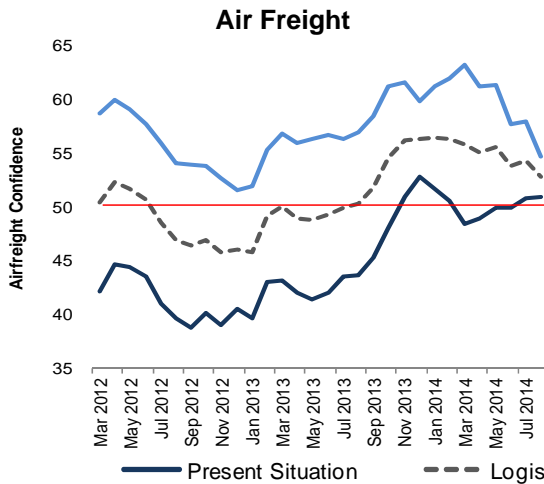
At 55.7, the Logistics Confidence Index score recorded in August was 0.4 index points lower than the score recorded in July. Still, the index remained above the 50-mark for a nineteenth consecutive month.

Regarding the present situation, the total freight index increased 1.2 points to 53.5 for the current month, the index for sea freight increased 2.2 points from July to 56.0, and the air freight index increased 0.1 points to 50.9 for the month. For total freight, the expected situation index stumbled 2.0 index points to 57.9.

For the August one off question, we asked survey participants if they had converted airfreight to ocean freight in the past 12 months—48.0% indicated yes whereas 52.0% said no. As for converting ocean to airfreight, 38.7% had, while 61.3% had not.



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 2014 | Feb 2015 | Average |
| Air Freight | 50.9 | 54.7 | 52.8 |
| Sea Freight | 56.0 | 61.0 | 58.5 |
| Total Freight | 53.5 | 57.9 | 55.7 |

Source for all data and graphs: Stifel Logistics Confidence Index

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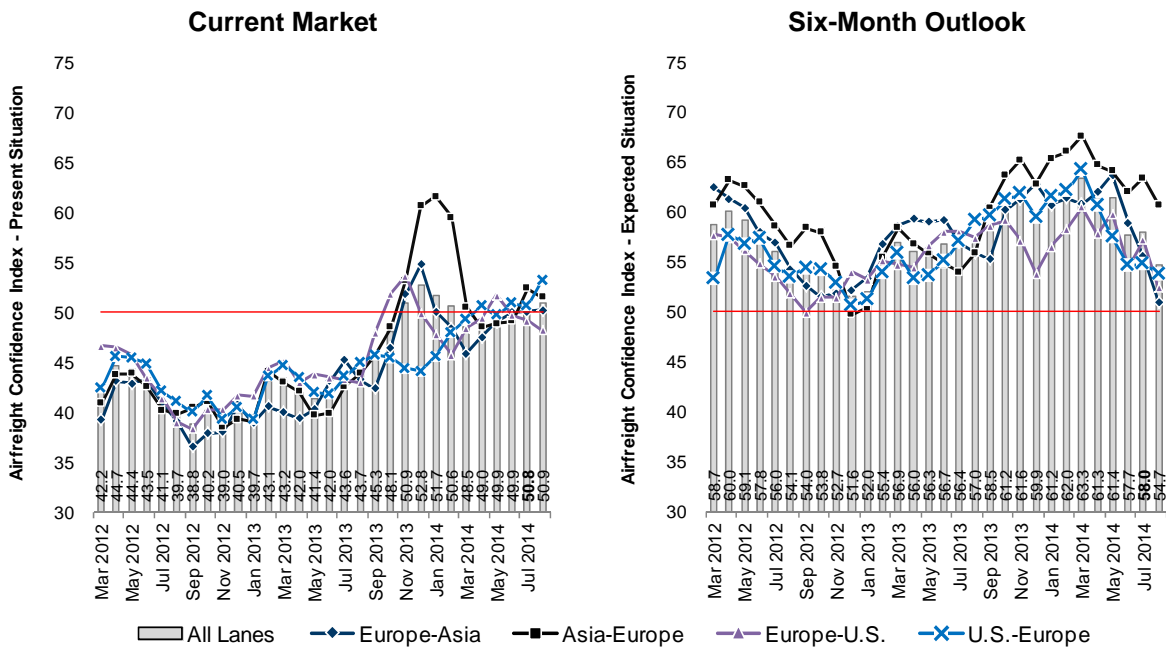
Logistics Confidence Index

Air Freight Confidence Index

The total air freight logistics confidence index declined 1.6 points to 52.8 in August 2014. Compared with August 2013, the index is 2.4 points higher.

