Touchbase

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UP net profit jumps 41% to $775 million

With $2.78 billion profit for 2010, UP says service levels support higher rates

Railroad Updates

Union Pacific Railroad, capping what it called the most profitable year in the railroad's history, reported a $775 million net profit in the fourth quarter of 2010 on Thursday January 20th that was 41 percent better than [2009] as freight revenue climbed 18 percent to $4.17 billion.

That gave North America's largest railroad a 17.6 percent profit margin in the quarter, up from 14.6 percent in the final quarter of 2009.

For all of 2010, UP's net profit soared by 47 percent to $2.78 billion, on a 20 percent increase in total operating revenue to $16.96 billion.

James R. Young, the chairman, president and CEO, said the strong final 2010 quarter was "indicative of the great performance we've achieved throughout 2010, setting numerous records as we report the most profitable year in Union Pacific's nearly 150-year history."

Looking toward 2011, he said, "We are encouraged by signs of a slowly strengthening economy." Young said UP is delivering service levels for customers that support price increases and improved asset utilization, and "this strategy will enable us to further increase our overall profitability, invest for the future and drive strong shareholder returns."

UP's fourth quarter freight shipment volume rose 9 percent while the railroad trimmed its operating ratio of expenses to receipts by 3.2 points to 70.2 percent. It also delivered its best average train speed of any period in 2010 at 26.5 mph, although that was down 2 percent from the 2009 fourth quarter.

The business growth included a 23 percent gain in industrial product shipments, plus 10 percent for intermodal traffic and 10 percent in chemical freight car loadings. UP increased revenue from intermodal loads 25 percent, with a 27 percent jump in receipts from industrial products and 14 percent from chemicals.

The railroad ran with 1,305 more employees on average than in the 2009 quarter, for a 3 percent rise in workforce to 43,462. UP's gross ton-miles grew 9 percent so productivity measured by GTMs per employee rose 6 percent.

Learn more at:
http://www.joc.com/rail-intermodal/4q-net-jumps-71-percent-755-million

Rail Employment Up 5.23% End of 2010

The Surface Transportation Board reported Thursday January 20, 2011 that U.S. Class I railroad employment totaled 154,400 in December, up

The strongest gains, reaching a level of 62,067 in December—up 9.2% from December 2009 and up 0.40% from November 2010

5.23% from December 2009 but down 0.41% from November 2010.

The transportation (train and engine) category posted the strongest gains, reaching a level of 62,067 in December—up 9.231% from December 2009 and up 0.40% from November 2010.

In other categories, employment of executives, officials and staff was up 1.22% from the prior year to 9,174; professional and administrative, up 1.35% to 13,474; maintenance-of way-and structures, up 6.03% to 34,614; maintenance of equipment and stores, up 0.67% to 29,535; and transportation (other than train and engine), down 0.14% to 6,536.

Read the article at:
http://www.railwayage.com/breaking-news/rail-employment-up-5.23-at-end-of-year.html

Norfolk Southern Fuel Surcharge Notification

The February 2011 fuel surcharges will be calculated using a WTI Average Price of $89.04 based on the month of December 2010

For all Norfolk Southern fuel surcharges based on the Average Monthly Price of West Texas Intermediate Crude Oil (the “WTI Average Price”), the February 2011 fuel surcharges will be calculated using a WTI Average Price of $89.04 based on the month of December 2010.

The WTI Average Price for a given calendar month is determined by adding the daily WTI prices published in the Wall Street Journal during that month and dividing the result by the number of days so published in that month.

Learn more at:
http://www.nscorp.com/nscportal/nscorp/Customers/Public-Prices/

AAR Updates

America’s railroads positioned for job growth over next five years

America’s railroads are well positioned for job growth as rail traffic begins to return and the industry is forecasted to see a significant wave of retirements over the next five years. According to U.S. Railroad Retirement Board data, 67,000 rail employees will be eligible for retirement over the next five years, representing roughly 30 percent of the industry’s current workforce. In addition, railroads have begun to hire in response to the gradual return in rail traffic, bringing back workers or recruiting new employees for jobs located all around the U.S.

"Railroads today are well positioned to offer jobs – potentially life-long careers – to people all across the country," said Edward R. Hamberger, President and CEO of the Association of American Railroads (AAR).

