

Overall Index Sees Fifth Consecutive Drop; Expectations For Peak Remain Divided

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 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. This 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. September marked the Index's fifth consecutive month of sequential decline, with a reading of 47.6 in both the present climate and the six-month outlook (down from 48.2 in August). While this month saw a few, select pockets of improvement, it seems clear, in our view, that global economic uncertainty continues to drive a lack of confidence among shippers. A more detailed analysis of survey results can be found on pages 3-6.

- **For the month of September, overall shippers confidence fell for the fifth straight period in the European-based trade lanes.** Survey respondents indicated that the current forwarding and logistics environment continues to track below normal expectations for this time of year, registering 40.6 vs. 41.5 last month, and compared with a benchmark neutral reading of 50.0. While the 6-month outlook for both Air and Ocean Freight volumes also fell, the sequential decline was only one-tenth of an index point.
- **On an absolute basis, current Sea Freight levels continue to fare better than their Airfreight counterparts, although perceptions for both remain below expectations.** Current sentiment in Air dropped 2.3% from 39.7 to 38.8, while sentiment in the expected outlook—which is still indicative of growth—declined 0.2% from 54.1 to 54. In Ocean, indexed readings for the current climate notched downward by 2.3%, and readings for the expected climate contracted by 0.4% from 55.5 to 55.3—also still above the breakeven threshold of 50.0, and thus indicative of growth.
- **On a more granular basis, the lane-by-lane picture was not as consistently negative for either mode as it was last month.** This month, some trade lanes were actually indicative of growth, including current volumes in the Asia-Europe Air lane (+1.5%), 6-month expected volumes in the same lane (+3.2%), expected volumes in U.S-Europe Airfreight (1.7%), and present volumes in Europe-U.S. on the Ocean side (+1.6%). However, the overarching theme is still of trepidation. The remaining lanes continued to tick downward toward their lowest levels yet, though sequential declines were in almost all cases less in September than they were in August.
- **September's results are not surprising, in our view, given that some European economies have slipped back into recession, but there are some signs of stabilization after this summer's slump. Still, the picture for shippers and forwarders is one marked by uncertainty.** In a one-off survey for the month, an equal percentage of respondents (42.7%) said that they expect a peak season as those that did not. The remainder were "unsure".
- **Investment conclusions:** As peak season draws nearer, the likelihood of a normal volume surge diminishes; our survey indicates uncertainty, and most public forwarders suggest an absence. The bear case for both modes is that demand will continue to feel pressure through year-end, especially in Air. "Trade down" benefits are unlikely to yield meaningful support to Ocean, as some suggest, given the wide pricing differential, and given that air volumes are a drop in the bucket for steamships. That said, we believe most of these expectations have been priced into current valuations. The development of a late season peak and capacity tightness created by certain consumer electronic product launches, as well as a potential ILA port worker strike on the U.S. East Coast, may drive volumes on inbound U.S. Airfreight trade lanes, in our view. We believe such occurrences would be most beneficial for UTi Worldwide (UTIW; \$13.96; Buy), and Expeditors International of Washington (EXPD; \$39.16; Hold).

