

European Economy Remains Mixed Bag; Airfreight Growth Steady, as Seafreight Slows

In January's Logistics Confidence Index (which measures current and future expected volumes in major European-based trade lanes), the index softened a bit from December levels after having a strong 2H14. In 2013, 1Q showed accelerating growth, while 1Q14 reported decelerating growth, so there appears to be no seasonal pattern to this index over the past few years since inception. In the current survey, airfreight growth increased, while ocean freight growth decelerated. Keep in mind that this is a European-based survey, so none of the results have anything to do with the congestion and labor challenges at the U.S. West Coast ports. We believe even with growth in both air and sea freight markets presently, that lack of consolidation among carriers and competition for excess growth among forwarders continues to weigh on both forwarder and carrier profitability. And given current forwarder valuations, we remain Hold rated on the group.

- Overall, the index is above 50 (57.3), so squarely in positive territory, indicating healthy global trade between Europe and the U.S. and between Europe and Asia. Recently renewed recession and deflationary fears have yet to show up in the volumes or have an impact on confidence.
- Airfreight results for January show current growth (54.5) with the expectation for greater growth and volumes this summer (58.7). Holding back the present situation is negative growth in the Europe to Asia lane, while the headhaul Asia to Europe lane is fastest growing. The future increase in volumes is expected to come in all lanes, led by European exports (to the U.S. and Asia), perhaps due to the weaker euro.
- Seafreight reported a little softer January reading (53.2), but it's six-month outlook is significantly higher (62.7), leading us to believe most do not anticipate any slowdown in the eurozone to start 2015. Currently, the highest growth is witnessed in the Asia-Europe lane, indicating a healthy EU, while the readings for U.S. imports and Asia exports indicated little to no growth.
- Question of the month - "How will the overall European economy affect freight volumes in 1H15?" - a little over half of the respondents (56.5%) said it would be mixed, depending on the region. Again, Europe is not a country but a mixture of countries and cultures that do not move in lockstep from an economic growth perspective. Of those saying the EU economy would be good or bad for freight, more leaned to the negative, as 17.4% of respondents believed deteriorating macro conditions should stifle (not Stifel) volumes over the next six months, while 13.0% believed an improving macro environment should boost volumes. From the six-month index reading, it looks like the "mixed" respondents swung to the favorable side, as the index is not yet calling for tonnage declines.
- Investment conclusions: Those forwarders who are impacted most by these survey results - DHL (DPW.XE; EU26.60, Hold), Kuehne + Nagel (KNIN-SIX; CHF137.00, Hold), and Panalpina (PWTN-SIX; CHF135.30, Hold) - are not going to be reporting 4Q14 earnings for another month and a half or so, but based on 4Q14 Stifel LCI readings, we believe volumes did well to end the year; however, yields may have been challenged given the rate volatility and absolute low level of pricing. January's reading is just a first but the outlook calls for more growth ahead, which should allow these forwarders to improve revenue and margins a bit but not like back in the '90s and early '00s. We believe we're in a more competitive, lower-growth global forwarding environment for some time, leaving us waiting for significant discounts to by the shares of these companies. *Prices are as of 1/13/15 market close.*

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/StifelFeb15>

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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 – January 2015

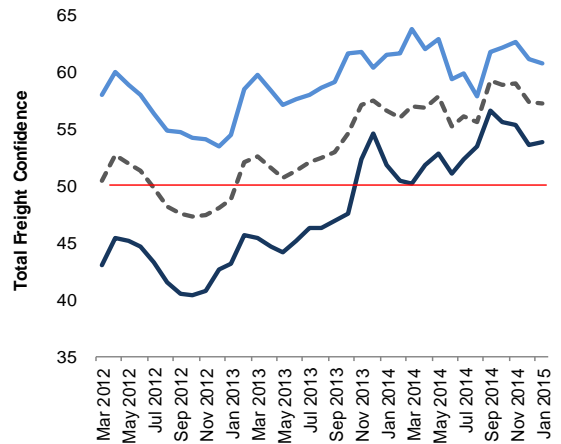
The overall Stifel Logistics Confidence Index began 2015 with a slight dip, falling sequentially by 0.1 points with a general improvement in airfreight volumes being offset by a general degradation in sea freight volumes. On an absolute basis, a score of 57.3 still compares favorably with normal seasonal patterns.

Looking at the component modes, the overall airfreight confidence index increased 0.8 points to 56.6—sentiment in both the present situation and the six-month expected outlook improved. On the other hand, the overall sea freight confidence index declined 1.0 index points, falling sequentially in both the present situation and the expected situation.

