

**Improved Reading for Second Straight Month, But Current Environment Still Weak**

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 create the Stifel Nicolaus Logistics Confidence Index (LCI)—a monthly survey of international shippers and forwarders that measures freight activity across several European-based trade lanes. The 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. In December, the Index rose for a second consecutive month—a welcome development in an industry that continues to face pressure from uncertain global macro conditions. Some optimism is warranted going into 2013, in our view, provided it is tempered by the understanding that conditions are still weaker than seasonally normal, and that the six-month outlook continues to moderate. Please see pp. 3-6 for more detailed analysis of survey results.

- **December marked the second, consecutive improvement in the overall Stifel Confidence Index, as it rose 0.6 points to 48.0.** The increase was favorable, but index readings remain notably below the 50.0 threshold, indicating that the current environment continues to underperform normal expectations for this time of year. Also, despite positive traction in the current environment, expectations for the six-month market outlook have become slightly less optimistic.
- **The current airfreight market index increased sequentially by 1.5 points in December to 40.5 (up 3.8%).** This increase was one of only two sequential increases since April 2012, the other having occurred in October 2012 as the apparent result of episodic product launches. December's improvement was consistent across all trade lanes, with the Europe to Asia lane seeing the greatest improvement at 7.1%, sequentially. Asia to Europe saw the smallest improvement at 2.1%, and continues, not unexpectedly, in our view, to indicate the most difficult conditions, with an index value of 39.3—10.7 points below the par value reading of 50.0.
- **December saw current sentiment in ocean freight volumes rise to their highest level in five months, posting a sequential gain in each of the four Europe-based lanes.** Current volumes continue to be stronger in European export lanes and weaker in European import lanes (not surprising given the difficulties seen in the European economies now). Results in the six-month outlook were mixed, with some contraction in expectations for Europe-Asia and Asia-Europe, but improvement in the outlook for Europe-U.S. and U.S-Europe.
- **Interestingly, in this month's one-off poll question about re-shoring, 46% of respondents said they were seeing manufacturing return from Asia to North America and Europe,** while 37% said they were not seeing this trend, and the rest were unsure. We believe the results may reflect differences in the industry vertical of each, respective respondent, as we are hearing less about re-shoring/near-shoring in the high-tech sector than in general industrial manufacturing. Our view is that companies are evaluating sourcing options. Rather than uproot from Asia, additional plants may be added in Eastern Europe and the Americas to serve those populations, whereas current Asian facilities feeding the rest of the world are likely to be converted to serve the growing Asian market.
- **Investment Conclusions:** Airfreight markets continue to suffer as economic uncertainty pervades—not just in Europe, but also in the U.S., with questions about the direction of fiscal policy. Stronger-than-expected holiday retail activity and lean inventories in the high-tech sector may have contributed to the boost in current index readings. Aside from an inventory restocking push in early 2013, the potential for an ILA port strike in January could continue to drive some air volume over the next couple months, in our view. Over the next 12 months, we continue to highlight FedEx (FDX, \$91.02, Buy), and now also Expeditors International of Washington, Inc. (EXPD, \$38.60, Buy) as likely beneficiaries of further improvements in the air cargo market.

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**All relevant disclosures and certifications appear on pages 7 - 9 of this report.**

