MADISON'S TIMBER PREVIEW
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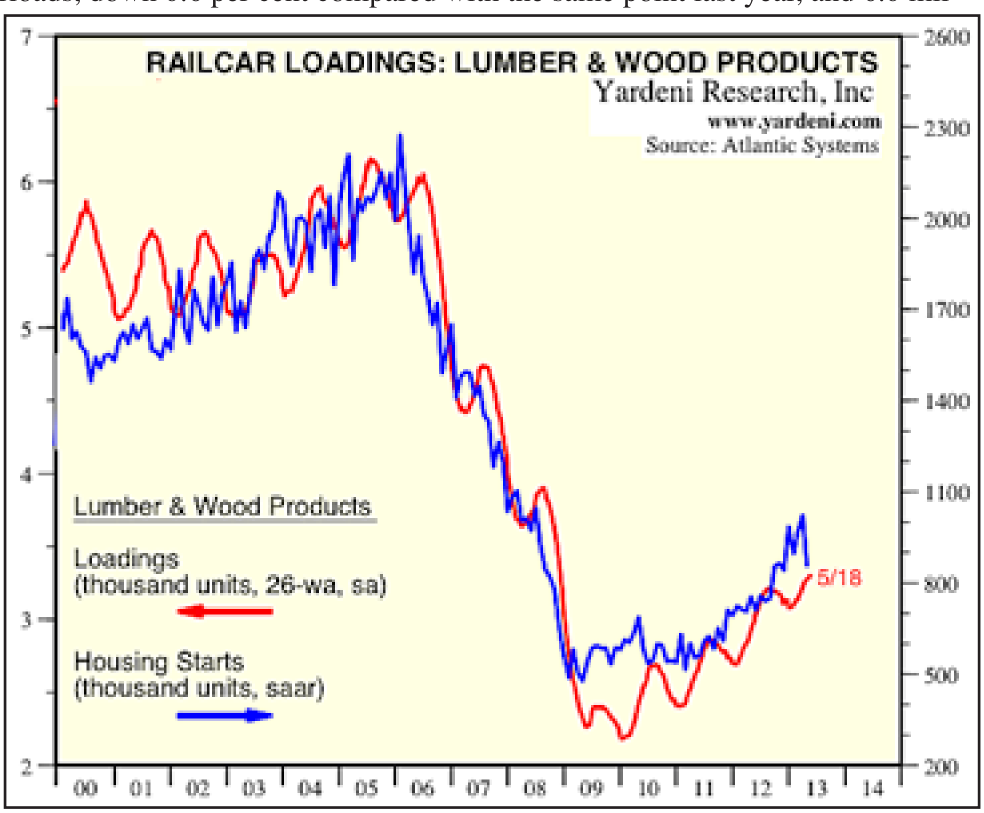
Pundits wonder if steadily improving freight transportation statistics could be another sign that the US economy is strengthening further.

Total rail traffic for North America again accelerated from April through May 17, coming in at 696,000 carloads, compared 679,000 for the same time period one year ago. Traffic has strengthened for the last seven weeks, with the most recent week's jump being the largest.

On Thursday, the Association of American Railroads (AAR) reported an increase in traffic for the week ending May 18, with total US weekly carloads of 285,679 carloads, up 1.9 per cent compared with the same week last year. Intermodal volume for the week totalled 250,156 units, up 3.5 per cent compared with the same week last year. Total US traffic for the week was 535,835 carloads and intermodal units, up 2.6 per cent compared with the same week last year. For the first 20 weeks of 2013, US railroads reported cumulative volume of 5.5 million carloads, down 1.7 per cent from the same point last year, and 4.8 million intermodal units, up 4.3 per cent from last year.

Canadian railroads reported 79,397 carloads for the week, down 1.3 per cent compared with the same week last year, and 55,454 intermodal units, up 4.6 per cent compared with 2012. For the first 20 weeks of 2013, Canadian railroads reported cumulative volume of 1.6 million carloads, up 1.8 per cent from the same point last year, and 1.0 million intermodal units, up 3.6 per cent from last year.

Taken as a whole, North American combined rail volume (Canada, the US, Mexico) for the 20 weeks of 2013 totalled 7.4 million carloads, down 0.6 per cent compared with the same point last year, and 6.0 million trailers and containers, up 4 per cent compared with last year.



In another measurement, US rail shipments for the week ended May 11 were up 2.2 per cent compared to the same week in 2012, according to the Stephens Inc "*Weekly Rail Update*." Year-to-date, the carload numbers are up just 0.9 per cent.

Canada's two major railways are wasting no time capitalizing on improving US freight transportation data.

Canadian Pacific Railway will become a "more aggressive" buyer of short-line regional railroads as it improves its financial performance and operating efficiency, Canada's second-largest railway said Wednesday.

While Desjardins Securities analyst Benoit Poirier released a note last week saying that both CP Rail and Canadian National Railway should consider buying Kansas City Southern, the largest railroad in Mexico, current CP Rail CEO Hunter Harrison said he did not agree with the suggestion, calling the idea a "worn out" story, according to *Reuters* Wednesday.

"It'd be hard for us to put together the wherewithal to be able to make an acquisition of a Class One (railroad), that's just probably not in the cards for some time," Harrison said in a webcast presentation. "We certainly will become, along the short-line regional front, more aggressive than we have been in the past." Meanwhile, south of the border, the major railways are looking to increased fuel transportation, rather than wood products, for improving business.

Union Pacific, the biggest US railroad, may carry as much as 40 per cent more crude oil in 2013 and is seeing evidence that the slump in coal shipments is over, CEO Jack Koraleski said to *Bloomberg* Tuesday. UP’s revenue from automobile shipments climbed 13 per cent, to US$487 million, in 1Q on 2 per cent higher volume, the company said last month. Lumber volumes grew 18 per cent, helping push industrial-products sales up 6 per cent to US$916 million. These advances show the US economy is gaining strength, Koraleski said.

Speaking of energy shipments by rail, it seems Canadian lumber producers are going to be further squeezed for space on the rails -- even more so than this past spring -- because rail shipments of crude oil are ten times higher than they were three years ago, according to the Conference Board of Canada's Leading Indicators of Industry Profitability survey for May.

Faced with pipeline bottlenecks, Canadian oil producers have increasingly been using rail to ship their product to refineries in the southern United States. Around 5 per cent of rail traffic in Canada is now taken up by shipments of crude oil, said *Business in Vancouver* Tuesday.

At the same time, forestry has faced delays in getting railcars and shipping their product to US and overseas markets. The Conference Board noted that despite record lumber prices, the wood products industry's profitability index fell in April because of the railcar shortage. Since oil companies are willing, and able, to pay a premium, the railways are choosing to serve them first. It is troubling to think that, going forward, forest products companies are going to have to wait even longer for their expected rail cars than they did this spring.

CP Rail said, on May 7, it would invest an additional $75 million to $100 million to bring total capital spending this year to $1.2 billion, moving forward some of its 2014 spending projects to this year. The company said the capital spending, which will be funded by higher than expected 2013 cash-flow projection, will focus primarily on track upgrades, upgrades to signal systems to meet shipping growth needs, and acquiring certain core assets that would normally be leased.

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