In terms of the present situation, the total air index registered 50.9 for the month. Lanes were mixed with declines noted on the Asia to Europe and Europe to US lanes, with falls of 0.9 and 1.0 points recorded respectively. US to Europe increased 2.6 points to 53.2 while Europe to Asia increased slightly, up 0.1 points to 50.2.

Looking ahead six months, the expected situation index for total air freight fell 3.3 points to 54.7 in August. Declines were recorded for all lanes with Europe to US declining the most at 4.8 points to 52.4, followed by Europe to Asia which fell 4.5 points to 51.0. Asia to Europe declined 2.7 points to 60.7, with the US to Europe lane declining the least – down 1.0 points to 53.8.



| Air Freight | | | |
|--------------------|-------------|-------------|-------------|
| Trade Lane | Aug 2014 | Feb 2015 | Confidence |
| Europe-Asia | 50.2 | 51.0 | 50.6 |
| Asia-Europe | 51.5 | 60.7 | 56.1 |
| Europe-U.S. | 48.2 | 52.4 | 50.3 |
| U.S.-Europe | 53.2 | 53.8 | 53.5 |
| Total Index | 50.9 | 54.7 | 52.8 |

Source for all data and graphs: Stifel Logistics Confidence Index

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Logistics Confidence Index

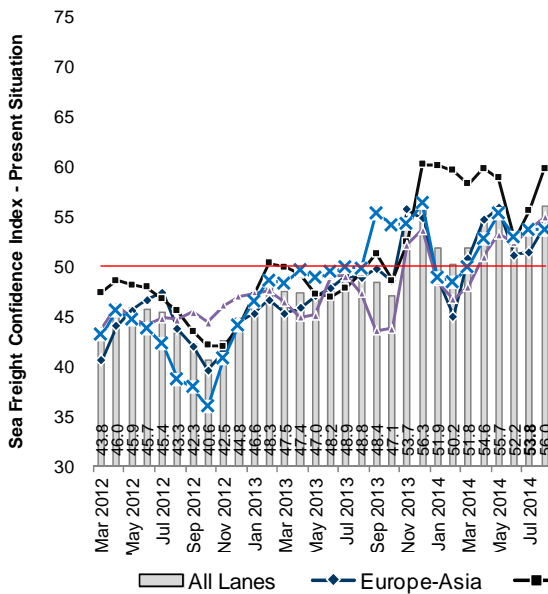
Sea Freight Confidence Index

For sea freight, the logistics confidence index increased 0.7 points to 58.5 in August. Compared with the same month in 2013, the index was 4.3 points higher.

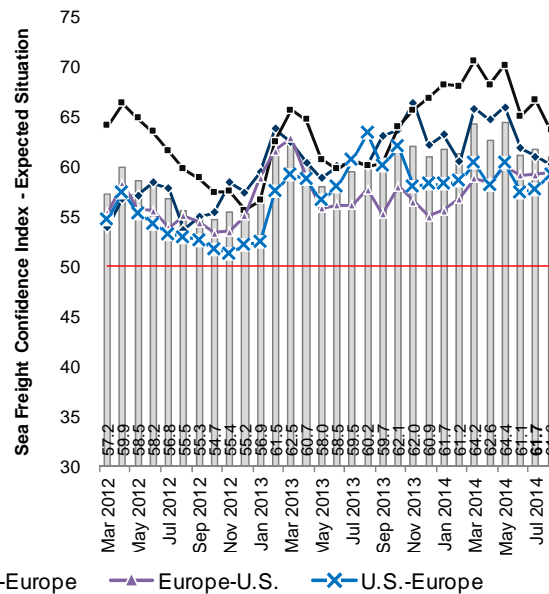
For the present situation, the index climbed 2.2 points to 56.0. Three tradelanes noted increases. The Asia to Europe lane increased 4.2 points to 59.8. Meanwhile, the Europe to Asia lane recorded a 2.6 point rise to 54.0 in August. The Europe to US route rose 1.2 index points to 54.9, while the US to Europe lane noted no change at 53.7.

The expected situation index for sea freight declined 0.7 points to 61.0. Lanes were mixed as Europe to Asia noted a 0.8 slip to 60.2 while the Asia to Europe lane declined the most, falling 3.0 points to 63.6 for the month. The Europe to US lane climbed 0.2 points to 59.4 and US to Europe increased 1.5 points to 59.2.