Railroads devote tremendous resources to training employees for often high-tech positions, and offer highly competitive compensation packages. According to Department of Commerce data, the average full-time U.S. railroad employee in 2009 earned $81,563 in wages and $25,522 in benefits, for total average annual compensation of $107,085. By comparison, the average full-time employee in all industries earned only

U.S. Railroad Retirement Board data reports 67,000 rail employees will be eligible for retirement over the next five years

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Carloads in December 2010 were up 9.4% over December 2009

$51,888 in wages and $12,665 in benefits, for a total average annual compensation of $64,552 — just 60 percent of the comparable rail industry figure.

To highlight the freight rail industry's dedicated and diverse work force, AAR has launched the "Faces of Freight Rail." This interactive online story gallery features more than 40 profiles men and women from various sectors of the rail industry. Rail jobs can be found all over the country, and may require any number of skill sets – from locomotive engineers, to maintenance shop workers to railroad police agents.

Read the entire article at: **http://www.aar.org/NewsAndEvents/Press-Releases/2011/01/24-jobs.aspx**

Railroad Traffic

The Association of American Railroads (AAR) reported January 11 2011, that 2010 saw annual total carload traffic on U.S. railroads increase 7.3 percent with 14.8 million total carloads, compared with 13.8 million carloads in 2009. Total annual intermodal traffic in 2010 increased 14.2 percent with 11.3 million total truck trailers and shipping containers, compared with 9.9 million trailers and containers in 2009.

While the carload and intermodal traffic percentage increases in 2010 are the largest year-over-year increases since the AAR data series began in 1988, 2010 still saw the second lowest total annual carloads on record behind 2009. The combined increase in total annual carloads and intermodal trailers and containers is also roughly equivalent to approximately 20,000 additional trains moving in 2010, compared with 2009.

"Like the economy in general, rail traffic in 2010 recovered some lost ground, but not nearly all of it," said AAR Senior Vice President John T. Gray. "That being said, monthly rail traffic increases were broad based, supporting the idea that economic recovery likewise is broad based."

Carloads in December 2010 were up 9.4 percent over December 2009, while intermodal traffic for the month was up 13.3 percent compared with the same period in 2009. Seasonally adjusted data for December 2010 showed month-to-month gains, with carloads up 1.9 percent from November 2010 and intermodal traffic up 0.3 percent from the month before.

All of the 19 commodity categories tracked by AAR saw carload increases in 2010 compared with the prior year. However, all categories were still down compared with 2008. The categories with the greatest annual gains in 2010 were: metallic ores up 154,595 carloads or 89.2 percent compared with 2009; metals and metal products up 146,957 carloads or 44.9 percent, and chemicals up 131,127 carloads or 9.6 percent.

In 2010, coal accounted for 45.4 percent of all U.S. carload traffic, down from the all-time high of 48.2 percent in 2009. Chemicals came in a distant second, representing 10.1 percent of all carloads, followed by grain at 7.8

percent. Containers led the U.S. intermodal traffic segment in 2010, with a record high of 84.9 percent of intermodal traffic, up from 83.4 percent in 2009.

As of Jan. 1, 2011, railroads had 316,271 cars in storage, representing roughly 20.8 % of the North American railcar fleet

Railroads continued to bring employees back to work and cars out of storage last year. As of Jan. 1, 2011, railroads had 316,271 cars in storage, representing roughly 20.8 percent of the North American railcar fleet. That means railroads last year brought 132,284 cars out of storage. As of November 2010, the most recent month for rail employment data, the nation's major Class I railroads employed 155,042 people, up nearly 8,000 employees from November 2009.

Read the entire article at:
http://www.aar.org/NewsAndEvents/Press-Releases/2011/01/11-rti.aspx

Industrial Inside

Even though U.S. Department of Agriculture forecasters finalize crop production from the preceding season each January, the changes are usually small and cause barely a ripple in the grain markets. This year could be different.

In a year when forecasters have already cut U.S. corn yields by a historic 11 bushels per acre since August, analysts weren't surprised to see USDA shave another 1.5 bushels per acre off the U.S. average corn yield.

Corn production cut, wheat exports up

Even though U.S. ending stocks are down 51 percent compared to a year ago, demand for corn remains strong thanks largely to ethanol. Ethanol production is on pace to increase by 5 percent again this year, after gaining 160 percent over the last five years.

