**The Railroad Week in Review**
**August 22, 2003**
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**CSX** computer systems went down in the wee hours Wednesday morning as a variant of the Blaster worm hit CSX, affecting signal, dispatching and other operating systems. Signals went dark bringing the entire railroad to a halt. CSX had the railroad back by 0900 however delays cascaded throughout the system affecting freight, Amtrak, and computer operations well into the day. (In a strange quirk of positioning, the WSJ ran the Mercedes ad featuring the N&W 611 next to this CSX story.)

**AAR** carloadings for Week 33 (August 16) drifted south by 1.2% as merchandise carloads (ex-coal and ag) dipped 3.6%. Intermodal didn't help much, up a mere point-plus. Trailers continue to slip, and that makes one wonder how much business is really coming off the highways (see related item below re trucking stock prices). For the quarter-to-date BNSF and CSX lead in total volume increase while UP was the only carrier to see intermodal slip, off 2.9%.

**P**rovidence & Worcester's six-month free cash flow of just $4,000 was driven more by accounting swings than anything else. Most of the adjustment lines between "cash flows from operating activities" and "net cash from operations" are about the same as last year. The exceptions are net loss $500,000 smaller, accounts receivable $600,000 higher, and a $million swing in payables. Had the latter two items remained the same as last year with nothing else changed but the loss line the operating cash flow would have been closer to $2.3 mm, half again what it was last year. Thank you, Bob Easton, for sending the complete 10-Q.

Further on the health of the operation, a WIR reader who has considerable knowledge of the P&W writes, "Roy, aren't you being a bit hard on the company? Maybe free cash flow of $4,000 doesn't seem like much, however P&W does not believe in deferred maintenance and has an excellent physical plant. They also are investing in clearance improvements to get auto racks into Quonset."

My correspondent goes on to say, "They've done a fabulous job finding new customers and revenue in an environment where manufacturing flight is rampant. I bet if you did an analysis of customers from when they started operating in 1973 to today you would actually be astonished at what they have managed to accomplish." What a challenge. You're on!

**K**ansas City Southern continues the good fight re NAFTA Rail, though this week's decision by TMM shareholders not to approve sale of its TFM interests to KCS may set things back a bit. KCS says it is "exploring its rights under the agreements between the parties, and its legal options under U.S. and Mexican law." The inference is that TMM's Chairman had signed off on the deal. In a statement KCS said they "intend to pursue all appropriate legal or administrative action against any persons or entities involved in interfering with KCS and its agreements with TMM."

The Wall Street Journal reports that I've seen tend to the negative side. "Strategic implications negative, risk reward negative near term," writes one analyst. Another maintains that "unpredictable tax benefits" contributed to the net loss in 2Q02. Others suggest that TMM shareholders are looking for alternative means to paying off $177 mm in debt short of selling out to KCS for $412 mm.

The STB this fall will hold hearings under Ex Parte 647 on whether to simplify abandonment proceedings that apply to "small" railroads. This comes from a petition signed by 65 shortlines back in May. Ex Parte 647 proposes giving local shippers and communities enhances opportunity to preserve lines approved for abandonment.

Potential buyers would get commercial data about the line in question and sellers would have to assure continued access to historical gateways. According to a statement from the law firm representing the 65 railroads in this action, "The existing regulatory scheme forces carriers to delay filing for abandonment until the traffic is gone and the rail infrastructure has deteriorated."

Schwab's *Morning Report* for Monday said trucking stocks "remain an impressive group technically." They have a point. Werner (WERN), Swift (SWFT) and Yellow Corp. (YELL) are trading at the tops of their ranges and well above resistance. Over the trailing 12-months JBHT is up 60%, YELL up 40% and WERN up 28%, all trading in a tight range with little volatility.

The best TTM rail performances came from CN and CP, both up 10% aided by the exchange rate (WIR 8/15). Of the US rails, UP finished the TTM with no change, though it had been off 10% mid-year. Based on the technical tea laves, JBHT and WERN are strong buys, YELL is a mere buy and all have strong up-trend lines. None of the rails are close, even though both JBHT and YELL are major rail intermodal customers. Still, the freight is moving with the J B Hunt's and Werner's boxes, so why can't it move in carloads on the BNSFs and New Hampshire Centrals? Maybe the beneficial owners' perception of rail service has to improve first.

Briefing.com says that manufacturing employment is lower than it was 40 years ago while real GDP is triple what it was back then. Further, recent declines in manufacturing employment have nothing to do with it, politicians notwithstanding. What we have here is forty years of sustained economic expansion without any growth in *manufacturing* employment. The fact of the matter is that he trend has been flat to down slightly for decades. In July 1963 27% of non-farm payrolls were manufacturing. Now it's 11%.

Still, there are lots of "manufactured" products that are best made right here: specialty chemicals, plastics, lumber, fabricated steel, food (both STCC 01 and 20), many kinds of paper, and so forth, most of which is in long-haul trucks. For the rails to win it back requires rethinking the carload business. Seven or eight individual moves between origin and destination won't do it any more. We all must take a closer look at what's driving the the stock prices of JBHT, WERN and YELL. Betcha it's the perceived product-price-benefit ratio.

Fellow scribbler Larry DeYoung (he writes actual *books!*) checked in on the subject of intermodal ramp efficiency. Opines he, "Your mention of terminal productivity reminds me of studies done more years ago that showed the terminals to be overworked during the cut-off time rush, and underworked most of the rest of the time. More train departures around the clock (with pricing to accommodate the varying sensitivities of the traffic to the clock), and fewer all at once would improve asset utilization, minimizing the need to invest in more of same."