

Survey Summary

Index Volumes Decelerate As Peak Winds Down, But Growth Trajectory Still Positive

The overall Stifel Logistics Confidence Index (LCI) decelerated sequentially to still-respectable 57.4 in December as the holiday peak season winds down. September, October, and November were, of course, very robust months, setting records for the LCI Index in its nearly three-year history. Looking back, index levels have now exceeded the 50.0 benchmark for 23 consecutive months, and have been on a gradual, upward trajectory as the global economy and global trade continue to improve. Looking at the component modes, ocean volumes dipped after a sharp, abbreviated peak on the Asia-Europe lane wound down. Airfreight results did not decelerate as much, as a later and extended peak supported volumes into December. Both modes were at parity for the present situation, which has been a rare occurrence, and suggests to us that the airfreight malaise has reached its end (for now). Indeed, we believe freight forwarding volumes should continue to improve into 2015, but overcapacity, rate volatility, and other structural headwinds should pressure forwarder margins, leading us to maintain our Hold-rating on the group.

- **Despite a sequential decline, the overall LCI remains strong on an absolute basis, suggesting that forwarding volumes are stable in major European trade lanes.** However, as indicated in Expeditors' recent 8-K release, the market remains fragile. Our general assumptions are for continued growth in global trade and global GDP, but fuel price volatility, Russian economic woes, Japanese recession, and (relatively) sluggish growth in Europe and China mean that fragility and risk remains.
- **For airfreight, September, October, and November were record months, supported by what we believe to be the first discernible peak in several years.** For December, too, the peak seems to be a factor in driving solid, though sequentially slower results. But as noted, slowing growth in China, sanctions on Russia, and weak business confidence in the Eurozone might be an impediment to a real recovery in airfreight. Many, including FedEx management, expect U.S. growth to lead the way, and our survey results supported that view, with U.S.-based lanes faring directionally better than the rest.
- **The current Sea Freight Index continued to decelerate after a sharp and abbreviated peak.** Overcapacity remains a significant challenge on most lanes, fostering an environment of volatile carrier rates, and thus, margin squeeze for the freight forwarding community.
- **What's the most important factor in selecting a forwarding partner?** That was our monthly question, and the vast majority - 68.4% - answered that service quality and consistency were paramount, while 18.1% were focused foremost on price, 9% sought technology and visibility, and only 4.5% thought scale and geography were the most important factors.
- **Investment Conclusions:** We believe that freight forwarding volumes should continue to grow year-over-year into 2015, with airfreight no longer trailing and maybe surpassing ocean freight in terms of volume growth. Overcapacity remains an issue in both modes, but the situation in ocean freight is both more severe and slower to change, in our view. Gross profit per unit pressure persists for most public forwarders, and we do not see this situation changing near-term either. Ultimately, we feel that valuation for the global forwarding group remains full in light of current dynamics, leading us to maintain our Hold ratings on the European forwarders under coverage—Deutsche Post DHL (DPW-XE, Hold, EUR 26.89), Kuehne + Nagel (KNIN-SIX, Hold, CHF 133.20), and Panalpina (PWTN-SIX, Hold, CHF 130.50).

Prices as of U.S. market close, 12/18/2014.

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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/StifelJan15>

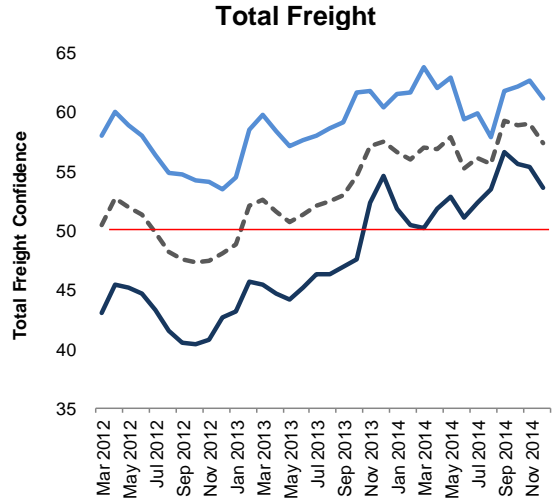
Prepared in conjunction with U.K.-based Transport Intelligence, the LCI is a survey-based measure of activity in major European import and export trade lanes, blending present conditions and six-month expectations for both airfreight and ocean freight volumes.