But that's only part of the story, said Kelly Olson, administrator for the Idaho Barley Commission. She tracks corn and wheat prices to determine trends for both malt and feed barley prices. Although world corn production is up 1 percent, world ending stocks are down 12 percent after holding mostly steady last year. This is the third consecutive year that global corn consumption has outpaced production.

Wheat markets look bullish

USDA raised the 2010-11 marketing-year average farm price projection by 10 cents on both ends of the range to $4.90 to $5.70 per bushel as cash and futures prices are expected to strengthen. Heavy early season marketing of corn priced well below current cash price levels are expected to limit the upside potential for the weighted average price received by producers. However, stronger futures prices could entice growers to plant more corn acres this spring.

Even as she sees bullish signs for the corn market, Olson is even more optimistic about the price outlook for both wheat and barley. A stocks-to-use ratio of 35 percent for the U.S. wheat market is hardly considered bearish, but Olson says supply and demand trends are headed in the right direction.

"I'm more bullish for wheat than corn," she told growers during a

“Europe is almost out of milling quality wheat. Buyers will have to come to the U.S. and that will push the price for protein wheat up”

marketing seminar held in early January. “Europe is almost out of milling quality wheat. Buyers will have to come to the U.S. and that will push the price for protein wheats up.”

Not only did former Soviet Union countries suffer a devastating drought in 2010, but extremely dry conditions forced growers to seed less winter wheat than expected in the fall and 15 to 20 percent of what did get planted is in poor condition. In Australia, the problem is too much rain at harvest and some analysts’ think up to half of the Australian crop may be downgraded to feed quality, although others say the damage won’t be that great.

Exports of U.S. milling wheat are already picking up as indicated by a 50 million increase in exports in the USDA’s latest world grain balance sheet. At the projected 1.3 billion bu; exports would be the highest since 1992-93. Most of the increase is expected in hard red winter and soft red winter wheats, but exports were also raised slightly for hard red spring and white wheats.

Winter wheat growers in the U.S. are experiencing their own winter weather problems. Even though winter wheat areas are up 7 to 10 percent, much of the traditional hard red winter and soft red winter production areas are dry with extremely cold temperatures in the forecast. Nearly half of the U.S. hard red winter crop went into dormancy in poor condition leaving it vulnerable to winter kill.

The USDA’s marketing year average wheat price is projected at $5.50 to $5.80 per bu., up from $5.30 to $5.70 last month.

World barley production is down 17% from a year ago

Olson sees a mixed bag for barley. Although world barley production is down 17 percent from a year ago, pulling world ending stocks down 40 percent after jumping 19 percent last year. “A year ago the world was awash with high quality barley,” she said. It’s not now.

But demand for barley hasn’t picked up yet. Livestock producers can substitute feed wheat for higher priced corn and feed barley. On the malt side, global brewing demand is mostly flat and U.S. sales are down for the second year in a row.

Olson sees some reason for optimism in reports that craft beer sales are projected to be up 9 percent, but craft beers make up just 5 to 6 percent of the overall domestic beer market. Nonetheless, malt barley growers in the western U.S. are well positioned to supply that growing market, she said.

She encourages growers to develop a marketing plan for 2011 between now and March 31 when the USDA will release its plantings intention report -- the next key report traders will be watching for. Growers should have opportunities to make sales during January and February when the markets are competing to ensure more corn and soybean -- and to some degree wheat -- are acres are planted

Learn more at:
http://www.agweekly.com/articles/2011/01/13/commodities/crop/crop16.txt

Financial Focus

Dollar rises from two-month low versus euro on economic outlook

The dollar advanced from a two-month low against the euro before U.S. reports forecast to show stronger growth and increasing consumer confidence.

The euro slid versus the dollar on speculation its 5.5 percent gain from January 3rd to January 21st but may be hard to sustain as bets against the 17-nation currency were reversed. The pound fell before data that may show the U.K.'s growth slowed in the fourth quarter.

"There's a growth story in the U.S., and that is lending some support to the dollar," said Stephen Gallo, head of market analysis at Schneider Foreign Exchange in London. "It's time for people to wake up and realize that yes, we've seen some really good signs come out of the euro zone, but we still have a long way to go."

