CN chief optimistic despite plunge in profit

(The following story by Brent Jang appeared on the Globe and Mail website on October 21, 2009.)

MONTREAL — Hunter Harrison isn't fretting that Canadian National Railway Co.'s cargo volumes will plunge again.

"We've bounced across the bottom, and now we're starting to float to the top," the CN chief executive officer said yesterday, adding that he's optimistic that the railway saw the worst of the recession in April and May.

"I just know that we're going to go up. The higher we come up and the faster we go, the better it's going to be. And I'm not worrying about falling and going back to the bottom. That's not something that I have concerns with."

He made the comments after Montreal-based CN, which is seen as a barometer for the economy because the carrier hauls a wide range of goods, announced that its third-quarter profit fell 16 per cent to $461-million while revenue slid 18 per cent to $1.85-billion.

Mr. Harrison, who turns 65 next month, will retire from CN at the end of this year. He will be replaced by CN executive vice-president Claude Mongeau.

"It's been a great run, a lot of fun and I'll hopefully see you down the line," Mr. Harrison said during a 70-minute conference call with analysts, who took turns wishing him well after nearly seven years in CN's top job.

Mr. Mongeau said CN is poised to take advantage of a rebound. "This economy is recovering. We're going to have volumes working for us."

CN and Calgary-based Canadian Pacific Railway Ltd. have been hurt by the slowdown in the production of everything from autos to lumber to consumer goods.

For the week ended Oct. 10, CN and CP saw overall carload traffic slide 13.6 per cent from the same week last year. But that's better than traffic slumping an average of 22 per cent in the first 40 weeks of this year. Viewing the latest weekly freight statistics, there are tentative signs of a slow but steady economic comeback, analysts say.

CN, which has a more extensive U.S. rail network than CP, is positioned to move more lumber when U.S. housing recovers, said CIBC World Markets Inc. analyst Jacob Bout.

Before the economic boom went bust, it was "normal" for CN, CP and North America's other major railways to have no more than 20,000 freight cars in total in storage.

On Oct. 1, there were 462,410 freight cars in storage, or 29.4 per cent of the continental fleet. More than 40,000 railcars have re-entered service since July 1, but it's still a far cry from the prosperous times prior to the recession, when the industry was operating at close to full capacity.

CN has been acquiring locomotives recently, optimistic that retailers will eventually ramp up their orders for shipments as consumer confidence grows. "We've been through the worst," said CN chief financial officer Luc Jobin.

Mr. Harrison, Mr. Mongeau and other CN executives will be meeting next month to discuss ways to reduce rail congestion in the Chicago region.

Earlier this year, CN bought Elgin Joliet & Eastern Railway Co. for $300-million (U.S.), hoping to bypass train gridlock in Chicago's core by rerouting traffic through EJ&E's suburban tracks.

Analysts point to CN's Memphis operations as one example of how modernizing a major hub translates into moving freight more efficiently.

Last month, CN completed a $100-million construction project at its Tennessee rail yard, naming it the Harrison Yard in honour of the Memphis-born Mr. Harrison.