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Railroad Updates

UP to bolster track in Wyoming and Missouri

Union Pacific Railroad will spend more than $21 million to complete track work in Wyoming and Missouri.

On Friday August 1, crews were scheduled to begin a $12 million project on a line between Cheyenne and Hanna, Wyo. To be completed by Oct. 1, the project calls for removing and installing 97,000 ties, spreading 74,000 tons of rock ballast and replacing road surfaces at 36 grade crossings.

Crews already have started a $9.1 million project on a line between Mineral Point and Annapolis, Mo. To be completed by August's end, the work involves removing and installing 67,000 ties, spreading 34,900 tons of rock ballast and replacing road surfaces at 54 crossings.

Crews also will replace rail in various curves between St. Louis and Poplar Bluff from late October to mid-November.

The projects are part of UP's 2008 capital projects, which will cost about $3.1 billion. The Class I plans to spend about $1.6 billion to maintain and strengthen track infrastructure.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=17463

Railroads Thriving During Economic Uncertainty

In an article posted on Forbes.com in July, writer Tom Slee focused on the current economic situation and concluded that, while many industries are hunkering down to weather the economic storm, railroads are thriving during this time of economic uncertainty.

"Surging demand for commodities is more than offsetting a slump in building materials shipments"

"Surging demand for commodities is more than offsetting a slump in building materials shipments," Tom Slee wrote. "Even higher energy costs are proving a plus for the railroads. Each jump in oil prices gives them a bigger edge over their gas guzzling competitors: trucks. Most important, the rails are able to raise rates despite the economic downturn."

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Slee went on to say that “increasing globalization works to [the railroads] advantage. Goods manufactured in Asia have to be moved long distances from ports of entry to consumers. Arguably, railways are now somewhat recession-proof.”

Another impact is the fact that the trucking industry is in serious trouble. According to Donald Broughton, a long-time trucking analyst at merchant bank Avondale Partners, an astounding 935 U.S. trucking companies went out of business in the first three months of 2008 because of rising fuel costs (only companies with five or more trucks

rails are able to raise rates despite the economic downturn."

As a rule of thumb, railways have a 30 percent cost advantage over trucks because of fuel efficiency

Arguably, railways are now somewhat recession-proof.

CSX fuel surcharge to drop in August; UP and NS fuel surcharge to rise

were included in the survey). It costs truckers more than $1,000 just to fill up, and they are unable to build that expense into their rates because small companies "teetering on the edge" are willing to take loads without surcharges in order to offset idling time.

It's a miserable situation likely to get worse as gas prices trend even higher. So chances are we will eventually see a reduced trucking industry consisting of large companies charging much higher rates. That provides the railways with a chance to capture market share. In fact, it's an extraordinary opportunity for the railroad companies. I am not talking about winning the odd contract here or there; the numbers point to a seminal change.

As a rule of thumb, railways have a 30 percent cost advantage over trucks because of fuel efficiency. This is becoming decisive, especially as the regionalized railroads are not in direct competition with each other and are able to pass along increased oil prices.

Keep in mind as well that, despite their size, railways are fringe players. Trucking companies dominate the haulage industry. A recent survey by the American Trucking Association showed that 70 percent of goods sold in the U.S. are hauled by 3.5 million truck drivers. Rail carriers can make significant inroads into this vast market. They may even have trouble handling the increased volume

"My feeling," Slee wrote, "Is that this industry is going to surprise us with some excellent results this year, starting as early as the second quarter."

He cites that North American railways are much more diversified these days in terms of services and customers and that increasing globalization has helped stoke the industry's performance. Additionally, he cited the advantages that the freight rail industry has over the trucking industry.

Adapted from:
http://www.forbes.com/personalfinance/2008/05/30/railroads-canadian-pacific-pf-ii-in_ts_0530soapbox_inl.html and **www.aar.org**

CSXI's Fuel Surcharge to Drop Slightly, UP, NS to Rise

CSX Intermodal's fuel surcharge is coming down in August — but not by much. Beginning Aug. 4, the company's monthly surcharge will be 43 percent vs. July's 43.5 percent. The drayage-only fuel surcharge for August will be 53 percent.

CSXI previously applied fuel surcharges of 44.5 percent in June, 37.5 percent in May, 35 percent in April, 29.5 percent in March, 26 percent in February and 27 percent in January.