Overview – December 2014

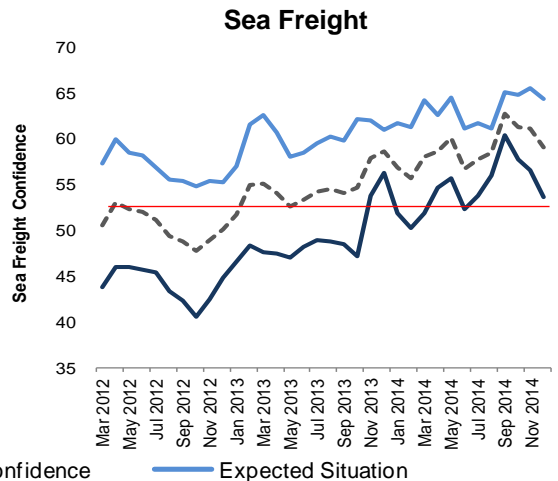
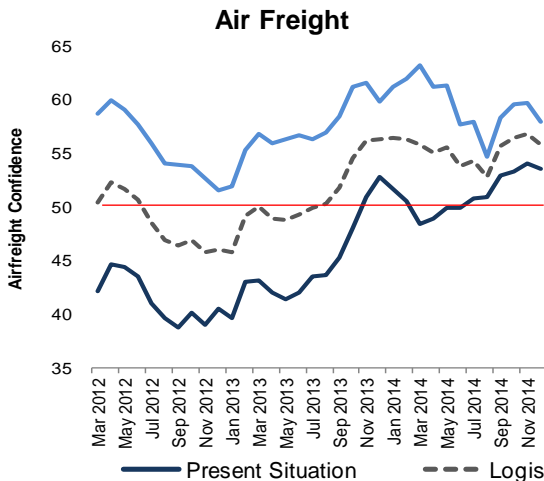
The Stifel Logistics Confidence Index decelerated 1.4 points from November, reaching 57.4 this month. Year-over-year, the index was roughly flat. Looking at the component modes, the airfreight index fell 1.1 points, while sea freight slipped 2.0 points sequentially.

In terms of the present situation, the total freight index declined 1.7 points from November to 53.6 in December, with a slight 0.5 point decline in present airfreight volumes compounding a 2.9 points decline in sea freight. These results are not abnormal, in our view, given the wind-down of the peak season. Overall, the six-month outlook in both modes moderated slightly too, but remain relatively stable on the whole.

For December's one-off question, we asked respondents what they perceived to be the most important factor in selecting a forwarding partner. The majority of responses, at 68.4%, cited service quality and consistency as the most important factor, followed by price at 18.1%, technology and visibility at 9.0%, and scale and geographic footprint at 4.5%.



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	Dec 2014	Jun 2015	Average
Air Freight	53.6	58.0	55.8
Sea Freight	53.6	64.3	59.0
Total Freight	53.6	61.2	57.4

Source for all data and graphs: Stifel Logistics Confidence Index

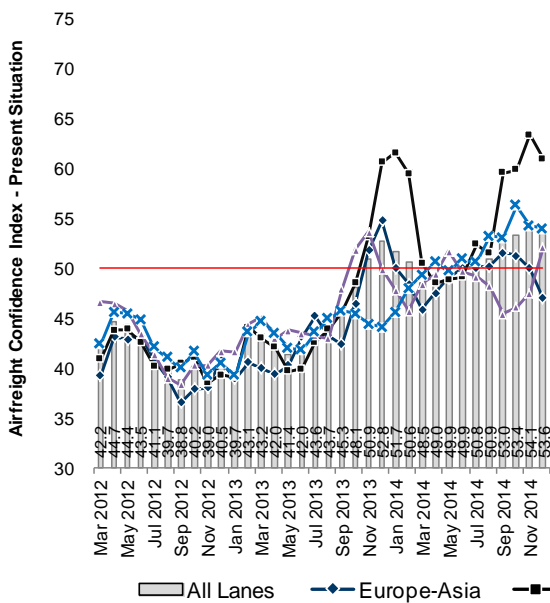
Air Freight Confidence Index

The total airfreight logistics confidence index fell 1.1 points to 55.8 in December 2014. Compared with December 2013, the index is 0.6 points lower.

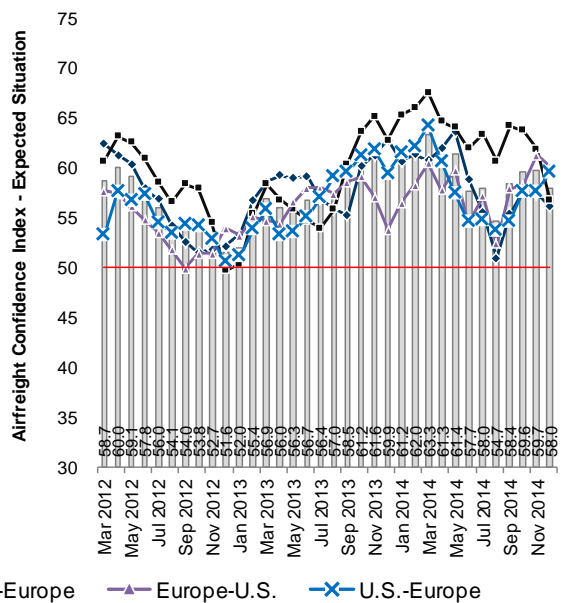
In terms of the present situation, the total air index registered 53.6 for the month. Most lanes contributed to the decline, including the Europe to Asia lane, which fell 3.0 points sequentially to 47.0, the U.S. to Europe lane, which slowed 0.3 points to 54.0. Even the Asia to Europe lane declined 2.6 points, although at an absolute level of 61.0, it remains robust and continues to benefit from peak shipment volumes. The Europe to U.S. lane was the only trade to post an increase this month, climbing 4.6 points to 52.1, and entering positive growth territory for the first time since May.

