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Industry View
In-Line

Air Freight and Surface Transportation

U.S. Postal Service to Announce New Shipping Alternative

What's New: Following up on a new U.S. Postal Service (USPS) initiative that we highlighted back in August, we believe the USPS is close to announcing a new shipping alternative with a large computer manufacturer/retailer that will allow it to handle high-value shipments, potentially taking share in the ground parcel market (which should negatively impact UPS more than FDX).

Implications: Though the total number of shipments that the U.S. Postal Service is likely to win, 2 - 3 million annually in our estimation, is small relative to the total number of industry ground packages, we believe this is another example of how the U.S. Postal Service is improving its service and product offering, thus turning up the heat a bit in the B2C and ground package market.

Conclusion: Over the past year we have highlighted how the U.S. Postal Service, through a renewed management focus, has raised its game and become more competitive in the ground parcel market. This trend negatively impacts UPS more than FDX given UPS's roughly 60% market share in the ground parcel market.

GICS Sector: Industrials

Strategist's Recommended Weight	13.2%
S&P 500 Weight	11.2%

Recent Reports

Title	Date
FedEx Corp.: Express Margins March Higher but Ground Loses Momentum	September 22, 2005
Priority Air Insights: FDX and UPS Headwinds from FX, DHL and U.S. Postal Service	September 19, 2005
FedEx Corp.: Lowering EPS, Price Target But Maintain Overweight	September 12, 2005
DHL Call Highlights Competitive Pressures in US Express/Parcel Market	August 24, 2005
FedEx Corp.: Lowering F2006 Estimate for Rising Fuel Costs	August 11, 2005
Parcel Day 2005: Thoughts From Visits With DHL, FDX, UPS and the USPS	August 11, 2005
UPS: Another Quarter Led By Strong International	July 22, 2005

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Please see analyst certification and other important disclosures starting on page 4.

Score One for the U.S. Postal Service

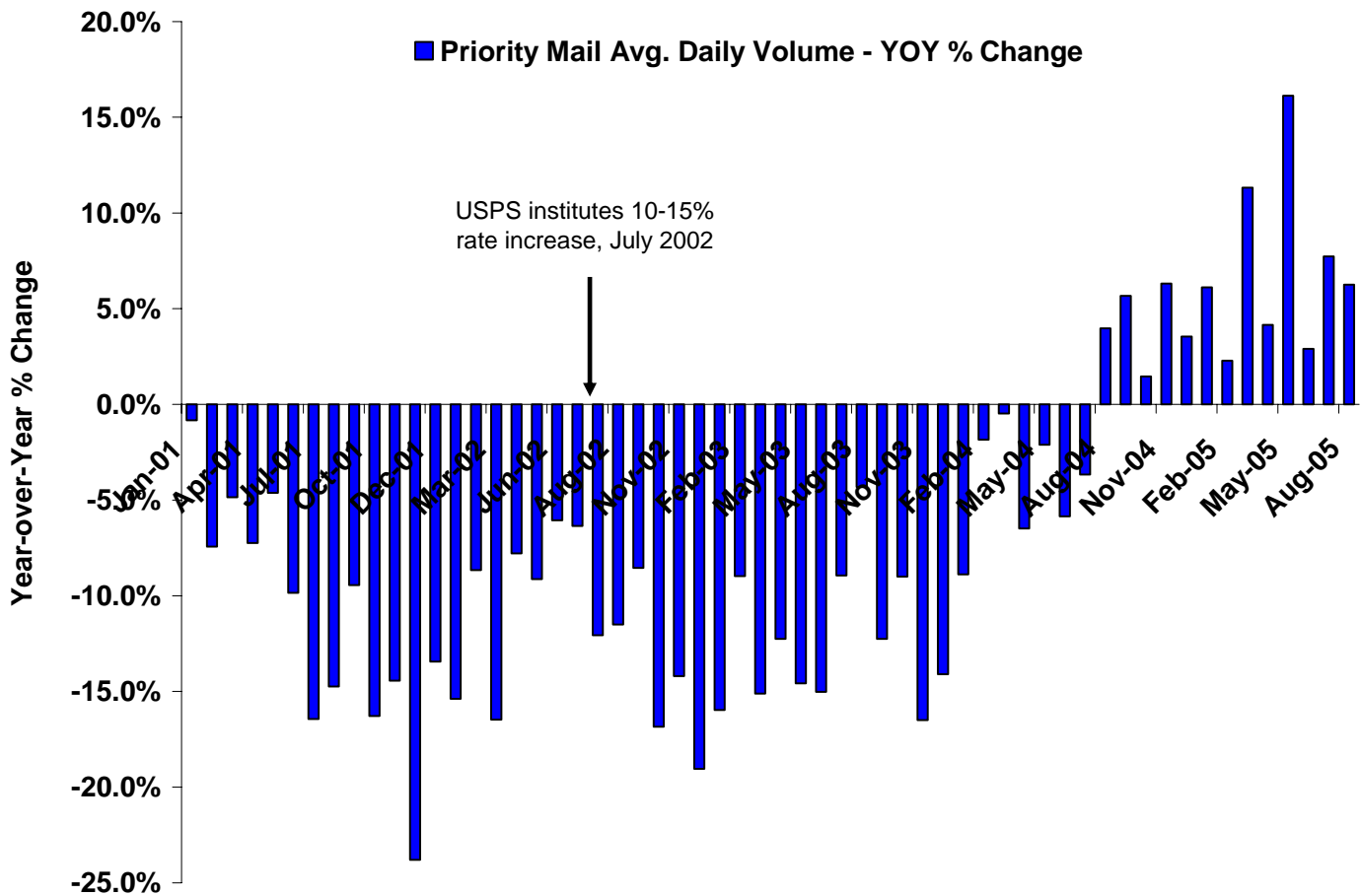
As we highlighted in our August 10 report *Parcel Day 2005: Thoughts From Visits With DHL, FDX, UPS and the USPS*, we believe that the U.S. Postal Service (USPS) has been working on a new shipping alternative for a large computer manufacturer/retailer that could change the way that electronic and other high-value goods are shipped in the B2C market. Given our discussions with industry sources, we believe that the USPS will likely announce this new program (last we heard it was dubbed "Hold-For-Pickup") as early as this week and will showcase it at the upcoming Parcel Shipping & Distribution Forum. Under the new program, when a consumer purchases a PC or notebook under \$800 and requests the 'free shipping' option, the computer