Meanwhile, Union Pacific Railroad's carload rate-based Highway Diesel Fuel (HDF) surcharge will rise from July's 32 percent to 34.5 percent in August and 35 percent in September. The rate-based standard HDF surcharge program is based on the DOE's U.S. average on-highway diesel fuel price.

Norfolk Southern Railway's fuel surcharge for rates referring to "Tariff NS 8003 Series" will go up from 18.6 percent in July to 21 percent in August and 21.3 percent in September.

Read more at:
http://www.progressiverailroading.com/prdailynews/news.asp?id=17457d

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AAR Updates

AAR urges partnership with hazmat shippers

At a hearing in Washington in the month of July held by the Surface Transportation Board, Association of American Railroads President and CEO Edward R. Hamberger said the nation's shippers of highly hazardous materials or toxic inhalation hazards (TIH) should partner with the railroads in safely transporting such goods.

"Nothing is more important than the safety of our employees and the communities through which we operate," Hamberger said. "It's only reasonable that those who make extremely hazardous materials demonstrate that they also have the same public safety commitment."

Hamberger said the rail industry does not seek to eliminate its common carrier obligation at the present time. "Rail is the safest and most secure mode of transporting TIH, many of which play an important role in the national economy," he said. "However, if there is a public interest need for the railroads to be compelled to carry TIH materials, there is a corresponding public interest imperative for the industry to do what is necessary to best ensure the public's safety."

Hamberger said freight railroads are doing their part to ensure safe delivery, but asked the STB to recognize that given the unique risks involved in transporting these dangerous chemicals, shippers share the risk and also the effort to find ways to eliminate those risks entirely.

We train thousands of local emergency responders and have implemented special operating procedures on trains carrying TIH. It's only right that those who make and ship these dangerous chemicals both share in the risks we face to transport their hazardous materials and have the same incentive to eliminate those risks"

Reiterating AAR's observation that rail is a safe mode, Hamberger noted that the transport of TIH materials account for 100,000 carloads out of 32 million, or just three-tenths of one percent of total rail volume. "We train thousands of local emergency responders and have implemented special operating procedures on trains carrying TIH. It's only right that those who make and ship these dangerous chemicals both share in the risks we face to transport their hazardous materials and have the same incentive to eliminate those risks," Hamberger said.

Hamberger also restated AAR's position that the only way to completely eliminate the risks inherent in moving highly toxic chemicals by rail is to replace those hazardous materials with safer chemicals and technologies. He urged shippers to devote more resources toward developing safer substitutes to replace TIH materials.

For more on this story, visit:
http://www.railwayage.com/breaking_news.shtml#Feature4-7-23

Railroad Traffic

June 2008 carload traffic down 3.6 percent compared to same time last year

Freight traffic on U.S. railroads was off during June in comparison with June 2007, the Association of American Railroads (AAR) reported July 3, 2008.

Railroad carload traffic fell 3.6 percent compared with June 2007, while intermodal traffic fell 4.0 percent compared with the same month last year.

Overall, U.S. railroads originated 1,295,161 carloads of freight in June 2008, down 48,950 carloads from June 2007. U.S. railroads also originated 923,031 intermodal units in June 2008, a decrease of 38,514 trailers and containers from June 2007.

"Rail volumes were already under pressure because of the continuing weakness in the economy, but the massive recent flooding in the Midwest made things much worse"

"Rail volumes were already under pressure because of the continuing weakness in the economy, but the massive recent flooding in the Midwest made things much worse," noted AAR Senior Vice President John T. Gray. "Railroads are extremely resilient, though. Many of the affected areas have already been returned to service, and railroads expect to return to normal operations quickly," Gray added.

Five of the 19 major commodity categories tracked by the AAR saw carload increases on U.S. railroads in June 2008 compared to June 2007, led by grain (up 5.0 percent) and chemicals (up 2.7 percent). Ethanol, a small but rapidly-growing rail traffic segment, is included in the "chemicals" category.

Commodities showing carload declines in June 2008 included coal (down 3.2 percent); motor vehicles and equipment (down 19.1 percent); and coke (down 28.8 percent).

In the second quarter of 2008, total U.S. rail carloadings were down 0.6 percent, while intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 2.4 percent.

