STIFEL

July 16, 2013

Transportation
Airfreight/Logistics

Survey Summary

Index Shows Expansion For Sixth Consecutive Month, But Uncertainty Lingers

Stifel Logistics Confidence Index results saw solid growth this month, as the global economy enters the second half of 2013. Prepared in conjunction with U.K.-based Transport Intelligence, the overall index is a survey-based measure of both airfreight and ocean freight volumes in Europe-based trade lanes, combining present conditions with near-term expectations. July's Index value marched 0.7 points north of last month's 51.4, placing the 52.1 reading ahead of last year by a full 4.6%. Significantly, July marked the sixth consecutive month that the Index registered above the 50.0 threshold, indicating that confidence has been building in the overall European freight forwarding market.

- **Present volumes in Europe-based trade lanes continue to trail those normally expected this time of year, but have begun to show signs of improvement**. Europe continues to dig itself out of its economic hole as manufacturing activity inches up closer to the 50.0 marker that denotes expansion. Additional data further supports improvements within the region, as consumer spending rose 1.0% in May and business confidence, while still negative, posted a 15-month high. The freight market has also displayed signs of improvement, with IATA's May report showing freight-ton-kilometers up by 0.8% year-over-year. As such, the six-month outlook continues to be sanguine. European forwarders remain positive, as they anticipate improving volumes, reflected by the Expectations Index's continued accretion—this month up 0.4 points to 58.0.
- **The Seafreight Index improved 0.7 points to 48.9 for July's current situation, and improved 1.0 points to 59.5 for the six-month outlook, for a blended index improvement of 1.6%.** Overcapacity continues to be a major concern for seafreight operators, although evidence suggests that recent rate hikes have been holding. This trend bodes well for carriers in dire need of more favorable pricing dynamics, but may prove a headwind for shippers, if it has longer-term staying power.
- **Airfreight results saw a substantial sequential increase in the current situation, but a slight tempering in the expected situation from last month**. Again, current volumes remain below normal seasonal levels at 43.6, but rose 3.8% over last month, and a healthy 6.1% year-over-year. Some of this may be attributable to the return of perishables airfreight that was delayed this Spring due to an extended winter followed by a significant wet spell, as Kuehne + Nagel cited on its 2Q13 earnings call yesterday.
- **In this month's one-off question, we asked survey participants if they believe that the airfreight market is stabilizing.** The results were mixed and indicative of persistent uncertainty with 33.4% of respondents noting stabilization, 39.3% noting no stabilization, and the remaining 26.2% indicating that they were unsure either way. Comments included "some companies are switching to ocean freight to reduce cost and/or due to green initiatives", and "We are seeing less volatility, fewer supplier issues (lift, fuel surcharge issues, pricing issues) and more predictability." Several comments also noted concerns over rising fuel prices and their potential to hinder possible increases in airfreight volumes.
- **Investment Conclusions:** As we discussed in last month's note, the LCI continues to hover around the 50.0 break even marker, implying a tepid and uncertain market. This month's one-off question survey results seem to confirm that sentiment. Even still, six consecutive months of above-benchmark results support our belief that downside risks have waned, even if growth prospects are uninspired. FedEx (FDX, $103.70, Buy) remains our top pick among global trade enablers in our coverage, as we believe the company should continue to benefit from its self-help profit improvement plan and see significant leverage to an improving global landscape should one emerge.

Prices are U.S. market close, 7/15/2013.

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*** *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/LogisticsIndexJA**

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Logistics Confidence Index

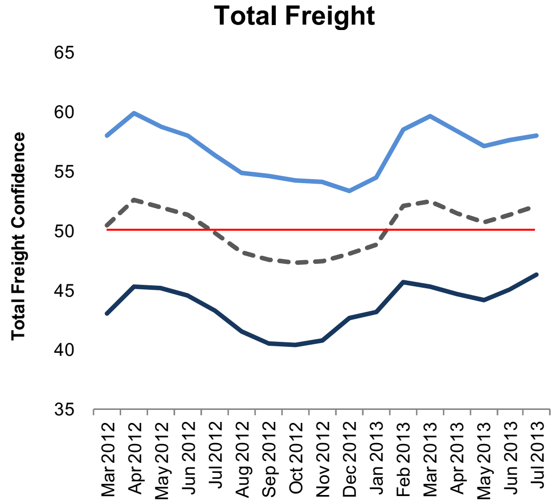
Overview – July 2013

Index continues to climb, remaining above the 50 threshold for six consecutive months.