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

** 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/StifelSO>*



Logistics Confidence Index

Overview – September 2012

Logistics Confidence Continues Downward Spiral

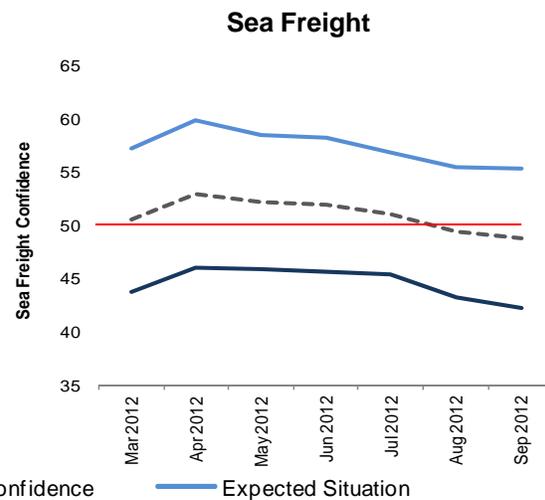
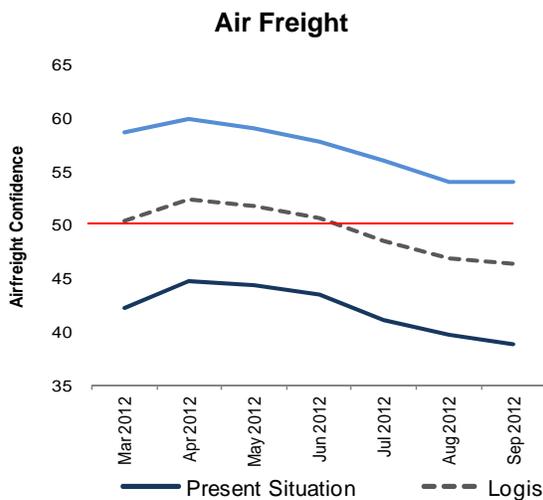
Confidence among forwarders continued to decline through September. The index for the current and expected situation combined registered 47.6 in September, down from 48.2 in August. With a number of European economies now back in recession, these results are not surprising, in our view.

In terms of the current situation, forwarders continued to indicate weaker volumes relative to those expected for this time of year. The index fell to 40.6 in September from 41.5 the previous month, marking the fifth consecutive month of decline. Despite the weakening of present volumes, prospects for the next six months remain optimistic; the index for expectations was almost flat in September at 54.7.

This month, in addition to the usual survey, we questioned participants as to whether they believe a peak shipping season will materialize in 2012. Interestingly, results showed no tendency either way; 42.7% of respondents expect an increase in volumes for the peak season, whilst an equal percentage believes a seasonal increase will not take place. The remaining 14.6% were 'unsure'. The variation in results highlights the high level of uncertainty and caution among shippers, driven by a lack of confidence in the overall economy.



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.



Mode	Present Situation	Expected Situation	Confidence
	Sep 2012	Mar 2013	Average
Air Freight	38.8	54.0	46.4
Sea Freight	42.3	55.3	48.8
Total Freight	40.6	54.7	47.6

