

September Index Sees Strong Sequential Uptick; Volume Outlook Good For 2H14

The current reading reported the biggest sequential increase in the overall Logistics Confidence Index (LCI) this year, climbing 3.5 index points from August to reach 59.2. Growing optimism helped drive improvements across the board, with both air and ocean posting strong gains. The index has now stood above the 50.0 growth benchmark for 20 consecutive months, as the global economy has recovered. As we discussed in last week's note, [Airfreight Environment Improving in 2H14 - Forwarding 2Q14 Review/3Q14 Preview](#), we anticipate good trade volume growth through 3Q14 and into 4Q14, especially in airfreight, given a strong peak season outlook and a number of high-profile tech product launches. (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).

- **The overall Stifel LCI index moved higher in September, continuing to reflect growth in major Europe-linked international trade lanes.** Underlying the increase was an acceleration in present volumes, and a positive inflection in expected volumes, which suggests that the declining optimism last month could have been tied to the timing of Chinese New Year in 2015.
- **Asia-to-Europe traffic was the biggest contributor to improvement in the Current Airfreight Volume Index, which reached its highest level since the index began in March 2012, and has now been positive for three consecutive months.** Sequentially, Europe-Asia traffic increased slightly, while European exports to the U.S. and imports from the U.S. were actually down from August. These results suggest, in our view, a robust peak season (due Asian exports role in peak), which is consistent with recent semiconductor billings data, IATA summer volume readings, and the advent of new consumer-tech product launches.
- **The Overall Seafreight index also reached peak levels, hitting 62.7 in September, up 7.2% sequentially, and 16% y/y.** Unlike airfreight, all lanes are showing growth in sea freight, led by Asia-Europe. We believe that seafreight increases are a better indicator of a more broad-based recovery in global trade volumes, as the lead times for peak season ocean shipping have largely passed, whereas those for air are or are just about to start hitting stride.
- **September's one-off question asked survey participants whether they have seen any changes over the last three years in volumes with origins/destinations in Europe or the U.S.** Most of the respondents (46.6%) said they had seen an increase, with a slow, but fairly steady recovery off the bottom. Interestingly, 26% of respondents indicated that they have seen volume declines, with some commentary suggesting that it was due to structural changes in consumption or supply chain patterns. Of the remainder, results were split evenly between those seeing no perceptible changes in volumes, and those with limited operations on those lanes.
- **Investment Conclusions:** Our outlook for freight forwarding volumes in 2H14 remains one for y/y growth with still generally-improving economic conditions. In 3Q14, we expect global airfreight volumes to be up 5%-6% y/y and ocean freight volumes to be up 5%-7% y/y. The latest LCI Index readings support such near-term increases in tonnage, in our view. But even with this expected growth, overcapacity continues to be an issue in both modes (especially in ocean freight), and if the airfreight volume surge is short-lived, it could actually pinch forwarder margins as happened last year. With yields (gross profit per unit) having been in decline for most public forwarders for several quarters now, we believe they will remain under pressure into 2015. The mix of improving volume expectations with a still-challenging rate environment does not lead us to revise our position that global forwarder valuations remain full, although those

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companies with Asia airfreight exposure, like Expeditors International (EXPD, Hold, \$41.98), may outperform near-term in trading. We maintain our Hold ratings on those most exposed to European forwarding markets, Deutsche Post DHL (DPW-XE, Hold, EUR 25.04), Kuehne + Nagel (KNIN-SIX, Hold, CHF 123.30), and Panalpina (PWTN-SIX, Hold, CHF 125.20).

Prices as of U.S. market close, 9/15/2014.

*** 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/797FW6Z>**

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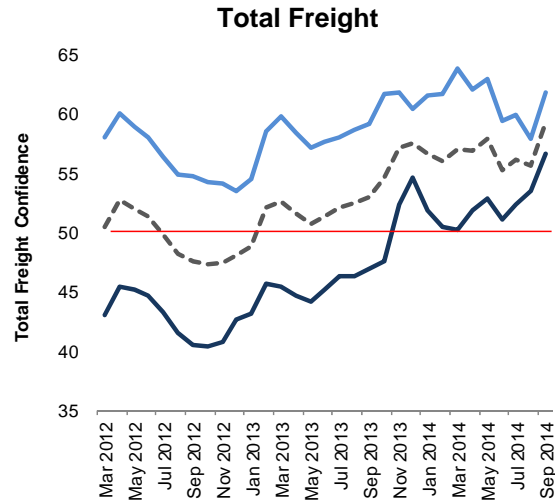
Logistics Confidence Index

