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FedEx, UPS Signal Export-Led U.S. Growth Momentum (Update1)
2010-07-27 11:38:40.851 GMT

(Updates with unemployment, job figures in 10th and 11th paragraphs.)

By Mike Dorning and Mary Jane Credeur

July 27 (Bloomberg) -- FedEx Corp. and United Parcel Service Inc., two bellwethers of the U.S. economy, are signaling durability of a global recovery powered by growth overseas rather than demand at home.

Both freight companies raised profit forecasts in recent days on the strength of cross-border shipments, especially from Asia, reflecting confidence in trade flows even as the European debt crisis threatens to weaken global demand.

While rising international deliveries suggest that a “double-dip” recession is unlikely for the global economy, they reinforce forecasts for export-driven growth amid a lengthy period of unemployment around 9 percent in the U.S. The reliance on foreign demand bolsters a theory espoused by Pacific Investment Management Co. that the world’s largest economy is in a “new normal” phase of slow growth.

“The international marketplace is what’s driving growth at FedEx and UPS and any other big company that has international exposure right now,” said David Campbell, an analyst at Thompson Davis & Co. in Richmond, Virginia. He recommends buying shares of both FedEx and UPS.

FedEx, based in Memphis, and UPS are considered gauges of economic strength or weakness because they move consumer goods and business equipment from electronics to apparel and financial documents.

The two companies also raised their earnings forecasts earlier this year. The last time they previously raised earnings forecasts in tandem, in July 2005 and September 2005, the U.S. economy experienced sustained growth of 3 percent for the following year.

Rising Shares

Shares of FedEx rose 5.6 percent yesterday and are up 19 percent from a 2010 low reached June 30. UPS shares gained 1.9 percent and have risen 16 percent from their low of the year reached in February.

FedEx forecast in a statement released yesterday that earnings for the quarter ending in August will be in a range of $1.05 to $1.25 a share, an increase from the previous outlook of 85 cents to $1.05. FedEx said volume for international priority packages will jump more than 20 percent this quarter.

UPS increased its full-year forecast last week to as much as $3.45 a share, from a previous maximum of $3.30, on improving demand in Asia and Europe.

Unemployment has been slow to fall after reaching a 26-year high of 10.1 percent in October. The economy lost more than 8 million jobs during the latest recession. So far in 2010, companies have added 593,000 jobs.

Unemployment Rate

The jobless rate, which fell to 9.5 percent in June as the labor force shrank, will average 9.6 percent this year, according to the median forecast in a Bloomberg survey of economists from July 1 to July 8.

Barton Biggs, the hedge-fund manager who sold half his equity holdings at the start of this month, said yesterday that he has reversed course and is building up stock investments after concluding the risk of a new global downturn has receded.

“I’ve definitely changed my mind to the degree of risk out there,” Biggs, managing partner of Traxis Partners LLC, said in a radio interview with Tom Keene on Bloomberg Surveillance.
“Economic data around the world in the last 10 days to two weeks has turned more positive. It has exceeded forecasts almost without exception. The odds of the world slumping into a significant slowdown has diminished.”

Global gross domestic product will grow in the second half of the year at an annual rate of nearly 4 percent on a purchasing power parity basis, said Joseph Lupton, senior economist at JPMorgan Chase & Co.

Final Sales

“We’re not looking for a fundamental break in the recovery in any way,” Lupton said. The global economy is in the midst of “a natural downshift” as factories cycle from orders driven primarily by inventory replenishment to business more reliant on final sales.

Growth in Asia is being propelled largely by demand for electronic components, fashion apparel and industrial parts from countries including Singapore, South Korea, Taiwan and India, said Campbell of Thompson Davis.

“The inventory stocking that started a year ago is continuing, but not at the levels we’ve historically seen,”
Campbell said. “Companies are keeping fewer parts on hand, which means if they need a product or component, they have to use airfreight and that’s what we’re seeing with FedEx and UPS.”

Airfreight Capacity

FedEx and UPS are also benefiting from a reduction in airfreight capacity over the last three years as carriers parked planes and passenger airlines including Delta Air Lines Inc., the world’s largest carrier, got rid of dedicated freighters.

There are about 2,800 freight planes in service as of April, 200 fewer than at the end of 2008, according to the International Air Transport Association, a Geneva-based trade group.

FedEx didn’t forecast volume for the U.S. in the current quarter, other than saying that growth in the Express and Ground units is “better-than-expected.”

Volumes for U.S. packages in the Express unit have risen no more than 3.5 percent in each of the past four quarters, and fell in each of the previous 12 quarters on economic weakness and competition from UPS and Deutsche Post AG’s DHL Express unit.

In typical economic cycles, UPS’s domestic volume typically matches or exceeds U.S. GDP.

Package Volume

The Atlanta-based company said last week that U.S. package volume rose 1.2 percent for the second quarter, the best result in two-and-a-half years.

Domestic shipments will continue to grow roughly in line with GDP for the rest of the year, UPS said, and it forecast industrial production in the U.S. will outpace GDP.

“The business-to-business side is pretty good. The consumer is another question. The more attached to consumers you are, the more risk,” Kurt Kuehn, chief financial officer of UPS, said in an interview on July 22.

UPS posted a 20 percent jump in international shipments for the second quarter, the best results for that unit in four years, led by a 40 percent surge in export volumes from Asia.

“Growth in Asia has been red hot, fueled by the tech sector and iPhones and handheld devices, and air freight is going to benefit greatly from that,” said Mark Vitner, an economist at Wells Fargo Securities LLC in Charlotte, North Carolina. “This says more about the global economy and in particular Asia than it does the U.S.”

--With assistance from Anthony Feld in New York. Editors: Brendan Murray, Christine Spolar

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