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

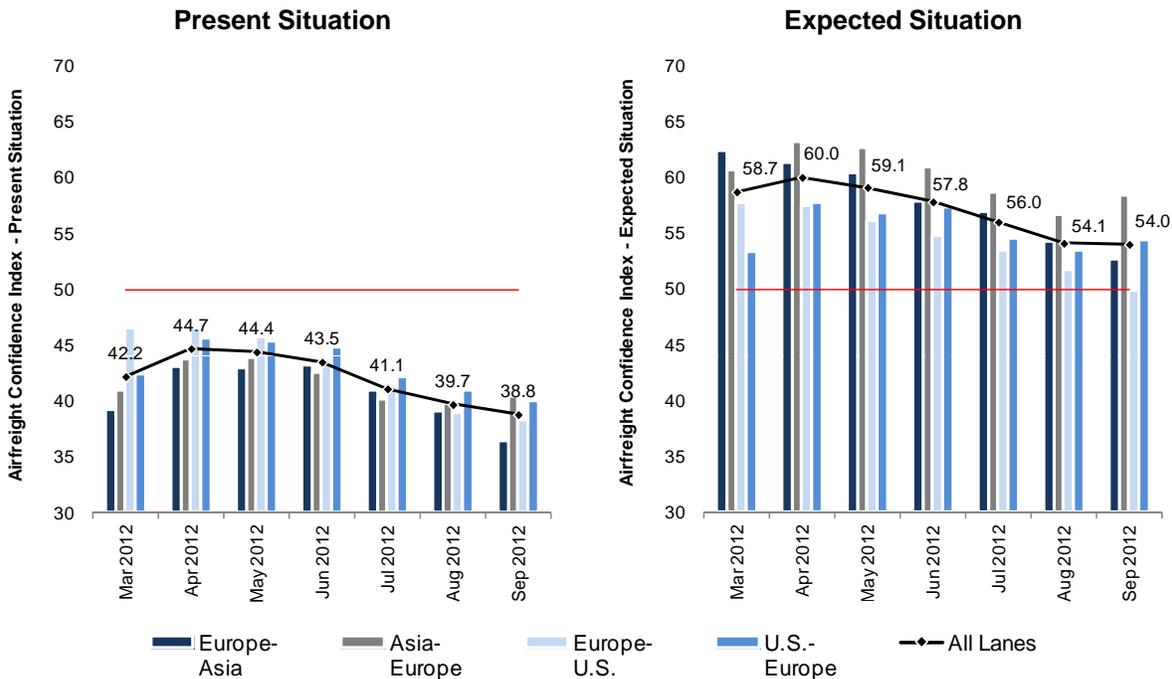


Logistics Confidence Index

Air Freight Confidence Index

In terms of the current situation, the overall index for air freight fell to 38.8 in September from 39.7 in August. Air forwarders on the Europe to Asia lane expressed the weakest conditions relative to the time of year, with the index falling to 36.5 from 39.1 for the previous month. The Europe to US and US to Europe routes also saw forwarder confidence weaken. Meanwhile, for freight travelling from Asia to Europe the index actually recorded a minor increase in September (although at 40.4 it still indicated weaker volumes relative to the time of year).

In terms of the six month outlook, the overall index remained relatively flat, although the breakdown by trade lane showed some monthly variations. Forwarders operating on the Europe to Asia and Europe to US lanes were slightly less positive about the outlook compared with the previous month. Conversely, the Asia to Europe and US to Europe routes saw an increase in expectations with the respective indices rising to 58.4 and 54.4.



Air Freight			
Trade Lane	Sep 2012	Mar 2013	Confidence
Europe-Asia	36.5	52.6	44.6
Asia-Europe	40.4	58.4	49.4
Europe-U.S.	38.3	49.9	44.1
U.S.-Europe	40.0	54.4	47.2
Total Index	38.8	54.0	46.4

