

Forwarder Index Marches Higher - Slow But Continued Growth To/From Europe

The Stifel Logistics Confidence Index rose sequentially for a third month in August, up 8.9% y/y. The most recent reading marks the seventh consecutive month above the 50.0 threshold, indicating expansion. Prepared in conjunction with U.K.-based Transport Intelligence, the overall index is a survey-based measure of freight forwarding volumes in European import and export trade lanes. Results are a blended indicator of present conditions and six-month expectations in both airfreight and ocean freight. In August, the Index rose only 0.3 points over last month's 52.4, but still reached its highest level in five months, indicating that confidence continues to build in the overall European freight forwarding market, even if progress is slow. We believe that airfreight volumes in particular have bottomed, that Europe-based freight should build into 2H13, and that downside volume risks are lessening.

- **Overall Logistics Confidence**—a composite of the current situation and the six-month outlook for both intercontinental modes—was 8.9% higher than last year's 48.2 reading, and 0.6% higher than last month's 52.1. Looking at the constituent pieces, present volumes in Europe-based lanes were sequentially flat and continue to trail normal seasonal volumes, while already-optimistic future expectations increased by another 0.6 points. We believe these results demonstrate that recovery from a prolapsed European economic trough, albeit a slow one, is palpable.
- **The overall Seafreight Index improved 0.3 points to 54.5, with offsetting results in the current situation and future outlook.** Present volumes registered a modest decline in all lanes, save Asia to Europe, which is seeing more action now that European economic activity is again rising. The container lines continue to fight persistent structural overcapacity, but the most recent round of increases seems to be holding. Forwarder sentiment over the next six months, however, appears little-affected by rate hikes, as respondents are looking forward to a brighter holiday shipping season.
- **Blended airfreight results remained at or above the 50.0 benchmark value for a second consecutive month.** The present situation continues to register below normal seasonal levels, improving only 0.1 index points over last month but yielding a 10.1% increase vs easy year-over-year comps. Future expectations were increasingly positive, with a sequential hike of 0.6 index points, representing a 5.4% y/y gain - this likely due to planned fall consumer electronics product launches, in our view.
- **In this month's one-off question, we asked survey participants if they expect the latest conflict in Egypt to disrupt trade flow through the Suez Canal. More respondents anticipated no disruption (at 41.9%) than those planning for a disruption (at 36.0%). 22.1% of respondents were unsure.** Comments suggest that the disruption would be, "at worst only temporary," but prolonged instability could help weight the market share balance in favor of Panama as an alternative route from East Asia to the U.S. East Coast.
- **Investment Conclusions:** Although certain markets in Europe remain challenged, we continue to believe that downside risks have moderated, and that European import/export volumes should accelerate into the back half of the year, generally positive for the freight forwarders, which have had a tough market the last two years. That said, growth to-date has been meek, and we do not foresee any rapid reacceleration in forwarding volumes (U.S. air and ocean exports to Europe seem to have most optimistic outlook in the index). In the face of slow growth and continued, albeit diminished uncertainty, our top airfreight recommendation is FedEx (FDX, \$108.61, Buy), which has significant leverage to global economic improvement (however, admittedly more to U.S. and Asia activity than Europe), but is also taking strides to improve its network efficiency and operational productivity (roughly two-thirds of its \$1.7bn targeted

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EBIT improvement is expected to be achieved independent of a global trade rebound).
Prices are U.S. market close, 8/13/2013.

- *** 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/LCIAS13>**

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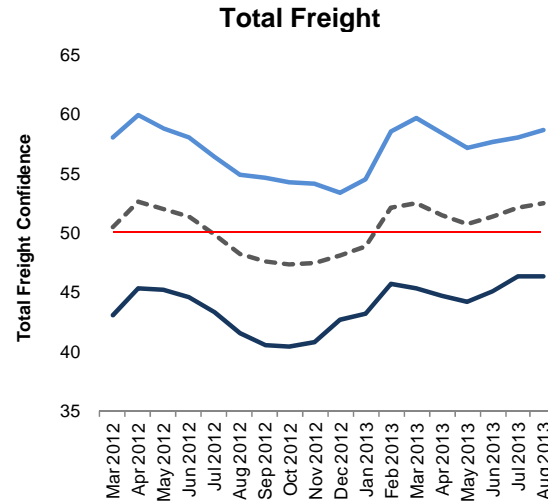
Logistics Confidence Index

