

Confidence Index Declines for Third Consecutive Month But Optimism Remains

In an effort to improve our understanding 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. We believe the index to be a timely and effective indicator of shipper expectations, 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 2-5.

Key takeaways & investment implications: Stifel Logistics Confidence Index (LCI) - July 2012

- *In the major European trade lanes, confidence in total freight volumes declined for a third consecutive month in July with respect to both the current situation and the six-month outlook. Presently, forwarder confidence in airfreight volumes and sea freight volumes remains below par (vs. normal expectations for this time of year), and future expectations remain above par. Significantly, the average of current and expected volumes—a metric that we label "Logistics Confidence"—dipped below the threshold value of 50.0 in airfreight and total freight for the first time since the inception of this survey in March of 2012. Sea freight continues to fare better than airfreight—a possible indicator of share shift between the two modes as global economic sentiment remains cautious.*
- *Real-time airfreight confidence results declined sequentially at an average rate of 5.5%. July was the first month in which every trade lane posted diminished confidence in the present situation. Mirroring last month's results, the U.S.-Europe trade lane was the most robust, though it posted an index value of only 42.1.*
- *Likewise, six-month expectations for Airfreight declined across the board. Europe-Asia declined by 1.7%, Asia-Europe by 3.8%, Europe-U.S. by 2.4%, and U.S.-Europe by 4.9%. Still, expectations are for improvement over the next couple quarters. Forwarders remain optimistic about the future, though to a slightly lesser extent than in previous months.*
- *Real-time confidence in overall European ocean freight also saw decline, but proved more resilient than air freight confidence. Total readings have actually remained fairly stable through April, May, June, and July, posting values of 46.0, 45.9, 45.7, and 45.4, respectively. For the current month, exports from Europe actually improved while imports fell in concert with persistent Eurozone trepidation.*
- *As with airfreight, over the next six months, all ocean freight lanes continue to expect expansion, though to a slightly lesser degree than last month in all cases.*
- **Implications for Parcel Consolidators** - *Once again, survey results for July are of greater consequence to UPS (UPS; \$78.33; Hold), given the company's larger relative exposure to the European market than competitor FedEx (FDX; \$89.37, Buy). But as before, we believe the European small package market is less susceptible than overall air cargo, tempering the effects of reduced growth expectations and limiting downside implications for the integrators.*
- **Implications for Freight Forwarders** - *Each forwarder in our coverage group indicated soft volumes for the last-reported quarter. The current climate remains challenging in air, and rising container rates in ocean may pressure forwarder margins. Still, continued expectations for growth in the six-month LCI outlook should be a net positive for UTI Worldwide (UTIW, \$13.85, Buy) and Expeditors (EXPD; \$36.56; Hold), but perhaps less so for Swiss-based Kuehne + Nagel (KNIN-SIX; CHF 97.95; Hold) and Panalpina (PWTN-SIX; CHF 79.80; Buy) given greater exposure to Europe.*

Prices are intraday 7/12/12.

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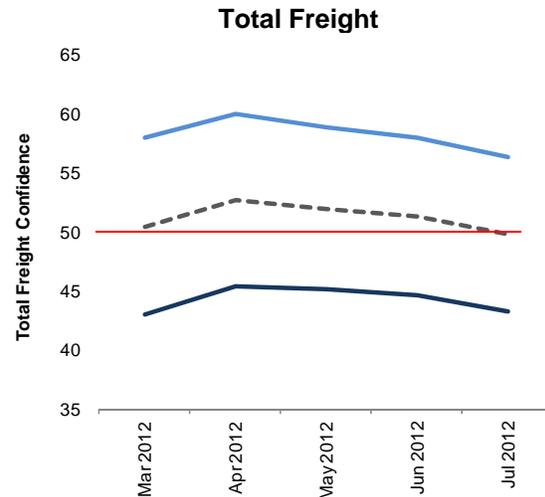
Logistics Confidence Index