Overview – September 2014

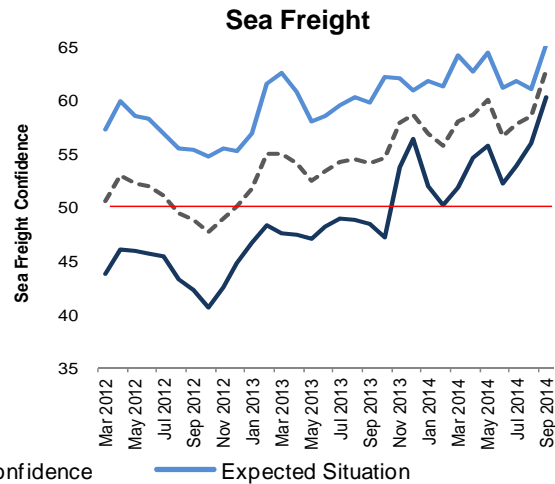
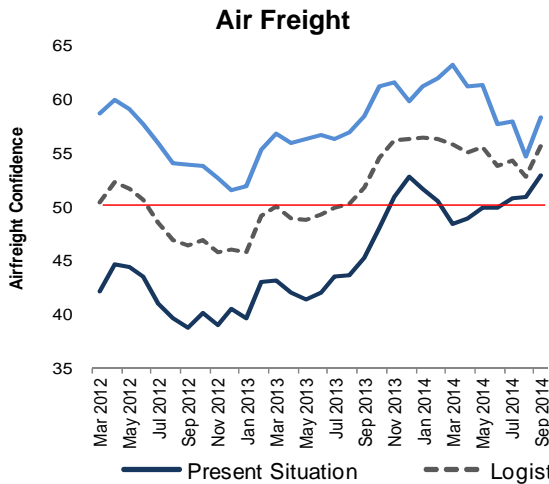
The overall Logistics Confidence Index saw its biggest sequential increase this year, climbing 3.5 index points from August to reach 59.2. Increasing optimism resulted in improvements across the board, with both air and ocean posting strong gains. The index has now remained above the 50.0 growth benchmark for twenty consecutive months.

In terms of the present situation, the September Total Freight Index increased 3.2 points to 56.7. Looking at it by mode, the Sea Freight Index increased 4.3 points from August to 60.3, while the Air Freight Index increased 2.1 points to 53.0. In terms of the expected situation, the September Total Freight Index increased 3.9 index points to 61.8.

For the September one-off question, we asked survey participants if they had experienced volume changes on lanes with origin/destination in Europe or the U.S. Some 46.6% indicated increases, whereas 26.0% indicated declines. Of the remainder, 13.7% reported that volumes remained unchanged and 13.7% were not active on the surveyed lanes.



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	Sep 2014	Mar 2015	Average
Air Freight	53.0	58.4	55.7
Sea Freight	60.3	65.1	62.7
Total Freight	56.7	61.8	59.2