There's a growth story in the U.S., and that is lending some support to the dollar

The dollar appreciated 0.2 percent to $1.3599 versus the euro at 8:47 a.m. in New York, from $1.3621 on Jan. 21, after earlier sliding to $1.3647, the weakest level since Nov. 22. The greenback gained 0.4 percent to 82.87 yen, from 82.57. The euro was little changed at 112.63 yen, compared with 112.48.

The U.S. Conference Board's confidence index rose to 54.2 this month from 52.5 in December, according to the median forecast of 56 economists in a Bloomberg News survey before January 25th report from the New York-based research group.

Gross domestic product climbed at a 3.5 percent annual pace in the fourth quarter, compared with a 2.6 percent rate in the prior three months, a separate survey showed before the Commerce Department's report on Jan. 28.

Euro Speculation

Futures traders reversed their bets the euro will decline against the dollar, calling for a gain in the shared currency for the first time since November.

The difference in the number of wagers by hedge funds and other large speculators on an advance in the euro compared with those on a drop -- so-called net longs -- was 4,109 on Jan. 18, compared with net shorts of 45,182 a week earlier.

"For the euro to continue to trend higher, it is likely that euro fundamentals would also have to begin to become more favorable supporting the recent shift in positioning," Lee Hardman, a foreign-exchange strategist at Bank of Tokyo- Mitsubishi UFJ Ltd. in London, wrote in a note to clients. "However, we remain far from convinced that euro-zone fundamentals are set to become more favorable for the euro with the euro's recent bounce likely to prove unsustainable."

"For the euro to continue to trend higher, it is likely that euro fundamentals would also have to begin to become more favorable supporting the recent shift in positioning"

The euro has appreciated 1.8 percent so far this year in a measure of the currencies of 10 developed nations, according to Bloomberg Correlation-Weighted Currency Indexes. The dollar is little changed, while the yen has dropped 2.3 percent.

Read the entire article at: **http://www.bloomberg.com/news/2011-01-24/dollar-rises-from-two-month-low-versus-euro-on-growth-view-aussie-weakens.html?nstrack=sid:5002863|met:104|cat:249|order:1**

The Edge

Politics are never a clean topic of discussion and often lead way to argument, controversy and contention but whatever your point of view, democrat or republican, Obama supporter or not, the 2011 State of Union Address aired on January 25, 2011 and widely supported key fundamentals involved in the industries we serve. Among topics Obama discussed such as healthcare, education, the budget (and deficit) and technology, the rail industry was also a topic on the President's tongue.

The President announced his hope that "by 2035, 80% of America's electricity will come from clean energy sources – wind, solar, clean coal, nuclear and natural gas" while he recommended an end to the nearly $4 billion in tax subsidies to oil and gas industries. With Obama's endorsement of clean energy, railroads such as the Canadian Pacific Railway (CPR) continue to promote their determination to integrate movement of coal coming out of the Powder River Basin in Wyoming (deemed "clean coal" because of its lower sulfur content than other deposits). Although this isn't new news (CPR's intentions have been known since announcements were made public in September of 2007 that the CPR had agreed to acquire the DM&E Railroad), the political stage remains focused on prioritizing clean fuel.

Also addressed during the State of Union, Obama called on a proposal he announced in September of 2010 which will allow businesses to write off in 2011 the full value of any new equipment purchased, from computers to utility generators, to increase demand for goods and create jobs. Edward R. Hamberger said it right in his press release on the AAR website when he said "We also applaud the President's recognition of the role private investments have in sustaining the health of our national transportation infrastructure. It has been the $480 billion in private capital spent by America's freight railroads over the past 30 years that today makes our national freight rail network the envy of the world. These private investments ensure freight rail can connect businesses to the global marketplace, thereby sustaining vital jobs all across the country, while providing the literal foundation for increased intercity passenger and high-speed rail."

As with all other political speeches, campaigns, discussions and promises, the benefits (and the costs) remain to be seen from January's State of the Union Address. If you are a "silver lining" type person as am I, the State of The Union Address provided positive PR to the issues you and I deal with on a daily basis.

From pairing you with equipment to haul coal (or any of the other products that make railroading successful) investing in your business and further succeeding in your business development, we're here to help make your logistics chain smoother. Don't hesitate to call on us.

We look forward to earning your business!