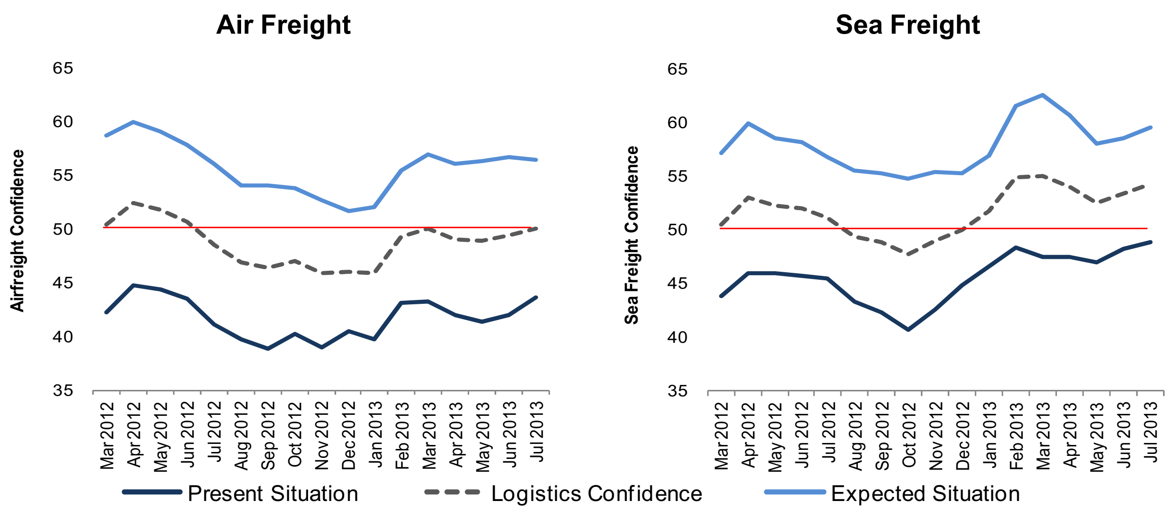
The overall Stifel Logistics Confidence Index increased 0.7 index points to 52.1 in July, remaining above the significant 50 mark and thus indicating growth for the sixth consecutive month.

In terms of the present logistics situation, the overall index increased 1.2 points to 46.3 in July. Looking at the constituent modes, sea freight results improved to 48.9 in July, up 0.7 points over June. Air freight results climbed 1.6 points from last month to 43.6. At below 50, both indices continue to indicate weaker volumes than those expected for this time of year, but the six-month outlook remains optimistic, and even saw a slight bump of 0.4 index points to 58.0.

In this month's one off question, we asked survey participants if they believe the air freight market is stabilizing. The results were characterized by uncertainty as 34.4% of respondents noted that the market was stabilizing, 39.3% saw little indication of stabilization, and 26.2% 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
Mode	**Jul 2013**	**Jan 2014**	**Average**
Air Freight	43.6	56.4	50.0
Sea Freight	48.9	59.5	54.2
Total Freight	**46.3**	**58.0**	**52.1**

Source for all data and graphs: Stifel Logistics Confidence Index

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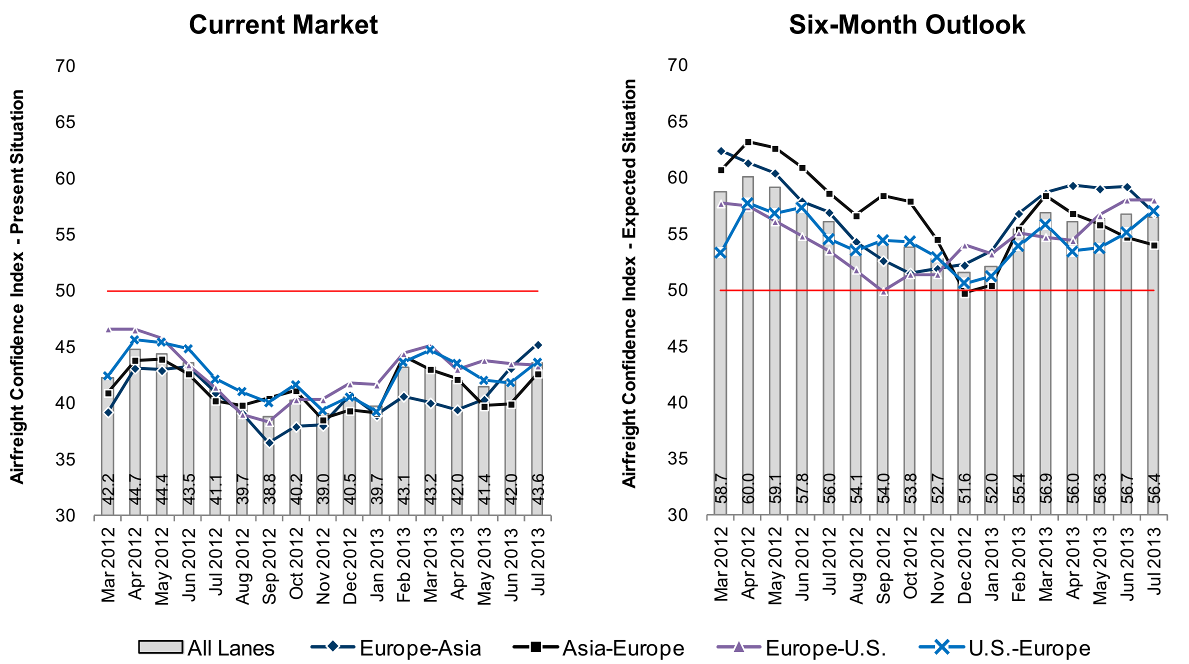
Logistics Confidence Index