Source for all data and graphs: Stifel Logistics Confidence Index



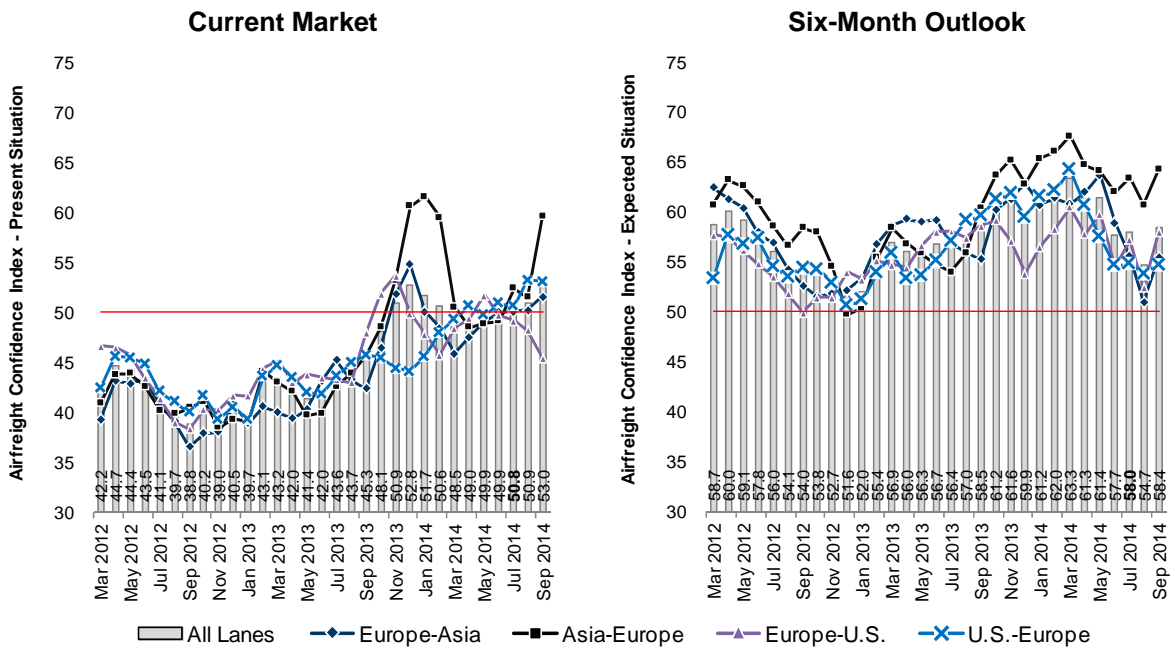
Logistics Confidence Index

Air Freight Confidence Index

The overall Air Freight Logistics Confidence Index increased 2.9 points to 55.7 in September 2014. Compared with September 2013, the index is 3.8 points higher.

In terms of the present situation, the total air index registered 53.0 for the month. Asia to Europe was the clear outperformer, in our view, rising 8.1 points to 59.6. Results in other lanes were muted, with declines of 2.8 and 0.1 points noted on the Europe to U.S. and U.S. to Europe lanes, respectively, while Europe to Asia increased 1.4 points to 51.6.

Looking ahead six months, the expected situation index for total air freight improved 3.7 points to 58.4 in September. Increases were recorded for all lanes, with Europe to U.S. increasing 5.5 points to 57.9, followed by Europe to Asia improving 4.4 points to 55.4. Asia to Europe increased 3.5 points to 64.2 and the U.S. to Europe gained 0.9 points to 54.7.



Trade Lane	Air Freight		
	Sep 2014	Mar 2015	Confidence
Europe-Asia	51.6	55.4	53.5
Asia-Europe	59.6	64.2	61.9
Europe-U.S.	45.4	57.9	51.7
U.S.-Europe	53.1	54.7	53.9
Total Index	53.0	58.4	55.7

Source for all data and graphs: Stifel Logistics Confidence Index



Logistics Confidence Index

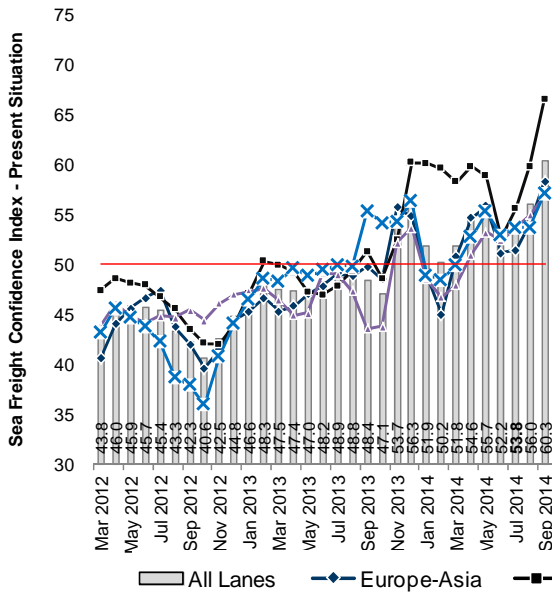
Sea Freight Confidence Index

For sea freight, the Logistics Confidence Index increased 4.2 points to 62.7 in September. Compared with the same month in 2013, the index was 9.3 points higher.

