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UP monthly coal loading performance

"[Coal] Loadings continue to be depressed due to coal production problems and lower demand from several plants"

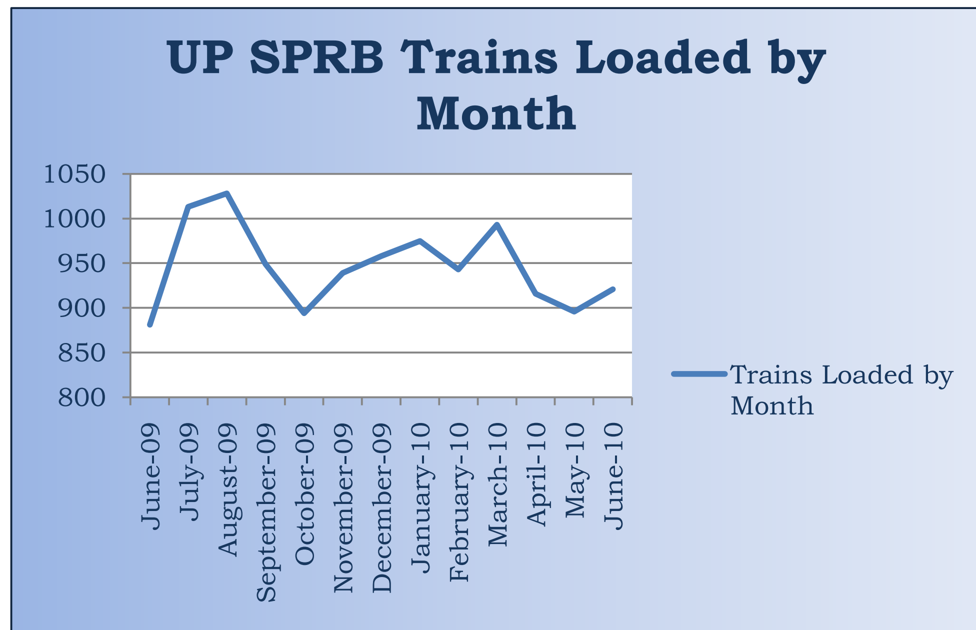
Railroad Updates

In June, Union Pacific Railroad slightly boosted coal-train loading production in the southern Powder River Basin (SPRB) and Colorado/Utah region compared with May's production. However, loadings still lagged far behind 2008's pace.

During June 2010, the railroad averaged 29.4 trains per day in the SPRB compared with May 2010's 28.6-train-per-day average. But the Class I loaded 881 coal trains vs. June 2008's 975 trains.

"There were 134 missed SPRB loading opportunities, 33 of which were attributable to the mines, 84 to utility plants and 17 to UP. These missed loading opportunities were partially offset with 58 extra loadings," UP officials said in a weekly coal loading performance report. "Several utility plants have been experiencing higher-than-usual occurrences of breakdowns and slow unloading situations, which has delayed the return of empty trains for loading."

The Class I also loaded 213 coal trains in the Colorado/Utah region last month, up from 193 trains in May, but down from 321 trains in June 2008.



"[Coal] Loadings continue to be depressed due to coal production problems and lower demand from several plants," UP officials said in the report.

Learn more at:
http://www.progressiverailroading.com/news/article.asp?id=20794 and http://www.uprr.com/customers/energy/sprb/weekly.shtml

Union Pacific 'Building America'

Railroad success is further supported by the UP's chief rival, BNSF's new owner, Warren Buffett who says "In business, I look for economic castles protected by unbreachable 'moats'"

"The economies of steel on steel are better than rubber on concrete"

Union Pacific 'Building America'

The strawberries on your cereal. Your laptop, cell phone, and TV. The coal that's burned to power them. The car you drive. The roof over your head. We may work in a knowledge economy, but Madonna had it right: We live in a material world.