Air Freight Confidence Index

The overall index for air freight increased 0.6 index points from last month to a 50.0 par reading. When compared with July 2012, the index was 0.4 points higher.

In terms of the current logistics situation, the index registered 43.6 for the month compared with 42.0 in June. Although volumes are still soft by normal seasonal standards, big improvements were noted for most lanes over last month. Asia to Europe registered the biggest increase, climbing 2.7 index points to 42.6, and the countervailing Europe to Asia route increased 2.1 points to 45.2. The U.S.-based trade lanes saw mixed results, with the Europe to U.S. lane being the only one to decline. It fell only slightly, however, ceding 0.2 index points to the 43.3 mark. The U.S. to Europe lane increased 1.8 index points to 43.6.

In terms of expectations for the next six months, the index slipped 0.3 points to 56.4 in July. On a more granular basis, the index for Europe to Asia declined the most, falling 2.3 points to 56.9 for the month, and the Asia to Europe lane registered a decline of 0.7 points to 54.0. The U.S. routes were a bit more optimistic, but only just so. Europe to U.S. saw no change from June at 58.0, while U.S. to Europe increased 1.9 points to 57.0. The index for all lanes remained above the 50 mark indicating that forwarders continue to expect an increase in volumes over the next six months.



Trade Lane	Air Freight		
	Jul 2013	Jan 2014	Confidence
Europe-Asia	45.2	56.9	51.1
Asia-Europe	42.6	54.0	48.3
Europe-U.S.	43.3	58.0	50.7
U.S.-Europe	43.6	57.0	50.3
Total Index	**43.6**	**56.4**	**50.0**

Source for all data and graphs: Stifel Logistics Confidence Index

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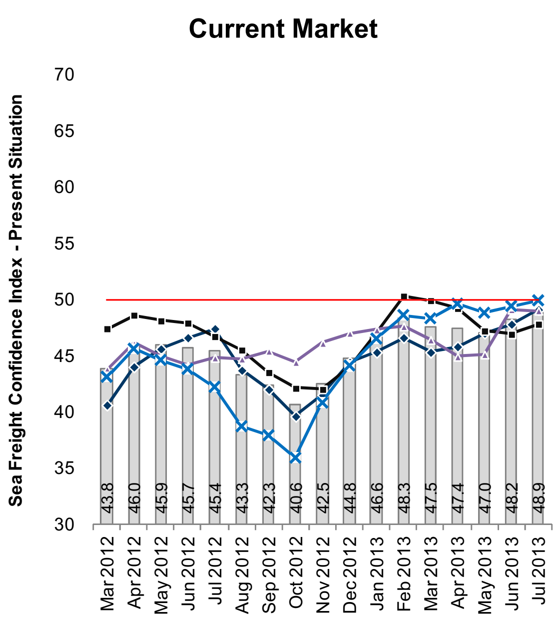
Logistics Confidence Index

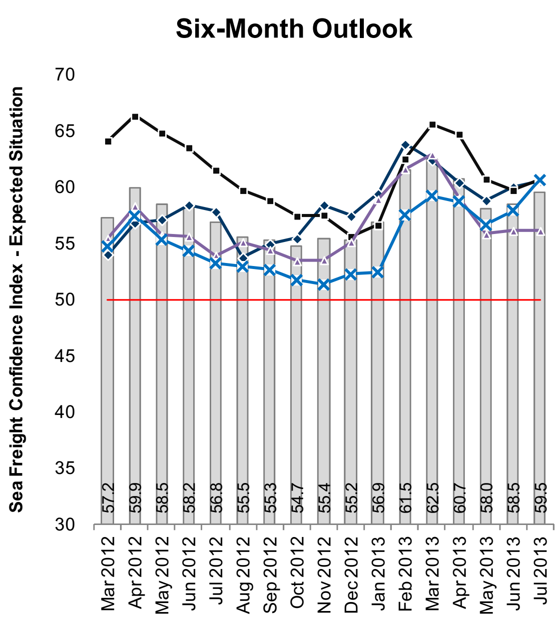
Sea Freight Confidence Index

For sea freight, the overall index increased 0.8 points from June to 54.2. Compared with the same month in 2012, the index was 3.1 points higher.