*Prices as of 12/17/12 U.S. market close.*

**\* 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/SNLCIDJ>**



## Logistics Confidence Index

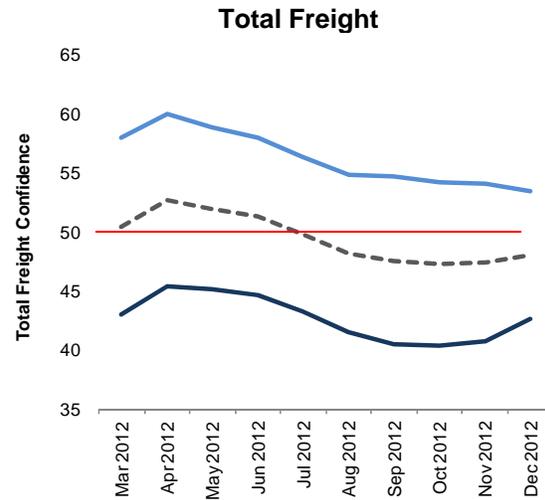
### Overview – December 2012

#### Current Situation Improves While Expectations Deteriorate

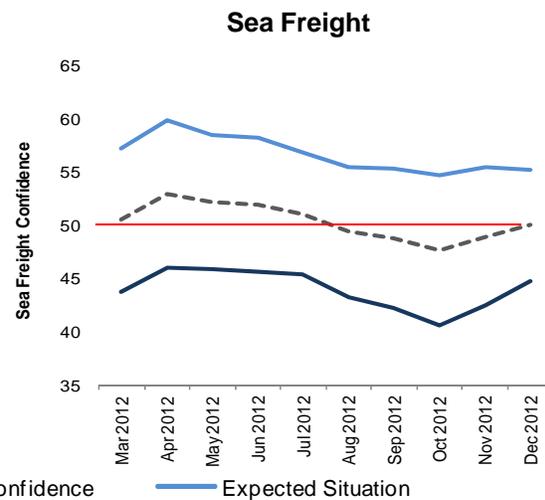
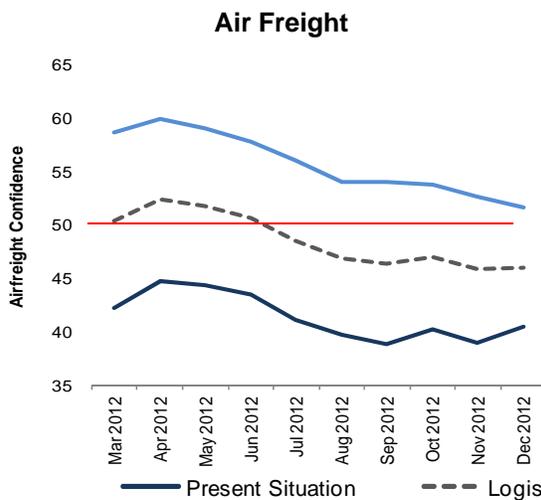
The Stifel Nicolaus Logistics Confidence Index rose for the second consecutive month in December. The index for the current and expected situation combined increased 0.6 points to 48.0 compared with 47.4 in November.

The increase in the overall confidence was driven by an improvement in the index for the current logistics situation, up 1.9 points at 42.7 in December. However, the index remains well below the 50.0 threshold as forwarders continue to experience weaker volumes relative to the time of year. In terms of logistics expectations, the index fell 0.7 points to 53.4 in December. Forwarders were slightly less confident about developments in volumes over the next six months than they were in November. However, despite eight consecutive months of decline, the index for logistics expectations still remains above the 50 threshold.

In this month's one-off question, we asked survey participants whether they believed manufacturers are increasingly returning the production of goods to North America and Europe from Asia. The results revealed that the larger proportion of participants (46%) believe this trend is taking place, while a slightly smaller percentage (37%) does not. The remainder (17%) were 'unsure'.



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     |
|----------------------|-------------------|--------------------|----------------|
| <b>Mode</b>          | <b>Dec 2012</b>   | <b>Jun 2013</b>    | <b>Average</b> |
| Air Freight          | 40.5              | 51.6               | 46.1           |
| Sea Freight          | 44.8              | 55.2               | 50.0           |
| <b>Total Freight</b> | <b>42.7</b>       | <b>53.4</b>        | <b>48.0</b>    |