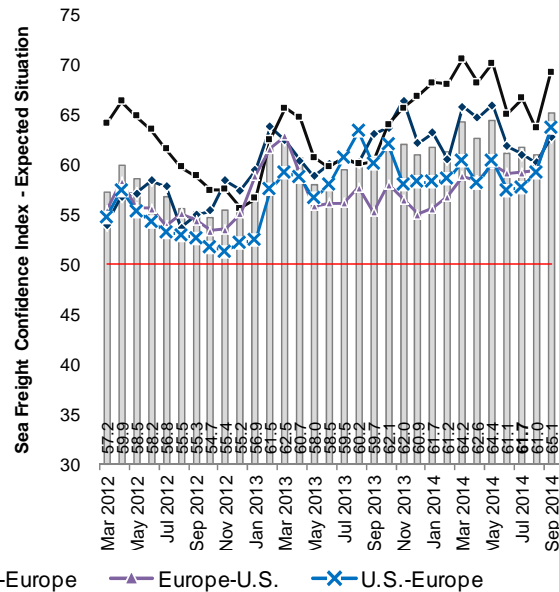
For the present situation, the index climbed 4.3 points to 60.3. Performance here was more consistent than with air, as all trade lanes registered increases. The Asia to Europe lane increased 6.7 points to 66.5. Meanwhile, the Europe to Asia lane recorded a 4.3 point rise to 58.3 in September. The Europe to U.S. route rose 2.0 index points to 56.9, while the U.S. to Europe lane noted 3.4 point gain to 57.1.

The Expected Situation Index for sea freight rose 4.1 points to 65.1. Lanes were positive as Europe to Asia noted a 2.5 point gain to 62.7. The Asia to Europe lane increased 5.6 points to 69.2 for the month. The Europe to U.S. lane climbed 4.1 points to 63.5 and U.S. to Europe increased 4.4 points to 63.6.

Current Market



Six-Month Outlook



Sea Freight			
Trade Lane	Sep 2014	Mar 2015	Confidence
Europe-Asia	58.3	62.7	60.5
Asia-Europe	66.5	69.2	67.9
Europe-U.S.	56.9	63.5	60.2
U.S.-Europe	57.1	63.6	60.4
Total Index	60.3	65.1	62.7

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:

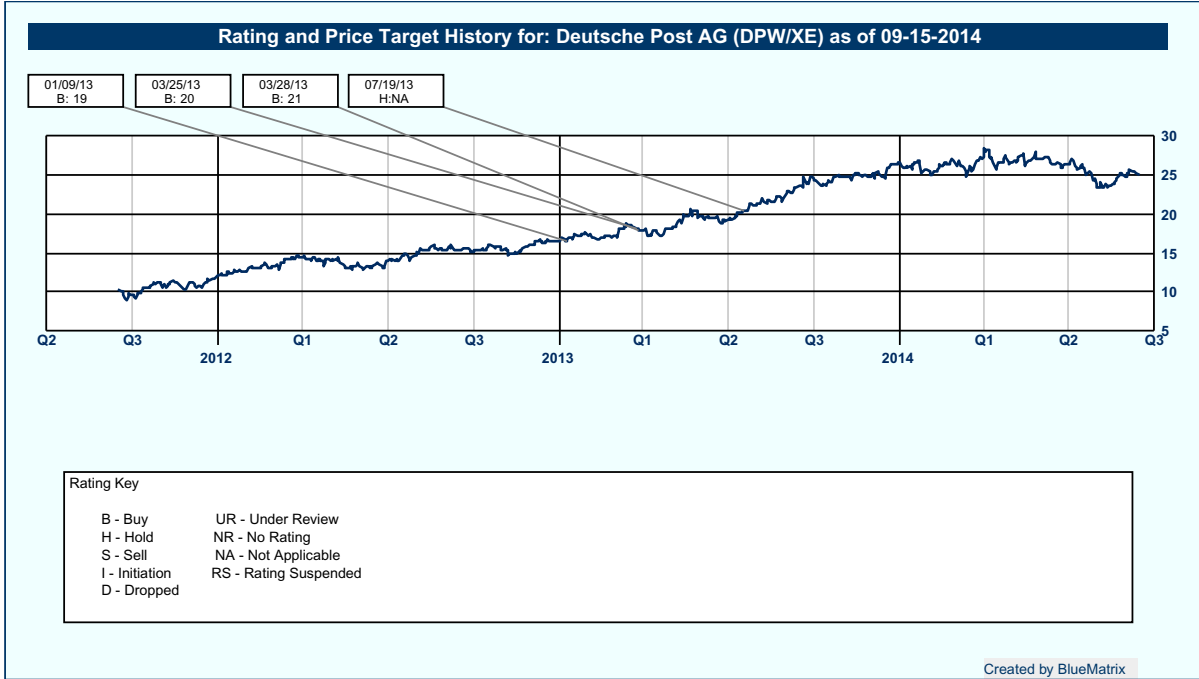
- Europe to Asia
- Asia to Europe
- Europe to U.S.
- U.S. to Europe

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.