Overview – July 2012

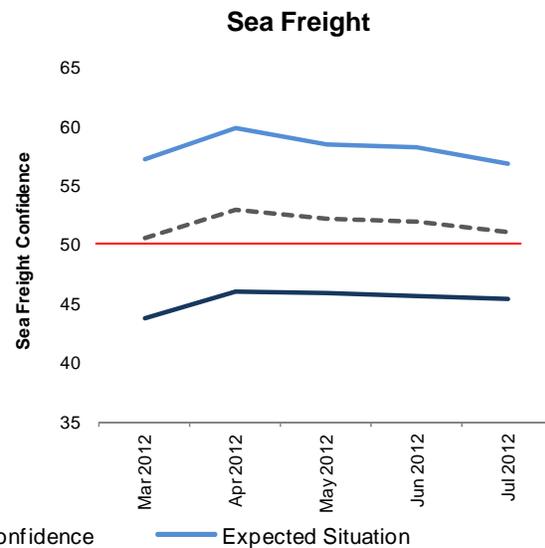
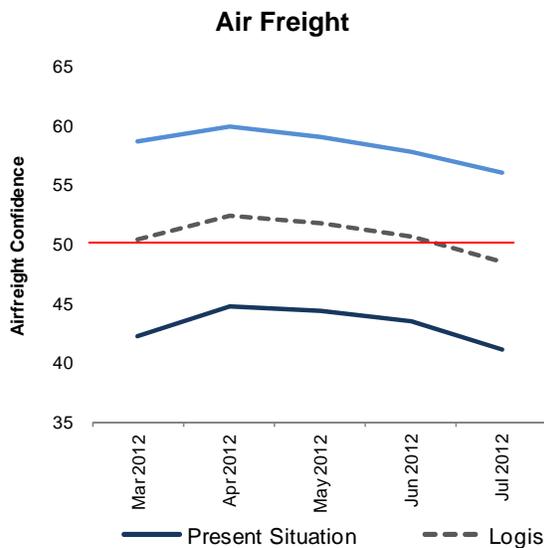
Logistics Confidence Index declines for third consecutive month

As the global economy has continued to weaken, confidence among forwarders has continued to decline. In July, the index for the present logistics situation fell to 43.3 from 44.6 in the previous month. Air forwarders continued to express less optimism compared with sea forwarders in July, possibly as a result of a shift from air to sea freight as shippers seek to lower transport costs. At 41.1 the index for air freight fell to its lowest level so far; while the index for sea freight remained almost flat at 45.4 (45.7 in June).

In line with the current logistics situation, the index for logistics expectations also fell further in July. The total index for both air and sea now stands at 56.4. Whilst this marks a decline from 58.0 registered in June, the index still indicates an anticipated improvement in volumes over the next six months.



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	Jul 2012	Jan 2013	Average
Air Freight	41.1	56.0	48.6
Sea Freight	45.4	56.8	51.1
Total Freight	43.3	56.4	49.8

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



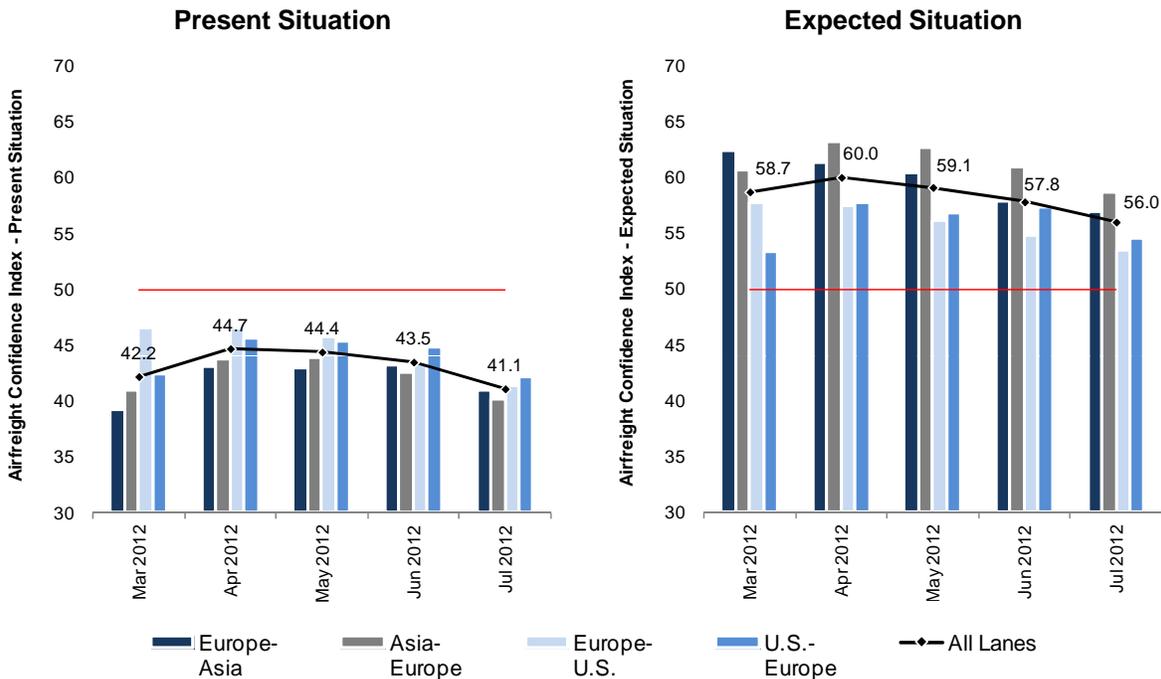
Logistics Confidence Index

Air Freight Confidence Index

Sentiment among air freight forwarders was particularly low in July. The index for the present logistics situation fell to 41.1 from 43.5 in June as lower confidence was expressed across all trade lanes. While there was very little variation among individual trade lanes, air forwarders on the Asia to Europe route continued to indicate the weakest sentiment with regards to current volumes. However, forwarders on this lane remained optimistic when questioned about the outlook for the next six months (with an

index value of 58.6). The US to Europe route registered the highest index value, albeit at just 42.1.