Overview – August 2013

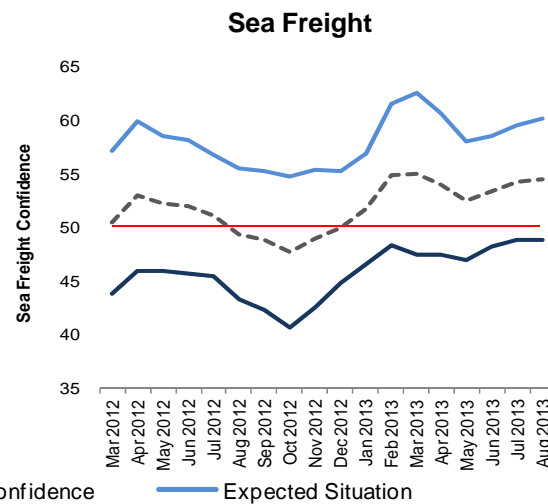
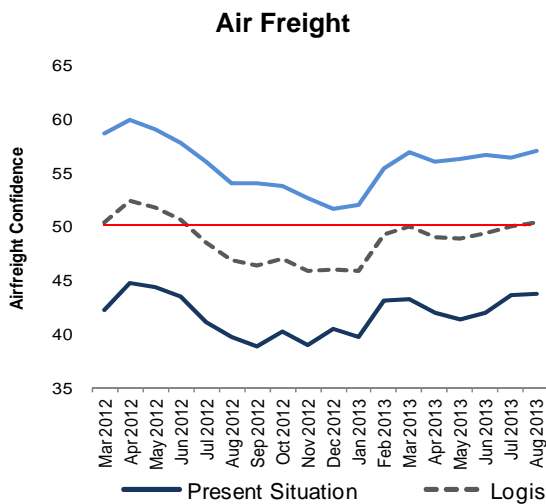
Index continues to rise, albeit slowly, and remains above the 50 threshold for the seventh consecutive period.

The overall Stifel Logistics Confidence Index increased 0.3 index points to 52.4 in August, marking its seventh consecutive month of expansion (as indicated by survey readings in excess of the significant 50.0 threshold). In terms of the present logistics situation, the overall index was flat at 46.3 for August. The index for sea freight dipped 0.1 from July to 48.8, while the index for air freight inched up 0.1 to 43.7 for the month. At below 50, both indices continue to indicate weaker volumes than would otherwise be expected this time of years. Regarding the six-month outlook, the index improved by 0.6 index points to 58.6 as optimism continues to build.

In this month's one off question, we asked survey participants if they believe the latest conflict in Egypt will disrupt trade flow through the Suez Canal. 41.9% of respondents indicated that they did not expect a disruption, while 36.0% said they did, and 22.1% were uncertain. We have heard an increasing number of shippers extol the cost advantages of the Suez versus the new Panama locks, but this advantage may be eroded by increased risk of geopolitical instability.



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	Aug 2013	Feb 2014	Average
Air Freight	43.7	57.0	50.4
Sea Freight	48.8	60.2	54.5
Total Freight	46.3	58.6	52.4

Source for all data and graphs: Stifel Logistics Confidence Index



Logistics Confidence Index

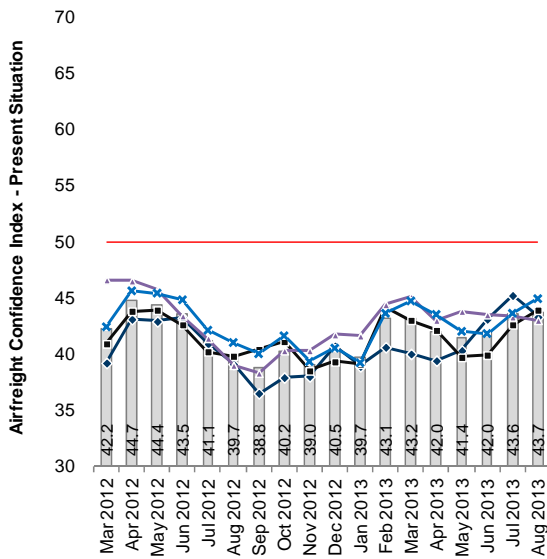
Air Freight Confidence Index

The overall index for air freight increased 0.4 index points to 50.4 in August 2013. When compared with August 2012, the index was 3.5 points higher.