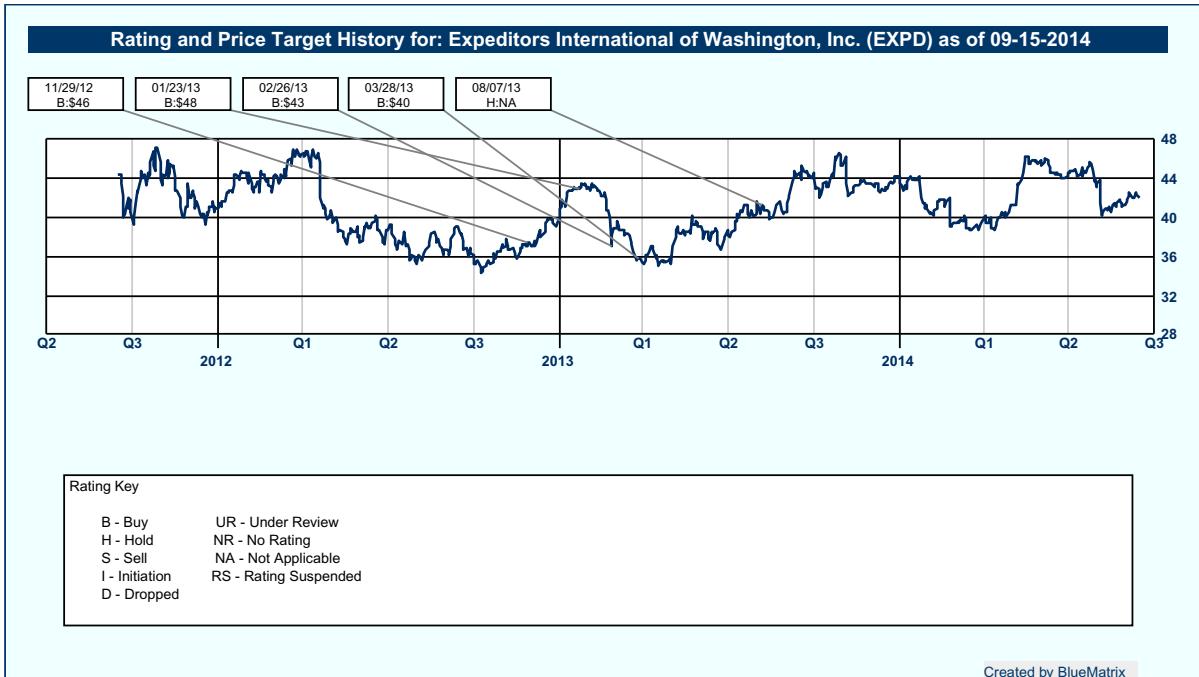
To participate in next month's survey, and in order to receive an advanced copy of the results, please use the following link: <https://www.surveymonkey.com/s/StifelSept>