The overall index for logistics expectations fell to 56.0 from 57.8 in June, indicating forwarders were slightly less optimistic about the outlook for the next six months. The index for the US to Europe trade lane saw the greatest decline at 54.5 in July compared with 57.3 expressed in June.



Air Freight			
Trade Lane	Jul 2012	Jan 2013	Confidence
Europe-Asia	40.9	56.9	48.9
Asia-Europe	40.2	58.6	49.4
Europe-U.S.	41.4	53.5	47.5
U.S.-Europe	42.1	54.5	48.3
Total Index	41.1	56.0	48.6

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



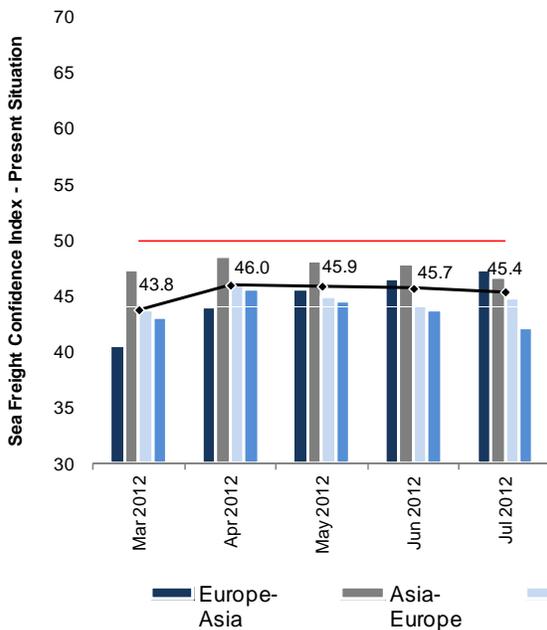
Logistics Confidence Index

Sea Freight Confidence Index

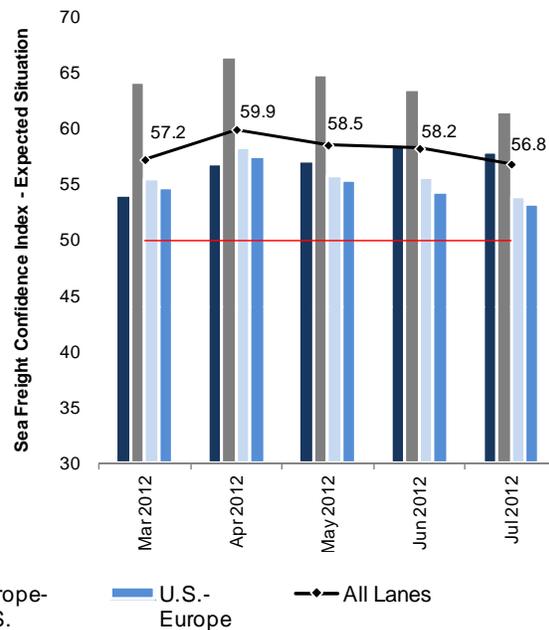
The index for sea freight has remained virtually unchanged since April. In July, the index for the current logistics situation stood at 45.4 compared with 45.7 in June. There were only small changes among the individual trade lane indices. Forwarders on the Europe to Asia and Europe to US routes expressed slightly more optimism compared with June. The indices rose to 47.4 (from 46.6 in June) and 44.8 (from 44.1 in June) respectively. In contrast, forwarders on the European bound trade lanes saw the indices register minor declines.

In terms of the outlook for the next six months, the total index fell to 56.8 from 58.2 in the previous month. Forwarders across all trade lanes expressed a decline in prospects compared with June. Sentiments remain the most optimistic on the Asia to Europe lane with an index value of 61.5. In contrast the US to Europe trade lane remains the least positive at 53.2.

Present Situation



Expected Situation



Sea Freight			
Trade Lane	Jul 2012	Jan 2013	Confidence
Europe-Asia	47.4	57.8	52.6
Asia-Europe	46.7	61.5	54.1
Europe-U.S.	44.8	53.9	49.4
U.S.-Europe	42.2	53.2	47.7
Total Index	45.4	56.8	51.1

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. For July 2012, there were 246 survey participants, with a minimum of 140 on any trade lane.

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