manufacturer will hand off the package to a consolidator who in turn will deliver it to the local post office where it will be held for pick-up.

This new initiative is further evidence that the U.S. Postal Service, the second largest domestic ground package carrier, is becoming a more viable competitor in the ground package space, which places more pressure on UPS than FDX. Illustrating this point further, August Priority Mail package volumes recently released by the USPS were up 6% on a year-over-year basis, faster than recent growth rates reported by UPS and in line with those recently reported by FDX.

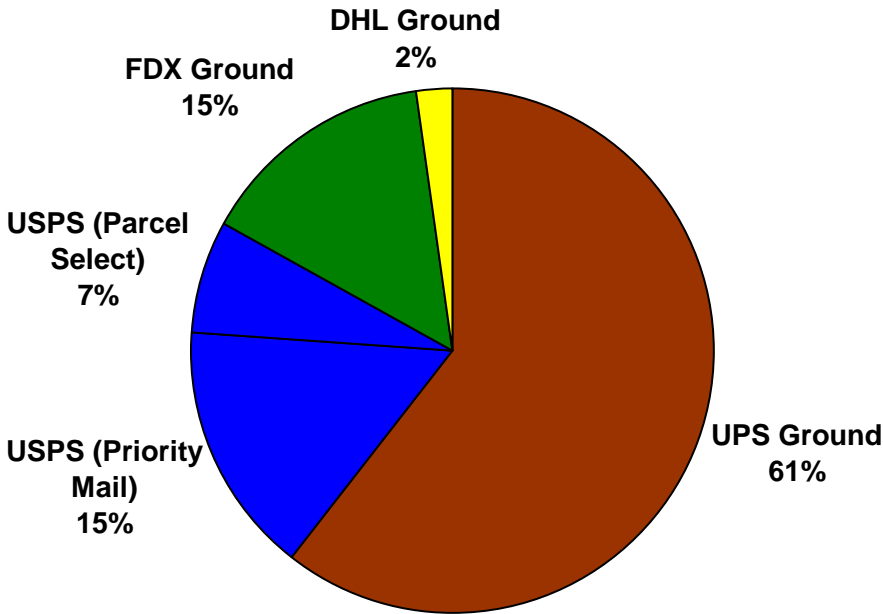
Exhibit 1

Priority Mail Volumes Grew 6% in August



Source: U.S. Postal Service data, Morgan Stanley Research

Exhibit 2
U.S. Ground Parcel Market Share (\$29 Billion)



Note: 2004 figures
Source: Company data and Morgan Stanley Research estimates.

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(as of August 31, 2005)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	689	35%	265	40%	38%
Equal-weight/Hold	902	46%	312	47%	35%
Underweight/Sell	379	19%	93	14%	25%
Total	1,970		670		

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Industry Coverage: Air Freight and Surface Transportation

Company (Ticker)	Rating (as of)	Price (09/26/2005)
Chad Bruso		
Arkansas Best (ABFS.O)	U (04/22/2003)	\$33.57
CNF Inc. (CNF.N)	U (01/07/2005)	\$49.06
Heartland Express (HTLD.O)	E (10/01/2004)	\$19.41
J.B. Hunt Transport (JBHT.O)	E (07/16/2003)	\$18.47
Swift Transportation (SWFT.O)	E (12/24/2002)	\$17.68
Werner Enterprises (WERN.O)	E (01/07/2005)	\$16.40
James J. Valentine		
Burlington Northern SF (BNI.N)	E (08/17/2004)	\$56.87
C.H. Robinson Worldwide (CHRW.O)	U (07/08/2005)	\$60.39
Canadian National (CNI.N)	E (01/07/2005)	\$68.83
Canadian Pacific Railway (CP.N)	O (07/06/2004)	\$41.92
CSX Corporation (CSX.N)	E (03/04/2005)	\$44.19
Expeditors International (EXPD.O)	E (01/07/2005)	\$54.77
FedEx Corp. (FDX.N)	O (01/07/2005)	\$83.68
Kansas City Southern (KSU.N)	NA-V (02/18/2004)	\$22.38
Norfolk Southern (NSC.N)	O (03/24/2004)	\$38.76
Union Pacific (UNP.N)	O (02/18/2005)	\$68.25
UPS (UPS.N)	E (06/09/2005)	\$68.28

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