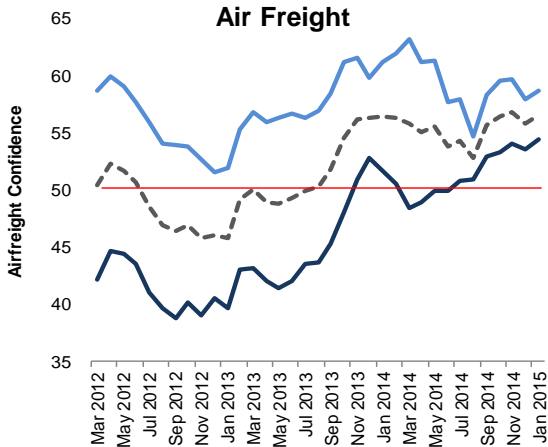
For January's one off question, we asked respondents how the overall European economy would affect freight volumes over the next six months. Unsurprisingly, 56.5% indicated volumes would be mixed depending on the region. Meanwhile, 17.4% said deteriorating macro conditions would stifle volumes, 13% expected improving macro conditions to boost volumes, 10% were unsure, and 2.9% anticipated no effect.

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.

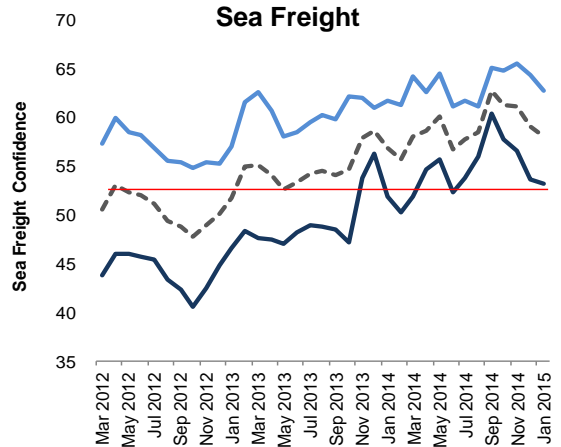
Total Freight



Air Freight



Sea Freight



— Present Situation - - - Logistics Confidence — Expected Situation

	Present Situation	Expected Situation	Confidence
Mode	Jan 2015	Jul 2015	Average
Air Freight	54.5	58.7	56.6
Sea Freight	53.2	62.7	58.0
Total Freight	53.9	60.7	57.3

Source for all data and graphs: Stifel Logistics Confidence Index

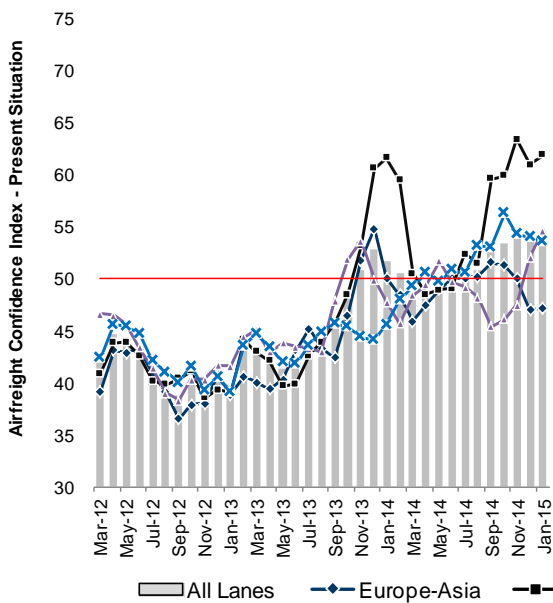
Air Freight Confidence Index

The total airfreight logistics confidence index increased 0.8 points from last month, reaching 56.6 in January 2015. Compared with January 2014, the index has increased only modestly—0.1 points.

