



Consolidators International, Inc.

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Economic Forecasts; Based On Facts Or Wishful Thinking?

President Harry Truman once was asked what he thought of economists. He replied, "I wish I could find a one handed economist. In that way, I wouldn't always get an opinion, "on the other hand." In today's miserable economy, economists are falling all over themselves attempting to forecast when the U.S. and the world will climb out of the recession and when world trade will recover its former robust self. On one hand they say, "green shoots are coming out of the earth." But on the other hand, they caution, "these shoots may turn to weeds."

Supposedly cold, hard economic facts turn mushy when analyzed more closely. Let's take a look at China and its recent declaration that the nation will spend \$500 billion in modernizing its infrastructure. Sounds like a bonanza for U.S. industrial companies like Caterpillar and others. But wait. A second announcement soon followed; China would be using only equipment and machinery made in China to carry out its ambitious construction efforts. A potentially lucrative market vanishes.

It's not just China. The financial press both in the U.S. and abroad are full of stories quoting economists who declare, "we will be out of the recession starting in the final quarter of 2009 with increased economic activity going forward in 2010." Other economists, just as certain, claim the recession will last through next year. Some economic thinkers call our recession V shaped; others U shaped and still others say W shaped. Who's right with this alphabet soup?

We in air freight need solid, reliable information about the future. Our business is so tied to economic cycles. We don't ship agricultural products which must move in good times and bad. We carry time sensitive, industrial products that rise and fall with economic conditions. Whether we are a huge, multi-national forwarder or a small consolidator with a modest amount of customers and limited lane segments, we want to know what our customers will be doing so that we can plan for the future.



Announcements

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Economics long has been known as the "dismal science." Dismal or not, forwarders want accuracy in forecasts based on facts and not wishful thinking. Just hoping things will get better will not make them so. Do we continue to hunker down, cut staff or expand operations with our hard earned dollars based on these forecasts. Forecasting is an inexact science, but let's have facts to back up the prognostications—not wishful thinking.

CII's Tuna Business Growing So Fast, New Division Formed:

One of CII's bright spots in a very tough cargo market is our new tuna business. It is growing by leaps and bounds. This "niche" market has become so successful, we have created a new division within CII, Tuna Support. Tuna Support is devoting its facilities and energies exclusively to supply the vast Pacific Ocean tuna business. We are handling every phase of tuna logistics; inbound, outbound, ocean and air for both the tuna fleets and facilities ashore. Under the direction of Tony Feist, long experienced in supplying

these fleets, canneries and support operations, we expect a quadrupling of business in 2009. Tony recently completed a tour of tuna facilities among the islands of the western Pacific and returned with a major contract, in addition to winning other business.

Tuna Support is moving every type of equipment needed by the tuna industry; from massive booms to finely meshed nets

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for the boats and parts and equipment for the canneries on shore. We recently have created a web site, www.tunasupport.com to provide current information on the industry and answer any inquiries.



No Wishful Thinking By FedEx:



While economists debate about the future, there are no debates at once high flying FedEx. The company anticipates many grim months ahead. FedEx released its fiscal fourth quarter results late last month, which did not make happy reading. Its prime express operations, accounting for about 60 per cent of company revenues, was down while the company's ground services held steady. No surprise there. In these tough times, shippers obviously are moving their freight at considerably lower surface rates.

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While the disappointing results were expected, of greater interest was FedEx' prediction for the future. Fred Smith was not particularly optimistic about the months ahead. He sees no immediate upturn in package deliveries either in the U.S. or abroad. FedEx has cut its China flights by 30 per cent. The company which famously started as a revolutionary express package delivery service, increasingly is becoming just another trucker as its ground business takes on growing importance. Will the express package division duplicate its once glory days of 15-20 per cent growth per year? I doubt it. The current deep and painful recession has changed many minds permanently on the need for speed at premium prices.

On a personal note, five years back when FedEx acquired Kinko's print shops, I wrote in the Newsletter that the purchase was one of Fred Smith's few serious mistakes. FedEx just wrote down \$1.2 billion related to the purchase of Kinko's.



Hollywood Loses As Airlines Cut Back:

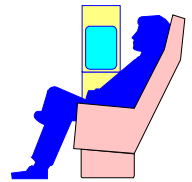


In a bizarre twist on the declining fortunes of the airline business, Hollywood is losing out. Carriers are not happy about the rising price of first run movies for their inflight entertainment. They are turning to "classic" films like film noir and MGM musicals made during the so-called golden age of Hollywood. These classics are only one fifth the price of new, first run films. Inflight entertainment is hardly a minor expense for the airlines. They spent \$410 million last year for movies shown on both domestic and international flights.