For the first half of 2008, total U.S. rail carloads were up 19,750 carloads (0.2 percent) to 8,451,736 carloads, as year-over-year increases in coal (up 3.1 percent), grain (up 16.0 percent), and chemicals (up 24,409 carloads, or 3.1 percent), among others, more than offset declines in motor vehicles and equipment (down 78,781 carloads, or 14.6 percent); coke (down 32.3 percent); and crushed stone, sand, and gravel (down 6.7 percent), among others.

June carloads of grain, chemicals up; coal, motor vehicles and equipment, coke down

U.S. intermodal traffic was down 3.2 percent. Total volume for the first six months was estimated at 873.8 billion ton-miles, up 1.5 percent from the January-June period of 2007.

For the week ended June 28, the AAR reported the following totals for U.S. railroads: 328,564 carloads, down 2.2 percent (7,426 carloads) from the corresponding week in 2007, with loadings up 0.4 percent in the East and down 4.1 percent in the West; intermodal volume of

229,676 trailers and containers, down 4.5 percent (10,770 units) from last year; and total volume of an estimated 34.0 billion ton-miles, down 0.9 percent from the corresponding week last year.

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http://www.aar.org

Industrial Inside

Steel prices up 50 percent from mid-January 2008

When it comes to the worldwide metals market, gold may get all of the attention but other, more durable, metals such as steel and iron have proved to be much more profitable. For instance, the price of gold is actually down 2 percent from mid-January, but steel prices are 50 percent higher.

Hot-rolled steel, the industry benchmark, has jumped from $600 per metric ton in January to about $1,000 per metric to today. And in the United States, steel for July delivery has doubled to $1,200 a metric ton.

Steel stocks tracked by the Market Vectors Steelexchange-traded fund (ETF) are up more than 50 percent in the past year and 22 percent this year-to-date.

"Global steel demand continues to be led by emerging economies to meet the requirements of expanding industrial sectors and infrastructure growth"

Demand for steel has risen exponentially as such emerging countries as China and India create the infrastructure that ultimately will house, transport and service the largest and wealthiest populations on the planet and, although some analysts are beginning to worry that as economic conditions in the world's most developed countries weaken, so too will the demand for steel. But according to the Organization for Economic Cooperation and Development (OECD), emerging markets are ready to pick up the slack.

"Global steel demand growth continues to be led by emerging economies to meet the requirements of expanding industrial sectors and infrastructure growth," Risaburo Nezu, chairman of the OECD steel committee, told Forbes. "Demand in many mature economies has slowed in line with weaker economic activity."

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The OECD's steel committee consists of industry and government officials from countries that together account for 81 percent of the world's steel exports.

And according to Nezu, steel use continues to grow most rapidly in the so-called "BRIC" economies of Brazil, Russia, India, and China. In 2007, steel use rose 18.6 percent in Brazil, 13.5 percent in Russia, 11.3 percent in India and 13 percent in China.

All told, those four countries found uses for 521 million metric tons of steel, with China accounting for 78 percent of that total. Demand in Africa and the Middle East has surged, as well.

In what appears to be a global trend, Saudi Arabia has opted to curb steel exports to its Gulf neighbors after soaring demand resulted in shortages that left the nation unable to complete its own slate of massive building projects.

As demand soars and supplies tighten throughout the developing world, analysts are beginning to take note and are bumping up their predictions for where steel prices are headed in the years to come

Facing a similar plight, India also has been forced to curb steel exports, as domestic demand continues to outstrip the country's production. While demand is expected to grow by 12 percent a year, the production is growing at only half that rate. Consequently, India was forced to issue export taxes on its own domestic steel industry. The government has levied a 15 percent tax on the export of hot rolled coils, a 10 percent tax on the export of cold rolled steel, and a 5 percent tax on galvanized steel.

As demand soars and supplies tighten throughout the developing world, analysts are beginning to take note and are bumping up their predictions for where steel prices are headed in the years to come.

Goldman Sachs Group Inc. has already boosted its projected price for steel to $936 a ton for this year, and expects the price will hit $1,000 a ton in 2009. Compare that to fourth-quarter steel prices, which averaged just over $530 a ton, and it's plain to see that steelmakers are in prime position for record profits.