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

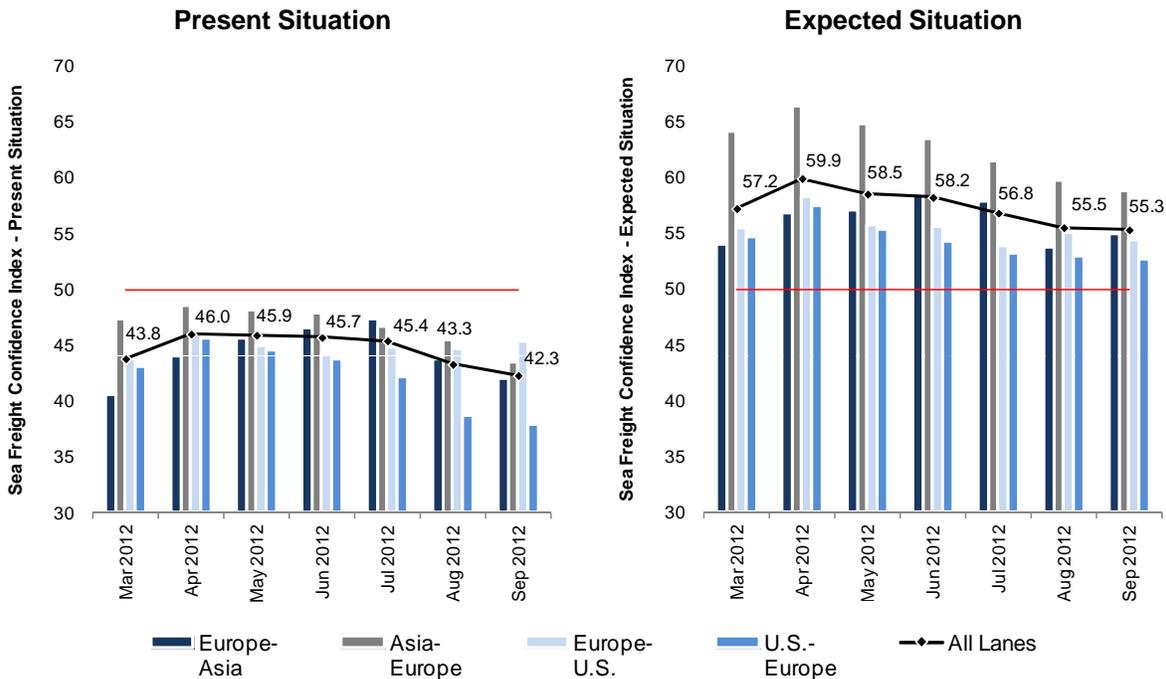


Logistics Confidence Index

Sea Freight Confidence Index

The index for the current situation fell further in September at 42.3 from 43.3 for the previous month. The decline in confidence was most pronounced on the Europe to Asia and Asia to Europe routes, with the indices down at 42.0 and 43.5 respectively. Forwarders on the US to Europe route continued to express the weakest sentiment, with an index value of 37.9. In contrast, those operating on the Europe to US trade lane were the most positive, with the index increasing to 45.4 from 44.7 in August.

Despite reduced confidence in the current situation, volumes are still expected to pick up over the next six months. The index, at 55.3, remained almost flat from the 55.5 forecast in August. The Asia to Europe route continued to record the greatest level of optimism, although this was down slightly from August. Meanwhile, the Asia to Europe lane was the only route to record an increase, with the index up 1.2 points to 54.9. In line with current conditions, prospects on the US to Europe lane remain the weakest.



Trade Lane	Sea Freight		
	Sep 2012	Mar 2013	Confidence
Europe-Asia	42.0	54.9	48.5
Asia-Europe	43.5	58.8	51.2
Europe-U.S.	45.4	54.4	49.9
U.S.-Europe	37.9	52.6	45.3
Total Index	42.3	55.3	48.8

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.

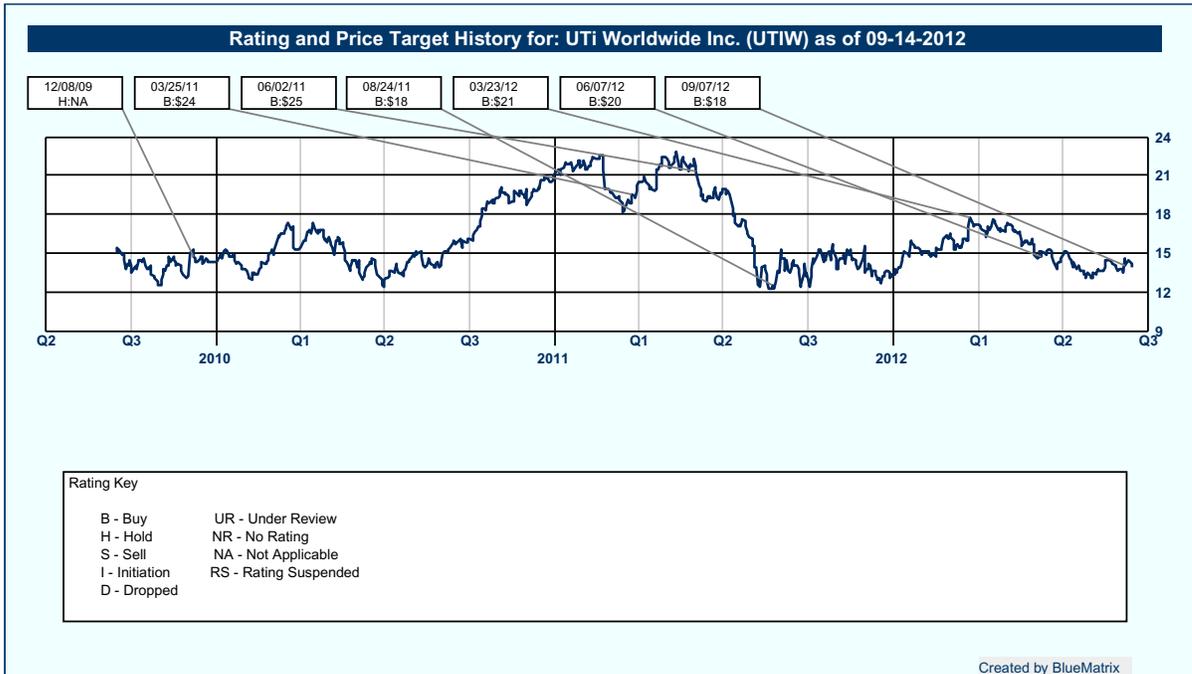
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