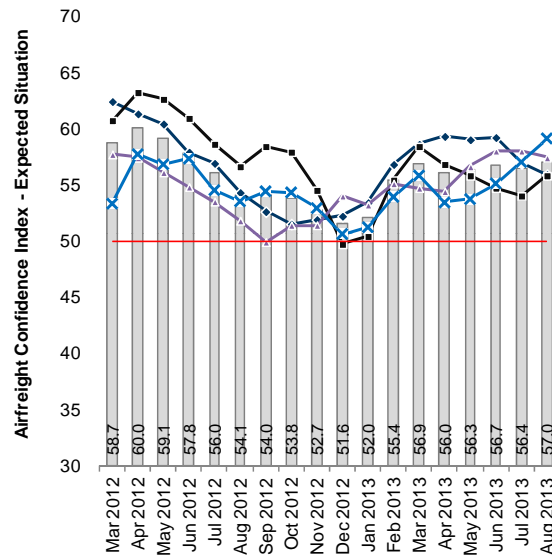
In terms of the current logistics situation, the index registered 43.7 for the month compared with 43.6 in July. Changes among the lanes were mixed. After increasing 2.1 points from June to July, the Europe to Asia route declined 1.9 points to 43.3 in August. Asia to Europe increased 1.3 index points to 43.9. Meanwhile, the U.S.-based trade lanes also remained mixed as the Europe to U.S. lane declined for another month, falling 0.3 index points to 43.0 and the U.S. to Europe lane increased 1.3 index points to 44.9.

In terms of expectations for the next six months, the index increased 0.6 points to 57.0 in August. By lane, the index for Europe to Asia declined 1.0 points to 55.9 for the month, the Asia to Europe lane registered a gain of 1.8 points to 55.8, and the U.S. routes showed mixed results. Europe to the U.S. posted a 0.6 decline to 57.4, while the U.S. to Europe lane increased 2.1 points to 59.1. The index for all lanes remained above the 50 mark, indicating that forwarders continue to be optimistic for an improving airfreight market over the next six months.

Current Market



Six-Month Outlook



Legend: All Lanes (grey square), Europe-Asia (black diamond), Asia-Europe (black square), Europe-U.S. (purple triangle), U.S.-Europe (blue cross)

Air Freight			
Trade Lane	Aug 2013	Feb 2014	Confidence
Europe-Asia	43.3	55.9	49.6
Asia-Europe	43.9	55.8	49.9
Europe-U.S.	43.0	57.4	50.2
U.S.-Europe	44.9	59.1	52.0
Total Index	43.7	57.0	50.4

Source for all data and graphs: Stifel Logistics Confidence Index



Logistics Confidence Index

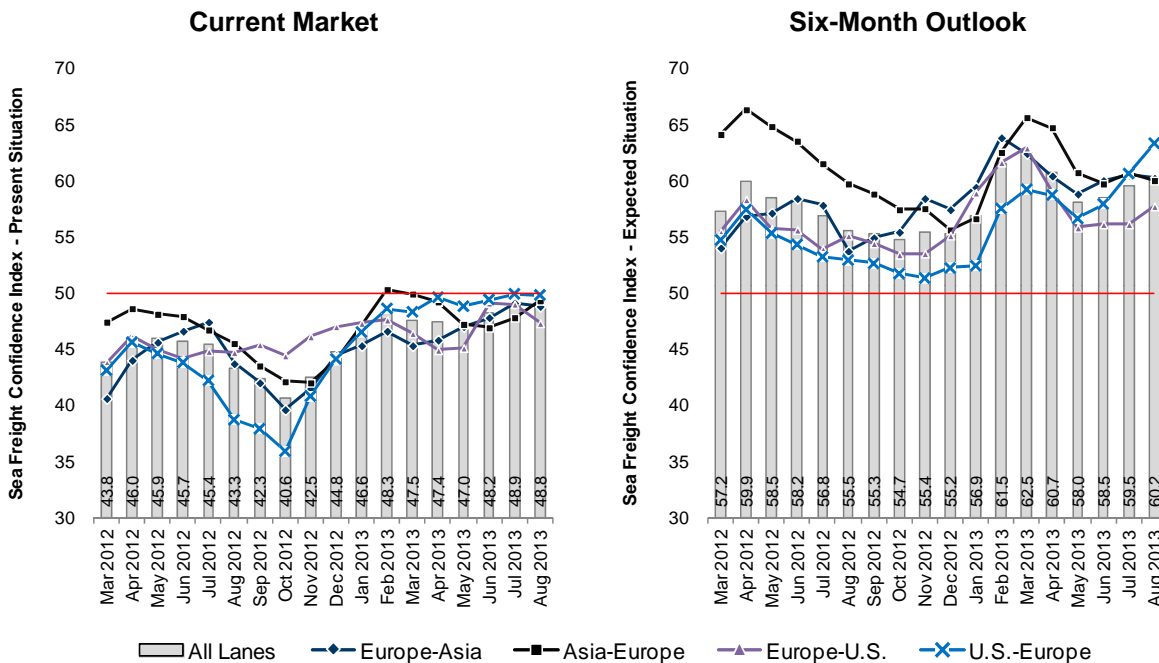
Sea Freight Confidence Index

For sea freight, the overall index increased 0.3 points to 54.5 in August. Compared with the same month in 2012, the index was 5.1 points higher.