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



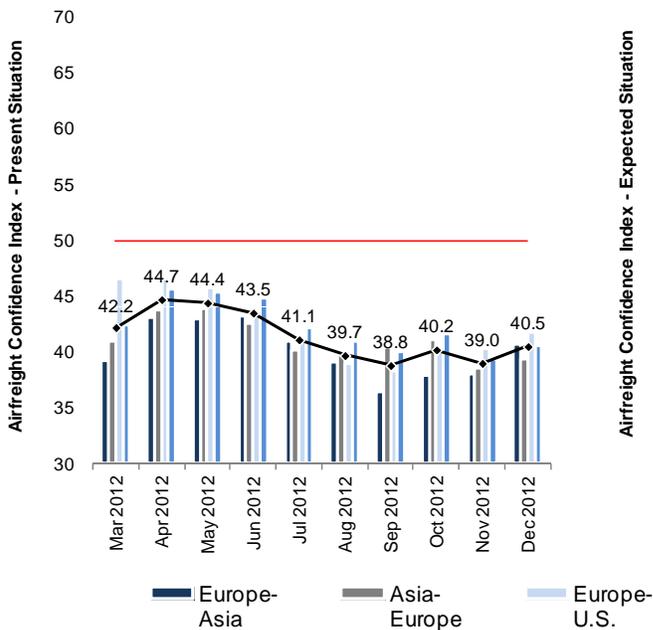
## Logistics Confidence Index

### Air Freight Confidence Index

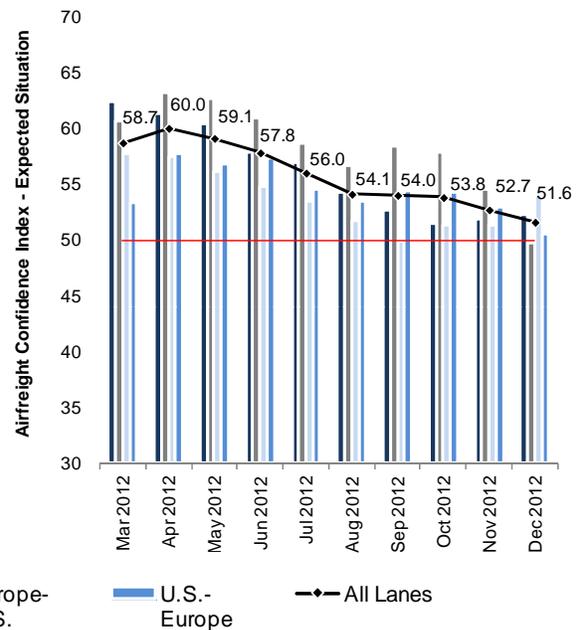
Following a decline in November, the index for the current airfreight market increased 1.5 points in December to 40.5. The improvement was consistent across all trade lanes, with the individual indices all experiencing increases for the month. The Europe to Asia lane saw the greatest improvement up 2.7 index points to 40.7. Meanwhile, forwarders on the Asia to Europe lane continued to indicate the most difficult conditions with an index value of 39.3 (although the index was still up 0.8 points compared with November).

For the six-month outlook, the breakdown by trade lane revealed more varied developments. While the overall index fell 1.1 points to 51.6 in December, this was driven by a decline in the indices for Europe bound air freight. For the Asia to Europe route the index fell 4.8 points to 49.7, while the US to Europe route fell 2.3 points to 50.6. In contrast, forwarders operating on the Europe to US route were more positive about the six month outlook in December (the index for this lane increased 2.6 points to 54.0). On the Europe to Asia route, the index also recorded a minor increase up 0.3 points to 52.2.

**Current Market**



**Six-Month Outlook**



| Air Freight        |             |             |             |
|--------------------|-------------|-------------|-------------|
| Trade Lane         | Dec 2012    | Jun 2013    | Confidence  |
| Europe-Asia        | 40.7        | 52.2        | 46.5        |
| Asia-Europe        | 39.3        | 49.7        | 44.5        |
| Europe-U.S.        | 41.7        | 54.0        | 47.9        |
| U.S.-Europe        | 40.5        | 50.6        | 45.6        |
| <b>Total Index</b> | <b>40.5</b> | <b>51.6</b> | <b>46.1</b> |

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



## Logistics Confidence Index

### Sea Freight Confidence Index

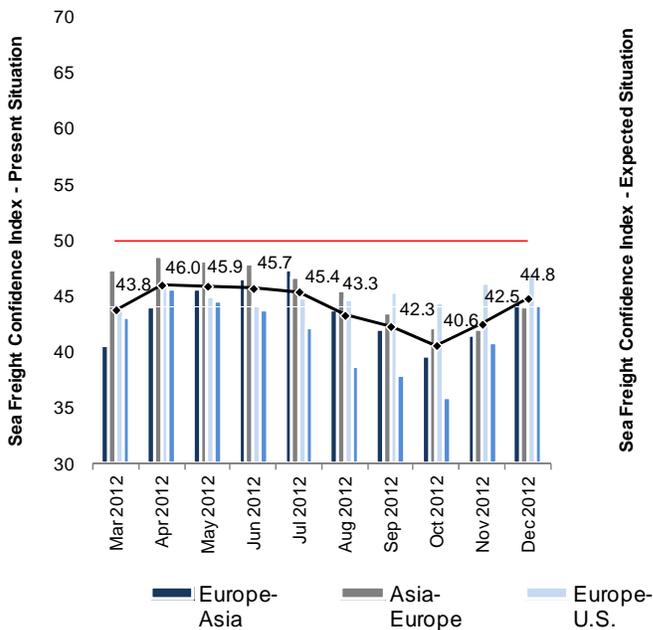
Registering its highest value in five months, the index for the current sea freight market rose 2.3 points to 44.8 in December. The breakdown by trade lane shows that the indices for all routes improved compared with November.

The index for the US to Europe route recorded the greatest increase up 3.3 points to 44.1 for the month. However, the US to Europe lane continued to point towards the strongest volumes relative to the time of year. The index registered 47.0, the highest reading for this trade route since the index began in March.