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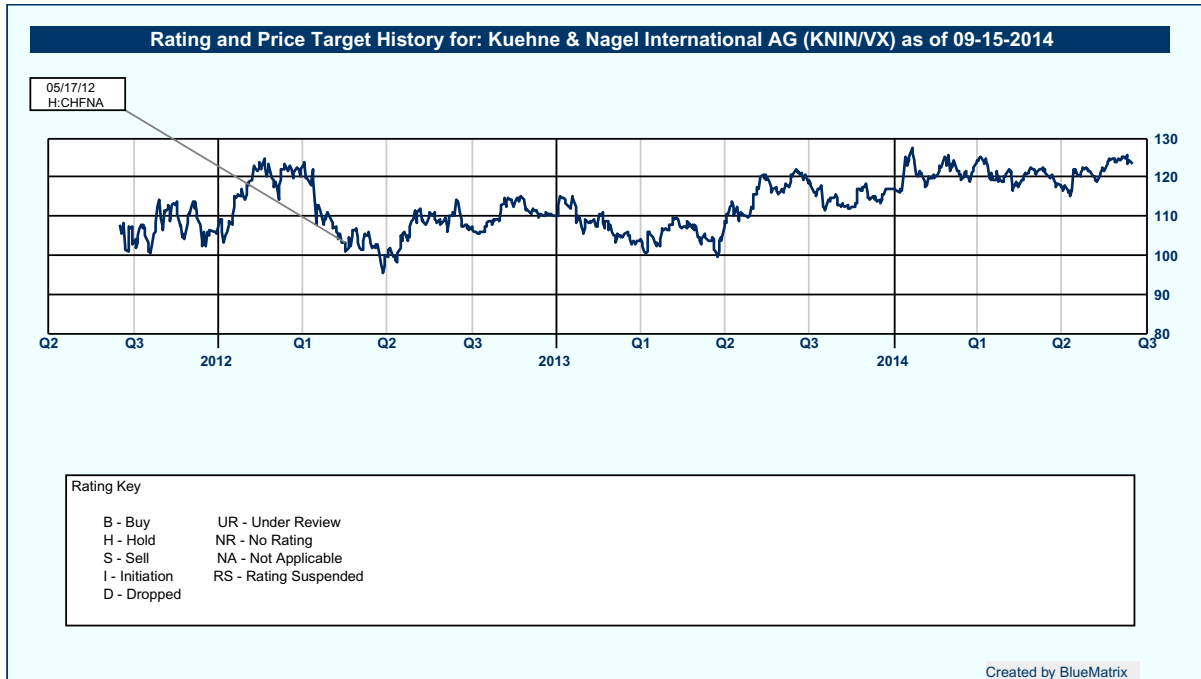
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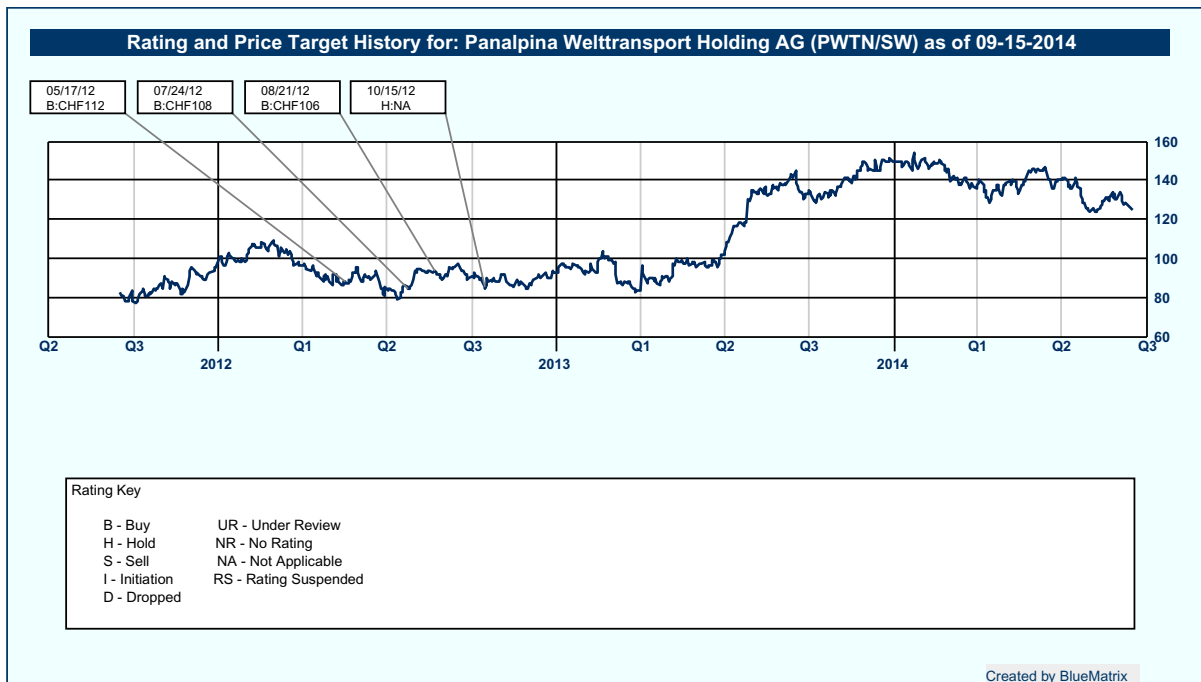
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