That's why the Union Pacific railroad, No. 164 on the Fortune 500, has played a vital role in the U.S. economy since 1862. With $14.1 billion in revenue last year, the UP, which is based in Omaha, is America's largest railroad. Close behind is its chief rival, the Burlington Northern Santa Fe (BNI) (2009 revenues: $14 billion), headquartered in Fort Worth, which was acquired this year by Warren Buffett's Berkshire Hathaway (BRK.A) for $26.4 billion. (Berkshire previously owned about 20% of the company.) The deal put a spotlight on the often troubled railroad business -- in a good way. "It was a vote of confidence in the industry," says Jim Young, the 53-year-old chairman and CEO of Union Pacific. "He sees the long-term value in the rail franchise -- how unique it is in America."

Why would Warren Buffett want to own a railroad? "In business," he has said, "I look for economic castles protected by unbreachable 'moats.'" The economic moats around railroads are the billions of dollars it costs to build them and the fact that the rights of way they need are all but impossible to obtain today.

Says Young: "I don't think you'll ever see a railroad built in America again." Because they are the most efficient way to haul freight, railroads should grow along with industrial production. They also have an opportunity to take market share away from long-haul trucks, particularly as fuel prices rise, highway congestion increases, and shippers seek a green alternative.

The Union Pacific has also become more efficient. Trains are longer -- on average, 5,800 feet, or more than a mile long -- and instead of just pulling the freight cars, locomotives are distributed throughout the trains so that they push as well. Information technology helps too: Locomotives with GPS track the fuel efficiency of every engineer, and those who use the least fuel get a share of the savings, between $200 and $400 a month.

That has enabled the Union Pacific, with the rest of the railroad industry, to tell a nice-sounding environmental story: The rail industry as a whole carries about 43% of all freight (as measured in ton-miles), but trains consume just 7% of the energy used to move freight. Trucks, by contrast, move 31% of the tonnage but use 66% of the energy. UPS (UPS, Fortune 500), a big customer of Union Pacific, uses trains rather than trucks to move ground packages that travel 750 miles or more. "The economies of steel on steel are better than rubber on concrete," says Kelley Anderson, general manager for rail at UPS.

So are trains "green"? That depends. Young says: "We can move a ton of freight about 435 miles on one gallon of diesel." But the UP's biggest business is shipping coal, America's dirtiest fuel, and the company has

UP's Young says his "... No. 1 concern is the world economy. I'm trying to make a decision on hiring for the next six months. It's never been more uncertain."

lined up with the coal industry in opposing climate legislation in Congress.

Still, investors in the company have done very well. Over the past five years shares in the Union Pacific have grown by about 107%, while the S&P 500 index (SPX) is down by about 11%. Analysts say the company will benefit from a gradual economic recovery, but Young isn't counting on it. "My No. 1 concern is the world economy," he says. "I'm trying to make a decision on hiring for the next six months. It's never been more uncertain."

Read the entire article:
http://www.uprr.com/newsinfo/attachments/2010/fortune_reprint.pdf

Many short lines may have to postpone work until 2011

Short-Line Tax Credit — Still On Hold

The U.S. Senate's delay in passing legislation to extend an expired maintenance tax credit has derailed — at least temporarily — tie replacement, bridge repairs, track surfacing, and other infrastructure work that short lines had on the drawing board for 2010. And if the tax credit isn't passed before temperatures drop and the snow flies in the northern half of the United States, many short lines may have to postpone the work until 2011.

"We have throttled back on all but essential maintenance for safety purposes," says Eugene Blabey, chairman and chief executive officer of the Western New York & Pennsylvania Railroad. "In terms of program maintenance, such things as surfacing and upgrades, we're basically throttling back on that until we see where the tax credit is going."

The Railroad Track Maintenance Tax Credit — Section 45G of the U.S. tax code — went into effect in January 2005 as part of the American Job Creation Act. The tax credit enables short lines to claim a tax credit of 50 cents for every dollar spent on infrastructure improvements, up to a cap of $3,500 per mile of owned or leased track.

Although Congress has extended the tax credit a few times since its inception, it has yet to do so for the 2010 tax year.

Read the entire article:
http://www.progressiverailroading.com/pr/article.asp?id=23770

AAR Updates

AAR debuts interactive rail map

The Association of American Railroads has added to its website an interactive map that allows any user to take a "snap-shot" of information about railroads in a given location. AAR says the map is active for all states (including Hawaii, which has "no freight rail activity," the map duly notes).

