MADISON'S TIMBER PREVIEW

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News this week that Greenwich, CT's, Genesee & Wyoming struck a deal to buy rival RailAmerica, ut of Jacksonville, FL, for US$1.39 billion in cash put into sharper focus the recent improvements of North American freight transportation statistics. Combined, Genesee and RailAmerica will originate or terminate more than 4 per cent of all carload traffic, becoming the US's biggest short-line railroad operator, Genesee said. They will have 111 railroads and 15,100 miles of track, and annual revenue of over US$1.4 billion.

The last such deal was Warren Buffett's US$26.5 billion acquisition of Burlington Northern Santa Fe Railway, in 2010.

The latest data on freight transportation and financial reports of Canada's major railways sheds some light on the current situation.

The Association of American Railroads reported, on July 19, gains in weekly rail traffic for the week ending July 14, 2012, with US railroads originating 286,156 carloads, up 1.7 per cent compared with the same week last year. Intermodal volume for the week totalled 245,915 trailers and containers, up 6.8 per cent compared with the same week last year. Ten of the 20 carload commodity groups posted increases compared with the same week in 2011, with motor vehicles and equipment up 46.6 per cent; petroleum products up 39.2 per cent; and lumber and wood products up 13.3 per cent. Weekly carload volume on Eastern railroads was down 2.1 per cent compared with the same week last year. In the West, weekly carload volume was up 4.1 per cent compared with the same week in 2011.

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For the first 28 weeks of 2012, US railroads reported cumulative volume of 7,854,130 carloads, down 2.6 per cent from the same point last year, and 6,499,007 trailers and containers, up 3.5 per cent from last year. Canadian railroads reported 77,039 carloads for the week, up 3.2 per cent compared with the same week last year, and 54,350 trailers and containers, up 5.8 per cent compared with 2011. For the first 28 weeks of 2012, Canadian railroads reported cumulative volume of 2,145,397 carloads, up 3.4 per cent from the same point last year, and 1,411,619 trailers and containers, up 7.1 per cent from last year.

Preliminary data released Wednesday by Statistics Canada showed Canadian railways carried 26 million tonnes of freight in May, down 0.9 per cent from May 2011. The drop was solely the result of decreases in domestic freight shipments, as international cargo loadings rose. On the domestic front, freight loadings, composed of non-intermodal traffic and intermodal traffic, fell 3.5 per cent to 22.5 million tonnes over the same 12-month period.

Non-intermodal cargo loadings declined 4.2 per cent to 20.1 million tonnes. The decrease was the result of reduced traffic in more than half of the commodity classifications carried by the railways. Several commodity groups registered increases. Intermodal freight loadings grew 2.3 per cent to 2.4 million tonnes. The increase occurred solely on the strength of containerized cargo shipments, as trailers loaded onto flat cars declined. Internationally, total rail traffic received from the United States advanced 20.3 per cent to 3.5 million tonnes.

Canadian National Railway Wednesday reported a 17 per cent rise in 2Q profit as freight volumes increased across commodity groups. Net income rose to $631 million, or $1.44 per share, from $538 million, or $1.18 per diluted share, a year earlier, a 13 per cent increase, to $2.54 billion, in revenues. The company added it expects increased growth for the rest of the year. On an adjusted basis, the company earned $1.50 per share. The operating ratio was 61.3 per cent, unchanged from the year-earlier.

Earlier on Wednesday, Canadian Pacific Railway reported a 20 per cent drop in quarterly earnings due to the impact of a strike in May by its engineers and management transition costs. CP Rail reported net income fell to $103 million, or 60 cents per share, in the three months ended June 30. That compares to a profit of $128 million, or 75 cents per share, a year earlier.

Shares surged Wednesday after Hunter Harrison, Pershing Square Capital activist investor William Ackman's choice as chief executive officer, reiterated a plan to transform North America's least-efficient major carrier into one of the region's most profitable. Canadian Pacific rose 5.3 per cent, to $78.97 at the close of trading in Toronto. The shares had previously climbed 22 per cent from October 27, the day before Ackman disclosed a stake that made his investment firm the largest investor.

It was also revealed that CP had incurred roughly $42 million in one-time charges related to the hiring of Harrison, former head of rival CN Rail. In all, the proxy battle and the subsequent management shakeup could cost CP roughly $70 million. The railway incurred a $38 million charge during 2Q — $16-million for Mr. Harrison, $20-million for Pershing Square, and $2-million in related costs — related to the matter. It noted, however, the funds could be reimbursed if Mr. Harrison is successful in his defence in the CN lawsuit. In addition, the railway paid Harrison $12 million in stock options and other benefits, and agreed to indemnify him for a further $3 million plus legal fees. It also was forced to pay $4 million to ousted CEO Fred Green in retirement allowances, and a further $13 million in proxy advisory-related costs during the quarter.

Meanwhile, the index that tracks tonnage hauled by American trucks rose 1.2 per cent in June, after falling a revised 1 per cent in May, due to the increase in industrial production in June, the American Trucking Associations said Wednesday. The index was also 3.2 per cent higher than a year earlier, logging the smallest year-over-year increase since March, the Association said. The index rose by 5.8 per cent in 2011. Analysts track the trade group's tonnage index to gauge the health of U.S. manufacturing and, particularly, the strength of diesel demand.

About 67 per cent of all tonnage in the United States is hauled on trucks, according to the ATA.
Canadian spot market freight saw its second best month of 2012 in June, but was down both month-over-month and year-over-year, according to the latest data from TransCore.

TransCore's Canadian spot market freight index was down 2 per cent compared to this May and 6 per cent lower than June 2011. The second quarter of 2012 saw a 20 per cent gain over 1Q and was 6 per cent below 2Q 2011. Cross-border postings increased slightly in June, according to TransCore, accounting for 75 per cent of all load postings. Equipment postings declined by 7 per cent month-over-month and were up 5 per cent year-over-year in June.

"While load volumes saw a significant quarter-over-quarter gain, equipment availability only increased by a modest 4 per cent, resulting in a much lower equipment-to-loads ratio than the previous quarter," TransCore reported. "The equipment-to-loads ratio dropped in June reaching the lowest levels in 2012 – and the lowest level since June 2011.".

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