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UP breaks ground for San Antonio intermodal terminal

Request for the General Accountability Office for "a rigorous analysis of competition in the freight railroad industry"

States say "no" to re-regulating rail industry

Railroad Updates

Construction is under way on Union Pacific Railroad's $90 million intermodal terminal in Bexar County, Texas, near San Antonio.

On August 23, the Class I held a groundbreaking ceremony for the San Antonio Intermodal Terminal, which will be completed in late 2008. The facility initially will handle 100,000 trailers annually; eventually, the terminal will be expanded to process 250,000 trailers and containers each year.

The facility will feature computer systems designed to coordinate all rail-car, truck, trailer and container moves, and reduce the time a truck stops at the gate from the national average of four minutes to 30 or 45 seconds.

Trucks currently travel to Houston to drop off containers for rail moves because intermodal capacity is in short supply around San Antonio.

UP recently contracted First Industrial Realty Trust Inc. and 4M Realty to jointly develop the terminal.

"We believe that Union Pacific customers will find it advantageous to locate close to this … intermodal facility," said First Industrial Senior Development Officer Terry Darrow in a prepared statement.

Read the entire article:
http://www.progressiverailroading.com/prdailynews/news.asp?id=11269

STB will order independent study of rail competition

Responding to a request from the General Accountability Office for "a rigorous analysis of competition in the freight railroad industry," the Surface Transportation Board said it will "solicit proposals from analysts with no ties to the railroad industry or connection with any recent STB proceedings for a fixed-price contract to conduct an appropriate study." Noting that GAO also asked for a review of its fuel surcharge reporting process, the board said that prior to the GAO's request--made in a report originally issued last year and recently updated--it had already taken action to address fuel surcharge concerns.

Read more at:
http://www.railwayage.com/breaking_news.shtml

AAR Updates

The National Conference of State Legislatures (NCSL), meeting at its

“Legislation like this bill will kill railroad infrastructure investment”

“The rail industry is strong, competitive and thriving because Congress wisely chose to get out of the railroad business in 1980 by allowing railroads to operate like market-focused businesses”

annual conference in Boston, resoundingly defeated a resolution calling for the re-regulation of the rail industry. The re-regulation proposal was overwhelmingly defeated by the full body. The Association of American Railroads opposed the measure.

The NCSL is a bipartisan group comprised of legislators from all the states. Each year, the NCSL meeting attracts thousands of state legislative officials from all over the country. The reregulation proposal originated in NCSL's Committee on Agriculture, Environment and Energy during a Spring Policy Forum. The resolution was subsequently defeated by the Transportation Committee. Oregon's Sen. Bruce Starr, chairman of the Transportation Committee, led the opposition to the resolution on the floor.

Speaking in opposition to the resolution, New Hampshire Rep. Sherman Packard said, “Legislation like this bill will kill railroad infrastructure investment.” South Dakota Rep. Gordon Pederson noted, “Anyone who knows South Dakota, knows we should vote “no” on this resolution.”

“The nation's rail industry is pleased that the National Conference of State Legislatures has demonstrated leadership and vision in resisting an attempt to turn back the clock on the impressive gains achieved since the passage of the Staggers Act in 1980,” said Edward R. Hamberger, president and CEO of the Association of American Railroads. “The rail industry is strong, competitive and thriving because Congress wisely chose to get out of the railroad business in 1980 by allowing railroads to operate like market-focused businesses.”

The Staggers Act sparked an industry transformation that has led to impressive results. Traffic volume has increased by 93 percent and productivity has improved by 167 percent. Accident rates have declined by 69 percent with 2006 standing out as one of the safest years in history in terms of both train accident and employee casualties. As earnings have improved, infrastructure investment has soared. U.S. freight railroads have invested about $400 billion to maintain and improve infrastructure and equipment since 1980. And, during this same period, average rail rates have declined by more than half on an inflation-adjusted basis.

“Demand for freight rail is now at the highest level in history, and railroads will continue to spend billions over the next decade in order to expand capacity to meet this challenge,” noted Hamberger. “Efforts to reregulate the nation's railroads would hinder that investment resulting in more traffic congestion on our already crowded highways.”

Visit the AAR at:
http://www.aar.org/ViewContent.asp?Content_ID=4053

U.S. rail traffic down in July

Railroad Traffic

Freight traffic on U.S. railroads was off again during July, the Association of American Railroads (AAR) reported.

Intermodal leads U.S. rail traffic decline

Carloads of chemicals, motor vehicles and equipment, and food products up; coal, crushed stone, sand and grave, metal and metal products down.

Year-over-year traffic is down in most commodity categories, including coal, crushed stone, sand, and gravel, and motor vehicles and equipment

Total volume for the first seven months of 2007 was estimated at 988.5 billion ton-miles, down 2.7 percent from a year ago

U.S. railroads originated 1,250,961 carloads of freight in July, down 39,196 carloads (3.0 percent) from July 2006. They also originated 913,590 intermodal trailers and containers during the month, down of 24,570 units (2.6 percent) from July 2006.

Commodities showing carload gains in July 2007 included chemicals (up 3.0 percent); motor vehicles and equipment (up 4.0 percent); and food products (up 4.8 percent).

