

# THE RAILROAD WEEK IN REVIEW

April 9, 2010

*“In a time when many companies are downsizing and profit margins are decreasing, Reading & Northern is moving forward and expanding its operations.” Andy Muller, CEO, Reading & Northern Railroad*

**The AAR reports double digit gains** for the railroads in Week 12, up 15.3 percent year-over-year and better than Week 11’s plus 8.5 percent and the prior 4-week average of +9.7 percent. Credit Suisse adds, “Sequentially, Week 12 carloads increased 2.8 percent vs. Week 11, “ hitting 625,000 units and the best number since Week 50 in 2008, 630,000 units.” Moreover, the Credit Suisse proprietary scoring analysis for volume/mix, service and a composite of all three gives UP top marks in volume/mix and overall with CN collecting the top spot in service.

Looking at the broader view, the RW Baird “April Freight Flows” note of April 6 says the first quarter’s “broad-based, above-seasonal demand and improving supply dynamics have lifted investor expectation among transports.” Earnings expectations are stronger for rails than for trucks where the former’s volume growth “could exceed 10 percent in 2010 as better-than-expected volumes should result in better-than-expected operating leverage, which should lead to EPS upside.” CSX and UP get special note. Baird does not expect “notable trucking earnings upside until 2H10, which may disappoint in the near term.”

**Credit Suisse’ “Heard on 24th Street” letter** is chock full of insights about freight trends, the reasons behind them and what one can conclude about the health of the industry from them. The April 5 note contains this chart on the current quarter-to-quarter revenue unit spread for the Big Six Class Is as compared with the historical averages.

**Class I Sequential Percentage Point Spread in Revenue Units  
Fourth Quarter to First Quarter**

	Current	Historical	Spread
<b>BNSF</b>	-1	-4	3
<b>Union Pacific</b>	1	-2	3
<b>CSX</b>	0	-2	2
<b>Norfolk Sou</b>	1	-2	3
<b>Can Nat</b>	2	-3	5
<b>Can Pac</b>	0	-4	4

What this says is that BNSF, for example, generally sees first quarter volumes down four percent from the preceding quarter whereas the spread 4Q2009 to 1Q2010 is down only one percent, a three-point improvement over the usual.

What I find fascinating is the Canadians have the best story in terms of improved quarter-to-quarter spreads. This is entirely consistent with what we’re seeing in places like the *Globe & Mail* regarding the strength of the Loonie against the US Dollar and the general strength of the Canadian economy vs. the US. I’m hopeful this topic will come up in the Canadian National shortline meeting in May and the Canadian Pacific Investors’ Day conference in June. Stay tuned.

**RailAmerica’s Indiana Southern** has been contracted by the Perry County Port Authority in Tell City, Ind. to provide management services for the Hoosier Southern Railroad (HOS). By way of review, the HOS is a 22-mile switching road and Tell City is on the south end of the Ohio River. The switch of rail operators very nearly coincides with the retirement of Dick Neumann, VP and CEO of the Port Authority

for the past 11 years. Before that, I believe he had a stint with the Indiana Southern under the RailTex aegis prior to the 1999 RailAmerica purchase of RailTax.

The HOS hauls bulk materials such as pig iron, coke, coal and woodchips that are offloaded at the port from river barges. It interchanges rail traffic with Norfolk Southern at Lincoln City, Ind. With the addition of this new management service, RailAmerica now manages, operates or owns a total of seven railroads in Indiana and will be responsible for leading all aspects of the rail operations of HOS – managing safety and training programs; directing sales, marketing and industrial development efforts; handling purchasing; and managing the bulk storage facility – while reporting to the Port Authority.

Elsewhere, RailAmerica's San Diego and Imperial Valley Railroad (SDIY) got \$1.7 million in state grants to buy the latest in energy-efficient locomotives. The two units were on display recently at the former Santa Fe station in San Diego where Don Seil, the railroad's general manager, quipped, "While they look like regular locomotives, they're quieter, use less fuel and have dramatically lower emissions than the old technologies they're replacing."

The SDIY interchanges with BNSF in San Diego and at San Ysidro provides a link to the Carrizo Gorge Railway (CZRY) in Mexico. The SDIY handled more than 6,500 cars in 2008; principal commodities are propane, petroleum gases, corn syrup, malt and wood pulp. The SDIY also has night-time overhead rights on the "Tijuana Trolley," something RailAmerica VP Josh Putterman explained in detail on my shortline panel at the *Railway Age* Passenger/Freight rail conference in DC last October.

**GWR President Jack Hellmann** sat down with Ed Wolfe and Scott Group of WolfeTrahan the other day. Their note: "Generally, demand continues to improve across all segments but lumber and some housing-related areas such as aggregates. Pricing also remains firm and is likely to get better as freight demand improves. Acquisition activity appears quiet, although we believe that GWR is likely to announce several more natural-resource development projects in Calendar 2010."

