

Railways cast doubt on 'green shoots thing'

(The following story by Brent Jang appeared on the Globe and Mail website on September 9, 2009.)

TORONTO — North America's leading railways, seen as barometers of economic health because of the goods they haul, don't see a quick recovery in the works.

Calgary-based Canadian Pacific Railway Ltd. CP-T said yesterday it has seen no evidence of the recession's bottom, while Montreal-based Canadian National Railway Co. CNR-T fears a false start in the path toward recovery or a double dip, where previous lows will be tested.

"I don't think we're necessarily done yet on the downside," said CP chief executive officer Fred Green. "It could well be a bit of a rough time. I'm looking at the second half of 2010 before I think we're going to see any substantive growth."

Mr. Green, speaking in Toronto during RBC Dominion Securities Inc.'s transport webcast, was one of five North American railway executives who cautioned that their companies are still experiencing year-over-year declines in shipments.

"Let's see some evidence of sustained demand as opposed to just people talking about it. This green shoots thing is an interesting concept, but I'm not seeing any of it," Mr. Green said, warning that CP may not benefit from a "fall peak" of imported consumer goods that normally flood in during the weeks before Christmas.

In the first eight months of this year, the continent's major freight carriers saw their carloads decrease an average 19.4 per cent, compared with the same period in 2008. The pace of traffic decline is slowing, however, with carloads down 15.7 per cent in the last week of August, compared with the same week last year. As recently as May, carloads fell more than 25 per cent from a year earlier.

CN executive vice-president Claude Mongeau was somewhat more optimistic than Mr. Green, saying CN believes it has "found the bottom and it is a firm one." Mr. Mongeau, who replaces Hunter Harrison as CEO of Canada's biggest railway on Jan. 1, 2010, cautioned that while CN is "finding a floor to this economic contraction," the shape of the recovery is very much in question, with cargo such as forest products still in a slump.

"We have to be realistic. There are still risks of a false start or of a double dip. In any case, we don't think, at CN, that the recovery will be very rapid. We think that from the tough lows, we will be gradually climbing back up," Mr. Mongeau said, adding that it could take three or four years before traffic returns to pre-recession levels.

Executives from Norfolk Southern Corp. of Norfolk, Va., Burlington Northern Santa Fe Corp. of Fort Worth, Tex., and Jacksonville, Fla.-based CSX Corp. also spoke at yesterday's conference.

Jim Squires, Norfolk's chief financial officer, said his railway will be watching for signs of improvement in the second half of this year. "Economic conditions certainly remain unstable," he said. "But it does appear that we have experienced a bottom in the economy."

Burlington CFO Thomas Hund added that while consumer spending

remains under pressure, Burlington has enjoyed a "modest uptick" in shipments from week to week in July and August.

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