Commodities showing carload declines in July 2007 included coal (down 2.9 percent); crushed stone, sand, and gravel (down 10.1 percent); and metals and metal products (down 11.9 percent).

Six of the 19 major commodity categories tracked by the AAR saw U.S. carload increases in July 2007 compared to July 2006.

For the first seven months of 2007, total U.S. rail carloads were down 397,969 carloads (3.9 percent) to 9,682,355 carloads. Year-over-year traffic is down in most commodity categories, including coal (down 77,118 carloads, or 1.8 percent); crushed stone, sand, and gravel (down 75,567 carloads, or 10.9 percent); and motor vehicles and equipment (down 55,084 carloads, or 8.4 percent).

“The most recent data from the Department of Energy show that coal stockpiles at electric utilities are higher than they've been for years,” noted AAR Vice President Craig F. Rockey. “Given high stockpile levels, some problems at mines, and flooding early in the month, it's not surprising that rail coal traffic was down in July. Despite a lagging construction sector, last week the Bureau of Economic Analysis announced that preliminary GDP growth in the second quarter of 2007 was 3.4 percent, up from 0.6 percent in the first quarter. This is a hopeful signal of a return to more solid growth and a corresponding increase in demand for rail service.”

U.S. intermodal traffic, which consists of trailers and containers on flat cars and is not included in carload figures, was down 101,954 trailers and containers (1.5 percent) for the first seven months of 2007 to 6,865,965 units.

Total volume for the first seven months of 2007 was estimated at 988.5 billion ton-miles, down 2.7 percent from a year ago.

Canadian rail carload traffic was up 1,889 carloads (0.6 percent) in July 2007 to 301,846 carloads. For the year to date, total Canadian carloads are down 12,015 carloads (0.5 percent) to 2,333,721 carloads. In July, carload gains for chemicals (up 5,188 carloads, or 10.1 percent) and coal (up 4,940 carloads, or 16.8 percent) offset declines in lumber and wood products (down 2,744 carloads, or 15.7 percent) and metallic ores (down 2,571 carloads, or 4.8 percent), among others.

For just the week ended July 28, the AAR reported the following totals for U.S. railroads: 336,072 carloads, down 0.9 percent (3,023 carloads) from the corresponding week in 2006, with loadings down 1.7 percent in the East and down 0.2 percent in the West; intermodal volume of 243,163 containers and trailers, down 3.1 percent (7,803 units) from last year but still the second highest total for any week in 2007; and total volume of an estimated 35.1 billion ton-miles, up 0.3 percent from the corresponding week of 2006.

Visit the AAR at:
http://www.aar.org

Industrial Inside

Slower lumber market conditions predicted in 2008

In the first seven months of 2007, housing starts were down 25% from a year ago after dropping 13% in 2006. In the first seven months of 2007, new home sales were down 21% from the previous year after falling 17% in 2006.

Following four straight years of record consumption, demand for lumber declined in 2006 and is forecast to continue falling this year.

Lumber prices have been falling for the past year, hurt by rising mortgage rates and slower housing demand. In the big picture, the forest products industry has not been overly profitable and many traditional lumber companies have been selling their timber land and moving toward consumer products. Currently, lumber supplies are said to be plentiful while the market hopes for a change in demand.

It will take a while longer for the U.S. lumber market to get on the road to recovery, according to a new forecast issued by Western Wood Products Association.

Following four straight years of record consumption, demand for lumber declined 6 percent in 2006 and is forecast to fall another 7.5 percent to 55.97 billion board feet this year. Looking to 2008, WWPA predicts overall demand will slip 1.8 percent before rebounding the following year.

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A slower American economy, marked by declines in mortgage banking, real estate and construction, continues to impact lumber markets. These developments have reduced home construction, with housing starts falling almost 13 percent in 2006.

Western Wood Products Association, which represents lumber manufacturers in the 12 Western states and Alaska, is forecasting another decline in housing for this year, with starts expected to decrease 16 percent to 1.5 million before rising modestly to 1.56 million in 2008.

Western mills have cut back production in the face of lower demand. Western lumber output, which fell 7.5 percent in 2006, should decline again this year to 16.6 billion board feet, down 7 percent. In 2008, Western output is expected to be off a modest 1.2 percent to 16.4 billion board feet.

Regionally, the WWPA forecasts that mills in the coast areas of Oregon and Washington will fare better than other Western mills. Coast production, off 6.3 percent in 2006, is forecast to decline 5.8 percent to

Canadian lumber imports are expected to drop below 20 billion board feet for the first time in three years

10.2 billion board feet this year. For 2008, Coast mill production should be close to 2007 volumes while inland region mills, located in eastern Oregon, eastern Washington and other Western states, are reducing production at a faster pace. After an 8.5 percent drop in 2006, Inland mills will fall almost 9 percent to 5.6 billion board feet this year. Next year, WWPA is forecasting Inland production to decline to 5.5 billion board feet.

