THE RAILROAD WEEK IN REVIEW

December 21, 2012

November revenue-unit counts are in for both GWR and RA. As before, RailAmerica is up while Genesee & Wyoming (I'm counting North America only) is down, again due primarily to the overhead coal overhang at the latter. It's instructive to follow the trend of this overhang and try to see where these horrible comps will end.

I suspect soon, perhaps as early as Feb, 2013. The overhead coal peak appears to have been June, 2011 with 8,323 units, drifting down to 6,439 in Nov; 5,386 in Dec; Jan with 5,144 and 3,683 in Feb. The Other line has been in the threes ever since, and that's why I think the negative comps ought start easing in Feb.

For November, 2012, GWR total units (ex-intermodal, only 0.6 percent of vols anyway) were off five percent to 59,480 units with strength in the lumber and paper STCCs, non-grain food products and petrol, which together account for 58 percent of carload vols. Other (where the overhead coal goes) was down 49 percent to 3,308 units, a number not seen for years. Moreover, GWR gets hit a second time in the coal and coke line counting coal to local power plants, down ten percent in November.

RailAmerica's carload franchise has the better balance, with only coal, chems and ag products each representing more than ten percent of the commodity mix -- 45 percent among them. The rest, "other" included, range from three to seven percent of the total so that 55 percent of the total carloads are spread across nine commodity groups.

Starting with December, 2011, year-over-year month-to-month changes range from up ten percent to down three percent, with the last negative being an inconsequential down 0.2 percent last April. And now that GWR has said it intends to bring all the RA properties into the fold, one can only assume that RA's slow but steady carload growth will soften GWR's monthly swings.

The STB this week (Dec 19) approved the transaction, effective Dec 28. In its Finance Docket 35654 the Board writes, At the time Applicants filed their application on August 6, 2012, they also filed a motion requesting an expedited procedural schedule that would allow them to consummate the Transaction by December 31, 2012... Given our conclusion that the record demonstrates a lack of any potential for competitive harm shown that would result from the Transaction, we will make our approval effective eight days from the service date (rather than the typical 30 days) so that Applicants may consummate the Transaction prior to the close of this calendar year." Thus the Dec 28 effective date.

RMI's RailConnect Index for Week 50 (12/15, 423 roads reporting) shows Class II and III rails' carloads ex-intermodal, where only a few names participate, down 1.6 percent year-over

Short Lines			
Commodity	YTD 2012	YTD 2011	Delta
Total	6,488,134	6,382,069	1.66%
intermodal	716,953	515,522	39.07%
Net	5,771,181	5,866,547	(1.63%)
auto	151,269	132,629	14.05%
Net	5,619,912	5,733,918	(1.99%)
coal	683,859	733,098	(6.72%)
Carload	4,936,053	5,000,820	(1.30%)
Class Is	NA Rails		
Commodity	YTD 2012	YTD 2011	Delta
Carloads	18,773,697	19,127,372	(1.85%)
auto	1,234,450	1,082,923	13.99%
Net	17,539,247	18,044,449	(2.80%)
coal	2,361,786	2,636,741	(10.43%)
Carload	15,177,461	15,407,708	(1.49%)

year. Back out coal and auto, also restricted to a smallish percentage road names, and the remaining merchandise carload business is off 1.5 percent year-over-year. RMI has ten separate merchandise commodity breaks, and seven of the nine were down year-over-year.

By comparison, the AAR Week 50 car count is off 1.9 percent ex-intermodal and down 1.5 percent ex-auto and coal. Here again, the commodity groups in the negative column predominate. Put the two together, season with the sub-two percent near-term GDP growth, and the short lines do not have much to look forward to, especially if they are mainly single-car roads with small volumes across their commodity lines.

I'm also looking at the trend toward small inventories at manufacturers and raw-materials suppliers, which lends itself to custom as opposed to batch shipments -- 25 tons at a time vs 100 tons or more. And given the dynamics of the trucking business, rail carriers that can offer a truck-competitive intermodal service and do it at carload margins (two containers on a platform at $1000 each vs. single-car moves at $1900 or less and no first or last mile variable costs) can create new customers faster than rails that don't.

This is the last Week in Review for 2012. I'm pleased so many readers are finding value and that the renewals are coming in so well. I will float the Dec expirations thru Jan, so if the check isn't yet in the mail, not to worry. Thanks, all, and all the best for the New Year.

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