A state-by-state breakdown includes pie charts, divided by commodity category, for both traffic originating in a given state and ending up in that state. Other data within a given state, including freight railroad

miles, number of freight railroads in operation, and number for rail employees, also is listed.

The map is available at:
http://www.aar.org/incongress/railroadsstates.aspx

Railroad Traffic

AAR says monthly rail carloads for June 2010 were up 10.6 percent from June 2009 but still down 10.2 percent compared with June 2008

The Association of American Railroads (AAR) reported that monthly rail carloads for June 2010 were up 10.6 percent compared with last year, but still down 10.2 percent compared with June 2008. According to AAR's July Rail Time Indicators Report, intermodal traffic in June 2010 was up 19.2 percent compared with the same month in 2009, representing the largest year-over-year monthly gain since AAR records begin in 1990.

Compared with pre-recession levels, however, intermodal rail traffic in June 2010 was still down 1.4 percent compared with June 2008. In addition, seasonally adjusted AAR data showed month-to-month carloads in June 2010 dipped by 1.3 percent from May 2010, while intermodal traffic was also down 1.1 percent from the previous month.

"While June traffic shows signs of an economy that is in better shape than it was a year ago, we still have a long way to go to see rail traffic levels associated with a full recovery," said AAR Senior Vice President John Gray. "For example, both the Purchasing Managers Index and consumer confidence fell in June."

Monthly intermodal volume highest since October 2008

Average weekly container volume in June 2010 was the 9th highest since 1990, reflecting a years-long trend of domestic freight converting from truck trailers to containers on rail. Unlike truck trailers, containers can be double stacked, making them more cost-effective and efficient. Railroads also continued to bring freight cars out of storage, putting 3064 cars back into service in June.

Visit the AAR at:
http://www.aar.org/newsandevents/pressreleases/2010/07/071310-RailTimeIndicators.aspx

Industrial Inside

The once-popular ethanol industry is scrambling to hold onto billions of dollars in government subsidies, fighting an increasing public skepticism of the corn-based fuel and wariness from lawmakers who may divert the money to other priorities.

Ethanol industry scrambles to keep incentives

The industry itself can't agree on how to persuade Congress to keep the subsidies, which now come in the form of tax credits worth about $6 billion annually.

One industry group, Growth Energy, made the bold move on of calling for the tax credits to be phased out completely in favor of spending the money on more flex-fuel cars and gasoline pumps that support

Tax credits worth about $6 billion annually

ethanol. A rival group, the Renewable Fuels Association, said it's too late in the year to make such proposals — the tax credits expire at the end of the year, and legislative days are numbered.

As the industry bickers over what to do, Congress is signaling it's growing tired of paying for ethanol. The House Ways and Means Committee is considering slashing the tax credit by 9 cents a gallon, from 45 cents to 36 cents, when it looks at a wide range of energy tax credits as early as next week. That would be the second cut in the credit in as many years.

A key senator also expressed skepticism this week. Democratic Sen. Jeff Bingaman of New Mexico, chairman of the Energy and Natural Resources Committee and a longtime supporter of renewable fuels, said Congress should "weigh all factors, including the credit's very high cost to taxpayers," when looking to extend the credit. Bingaman noted that the ethanol industry is protected by congressional mandates for its use.

Congress is signaling it's growing tired of paying for ethanol

Some supporters say they see the writing on the wall.

"The longer we have this support structure in place for ethanol, the more people begin to question it," said Roger Johnson, president of the National Farmers Union, which supports Growth Energy's plan. He says a new approach is needed as the public becomes more skeptical.

The tax credits still have strong supporters on Capitol Hill and in the Obama administration. Agriculture Secretary Tom Vilsack said that the administration remains committed to tax incentives supporting biofuels like ethanol. Rep. Earl Pomeroy, D-N.D., a member of the Ways and Means Committee, is leading the fight in the House to keep the tax credits.

Pomeroy says that the 9-cent cut is a good starting point and that he feels optimistic after discussing the issue with fellow committee members and members of the ethanol industry this week.