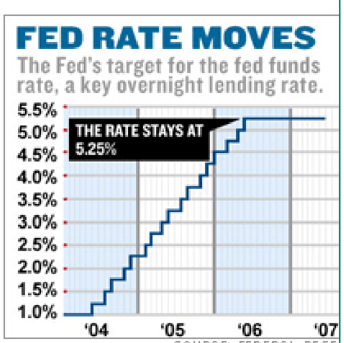
The WWPA also reports that production in the California Redwood region will experience the steepest declines, with volumes totaling just 800 million board feet by 2008 – almost 25 percent lower than 2005 totals while southern pine production surpassed Western output for the first time in 2006 and the gap is expected to widen this year. Production in the South will total 17.5 billion board feet this year and dip to 17.3 billion board feet in 2008.

Canadian lumber imports are expected to drop below 20 billion board feet for the first time in three years, decreasing to 18.8 billion board feet this year and slipping a modest 1.4 percent in 2008 to 18.5 billion board feet.

European mills, hampered by low prices and exchange rate differences, will continue to pull out of the U.S. market, according to the WWPA forecast. Shipments from Europe fell 18.8 percent last year and should drop another 24 percent in 2007 to 1.2 billion board feet. Next year, European imports are forecast at just 1.1 billion board feet.

Read more at:
www.wwpa.org and
http://www.dailyfutures.com/livestock/

Financial Focus



Most investors still expect the central bank to cut the fed funds rate when it next meets on Sept. 18.

When the Federal Reserve met on Aug. 7 and decided to leave a key interest rate alone, the central bank didn't appear overly concerned that problems in the subprime mortgage market would have a major impact on the broader economy, according to minutes of the meeting released Tuesday.

"Credit conditions for investment-grade businesses and prime households were relatively little affected by the market turbulence," the Fed noted in the minutes, adding that it "saw moderate economic expansion in coming quarters."

Of course, the Fed changed its tune a bit just 10 days later, as the credit crisis deepened. The Fed, on Aug. 17, cut the rate it charges banks for loans by half a percentage point, citing financial markets that had "deteriorated" as well as "tighter credit conditions and increased uncertainty." The so-called discount rate is a less powerful lever than the central bank's fed funds rate, which affects rates on many consumer loans and so far remains untouched.

But the Fed also acknowledged in the minutes from the Aug. 7 meeting

“…a further deterioration in financial conditions could not be ruled out and, to the extent such a development could have an adverse effect on growth prospects, might require a policy response”

"The markets could be concerned that a rate cut may be too little too late. The market is certainly sending a message that it is very worried right now."

that it might be forced to cut rates. "The recent strains in financial markets posed additional downside risks to economic growth. Members expected a return to more normal market conditions, but recognized that the process likely would take some time, particularly in markets related to subprime mortgages," the Fed said.

"However, a further deterioration in financial conditions could not be ruled out and, to the extent such a development could have an adverse effect on growth prospects, might require a policy response. Policymakers would need to watch the situation carefully," the Fed continued.

With all that in mind, what's the most likely next move for the Fed? Some have argued that the cut to the discount rate, combined with an injection of billions of dollars of cash into the banking system in recent weeks, have helped to stabilize financial markets.

"My guess is that there will be increased pressure on the Fed to cut rates but it sounds like they may be reluctant to do that," said Phil Dow, director of equity strategy with RBC Dain Rauscher in Minneapolis. "But if credit problems prevail for some time, there is no question it will impact the economy."

The Fed has held the fed funds rate steady at 5.25 percent for its past nine meetings. But according to fed funds futures traded on the Chicago Board of Trade, investors are betting that a quarter-point rate cut is all but certain at the Sept. 18 meeting. What's more, investors are pricing in the strong likelihood of a second quarter-point cut before the end of the year.

"The signal from stocks is that maybe the economy is going to slow down," said Steve Van Order, chief fixed income strategist with Calvert Funds in Bethesda, Md. "The markets could be concerned that a rate cut may be too little too late. The market is certainly sending a message that it is very worried right now."

Learn more at:
http://money.cnn.com/2007/08/28/news/economy/fed_minutes analysis/index.htm?postversion=2007082815

The Edge

Just when you thought the economy would stabilize a bit it gets more confusing. The home mortgage sector has rocked the world, literally, with its default rate and breadth. Billions of dollars have been lent to shore up the slide and no sign of stabilization in site.

The pressure that drove these results feels somewhat like the pressure, to a lesser degree, that is driving the rail industry.

The rail industry is more like land though (always relatively stable under the current) versus the mortgage industry which appears to be turbulent most of the time. We can only hope that the leaders (and investors) of this industry continue on the path to build infrastructure and level off the price increase rush to a reasonable level that is more in line with the times.

Looking at carload statistics it appears that the rail industry will need to take another look at its core business and see what has been driven away that they may want to reconsider. Latest numbers indicate a tapering off of most carload originations. Maybe the hot economy is slowing down to warm.

In our experience rail is still a good long haul or bulk commodity economic transportation option. It's just darn hard to get in the door and get some attention from the railroads. We believe that a continued cooling of the economy may rejuvenate the railroads interest in new business. If you've been waiting to put some business on the railroads or increase your current exposure to shipping by rail we suggest that you exercise continued perseverance and patience.

We look forward to earning your business!