Current Market



Six-Month Outlook



| Sea Freight | | | |
|--------------------|-------------|-------------|-------------|
| Trade Lane | Aug 2014 | Feb 2015 | Confidence |
| Europe-Asia | 54.0 | 60.2 | 57.1 |
| Asia-Europe | 59.8 | 63.6 | 61.7 |
| Europe-U.S. | 54.9 | 59.4 | 57.2 |
| U.S.-Europe | 53.7 | 59.2 | 56.5 |
| Total Index | 56.0 | 61.0 | 58.5 |

Source for all data and graphs: Stifel Logistics Confidence Index

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Logistics Confidence Index

Methodology

The Stifel 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:

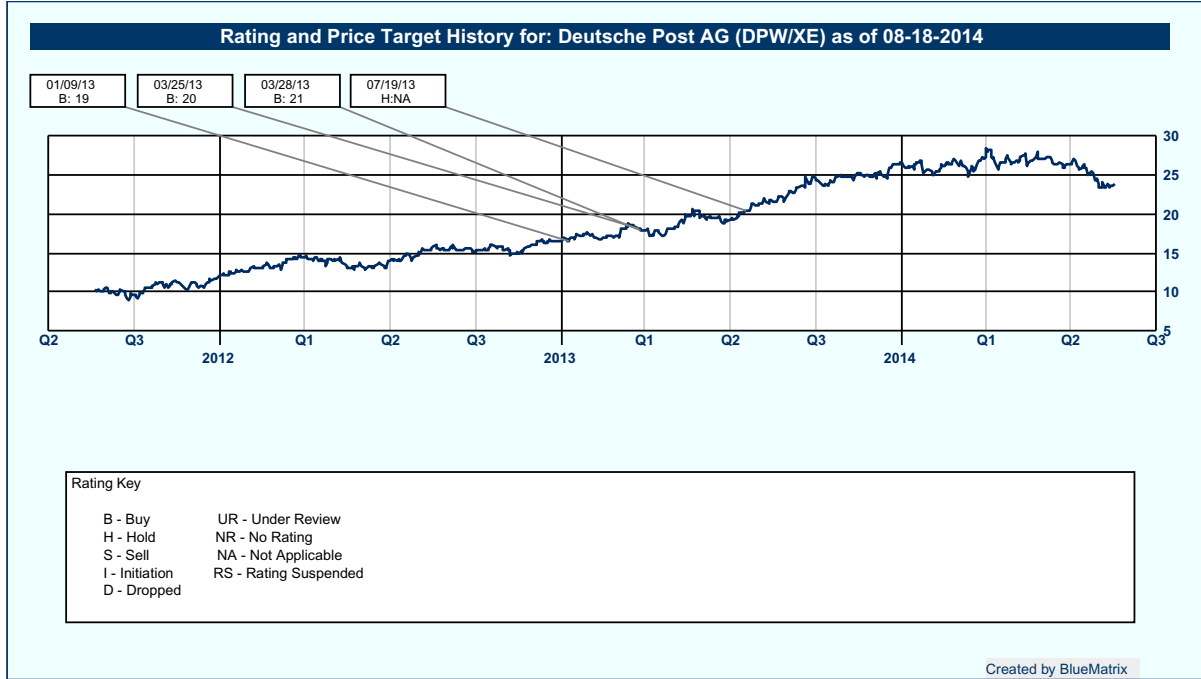
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

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.