He acknowledges that the legislative environment is challenging and says that a simple extension of the credit makes the most sense in the House. "Late in the legislative session, simpler is easier," he said.

Iowa Sen. Charles Grassley, the top Republican on the Finance Committee that will consider the tax, said he is also working to get it extended. He noted that the lapse of a tax credit for makers of biodiesel has already hurt that industry.

Ethanol producers say expiration of the tax credits, which are paid to oil companies as an incentive to blend gasoline with ethanol, could mean the loss of almost 40 percent of its plants and tougher times for a domestic fuel that is good for national security.

Ethanol producers say expiration of the tax credits, which are paid to oil companies as an incentive to blend gasoline with ethanol, could mean the loss of almost 40 percent of its plants

Critics say the industry should stand on its own after receiving subsidies for 30 years and argue the tax credits are a waste of taxpayer dollars. A diverse coalition of groups has argued over the past few years that the increase in production of corn and its diversion for

ethanol is making animal feed more expensive, raising prices at the grocery store and tearing up the land.

Craig Cox of the Environmental Working Group, one of the organizations opposing the fuel, says he thinks the industry "hit a wall" in Congress as concern over budget deficits have increased.

Growth Energy, a group formed in 2008 as some ethanol companies grew worried that their political clout was waning, said it is proposing the phase-out as a way to think more creatively about boosting the industry and the fuel. The group says ethanol helps reduce the nation's dependence on foreign oil, pointing to the Gulf oil spill as a reason to turn to the corn-based alternative.

The industry was also frustrated last month by a delay by the Environmental Protection Agency in deciding whether U.S. car engines can handle higher concentrations of ethanol in gasoline. But the increase in the maximum blend is expected to be approved later this year.

Read More at:
http://www.salamancapress.com/news/business/article_f2e0f150-9465-11df-baa4-001cc4c002e0.html

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Financial Focus

The Federal Reserve has become more pessimistic about the economy.

Latest sign of growing concern that the recovery is losing steam

The Fed's latest forecast, included in the minutes of the central bank's June 23 meeting is the latest sign of growing concern that the recovery is losing steam.

Those worries led Fed policymakers to discuss what steps they might take to further spur economic activity "if the outlook were to worsen appreciably." Only a few months ago, many economists thought the Fed would no longer need to consider moves to stimulate the economy. Instead, the Fed was expected to start worrying more about the possibility of inflation.

But the Fed now predicts the unemployment rate would be between 9.2% to 9.5% this year, slightly worse than the 9.1% to 9.5% range it forecast in April. Unemployment was 9.5% in June 2010, but has averaged 9.7% over the first half of the year. The Fed also lowered its outlook for the job market in the coming years. It now forecasts unemployment will stay between 8.3% to 8.7% next year, up from its earlier estimate of a range of 8.1% to 8.5%.

The central bank indicated it expects unemployment in 2012 to still be at a relatively high rate of between 7.1% and 7.5%. The Fed had previously said the unemployment rate could drop as low as 6.6% in 2012.

The Fed's outlook for the economy, as measured by the gross domestic

The central bank also trimmed its inflation outlook, an indication that it is unlikely to raise its key interest rates any time soon

product, was also cut. GDP is now projected to grow between 3.0% and 3.5% this year, down from an earlier forecast of 3.2% to 3.7%. In the first quarter, GDP rose at an annual rate of 2.7%.

The Fed expects the economy to grow between 3.5% and 4.2% next year, down from its earlier expectation of growth as much as 4.5%. The central bank also trimmed its inflation outlook, an indication that it is unlikely to raise its key interest rates any time soon. The Fed left its overnight lending rate close to 0% at the meeting, where it has been since December 2008.

The Fed now expects so-called "core" prices, which strip out volatile food and energy costs, to rise only 0.8% to 1.0%. Typically the central bank is comfortable with core prices increasing between 1% and 2%. But several policymakers even warned of deflation, the phenomenon of falling prices. That can be a bigger problem than inflation since it can lead businesses to cut production and jobs.

"A few participants cited some risk of deflation," according to the minutes, although there were also some policymakers still worried about inflation.