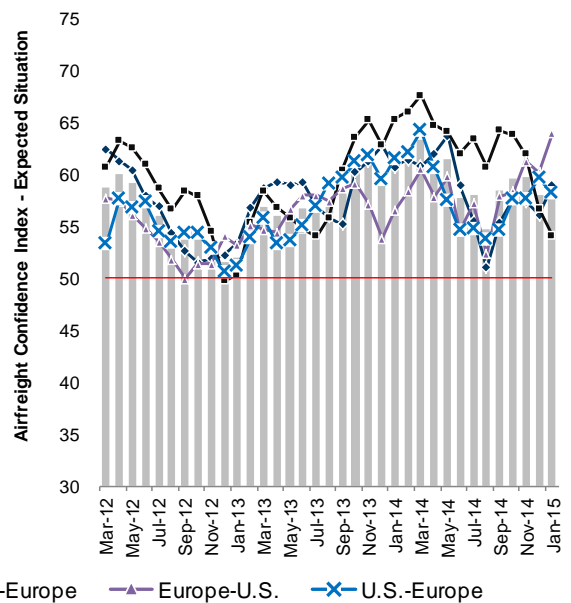
In terms of the present situation, the airfreight index has continued its relatively steady upward trend since March 2014, registering 54.5 for the month. All lanes experienced gains in the current month except U.S. to Europe, which declined 0.4 points to 53.6. Europe to the U.S. was the biggest gainer, rising 2.6 points to 54.7. Europe to Asia increased 0.2 points to 47.2 and Asia to Europe gained 0.9 points to 61.9.

Looking ahead six months, the expected situation index for total airfreight was up 0.7 points to 58.7 in January. European import lanes declined, with Asia to Europe falling 2.6 points to 54.1 and U.S. to Europe down 1.4 points to 58.2. Europe to the U.S. saw the biggest jump, climbing 3.7 points to 63.9, while Europe to Asia was up 2.8 points to 58.9.

Current Market



Six-Month Outlook



Trade Lane	Air Freight		
	Jan 2015	Jul 2015	Confidence
Europe-Asia	47.2	58.9	53.1
Asia-Europe	61.9	54.1	58.0
Europe-U.S.	54.7	63.9	59.3
U.S.-Europe	53.6	58.2	55.9
Total Index	54.5	58.7	56.6

Source for all data and graphs: Stifel Logistics Confidence Index

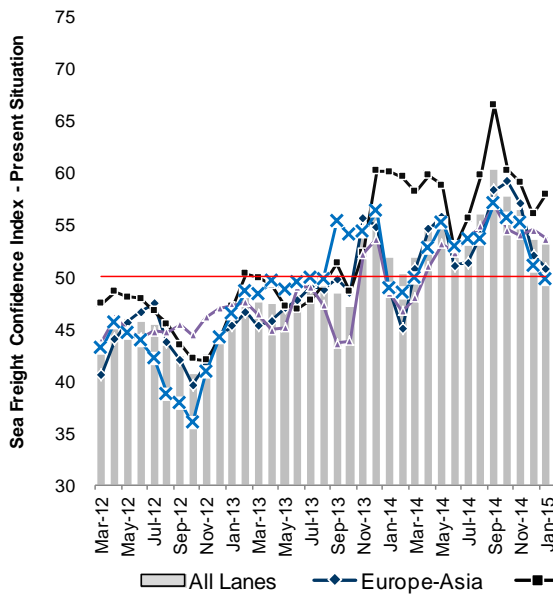
Sea Freight Confidence Index

For sea freight, the logistics confidence index declined 1.0 points to 58.0 in January. Compared with the same month in 2014, the index was 1.2 points higher.

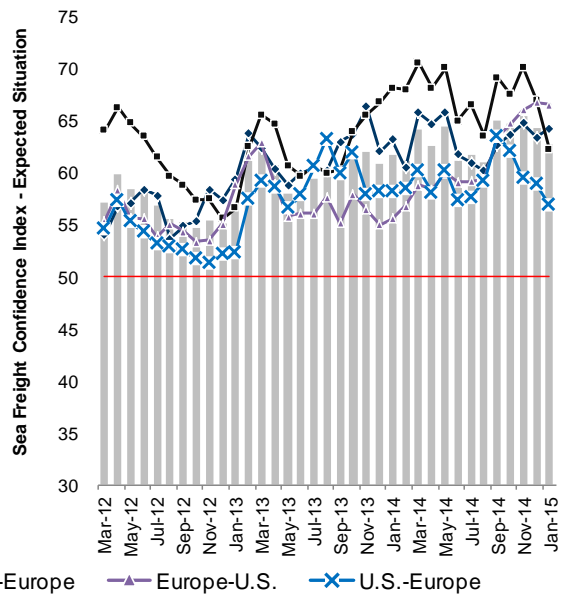
For the present situation, the index declined 0.4 points to 53.2. Asia to Europe was the only lane to post a positive growth figure, up 2.0 points to 58.0. Europe to Asia declined 1.3 points to 50.8, Europe to the U.S. slipped 0.8 points to 53.7, while U.S. to Europe had the biggest decline at 1.4 points to 49.7, dropping below the 50.0 level for the first time since March 2014, and indicating lower volumes than the seasonal norm.