Looking ahead six months, the expected situation index for total airfreight declined 1.7 points to 58.0 in December. Again, results were mostly down across the lanes, with Europe to Asia declining 1.3 points to 56.1 and Asia to Europe down 5.2 points to 56.7. Europe to the U.S. slipped 1.1 points to 60.2, while the U.S. to Europe lane was the only lane to note a gain, climbing 1.9 points to 59.6 for December.

Current Market



Six-Month Outlook



Air Freight			
Trade Lane	Dec 2014	Jun 2015	Confidence
Europe-Asia	47.0	56.1	51.6
Asia-Europe	61.0	56.7	58.9
Europe-U.S.	52.1	60.2	56.2
U.S.-Europe	54.0	59.6	56.8
Total Index	53.6	58.0	55.8

Source for all data and graphs: Stifel Logistics Confidence Index

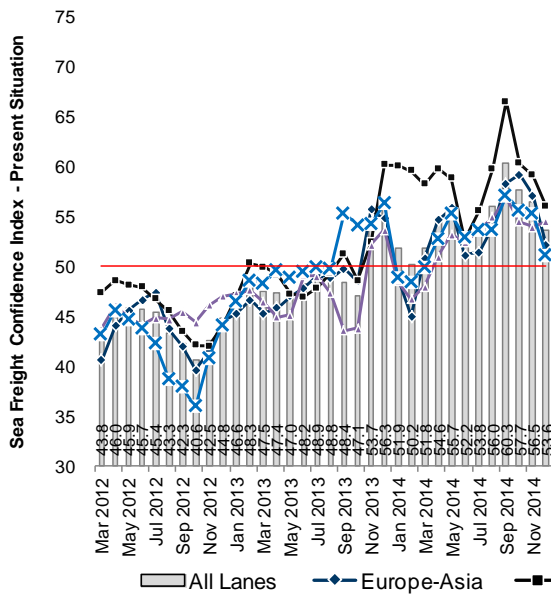
Sea Freight Confidence Index

For sea freight, the logistics confidence index declined 2.0 points to 59.0 in December. Compared with the same month in 2013, the index was 0.4 points higher.

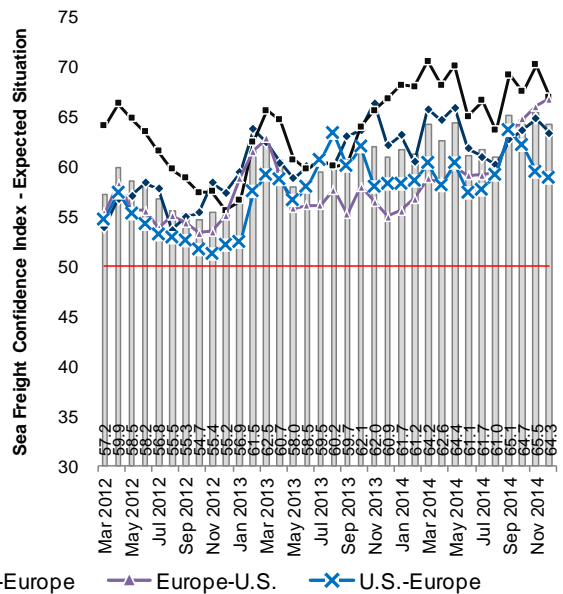
For the present situation, the index dropped 2.9 points to 53.6 as all lanes but one recorded a sequential decline. The Europe to Asia lane fell 5.0 points to 52.1, Asia to Europe fell 3.1 points to 56.0, and the U.S. to Europe lane slowed 4.1 points to 51.1. Europe to the U.S., as with airfreight, was the only lane to post a gain, in this case, edging up 0.5 points to 54.5 in December.

The expected situation index for sea freight fell 1.2 points to 64.3. Europe to Asia noted a 1.4 point loss to 63.4. The Asia to Europe lane fell 3.2 points to 67.0 for the month. The Europe to U.S. lane climbed 0.7 points to 66.8, while the U.S. to Europe lane fell 0.6 points to 58.9.

Current Market



Six-Month Outlook



Sea Freight			
Trade Lane	Dec 2014	Jun 2015	Confidence
Europe-Asia	52.1	63.4	57.8
Asia-Europe	56.0	67.0	61.5
Europe-U.S.	54.5	66.8	60.7
U.S.-Europe	51.1	58.9	55.0
Total Index	53.6	64.3	59.0

Source for all data and graphs: Stifel 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/StifelJan15>

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