



TEAMSTERS CANADA RAIL CONFERENCE DIVISION 320



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Subject: A Long Road Back....

Dear Brothers and Sisters,

The appended information was found posted on the TCRC National website, originally in the Financial Post.

In Solidarity,

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Long road to recovery for Canadian railways

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Source: Financial Post

Despite some positive signs that the economy is on the mend, it could be years before Canadian railways fully recover from the recession.

Rail shipments are an important bellwether for the broader economy because they are so closely linked to global trade. As the economy begins to show signs of life, so too have the volumes of North American top-tier rails heading their into this earnings season.

In recent weeks, year-over-year volume declines have eased from the single-digit to the mid-teen range from the 20% — or greater — declines experienced earlier this year. "The industry is poised to enjoy a healthy tailwind alongside a gradual improvement in the North American and global economies," Steve Hansen, Raymond James analyst, said in a recent note.

Carloads at Canadian railways have steadily improved 15% since their lows in May on the back of a strong harvest, the U.S. "cash for clunkers" program, and a recent restocking, according to Jacob Bout, CIBC World Markets analyst. Intermodal volumes, typically used for shipping retail goods, also hit their 2009 peak level last week, he added.

Still, despite this positive momentum, carloads at Canadian National Railway Co. were down 11.9% last week year over year, **and Canadian Pacific Railway Ltd.'s shipments fell 12.2%**. While that is a sizable improvement over the declines experienced in the second quarter, it points to an underlying weakness in the economy, and suggests that the volumes

will slowly begin to return in 2010 and into 2011, Mr. Bout said.

"The economic recovery may be a gradual one (versus a V-shaped recovery)," he said in a recent note to clients.

This correlates with the commentary from CN, which will report its third-quarter earnings today. Claude Mongeau, CN chief financial officer, has said he expects it could take two or three years before his railway sees the sort of traffic it had prior to the recession.

CP, which reports its results next Tuesday, has been even more cautious. Fred Green, chief executive, says he doesn't expect any substantive growth until at least the back of 2010. He doesn't expect CP to see its typical "fall peak" this year as retailers import fewer goods for Christmas.

Container traffic at West Coast ports, where goods for retailers come in from Asia, were down 20% last week, and retailers have indicated they expect to import 10% less apparel and other consumer goods this spring compared to last year, Mr. Bout said.

Moreover, CP's volumes continue to be impacted by lower coal and potash volumes, the latter is expected to remain sluggish through 2010.

Mr. Bout recently upgraded CN to "sector outperform" and increased his price target to \$64 a share, from \$54 previously, on the assumption that the worst is behind it.

He said he prefers it to CP because it is leaner and better positioned to benefit from an economic recovery.

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