The expected situation index for sea freight fell 1.6 points to 62.7. Europe to Asia noted the only gain, rising 0.9 points to 64.3. The Asia to Europe lane fell 4.8 points to 62.2 for the month. Meanwhile, the Europe to U.S. lane slipped 0.2 points to 66.6, and the U.S. to Europe lane fell 2.0 points to 56.9.

Current Market



Six-Month Outlook



Sea Freight			
Trade Lane	Jan 2015	Jul 2015	Confidence
Europe-Asia	50.8	64.3	57.6
Asia-Europe	58.0	62.2	60.1
Europe-U.S.	53.7	66.6	60.2
U.S.-Europe	49.7	56.9	53.3
Total Index	53.2	62.7	58.0

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:

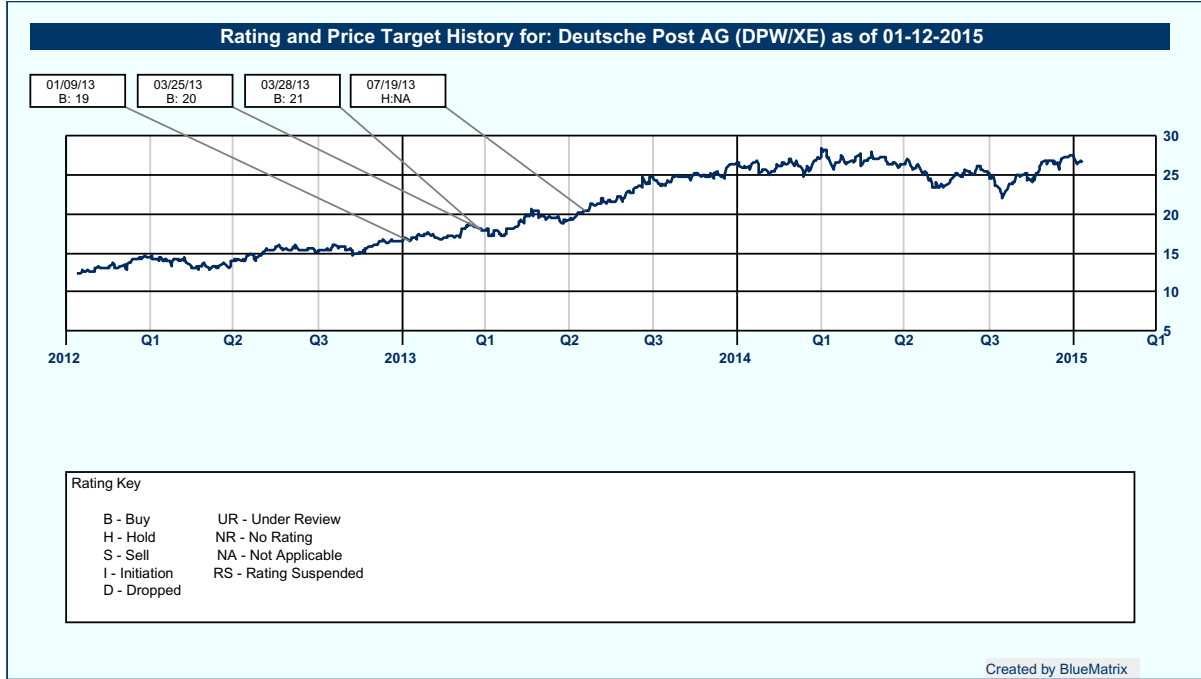
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

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.