In terms of the present situation, the index registered increases on all lanes except for Europe to the U.S., which saw only a slight decline of 0.1 to 49.0. The Europe to Asia route experienced the biggest increase, rising 1.3 points to 49.1, while Asia to Europe increased 0.9 index points to 47.8, and the U.S. to Europe lane increased 0.5 points to 48.9.

The index for logistics expectations increased 1.0 point to 59.5 in July as sea forwarders remain optimistic over the next six months. The Europe to Asia lane increased 0.5 points to 60.5 for the month and forwarders on the Asia to Europe noted an increase of 1.0 point to 60.7. The U.S. to Europe lane registered the biggest gain, up 2.7 points to 60.6, while the U.S. to Europe lane was sequentially unchanged at 56.1.





	Sea Freight		
Trade Lane	**Jul 2013**	**Jan 2014**	**Confidence**
Europe-Asia	49.1	60.5	54.8
Asia-Europe	47.8	60.7	54.3
Europe-U.S.	49.0	56.1	52.6
U.S.-Europe	49.9	60.6	55.3
Total Index	**48.9**	**59.5**	**54.2**

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/LogisticsIndexJA

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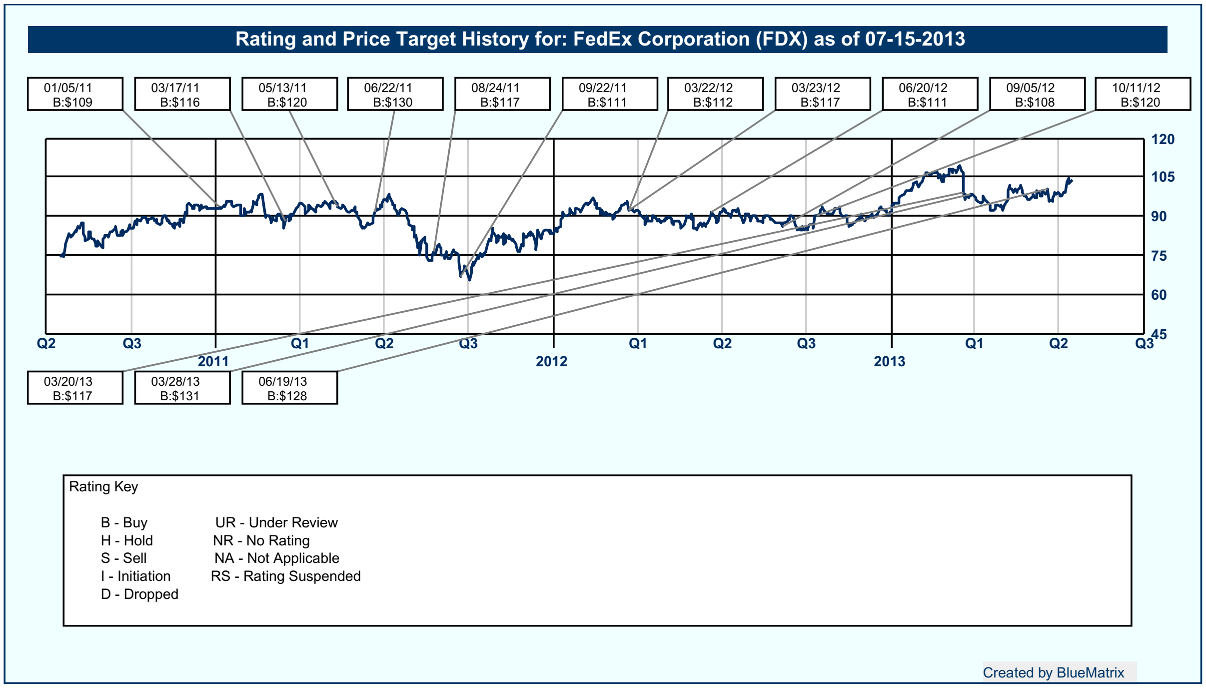

For a price chart with our ratings and target price changes for FDX go to
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