Learn more at:
http://money.cnn.com/2010/07/14/news/economy/fed_outlook/index.htm

The Edge

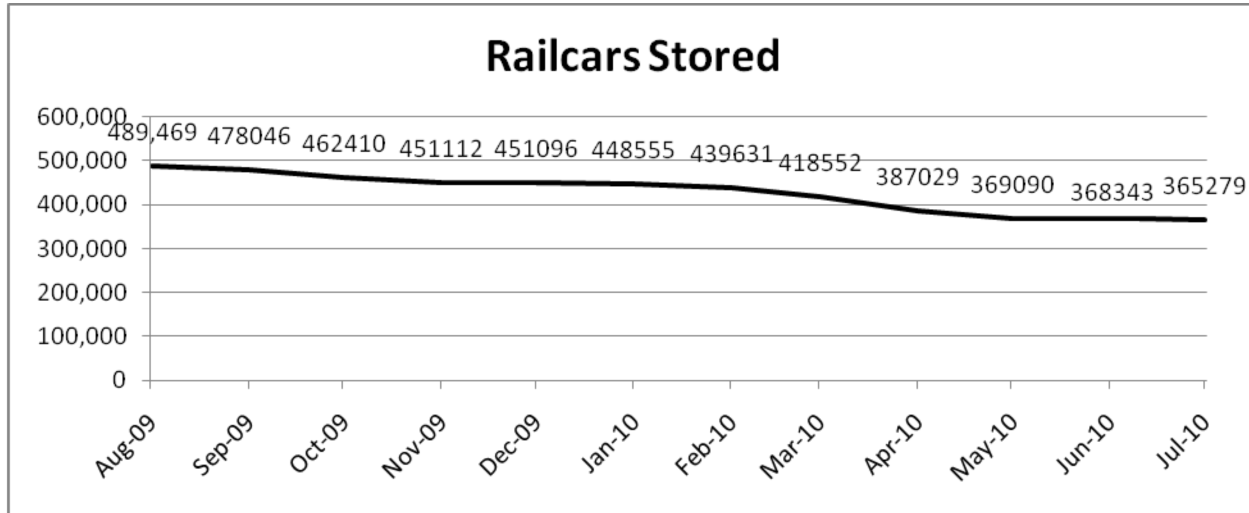
Taxes seem to be the new mantra (yes I even double checked the definition) of our political leaders. Less tax breaks, even those previously committed to, and more taxes to pay for the United States new socialistic approach to a free market.

In this newsletter you'll find articles that espouse the environmental benefits of moving millions of ton-miles of heavy haul freight by rail and at the same time concerns from the nations primary feeder system (shortline and regional railroads) that the previous tax credits to help facilitate this environmentally friendly transport system are still on hold. If you've ever been financially involved with a shortline railroad you'll certainly understand that there's a reason they are typically run on a shoe string operation and still barely squeak out a profit. Without a tax incentive, investors won't re-invest and they will deteriorate to the point of abandonment ~ it's a pretty simple deduction.

Conversely, you find the ethanol and bio-fuels industry struggling to hold onto their tax credits and government incentives which allow them to continue to push the industry forward. An industry shouldn't simply survive on tax credits (my opinion) but once the government puts it in place there should have been some intelligent reasoning behind the decision that would allow it to have enough longevity to make it from one regime to the next. Despite my earlier comment, many of those invested in the ethanol and bio-diesel industries do have solid business plans that will survive with or without any government subsistence programs.

Earlier this year the economy seemed to be making a small recovery (see earlier newsletter commentary) that was steady and stable. In some part this was supported by the Federal Reserve continuation of holding interest rates low and government tax cuts. Concern now is how does an economy recover with the huge deficit the US has and still support a steady growing economy.

Closer to home we see the stored railcars leveling out over the past few months which is indicative of a slowing economy.



In contrast to the slowdown in the economy we see rail carloads originated by major U.S. Railroads up in 2010 by 10.5% over 2009 numbers (week 23 ending June 12, 2010). On a ton-mile basis, traffic is up 8.2% for the same time frame over 2009. Although we've seen an increase over 2009, there's a long way to go before a recovery can be declared.

We look forward to earning your business!