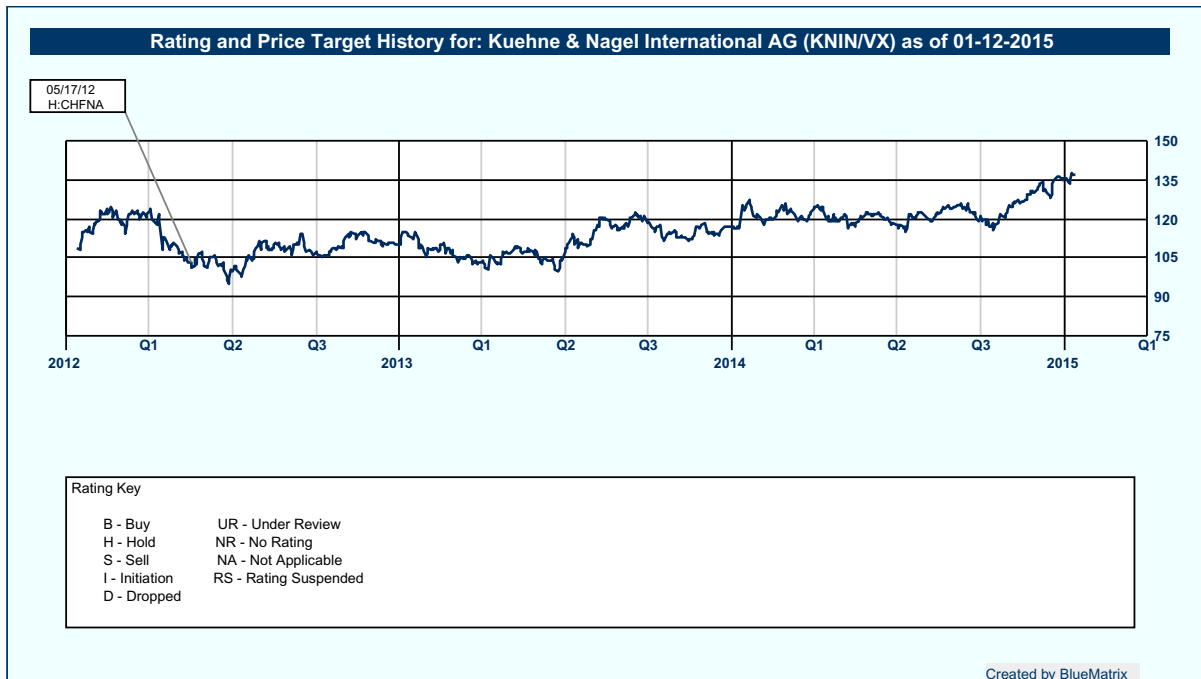
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/StifelFeb15>

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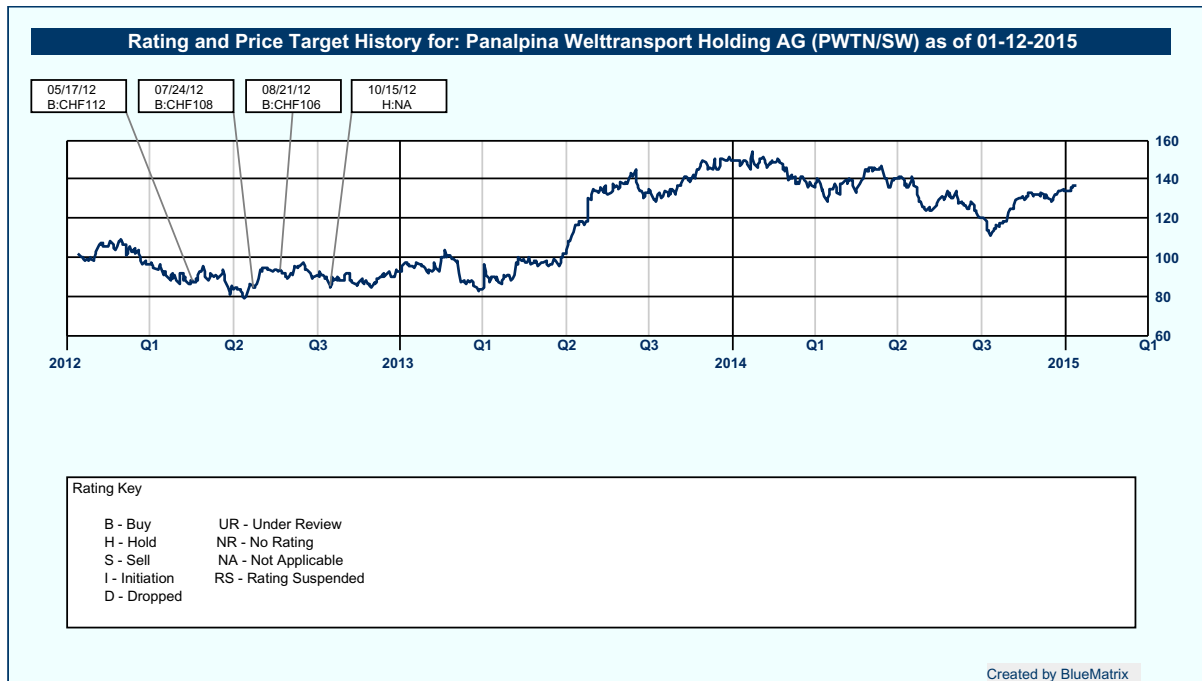
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