However, for the present situation the index showed declines in all but one lane. The Europe to Asia lane registered a slight decline of 0.3 to 48.8. Meanwhile, the Asia to Europe registered the only increase, up 1.5 points to 49.3. The Europe to U.S. route declined 1.7 index points to 47.3, while the converse U.S. to Europe lane measured only a slight dip of 0.1 points to 49.8.

Sea forwarders remain more positive on the U.S. lanes versus the Asia lanes for the next six months. The index for logistics expectations increased 0.7 points to 60.2 in August.

Expectations on the Europe to Asia lane declined 0.3 points to 60.2 for the month, while forwarders on the Asia to Europe noted a decline of 0.7 points to 60.0. The U.S. to Europe lane increased 2.7 points to 63.3, while the Europe to U.S. lane increased 1.6 points to 57.7.



Trade Lane	Sea Freight		
	Aug 2013	Feb 2014	Confidence
Europe-Asia	48.8	60.2	54.5
Asia-Europe	49.3	60.0	54.7
Europe-U.S.	47.3	57.7	52.5
U.S.-Europe	49.8	63.3	56.6
Total Index	48.8	60.2	54.5

Source for all data and graphs: Stifel Logistics Confidence Index



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

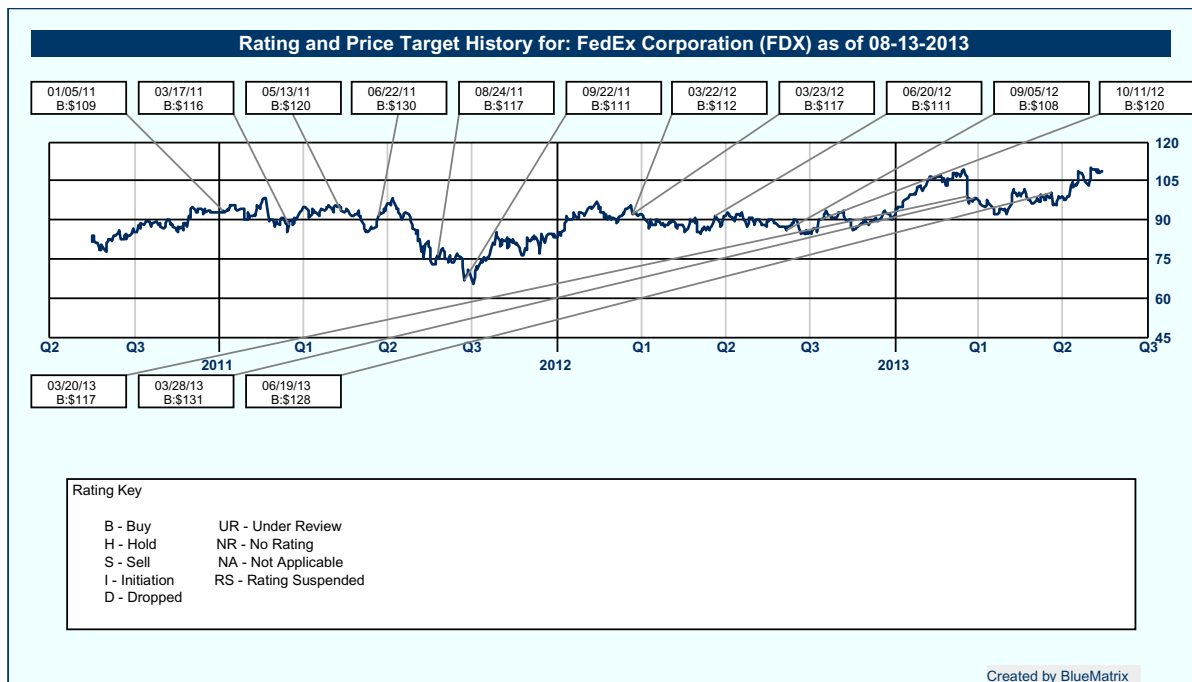
These trade lanes form four sub-indices, from which an overall index for both the air freight industry and sea freight industry is calculated. An index value of 50 indicates no change in the volumes of partaking logistics companies; above 50 indicates higher volumes, while below 50 indicates lower volumes.

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/LCIAS13>

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