Wolfe picked up on the thread that GWR's revenue units are down nine percent through Feb vs. the Class I's up seven percent through March [RMI's RailConnect Index of Shortline Carloads is up three percent through Week 11 -- rhh]. Wolfe continues, "GWR faces a much tougher comp as its same-store vols were down only eight percent in 1Q:09 vs. minus 18 percent for the large-caps. Comps for GWR ease materially in 2Q, when the robust but late Australian grain harvest should also begin shipping."

Turning to pricing, "Excluding the headwind from a negatively re-priced legacy coal contract, GWR continues to expect a four percent core pricing gain in 2010." More natural resource projects a la the Labrador ore mine contract announced in Feb seem likely even though the the acquisition market is quiet. "We believe these types of deals -- most likely in Canada and Australia -- offer GWR less risk and higher returns, but less upside relative to pure asset-based rail acquisitions. GWR also has plenty of available cash if acquisition opportunities emerge."

Meanwhile, GWR's Columbus & Greenville (CAGY) is on the cusp of getting \$15 million in state aid to rebuild 90 miles of track between West Point and Greenwood in Mississippi. The State Senate approved the money as a match in support of the North Central Mississippi Railroad Authority but won't be transferred until all financing for the estimated \$99 million project is in place. Businesses and private donors already have pledged \$20 million toward the project and the Railroad Authority is seeking federal funds to help pay for the rest.

**First came record snowfalls** in the Northeast and in a final punch Old Man Winter dumped torrential rains on the Northeast. Due to flooding in the Kingston (RI) area, Amtrak suspended its *Acela* service between New Haven and Boston and ran some trains vis the "inland route" via Hartford, Springfield and Worcester offering coach, business class and café service. The *Regional* service kept running, albeit on reduced frequencies and schedules. By Monday April 5 things were getting back to normal.

*Railway Age Newswire* picked up a *Boston Globe* piece saying commuter trains on Massachusetts Bay Transportation Authority's Framingham/Worcester line were operating under speed restrictions imposed on both freight and passenger trains. The paper also said crews were waiting to deploy sandbags along the Green Line trolley route should the Muddy River come up more than 15 feet.

Pan Am Railways needed more than sandbags east of Ayer, Mass, where its Portland line was under water. Aerial photographer Stephen Mayotte got it all and has graciously given permission for me to post the link to his photos here: [http://samayotte.com/PAR\\_Flood\\_At\\_CPF312.html](http://samayotte.com/PAR_Flood_At_CPF312.html) . In the 2nd, 3rd and 4th photos any water seen to the right of the tracks is flooding. Because of this, PAR is detouring trains to and from Maine through Boston on MBTA's former B&M lines. These MBTA commuter lines have not seen a freight train on them since 1985. Kudos to all for keeping things moving.

**Pennsylvania's Reading & Northern Railroad** ([www.readingnorthern.com](http://www.readingnorthern.com)) is a winner in the 2010 American Short Line and Regional Railroad Association Marketing Awards competition. It is richly deserved. What started in 1983 as a 13-mile operation between Reading and Hamburg over the remains of the ex-PRR Schuylkill Valley Line is now a 300-mile property running on lines laid down by the Lehigh Valley, Reading, Central Railroad of NJ and of course still more PRR.

R&N has made a name for itself with innovative freight services (beer ingredients for Yuengling, Pennsylvania's oldest brewery, in Pottsville on the ex-Reading), reviving the anthracite coal trade and most recently in support of the Marcellus Shale natural gas field. The railroad, like so many short lines, has repurposed a major freight yard of a fallen flag by turing it into something else. In this case, it's the old Lehigh Valley class yard in Pittston. The facility now offers more than 800 car spots, twice a day switching service and some 50 acres of additional property for further shale-related development.

Says R&N President Wayne Michel, "This award is recognition of the great work done by our employees. Working as a team we found the perfect partner to develop the business, D&I Silica, and we transformed a barren landscape into a state-of-the art transload operation in a manner of weeks. The reward for our effort was more than 200 carloads of new business in the first 60 days of operation."

Over the last year, Reading & Northern has invested \$100,000 into the space. Michel expects another half-million dollars of work to include the laying of more track, the construction of bucket conveyors and building four holding silos for the sand plus additional facilities to handle other aspects of the drilling process, such as pipe delivery and the transportation of brine water from the area.

As with so many shortline success stories, this is one of reinventing the railroad into a smooth-running batch process. And as one industry falls out the bottom, two or three more are coming in the top. Perhaps Andy Muller, CEO of the Reading & Northern Railroad, sums it up best: "In a time when many companies are downsizing and profit margins are decreasing, Reading & Northern is moving forward and expanding its operations." Well done.

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