It is said that U.S. Steel is spearheading a revival in the domestic steel industry. About 30 U.S.-based steel mills were shut down between 2001 and 2003 as a strong dollar and cheap foreign labor squeezed the American steel industry. But industry-wide consolidation has reduced production costs and a weak dollar has made U.S.-made steel more appealing to hungry foreign markets.

Steel's high demand continues to fuel the global demand for iron ore

Steel is in high demand, but it can't be manufactured without iron ore, its key ingredient. For that reason, the price of iron ore has risen sharply in lockstep with steel, soaring 50 percent since January. Rising steel demand - especially in China - has been the key catalyst behind the price jump and now iron ore producers are looking to take advantage.

The world's largest iron ore producer, Brazil's Vale, has already cashed in, boosting prices by 65 percent to 71 percent. However, Rio Tinto PLC and BHP Billiton Ltd. think they can do better. Both Rio and rival BHP are currently in negotiations with China's steelmakers, and are believed to be pushing for an 85 percent increase in 2008-2009 benchmark iron ore prices.

Meanwhile, China, which is the world's largest steel producer and its largest steel consumer, imported 383 million metric tons of iron ore in 2007, an increase of 56.8 million tons, or 17.4 percent, from the previous year, according to the China Iron and Steel Association.

At some point, China and other emerging countries in the East are going to have to succumb to global demands by paying a premium.

Adapted from:

http://www.moneymorning.com/2008/06/17/cashing-in-on-commodities-gold-may-glitter-but-heavy-metals-shine/

Financial Focus

Federal Reserve Chairman Ben Bernanke talked about the risks posed by both further economic weakness as well as inflation in testimony to Congress last month, but if the Fed leaves interest rates unchanged on August 5, that will probably be viewed as an admission that it is pretty powerless to do much about either problem right now.

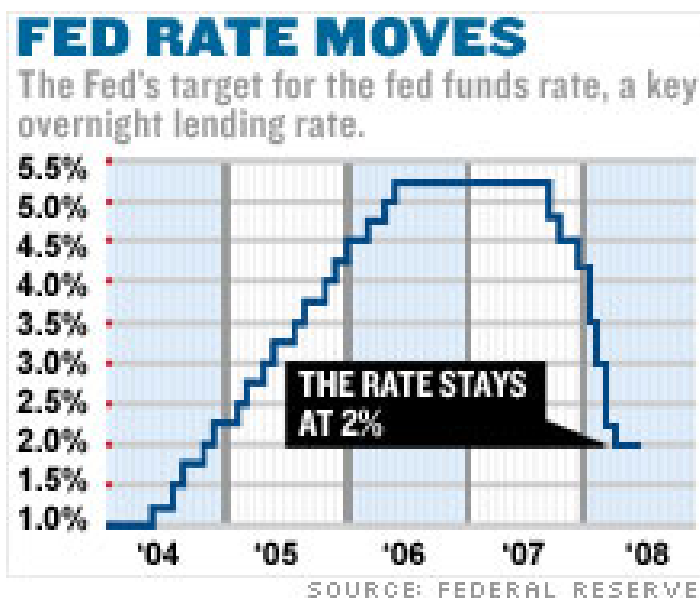
Interest rates likely on hold for a while as worries about economic weakness and inflation leave central bank with few good options

Most market experts believe the weakness in the economy will keep the Fed from raising interest rates during its August meeting (still] inflation pressures are likely to keep the Fed from cutting rates any time soon either since more rate cuts could weaken the dollar and spark another big spike in oil prices

"I think the Fed is not really part of the equation any more because of the corner they've painted themselves into," said Rich Yamarone, director of economic research at Argus Research.

Most experts believe the weakness in the economy will keep federal funds rate unchanged at 2 percent

The central bank cut its key fed funds rate seven times between last September and this April in an effort to keep the economy from weakening significantly in the wake of the housing slowdown and credit crisis rattling Wall Street and Main Street and the Fed left this rate unchanged at 2 percent at its meeting in June.



Many economists urge that the Feds must raise their rate to combat inflationary pressures

But some economists have argued that the previous rate cuts are a reason behind the surge in commodity prices. Yamarone thinks that the Fed should be most concerned about inflationary pressures. In other words, he believes its next move should be to raise rates. He said inflation is one of the biggest threats to economic growth [and says that] if oil, food and other commodity prices keep soaring, it can dig into future growth as much as any troubled industry sector.