Old moves are not only much cheaper, they actually are more popular with passengers than most of the new films issued by the studios. Classic film noirs like "Laura," "Dial M For Murder" and musicals like "Singin' In The Rain" are finding new audiences on airplanes. One passenger complained that he was losing sleep on a flight because he kept watching those oldies.



While classic films are becoming more popular, the entire InFlight Entertainment Systems (IFE) remote controls are becoming so complicated, you practically have to be an engineer to figure out how to operate them. Flight attendants on international flights, which have the most complicated systems, report their most often asked question from passengers is, "how do we operate these ***** remote controls?" Once again, technology is running faster than people's ability to catch up to it.



Falling Car Demand Causes Downshift In Transportation:



For those few forwarders who have money to burn in this age of recession, it's a great time to buy a car. With car sales way down and with dealers by the thousands being forced out of business by the auto manufacturers, once unthinkable deals

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can be made. There's always a flip side to good news, however.

The auto industry is one of the largest users of transportation both in the U.S. and abroad. There is a vast network of transportation companies and logistics providers who move and manage the thousands of parts that go into the modern automobile. As the car manufacturers become a shadow of themselves, so do their suppliers and those who move parts and equipment. The entire supply chain pipeline for both manufacturers and servicers is shrinking.

It is estimated that volume in auto parts traffic will decline by about 32 per cent this year, an enormous drop. We're not talking petty change here. Car makers and their suppliers spent \$38 billion with transport companies in 2008. While air freight receives only a small percentage of this amount (trucks get the lion's share of auto transport expenditures), our industry is losing an even greater proportion of dollars as parts suppliers move more of their product by cheaper surface. Cars are not only getting smaller; so are their supply chains.

On The Job A Year, Qantas CEO Changing The Airline:



Qantas CEO, Alan Joyce, has held the reins at Qantas for about a year now, and the airline slowly is changing for the better. Under his predecessor, Geoff Dixon, Qantas was a basket case. Dixon's greed and avarice, culminating in his attempting to sell Qantas to financial types (including an American investment firm) who knew nothing about operating an airline, finally forced his resignation. Under Joyce's leadership, Qantas management is concentrating on running an airline, not manipulating stock. Joyce faces a tough environment. Both domestic and international passenger count has been declining sharply. New



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competition from Delta and V Australian, the international arm of Virgin Blue, on its lucrative Australian-U.S. route, plus a fare war with Singapore Airlines, is hurting Qantas' bottom line. Aircraft have been grounded and new orders, particularly for the jumbo 380, have been deferred.

Originally a state owned airline, Qantas for years has been known for its bureaucratic structure combined with a confrontational stance toward its labor unions. It always has been top heavy with managers. The company is attempting to mend fences with its labor force and Joyce has taken an axe to "redundant" managers. He's fired 500 of them.

On the cargo side, Qantas, unlike many other carriers, shows no signs of lessened interest. The airline recently arranged the leasing of a widebodied 767 freighter from ABX Air for its cargo operations. As Australia is CII's major market, we obviously have a strong interest in the fortunes of that nation's largest airline. We think Joyce may be the man to steer Qantas through turbulent times.

At Last; A Sensible Airplane For Cargo:



The Brazil based airplane maker, Embraer, best known for its producing smaller, express passenger jets, recently announced it was planning to produce an all-cargo airplane for the Brazilian Air Force and commercial markets. The aircraft's cargo carrying capacity is small, with a payload of about 19 tons compared to the 100 tons carried by Boeing's long range triple 7 freighter. That small capacity seems just about right, however, for much of the air freight business with its sharply diminished volume. Why fly a half empty 777 with its huge costs when a smaller, full aircraft at less than half the expense can be making money for the airlines and their forwarding agents? With half empty airplanes, rates hit bottom. With full aircraft, prices move north.

The high winged, twin engine aircraft called the KC-390 by Embraer, will not have the intercontinental range of the jumbo jets, but there is plenty of markets where this new airplane can be a money maker for the airlines. The U.S. domestic cargo market badly needs an efficient, economical airplane to revive an almost completely moribund business. Perhaps the new Embraer is the answer. This new aircraft also could be a profitable means of transport intra Asia, within Europe and Latin America. At least one aircraft manufacturer believes there is a future for an airplane designed just for cargo; unlike Boeing and Airbus who basically convert their passenger airplanes to all-freighters.

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The good news is that finally an airplane is designed and to be built strictly for air freight. The bad news is the KC-190 will not be available until 2015.

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Sincerely,

Julian A. Keeling