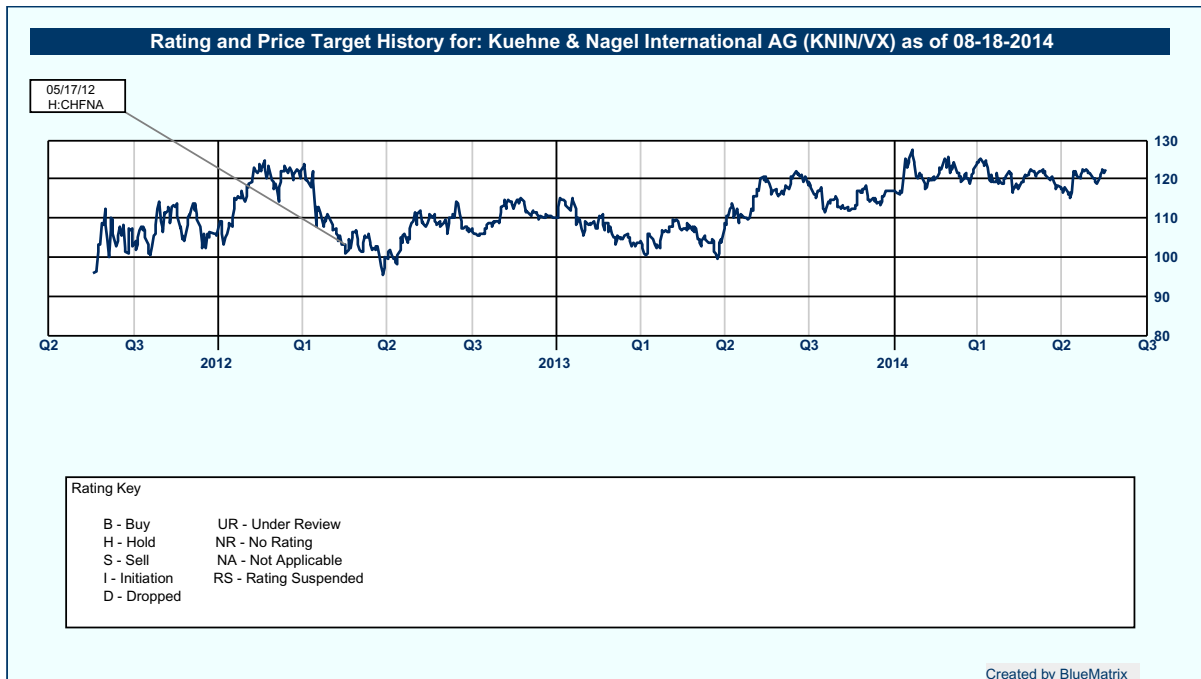
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/TWW7HBP>

Important Disclosures and Certifications

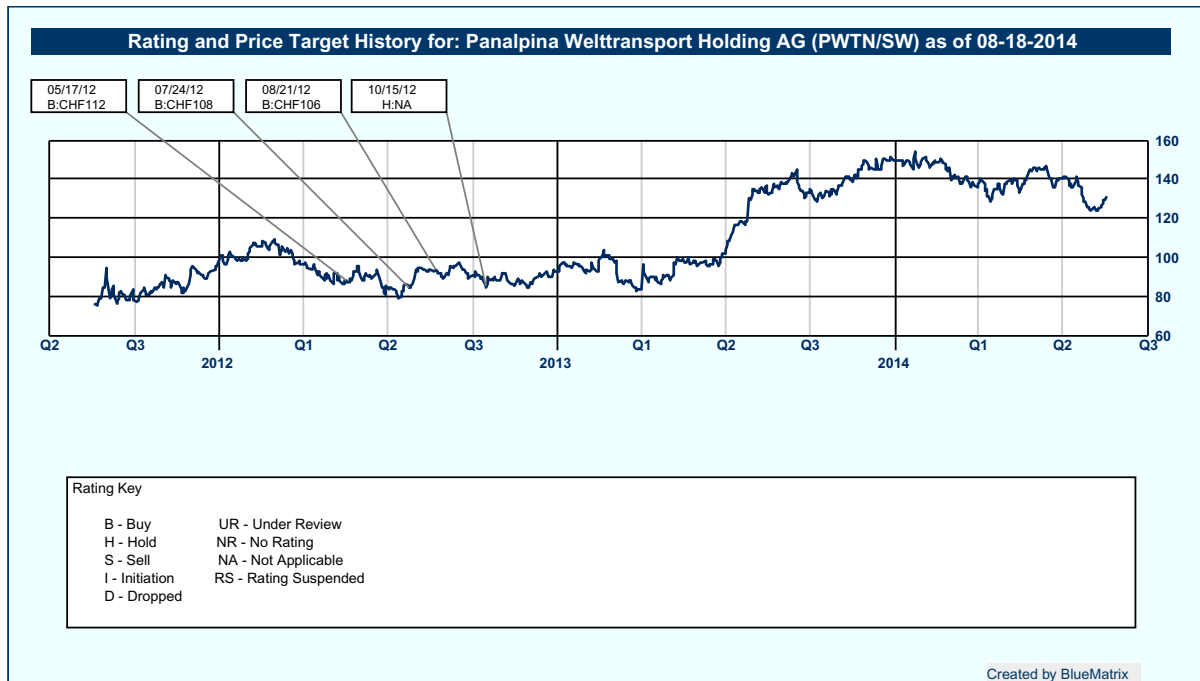
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