But David Wyss, chief economist at Standard & Poor's, thinks economic weakness should be the biggest worry. "Public enemy no. 1 is still a recession," Wyss said.

With all this economic uncertainty, speculators don't foresee any rate increases until early 2009

To that end, even though the government reported July 31 that gross domestic product, the nation's economic activity, jumped 1.9 percent in the second quarter, few would argue the economy is firing on all cylinders.

In addition, the number of Americans filing for initial jobless benefits rose to a five-year high this week while the government reported the seventh-straight month of job losses August 1 while most auto manufacturers reported their ninth straight month of lower sales.

Finally, fears about more problems affecting the nation's banks and Wall Street firms have resurfaced since the Fed's last meeting. Banks and brokers reported collective losses of nearly $8 billion for the second quarter, versus profits of $38 billion a year ago, according to earnings tracker Thomson Reuters.

Add all this up and it's hard to imagine the Fed raising rates in the near future, especially since most think the problems in financial markets is what prompted the Fed to start cutting rates last September. Wyss said he doesn't believe the Fed will start raising rates until next spring at the earliest.

Still, with the fed funds rate at a relatively low 2 percent, even Wyss doesn't think the Fed will cut rates anytime soon. He said there would need to be "at least a couple of months of really disastrous jobs numbers" for the Fed to consider cutting rates again.

Adapted from:
http://money.cnn.com/2008/07/31/news/economy/fed_outlook/index.htm?postversion=2008073116

The Edge

If you're going to transport a commodity that has a global market presence, you are mostly likely going to use an ocean going vessel, perhaps a barge, then potentially rail and probably truck for final delivery. You will find that freight rates are lower (on a dollars per ton basis) and the efficiency of transporting a large volume of goods is also listed in that same order (vessel, barge, rail and truck). With that said, when you move up the food chain for the domestic portion of your move, you have options of barge (high volume efficiency / better freight rates) to truck (low volume efficiency / higher freight rates). Rail lies somewhere in between depending on a bundle of factors.

In this newsletter you'll find an article titled "Railroads Thriving During Economic Uncertainty" focusing on a Tom Slee article in the July issue of Forbes magazine talking mostly about the transportation industry and economic conditions. Slee made a good point stating that 70 percent of the goods sold in the US are transported by approximately 3.5 million truckers. What he didn't point out was that the other portion (something less than 30 percent) is only carried by five Class I and approximately 500 shortline and regional railroads where market power and concentration are somewhat different between the two modes of transportation. He also pointed out the fuel efficiency advantage of rail as being 30 percent greater than truck. Rail definitely has an advantage in commodity transport and appears to be growing to the point of future capacity concerns in many key market segments and regional areas. Rail also has "green" advantages simply because of being able to transport more tons of commodities with less horsepower and emissions.

When you reflect upon our current economic situation in the U.S. you arrive at mixed reviews. Some industries are doing fabulously well (coal, oil, ores, fertilizer, scrap, steel) and others are doing horribly (auto, lumber, financial). The industries that are prospering also appear to be those that are key to railroad financial success.

The U.S. Department of State has a term that closely (but not precisely) fits this situation, "stagflation". The term stagflation roughly is defined as an economic condition of both continuing inflation and stagnant business activity together with increasing unemployment rate. An output of stagflation is increased cost for business and consumers with energy costs and interest rates being high (not a current condition) and business investment falling off with more unemployment in several sectors of the economy. In the 1980's, one key change that is credited to helping fight stagflation was the deregulation of certain industries, including airlines, trucking and railroads. Maybe deregulation should be considered again.

The lesson here is that when one summarizes rail advantages they appear to be tremendously great. There is a large untapped market available, some physical rail capacity available on the system for selective price and volume positioning, industrial shipment requirements are high in markets that are doing well, the next largest competitor has a fuel cost structure disadvantaged by 30 percent and rail has a (mostly) uninhibited right to price freely.

These advantages will, in the long run, make rail transportation a continuously better option for all shippers. Our message to the railroads reads like a beer commercial, "drink and drive responsibly" - you're going to need healthy customers!

We look forward to earning your business!