# THE RAILROAD WEEK IN REVIEW

## June 8, 2012

*"For every 100 jobs created in refining, nearly 1,200 related jobs are created elsewhere." -- Liz Ann Sonders, Charles Schwab & Co.*

**Liz Ann Sonders,** Chief Investment Officer at Schwab, writes about a "manufacturing renaissance" in the US as the cost of doing business off-shore increases. And even though

> manufacturing is nowhere near the primary driver of our economy, and its momentum has waned recently, the consumer still represents 70 percent of US GDP. But manufacturing is a major re-up-and-comer and suggests better things to come for jobs -- at least of the manufacturing variety.
>
> Take a look at the table below, which highlights the employment multiplier of many of the industries right in the heart of the renaissance. At top of the list is petroleum refining. The United States, for the first time in the modern era, is now exporting more refined petroleum products than it's importing. For every 100 jobs created in refining, nearly 1,200 related jobs are created elsewhere. Even for manufacturing more broadly, the multiplier is nearly 300.

| For every 100 jobs created in: | Additional related jobs created: |
|---|---|
| Petroleum refining | 1,190 |
| Utilities | 514 |
| Chemicals | 495 |
| Automobiles | 464 |
| Electrical machinery | 353 |
| Paper | 325 |
| **Manufacturing** | **291** |
| Investment banks | 192 |
| Construction | 190 |
| Hotels and lodging | 94 |
| Retail | 88 |
| Coal mining | 66 |

> Source: ISI Group, "Updated Employment Multipliers for the US Economy (2003)," by Josh Bivens. Economic Policy Institute Working Paper No. 268, August 2003.

The take-away here, I think, is that the top four industries in the table represent the leading carload commodities for the rail sector, assuming we put nat gas E&P in the petrol bucket. And, as I have written myriad times before, there's no better way to check out one's conclusions than to go out and look.

Sunday through Tuesday of this past week I put in 777 miles by train over rails owned by Amtrak, Metro North, CP, Pan Am Railways and the MBTA. NS, CSX and Providence & Worcester all have freight franchises on various line segments I rode and all looked busy. Tuesday morning, for instance, I watched Pan Am's POSE (Portland-Selkirk) head west through Ayer, Mass., with a pair of CSX 6-axle units and more than 100 cars of manifest freight. Boxcars, coil cars, covered hoppers, tank cars and even center-beams were in the consist. So I'd say Liz Ann is onto something.

**Pennsylvania's Lycoming Valley** Railroad will be the beneficiary of a new $million industry track construction project near Muncy. The project involves building 2,300 feet of new track and restoring another 1,800 feet of existing track. The project will improve rail access to the existing Koppers-Susquehanna Plant and provide rail access to Halliburton's new gas drilling support complex, a 55-acre site which processes sand, minerals, chemicals, and others products used in natural gas development. The SEDA-COG Joint Rail Authority (JRA), which is overseeing and administering the project, funded through a state grant to the Industrial Properties Corporation (IPC) affiliated with the Williamsport/Lycoming Chamber of Commerce.

Meanwhile, Credit-Suisse this week issued an exhaustive report on Southwest Energy (SWN) that is full of useful stuff about the nat gas biz in general. Marcellus Shale et al are included under the "unconventional production" rubric.

> While we share the market's near-term pessimism on gas given bloated inventories as well as limits on coal-to-gas switching this summer, we believe an under-appreciated and under-analyzed part of the supply equation is potential declines in conventional production, which is generally at the higher-end of the cost curve... Our model suggests conventional production peaked in 1Q12 and is poised to move lower given weak gas prices and unfavorable drilling economics for conventional drilling... Marcellus Shale should support an 8 percent annual production growth rate through 2015... Lycoming County is one of the three most attractive parts of the [Marcellus] play.

**On Monday CIT Rail,** the third largest railcar lessor in North America, said it has ordered 3,500 railcars from multiple manufacturers with deliveries scheduled throughout 2012 and 2013. These orders are for various tank car models for petroleum liquids as well as for covered hopper cars for plastic resins, where production is cranking up thanks to low natural gas prices. Thus far, and including these orders, CIT has over the past 18 months invested nearly $1.5 billion in tank cars and covered hoppers. CIT Rail owns more than 100,000 railcars and 450 locomotives leased to approximately 500 customers.

Their timing couldn't be better. Take the Bakken oil fields. They're pumping half a million barrels of crude a day with the potential to double in short order. Tank cars designed for this product can load to about 700 barrels each. Suppose BNSF gets a 25 percent share, call it 125,000 barrels a day -- two 90-car trains. At 20-days per round trip per train, you're going to need a lot of cars. That's why CIT emerges a winner.

By the way, although most of the oil wants to go to the gulf coast, we're seeing it heading east with BNSF and CP as origin roads and Conrail Shared Assets and New Brunswick Southern via CSX and Pan Am Rail as terminating roads. The latter deserves a special note because of the route itself and the high level of collaboration between and among the carriers.

Over Memorial Day weekend, a 104-car BNSF crude oil train came across NY State on the CSX water-level main, made a progressive move onto PAR at Rotterdam Jct. and proceeded north through Portland to Waterville, CSX and BNSF power running through. Due to track-loading limitations east of here, the train was split in half before being handed off to NBSR at Mattawamkeag, destination St John, NB. Sweet. (BTW, I rode PAR Mechanicville-Ayer earlier this week. It's an ideal route for this service.)

**Norfolk Southern CEO Wick Moorman** rang the closing bell at the NYSE on Tuesday in recognition of the 30th anniversary of the listing of the corporation's securities. Norfolk Southern stock first began trading on June 2, 1982, under the symbol "NSC," one day after the effective date of the consolidation of Southern Railway and Norfolk and Western Railway. During a ceremony in New York, the new company's officers presented the exchange president a golden spike that had been used in national advertising announcing NS' formation.

Prior to ringing the NYSE closing bell, Moorman did an interview with CNBC's Maria Bartiromo. Moorman said the overall volume of cargo and intermodal indicates positive economic signs despite a weak coal business. "Coal is such an important part of our business that it obviously gets a lot of focus, but I do tend to think that today people are probably looking a little too hard at coal and not seeing all of the other good things that are going on." He cited traffic growth in auto, metals, chemicals, ag products -- the same groups you see at the top of the Schwab list, above. And export coal markets for both steam and met remain strong. "We just have to get the message out."