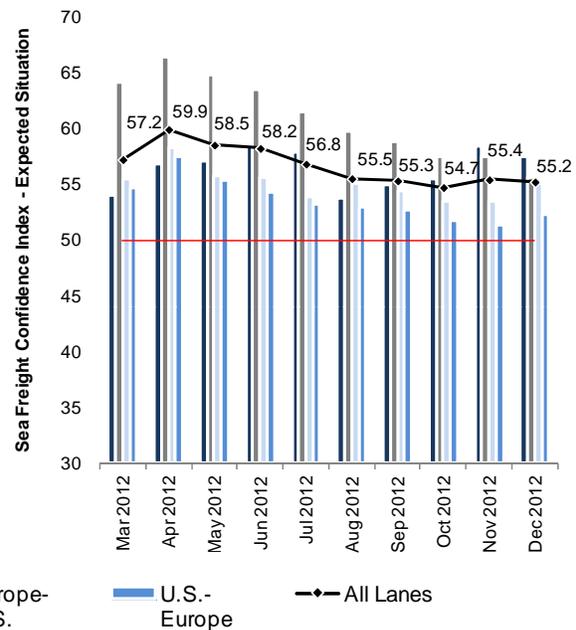
In terms of logistics expectations, the sea freight index registered a minor decline; down 0.2 index points to 55.2 in December. The index for expectations has shown only minor variation over the last few months and remained above the significant 50 mark since the index began.

Looking at the individual shipping routes, sentiment on the Europe to Asia lane remains most positive. This was despite a 1.0 point decline in the index to of 57.4 in December. In contrast, forwarders on the US to Europe lane continue to indicate the least confidence, with the index at 52.2, although up from 51.3 in November.

**Current Market**



**Six-Month Outlook**



| Trade Lane         | Sea Freight |             |             |
|--------------------|-------------|-------------|-------------|
|                    | Dec 2012    | Jun 2013    | Confidence  |
| Europe-Asia        | 44.4        | 57.4        | 50.9        |
| Asia-Europe        | 44.0        | 55.6        | 49.8        |
| Europe-U.S.        | 47.0        | 55.1        | 51.1        |
| U.S.-Europe        | 44.1        | 52.2        | 48.2        |
| <b>Total Index</b> | <b>44.8</b> | <b>55.2</b> | <b>50.0</b> |

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



## Logistics Confidence Index

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### 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.

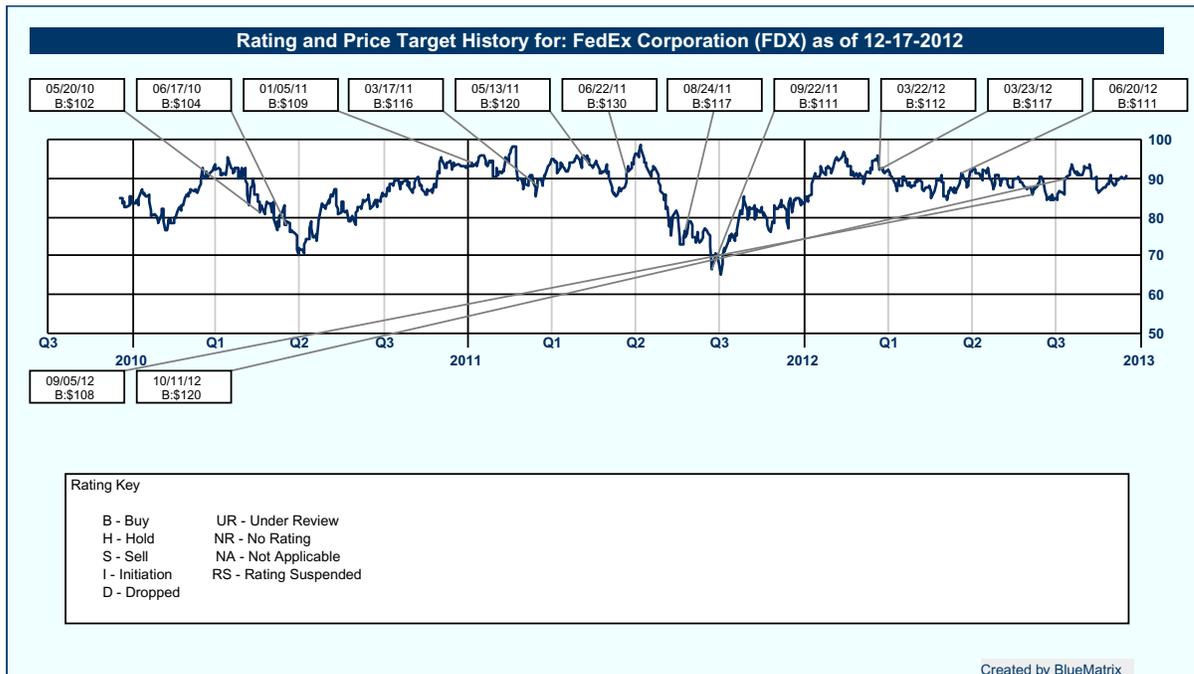
***To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/SNLCIDJ>***

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